

BRAC UNIVERSITY



Internship Report

“Credit Risk Management of Sonali Bank Limited”

Internship Report
On
“Credit Risk Management of Sonali Bank Limited”

Submitted To

Riyashad Ahmed
Assistant Professor
BRAC Business School

Submitted By

Jubayed Ferdous
ID-10364043
MBA Program
BRAC Business School



BRAC University
66, Mohakhali C/A, Dhaka-1212
Bangladesh

Letter of Transmittal

19th May, 2016

Riyashad Ahmed
Assistant Professor
BRAC Business School
BRAC University

Subject: **Submission of internship report.**

Dear Sir

I would like to take this opportunity to thank you for the guidance and support you have provided me during the course of this report. Without your help, this report would have been impossible to complete. With deep gratitude, I also acknowledge the help provided by Mohammad Masum, Principal Officer, Sonali Bank Limited for providing me utmost supervision during my internship in the organization.

To prepare the report I collected what I believe to be most relevant information to make my report as analytical and reliable as possible. I have concentrated my best effort to achieve the objectives of the report. The practical knowledge and experience gathered during my report preparation will immeasurably help future professional life.

I would really be grateful if you enlighten me with your thoughts and views regarding the report. Also, if you wish to enquire about an aspect of my report, I would gladly answer your queries. Thank you again for your support and patience.

Yours Sincerely,

(Jubayed Ferdous)
ID-10364043
MBA Program
BRAC Business School
BRAC University

Acknowledgement

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Executive Summary

This report has originated as a result of my internship which I have pursued as a requirement of the MBA program, BRAC University. This report has been completed based on my four month internship program at Sonali Bank Limited, Principal Office, Ramna, Dhaka.

The objective of this study is to analyze the credit performance, credit policies and client's perception and satisfaction toward the performance of Sonali Bank Limited regarding credit. To prepare this report both primary secondary sources data have been used. Apart from this a questionnaire was constructed and survey was conducted on 25 Client of the credit department of the five Branch of Sonali Bank Limited under Principal Office, Ramna, Dhaka. The first section of this report consists of an introductory part of the knowledge and working experience gained during my internship at SBL. The remaining part consists of analysis, findings, recommendations and conclusion.

SBL is one of the leading public banks in Bangladesh. To serve the nation Sonali Bank performs certain activities for their client such as general banking, giving loans and advances, capital market operations etc. The bank collect deposits from the public and provides it to other businesses or individuals as loans .The bank pays interest to deposits to holders takes interest from borrowers. SBL measures all risk components before sanctioning a loan. When all the formalities are completed, the respective officer disburses the loan. After the loan disbursement, it is the duty of the bank to recover the disbursed loan. This report is based on actual information and working procedures practiced at SBL. The overall credit management of SBL has been analyzed to give a clear idea about the policies of SBL the implementation of those policies by various mechanism and procedures. Alongside this, a questionnaires survey was carried out to gauge the level of customer satisfaction regarding the performance of various aspects of the credit department of SBL and the result have been thoroughly analyzed though various methods.

In conclusion, it can be said that honestly, reliability, thoroughness and willingness to be open to new ideas and new ways of meeting customers' needs are most important factors for improvement and success of SBL.

Chapter-1

Organization

1.1 Overview of Sonali Bank Limited

Soon after independence of the country Sonali Bank emerged as the largest and leading Nationalized Commercial Bank by proclamation of the Banks' Nationalization Order 1972 (Presidential Order-26) liquidating the then National Bank of Pakistan, Premier Bank and Bank of Bhawalpur. As a fully state owned institution, the bank had been discharging its nation-building responsibilities by undertaking government entrusted different socio-economic schemes as well as money market activities of its own volition, covering all spheres of the economy.

The bank has been converted to a Public Limited Company with 100% ownership of the government and started functioning as Sonali Bank Limited from November 15 2007 taking over all assets, liabilities and business of Sonali Bank. After corporatization, the management of the bank has been given required autonomy to make the bank competitive & to run its business effectively.

Sonali Bank Limited is governed by a Board of Directors consisting of 11(Eleven) members. The Bank is headed by the Chief Executive Officer & Managing Director, who is a well-known Banker and a reputed professional. The corporate head quarter of the bank is located at Motijheel, Dhaka, Bangladesh, the main commercial center of the capital.

1.1.1 Corporate Profile Sonali Bank Limited

Name of the Company	: Sonali Bank Limited
Chairman	: -----
CEO and Managing Director	: Pradip Kumar Dutta
Company Secretary	: Zaheed Hossain
Legal Status	: Public Limited Company
Genesis	: Emerged as Nationalised Commercial Bank in 1972, following the Bangladesh Bank (Nationalisation) Order No. 1972(PO No.26 of 1972)
Date of Incorporation	: 03 June, 2007
Date of Vendor's Agreement	: 15 November, 2007
Registered Office	: 35-42, 44 Motijheel Commercial Area, Dhaka, Bangladesh
Authorised Capital	: Taka 2000.00 core

Paid-up Capital	: Taka 1125.00 core
Number of Employee	: 21,839
Number of Branches	: 1207
Phone-PABX	: 9550426-31, 33, 34, 9552924
FAX	: 88-02-9561410, 9552007
SWIFT	: BSONBDDH
Website	: www.sonalibank.com.bd
E-mail	: itd@sonalibank.net.bd

Among other banks and as government owned bank Sonali Bank Limited is playing a good role in our economy through its various operations. Its general banking services, investment in several specified sectors and foreign exchange business is notable.

A term of highly qualified and experienced professionals headed by the Managing Director of the Bank who vast banking experience operates bank and at the top there is an efficient Board of Directors of making policies.

1.1.2 Branches

Sonali Bank has a total of 1207 branches. Out of them, 351 are located in urban areas, 854 in rural areas, and 2 are located overseas. It also operates the Sonali Exchange Company Inc. in USA and Sonali Bank (UK) Ltd., United Kingdom, to facilitate foreign exchange remittances. Sonali Bank UK remits up to 14 destinations across Bangladesh directly, these include [Dhaka](#), [Chittagong](#), [Sylhet](#), [Maulvibazar](#), [Beanibazar](#), [Balaganj](#), [Biswanath](#), [Jagannathpur](#), [Sunamganj](#), [Golapganj](#), [Nabigonj](#), [Habigonj](#), [Kulaura](#) or [Tajpur](#). There are currently three branches in the UK, one located in [Brick Lane](#), [London](#), another in [Small Heath](#), [Kushtia](#); Birmingham and in [Manchester](#).

1.1.3 Core business of bank

Sonali Bank Limited operates the following services

- Corporate Banking
- Project Finance
- SME Finance

- Consumer Credit
- International Trade
- Trade Finance
- Loan Syndication
- Foreign Exchange Dealing
- Rural and Micro credit
- NGO-Linkage Loan
- Investment
- Government Treasury Function
- Money Market Operation
- Capital Market Operation
- Remittanc

1.2 Vision

Socially committed leading banking institution with global presence. To develop continually as a forward looking central bank with competent and committed professionals of high ethical standards, conducting monetary management and financial sector supervision to maintain price stability and financial system robustness, supporting rapid broad based inclusive economic growth, employment generation and poverty eradication in Bangladesh



1.3 Mission

To provide all kind types of banking service at the doorsteps of the people.

- ✓ To establish a countrywide information network system to facilitate
- ✓ Monitoring and to improve the quality of service of the bank.
- ✓ To provide general advances in different sectors to up-gearing the economic activities.
- ✓ To promote the economic development of the country as well as increase per capital income.
- ✓ To provide term loan to establish new industries to create opportunities for new employment.

1.4 Values

Serving our customers

We do everything in our power to ensure that we provide our customers with the products, services and solutions to suit their needs, provided that everything we do for them is based on sound business principles.

1.5 Slogan

Your trusted partner in innovating banking.

1.6 Corporate Social Responsibility

Sonali Bank Limited (SBL) has been rendering various services for attaining greater social goals and objectives. For this process, we aim to contribute towards sustainable development of the society as a whole and fulfillment of corporate social obligation in particular. To reinforce CSR activities, the bank has undertaken fresh initiatives in line with Bangladesh Bank guidelines in the areas of social services, empowerment of women and poor, sports & culture, banking for the disadvantaged groups, disaster & relief activities.

This is an empirical study of the relationship between Corporate Social Responsibility (CSR), financial performance and risk at U.S. banks from 1998-2010. The results are striking. First, there is a positive relationship between CSR and both operating performance and firm value. This result is most pronounced in the largest banks. Second, there is a negative relationship between bank risk-taking and aspects of a bank's CSR environment that are central to the bank's operating activities. Third, those same aspects were negatively related to whether or not the bank received assistance through TARP during 2008-2009, while aspects consistent with greenwashing were positively related to a bank receiving TARP assistance. Overall, these results suggest that improving the quality of CSR at banks might go a long way towards improving individual bank performance and reducing the risk associated with U.S. financial institutions.

1.7 Objectives of Sonali Bank limited

The prime objective of Sonali Bank Limited is to play a vital role in the national economy. To serve each one promptly and with a sense of dedication and dignity is a motto of Sonali Bank Limited. Other Objectives of Sonali Bank Limited is as follows-

- ✓ To provide the best services to each and every clients through concentrated and coordinated efforts and strict professional approach.
- ✓ Forging a cordial, deep-rooted and firm banker-customer relationship by dispensing prompt and improved clientele services.

- ✓ To diversify and to widen the overall operations and activities.
- ✓ Ensuring highest use of the professional workforce through enhancement of their aptitude and competence.
- ✓ To render innovative, customized and cost effective financial solutions to its clients.
- ✓ Responding to the need of the time by participating in syndicated large loan financing with like-minded banks of the country, thereby expanding the area of investment of the bank.
- ✓ Elevating the image of the Bank at home and abroad by sustained expansion of its activities.
- ✓ To establish a strong market presence.
- ✓ To maintain integrity and intellectual ingenuity of highest standard. The operational objectives of Sonali Bank Limited is one of the government own banks in Bangladesh. These objectives are discussed in the below:

Earning profit: Earning profit is one of the main objectives of Sonali Bank Limited in order to survive in the competitive banking world. Without making profit, no bank can work properly.

Collecting savings: Sonali Bank Limited always tries to collect savings from the surplus units through different accounts, special schemes, and provident fund facilities and in many other ways.

Creating capital: By collecting savings from the surplus units through different accounts, it creates capital for the deficit units and uses the accumulated capital for the development of the country as well as acquiring its assets.

Creating the medium of exchange: Sonali Bank Limited creates medium of exchange through its branches very easily. It issues check, bank draft, bills, demand draft, pay order and provides telegraphic transfer, mail service for creating medium of exchange.

Supplying money: To supply the money created by Bangladesh Bank to the people of Bangladesh is another objective of Sonali Bank Limited.

Granting loans and investment: By providing loans to the people of Bangladesh, who are in need to run their own work efficiently, promotes the economic development of the country. Thus, it is considered as one of the objectives of Sonali Bank Limited.

Maintaining security of money: To provide safeguard of people's money is the main objective of Sonali Bank Limited

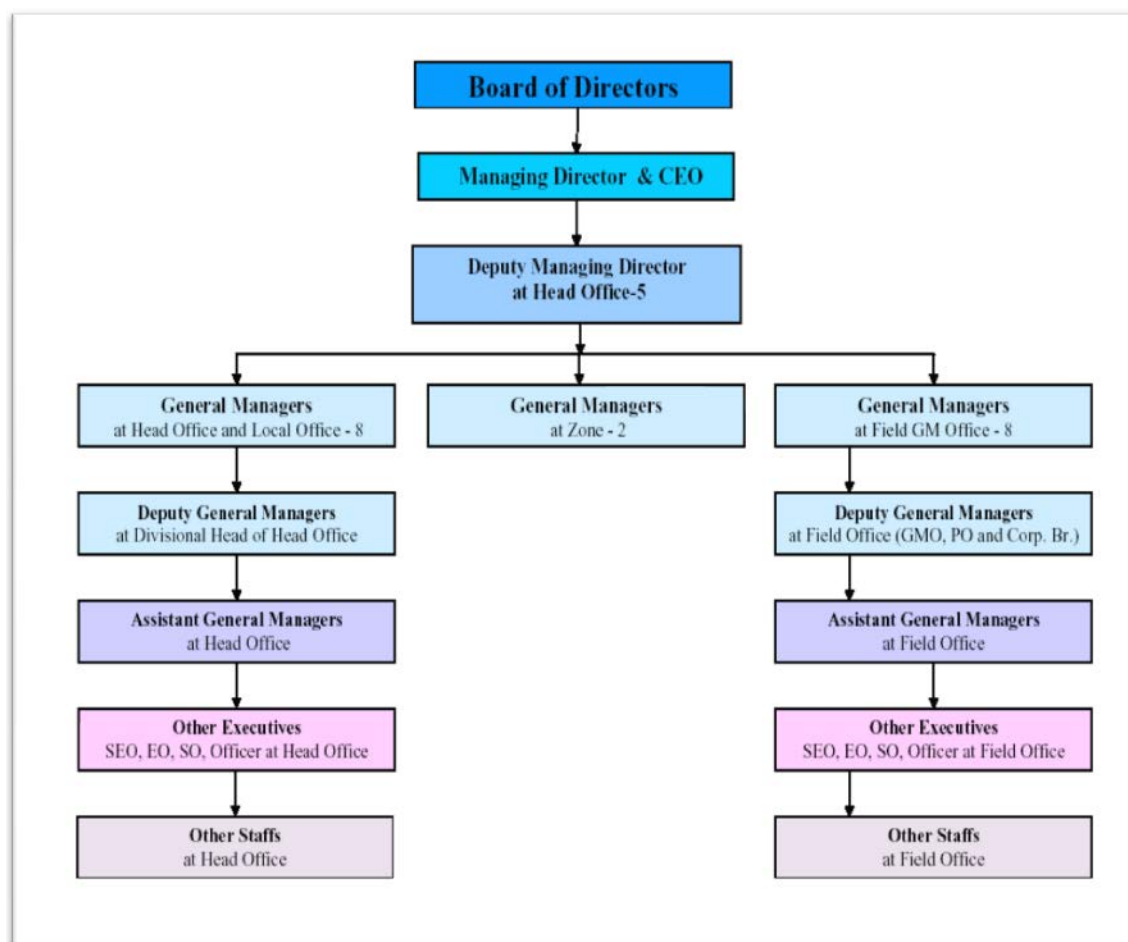
Regional development: Bangladesh is not a big country but it has sixty four districts

Removing poverty: Poverty is a curse for the newly born Bangladesh. It has grasped most of the people's life particularly in the rural areas.

Creating employment: Bangladesh is suffering from the curse of unemployment. The rate of unemployment is increasing day by day.

Economic development: Although Sonali Bank Limited is making profit, it always tries to increase the economic development of the country.

1.8 Organizational Structure (Management) Of Sonali Bank Limited.



1.9 Organizational Structure Hierarchy of Sonali Bank Limited.

Board of Directors
Managing Director
Deputy Managing Directors
General managers
Deputy General managers
Assistant General managers
Senior Principle Officers
Principle Officers
Senior Officers
Officers
Junior Officer
Assistant Officer Grade-1
Assistant Officer Grade-2

1.10 Principal Activities of Sonali Bank Ltd

1.10.1 General Banking

Sonali Bank provides all general banking services to its clients through its extensive network all over the country. Savings and Current accounts, money transfer through Demand Draft, Pay Order, Mail Transfer, and Telegraphic Transfer etc. are regular functions of this bank. In addition it receives utility bills from consumers.

1.10.2 Deposit Schemes

Sonali Bank offers several deposit schemes for different target groups of people. These are:

- Sonali Deposit Scheme (SDS)
- Education Deposit Scheme (EDS)
- Medicare Deposit Scheme (MDS)
- Monthly Earning Scheme (MES)
- Marriage Savings Scheme (MSS)
- Rural Deposit Scheme (RDS) and
- Double Benefit Scheme (DBS)

1.10.3 Credit Schemes

Sonali Bank provides loans under the following programs:

- Consumer Credit
- Special Small Credit
- IT Finance
- Loan for Diagnostic Center
- Loan scheme for Employment Abroad

Consumer Credit loan is designed to support permanent employees in Government, Semi Government, Autonomous and recognized bodies to purchase consumer durables for household use. Rate of interest is quite reasonable and payback is through monthly installments.

1.11 Products

DEPOSIT PRODUCTS:

- ✓ Current account
- ✓ Savings account
- ✓ Short term Deposit (STD) Account
- ✓ Fixed Deposit Scheme (FDR)
- ✓ Double Benefit Scheme (DBS)
- ✓ Monthly Earning Scheme (MES)
- ✓ Medical deposit scheme (MDS)
- ✓ Education Deposit Scheme (EDS)
- ✓ Marriage Savings Scheme (MSS)
- ✓ Sonali savings scheme (SDS)
- ✓ Special Deposit Pension Scheme (SDPS) etc.

LOAN & ADVANCE PRODUCTS:

❖ **Short-term loans:**

- ✓ Overdrafts.
- ✓ Cash credit (pledge, hypothecation).
- ✓ Small loans.
- ✓ Agriculture loans (crop hypothecation).
- ✓ Rural housing.
- ✓ Rural transportation etc.

❖ **Medium & long term loans:**

- ✓ Agro based industries.
- ✓ Frozen food.
- ✓ Computer Software and information technology.
- ✓ Export oriented finished leather and jute goods.
- ✓ Export oriented spinning, textile and garments industries.
- ✓ CNG (compressed natural gas) filling stations.
- ✓ Pharmaceutical industries.
- ✓ Chemical industries.
- ✓ Commercial house building loans.
- ✓ Paper Industries etc.

FOREIGN EXCHANGE ACTIVITIES:

- ✓ Foreign trade and foreign currency
- ✓ Payment against documents
- ✓ Remittance
- ✓ Advance Against Merchandise
- ✓ Foreign Currency Accounts and Wage Earners Scheme
- ✓ Packing Credit
- ✓ Foreign exchange: Imports
- ✓ Foreign bill collection
- ✓ Bank guarantee.
- ✓ Non residence accounts.
- ✓ Travelers' cheques etc.

❖ **FOREIGN TRADE & FOREIGN EXCHANGE:**

- ✓ Foreign trade and foreign exchange deals with the following:
- ✓ Foreign trade and foreign exchange.
- ✓ Licensing authority.
- ✓ Function of Bangladesh Bank.
- ✓ Function of custom authority.
- ✓ Authorized dealers.
- ✓ Agency agreement.

- ✓ Types of accounts.

1.12 Services

Sonali Debit Card Facilities

Sonali Bank Limited is one of the member bank of Q-Cash and visa Consortium. Card holder of Sonali Bank Limited can use ATMs of consortium member banks, Dutch-Bangla bank and BRAC bank limited. Member Banks of Q-Cash Consortium:

- Sonali Bank Limited
- Basic Bank Limited
- IFIC Bank Limited
- Janata Bank Limited
- National Bank Limited
- Pubali Bank Limited
- Trust Bank Limited
- ICB Islamic Bank Limited
- Social Islamic Bank Limited
- Bangladesh Commerce Bank Limited
- State Bank of India
- Eastern Bank Limited
- Jamuna Bank Limited
- Markentile Bank Limited
- NCC Bank Limited
- Shahjalal Islamic Bank Limited
- The City Bank Limited
- Standard Bank Limited
- Uttara Bank Limited
- Bank Asia Limited
- Mutual Trust Bank Limited

Ancillary Services Sonali Bank Limited offers multiple special services with its network of branches throughout the country in addition to its normal banking operations. Collection:

- Gas bills.
- Electricity bills.
- Telephone bills.
- Water/Sewerage bills.
- Municipal holding Tax.

- Passport fees, visa fees and Travel tax.
- Customs & Excise duties.
- Source tax and VAT.
- Jakat fund.
- Hajj deposit.
- Land development tax.

Payment:

- Pension of employees of Government and other Corporate Bodies.
- Bangladesh Bank employees pension.
- Army pension.
- British pension.
- Students' stipend/scholarship.
- Govt. & Non-Govt. Teachers' salary.
- Food procurement bill on behalf of the Govt.

Social Services:

- Old age allowances.
- Widows, divorcees and destitute women allowances.
- Freedom Fighters' allowances.
- Rehabilitation allowances for acid survival women.
- Maternal allowances for poor women.
- Disability allowances.

Sale & Encashment/Purchase:

- Savings Certificates.
- ICB Unit Certificates.
- Prize Bonds.
- Wage Earner's Development Bonds.
- US Dollar Premium & Investment Bond.
- Lottery tickets of different Semi-Govt. and Autonomous Bodies.
- Sanchaypatra.
- Public Service Commission's application form.
- Judicial Service Commission's application form.
- Exchange of soiled / torn notes.

Misc. Services:

- Bank a/c information of tax payee client according to demand of NBR.
- Local Governance Support Project.
- Enlist of Non Government Insurance company.

Chapter 2

**My job at Sonali Bank Limited, Principal Office,
Ramna, Dhaka**

2.1 The nature of the jobs and my specific responsibilities

The first week I was in the Front desk of the bank then next week I have at IT department. Banks don't usually put interns in this department but I was lucky to see firsthand what happens behind the counter. I did not have much responsibility in that department as I was not to mess with their hectic and hasty transactions, but they eventually did give me some work. My responsibilities in this department were just to assist them in any small way possible.

- Checking various types of reports
- Learn about software used to verify all forms of deposits and withdrawals.
- Learned to become freer among the other employees
- Learned about the Money Laundering Act
- How maintaining the administrative activities.
- How maintaining the Branches monthly statement.

Although these activities were small, they helped me understand the nature of the work.

2.2 Observation

It was very interesting working at Sonali Bank. The people there are really nice, co-operated and talented. The things that I have noticed and observed are:

- Work is never left pending for the next day unless it is absolutely necessary
- The work process could be made faster with better computers and operating systems.
- A good job performance is rarely praised, hence lacking motivation of the employees
- The work activities are always set and divided for each of the employees. This is the way it should be, but when I saw it firsthand it was remarkable.

Chapter 3

Policies and Practices Credit Risk Management of SBL

3.1 Concept of Credit

The word credit is derived from the Latin word “credo” which means “I believe” and is usually defined as the ability to buy with a promise to pay. It consists of actual transfer and delivery of goods and services in exchange for a promise to pay in future. It is simply the opposite of debt. Diversification of banking service has accelerated the use of credit in the expansion of business operation. It is a fundamental precept of banking everywhere that advances are made to customers in reliance on his promise to pay rather than the security held by the banker.

Cenzo,D. & Ribbins,S.(1988) defined credit as a legal contract where one party receives resource or wealth from another party and promises to repay him on a future date along with interest. In simple terms, a credit is an agreement of postponed payments of goods bought or loan. With the issuance of a credit, a debt is formed.

3.2 Credit Risk

Credit risk is the risk of losing contractually obligated cash flows promised by a corporation, financial institution, government, etc. (the counterparty) due to default on the debt obligation. Defaults are usually associated with a credit event such a bankruptcy or reorganization, although delinquency in payment may also be considered a credit event even if there is not a formal bankruptcy. Credit risk is the possibility that a borrower or counter party will fail to meet agreed obligations. Globally, more than 50% of total risk elements in banks and FIs are Credit Risk alone. Thus managing credit risk for efficient management of a FI has gradually become the most crucial task. Credit risk may take the following forms:

- In direct lease/term finance: rentals/principal/and or interest amount may not be repaid.
- In issuance of guarantees: applicant may fail to build up fund for settling claim, if any;
- In documentary credits: applicant may fail to retire import documents and many others.
- In factoring: the bills receivables against which payments were made, may fail to be paid.
- In treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases.
- In securities trading businesses: funds/ securities settlement may not be effected.
- In cross-border exposure: the availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the sovereign.

3.3 Credit Management

Credit management is the process for controlling and collecting payments from your customers. A good credit management system will help you reduce the amount of capital tied up with debtors (people who owe you money) and minimize your exposure to bad debts.

Principles for the Management of Credit Risk - consultative document July 1999 Credit management is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximise a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Horowitz (2011) suggested the policies and processes that allow customers and clients to defer payment for goods and services. The management and control of credit is a vital component in the process of controlling cash flow and many organisations have failed because management did not distinguish between profitability and cash flow. Effective credit management ensures that the total amount of credit extended and the period for which it is extended are consistent with the organisation's financial policies. It means ensuring that credit is granted on a consistent basis, the costs of credit are understood, the client payment process is effectively administered, and a debt recovery policy is in place.

www.financeglossary.net/definition/873-Credit_Management defined *Credit Management* as per Finance Glossary.net is a plan to control or improve one's credit, often with the assistance of a professional service provider. As listing a plan to control or improve one's credit, often with the assistance of a professional service provider.

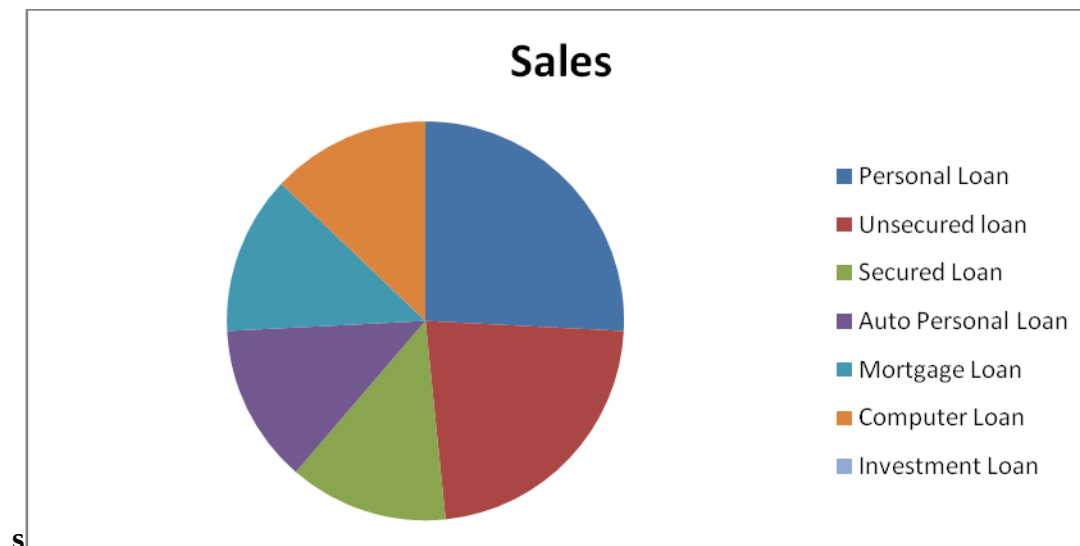
3.4 Credit risk management

The objective of the credit risk management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loans and advances and their efficient management. Credit risk management is a dynamic field where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund. Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default. Therefore, while analyzing the credit management of SBL, it is required to analyze its credit policy, credit procedure and quality of credit portfolio. Credit risk management encompasses identification, measurement, matching mitigations, monitoring and control of the credit risk exposures to ensure that:

- The individuals who take or manage risks clearly understand it.
- The organization's Risk exposure is within the limits established by Board of Directors with respect to sector, group and country's prevailing situation.
- Risk taking Decisions are in line with the business strategy and objectives set by BOD.
- The expected payoffs compensate the risks taken.
- Risk taking decisions are explicit and clear.
- Sufficient capital as a buffer is available to take risk.

3.5 Kinds of Credit

These days' banks offer various types of bank loans to loan seekers, especially those having a good track record of repaying their bills and a stable job get these loans passed easily. You need to have proof of your identity and income to get bank loans and certain bank loan types may also require collateral such as a car or home equity loan. Given below are some of guidelines which will help you to choose from the best types of bank loans possible for your situation from different bank loans options available. The first important thing is to make sure you know what the different types of bank loans are. There is a difference between any two kinds of bank loans. For example, there is a difference between secured and unsecured bank loan types.



❖ Personal Bank Loans

These are the kinds of bank loans which are provided to an individual, rather than to a group or business. The personal bank loans are further divided into many different categories like secured and unsecured loans.

❖ Unsecured Personal Loans

These types of bank loans allow a borrower to get a check or cash and pay it back in fixed installments over a certain fixed period of time. In unsecured personal loans, no specific loan purpose is required. However, it is far less common for a bank to provide an individual an unsecured bank loan types. The unsecured personal loans are like a credit card. Nothing is placed as a security for the loan. The borrower simply gives his word to the bank that he will pay the loan back in the terms agreed upon. In case the loan is not paid back, the bank gets nothing. The rate of interest unsecured loans is usually quite a bit higher than secured loans, so the bank ensures they get their money early in case the borrower gets fail to pay back the loan.

❖ Secured Personal Loans

The secured personal loans issue cash or a check to the loan seeker. The loan seeker has to provide the bank with interest in collateral such as a savings account or a property in case the loan doesn't get repaid. These kinds of bank loans are the most common personal bank loan types which are offered by the banks. These are the types of bank loan types which have some sort of possession put up as security for the loan. In other words, if you are not able to pay back your loan according to the set agreement, the bank has a right to repossess whatever you put up for the loan. Borrowing against the equity in your home is an example of a secured loan. Your home because the security for the loan amount, and if you do not pay back your loan on time, the bank could repossess your home.

❖ Auto Loans

In general, almost all kinds of banks provide these auto loans for purchasing new and used vehicles and for repair of older ones. The consumer has to pay back for it on the basis of monthly installments otherwise the vehicle or the car is repossessed by the banks.

❖ Mortgage Loans

These types of bank loans allow the loan recipients to live in a home while paying it off over time. Usually, a down payment of five percent to twenty percent is required to get the loan approved and the house is seized in foreclosure if payments are not made.

❖ Computer Loans

One of the different bank loans types are computer loans. There are many banks which offer loans to purchase new computers from major companies. The loan check is given to the computer company, and the borrower chooses goods as approved and then makes payments.

❖ Investment Bank Loan

These kinds of bank loans are usually taken to make a comparatively bigger major purchase, such as your mortgage. These kinds of bank loans need credit checks which are rigorous because of the large amount of money involved. These are also considered as secured loans because if you do not pay them back, the offshore bank accounts can sell off your investment to earn the money you owe them.

3.6 Credit Principles

In order to maximize the stakeholders' value by establishing SBL as fundamentally sound financial institution, there are ten credit principles, which should always Guide your behavior in our lending decision

- The Bank shall provide suitable credit services and products for the market in which it operates. Product innovation shall be a continuous process.
- Loans and advances shall normally be financed from customers deposit and not out of temporary fund or borrowing from money market.
- Credit facilities shall be allowed in a manner so that credit expansion goes on ensuring quality i.e. no compromise with the Bank's standard of excellence. Credit is extended to customers who will complement such standards.
- All credit extension must comply with the requirements of Bank's Memorandum and Articles of Association, Bank companies Act as amended from time to time, Bangladesh Bank's instructions Circulars, Guidelines and other applicable laws, rules and regulations.
- The conduct of the loan portfolio should contribute, within defined risk limitation, to the achievement of profitable growth and superior return on the Bank's capital.
- Credit advancement shall focus on the development and enhancement of customer's relationship and shall be measured on the basis of the total yield for each relationship with a customer (on the global basis), though individual transactions should also be profitable.
- Credit facilities will be extended to those companies/persons, which can make best use of the facility thus helping maximize our profit as well as economic growth of the country. To ensure achievement of this objective lending decision shall be based mainly on the borrower's ability to repay.

3.7 Credit Facilities of Sonali Bank Ltd.

The main focus of Sonali Bank Ltd. Credit Line/Program is financing business, trade and industrial activities through an effective delivery system.

- Sonali Bank Ltd. offers credit to almost all sectors of commercial activities having productive purpose.
- The loan portfolio of the Bank encompasses a wide range of credit programs.
- Credit is also offered to major thrust sectors, as earmarked by the govt., at a reduced interest rate to develop frontier industries.
- Credit facilities are offered to individuals including housewives, businessmen, small and big business houses, traders, manufactures, corporate bodies, etc.
- Loan is provided to the rural people for agricultural production and other off-farm activities.
- Loan pricing system is customer friendly.
- Prime customers enjoy prime rate in lending and other services.
- Quick appreciation, appraisal, decision and disbursement are ensured.

- Credit facilities are extended as per guidelines of Bangladesh Bank (Central Bank of Bangladesh) and operational procedures of the Bank.

3.8 Credit Operating System

+ Prospective Borrower

Most bank loans to individuals arise from a direct request from a customer who approaches a member of the bank's staff and asks to fill out a loan application. In the Sonali Bank Ltd. Bank, business loan request often arise from the contacts the bank's loan officers and sales representatives make as they solicit new accounts from firms operating in the bank's market area. Sometimes loan officers will call on the same company for months before the customer finally agrees to give the bank a try by filling out a loan application.

+ Client's Interview

When a customer decides to request a loan, an interview with a loan officer usually follows right ways, giving the customer the opportunity to explain his or her credit needs. That interview is particularly important because it provides an opportunity for the bank's loan officer to assess the customer's character and sincerity of purpose. If the customer appears to lack sincerity in acknowledging the need to adhere to the terms of a loan, this must be recorded as a strong factor weighing against approval of the loan request.

+ Client's Request with FIS

The borrower is providing with an instruction paper, which help him or her to prepare the loan proposal properly. Information on loan proposal should be furnished in prescribed First Information Sheet (FIS) in triplicate properly typed in each pages / set should be duly sealed and signed by the applicant(s)/ sponsor(s).

+ Information Sheet

Complete information should be furnished in respect of each item supported by documentary evidences, wherever necessary, to avoid further reference/ delay/ rejection of the application. The bank reserves the right to reject the application forthwith if the application given in the form is incomplete and not fully documented in all respects. Information may be provided in additional sheets of papers, if required. However ensure all the pages and annexure are signed under official seal. Also ensure that all the facts/ evidences have been enclosed properly including the feasibility reports/ detailed study reports on loan proposal.

- The client are required to deposit with the application the project examination fee and also apportion of the equity at the following rate either by cheque or pay order or demand draft drawn in favor of Sonali Bank Ltd. and payable in any scheduled Banks within the country.

- Memorandum and Articles of Association together with the certificate of registration/incorporation commencement of business of the company duly certified by an aging director of the company should be submitted.
- Certificates from the surveyor for determining the price of land of the project/price of adjacent land sold during last three years should be submitted. Also to be submitted are site/ mouza map.
- Machinery layout plan, price quotation of three suppliers together with illustrated brochures and literatures should be submitted for both import and local machinery.
- Consent letter from Power Development Board/ Rural Development Board/ Gas Authority/ Pollution Control Board should be submitted whatever required.
- Soil Test/ Water Test report (if required).
- Nationality certificate along with attested passport size photographs of the directors/partners/ proprietor should be submitted.
- Declaration of asset and liability of the proposed directors/ partners/ proprietor. Declaration of payment of income tax should be submitted.

Justification of Facility Requested

Compared to other financial institutions' usual two months average processing time for its medium and large loan program, the processing time for small industry loans remains well below the above processing time because of its lesser detailed studied as well as the bank considers that small entrepreneurs look for their sources of credit at their time of need.

- The processing/approval time for small industry loan is not more than two months from the date of receiving complete application from.
- Application in prescribe form of received in triplicate, duly filled in, and sealed and signed by the sponsoring directors along with their attested photographs duly affixed in the space provided for.
- Draft layout plan of the proposed building and the estimated for constriction cost is obtained.
- In case of project to be located in any BSCIC industrial estate, BSCIC latter of consent particulars of the land, copy of lease deed is obtained.
- For location of industry in other areas, permission / no- objection for setting up the small industry is obtained from the appropriate authorities.
- Utility agency's letter of consent of providing necessary utility services to the unit to be obtained.
- Detailed credit report of the sponsors/ project is prepared i.e. the Bank should carry out detailed credit investigation of the promoters.
- Tentative list of machinery / work with detailed specification should be obtained supported by 3 price quotation.

- The individual project appraisal report for small scale and cottage industry may not be very elaborate and exhausted. However it covers the Sonali Bank Ltd. area of project viability.
- Join report from the Bank and the borrower is prepared for informal sector.

Analysis Proposals

Sonali bank LTD. was established to provide term loan and other financial assistance including all kinds of banking facilities to accelerate the pace of development to small industry. The financial assistance includes short term working capital loan, medium and long term finance to viable new- small scale industry (SSI) projects and BMRE of SSI projects which fulfill the banks criteria of viability and acceptability. Project appraisal/ analysis in the banking sector is needed for the following reasons:

- ❖ To justify the soundness of an investment
- ❖ To ensure repayment of bank finance.
- ❖ To achieve organizational goals.

3.9 Loans & Advances

Sonali Bank Ltd. emphasis on credit quality and customer's services yielded the desired growth in profit, capital assets and shareholders' value. But to get the loans and advance the investors has to follow some terms and condition which falls under the policy and practice of the bank instruction booklet.

Industrial Credit

Sonali Bank's services are directed towards the entrepreneurs in the small industries sector. A small industry, as per Industrial policy 1999 approved by the Cabinet, has been defined as an industrial undertaking whose total fixed investment is less than Tk.100 million. The industrial loan reflected a significant growth of 22.59 % over the previous year. Total outstanding industrial loans including Agri-based industry, RMG, Textile, Ship Building, Ship Breaking & Other Manufacturing Industry stood Taka1359.29 crore at the end of 2012.

Commercial Credit

This Bank also supports development of trade, business and other commercial activities in the country. It covers the full range of services to the exporters and importers extending various facilities such as cash credit, export cash credit, packing credit, short term loans, local and foreign bills purchase facilities.

Micro Credit

Sonali **Bank Ltd.** launched a Micro Credit Scheme in 1994. Micro Credit Scheme provides for the poor for generation of employment and income on a sustainable basis particularly in urban and suburban areas. The Bank follows three systems of credit delivery. These are:

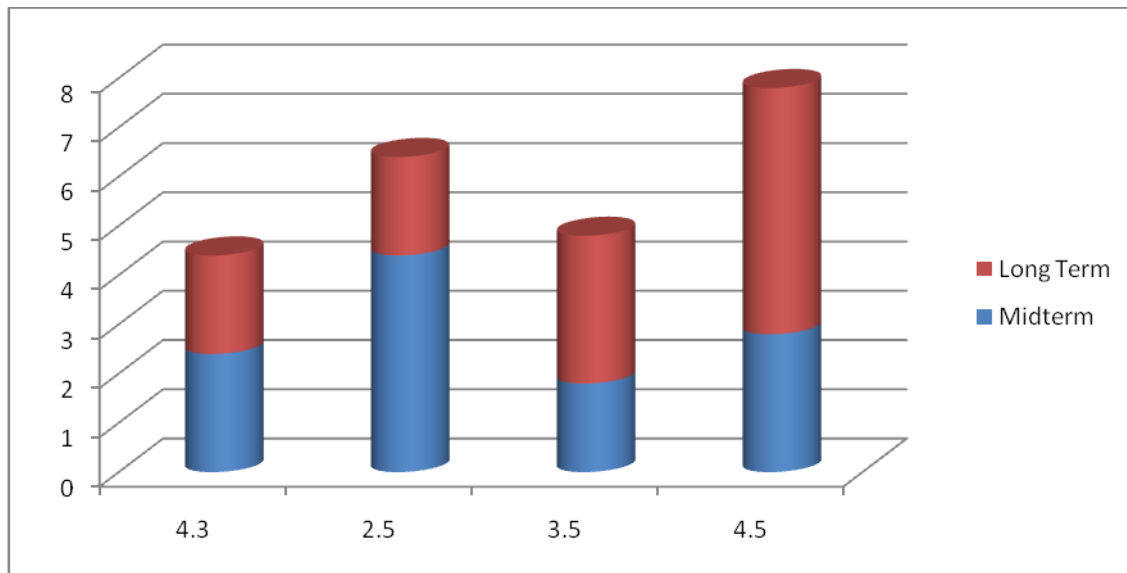
- ✚ Lending to the NGOs who on-lend to their members. At present there are 15 such NGOs.
- ✚ Lending direct to the targets groups or ultimate borrowers under the Bank's own management.
- ✚ Lending direct to the member-borrowers and NGOs providing non financial services like group formation and monitoring and supervision on exchange for a supervision fee.

Lending Criteria

- ✚ **Entrepreneur** Entrepreneur/promoter has to be creditworthy and competent enough to run the proposed industry.
- ✚ **Viability of the project:** The project should be viable from organizational, technical, commercial, financial and economic points of view.
 - **Technical Viability**
 - ✓ The project should be technically sound and environment-friendly.
 - ✓ Technology transfer in case of borrowed know-how ought to be ensured.
 - ✓ Building should be well planned and well constructed.
 - **Commercial viability**
 - ✓ Market prospect and potential for the product has to be fully assured at competitive prices.
 - ✓ Marketing channel for the product should be accessible to the entrepreneur.
 - **Financial Viability**
 - ✓ There should be reasonable debt equity ratio as determined by the Bank on individual case basis.
 - ✓ Debt service coverage ratio should be at least 2.5 times at the optimum level of production.
 - ✓ IRR should preferably be not less than 20 %.
 - **Economic Viability**
 - ✓ The project should ensure benefit to the national economy and create sufficient employment opportunity and be environment friendly.

3.10 Common types of loans

Consumers and small businesses obtain loans with varying maturity periods to fund purchases of real estate, transportation, equipment, supplies, and a vast array of other needs. According to W. Keith Schilit in *The Entrepreneur's Guide to Preparing a Winning Business Plan and Raising Venture Capital*, they receive these loans from a number of sources, including friends and relatives, banks, credit unions, finance companies, insurance companies, leasing companies, and trade credit. The state and federal governments sponsor a number of loan programs to support small businesses. Following are examples of some common types of loans.



Short-term loans: A special commitment loan is a single-purpose loan with a maturity of less than one year. Its purpose is to cover cash shortages resulting from a one-time increase in current assets, such as a special inventory purchase, an unexpected increase in accounts receivable, or a need for interim financing. Trade credit is another type of short-term loan.

Intermediate-term loans: Term loans finance the purchase of furniture, fixtures, vehicles, and plant and office equipment. Maturity generally runs more than one year but less than five. Consumer loans for autos, boats, and home repairs and remodeling are also of intermediate term.

Long-term loans: Mortgage loans are used to purchase real estate and are secured by the asset itself. Mortgages generally run between ten and forty years. A bond is a contract held in trust with the obligation of repayment. An indenture is a legal document specifying the terms of a bond issue, including the principal, maturity date, interest rates, any qualifications and duties of the trustees, and the rights and obligations of the issuers and holders,

3.11 Characteristics of loans

Loans have the following distinguishing characteristics:

Time to maturity: Time to maturity describes the length of the loan contract. Loans are classified according to their maturity into short-term debt, intermediate-term debt, and long-term debt.

Repayment Schedule: Payments may be required at the end of the contract or at set intervals, usually on a monthly or semi-annual basis. The payment is generally comprised of two parts: a portion of the outstanding principal and the interest costs.

Interest: Interest is the cost of borrowing money. The interest rate charged by lending institutions must be sufficient to cover operating costs, administrative costs, and an acceptable rate of return. Interest rates may be fixed for the term of the loan, or adjusted to reflect changing market conditions. A credit contract may adjust rates daily, annually, or at intervals of 3, 5, and 10 years. Floating rates are tied to some market index and are adjusted regularly.

Security: Assets pledged as security against loan loss are known as collateral. Credit backed by collateral is secured. Real estate or land collateralizes mortgages. Unsecured debt relies on the earning power of the borrower.

3.12 Functions of Bank Loans

1. Accepting Deposits

The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks.

For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessmen deposit their savings in the banks for the convenience of payment.

Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes. Generally, there are three types of deposits which are as follows:

(i) Current Deposits:

The depositors of such deposits can withdraw and deposit money whenever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called as Demand Deposits because these can be demanded or withdrawn by the depositors at any time they want.

(ii) Fixed Deposits:

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits.

These deposits generally carry a higher rate of interest because banks can use these deposits for a definite time without having the fear of being withdrawn.

(iii) Saving Deposits:

In such deposits, money upto a certain limit can be deposited and withdrawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilize small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income.

2. Giving Loans

The second important function of public banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income.

Modern banks give mostly secured loans for productive purposes. In other words, at the time of advancing loans, they demand proper security or collateral. Generally, the value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan.

At times, banks give loan on the basis of personal security also. Therefore, such loans are called as unsecured loan. Banks generally give following types of loans and advances:

(i) Cash Credit:

In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

(iii) Demand loans:

These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus entire loan becomes chargeable to interest with immediate effect.

(iv) **Short-term loan:**

These loans may be given as personal loans, loans to finance working capital or as priority sector advances. These are made against some security and entire loan amount is transferred to the loan account of the borrower.

3. Over-Draft

Banks advance loans to its customer's upto a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.

4. Discounting of Bills of Exchange

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity.

5. Investment of Funds

The banks invest their surplus funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national savings certificate etc.

Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks units of UTI, shares of Regional Rural banks etc.

6. Agency Functions

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

- (i) Banks collect cheque, drafts, bills of exchange and dividends of the shares for their customers.
- (ii) Banks make payment for their clients and at times accept the bills of exchange: of their customers for which payment is made at the fixed time.
- (iii) Banks pay insurance premium of their customers. Besides this, they also deposit loan installments, income-tax, interest etc. as per directions.
- (iv) Banks purchase and sell securities, shares and debentures on behalf of their customers.
- (v) Banks arrange to send money from one place to another for the convenience of their customers.

7. Miscellaneous Functions

Besides the functions mentioned above, banks perform many other functions of general utility which are as follows:

- (i) Banks make arrangement of lockers for the safe custody of valuable assets of their customers such as gold, silver, legal documents etc.
- (ii) Banks give reference for their customers.
- (iii) Banks collect necessary and useful statistics relating to trade and industry.
- (iv) For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.
- (v) Banks advise their clients relating to investment decisions as specialist
- (vi) Bank does the under-writing of shares and debentures also.
- (vii) Banks issue letters of credit.
- (viii) During natural calamities, banks are highly useful in mobilizing funds and donations.
- (ix) Banks provide loans for consumer durables like Car, Air-conditioner, and Fridge etc

3.13 Credit Budget

Budget is the numerical expression of a plan. It acts as the guideline for the operational people and streamlines all the efforts to desired way. In credit operation, budget performs some other important function.

Firstly, a credit budget can be used as yardstick to prevent unwarranted credit concentration in one or few sectors. A bank with high concentration in one or few sectors is likely to be severely affected from any adverse change in respective sectors.

So, a sector-wise credit budget can be used as guideline to avoid sectoral concentration.

Secondly, the credit budget acts as a target to be achieved. It allows the management to review the performance with the budget and to take corrective action, if necessary.

Thirdly, since credit budget is prepared giving emphasis on potential sector and for discouraging risk sectors, credit budget provides ready reference for identifying potential sectors as well as risky sectors. Obviously, some sector bear good potential while some other sectors may have reached the situation stage.

SBL formulates credit budget indicating appetite for growth in different sectors, every year. For the year of 2011, SBL credit budget contain following:

- Preferred Areas of Business

- Mode-wise Credit Exposure Ceiling
- Large Loan Concentration Ceiling
- Management of Classified Loan and Advances to keep it at the lowest level
- Credit budget for the year 2011 with sectoral outlook and exposure ceiling
- Credit Budget for the different segments of business like Corporate, SME, Retail
- Emphasizing on secured Lending
- Compliance of Basel- II framework
- Loan Pricing Policy
- Policy for the Delegation of Approval Authority as per Bangladesh Bank guideline
- Implementation of the concept of Relationship Banking

3.14 Credit Risk Assessment

A thorough credit risk assessment should be conducted prior to the granting of loans, and at least thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the Relationship Manager (RM), and is recommended by Branch Credit Committee (BCC). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy for the entire credit application submitted for approval. RMs must be familiar with the bank's Lending Guidelines and should conduct due diligence on new borrowers, principles and guarantors. A thorough credit risk assessment is conducted prior to the sanctioning of credit facilities. Therefore, it is done annually for each relationship. The result of the assessment is presented in the credit proposal originated to the Relationship Manager. Following risk areas are addressed and assessed in credit sanctioning process:

Credit Applications should summaries the results of the RMs risk assessment and include, as a minimum, the following details:

- Amount and type of loan(s) proposed.
- Purpose of loans,
- Loan Structure (Tenor, Covenants, Repayments Schedule, Interest)
- Security Arrangements
- ❖ **Borrower Analysis:** Reputation, education, experience, age and success history and net worth of the borrower are considered to analyze a borrower. Any issue regarding lack of management depth, complicated ownership structure or enter-group transaction is addressed in borrower analysis.
- ❖ **Industry Analysis:** To analyze an industry JBL consider industry position i.e. threat & prospect of the industry, risk factors pertaining to industry, borrower position or share in the industry.

- ❖ **Historical Financial Analysis:** An analysis of medium of 3 years historical financial statement of the borrower is being presented. The analysis addresses the quality and sustainability of earning, cash flow and the strength of the borrower's balance sheet
- ❖ **Projected Financial Performance:** where term facilities are proposed, the projection of the borrower's future financial performance/cash flow is estimated to ascertain that the borrower will be able to repay the installments.
- ❖ **Technical feasibilities/in** fractural facilities, Seasonality of demand, Debt-equity Ratio, Account conduct of the borrower, security and other relevant factors are considered to assess credit risks.

3.14.1 Types of Credit Risk

Credit risk can be classified in the following way.

- **Credit default risk**
The loss of arising from a debtor being unlikely to pay its loan obligation in full or the debtor is more then 90 days past due on any material credit obligation . Default risk may impact all credit –sensitive transaction, including loans ,securities and derivatives.
- **Concentration Risk**
The risk associate with any single exposure or group of exposure with the potential to produce large enough losses to threaten a bank's core operation . its may arises in the form of single name concentration or industry concentration.
- **Country Risk**
The risk arises from sovereign state freezing foreign currency payment or when its default on its obligations.

3.14.2 Credit Facilities parameter:

Maximum Size:

1. Directives of Bangladesh Bank are meticulously complied in respect of maximum size single customer/group exposure. At present, as per guidelines of Bangladesh Bank, the total outstanding of any single person or enterprise or organization of a group at any point of time does not exceed 35% of bank's total capital subject to the condition that the maximum outstanding against fund based financing facilities (funded facilities) do not exceed 15% of the total capital. However, in case of export sector single borrower exposure is 50% of the Bank's total capital. But funded facilities in case of export credit also do not exceed 15% of Bank's total capital.
2. Loan sectioned to any individual enterprise or any organization of a group amounting of 10% or more of bank's total capital is consider as large loan. SBL having classified loan less than 5% (i.e. classified loan as on 31.12.2011) can extend large loan up to 56% of its total capital funds.

- Credit limit in each case shall be fixed after assessment of actual business need maintaining required Debt Equity Ratio, considering debt Service Coverage Ratio, payback period, Security Coverage etc.

Maximum Tenor:

Short-term loan	Medium term loan	loang term loan
maximum period 12 months. actual loan period shall be fixed on a case-to-case basis considering cycle of business and requirement.	Loan period shall be for more then 12 months and up to 36 months.	Loan period shall be more then 36 months. Actual loan period shall be fixed considering repayment capacity and projected cash flow.

Securities:

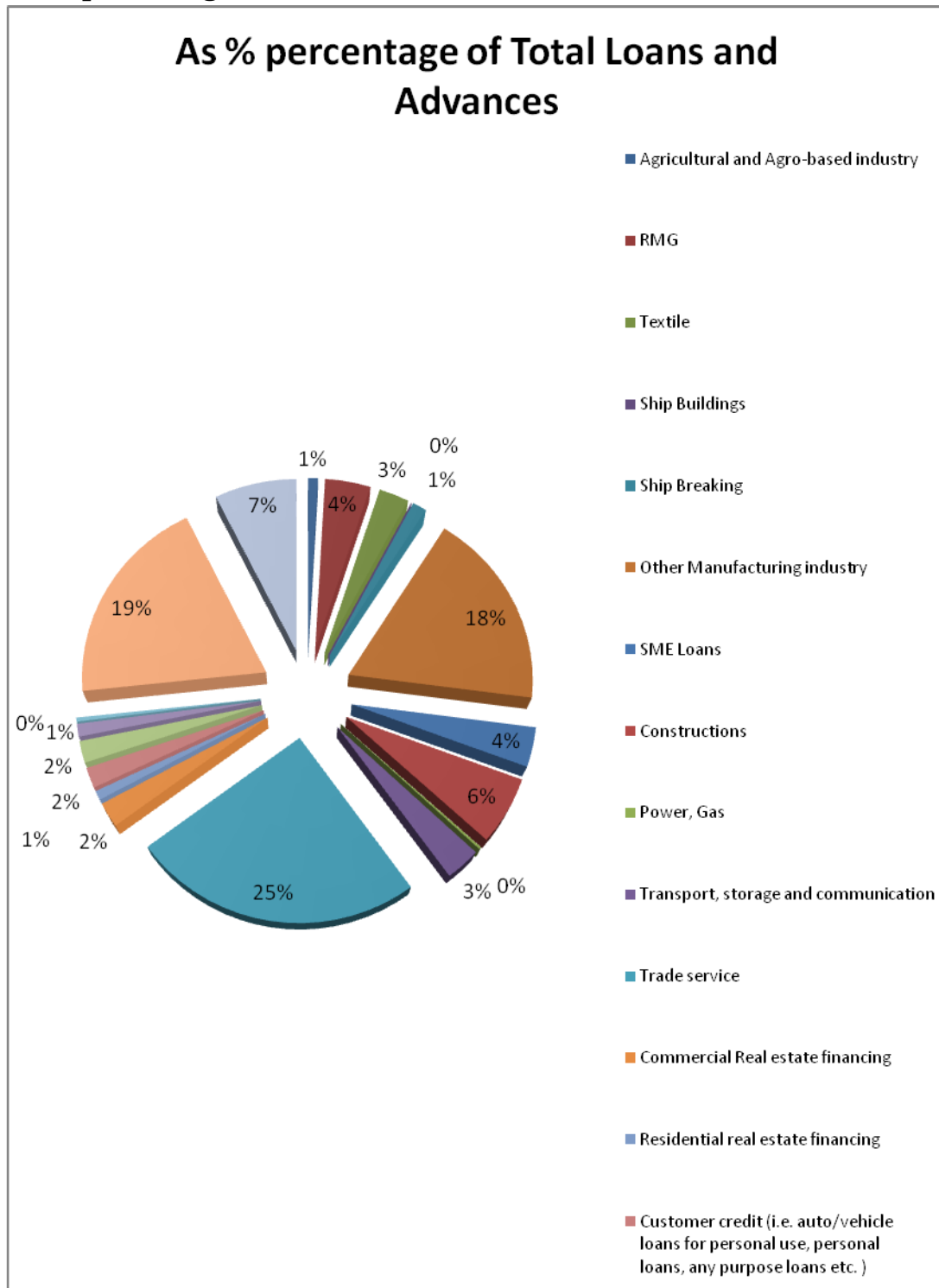
The capital securities are secured by primary security and collateral security of substantial value and quality but the security requirements are fixable for borrowers having lower business risks. Collateral security is properly valued by enlisted independent surveyor and the recommending branch. The collateral security must have adequate value, proper demarcation, possession right and right title of document as opened by panel lawyer of the bank. The collateral must be within the commanding area of the branch. In addition to that guarantee of the sponsor s, spouses, mortgagors as well as the postdated cheques covering the facilities with usual charge documents are obtained to make the facilities secured. Asset pledge, as security is properly ensured. Financial instrument pledged as security are properly lined and authenticated.

Credit exposure of Sonali Bank Limited is as underline: (Taka in Crore)

SI.no.	Sectoral structure of Lending			Outstanding as on 31.12.2014	As % of total Loans & advances
1	Agricultural industry	and	Agro-based	51.32	0.91%

2	RMG	235.40	4.16%
3	Textile	155.76	2.75%
4	Ship Buildings	0.00	0.00%
5	Ship Breaking	73.45	1.30%
6	Other Manufacturing industry	1030.70	18.21%
7	SME Loans	204.85	3.62%
8	Constructions	350.68	6.19%
9	Power, Gas	11.84	0.21%
10	Transport, storage and communication	174.03	3.07%
11	Trade service	1421.39	25.11%
12	Commercial Real estate financing	129.02	2.28%
13	Residential real estate financing	48.26	0.85%
14	Customer credit (i.e. auto/vehicle loans for personal use, personal loans, any purpose loans etc.)	105.10	1.86%
15	Capital Market (loan provided for brokerage or merchant banking, to stock dealer or any kind of capital market activities)	113.01	2.00%
16	Credit card	9.70	1.17%
17	Non-bank financial institutions	21.01	0.37%
18	Banks acceptance (i.e. LDBP, FDBP)	1102.10	19.47%
19	Others	423.35	7.48%

As %percentage total Loan &Advances:



3.15 Recovery Rate

3.15.1 Comparative Recovery Rate of Loans

In banking environment no reward can be expected without risk. Considering the present non-performing loan position of the country, Sonali Bank Ltd. is very much cautious about its investment. Every loan proposal is placed under careful scrutiny before approval. Internal Audit team and Recovery team exercise close monitoring on every loan transaction. All out efforts were made to improve the recovery rate and control of non-performing loans and advance

3.15.2 How Sonali bank recover their Loans

When Sonali Bank sanctions loans and advances to its customers, they clearly state the repayment pattern in the loan agreement. But some credit holders do not pay their credit in due period. The public banks have to face this sort of problems. This situation is also found in Sonali Bank. To overcome the problem of overdue loan, the bank has taken particular loan recovery programs.

1. Recovery Programs taken by Sonali Bank Limited :
 - a. Establishing credit supervision and monitoring cell in the bank
 - b. Re-structuring the loan sanctioning and distributing policy of the bank
 - c. Sanctioning loans and advances against sufficient securities as best as possible
 - d. Giving more powers to the branch manager in credit management decision making process
 - e. Offering a package of incentives to the sound borrowers
 - f. Giving more emphasis on short term loans and advances
 - g. Imposing restrictions on loans and advances for sick industries
 - h. Taking legal actions quickly against unsound borrowers as best as possible within the period specified by the law of limitations.

3.15.3 Recovery Patterns of Loan & Advances

Generally Sonali bank sanctions loans and advances to every sector of an economy. Before going into details of recovery performance, we have to be familiar with some terms used in recovery performance:

- Disbursement: highest outstanding balance on any date during the reporting period minus outstanding balance at the end of the preceding period.

- Demand for recovery: overdue at the end of the reporting period plus recovery during the reporting period.
 - Recovery: highest outstanding balance on any date during the reporting period minus outstanding balance at the end of the recovery period.
 - Outstanding: Outstanding figures in the ledger at the end of the reporting period.
 - Overdue: Demand for recovery minus recovery.

3.15.4 Problems in Loan Recovery

Though Sonali bank is performing better in managing loan and advances, still 12.39% of total loan and advances are classified. There are a lot of reasons for which the loan recovery of the bank is still now defective. In most cases, problems may be raised from sanctioning procedures of loan, investigation of the project, and investigation of the loans etc. that is, the problem in loan recovery proves the outcomes of the default process in loan disbursement. The main reasons of poor loan recovery are categorized in four broad types as follow:

- **Problems created by economic environment** : The following problems arise from the effect of economic environment:
 - I. **Changing in the management pattern:** Changing of management patterns may delay the recovery of mature loan.
 - II. **Changing in industrial patterns** : The banks sometimes sanction loan to the losing concern for further improvement of the respective sector, but in most cases, they fail to achieve progress.
 - III. **Operation of open market economy:** In our country mainly industries become sick and also close their business on account of emerging of open market economy. The cost of production is high and the quality of goods is not of required of standard. As a result, they become the losing concerns and the amount of bad loan increases.
 - IV. **Rapid expansion of business:** There are many companies which expand their business rapidly, but the expansion is for short time. In the long run, the amount of classified loan increases.
- **Problems created by government**
 - I. **External pressure:** Sonali Bank has also faced many problems in the loan recovery process as a part of continuous pressure from various interested groups.
 - II. **Legal problems:** Existing rules and regulations are insufficient to cover the legal aspects of loan recovery. As a result, defaulters can get release easily from all charges against them.

III. **Instability of Govt. policy:** Frequent changes in government policies in regard to recovery of loan.

➤ **Problems created by the bank:** The following problems are created by the banks:

- I. Lack of analysis of business risk: Before lending, Sometime Sonali Bank fails to properly analyze the business risk of the borrowers and the bank cannot forecast whether the business will succeed or fail. If it fails to run well, the loan becomes classified.
- II. Lack of proper valuation of security or mortgage property: In some cases, bank fails to determine the value of security against the loan. As a result, if the loan becomes classified, the bank cannot recover its loan through the sale of mortgage.

➤ **Other general causes of poor loan recovery:**

Apart from the specific reasons creating problems to recoup loan, there exists some other general causes which have a great impact on creating the problems which are faced by the Sonali Bank under study in the loan recovery process. These are:

1. Early sanction and disbursement of loan to the borrowers without proper inspection of the project by the bank on account of pressure from lobbying group.
2. Lack evaluation of technical and economic feasibility of the program.
3. Delay in disbursement of credit.
4. Sometime credit is not allowed to actual entrepreneurs sometime.
5. Lack of proper supervision.
6. Illiteracy of borrowers.
7. Negative attitude of borrowers to repay the loan.
8. Deterioration of the value system of the borrowers.
9. Money borrowers use their loan-money other than specified project, i.e., if the loan is sanctioned for industrial purpose; they use the money in house building or purchase of land for their own purpose.
10. Sometimes borrowers invest their money outside the country. Many borrowers transfer loan money to abroad where they deposited this money in their own account or spent some other purpose.

11. Sometimes local borrowers are found to be so much compelled to grant them loan without proper study due to some unexpected reasons. Since these borrowers are capable of getting loan by exercising their influence, they can also escape the repayment liability.

12. Problems responsible for non-implementation and delayed implementation of project for which the entrepreneurs of the project cannot repay the loan. The causes of failure may be:

- ✓ Failure to ascertain the economic availability of the projects
- ✓ Time lag between approval and sanctioning of the projects
- ✓ Import of machinery and raw materials both are the problems of paucity of foreign exchange and procedures of licensing.

All of these reasons discussed above are general reasons for problems loan recovery of Sonali Bank. Besides these, there are some specific reasons for loan recovery problems faced continuously by Sonali Bank. They are as:

- I. Loans are given under fictitious names and enterprise
- II. Loans are given in some cases without sufficient securities
- III. Approval of the loans in excess of the branch manager's power
- IV. Improper monitoring and supervision of credit
- V. Politically misuse of loan programs
- VI. Lack of timely action against willful defaulter
- VII. Loans are sometimes for economically unsound project.
- VIII. The pressure to achieve targeted loan and advance given by head office to the branches

Problems in loan recovery are the outcome of the default on loans disbursements in the earlier period.

3.15.5 Types of loan of Sonali Bank Limited

Depending on the various nature of financing, all the lending activities have been brought under the following major heads:

Loan (General) :

Short term, Medium term & Long term loans allowed to individual/firm/industries for a specific purpose but for a definite period and generally repayable by installments fall under this head. This type of lending is mainly allowed to accommodate financing under the categories (i) Large & Medium Scale Industry and (ii) Small & Cottage Industry. Very often term financing for (i) Agriculture & (ii) Others are also included here.

House Building Loan (General):

Loans allowed to individual/enterprises for construction of house (residential or commercial) fall under this type of advance. The amount is repayable by monthly installment within a specified period. Such advances are known as Loan (HBL- GEN).

House Building Loan (Staff)

Loans allowed to our Bank employees for purchase/construction of house shall be known as Staff Loan (HBL-STAFF).

Other Loans to Staff:

Loans allowed to employees other than for House Building shall be grouped under head - Staff Loan (Gen).

Cash Credit (Hypo.):

Advances allowed to individual/firm for trading as well as wholesale purpose or to industries to meet up the working capital requirements against hypothecation of goods as primary security fall under this type of lending. It is a continuous credit. It is allowed under the categories (i) "Commercial Lending" when the customer is other than a industry and (ii) "Working Capital" when the customer is an industry.

Cash Credit (Pledge):

Financial accommodations to individual/firms for trading as well as for whole-sale or to industries as working capital against pledge of goods as primary security fall under this head of advance. It is also a continuous credit and like the above allowed under the categories (i) "Commercial Lending" and (ii) Working Capital".

Hire Purchase: Hire-Purchase is a type of installment credit under which the Hire-Purchaser agrees to take the goods on hire at a stated rental, which is inclusive of the repayment of Principal as well as interest for adjustment of the loan within a specified period.

Lease Financing: Lease Financing is one of the most convenient sources of acquiring capital machinery and equipment whereby a client is given the opportunity to have an exclusive right to use an asset usually for an agreed period of time against payment of rent. It is a term financing repayable by installment.

Time Loan: This is one time financial accommodation for short period maximum 12 months to meet some specific purpose. The loan is adjustable within the validity and not renewable and no transaction is allowed.

Consumers Credit Scheme: It is a special credit scheme of the Bank to finance purchase of consumers' durable to the fixed income group to raise their standard of living. The loans are

allowed on soft terms against personal guarantee and deposit of specified percentage of equity by the customers. The loan is repayable by monthly installment within a fixed period.

SOD (General): Advances allowed to individual/firms against financial obligation (i.e. lien on FDR/PSP/ BSP/Insurance Policy/Share etc). This may or may not be a continuous Credit.

SOD (Others): Advances allowed against assignment of work order for execution of contractual works falls under this head. This advance is generally allowed for a definite period and specific purpose i.e. it is not a continuous credit. It falls under the category "Others".

SOD (Export): Advance allowed for purchasing foreign currency for payment against L/Cs (Back to Back) where the exports do not materialize before the date of import payment. This is also an advance for temporary period which is known as export finance and falls under the category "Commercial Lending".

PAD: Payment made by the Bank against lodgment of shipping documents of goods imported through L/C falls under this head. It is an interim advance connected with import and is generally liquidated against payments usually made by the party for retirement of the documents for release of imported goods from the customs authority. It falls under the category "Commercial Lending".

LIM: Advances allowed for retirement of shipping documents and release of goods imported through L/C taking effective control over the goods by pledge in godowns under Bank's lock & key fall under this type of advance. This is also a temporary advance connected with import which is known as post-import finance and falls under the category "Commercial Lending".

LTR: Advance allowed for retirement of shipping documents and release of goods imported through LC falls under this head. The goods are handed over to the importer under trust with the arrangement that sale proceeds should be deposited to liquidate the advances within a given period. This is also a temporary advance connected with import and known as post- import finance and falls under the category "Commercial Lending".

IBP: Payment made through purchase of inland bills/cheques to meet urgent requirement of the customer falls under this type of credit facility. This temporary advance is adjustable from the proceeds of bills/cheques purchased for collection. It falls under the category "Commercial Lending".

Export Cash Credit (ECC): Financial accommodation allowed to a customer for exports of goods falls under this head and is categorized as "Export Credit". The advances must be liquidated out of export proceeds within 180 days.

Packing Credit (PC): Advance allowed to a customer against specific L/C/firm contract for processing/packing of goods to be exported falls under this head and is categorized as "Packing

Credit". The advances must be adjusted from proceeds of the relevant exports within 180 days. It falls under the category "Export Credit".

F D B P: Payment made to a customer through purchase/negotiation of a foreign documentary bills falls under this head. This temporary advance is adjustable from the proceeds of the shipping/export documents. It falls under the category "Export Credit".

IDBP: Payment made against documents representing sell of goods to Local export oriented industries which are deemed as exports and which are denominated in Local Currency / Foreign Currency falls under this head. This temporary liability is adjustable from proceeds of the Bill.

F B P: Payment made to a customer through Purchase or Foreign Currency Cheques/Drafts falls under this head. This temporary advance is adjustable from the proceeds of the cheque/draft.

3.15.6 Proper staffing:

Proper analysis of Credit proposal is complex and required high level of numerical as well as analytical ability and common sense. To ensure effective understanding of the concept and thus to make the overall credit port-folio of the Bank healthy, proper staffing shall be made through placement of qualified officials having appropriate background, who have got the right aptitude, formal training in Credit Risk Analysis, Bank's credit procedures as well as required experience.

One	Assess the customer's character for integrity and willingness to repay
Two	Only lend what the customer will have the capacity and ability to repay
Three	Plan for the possibility of default
Four	Only extend credit where we can sufficiently understand and manage the risk
Five	Ensure independent credit participation in the credit process
Six	Behave ethically in all credit activities
Seven	Be proactive in identifying, managing and communicating credit risk
Eight	Be diligent in ensuring that credit exposures and activities comply with SBL
Nine	Optimize risk and reward
Ten	Build and maintain a diversified Credit portfolio

3.16 Credit Risk Grading

Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

Number & Short Name of Grading Used in the CRG:

The proposed CRG scale consists of 8 categories with Short names and Numbers are provided as follows:

GRADING	SHORT NAME	NUMBER
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watch list	MG/WL	4
Special Mention	SM	5
Sub standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

Characteristics of different grades

A clear definition of the different categories of Credit Risk Grading is given as follows:

- ❖ **Superior - (SUP) – 1:**
 - ✓ Credit facilities, which are fully secured i.e. fully cash covered.
 - ✓ Credit facilities fully covered by government guarantee.
 - ✓ Credit facilities fully covered by the guarantee of a top tier international Bank.
- ❖ **Good - (GD) – 2**
 - ✓ Strong repayment capacity of the borrower
 - ✓ The borrower has excellent liquidity and low leverage.
 - ✓ The company demonstrates consistently strong earnings and cash flow.

- ✓ Borrower has well established, strong market share.
 - ✓ Very good management skill & expertise.
 - ✓ All security documentation should be in place.
 - ✓ Credit facilities fully covered by the guarantee of a top tier local Bank.
 - ✓ Aggregate Score of 85 or greater based on the Risk Grade Score Sheet
- ❖ **Acceptable - (ACCPT) – 3**
- ✓ These borrowers are not as strong as GOOD Grade borrowers, but still demonstrate consistent earnings, cash flow and have a good track record.
 - ✓ Borrowers have adequate liquidity, cash flow and earnings.
 - ✓ Credit in this grade would normally be secured by acceptable collateral (1st charge over inventory / receivables / equipment / property).
 - ✓ Acceptable management
 - ✓ Acceptable parent/sister company guarantee
 - ✓ Aggregate Score of 75-84 based on the Risk Grade Score Sheet
- ❖ **Marginal/Watch list - (MG/WL) – 4**
- ✓ This grade warrants greater attention due to conditions affecting the borrower, the industry or the economic environment.
 - ✓ These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings.
 - ✓ Weaker business credit & early warning signals of emerging business credit detected.
 - ✓ The borrower incurs a loss
 - ✓ Loan repayments routinely fall past due
 - ✓ Account conduct is poor, or other untoward factors are present.
 - ✓ Credit requires attention
 - ✓ Aggregate Score of 65-74 based on the Risk Grade Score Sheet
- ❖ **Special Mention - (SM) – 5**
- ✓ This grade has potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.
 - ✓ Severe management problems exist.
 - ✓ Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage),
 - ✓ An Aggregate Score of 55-64 based on the Risk Grade Score Sheet.
- ❖ **Substandard - (SS) – 6**
- ✓ Financial condition is weak and capacity or inclination to repay is in doubt.
 - ✓ These weaknesses jeopardize the full settlement of loans.
 - ✓ Bangladesh Bank criteria for sub-standard credit shall apply.

- ✓ An Aggregate Score of 45-54 based on the Risk Grade Score Sheet.
- ❖ **Doubtful - (DF) – 7**
 - ✓ Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.
 - ✓ However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Bad & Loss.
 - ✓ Bangladesh Bank criteria for doubtful credit shall apply.
- ❖ **Bad & Loss - (BL) – 8**
 - ✓ Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/liquidation.
 - ✓ Prospect of recovery is poor and legal options have been pursued.
 - ✓ Proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for.
 - ✓ This classification reflects that it is not practical or desirable to defer writing off this basically valueless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. Legal procedures/suit initiated.
 - ✓ Bangladesh Bank criteria for bad & loss credit shall apply.
 - ✓ An Aggregate Score of less than 35 based on the Risk Grade Score Sheet.

3.16.1 Use of Credit Risk Grading:

- The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of individual obligor, credit portfolio of a unit, line of business, the branch or the Bank as a whole.
- As evident, the CRG outputs would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to pricing (credit-spread) and specific features of the credit facility. These would largely constitute obligor level analysis.
- Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of a Bank. It is also relevant for portfolio level analysis.

3.16.2 Computation of Credit Risk Grading:

So far I have discussed about the theoretical part of the Credit Risk grading. I have known in which grade what are the characteristics of the company as well as clients' profile. To measure

the actual risk associated with the loan that is going to be paid by the bank to the particular client, we have to follow some steps and get a statistical parameter of the risk. There are six steps to compute credit risk grading. Those are given and described below:

➤ **Step 1: Identify all the Principal Risk Components**

Credit risk for counterparty arises from an aggregation of the following:

- ✚ **Financial Risk**
- ✚ **Business/Industry Risk**
- ✚ **Management Risk**
- ✚ **Security Risk**
- ✚ **Relationship Risk**

Each of the above mentioned key risk areas require be evaluating and aggregating to arrive at an overall risk grading measure.

- a) **Financial Risk:** Risk that counterparties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. analysis of leverage, liquidity, profitability & interest coverage ratios. To conclude, this capitalizes on the risk of high leverage, poor liquidity, low profitability & insufficient cash flow.
- b) **Evaluation of Business/Industry Risk:** Risk that adverse industry situation or unfavorable business condition will impact borrowers' capacity to meet obligation. The evaluation of this category of risk looks at parameters such as business outlook, size of business, industry growth, market competition & barriers to entry/exit. To conclude, this capitalizes on the risk of failure due to low market share & poor industry growth.
- c) **Evaluation of Management Risk:** Risk that counterparties may default as a result of poor managerial ability including experience of the management, its succession plan and team work.
- d) **Evaluation of Security Risk:** Risk that the bank might be exposed due to poor quality or strength of the security in case of default. This may entail strength of security & collateral, location of collateral and support.
- e) **Evaluation of Relationship Risk:** These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

➤ **Step 2 : Allocate weights to Principal Risk Components**

Principal Risk Components:	Weight:
Financial Risk	50%
Business/Industry Risk	18%
Management Risk	12%
Security Risk	10%
Relationship Risk	10%

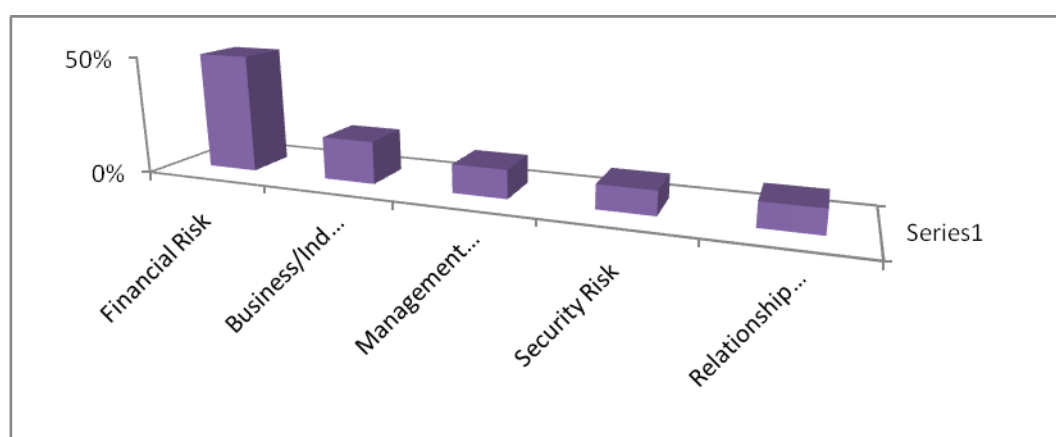


Figure: Risk Components

According to the importance of risk profile, the following weightings are proposed for corresponding principal risks.



Step 3: Establish the Key Parameters

Principal Risk Components	Key Parameters
a) Financial Risk	Leverage, Liquidity, Profitability & Coverage ratio
b) Business / Industrial Risk	Size of Business, Age of Business, Business Outlook, Industry Growth, Competition & Barriers to Business
c) Management Risk	Experience, Succession & Team Work
d) Security Risk	Security Coverage, Collateral Coverage and

	Support
e) Relationship Risk	Account Conduct ,Utilization of Limit, Compliance of covenants/conditions & Personal Deposit

Financial Risk (FR) 50%

Lev(Leverage)	15%
Liq(Liquidity)	15%
Prof(Profitability)	15%
Cov(Coverage)	5%

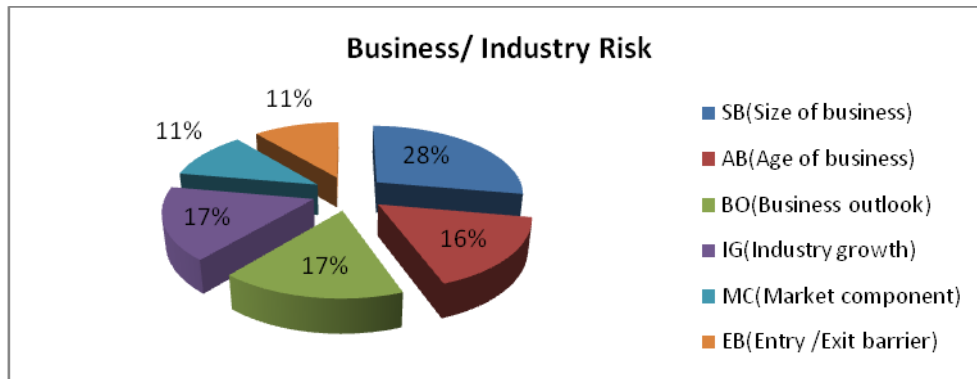


Figure: Financial Risk

Business/Industry risk (B/IR) 18%

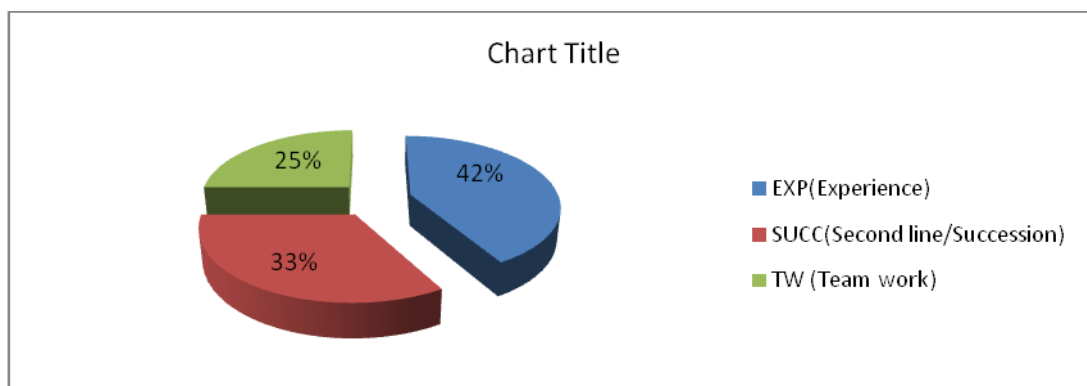
SB(Size of business)	5%
AB(Age of business)	3%
BO(Business outlook)	3%

IG(Industry growth)	3%
MC(Market component)	2%
EB(Entry /Exit barrier)	2%



Management risk (MR) 12%

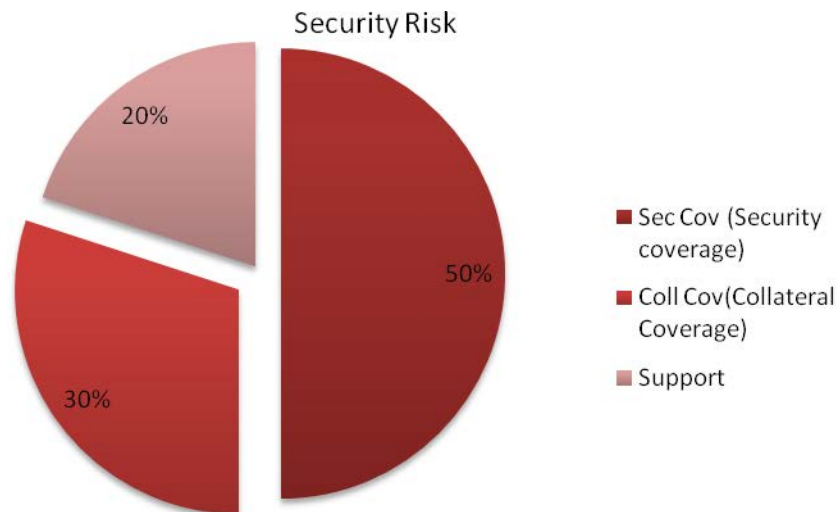
EXP(Experience)	5%
SUCC(Second line/Succession)	4%
TW (Team work)	3%



Security risk (SR) 10%

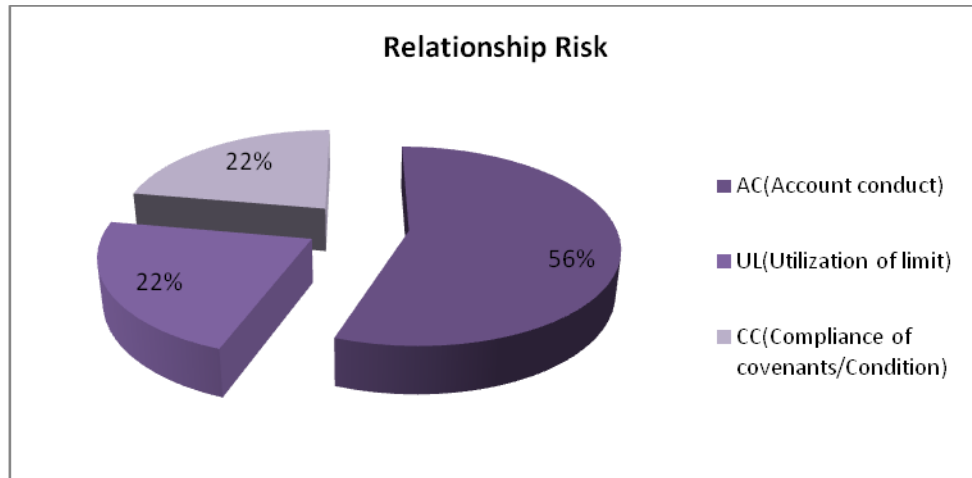
Sec Cov (Security coverage)	5%
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Coll Cov(Collateral Coverage)	3%
Support	2%



Relationship risk (RR) 10%

AC(Account conduct)	5%
UL(Utilization of limit)	2%
CC(Compliance of covenants/Condition)	2%
PD(personal deposit)	1%



Step4: Assign weights to each of the key parameters

Principal Risk Components	Key Parameters	Weights
1. Financial Risk		50%
	• Leverage.....	15%
	• Liquidity.....	15%
	• Profitability.....	15%
	• Coverage.....	5%
2. Business / Industrial risk		18%
	• Size of the business.....	5%
	• Age of the business.....	3%
	• Business Outlook.....	3%
	• Industry growth.....	3%
	• Market competition.....	3%
	• Entry / Exit Barriers.....	2%
		2%
3. Management Risk		12%
	• Experience.....	5%
	• Succession.....	4%
	• Team Work.....	

		3%
4. Security Risk	 • Security coverage..... • Collateral coverage..... • Support.....	10% 4% 4% 2%
5.Relationship Risk	 • Account conduct..... • Utilization of limit..... • Compliance of covenants... • Personal deposit.....	10% 5% 2% 2% 1%

Step 5: Input data to arrive at the score on the key parameters

After the risk identification & weighting assignment process (as mentioned above), the next steps will be to input actual parameter in the score sheet to arrive at the scores corresponding to the actual parameters. This manual also provides a well programmed MS Excel based credit risk scoring sheet to arrive at a total score on each borrower. The excel program requires inputting data accurately in particular cells for input and will automatically calculate the risk grade for a particular borrower based on the total score obtained. The following steps are to be followed while using the MS Excel program.

- Open the **MS XL** file named, **CRG_SCORE_SHEET**
- The entire **XL** sheet named, **CRG** is protected except the particular cells to input data.
- Input data accurately in the cells which are **BORDERED** & are colored **YELLOW**.s
- Some input cells contain **DROP DOWN LIST** for some criteria corresponding to the Key Parameters. Click to the input cell and select the appropriate parameters from the **DROP DOWN LIST** as shown below.
- All the cells provided for input must be filled in order to arrive at accurate risk grade.

- f) We have also enclosed the MS Excel file named, **CRG_Score_Sheet** in **CD ROM** for use.

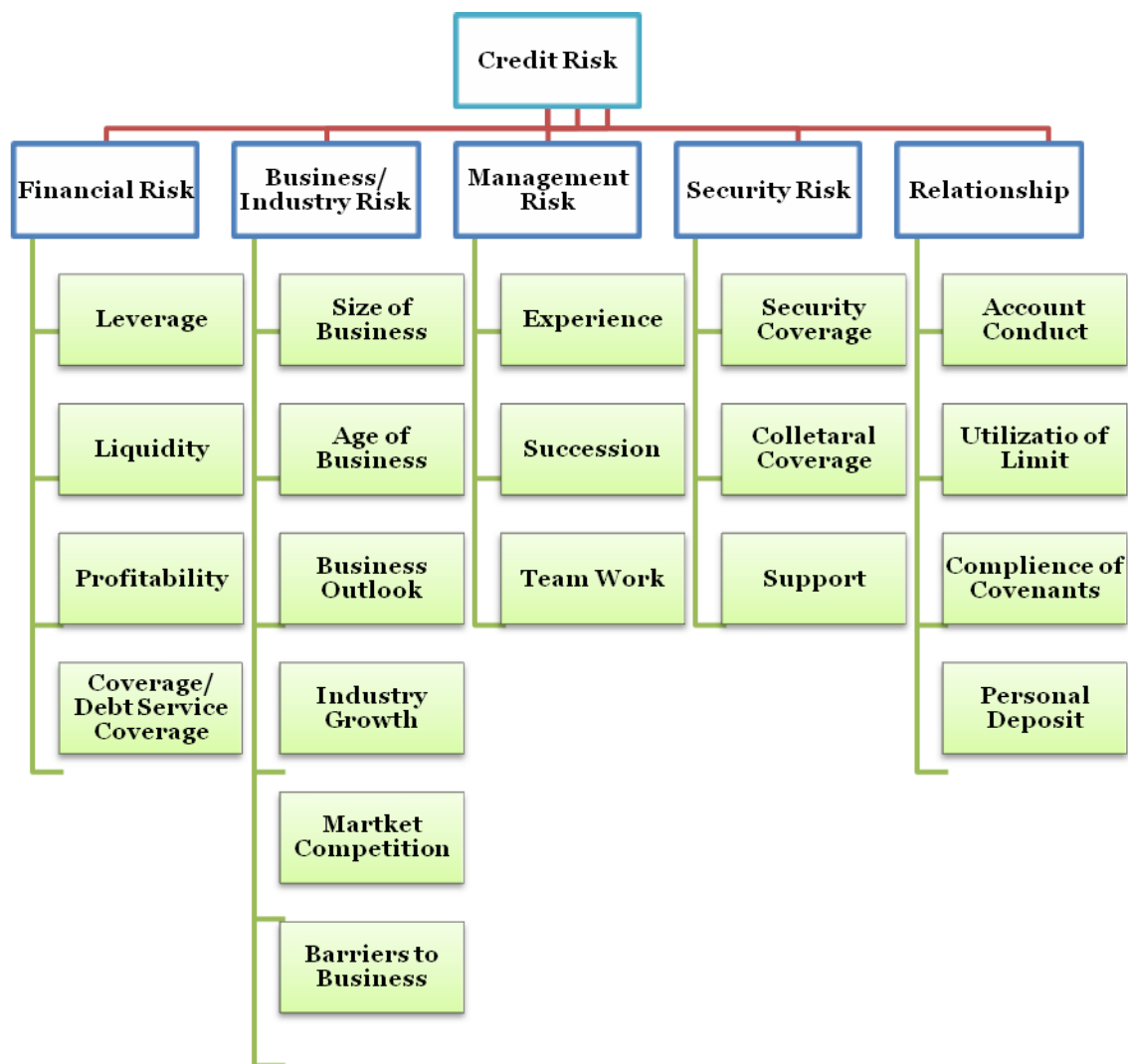
Number	RG/ Short Name	Score
1	Superior	100% (Cash coverage government/ Interest Bank Guarantee)
2	Good	85+
3	Acceptable	75-84
4	Marginal/ Watch list	65-74
5	Special Mention	55-64
6	Sub Standard	45-54
7	Double	35-44
8	Bad& Loss	35

3.17 CRG Process:

Applicable for all expose (other than consumer and SME and the short term Agro and Micro-Credit.

Not applicable for sub Grade.

Applicable for new and renewal cases.



Number	Risk Grading	Short Name	Score	
1	Superior	SUP	- International Bank guarantees - Government guarantee 100% cash covered	
2	Good	GD		85+
3	Acceptable	ACCPT		75-84

4	Marginal/Watch	MG/WL	65-74
	list		
5	Special Mention	SM	55-64
6	Sub-standard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & Loss	BL	35

3.17.1 Credit Rules and Regulation

Generally, lending to the borrowers by the bank is not intentional. The bank has to be consistent with regulations which state some guidelines to ensure safety of the deposit and reduce the vulnerability to credit risk. The risk is composed of majorly credit risk. So, the followings are major ones that administer the credit grant.

- Guideline on risk based capital adequacy
- Guideline on subordinated debt
- Risk management Guideline for Bank.2012
- Credit risk management guideline
- Internal control and compliance
- Policies and guidelines for CIB online services
- Agricultural and Rural credit policy and programs 2012-13
- SME credit policy and program
- Spread calculation procedure

Chapter: 4

Analysis and Findings

4.1 Questionnaire Survey Analysis:

Surveying questionnaire is very important for any kinds of project. It helps to give clear idea regarding the status and findings of the project. Here, questions are designed and asked to respondents to extract specific information. For preparing this report I have used a structured questionnaire and it filled up by 25 clients of Sonali Bank. From those filled up questionnaire, some of the important analysis and findings are as follows:

➤ Differentiating Factors of SBL:

Factors	No. of Respondents	Percentage
Low interest rate	8	32%
Easy loan disbursement	11	44%
SME loan	5	20%
Other privilege	1	4%

Table: Differentiating factors of SBL.

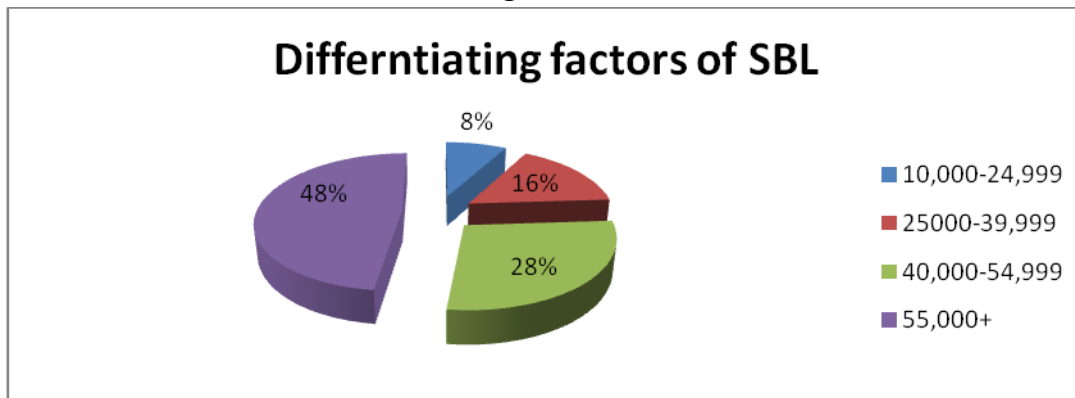


Figure: Differentiating factors of SBL

From the graph it is seen that 44% client prefer Sonali Bank because of their easy loan disbursement. 32% client said that interest rate is low so they prefer this bank. 20% prefer for the SME facility and 4% prefer for the other privilege.

➤ Income Level of Clients per Month:

Income level	No. of Respondents	Percentage
10,000-24,999	2	8%
25000-39,999	4	16%
40,000-54,999	7	28%

55,000+	12	48%
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Table: Income Level of Clients per Months

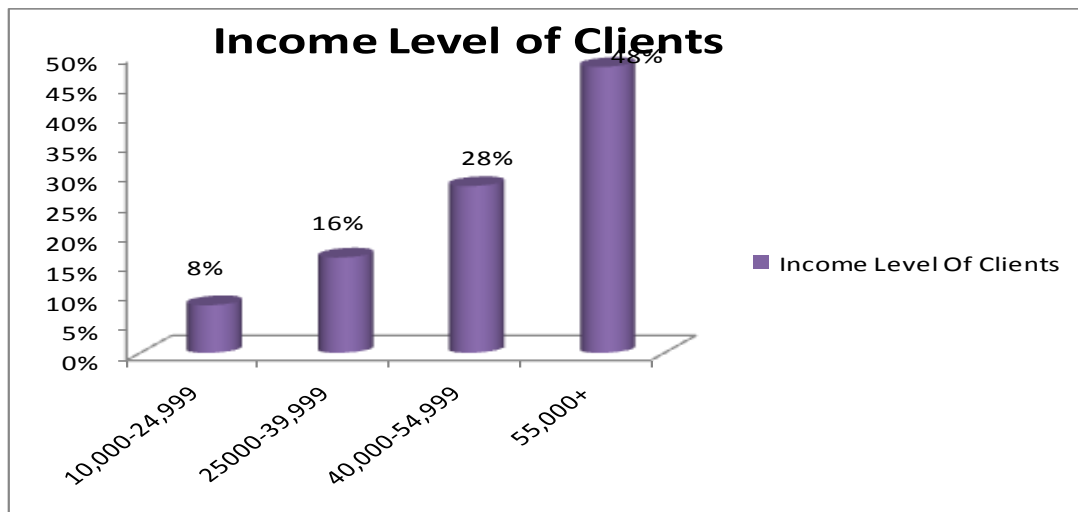


Figure: Income level of clients.

From the graph it is seen that most of the clients' income level is above 55,000, which is good for providing loan. Because they are financially solvent so it will be less risky to provide them loan as they can easily pay the interest rate.

➤ Experience of Clients Relating Profession:

Experience	No. of Respondents	Percentage
Below 5 Years	5	20%
5-15 years	8	32%
15-25 years	9	36%
Above 25 years	3	12%

Table: Experience of Clients Relating Profession

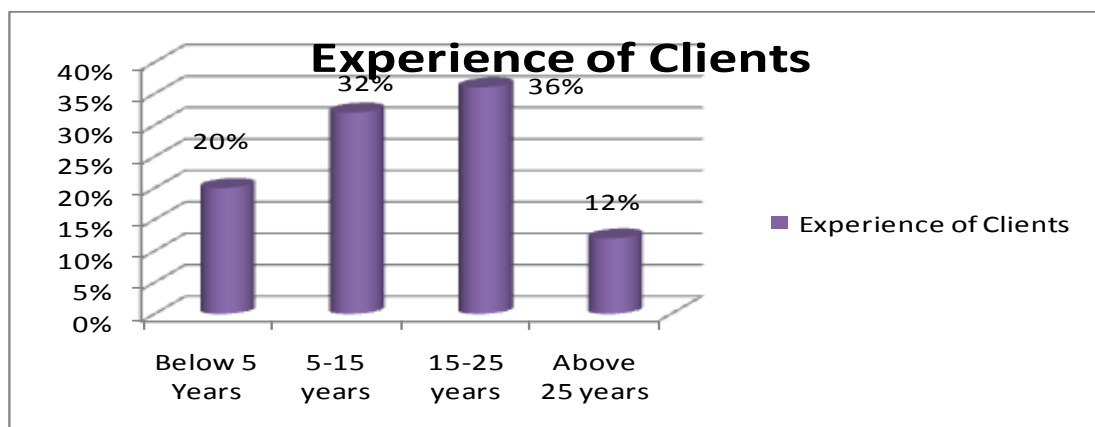


Figure: Experience of Clients Relating Profession

Experience in business/service is a very important criterion for providing loan. Bank should provide loan to those who are experienced so that there is less possibility of loan default. From the graph it is seen that most of the clients' experience is in between 15-25 years, which is good for providing loan.

➤ Opinion Regarding Service Charge:

Opinion	No. of Respondents	Percentage
High	13	52%
Medium	11	44%
Low	1	4%

Table: Opinion Regarding Service Charge

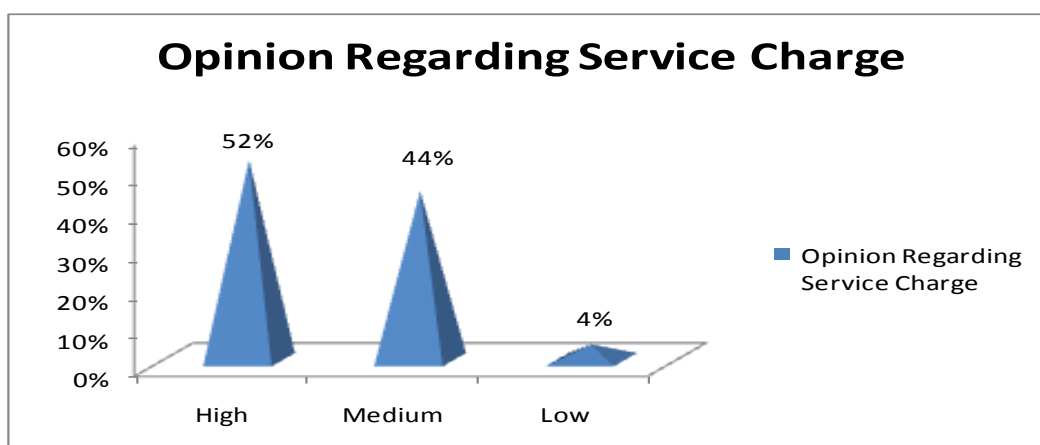


Figure: Opinion regarding Service charge.

From the graph it is seen that 52% people said that the service charge of Sonali Bank is high, 44% said it is medium and 4% said it is low. So bank should work on this factor.

➤ The Do you think SBL give high facility on credit management

Opinion	No. of Respondents	Percentage
Agree	12	48%
Fully agree	11	44%
Disagree	2	8%

Table: SBL give high facility on credit management

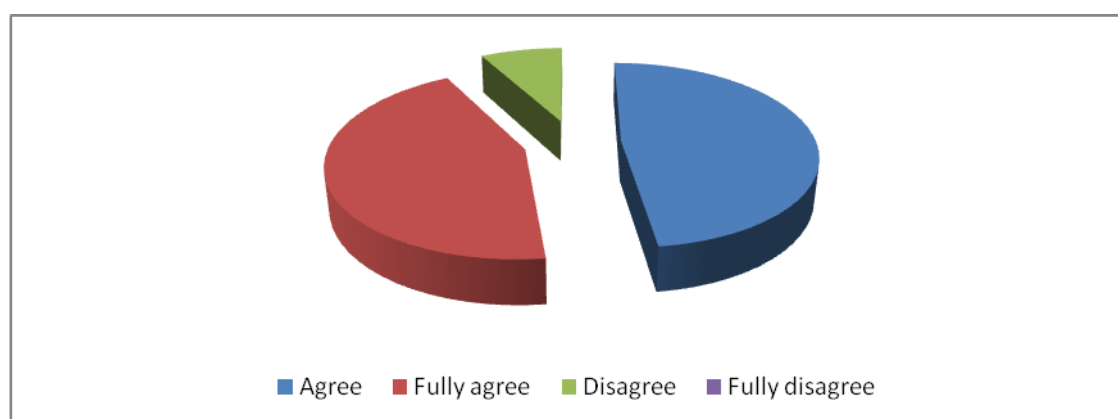


Figure: SBL give high facility on credit management

➤ Analysis of Customer Satisfaction Level

Now question is, are the Customers happy with the Performance of Credit Department's practice? Do they have any particular complain? Etc. To analyze this issue Customer feedback has been taken on the following broad dimensions:

- ✓ Equitability aspect
- ✓ Attractiveness aspect

To get the right picture of the above mentioned broad dimensions a five scale questionnaire has been used from where intensity can also be known.

➤ Equitability Aspect

1.	The Overall Performance of SBL is satisfactory?
2.	The Credit dept. of SBL upgrades with change in the market?
3.	The managers always follow up critical problems?
4.	The employees pay enough attention to the customers for

	lending money?
5.	SBL's loan packages are the most effective package in the market?

Equitability Aspect

Opinion	Number of respondent	Percentage
Positive	24	96%
Negative	1	4%

Table: Analysis of Customer Satisfaction Level

In response to above questions we can see the following scenario:

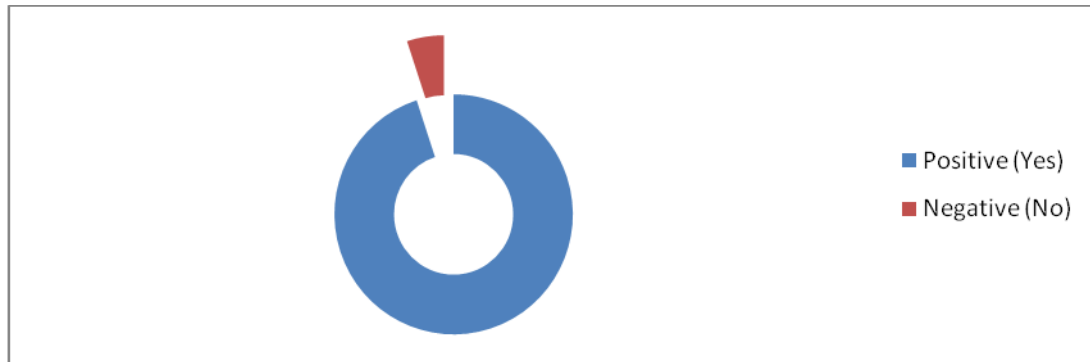
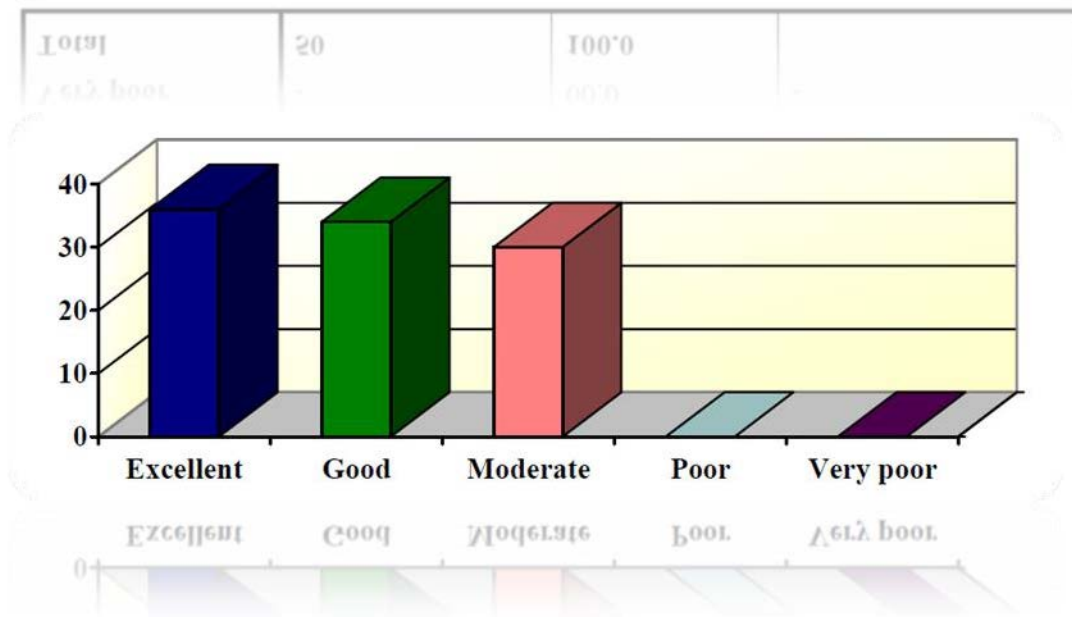


Figure: Equitability aspect of Credit Process (Source: Primary Data)

So we can see that in 96% of the total respondents consider the Credit package of even the neutral answer has been considered as 'Negative.'

➤ **How do you rate the quality of services of Sonali Bank Limited?**

Result	Frequency	Percent	Cumulative percent
Excellent	18	36.0	36
Good	17	34.0	70
Moderate	15	30.0	100
Poor	-	00.0	-
Very poor	-	00.0	-
Total	50	100.0	

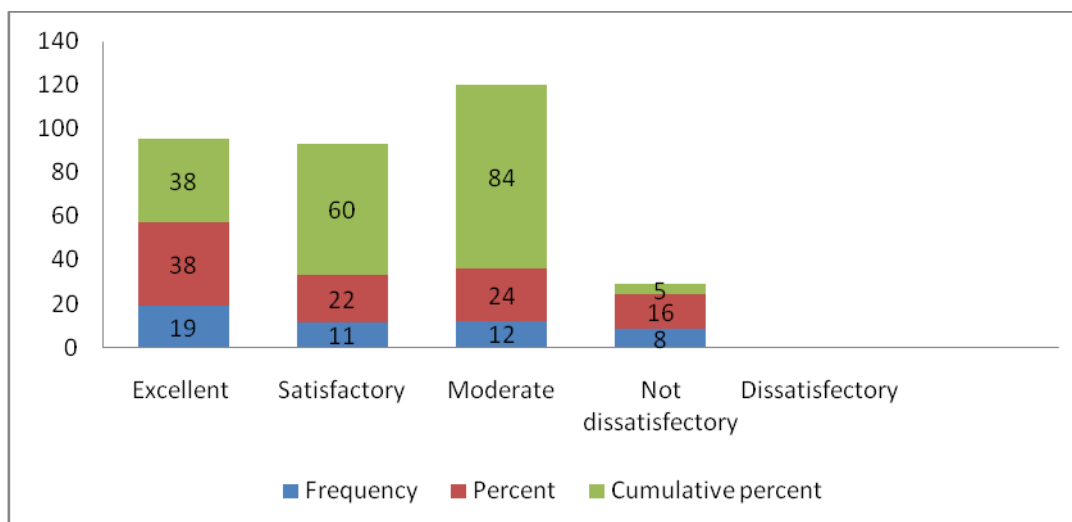


Analysis:

From the survey, I found that out of 100 percent 36 percent of the total sample size said that the overall quality of SBL is excellent, 34 percent good and 30 percent moderate.

➤ **How would you rate the quality of The Credit Department service of Sonali Bank Limited?**

Result	Frequency	Percent	Cumulative percent
Excellent	19	38.0	38
Satisfactory	11	22.0	60
Moderate	12	24.0	84
Not dissatisfactory	8	16.0	100
Dissatisfactory	-	0.0	-
Total	50	100.0	



Analysis:

From the survey, I found that out of 100 percent 38 percent of the total sample size said that the overall quality of lending service of Sonali Bank Ltd is excellent, 22 percent satisfactory and 24 percent moderate and only 16 percent is not dissatisfactory. It means the overall opinion of clients is positive about the quality of customer care service of Sonali Bank Ltd.

➤ Highlights of credit of SBL in 2013:

Particulars	2013	2012	2011
Total Loans & advances	5660.99 Crore	4943.05 Crore	3228.76 Crore
Credit to deposit Ratio	27.08%	18.10%	7.62%
Volume of nonperforming loan	1618.73 million	905.52 million	710.86 million
Non-Performing Loan	2.86%	1.82%	2.20%
Provision for Unclassified Loans	804.87 million	718.17 million	479.83 million
Provision for classified Loans	627.30	453.76	465.64
Net interest Income	1795.44 million	1481.00 million	900.16 million
Investment income	1772.08 million	1152.79 million	1361.49 million
Overall loan processing time	40 days	45 days	60 days

Degree of Intensity	Strongly high	Strongly high	high
Loan Attractiveness Aspect	positive	positive	positive
Interest rate	Moderate	Moderate	Moderate
Service charge	High	High	High

Highlights of credit of SBL in 2013

Interpretation: From the figure it can be said that the collection of deposit is increasing year by year. Loan & advances increasing year by year subsequently. Percentage of non-performing loan in Sonali Bank decreasing in every year. There is a high intensity of taking loan, so we can say there is an opportunity to become best in there sector. But the time of processing loan is lengthy interest charge, service charge is high, so there should reduce the time of processing loan and lowering the interest rate and service charge.

4.2 Ratio Analysis:

$$\begin{aligned}
 \text{Current ratio} &= \frac{\text{Current assets}}{\text{Current Liabilities}} \\
 &= \frac{1683979161}{1511085022} \\
 &= 1.11: 1
 \end{aligned}$$

Comment: According to standard value of current ratio of the organization can increase its current assets because the standard ratio is 2:1.

$$\begin{aligned}
 \text{Acid test ratio} &= \frac{\text{Current Assets} - \text{Stock in trade}}{\text{Current Liabilities}} \\
 &= \frac{1683979161 - 56298764}{1511085022} \\
 &= 1.08:1
 \end{aligned}$$

Comment: According to standard value of acid test ratio of the organization is in the standard position because the standard ratio is 1:1.

$$\text{Time of Interest earned} = \frac{\text{Income before interest and taxes}}{\text{Annual Interest expenses}}$$

$$= \frac{823.48+6806.86}{6806.86}$$

$$= 1.12: 1$$

$$\text{Debt to total equity ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

$$= \frac{67129.52}{81805.04}$$

$$= 0.82:1$$

$$\text{Debt equity ratio} = \frac{\text{Total Long term debt}}{\text{Total equity capital}}$$

$$= \frac{45130397497}{7148351423}$$

$$= 6.31: 1$$

$$\text{Long term debt to total capitalization} = \frac{\text{Average Payable Creditors}}{\text{Daily average purchase}}$$

$$= \frac{(968594634 \div 2)}{67129517799 \div 365}$$

$$= \frac{492797317}{1839164871}$$

$$= 0.27:1$$

Comments: From above ratio analysis we can say that some area of organization's financial condition is good and some areas are not good condition.

4.3 Credit to deposit Ratio Analysis:

Credit deposit ratio measures the portion of deposit used for credit. The more the ratio the more the bank is capable to uses its deposit as credit.

Credit to deposit ratio= Total Credit/ Total Deposit

Year	Year Total Credit	Total Deposit	Credit/deposit Ratio
2013	5666.99	20924.02	27.08%
2012	4943.05	27307.94	18.10%
2011	3228.76	42356.20	7.62%

2010	2103.68	60673.66	3.47%
2009	1661.74	70508.51	2.36%

(Tk. In million where applicable) Source: Annual Report 2009-2013

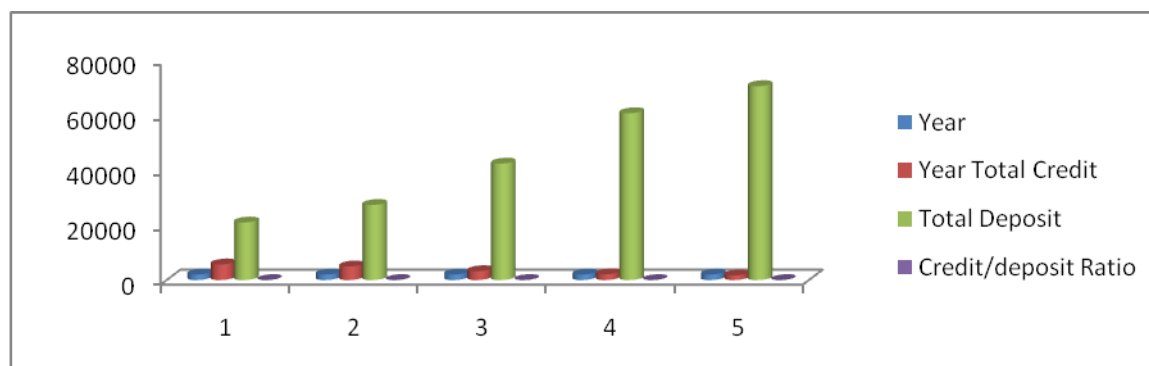


Figure: Credit to deposit Ratio Analysis

Interpretation: From the figure it can be said that the collection of deposit is increasing year by year that forms into loans and advances, also increasing year by year subsequently. If we noticed that from year 2011 to 2012 the credit deposit ratio has increased significantly, which is a positive sign that the bank is successfully utilizing its deposits collected from the people by the lowest interest rate into the form of loans and advances, which is the main source of the bank's income.

4.4 Findings on respondent's analysis

The general analysis of the 25 samples is presented in this section. The main objective of the respondents analysis is to get the overview about respondents. Here, respondent's gender, age limit, income limit, and occupation, etc. have been discussed briefly.

- There is no statistical tool used to analyze the respondent's overview because this information will not affect directly to the customer satisfaction factors.
- For collecting data from the customers, the research survey has been conducted among 10 male and 15 female users of Sonali Bank Limited.
- Thus, the ratio of male user is 42.86% and the ratio of female user is 57.14%. Since, Sonali Bank is a preferable bank among the business and non-business people, I conducted the survey among the people whose age limit was 18-46 and above years.
- Income level of respondents is mostly ranging from 21,000-25,000 showing 30%.
- In the occupation, 31.43% respondents are non-government service holders who maintain their financial transaction through banking channels.
- Amongst the respondents, 50% are satisfied in transacting with Sonali Bank Limited.
- In the delivery system of Sonali Bank Limited, 24 or 34.28% respondents are satisfied, which represents it is on the right track as far as survey or questionnaire results.

- The behavior of employees of the Sonali Bank Limited is satisfactory to 23 or 32.86% respondents at the same time a large portion of the respondents shows their dissatisfaction to employees of the Sonali Bank Limited.
- Respondents are disclosed that they contact more than three times ranges 23 or 32.86% in the questionnaires.
- Over the assumption of overall customer support the respondents are satisfied numbered 24 of 34.28%.

Chapter: 05

Conclusion and Recommendations

Conclusion

The last 4 months was quite intriguing to do my internship at Sonali Bank Limited, Principal Office, Ramna, Dhaka. I found out about the nature of actually working in a professional environment.

Credit policy is a very convenient banking tool for the business world. The value of this service is immense. It has gathered such a position in the banking sector that people at developed and also developing countries are very much depended on this service. In Bangladesh credit facilities or loans started to become very attractive in recent periods.

Despite stiff competition among banks operating in Bangladesh both foreign and local, SBL has achieved satisfactory progress in areas of its operations and earned an impressive operating income over the previous years. The bank hopes to achieve a satisfactory level of progress in all areas of its operations including target of profitability.

Sonali Bank Ltd. is the preferred choice in banking for friendly and personalized services. Credit Division of Sonali Bank has a very qualified and dedicated group of officers and staffs who are always trying to provide the best service to the clients. They always monitor the credit in different sectors and their position. Before providing the loan they analyze whether the loan will be profitable and whether the client is good enough to repay the loan within the given period of time.

Credit department diversified their loans in different sectors classified by them. Among the sectors they don't provide any loans in the agricultural side. The reason they showed is that this sector is very risky and depends on natural climate and they still didn't expand their service in the rural side. They provide most of the credit facility in term loan mainly in long-term loans. Return from short-term loan is very good and also proves to be very safe to finance.

Finally, it can say that the bank stood out for its strength and operational craftsmanship marketing its position as the potential market leader in all core areas of banking in the country.

Recommendations

As we all know SBL is one of the well known banks in our country. From my little knowledge it's quite hard to give recommendation to such a well established bank. Still from my learning and observation, I am giving following recommendation to follow:

- SBL need to give high facility on credit management.
- Credit worthiness of the investors must be assessed more carefully before undertaking credit worthiness of their proposed projects.
- They should do more marketing activities to improve their presence in the minds of their potential target market. As we see that, Media coverage of SBL is not so strong. To attract new clients, they should go for mass media coverage like TV, Radio etc.
- Credit management need to attract new customers as well as retain existing clients, they have to set a standard rate and make the process fast.
- Customer face some risk of IT, TT, MT.SBL must reduce those risk.
- Branches should be opened all over the country to increase their Banking service network
- Customer services should be made better i.e. relationship between a banker and a customer should be more sound.
- Investment plan commitment should be included in the budget of each branch of the bank and progress should be regularly monitored.
- To train up the officials for managing the investment portfolio and foreign exchange efficiently.
- To ensure sage, secured, liquid and quality investment for deploying surplus liquidity towards profitable investment and to make close supervision and monitoring over the investment of customer's services etc.
- The Sonali Bank Ltd. can offer different deposit schemes for college and university students.
- They should take an early initiative to improve their expertise in the investment businesses to be more prompt.
- The Government and Sonali Bank Ltd. Should have taken more initiative to introduce widely the lower interest bearing financial investment.
- They should their level best try to up hold the reputation they have at present.

Appendix

Questionnaire

For Clients:

Dear Respondent,

I am a student of BRAC University, conducting a survey on “Credit Risk Management of Sonali Bank Limited”. Kindly noted that this is an academic study and the findings will remain confined within academic interests. No part of this study will be disclosed. Your kind cooperation will be highly appreciated.

Please read the questions carefully and just put a tick (✓) in the respective box and kindly give your judgments where necessary.

1. What is your occupation?

- a) Service Holder b) Business Person c) Others..... (Please Specify)

2. From how many years you are conducting this business?

- a) Below 5 years b) 5-15 Years c) 15-25 years d) Above 25 years

3. What is your income level?

- a) 10,000-24,999 b) 25000-39,999 c) 40,000-54,999 d) 55,000+

4. How do you rate the quality of services of Sonali Bank Limited?

- a) Good b) Very Good c) bad

5. What do you think about service charge?

- a) High b) Medium c) Low

6. The loan processing time is lengthy

- a) Agree b) Fully agree
c) Disagree d) Fully disagree

7. What is your opinion regarding interest rate?

- a) Very Satisfactory b) Satisfactory
c) Unsatisfactory d) Extremely unsatisfactory.

8. What about your opinion regarding required documentation?

- a) Very easy b) Easy
c) Difficult d) Very difficult

9. How did you come to know about the credit facility of Sonali Bank?

- a) Newspaper and Magazine Adverts
- b) From peers
- c) Billboards
- d) Internet
- e) Bank Salesperson
- f) Others.....

1. Are you satisfied you about the Loan Policy of Sonali Bank Limited?

- a) Yes
- b) no

2. How would you rate the quality of The Credit Department service of Sonali Bank Limited?

- a) Good
- b) Very Good
- c) bad

Thank You for Your Cooperation

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List of Abbreviation

- ❖ SBL= Sonali Bank Limited
- ❖ FDR= Fixed Deposit Rate
- ❖ DBS= Double Benefit Scheme
- ❖ MES= Monthly Earning Scheme
- ❖ SBMS= Sonali Bank Millionaire Scheme
- ❖ BSSM= Branch Sales & Service Manager
- ❖ SBOM= Branch Operation Manager
- ❖ S.S.C= Sales & Service Center
- ❖ IBS= Infinity Business Solution
- ❖ CSO= Customer Service Officer
- ❖ ACSM= Assistant Customer Service Manager
- ❖ CSM= Customer Service Manager
- ❖ RM =Relationship Manager
- ❖ OBS= Outward Bill Collection
- ❖ EFT= Electronic Fund Transfer
- ❖ KYC= Know Your Customer
- ❖ BSSM= Branch Sales & Service Managers
- ❖ PA= Power of Attorney
- ❖ SBOM= Senior Branch Operation Manager
- ❖ PO= Pay Order
- ❖ PSB= Pay Slip Block
- ❖ DD= Demand Draft
- ❖ DS= Demand Slip
- ❖ CCDB= Credit Card Deposit Bank
- ❖ IMF= International Monetary Fund