**Internship Report on**

# "Credit Risk Management of LankaBangla Finance Ltd."

**Submitted to:**

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Dec 7, 2016

Dr. Salehuddin Ahmed

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BRAC UNIVERSITY

**Subject: Letter regarding submission of Internship Report on LankaBangla Finance Ltd.**

Dear Sir,

I am delighted to submit my internship report on "Credit Risk Management of LankaBangla Finance Limited" as per our Masters in Business Administration (MBA) Program requirement. I had completed my internship program in LankaBangla Finance Limited in Credit Risk Management Department, Banani, Dhaka. I have worked over there from September 20, 2016. While preparing the report I, enthusiastically and sincerely devoted my best effort. Surely, it enriches my knowledge and promotes study. Thank you for giving me such an opportunity for working on the topic.

Sincerely yours,

……

***FaiyadRahman***

*MBA Roll No.: 14364027*

# Acknowledgement

I want to thank Almighty Allah for granting me the ability to complete this report. My heartiest thanks goes to my supervisor Dr. Salehuddin Ahmed whose guidance helped me immensely to improve this report.

I would also like to thank my organizational supervisor, Mr. ArifHasan, FAVP & Head of Retail Credit, Credit Risk Management Division, LankaBangla Finance Ltd for helping me to understand my responsibilities at the office. I would also like to thank Mr. Rabi Bhowmick, Senior Manager, LankaBangla Finance Ltd and Mr. Arif (Sohel), Officer, LankaBangla Finance for their support and guidance to help me complete this report and providing necessary knowledge and data.

I want to thank all the employees of Credit Risk Management department of LankaBangla Finance Ltd, who were kind enough to help me and providing sufficient information. I also convey regards to all my respected teachers & staffs of BRAC University.

It was my pleasure as an intern to get the opportunity to actually learn the real world procedure of a Credit Risk Management division. It enhanced my theoretical knowledge and helped me understand real world problems and their solutions.

# Abstract

LankaBangla Finance Ltd. is one of the leading Non-Bank Financial Institution in the country. They started their journey in 1997 and they have gained many customers throughout these years and have been recognized as the country's leading provider of integrated financial services including Corporate Financial Services, Personal Financial Services, SME Financial Services, Stock Broking, Corporate Advisory and wealth Management Services.

This report is the fulfillment of the requirement for the evaluation process of the internship program. The main purpose of the report is to have an overall idea about function and process of credit risk management, analyzing tools and techniques used to evaluate credit proposal, analyzing steps taken to ensure a reliable and effective approval process. Credit risk management is a crucial issue of risk management and an essential to the long-term success of any banking organization. The institution's goal for credit risk management is to maximize risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

This study was done o present an overview of the different activities of LankaBangla Finance Limited,to know about the overall general financing system of LBFL, to show the loan products and loan sanctioning procedures of LankaBangla Finance Limited, to present the overall performance analysis of LankaBangla Finance Limited and to suggest measures for the development of LankaBangla Finance Limited.

The primary sources of data for study were Face to face conversation with the institutions officers and staffs, Study of different files of different section of the institution, questionnaires and practical deskwork and observation. The secondary data were collected from the organization's website, annual reports and also unpublished reports.

This topic is important for research because LankaBangla Finance operates in the market segment that is highly saturated by other NBFI's And Banks. In this highly competitive market, the NBFI's not only have to compete between themselves, but also with the existing banks. So, in order to stay ahead in the market, some institutions lend out to borrowers without fully analyzing the risk which sometimes may bring profit, but most of the time it results in Non-

Performing loans(NPL). Resolving these issues and coming up with a good and sound CRM policy is the key to success for an NBFI. The impact of resolving these problems will establish the institution's reputation and ensure return on loans. The guidelines of the CRM department and their work process will ensure their success.

The Credit Risk Management department of LankaBangla Finance is a well structured department. They have achieved this by segregating the approval authority from the business unit. They have also ensured that the responsibility of sanctioning the loan not only lies with the higher authority, but also with the analyst who recommends the loan for approval. The current situation of LBFL is satisfactory. It is also performing well in the credit department by trying to decrease the nonperforming loans by ensuring a sound and efficient credit risk management.

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## Introduction:

### 1.1 Background of the Study

Since the institutionalization of flow of fund system financial institutions have been playing important roles in the development of an economy by directing flow of fund in an efficient manner. Though traditionally banks are considered as more important player in this sector in the modern context Non-Bank Financial Institutions are also in the limelight for their more customized services in the financing sector. Non-Bank Financial Institutions (NBFIs) play a significant role in meeting the diverse financial needs of various sectors of an economy and thus contribute to the economic development of the country as LBFL as to the deepening of the country's financial system. According to Goldsmith (1969), development in a country starts with the development of banking institutions. As the development process proceeds, NBFIs become prominent alongside the banking sector. Today more and more people are converging to NBFI. This is because of the fact that comparing to the banks, NBFIs process the customer request for credit quickly. In addition, some clients do not qualify for bank finance because of the organization's preset policies. The NBFI take advantage of this. Furthermore, bank finance frequently asks for collateral security and even more security deposit is asked when equipment is financed. On the other hand, NBFIs, as they finance equipment and machineries on lease, in most cases they do not ask for additional security. Many clients prefer leasing on account of the tax advantage Moreover, Leasing offers opportunities for higher returns to the NBFI.

In Bangladesh, the financial market is extremely competitive. Today the number of NBFIs is 37 which is large for a country like ours. The competition is getting intense among the institutions with the passage of time. The competitive environment for NBFIs is even more complex, as they have to compete with banks, which have much lower cost of funds compared to even the most efficient NBFI. To have better response from the customers, better quality is highly necessary. The more efficient and prompt services NBFI provide, the more competitiveness they attain. In a nutshell customized and quality service is the core competitive advantage of an NBFI.

Being an NBFI, LankaBangla Finance Limited also concentrates on that theme. Its Credit Risk Management Division comprises of most of the financing products including lease & loan which is the core product of any NBFI. In order to grab maximum market share in this sector LBFL

needs an efficient credit and investment management in order to attain greater number of clients for its financing products. In this regard LBFL runs periodical client demand analysis on the existing and future clients. Based on that analysis they have reached to a proposition that clients look for better quality of services rather than lesser interest rate.

## 1.2 Origin of the Study

It has become essential for every person to have some idea on the Non-Bank Financial Institutions and their financing procedure. As our educational system is predominantly text based, inclusion of practical orientation program is an exception to the norm. From practical knowledge, we will be able to know real life situations and launch a career with some practical experience. In such state of affairs the present study aiming at analyzing the experience of practical orientation related to an appraisal of LankaBangla Finance Limited and my report topic has been selected as "Credit Risk Management of LankaBangla Finance Limited".

## 1.3 Job Description

During my Internship period, I have successfully done the following jobs

Under Personal Loan Department I have done the following jobs-

Receiving Loan File, Record the file in database, Prepare Loan Appraisal, Check related documents, Record Status of every file, Checking Utility Bill & NID and Prepare Proposal Sheet for Analyst.

Under Credit Card Department, I have done the following jobs-

Assigning Files, maintain status of files in CMS and Preparing CIB.

## 1.4 Objectives of the Study

### Primary objective:

The primary objective of this report is to prepare a report on "Credit Risk Management of LankaBangla Finance Limited." as the partial requirement of MBA program.

### Secondary objectives:

The study was conducted to achieve the following secondary objectives

• To present an overview of LankaBangla Finance Limited.

• To know about the overall general financing system of LBFL

• To show the loan products and loan sanctioning procedures of LBFL.

• To present the overall performance analysis of LankaBangla Finance Limited.

• To suggest measures for the development of LankaBangla Finance Limited

## 1.5 Methodology

In order to make the report more meaningful and presentable, from two sources LBFL data and information has been collected. These are

### Data Collection:

- **Primary sources**
  - Face to face conversation with the institutions officers and staffs.
  - Study of different files of different section of the institution.
  - Practical deskwork.

- **Secondary sources**

  - Annual report of LankaBangla Finance Limited
  - Unpublished data from the organization
  - Different publications of LankaBangla Finance Limited
  - Website.
  - LBFL Database

## 1.6 Limitations of the Study

There are some limitations of the report and therefore it may lack some crucial data. In preparing the report, I faced some problems which are as follows:

- The main constrain of the study was insufficiency of information, which was required for the study. There is various information the company's employee can't provide due to security and other corporate obligations.
- Due to time limitation, many of the aspects could not be discussed in the present report.
- Learning all the functions within just 90 days' is really tough. Since the company's personnel were very busy, they could not provide enough time.
- Lack of opportunity to have conversation with higher authority.

# Organization Part:

## Overview of LBFL

## 2.1 History of LankaBangla

LankaBangla Finance Limited started its journey long back in 1997 as a joint-venture financial institution with multinational collaboration having license from Bangladesh Bank under Financial Institution Act-1993. Now LankaBangla is the country's leading provider of integrated financial services including Corporate Financial Services, Personal Financial Services, SME Financial Services, Stock Broking, Corporate Advisory and wealth Management Services.

LBFL recently has gone through a business process reengineering to build capacity to LBFL's clients' superior experience than any time ever. The company now operates in centralized administrative framework through cutting edge technological environment. LankaBangla is serving a wide operational periphery covering major business hubs of the country.

Under the broadest umbrella of products and service offerings, LBFL are the lone financial institution to operate credit card (MasterCard and VISA) and also provide third party card processing services to different banks in Bangladesh.

LankaBangla is the market leader in the capital market services and has been giving all-out effort to develop an efficient, vibrant and transparent capital market in Bangladesh. Through LBFL's subsidiary LankaBangla Securities Limited, LBFL are providing top notch broking services and leading the industry with cutting edge trading, top rated research and customer service. Another subsidiary, LankaBangla Investments Limited is a premier investment bank in the country providing corporate advisory, issue management and portfolio management services. The other subsidiary, LankaBangla Asset Management Company Limited is providing professional wealth management services.

In quest of sustainable business, LankaBangla is positioning itself to provide enduring value to the people, customers, shareholders and the communities. There are some other key divisions

involved for setting up the strategic priorities by managing balance sheet prudently, by helping to provide various decisions, by creating, operating and maintaining IT infrastructure, by nurturing human resources to deliver the best and uphold the livelihood of LBFL's community.

LBFL are the recipient of National Award for Best Published Accounts and Reports for the past few years declared by the Institute of Chartered Accountants of Bangladesh (ICAB). They also received "Category Winner – Financial Service Sector" and "Overall Winner" for the "Best Presented Annual Report and SAARC Anniversary Award for Corporate Governance Disclosure 2014" from South Asian Federation of Accountants (SAFA, An Apex body of SAARC). This is undoubtedly an igniting accomplishment and it is a reflection of ethical practices, true compliance and a great team work.

LankaBangla practices participatory management and adheres to industry best practices in all endeavors. Increasing stakeholders' value is a natural driving force for the people at LankaBangla. LBFL'slong-standing sustainability efforts are creating environmental and social value while LBFL step ahead. By embracing high ethical standards, governance and transparency, LBFL dreams to grow big.

## 2.2 Strategic Analysis

## Vision

To be the Most Preferred Financial Service Provider in Creating, Nurturing and Maximizing Value to the Stakeholders, Thereby, Growing Together.

## Mission

- Be a growth partner for our customers, ensuring financing and superior experience
- Maintain a culture of meritocracy in the DNA of the company
- Be sustainable and ensure quality returns to our valued shareholders
- Uphold efforts to develop our community.

## Core Values

- Cherish a sense of ownership
- Be customer centric
- Grow as a team
- Act with integrity & professionalism
- Deal with respect

## STRATEGY

LBFL's strategic direction based on broad priorities & developed to build momentum.

❖ Diversify portfolio prudently for value with increased focus on core product portfolio

- Build a strong core product portfolio with high focus on corporate financial services
- Drive consumer finance to excel through a differentiated strategy
- Build momentum in SME financial services
- Grow our leading position in capital markets
- Expand geographical reach in the major cities/township of the country
- Collaborate with large corporate houses for mutually beneficial relationship
- Manage enterprise risk effectively
- Maintain good asset quality and strive to keep incremental infection at zero

❖ Prudent balance sheet management

- Strengthen our capital base and improve our funding positions
- Diversify our funding sources
- Optimize the deployment of fund and capital across core businesses and the subsidiaries

- Simplify processes & reduce cost
  - Continuously improve key areas of customer service
  - Simplify processes and ensure disciplined expense management
  - Upgrade our technology to ensure efficiency and competitive edge

- Create a sustainable brand
  - Invest in our brand and promote our services to chosen markets
  - Ensure good governance and transparency
  - Increase contribution to the national exchequer through increasing profitability
  - Increase support to underprivileged population in health and education through LB Foundation
  - Assume environmental stewardship and responsibility in changing lives of the ordinary

- Nurture our people through leadership and skill development
  - Nurture high skilled talent pool
  - Create congenial work environment to deliver the best performance
  - Ensure attractive benefit packages
  - Promote high ethical standards

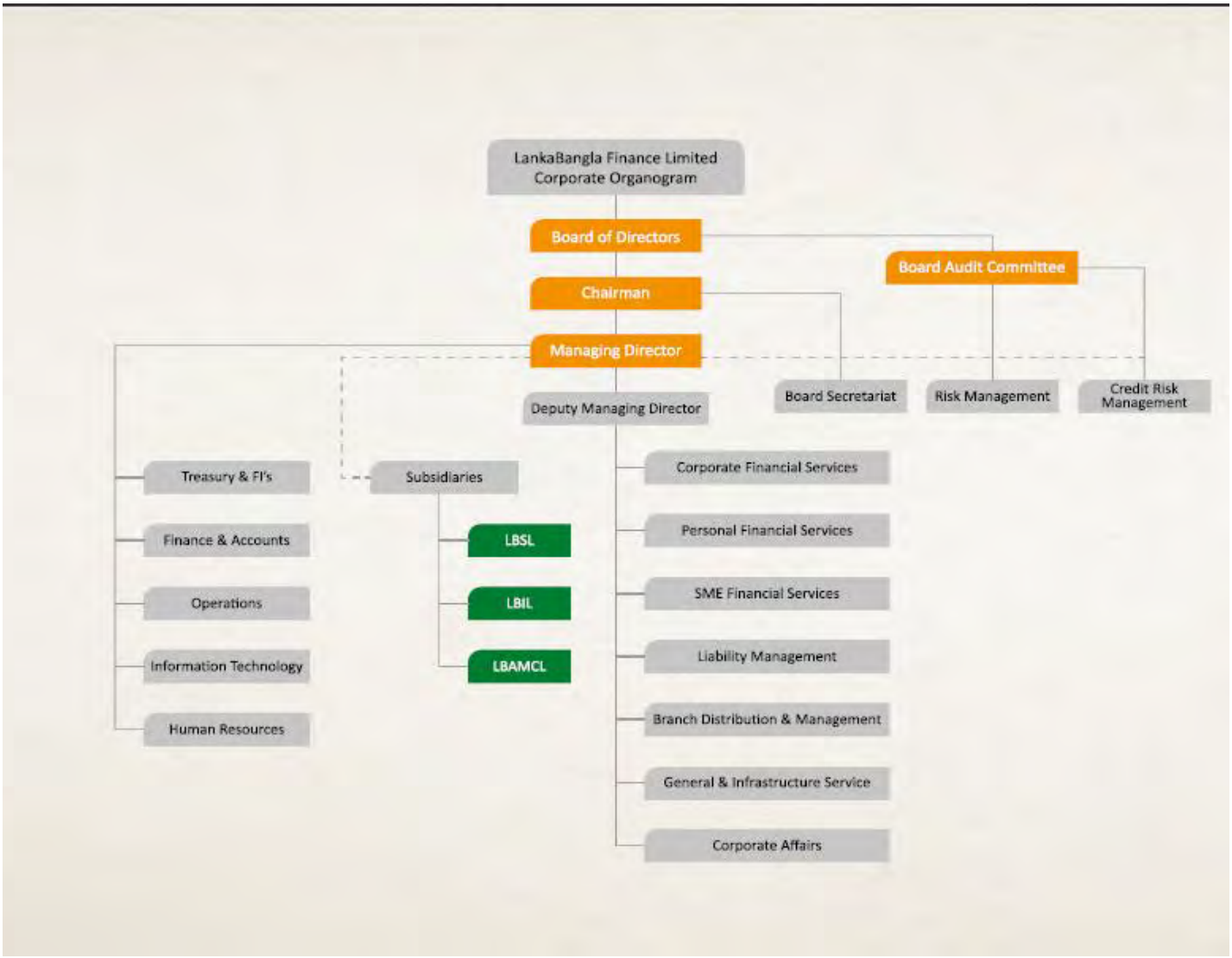


**Fig: Corporate Organogram**

## 2.3 Divisions of Credit Risk Management

In compliance with Enterprise Risk Management strategy, LankaBangla has established an independent Credit Risk Management Division which is separate from business and operations divisions. All credit proposals are independently assessed– different risk factors and mitigation plans are identified in line with company's Board approved credit policy/ PPG. Any findings, be it positive or negative, relevant to make note of, is also highlighted for perusal of the approving authority for consideration. Credit Risk Management Division regularly monitors the quality of loan portfolio and actively works on Early Alert Reports generated by business/operations units. Analysis on delinquent asset portfolio not only helps to chart the right course of lending but also allows maintaining the NPL at its minimum level. It has become possible, by following Board's guidance and management's strict adherence to corporate lending policy and PPG's for SME and Retail lending products to keep the quality of lending at its best possible profile. At LankaBangla, industry best practices are implemented to ensure the quality of lending portfolio and relentless effort is in place to retain the culture of applying due diligence at all levels of credit risk management.

### Corporate Financial Services

The Corporate Financial Services Division of LankaBangla takes ownership to focus exclusively on corporate and institutional clients domiciled or conducting business in its footprint by offering clients access to its extensive branch network. The division delivers services through 3 (three) units, namely Corporate & Institutions Unit, Project & Structured Finance Unit and Emerging & Commercial Business Unit.

### Corporate & Institutions Unit

When opportunity knocks, you need a partner with a range of lending solutions that can turn ambition into accomplishment. Our smart relationship managers, equipped with efficient management skill and sound knowledge of the industry and market, are at your service to provide a complete range of corporate financial solutions like Lease Finance, Term Finance, Short Term Finance, Revolving Finance, Bridge Finance, Club Finance, Working Capital Finance etc. suited to respective clients. From a straightforward Term Loan to complex club

financing, we can help you with a range of options and solutions. We are committed to partner in your journey of prosperity and share the joy of success while “Growing Together”.

**Project & Structured Finance Unit**

LankaBangla Project & Structured Finance Unit is a specialized unit comprising of experienced professionals who are expert in conducting the technical, financial and economic feasibility of all types of projects and product structuring. Financial solutions like syndicated loan, preference share, bond etc. are some in its wide array of services. It determines the financial feasibility and viability of the project during the prebooking stage and also monitors the progress of the project implementation during the post-booking stage. Always serving the client at its core, the highly skilled team, channelling its vast network of professionals, provides a consolidated service encompassing all crucial aspects of the project. In addition to performing agency functions, LankaBangla can also handle merger, acquisition etc.

**Emerging & Commercial Business Unit**

At LankaBangla, we understand that an adequate cash flow works as blood circulation for live running of a business. We are constantly striving to provide innovative financial solutions to meet working capital needs of businesses. With this motto, LankaBangla has designed the products of Factoring, Reverse Factoring, Distributor Finance, etc. to meet dynamic corporate financial needs. These are uniquely structured working capital solutions against receivables, lifting orders, confirmed payables, credit advisory, collections, etc.

**Personal Financial Services**

LankaBangla Finance Limited is one of the leading financial institutions in Bangladesh offering a wide variety of personal financial services to cater to the full scope need of innovative,customized solutions and services. The personal financial services division currently offers auto loan, home loan, personal loan, loan against deposit, loan against property (LAP) and credit cards(MasterCard & VISA card). The division delivers services through 4 (Four) units namely Auto Loan Unit, Home and Mortgage Loan Unit, Personal Loan Unit and Card Center.

**Auto Loan Unit**

The unit deals with all sales, marketing, business promotions, relationship management with individual and corporate customers and auto dealers, customer service activities including planning, budgeting, target setting & allocation, and also execution, monitoring & evaluation of sales deal, customer service quality, etc. The unit also start providing Motor Cycle loan to individual professional and corporate houses.

**Home & Mortgage Loan Unit**

The activities of Home & Mortgage Loan Unit include sales, marketing, business promotions, relationship management with customers & developers, customer service management, etc. including planning, budgeting, target setting & allocation and also execution, monitoring and evaluation of sales deal, customer service quality, etc. The products are mainly Home Loans for purchasing, constructing or renovation of homes or takeovers of existing home loans with other financiers, loan against property (LAP) and home plan financing for professionals.

**Personal Loan Unit**

Any purpose loans for personal exigencies are offered under Personal Loan Unit which deals with all sales, marketing, business promotions, relationship management with corporate houses, customer service activities including planning, budgeting, target setting & allocation and also execution, monitoring & evaluation of sales deal, customer service quality, etc. Doctors Loan, Travelling loan, Marriage loan and Loan for Land lord/lady are offered under this unit. Short term loan against lien of deposits, shares of listed companies, savings instruments etc are also offered under this unit for any purpose.

**Credit Card**

Card Centre deals with issuing of MasterCard and VISA credit cards; there are mainly three categories of MasterCard– Titanium, Gold & Classic and two categories of VISA card –Gold & Classic for individual and corporate clients. LankaBangla is the lone Financial Institute that offers cards and provides third party card processing services through its state-of-theart card software. The unit deals with all sales, marketing, business promotions, relationship management with outlets & corporate house, customer service activities including planning, budgeting, target

setting and allocation, execution, monitoring and evaluation of sales deal, customer service quality, etc.

**SME Financial Services**

SME Industry becomes blood of economic and sustainable development of Bangladesh. Today, SME remains the engine of economic growth and considering the population of Bangladesh, SME offers large-scale employment and income earning opportunities at relatively low costs, especially in the rural areas. It strengthens efforts to achieve high and sustainable the convergence of growth in SME, women entrepreneurship SMEs, the heart of growth of economies worldwide, are emerging as the most powerful and sustainable pillars of Bangladesh economy. SMEs in Bangladesh are no longer concentrated to low-tech, traditional and agro-based economic activities only; these are spreading over nontraditional manufacturing and service sector as well. According to experts in financial sector, financial inclusion, a much talked topic now days, will be achieved through SME. LankaBangla Finance Ltd., with the belief of 'Growing Together', has focused in SME business and performed well so far. The division deals with all the activities- sales, marketing, business promotions, relationship management, customer service activities, budgeting, target setting and allocation, and also execution, monitoring and evaluation of sales deals in Small Medium Enterprise Segment. SME Division of LankaBangla had created a sound footprint in the year 2015 and it enjoyed higher growth in every parameter than that of previous year and is expecting to excel further. The division is working on new product introduction, cluster analysis and finding out prospective sectors. Quick Branch expansion of LBFL in district level proves that LBFL is going to develop SME sector in Bangladesh by financing in different kinds of business in widespread urban and rural areas. We are now strongly focusing on Agro processing Finance outside Dhaka and Chittagong metropolitan area and our team is dedicated for working there. Beside this the Division has been arranging campaign, SME Fair, Branding, Mobile lending Officers recruitment, Product diversification for the whole year; A dedicated team for each Branch is working to develop woman entrepreneurship in Bangladesh. LBFL is providing SME finance facilities to different types of sector with increased focus on women. By availing the refinancing facility through Bangladesh Bank, LBFL is able to offer attractive rates for prospective women entrepreneurs of Bangladesh. The Division had introduced Start up Finance product "Somporko" which will be

marketing and expanding in full fledge in the year 2016 of all LBFL Branches. Recognizing human resource as the most valuable soft factor of the organization, LBFL continued to invest to enhance and upgrade skill sets of the people. A significant number of seminars, workshops and trainings has been conducted both in-house and external. Also singed different MoU between different organizations during the year. Management has a plan to give a special priority on SME Business in the year 2016 and set a huge budget accordingly to support this sector. However in the year 2015 Portfolio growth is almost 242%, Disbursement growth is 297% and NPL restricted within single digit which suggests that the Division is growing in terms of every parameter and a good net profit is going to attain in the year 2016 if the budgeted target is achieved.

# Project Part:

## 3.1 Introduction of the Project:

Credit Risk is the risk of not being able to recover loans and other exposure owing to deterioration in the business condition and other circumstances of counterparties in transactions. The main task of the Credit Risk Management Department is to reduce this risk that arises. Good risk management capabilities are essential for the success of a financial institution. The recent controversies of Basic Bank, Sonali Bank and Agrani Bank pointed out the outcome of not having a strong and fair lending policy and credit risk management principles. If this process is not done fairly, then many problems occur. Credit risk is the major portion of the total risk. So credit risk management is a crucial issue of risk management and an essential to the long-term success of any banking organization. The institution's goal for credit risk management is to maximize risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. So, the management has adopted appropriate policy, procedures and methods to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The management also considers the relationship between credit risk and other risks. The problems that occur when the risk analysis is done wrongfully are:

1. Loss of Reputation
2. Risk of losing operating license.
3. Actions taken against the institution by Bangladesh Bank.
4. Losing potential shareholders.

This topic is important for research because LankaBangla Finance operates in the market segment that is highly saturated by other NBFI's And Banks. In this highly competitive market, the NBFI's not only have to compete between themselves, but also with the existing banks. So, in order to stay ahead in the market, some institutions lend out to borrowers without fully analyzing the risk which sometimes may bring profit, but most of the time it results in Non-Performing loans(NPL). Resolving these issues and coming up with a good and sound CRM policy is the key to success for an NBFI. The impact of resolving these problems will establish the institution's reputation and ensure return on loans. The guidelines of the CRM department and their work process will ensure their success.

## 3.2 Problem Statement:

The CRM department of a financial institution has to be perfectly balanced. They can't be too conservative and play safe by giving out a small amount of loans that are fully secured. They must also show professionalism, good judgment and forecasting skills by analyzing all types of application and select the best ones. That would help in the expansion of opportunities and business. The whole industry is affected by the Credit Risk Management procedure. There are 37 NBFI's and 52 Banks operating in Bangladesh. Their branches are all over the country. At first, they were solely confided into big cities such as Dhaka and Chittagong. But due to increasing competition, they have spread out in other cities and some even reached remote areas too. The main problem is that the banks also operate in the same market as NBFI's. They have a superior advantage over them because unlike NBFI's they have access to deposits and the scope of spending capabilities and opportunities are widened

because of that. So, the CRM principles must be constantly evolve to create new market opportunities and target customers as well as maintain the policies of Bangladesh Bank very strictly.

## 3.3 Credit Risk Management Procedure:

The Board of Directors and senior management provide guidelines for the company's effective risk management. With appropriate risk management staff, ongoing investments in risk systems, regular review and enhancement of risk management policies and procedures for consistent application, overlaid with a strong internal control environment throughout the Group this is enforced. The responsibility of managing this is distributed among customer-facing and product business units, dedicated functional risk management units, as well as other support units such as Operations and Technology. Internal Audit also provides independent assurance that the Company's risk management system, control and governance processes are adequate and effective. Rigorous portfolio management tools such as stress testing and scenario analysis identify possible events or market conditions that could adversely affect the Company. These results are taken into account in the Company's capital adequacy assessment. The Board of Directors establishes the Company's risk appetite and risk principles. The Board Audit Committee is the principal Board committee that oversees the Company's risk management. It reviews and approves the Company's overall risk management philosophy; risk management frameworks, major risk policies, and risk models. The Board Audit Committee also oversees the establishment and operation of the risk management systems, and receives regular reviews as to their effectiveness. The Company's various risk exposures, risk profiles, risk concentrations, and trends are regularly reported to the Board of Directors and senior management for discussion and appropriate action. The Board Audit Committee is supported by Risk Management Division, which has functional responsibility n a day-to-day basis for providing independent risk control and managing credit, market, operational, liquidity, and other key risks. Within the division, risk

officers are dedicated to establishing Company-wide policies, risk measurement and methodology, as well as monitoring the Company's risk profiles and portfolio concentrations. Credit officers are involved in transaction approvals, and personal approval authority limits are set based on the relevant experience of the officers and portfolio coverage. Representatives from the division also provide expertise during the design and approval process for new products offered by the Group. This ensures that new or emerging risks from new products are adequately identified, measured, and managed within existing risk systems and processes.

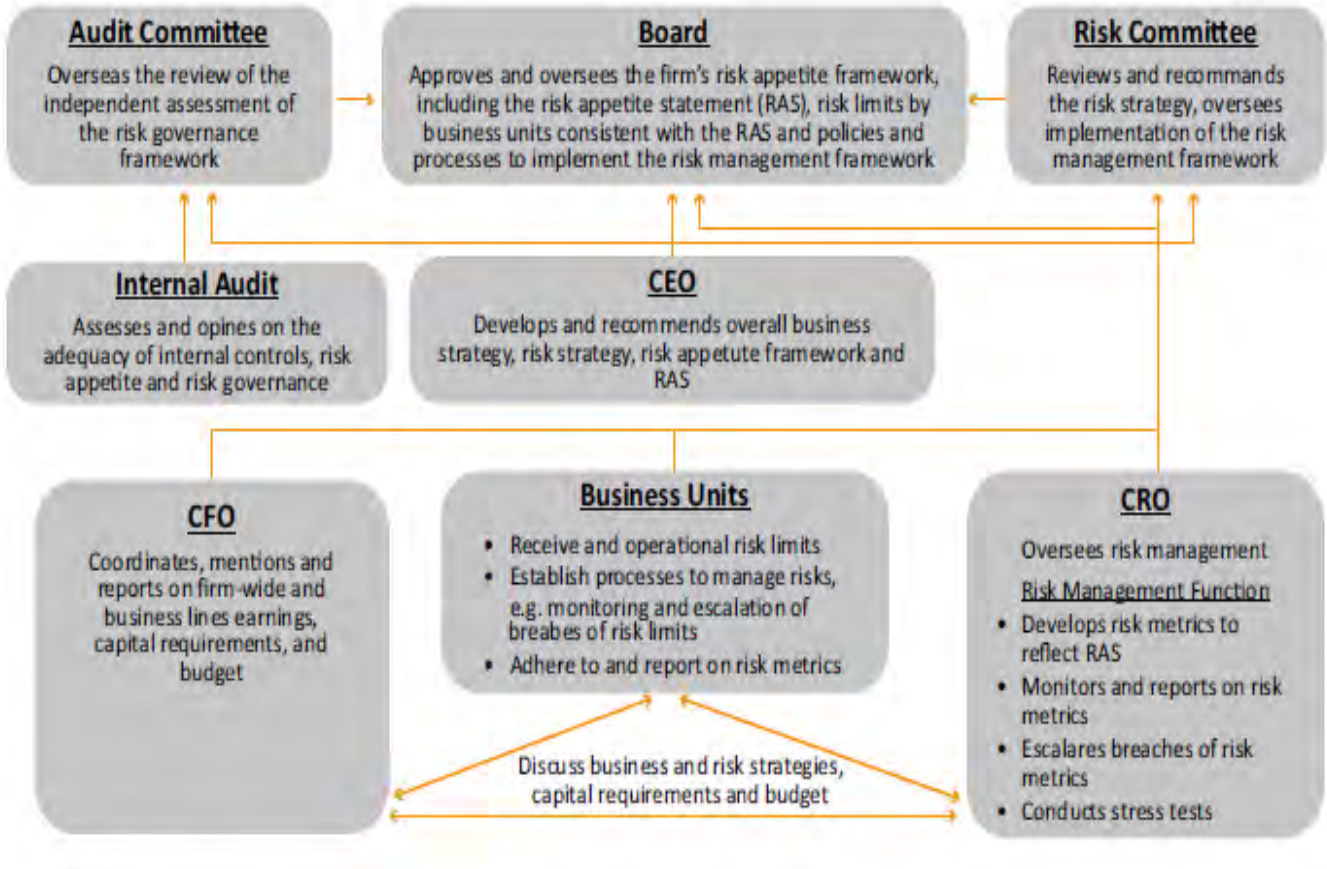


Fig: Risk Governance Framework

## 3.4 Factors affecting Credit Risk:

The basis of judgment for all applications depends on the 5C's. They are:

1. Character- Intention to pay the Loan
2. Capacity- Borrower's competence in employing fund profitably and ability to generate income
3. Capital- Financial strength to cover a risk
4. Conditions- General business conditions including macroeconomic and industry conditions, market structure, competition etc.
5. Collateral- Implies additional securities.

**3.5 Application process and assessment:**

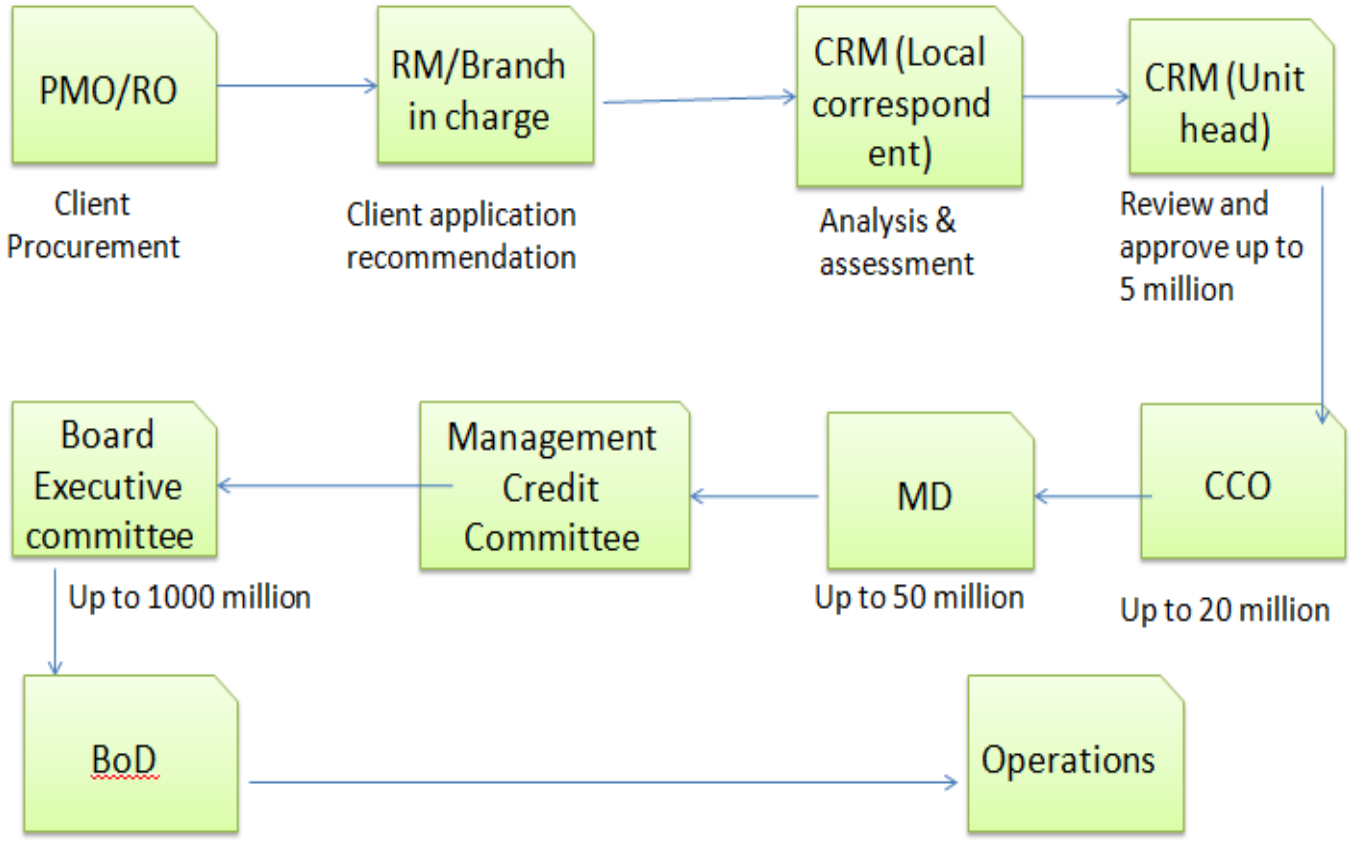


Fig: Process flow of applications

Credit processing is the stage where all required information on credit is gathered and applications are screened. Credit application forms are sufficiently detailed to permit gathering of all information needed for credit assessment at the outset.

First, the Product Marketing Officer (PMO) procures clients by marketing and campaigning in different companies, institutions, campuses etc. The PMO analyzes all applications and screens out the ones that match with the existing criteria. Then he forwards the chosen applications to the Relationship Manager (RM). He performs all the necessary procedures and does a pre-analysis of the client's profile. The applications which are seen as viable by the RM are then recommended

and forwarded to the CRM department. Here, the analysts are given authority to analyze and verify the applications. If there are any discrepancies, the analyst gives the file a query. That query is then sent back to the RM and he meets that query and then forwards the file as 'Query Met". Then, after all the necessary analysis, if the whole application is found to be complete and viable, the analyst recommends the file to the CRM Unit Head. There are different Unit Heads for Retail, SME and Corporate. The amount of the loan facility determines the approval authority for the application. After approval, the application is sent to operations where the loan sanctioning procedure is carried out.

The sanctioning limit is given below:

| **Sl. No.** | **Designation/Position** | **Approval Limit** |
|---|---|---|
| 1. | Board of Directors | Maximum amount allowable as per existing law. |
| 2. | Board Executive Committee | Up to BDT **1000.00 million**. |
| 3. | Managing Director | Up to BDT **50.00 million** |
| 4. | Chief Credit Officer | Up to BDT **20.00 million** |
| 5. | Unit Head, Corporate Credit | Up to BDT **5.00 million** |
| 6. | Unit Head , SME Credit | Up to BDT **5.00 million** for secured/partially secured SME loan onl<br>Up to BDT **1.50 million** for unsecured SME loan only. |
| 7. | Unit Head , Retail Credit | Up to BDT **5.00 million** for Home/Mortgage loan only.<br>Up to BDT **3.00 million** for Auto loan only.<br>Up to BDT **2.00 million** for Personal Loan only. |

| | | |
|---|---|---|
| 8. | Supervisor , Retail Credit (Credit Card) | Up to BDT **0.50 million** Credit Card Only |

LankaBangla Finance Ltd. collects credit information about the applicant to determine the credit worthiness of the borrower. They collect the information about the borrower from the following sources:

- Personal investigation
- Confidential report from other bank Head Office/Branch/chamber of the commerce.
- CIB Report from Bangladesh Bank.

After receiving the application for advance, the company sends a letter to Bangladesh Bank to obtain a report from there. This report is called CIB (Credit Information Bureau) report. The purpose of this report is to being informed that whether the borrower has taken loan from any other Bank; if 'yes' then whether the party has any overdue amount or not.

**3.6 Prohibited Business types:**

- Lending to companies listed on CIB black list or known defaulters
- Production or trading of illegal products as per country and international law
- Production or activities involving harmful or exploitative forms of forced labor

- Finance of Speculative Investments
- Gambling, casinos and equivalent enterprises
- Production or trade in radioactive materials
- Share lending
- Mining or other activities that are harmful to the environment
- Lending to holding companies

## 3.7 Collateral Analysis:

LankaBangla Finance is vigilant when valuating collateral. The officers simultaneously analyze the collateral that the applicant or firm has offered. The accuracy of the proposal's value estimation is enhanced when the collateral is analyzed and valued properly. The current market price, distressed price and the probable price is analyzed in order to make a proper evaluation. They give their opinion after they have properly analyzed the collateral and state the relevance of the collateral with the applicant's profile.

Transactions are entered into primarily on the strength of a borrower's creditworthiness, ability to repay, and repayment sources. To mitigate credit risk, the Company accepts collateral as security, subject to credit policies on collateral eligibility. Types of collateral include cash and marketable securities; residential and commercial real estate; commercial & private vehicles; and other tangible business assets, such as inventory and equipment. The value of collateral is prudently assessed on a regular basis, and valuations are performed by independent appraisers. Discounts are applied to the market value of collateral, reflecting the quality, liquidity, volatility, and collateral type. The loan-to-value ratio is a key factor in the credit granting decision. LBFL also accepts guarantees from individuals, corporates, and institutions as a form of support. Some netting and collateral agreements may contain rating triggers, although the thresholds in the majority of our agreements are identical in the event of a one-notch rating downgrade. Given the Company's investment grade rating, there is minimal increase in collateral required to be provided to counter parties if there is a one-notch downgrade of credit rating.

## 3.8 Loan Classification:

LBFL has three main lending avenues:

### Corporate Lending

- –Corporate and Institutions unit [Lease/Term Loan/ Short Term Loan/Guarantee etc.] (Credit Policy driven)
- Syndication/structured financing Unit (Credit Policy driven)
- Factoring/Distributor Financing/Reverse Factoring under Emerging and Commercial Business Unit ( PPG driven)

### SME Lending

- Astha (Secured and partially secured)
- Ahona (Unsecured)
- Annonya (Women Entrepreneur)
- Durbar (Commercial Vehicles)
- Abash (Commercial Complex/Mess rent)
- Swarnali (Agrobased)

### Retail Lending

- Auto lease/loan
- Home Loan/Mortgage Loan
- Personal Loan
- Credit Card

**Corporate Credit**

Corporate Credit team of CRM deals with the credit proposals as received from Corporate Financial Services division under which three separate units are functioning namely

1. Corporate and Institutions unit
2. Syndication/structured financing Unit
3. Emerging and Commercial Business Unit and credit assessment framework has been developed accordingly

## Credit Assessment for Corporate

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the Relationship Manager/Account Officer ("RM"), and is approved by appropriate authority as delegated. The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the FI's Lending Guidelines and should conduct due diligence on new borrowers, principals, and guarantors.

It is essential that RMs know their customers and conduct due diligence on borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. LBFL will follow Know Your Customer (KYC) and Money laundering guidelines which should be adhered to at all times and the RMs should be well conversant with these. To assess client's nature of business RM will visit customers' business & factory premises, as and when required (before finalizing credit proposal) and will be acquainted with the management officials/employees. He/she will prepare and maintain Call/visit reports in his respective corporate files. Upon satisfaction regarding client's business, RM will submit the proposal with the visit/call report.

A Credit Application should summarize the results of the RM's risk assessment and include, as a minimum, the following details:

- Amount and type of loan(s) proposed
- Purpose of loans
- Loan Structure (Tenure, Covenants, Repayment Schedule, Interest)
- Security Arrangements

In addition, the following risk areas should be addressed:

**Borrower Analysis**

The majority shareholders, management team, experience and group or major affiliate companies should be thoroughly assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed and risks mitigated. Borrower analysis through the 5 Cs mean the man/person i.e. the borrower himself/herself his/her sincerity, honesty, integrity, reputation, respectability, reliability, responsibility, education, training, experience, permanency, entrepreneurial quality, ready to accept condition etc; his/her works/activities, his/her management/handling capacity, chosen location/place, his/her ability to invest some amount of money, marketability of his/her products, expected returns etc. Successor information for the company should be highlighted in the proposal. If there is any record on management change of the company during relationship with LBFL should be highlighted in the proposal. Any changes in outside service provider for the company e.g.

External Auditor, Legal Advisor/Consultant etc. should also be highlighted in the proposal with reasons.

**Industry Analysis**

The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses (SWOT Analysis) of the borrower relative to its competition should be identified. Typical Industry analysis should address the following issues, but not limited to:

- Macroeconomic influence (business cycle, GDP growth, Monetary Policy, Fiscal policy)
- Governmental influence [regulatory, political, legal, enabling environment]
- Technological influence
- Determining competitive structure of industry ( threat of substitutes, bargaining power of customers, bargaining power of suppliers, threat of new entrants/barriers to entry, intensity of rivalry)
- Addressing the following questions help the appraiser evaluate the threat of new entrants, level of competition in an industry:
    1. What are the barriers to entry?
    2. How concentrated is the industry?
    3. What are capacity levels?
    4. How stable are market shares?
    5. Where is the industry in its life cycle (Embryonic, Growth, Shakeout, Mature, Decline)

**Market Analysis**

Whether there is enough market for the products. The sufficient market data is to be obtained. The clients / borrowers target market; market shares in the industry are to be ascertained. The demand supply gaps, Market structure, Structure of competition etc. are to be addressed.

**Related Party Analysis**

If any request for credit facilities by the company or any related parties which was previously declined by the FI should also be incorporated in credit memo. Related party's exposure like Director's Loan, should be considered as single borrower exposure and comply with Bangladesh Bank's guidelines regarding related parties/single borrower/group.

**Supplier/Buyer Analysis**

Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

**Technical Risk Analysis**

The product that is manufactured must be technologically viable i.e. whether the technology applied is updated. The product's stage in its life cycle must be understood. Technical Aspects of the products must be addressed. The credit officer must be satisfied with the mitigating factors of technical and technological risk, associated with the products.

**Regulatory Risk Analysis**

Some industry segments (such as Utility industry) are highly regulated and as such regulatory risk should be assessed as applicable.

**Environmental Risk Analysis**

LBFL has already adopted Green Banking Policy whereas Environmental Risk is considered as one of the Core Risks for Bank/FIs. As such while making lending decision, Environmental Risk shall be assessed properly as per guidelines set by Bangladesh Bank as facilitator of credit risk.

**Historical Financial Analysis**

An analysis of a minimum of 3 years historical financial statements of the borrower should be presented which should not be prepared before 6 months from the current date. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, working capital assessment, cash flow, leverage and profitability must be analyzed on applicable cases. In case of new projects, 3 years projected financials to be obtained and analyzed.

**CIB requirement**

CIB report should not be more than 30 days older in the credit appraisal. Before disbursement 1 month latest CIB is required which should reflect/include the name of all the lenders with

facility, limit & outstanding. For any renewal / enhancement proposal a fresh CIB is a prerequisite.

**Projected Financial Performance**

Where term facilities (tenure > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.

**Adherence to Lending Guidelines**

Credit Applications should clearly state whether or not the proposed application is in compliance with the FI's Lending Guidelines.

**Cost/time Overrun Risk**

This type of risk is generally involved in taking project finance decision. A high degree of cost overrun may cause the failure of the project. Therefore the credit officer must consider the cost components of the project and their chance of devaluation.

**Mitigating Factors**

Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

**Limit Setting**

The size of the Credit limit should be determined based on purpose of borrowing, actual requirement of credit, credit worthiness of the obligor, available limit with other banks and financial institutions, overall business and economic condition and institution's risk tolerance.

**Loan Structure**

The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increase the risk of fund diversion and may adversely impact the borrower's repayment ability.

**Security**

A current valuation of collateral should be obtained and the quality of good security e.g. FDR (cash security), Deposit scheme, Govt. Bonds etc and priority of security being proposed should be assessed (i.e. marketability, easy ascertainment of value, stability of value, storability, durability, ascertainment of title, easy transfer of title, etc). Loans should not be granted based solely on security. Valuation of security adequacy and the extent of the insurance coverage

should be assessed. In case of mortgage of immovable property, the concern RM should physically inspect the property offered as security. The visit report should contain description of properties in detail along with possession holder and the manager's assessment about its valuation. Valuation should be based on market value, invoice value / cost price or controlled value. From the ownership perspective, Security may be categorized as" First Party Security" and "Third Party Security". "First Party Security" is defined as the security where borrower person(s) or any other legal entity] is the lawful owner of the property/asset being offered as security and "Third Party Security" is defined as the security whereas any person/legal entity other than borrower is the lawful owner of the property/asset being offered as security against the loans and advances. First party security is always preferable. Third party security is discouraged. However property as collateral security owned by near relatives (spouse, parents, parents-in-law and siblings only) of the sponsors or directors and property in the name of directors of limited company for mortgage may be accepted as security against loans and advances.

**Name Lending**

Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

**Liabilities with other Banks/FIs**

Liabilities with other banks / Financial Institutions of the Client's should be considered at the time of analysis of the proposal. Even any liabilities in Foreign Currency should also be considered for justification.

**CRG**

FI should follow the credit risk grading system. The system define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a FI's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications.

**SME (Small and Medium Enterprise) Credit**

SME market is the most potential of all with approximately 90% of the Bangladeshi enterprises falling in this category. The market is the most under served and has ample opportunities to be addressed. With a very big market with ample opportunities it comes with a vital question: why access to finance is rather a hard job for SMEs? The opportunity and risk lies with the same observation. SMEs of Bangladesh and other emerging economies are mostly unstructured. The performance of the business largely linked with the business acumen of the proprietor/partners. Major concentration on trading businesses with high business density creates intense competition. Low survival rate with subsistent profitability increases the risk of fund employed. High inflation environment and added risk premium pushes the interest rate higher which makes an evil spiral of low return for both of the parties. So, how do we overcome with this situation? How do we invest in a risky market yet save the bottom line? That is a constant strive which makes the SME lending more exciting and creative more than ever.

LankaBangla Finance Ltd. offers various SME products for the customers ranging from term loan, short term loan, revolving loan etc. focusing on specific market segments. This approach

helps LankaBangla to cater the need of specific market segments. They have security based product lineup like- unsecured (Ahona) & secured (Astha) , specific segments like women entrepreneurs (Annonya- BB refinancing), commercial house rent business ( Abash), vehicle finance ( Durbar) and agro based loans ( Swarnali). Each segment has its specific characteristics, so financing those segments requires specific risk mitigation. They have formulated Product Program Guidelines for each of the financing segments for better risk mitigation and credit quality control.

LankaBangla has an effective SME credit team, mostly head office based. In SME financing physical credit visit is the integral part of credit decision. After a file has been submitted by a relationship officer it arrives at credit Risk Management division after validation and recommendation from line managers. After that, analyst pays a visit to the business to assess the opportunities and risk points for the business. Analyst not only inspects the business but also the market related to it. Then he returns with the understanding of the file. The analyst analyzes the prospect following standard proceedings which is called underwriting. Usually different tier of management has different level of delegation authority; they can approve the files subject to analyst raised conditions.

Financing in SME does not have a golden rule; rather it's a combined strategy which makes it a success. Constant market watch, monitoring, quick decisions adjustment coupled with systematic planning can reduce risk in SME lending. LankaBangla has a credit monitoring team. The main job of credit monitoring team is to have an eye at portfolio, constant monitoring of the financing in order to stay vigilant. They also visit the client on regular basis.

In a situation where every business is under pressure caused by uncertainties, duration matching remains one of the prime focus areas. Every business is assessed with a time and macro

consideration. Apart from all other considerations, deep rooted market knowledge remains the ace of all the cards.

**Retail Credit**

LBFL has four avenues of retail lending namely:

1. Auto Lease/loan
2. Home/Mortgage Loan
3. Personal Loan
4. Credit Cards

**Auto Loan**

Auto Loan is a term loan facility for purchasing vehicle for individual or institutional use & the vehicle is registered & insured in favor of LankaBangla Finance Limited (when possible) & otherwise in joint name between LBFL and client and also may be fully or partially secured by Term Deposit Receipt.

**Target Customer**

LBFL offers Auto Loan to the salaried person, Businessman, Land Lord & Professionals like Doctor, Engineer, Architect, Chartered Accountant etc.

**Credit Assessment for Auto Loan Proposals**

Credit Risk is the one of core risk areas for any FI and it is originated from lending function. So, before giving approval CRM Division assesses some parameters of the borrower for minimizing associated credit risk.

Common documents that CRM requires to make sound credit decision:

- Duly filled up booklet with signature at proper place
- Approved Call Report (if applicable)
- CPV report/RM Visit Report
- Studio printed recent photographs of applicants/ guarantors
- NID of applicants/ guarantors
- TIN certificate of applicant
- 12 month bank statement
- LOI/ Salary Certificate / Pay Slip (for salaried person)
- Valid quotation with applicants acceptance
- CIB report of the client and guarantors
- Utility Bills (if required)

**Additional Documents**

- Property deed/Mutation Copy (for land lord)
- Last 3 years Trade license (for businessman)
- Partnership Deed ( for partnership business)
- Financial Statement (if applicable)
- Certificate of incorporation (for limited company)
- MOA & AOA (for limited company)

- From X and XII (for limited company)
- Credit Rating Report (if applicable)

**Borrower Analysis**

**Profile Analysis:**

Providing Auto loan LBFL gives emphasis on profile of the applicant/borrower. Mainly following parameters are considered under profile analysis:

- Educational Background
- Professional Degree
- Job Security
- Business Experience
- Family Background
- Residential Status
- Life Style
- Association with Social Work
- Political Affiliation

**Business Analysis:**

Following parameters are considered for business analysis:

- Age of the business
- Business experience of the Proprietor/Partners/Management
- Succession
- Competitive Advantage & Growth of the business
- Market Competition and Entry Exit Barrier
- Size of the business, Earnings, Debt Serving Capacity, Leverage position and Liquidity position etc.
- Others compliance issues related to the business

**Cash Flow Analysis:**

Cash Flow is directly related to repayment capability of the borrower. So, CRM Division deeply analyzes cash inflow and outflow of the client to determine repayment capacity of the borrower. For salaried person LOI/Salary Certificate and Bank Statement are the main documents to determine actual income and steadiness of income. For Professionals Bank Statement, Payment Receipt, Contract Agreement, Financial Statement (if Applicable) are considered the common income documents. For Land Load Rental Deed, Rental Verification Report and Bank Statement are considered income documents backed by proper ownership documents. For limited company Financial Statement, Bank Statement, Export Proceed Realization certificate etc. are the primary documents for determining cash flow of the business.

**Repayment Behavior Analysis:**

Credit Information Bureau (CIB) Report of Bangladesh Bank is the primary source of repayment history of a borrower. LBFL download and check CIB report properly for determining

repayment behavior of borrower. CIB report should not be more than 30 days older in the credit appraisal.

**Know Your Customer:**

It is essential that RMs know their customers and conduct due diligence on borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. LBFL will follow Know Your Customer (KYC) and Money laundering guidelines which should be adhered to at all times and the RMs should be well conversant with these.

**Security Analysis**

Primary security of auto loan facility is registered vehicle. Registration may be completed in favor of LBFL or jointly with FBFL and Applicant. So, LBFL gives emphasis on the Model, Vehicle category and Loan to Value (LTV) of the vehicle. LBFL is reluctant to provide loan against yellow vehicles and the vehicles whose depreciation rate is very high. Lien TDR against the facility in favor of LBFL are also may be the fully or partial security of the facility. LBFL includes at one personal guarantor for being comfortable position for sanctioning an auto loan facility. In case of failure of borrower to repay principal and interest, guarantor will pressurize borrower to pay as they will also be liable to pay. So, Inclusion of strong personal guarantee will provide some extra comfort for sanctioning auto loan.

**Industry Analysis**

Industry Analysis is very important tool for sanctioning Auto loan. If industry is stable and growing steadily where applicant/borrower is employed/doing business then it is easy to LBFL for sanctioning credit facility and vice versa.

**Economic Condition Analysis**

Current Economic Condition of the Country as well as Industry is also important for offering credit facility. If economic condition of the borrower's industry is highly affected by adverse economic condition of the country then job turnover will increase in that industry. So, loan sanction decision will highly related with economic condition of the country as well as specific industry.

**Loan Structure**

The loan amount, tenure and LTV of the proposed facility should be justified based on the projected repayment ability, vehicle category and marketability of the vehicle. If the depreciation rate of the vehicle is high or Market of the vehicle is very limited than LTV should be lower. Excessive tenure or loan amount relative to needs increase the risk of fund diversion and may adversely impact the borrower's repayment ability.

**CRG**

FI should follow the credit risk grading system. The system define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a FI's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications

**Contact Point Verification**

Third Party Contract Point Verification (CPV) Agent verify some mandatory information like Residential Address, Office Address, LOI/Pay Slip, Bank Statement, Signature and Rental

Income (if applicable) of the applicant and provide ensuring authenticity of provided information in proposal which minimize fraud attempt. Permanent employee of LBFL equivalent to Principal Officer of above may waive CPV report. Proper visit report from RM may be the alternative of CPV for auto loan facility.

**Personal Loan**

Personal Loan is an unsecured loan. LBFL offers personal loan complying its own Product Program Guideline (PPG). PPG is the core guideline which is formulated complying Guideline of Bangladesh Bank as well as internal credit policy of LBFL. Though PL is known as any purpose loan, it should be specific purpose oriented like Household Purchase, Marriage Expenses, Home Renovation, Medical Expenses etc.

**Target Customer**

LBFL offers Personal Loan to salaried person and professionals like Doctor, Engineer, Architect, Chartered Accountant etc. Recently LBFL started offering personal loan to fixed income group like land lord.

**Credit Assessment for Personal Loan Proposals**

Credit Risk is the one of core risk areas for any FI and it is originated from lending function. So, before giving approval CRM Division assess some parameter of the borrower for minimizing associated credit risk.

**Common documents that CRM requires to make sound credit decision**

- Duly filled up Application Form
- Approved Call Report (if applicable)
- CPV report
- Recent photographs of applicants/ guarantors
- NID of applicants/ guarantors
- TIN certificate
- 12 month bank statement
- LOI/ Salary Certificate/Pay Slip (for salaried applicants)
- CIB report of the client.
- Utility Bills (if required)
- Property deed (if required)

**Borrower Analysis**

**Profile Analysis**

Providing personal loan LBFL gives emphasis on profile of the applicant/borrower. Mainly following parameters are considered under profile analysis:

- Educational Background
- Job Security

- Strength of Employer/ Industry
- Job Switching Rate
- Job Growth
- Professional Degree
- Residential Status
- Association with Social Work
- Political Affiliation
- Age/Income Level comparing Age
- Number of Dependent
- Family Background

**Cash Flow Analysis**

Cash Flow is directly related to repayment capability of the borrower. So, CRM Division deeply analyzes cash inflow and outflow of the client to determine repayment capacity of the borrower. For salaried person LOI/Salary Certificate and Bank Statement are the main documents to determine actual income and steadiness of income. For Professionals Bank Statement, Payment Receipt, Contract Agreement, Financial Statement (if Applicable) are considered the common income documents. For Land Load Rental Deed, Rental Verification Report and Bank Statement are considered income documents backed by proper ownership documents.

**Repayment Behavior Analysis**

Credit Information Bureau (CIB) Report of Bangladesh Bank is the primary source of repayment history of a borrower. LBFL download and check CIB report properly for determining repayment behavior of borrower. CIB report should not be more than 30 days older in the credit appraisal.

**Know Your Customer**

It is essential that RMs know their customers and conduct due diligence on borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. LBFL will follow Know Your Customer (KYC) and Money laundering guidelines which should be adhered to at all times and the RMs should be well conversant with these.

**Security Analysis**

Personal Loan is unsecured loan. LBFL includes at least two personal guarantors for being comfortable position to sanction a personal loan. In case of failure of borrower to repay principal and interest, guarantors will pressurize borrower to pay as they will also be liable to pay. So, Inclusion of strong personal guarantee will provide some extra comfort for sanctioning unsecured loan.

**Industry Analysis**

Industry Analysis is very important tool for sanctioning personal loan. If industry is stable and growing steadily where applicant/borrower is employed then it is easy to LBFL for sanctioning credit facility and vice versa.

**Economic Condition Analysis**

Current Economic Condition of the Country as well as Industry is also important for offering credit facility. If economic condition of the borrower's industry is highly affected by adverse economic condition of the country then job turnover will increase in that industry. So, loan

sanction decision will highly related with economic condition of the country as well as specific industry.

**Loan Structure**

The loan amounts and tenure of the proposed facility should be justified based on the projected repayment ability and loan purpose. Excessive tenure or loan amount relative to needs increase the risk of fund diversion and may adversely impact the borrower's repayment ability.

**CRG**

FI should follow the credit risk grading system. The system define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a FI's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications

**Contact Point Verification**

Third Party Contract Point Verification (CPV) Agent verify some mandatory information like Residential Address, Office Address, LOI/Pay Slip, Bank Statement, Signature and Rental Income (if applicable) of the applicant and provide ensuring authenticity of provided information in proposal which minimize fraud attempt. Permanent employee of LBFL equivalent to Principal Officer of above may waive CPV report.

**Home /Mortgage Loan**

In Bangladesh, Home / Mortgage loan product is a very potential financial product in context of expanding urban housing market and the key product of the retail financial products market in the country. Basically, Home/mortgage loans are loan products which are secured by tangible security (land and building) and typically tenure of the facility is long term in nature. This is a PPG driven product having specific instructions/guidelines for category customers and underwriting standards for credit assessment. However, the process starts when a customer seeking for a loan for the purpose of Flat Purchase, Self Construction, Building Purchase, Commercial Space Purchase, Loan Take over or Mortgage loan for any purpose. Concerned RM (Relationship Manager) consults with the customer to understand the customer needs, potentiality of customer, financing proposition, etc. RM summarizes all the information as guided by the PPG of LBFL and forwards the loan proposal with the supporting documents to Retail Credit Department of CRM for underwriting, if the RM found the proposal prospective. After receiving the forwarded proposal, Credit Analysts of CRM justify the proposal independently in accordance with the PPG in a goal to create a good asset for LBFL.

**Key Responsibilities of Home & Mortgage credit analyst**

- Ascertaining that the loan proposals are in compliance with internal credit policy, Product Program Guidelines and other regulatory policy.
- Scrutinize the identical documents of applicant to identify applicant's background, profile and present status.
- Scrutinize the security related documents to identify location, value, accessibility and loan proposition in terms of value of the offered security.
- Scrutinize the income related documents to identify the applicant's profession, present cash flow & future cash flow projection in support to service the proposed loan EMI.
- Obtaining the CIB reports of the respective borrower from Bangladesh Bank to understand the behavior from past loan servicing record.
- Visiting the proposed property and related business of applicant.

- Analyzing the file with respect to customer profiling, cash flow of applicant and proposed security. Pertinently mentionable that apart from customer profiling , location of the property (including quality of construction) to be mortgaged, source and stability of cash flow and Loan to Value and repayment track record are the most parameters in mortgage lending decision.
- Preparing CRM observation and placing the proposal before the approval authority for decision.

**Major risk areas that should be addressed by credit analyst**

**Borrower Selection**

An analyst analyze the applicant's background, past & present profession, stability of profession, integrity, education, reliability, reputation etc. to measure whether the person's profile is suitable for lending.

**Security risk**

Analyst assesses the market value, force sale value, location, accessibility, salability, etc. of a security by doing physical visit. This ensures the soundness of the loan proposal in terms of qualitative and quantitative aspects.

**Cash flow risk**

Cash flow of an applicant is estimated and analyzed on the basis of applicant's profession, stability, asset accumulation, present income, future income projection etc. to measure the risk whether the applicant would be capable to service the loan repayments over the loan tenure.

**Repayment risk based on past credit history**

Analyst also check the previous loan records of an applicant by obtaining CIB report, Sanction letters, loan statement from concerned institutions, bank statements etc. to understand the loan repayment behavior of the borrower.

**Risk related to loan structure**

A loan should be structured considering applicant's need, scope of utilization, age, profession, cash flow etc. An analyst assesses whether loan is structured properly in terms of loan size and tenure.

**Regulatory risk**

Analyst also check whether a loan proposal is complied with central bank as well as organization's regulation and credit policy to avoid any regulatory obligation issue in future.

**Credit Cards**

Like other commercial banks, LBFL provides Credit Card facility under retail credit division. The recent portfolio volume of Credit Card indicates excellent growing in industry. Among all NBFI only LBFL issues this facility. From the perspective of Bangladesh, people are not interested about credit card but it is very much popular in developed economies. In compliance with Bangladesh Bank directives, LBFL follows a systematic process flow for credit card facility.

A credit card application is sourced by Business Unit from two ways such as: Branch (Direct Sales) & from Tele Sales Team. Both teams are under card center of LBFL. Tele sales executive only motivates a potential applicant's over phone and a runner collects the documents from customers. After proper documents with a duly filled up LAF (Loan Application Form) are submitted to MIS team of CRM through proper channel (Single channel). MIS team then per-screens the application and if found ok, the loan application is sent for CPV (Contact Point Verification) and CIB (Credit Information Bureau) generation. CPV agent receives the document requires for conducting CPV and submits the report within SLA (Service Level Agreements). After receipt of CPV report by MIS team, credit card applications are allocated to Analysts.

Analysts check all the documents, CIB report downloaded from Bangladesh Bank Server to ensure repayment history of the applicant & de-duplication check by different parameter. Bank statement analysis is the major task of analyst to confirm earning of the client. As credit card is fully unsecured retail product chance of fraud is very high. CPV is the tool of confirming authenticity of identity of the applicant. CPV ensure authenticity of job status, present resident address and verification of bank statement. If CIB report found other than UC & any fake document provided, discouraging sector, designation doesn't support, low job growth, low GMI, Frequently Cheque Return, poor company or job profile, black listed person or organization, fluctuating income trend, downward income trend, irregular salary reflection etc. then the credit card proposal is declined and if all the provided documents, de-duplication checking report found ok & CIB report shows UC and meet all credit parameters then the proposal is recommended for approval and if any documentation gap is found then query is sent to business unit. As credit card is a fully unsecured product and rate of defaulter is high compared to other financial products, profile of the borrower and traceability of borrower is very important for assessing credit card. Credit history and job status is very important for credit card. The recommended

proposals are placed to Supervisory Credit Analyst/HORC for final approval. Approved credit card applications are sent to MIS to send the same to operation department for card production.

The declined and query proposals are also sent to MIS and they input it to CMS (Internally used database) and communicate with business unit through e-mail about approved, Query & declined proposals. After that the queries are sent to business unit and they submit the proposals after meeting the queries.

The declined credit card applications are reviewed by representative from Business unit and CRM. If business unit think they have any strong point against declining reasons they place for MOR (Memorandum of Re assessment) to CRM. The MOR proposals are again allocated to analyst, if analyst is satisfied with justification from Business unit , he/she may recommend for approval otherwise the proposal will be declined.

## 3.9 Credit Risk Grading:

Well-managed credit risk grading systems may promote safety and soundness by facilitating informed decision-making. Grading systems will measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This will allow management to monitor changes and trends in risk levels. The process also allows management to manage risk to optimize returns. Credit risk grading is an important tool for credit risk management as it helps the Financial Institutions to understand various dimensions of risk involved in different credit transactions. The process allows to compare different borrowers under a standardized scale and the aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio. The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage. At the pre-sanction stage, risk grading helps the sanctioning authority to decide whether to lend or not to lend, the lending price, the extent of exposure etc. At the post-sanction stage, credit

grading helps decide about the depth of the review or renewal, frequency of review, periodicity of the grading, and other precautions to be taken. Well-managed credit risk grading systems promote financial institution safety and soundness by facilitating informed decision-making. In line with Bangladesh Bank core risk manual and following the industry best practices, for each and every loan cases CRG score is calculated using the predetermined CRG format suitable for respective loan products. This allows FI management and examiners to monitor changes and trends in risk levels. The process also allows FI management to manage risk to optimize returns.

## 3.10 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 an individual obligor and the credit portfolio as a whole.

• As evident, the CRG outputs would be relevant for 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.

• Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile. It is also relevant for portfolio level analysis.

## 3.11 Credit Risk Grading Process:

The following step-wise activities outline the detail process for arriving at credit risk grading.

**Step I:** Identify all the Principal Risk Components (Quantitative & Qualitative)

**Step II:** Allocate weightings to Principal Risk Components

**Step III:** Input data to arrive at the score on the key parameters.

**Step IV:** Arrive at the Credit Risk Grading based on total score obtained.

## 3.12 Credit Risk Concentration:

Credit risk concentration means lending to single customer groups, borrowers engaged in similar activities, or diverse groups of borrowers that could be affected by similar economic or other factors. To manage these concentrations, exposure limits are established for single borrowing groups, counter parties, industry segments, countries, and crossborder transfer risks. Limits are aligned with the Company's business strategy and resources, and take into account the credit quality of the borrower, available collateral, regulatory requirements, and country risk ratings. Limits are typically set taking into consideration factors such as impact on earnings and capital as well as regulatory constraints. The company is diversifying their business into different areas which means they would not be easily affected if any one or two sectors may collapse due to unforeseen circumstances. Their main areas of concentrations are the food industry, the iron and steel industry, trade and commerce, housing and brokerage securities.

| Name of Sector (Figure Million) | As on 31/12/14 | As on 31/12/15 |
|---|---|---|
| Garments and Knitwear | 1286.59 | 1420.35 |
| Textile | 742.62 | 1523.75 |
| Food Production and Processing Industries | 1264.14 | 3866.04 |
| Jute and Jute products | 450.32 | 255.78 |
| Leather and Leath-er-Goods | 51.49 | 40.60 |
| Iron, Steel and Engineering | 1708.68 | 2466.93 |
| Pharmaceuticals and Chemicals | 90.58 | 966.84 |
| Cement and Allied Industry | 740.05 | 971.41 |

Fig: Credit Risk concentration(a)

| Name of Sector (Figure Million) | As on 31/12/14 | As on 31/12/15 |
|---|---|---|
| Telecommunication and IT | 493.48 | 659.16 |
| Paper, Printing and Packaging | 631.09 | 572.28 |
| Ship Manufacturing Industry | 0.00 | 0.00 |
| Glass, Glassware and Ceramic Ind | 577.15 | 820.02 |
| Power, Gas, Water & Sanitary Service | 475.68 | 366.80 |
| Transport and Aviation | 489.69 | 599.99 |
| Trade and Commerce | 1277.69 | 3024.08 |
| Agriculture | 338.00 | 315.36 |
| Housing | 3553.12 | 4299.03 |
| Brokerage & Securities | 4153.14 | 3806.27 |
| Others Loan | 5940.32 | 10044.11 |
| **Total** | **24263.83** | **36018.81** |

Fig: Credit Concentration(b)

## 3.13 Approval process:

To ensure a fair and unbiased approval process, the segregation of the Relationship Management and the approval authority is necessary. The responsibility for preparing the Credit Application should rest with the RM within the corporate financial services division. Credit Applications should be recommended for approval by RM and Head of Corporate Financial Services/Head of business unit, which will be forwarded to the Credit Risk Management Division for approval. FI may wish to establish various thresholds, above which, the recommendation of the Head of Corporate Financial Services is required prior to onward recommendation to Chief Credit Officer for approval. In addition, FI may wish to establish regional credit centers within the approval team to handle routine approvals.

• Relationship Manager (RM) prepares the loan proposals and supports & forwards to Head of Corporate Financial Services (HOCFS) for onward recommendation.

• HOCFS places it to Credit Risk Management Division for their approval / recommendation through MCC

• Managing Director & CEO approves/recommends as per delegated authority by the board/EC

• Managing Director & CEO presents the proposal to Board/EC

• Board/EC advises the decision in exceptional circumstances when approval of an extension of Credit is required at short notice, the Managing Director may get approval of the proposal by circulation with recommendation of Credit Risk Management. Concern approver can approve waiver on any documentation deficiency at the time of disbursement, if required justified. However, Board may review the above delegated approval authority time to time based on business volume, product nature and Bangladesh Bank guidelines.

The approval of a transaction is valid for 90 days. There is also an appeal process if the applicant wishes. But there is no room for appeal process beyond the Managing Director.

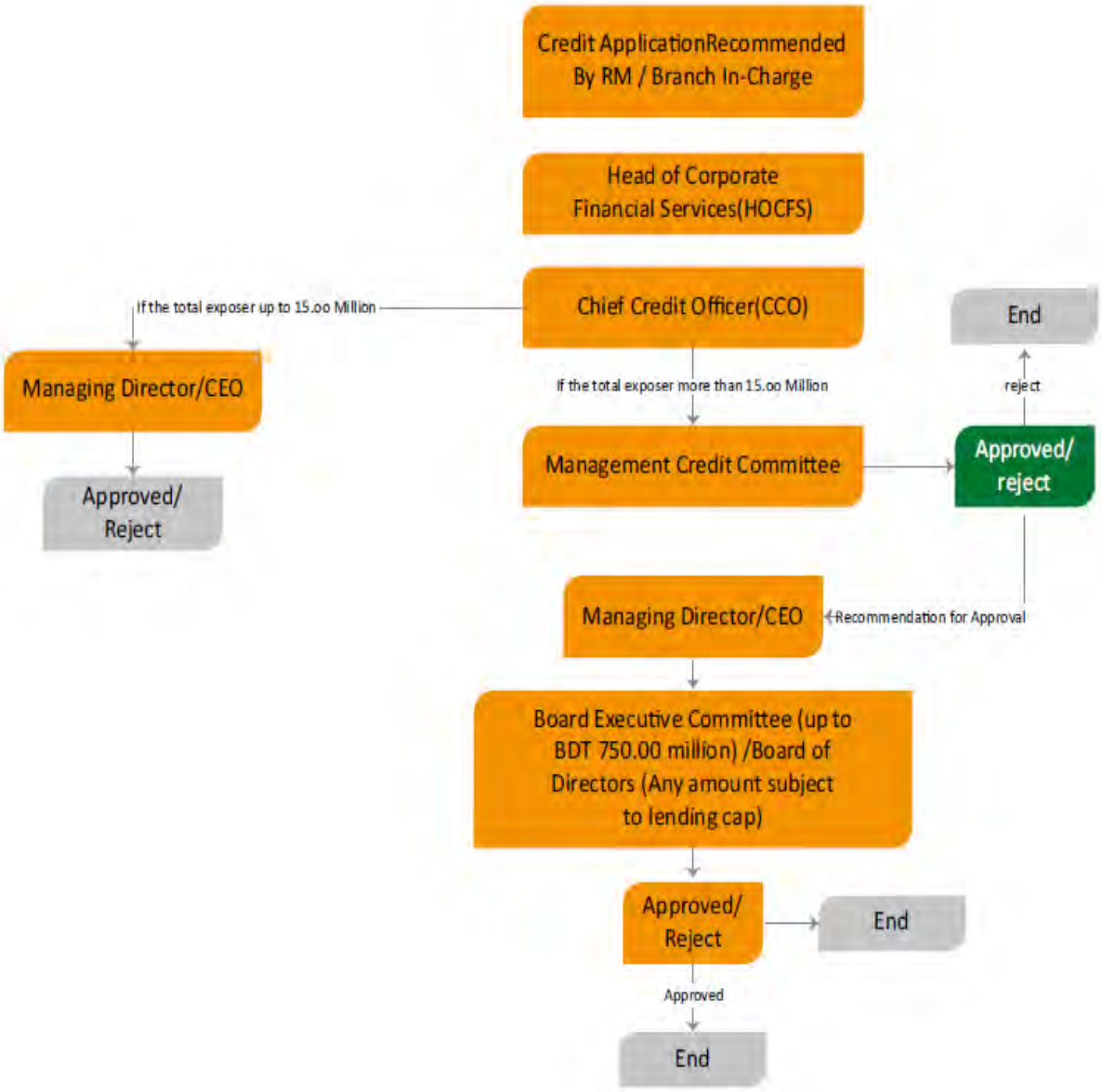


Fig: Approval Process Flow

## 3.14 Non Performing loan:

Non Performing Loan (NPL) is a debt obligation where the borrower has not paid previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The recovery strategies are formulated based on analysis carried out through the following three sub-functions:

i) Classification of loan portfolio

ii) Trend analysis of the overdue installments

iii) Processes of recovery

### i) Classification of Loan Portfolio:

Loans are classified into the following categories:

a) Regular accounts

b) One month's overdue accounts

c) Two months' overdue accounts

d) Three months' overdue accounts

e) Four months' overdue accounts

f) Five months' overdue accounts

g) Suspended accounts (Special Asset)

The classification is based on the age of the loan portfolio. The strategy of recovery is based on the age of overdue of the loan facility.

**ii) Trend Analysis of the Overdue Loans**

The data of the outstanding loan portfolio is analyzed in two respects, namely, Sector-wise Age Analysis and Client-wise Age Analysis. From each of these two reports a trend analysis is carried out. The details are given below. External data are utilized to do the analysis:

**Sector-wise Age analysis**

This report provides information on the sectoral default level of the loan portfolio. If the default happens to be random in nature for a particular sector, the client-wise age analysis is emphasized. If any sectoral default is evident the following further analysis is carried out.

**Industry Sales Analysis:**

This analysis is carried out by collecting data from the external sources to find the causes of the sectoral sales decline. The nature of the causes (temporary or permanent) is also analyzed.

**Industry Profitability Analysis:**

This analysis is carried out in order to find out the fluctuation of the profit margin of the sectors. The causes of the fluctuations are also analyzed to uncover the nature of the fluctuations (temporary or permanent).

**Industry liquidity Analysis:**

This analysis is carried out in the context of national economic activity, monetary condition to find out the immediate liquidity situation of the industry and be prepared to face the reality of the business.

**Industry Change Analysis:**

This analysis is carried out to find out changes in the industry in terms of technology, investment, development of substitute product, etc. The objectives of the sector-wise age analysis are following:

i) Take immediate action to realize the default outstanding by way of rescheduling, suspending or terminating the agreement.

ii) Provide investment advices to the client to help them recovering from turmoil.

iii) Adopt alternate strategies with respect to loan finance to the sector.

iv) Adopt new criteria for future reference in appraisal procedure.

**Client-wise Age Analysis**

This analysis is carried out to discover the clients' integrity and sincerity to pay the loan installments, their business profitability, and affectivity of their business strategy in the context of present business situation. The objective is to adopt correct strategy to recover the investment.

**iii) Recovery Processes:**

The various recovery actions in order of intensity is given below:

1. Phone Call/ SMS

2. Letter/ E-mail

3. Visit

4. Reminder

5. 2nd Reminder

6. Visit conducted by higher level employee/s

7. Letter to guarantor/s

8. Final letter for legal notice

9. Legal Notice

10. Report to Central Bank and to other agencies

11. Terminate the loan

12. Ask the guarantor of payment/ encashment of security

13. Litigation

The application of the mentioned options are contingent upon the age of the overdue installments, causes of the overdue, etc. Few of the application are as follows:

a) Immediately after overdue of one installment, telephonic communication/ SMS is initiated by monitoring officer. Upon failing to obtain positive result default letter is issued to the client after closure of the due month. If the letter does not bring in result an official visit is made by a collection officer to resolve the matter.
b) If two installments are overdue, the case is analyzed and necessary corrective action is taken by sending an overdue status and a claim letter; simultaneously telephone calls and/ or visits are made to give the continuous reminder.

c) If the above actions fail a second reminder is given to the client through letter along with telephonic conversation.

d) If consecutively three installments are overdue the client is taken as problem case. In this case a higher level management meeting is conducted, to take corrective action with respect to rescheduling, early realization, etc.

e) If the above measures fail a letter showing the details of overdue and a list of already taken corrective actions is sent to the client with C.C. to the guarantor and security provider.

f) After six monthly installments overdue, or the account is overdue for six months, the case is taken as suspended case and legal notice, reporting to central bank, termination of loan, security encashment, final provisioning, litigation etc. are carried out.

## 3.15 Compliance with Bangladesh Bank Regulations:

- LankaBangla has established an independent Credit Risk Management Division which is separate from business and operations divisions.
- Risk Management Forum (RMF) and Risk Analysis Unit (RAU) has been established in LankaBangla during 2013 in compliance with the Bangladesh Bank's DFIM Circular No. 01 of 07 April, 2013.
- Risk Management structure with board and senior management.
- Lending guidelines that are updated annually known as PPG.
- Diversified risk concentration areas.
- Single borrower limit of 35% of funded and non-funded facilities is ensured.
- Proper credit risk grading is ensured and each risk criteria is addressed properly.
- Risk measurement, monitoring and management information systems are in place for sound credit assessment and early warnings help the analysts in making decisions.
- Green banking
- A sound Risk Appetite Framework
- Risk Management Unit
- Quarterly, Half yearly and Annual Reports are generated and submitted to the board.
- No provision of loans for defaulters

## 3.16 Financial Performance:

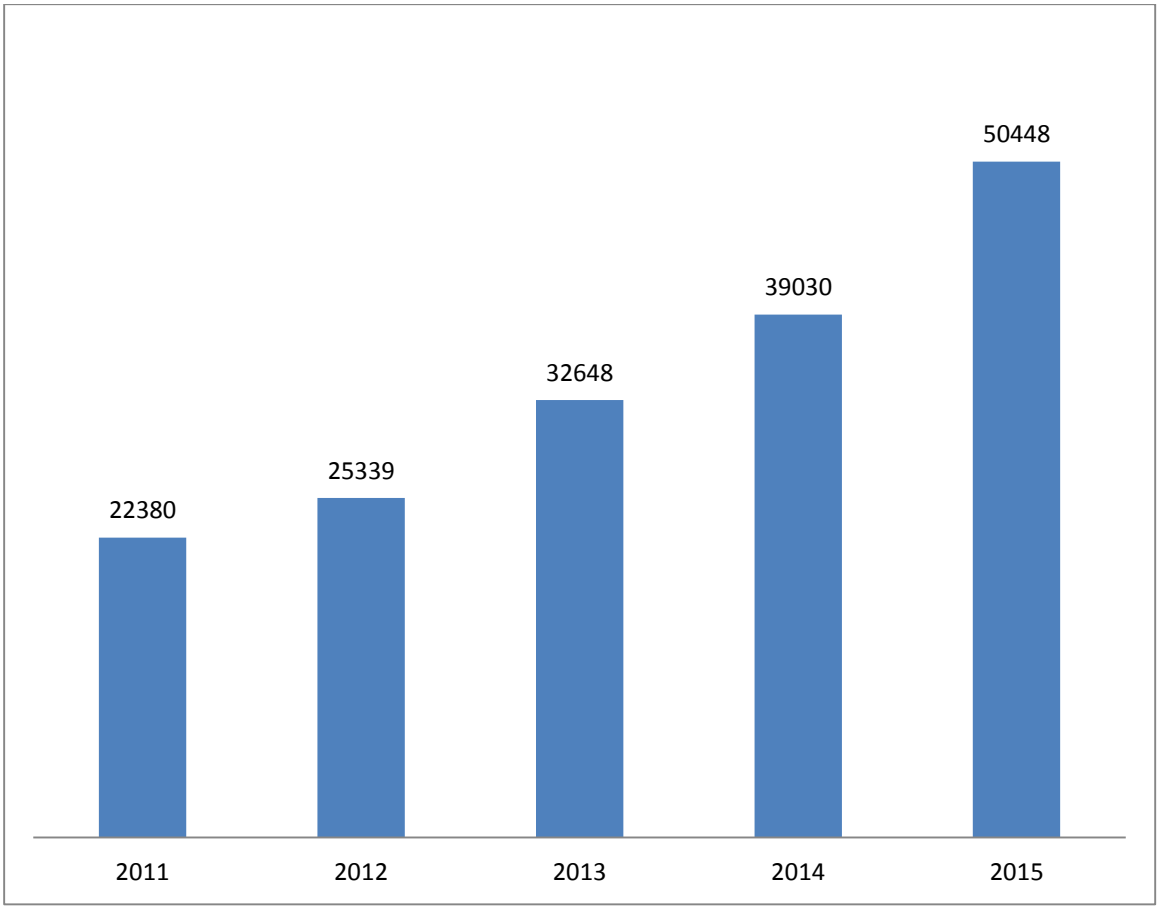


Fig: Total Assets

In 2015 Total Group Assets grows by 29% maintaining a continuous average growth of 23% over the last 5 years.

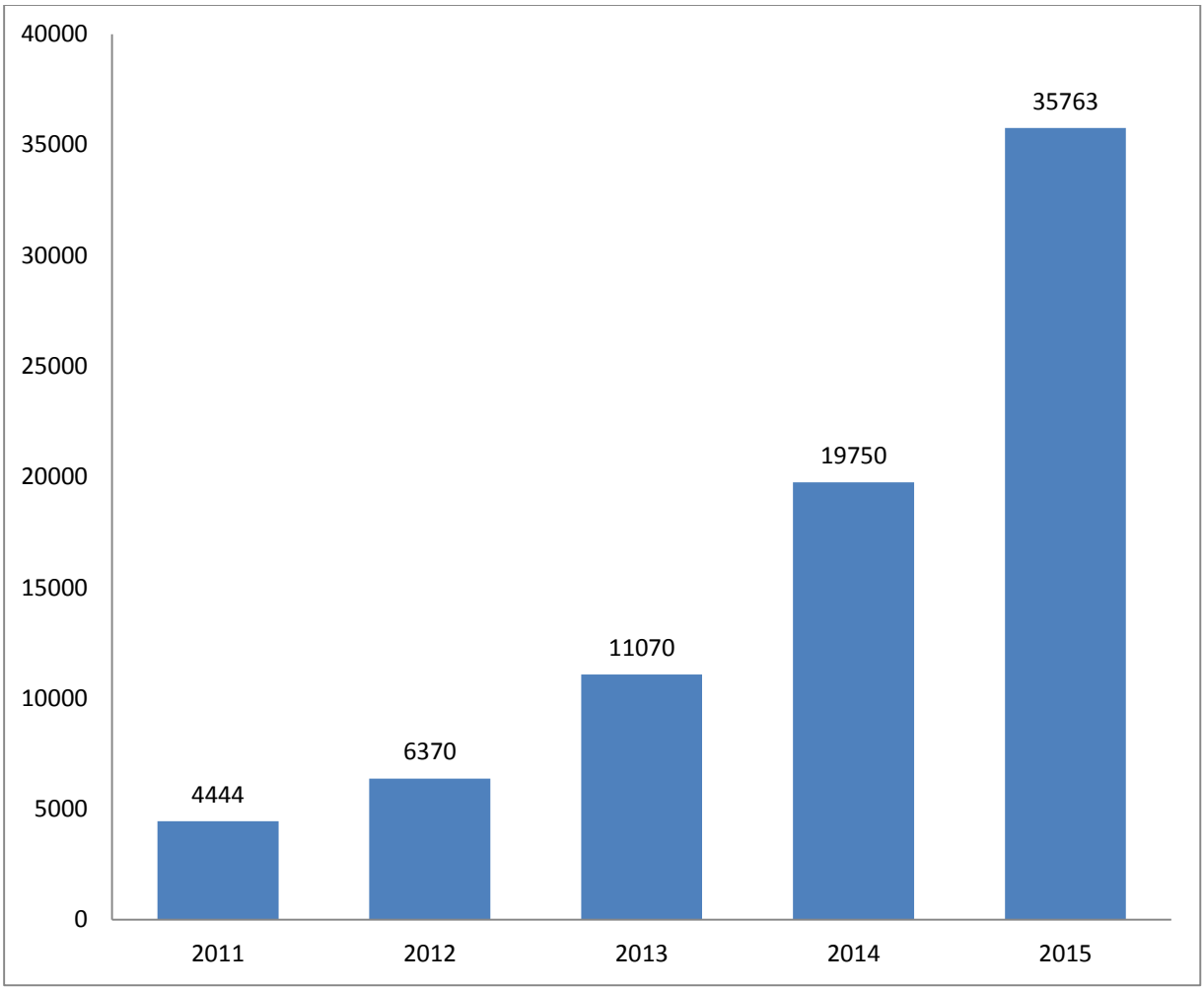


Fig: Business disbursement

81% of growth is achieved in 2015

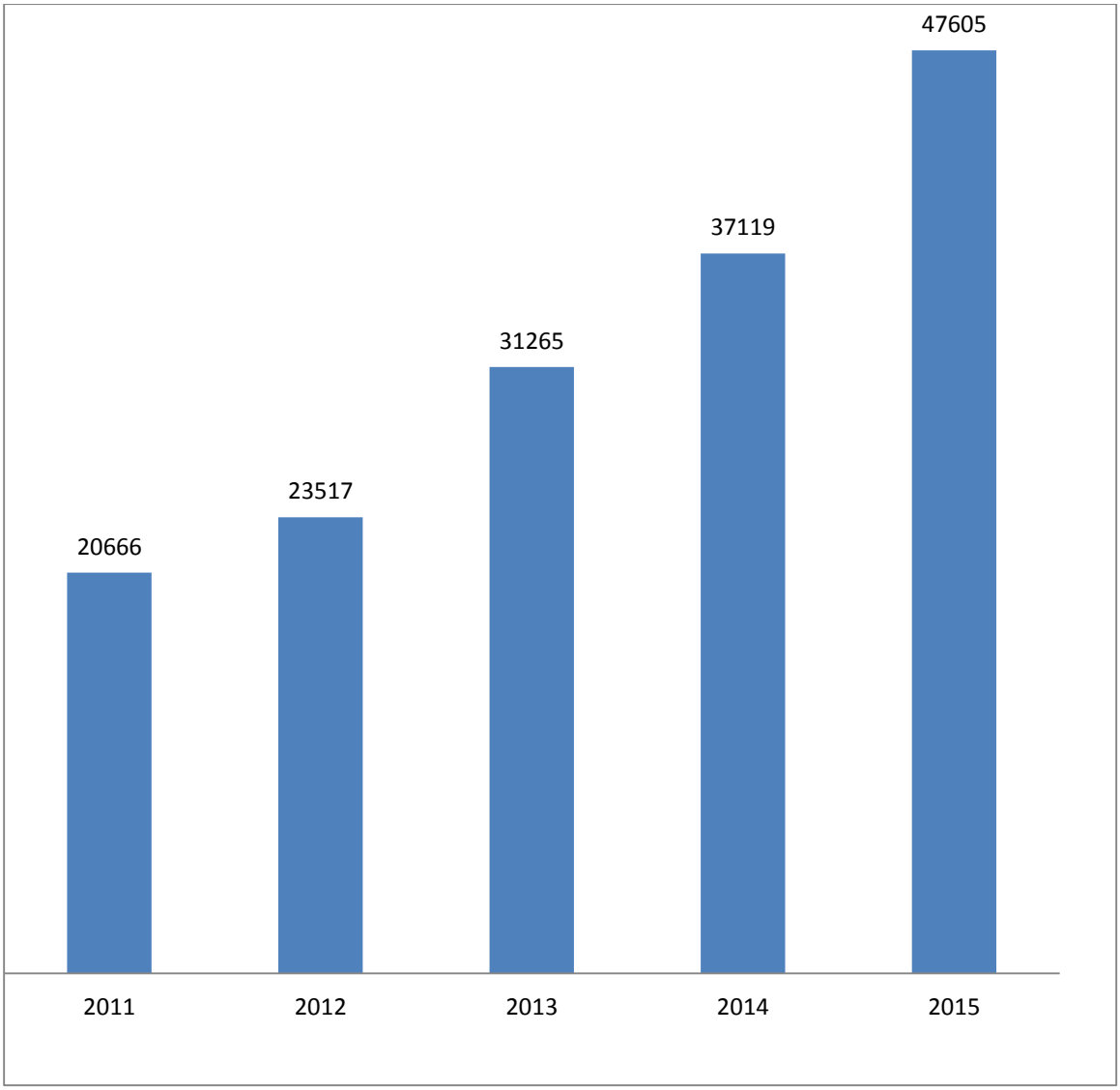


Fig: Total Investment Portfolio

Total Investment portfolio grows by 28% in 2015 from that of 2014 registering a continuous average growth of 23% in last 5 years.

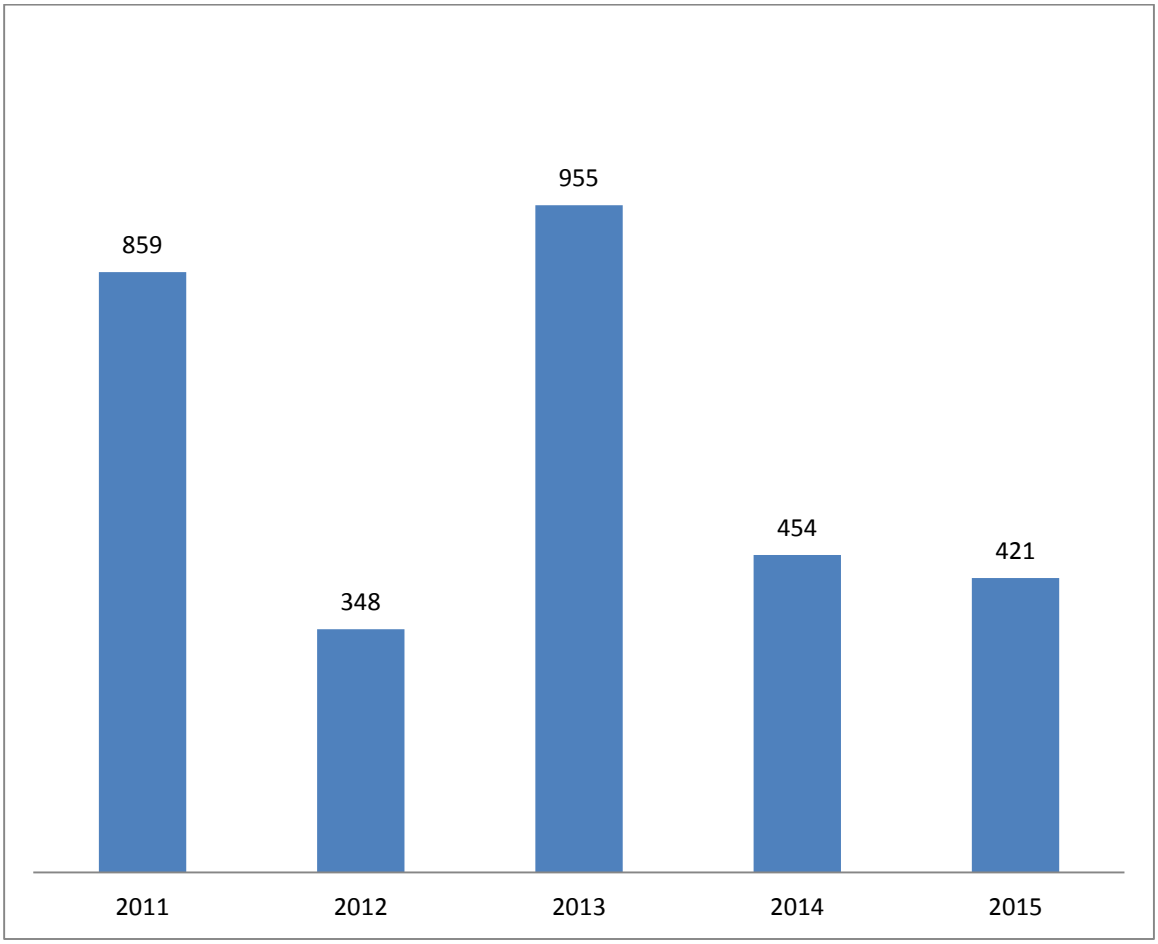


Fig: Net Profit after tax

NPAT slightly reduced in 2015 in comparison to 2014 despite of increase in Operating revenue for the negative equity adjustments of subsidiaries.

## Competition with other NBFI:

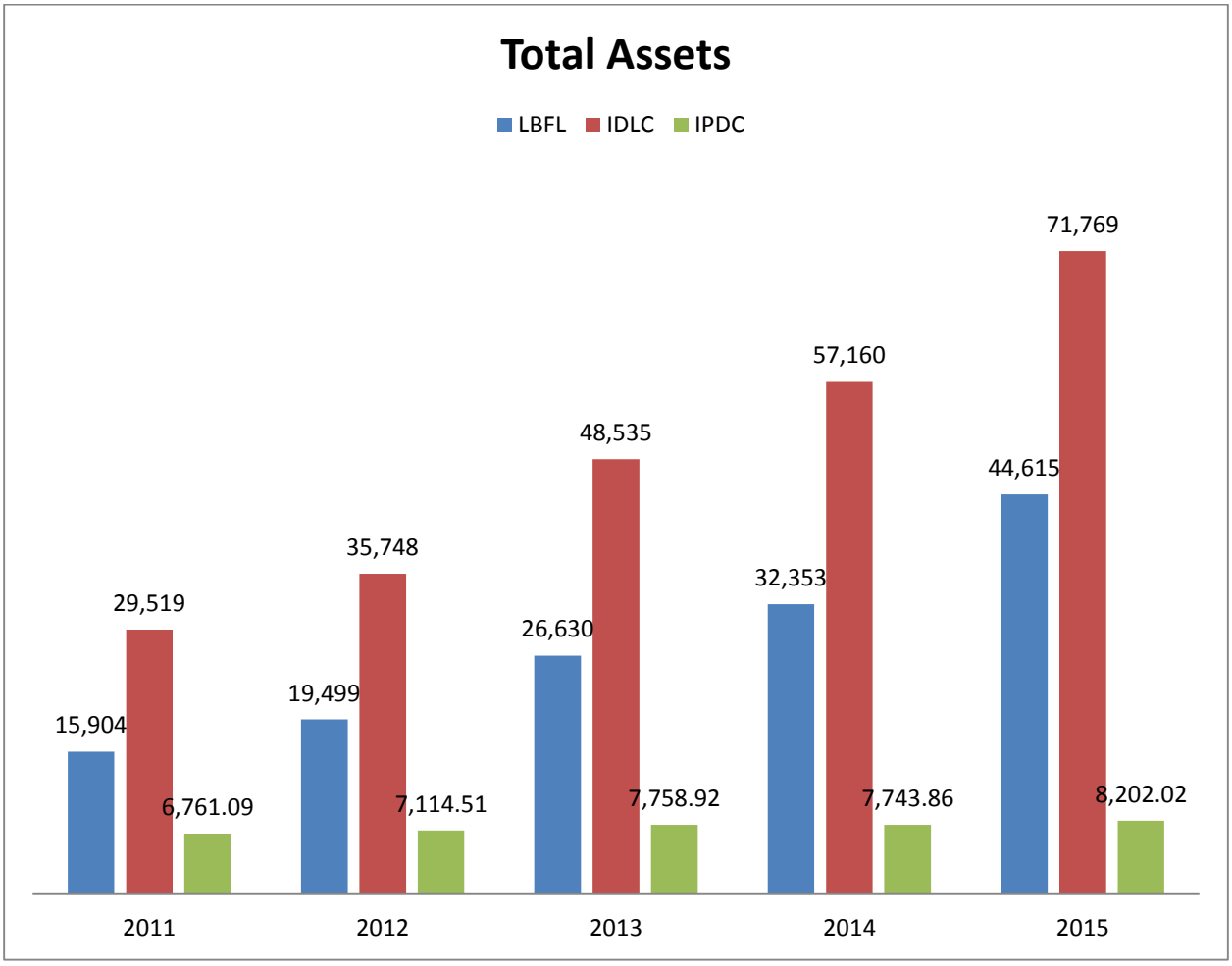


Fig: Total Assets

IDLC's total assets is higher than LBFL and IPDC. IDLC and LBFL's total assets have been increasing over the last 5 years. IPDC's assets had decreased in 2014 but they increased again in 2015. LBFL and IDLC's finance division figures have been shown here.

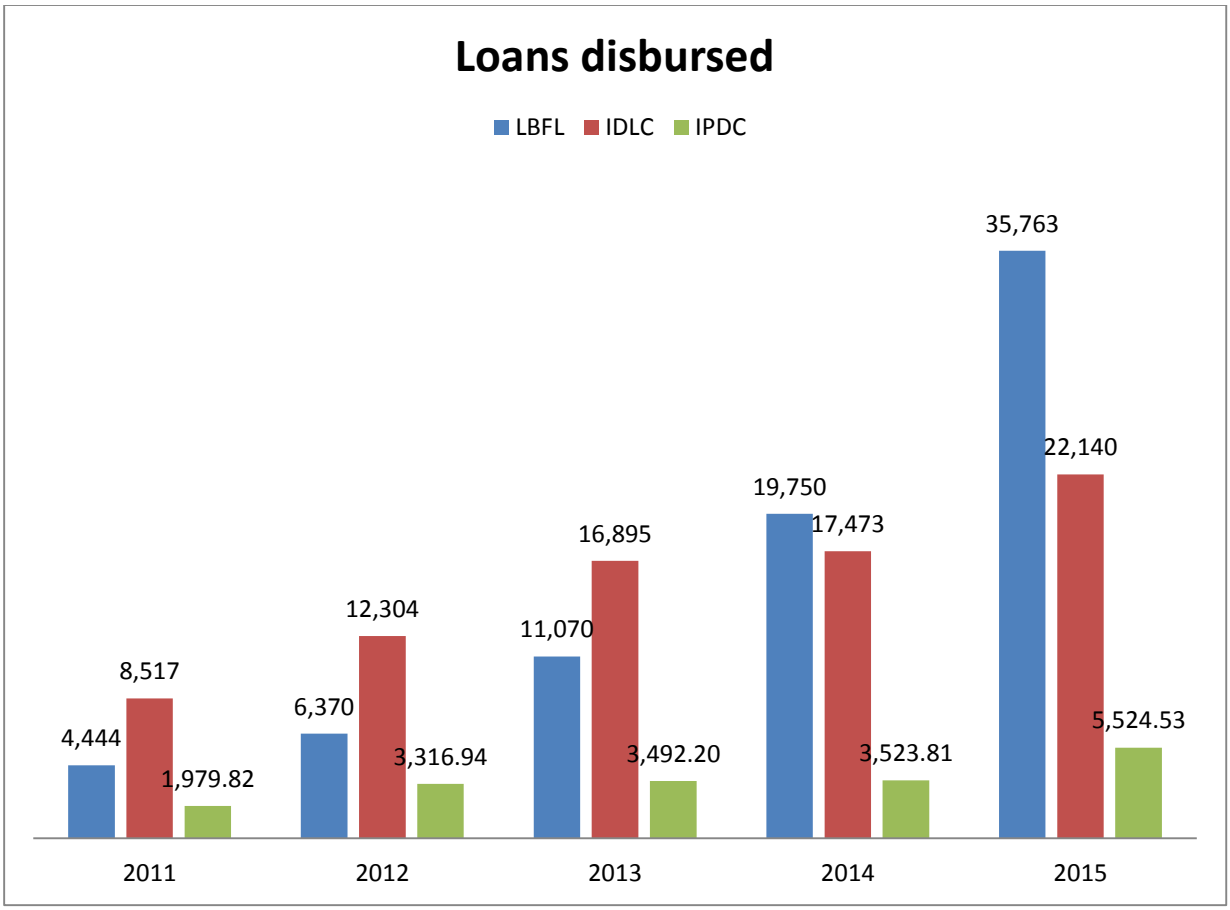


Fig: Loan Disbursement

All 3 companies have steady growth rates over the last 5 years. However, LBFL has better growth than IDLC and IPDC in the last 2 years.

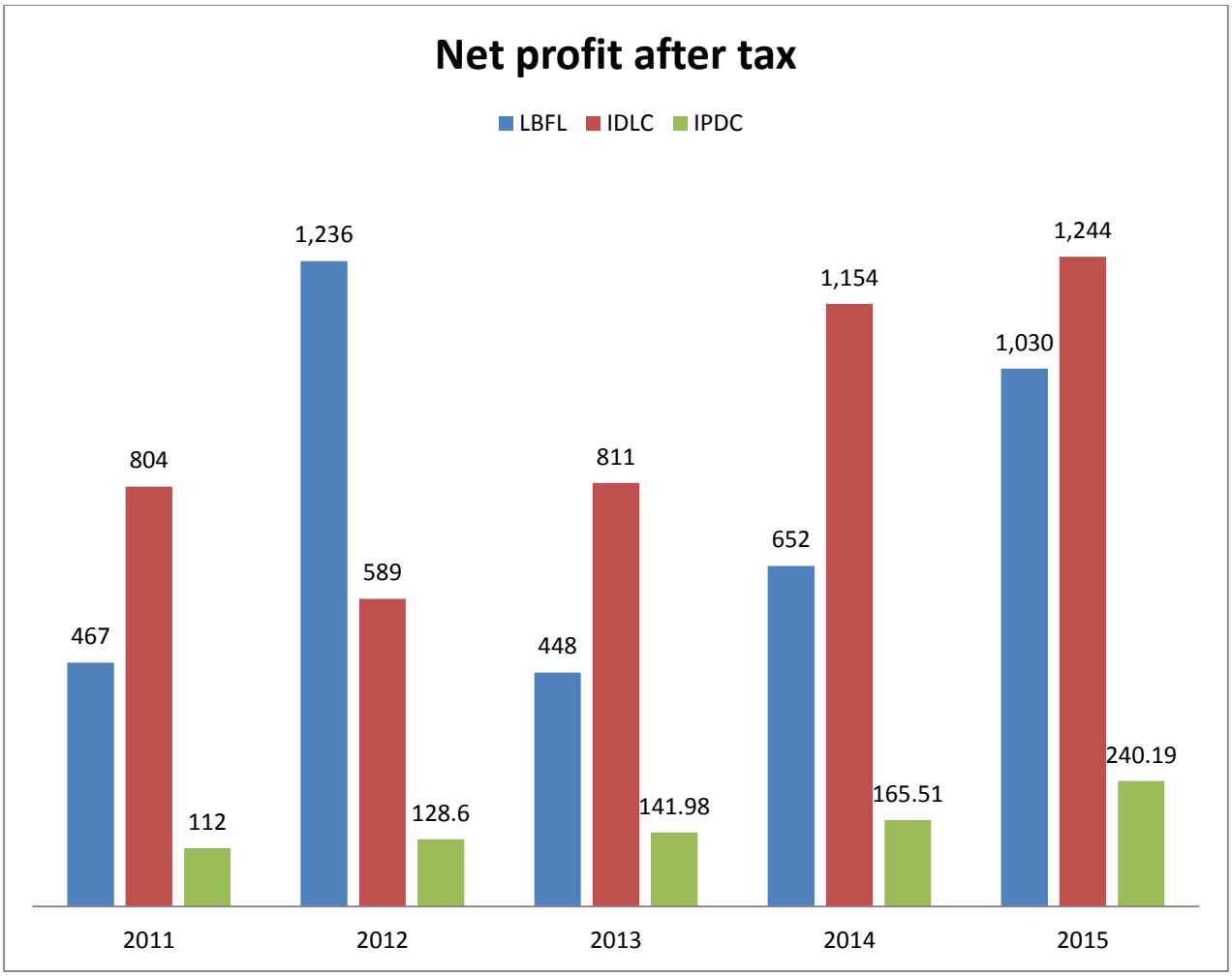


Fig: Net profit after tax

LBFL and IDLC's NPAT have been fluctuating over the last 5 years. But IPDC has shown a steady growth rate.

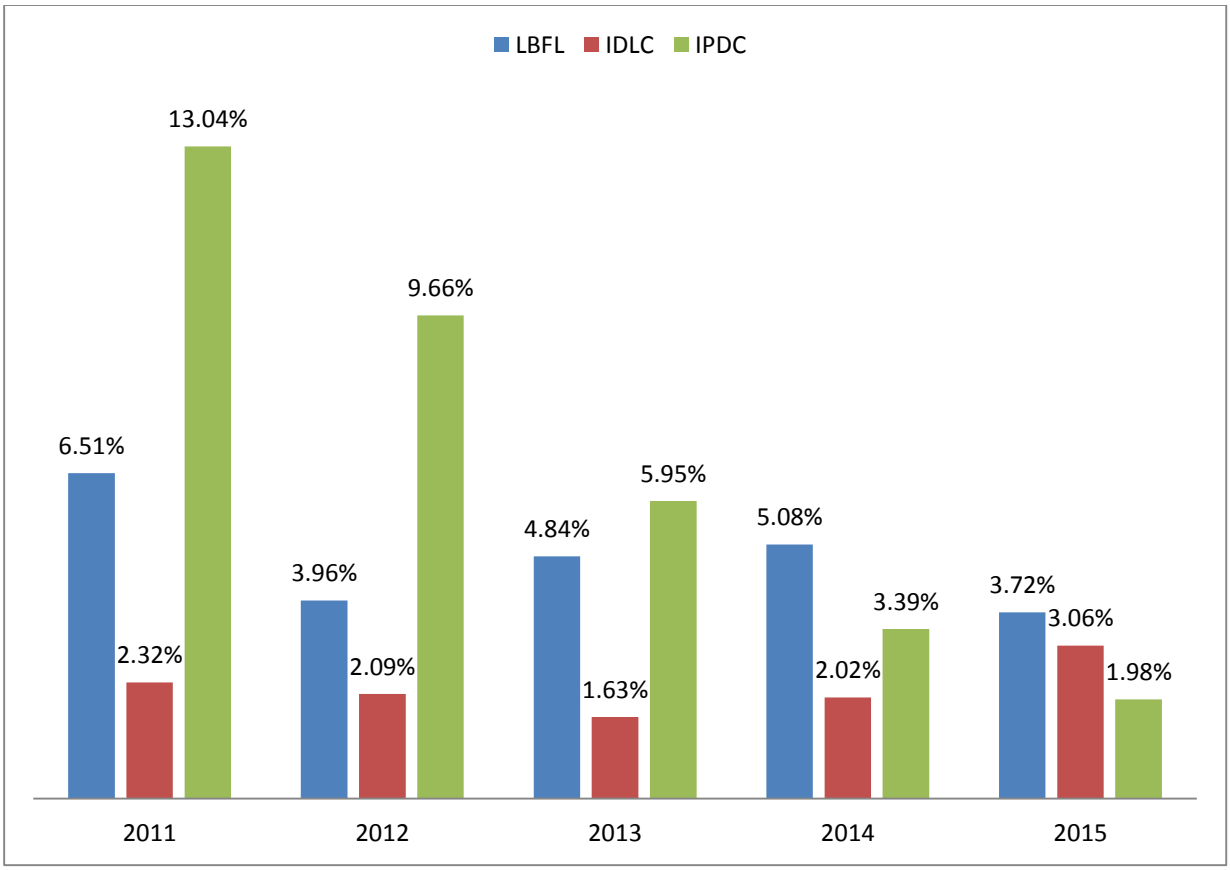


Fig: NPL ratio

IPDC's ratio has significantly dropped since 2011. LBFL and IDLC's ratio has fluctuated over the last 5 years.

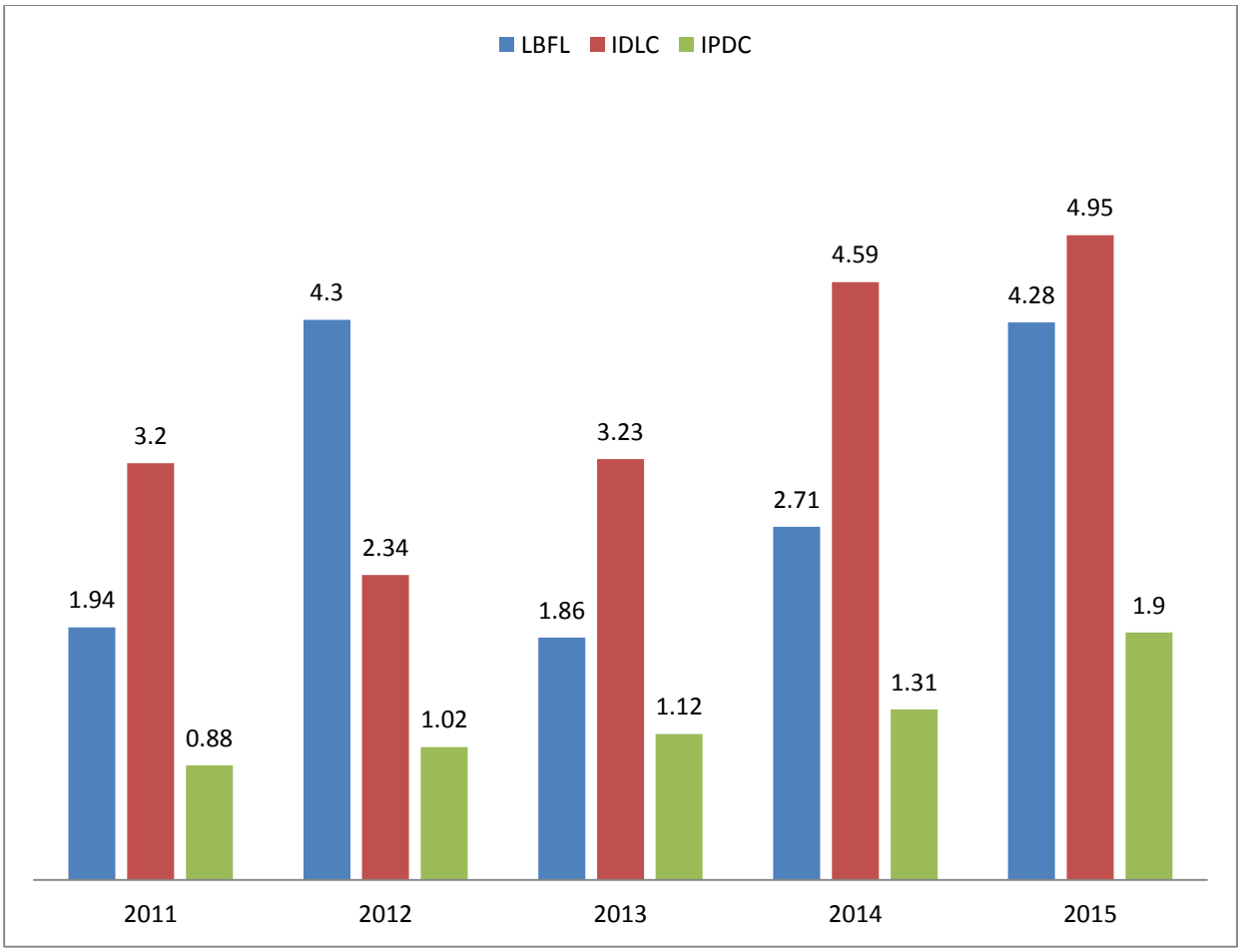


Fig: Earnings per share

LBFL and IDLC's EPS has fluctuated in the last 5 years but IDLC's has steadily increased. Currently, IDLC has the top position.

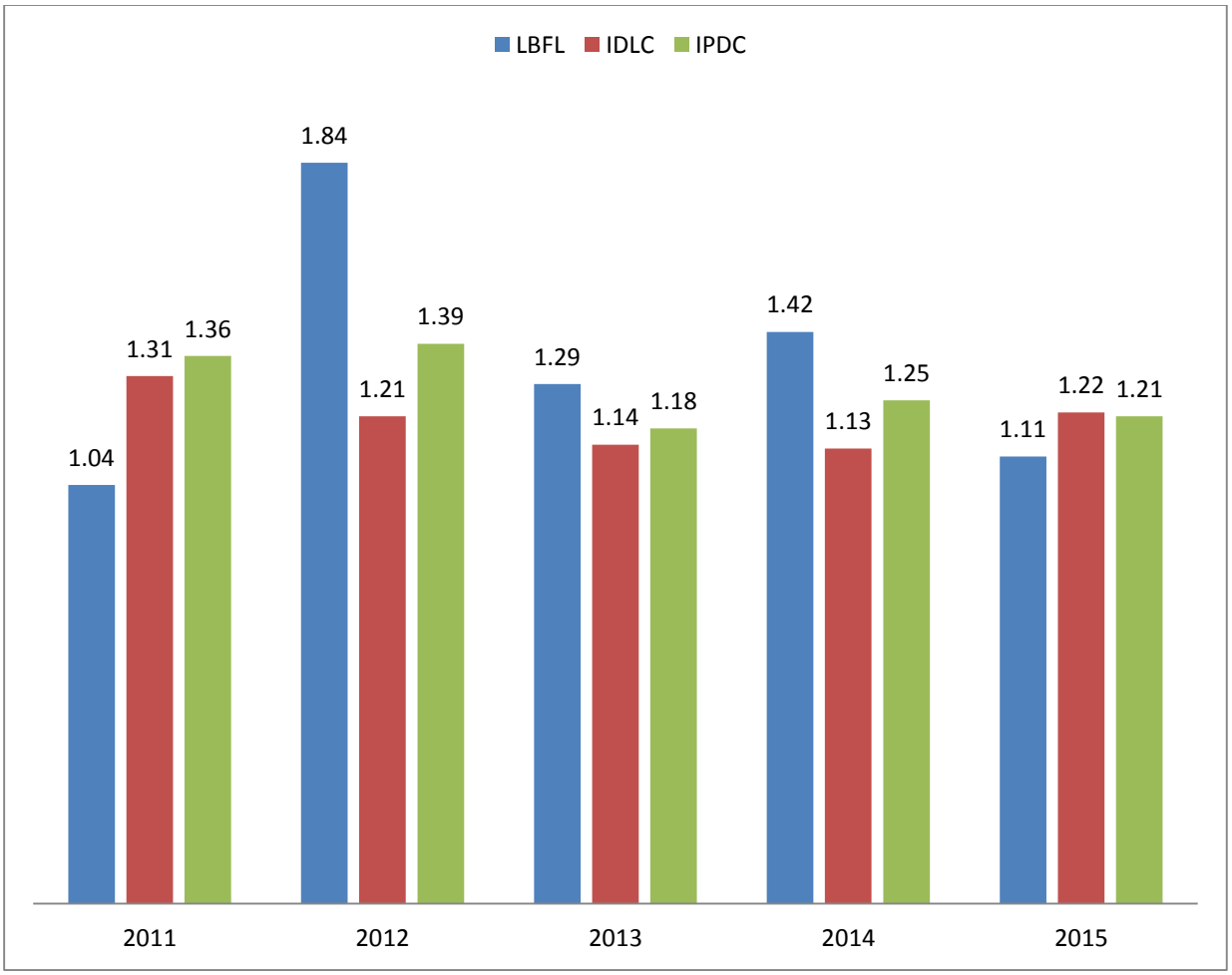


Fig: Current Ratio

All companies had fluctuating performance over the last 5 years.

## 3.17 Findings:

- LBFL follows the rules and regulations of Bangladesh Bank correctly.
- Their loan disbursement procedure is quicker. However, their assessment quality doesn't decrease due to that.
- The RM's can't persuade the analysts by unfair means.
- The flow of credit cards is very low at the beginning of the month, so there is too much pressure by the end of the month.
- Sometimes query files take a lot of time to be processed.
- Centralization of CRM is causing the process time to be longer because files outside of Dhaka are also processed here and constant communication with other RM's take more time.
- Documents availability and documents eligibility problem while filing.
- Partial query meet
- IDLC has advantage in the market over LBFL in some key areas.
- The recent credit card campaign was a big success.
- The interest rate of home loan of LBFL is higher than IDLC
- Lack of manpower
- At the end of the month, the number of files is huge so analysts have to work overtime.

## 3.18 Recommendations:

- Steady supply of files throughout the whole month needs to be ensured.
- Decentralization of CRM is necessary. Every branch should have separate analysts to process the files. This will help to reduce the Turnaound Time.
- Automated approval to reduce file & paper cost for SME
- Hire more analysts
- Although the credit card campaign was a success, it still isn't enough to put LBFL in line with the existing competitors. The number of customers needs to rise in the future.
- More marketing and campaigning is needed for other products.
- CRM and SME unit should be separated.
- File organization should be better. Sometimes it takes time to find a file in the pile.
- CPV reports should be submitted after they have met all the necessary documents and criteria. Otherwise, the file would be sent back with a query and it would take more time.

- RM's need to ensure that updated documents such as utility bill, salary certificate etc. are up to date because it was found that some of them were more than 1 year old and couldn't be verified on the website of DPDC, DESCO etc.
- At least 2 MIS officers should be in charge of receiving, sending files and make entries into the CMS. This way, the process would remain unaffected if one of them is absent.

## 3.19 Conclusion:

The Credit Risk Management department of LankaBangla Finance is a well structured department. They have achieved this by segregating the approval authority from the business unit. They have also ensured that the responsibility of sanctioning the loan not only lies with the higher authority, but also with the analyst who recommends the loan for approval. The current situation of LBFL is satisfactory. It is also performing well in the credit department by trying to decrease the nonperforming loans by ensuring a sound and efficient credit risk management. But in the age of competition if the company does not provide extra ordinary that means superior services then it will be difficult to continue this trend because everybody wants to maintain quality. Their main focus should be to address the areas they are lacking behind against IDLC. Also, the campaigning and marketing of the products should be done more frequently to ensure a growing customer base.

During the course of my practical orientation I have tried to learn the activities to realize it with my theoretical knowledge, which I have gathered and acquired from various courses of my MBA program.

## 4.1 Appendix:

Questionnaires:

1) How long does it take for the whole process to be complete?
    - 1month

- 2to 3 months
- 4 to 6 months
- 12 months
- More than 12 months

2) Is the loan process different in government banks than in NBFI's?
Agree_____ Disagree_____

3) How often is an industry visited?
- Every month
- Every 3 months
- Every 6 months

4) What are the steps taken if a customer defaults?

| Most important | Important | Normal | Unimportant | Least Important |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| | | | | |

5) Using this scale please rate the type of problems face during recovery.
Political Pressure_____
Customer delinquency_____
Poor performance_____
Inefficiency of the recovery team_____

6) Using this scale please rate how LBFL rates its clients.
Textile_____
Agriculture_____
Women Entrepreneurs_____
Group of industries_____
Thrust sector like cement, pharmaceuticals, IT_____
Others_____

7) Please rate how you believe that LBFL will prosper in terms of loan disbursement.

Optimistic_____ _____ _____ _____ _____ Pessimistic

8) What are the main documents that are asked from a credit applicant?
9) How is the credit committee formed?
10) How are the loans monitored?

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