

Project Report

On

AN ANALYSIS OF CREDIT ACTIVITIES & PERFORMANCE OF JANATA BANK LIMITED: A STUDY ON KONABARI BRANCH, GAZIPUR

SUBMITTED TO:

Department of Business Administration

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PROJECT REPORT

ON

AN ANALYSIS OF CREDIT ACTIVITIES & PERFORMANCE OF JANATA BANK LIMITED: A STUDY ON KONABARI BRANCH, GAZIPUR

SUPERVISED BY:

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Submitted for the partial fulfillment of the degree of Masters of Business Administration

Date of Submission: September 5th, 2022

LETTER OF TRANSMITTAL

Date: September 5th, 2022

To

Professor AbulKalam

Dean, Faculty of Business

Sonargaon University (SU)

Dhaka-1215

Subject: Submission of the Project Report.

Dear Sir,

With due respect and great pleasure I submit my Project report on **"An Analysis of Credit Activities & Performance of Janata Bank Limited: A study on konabari Branch"**andfor your kind consideration. This job is assigned to me to fulfill the partial requirement of MBA degree. It has been a great pleasure for me to have the opportunity to apply my academic knowledge in practical field. The report has been prepared on the basis of the theoretical and practical learning from Janata Bank Limited (JBL), Konabari Branch, Gazipur.

I have tried my best to put careful effort for the preparation of this report. I shall wholeheartedly welcome any clarification and suggestion about any view and conception disseminated in this report.

Sincerely Yours

_____

IkramHossain

ID: MBA2103024011

Department of Business Administration

Sonargaon University (SU)

CERTIFICATE OF SUPERVISOR

This is to certify that the Project report **"An Analysis of Credit Activities & Performance of Janata Bank Limited"**, a study on Konabari Branch for the degree Masters of Business Administration (MBA) from Department of Business Administration, Sonargaon University (SU) is carried out by **IkramHossain,** ID: MBA2103024011**,** Program: MBA (Major: Finance)under my supervision.

To the best of my knowledge and as per his declaration the report is an authentic work on the issue and no part of this report has been submitted for any degree, diploma, title, or recognition before.

I wish every success in his life.

……

Professor AbulKalam
Dean, Faculty of Business
Sonargaon University (SU)
Dhaka-1215

STUDENT DECLARATION

I **IkramHossain, ID: MBA2103024011, Program: MBA (Major: Finance), Department of Business Administration , Sonargaon University (SU)**am hereby to declare that the Project report titled"**An Analysis of Credit Activities & Performance of Janata Bank Limited** "submitted in partial fulfillment of the requirement for the awards of the degreeMasters of Business Administration (MBA)is my original work and has not been submitted before for the awards of any other degree/ fellowship/ recognition and/or the like. To the best of knowledge I didn't breach any copyright act intentionally.

……

IkramHossain

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Program: MBA (Major: Finance)

Department of Business Administration

Sonargaon University (SU)

Acknowledgement

First of all, I want to express my special gratitude to Almighty Allah for giving me the strength to complete the report within the stipulated time. I also express my deep gratitude to my parents who support me all the time.

I would like to express my gratitude to the authority of national university and to our honorable Academic Supervisor, **Professor AbulKalam,** Dean, Faculty of Business**,** Sonargaon University (SU)**,** Dhaka-1215 for his continues guidance, individual suggestion, continues encouragement and unfailing enthusiasm throughout the process of completion of this report.

I am also thankful to HR Division of Janata Bank Limited for giving me the opportunity to conduct the Project in Corporate Branch of Janata Bank Limietd.

Finally, I would like to thank everyone at Janata Bank Limited, who provided me with ideas and invaluable experience of the corporate culture.

EXECUTIVE SUMMARY

Janata Bank Limited welcomes all to explore the world of progressive banking in Bangladesh. It is a state owned commercial bank and it was born with a new concept of purposeful banking sub-serving the growing and diversified financial needs of planned economic development of the country.

As the part of my Project requirements I had chance to drill with various banking services. This report entitled "An Evaluation of Credit Activities & Performance of Janata Bank Limited" emphasizes on JBL's credit activities elaborately. Apart from this it will also give an overall credit performance of JBL in comparison with that of Pubali Bank Limited (PBL) over the last five years.

This report shows the contribution of Janata Bank Ltd. in providing loan to the entrepreneurs & financing business activities. After analyzing the data of Janata Bank Limited it is found that JBL's performance, in financing, is satisfactory, since its amount of loans & advances is increasing each year to meet the increasing need of the borrower. Janata Bank Ltd. has a significant role in long term project financing in both agriculture and industrial sectors. Again Janata Bank Ltd has a deep concern for rural farmers. Private sector usually concentrates in the urban areas where as public sector i.e. Janata Bank Ltd spread their banking network all over the world.

The recovery performance of Janata Bank Ltd is not in a satisfactory level at all and the position of those in that respect deteriorated heavily during last two phases. The recovery performance in agriculture is worse than in other sectors. On the other hand, as private sector banks distribute more loans on short term basis and relatively better than public sector. But if we compare it from the efficiency point, then it is clear that they are not still efficient in credit management as they are unable to recover half of their distributed loan in different sectors.

List of Acronyms

ACCPT	: Acceptable
BACH	: Bangladesh-Bank Automated Clearing House
BB	: Bangladesh Bank
BDT	: Bangladeshi Taka
BL	: Bad & Loss
CDR	: Credit-Deposit Ratio
CRG	: Credit Risk Grading
GD	: Good
ICC	: Internal Control & Compliance
JBL	: Janata Bank Limited
KYC	: know Your Customer
IDR	: Investment-Deposit Ratio
MG	: Marginal
MICR	: Magnetic In Character Reader
NIM	: Net Interest Margin
NPI	: Non Performing Investment
PBL	: Pubali Bank Limited
PLS	: Profit/ Loss Sharing
RMD	: Risk Management Department
SMA	: Special Mention Account
SS	: Sub-Standard
TP	: Transaction Profile
UC	: Unclassified Loan

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CHAPTER ONE:

INTRODUCTION

1.1 Introduction

The Jews in Jerusalem introduced a kind of banking in the form of money lending before the birth of Christ. The word 'bank' was probably derived from the word 'bench' as during ancient time Jews used to do money -lending business sitting on long benches. First modern banking was introduced in 1668 in Stockholm as 'SvingssPis Bank' which opened up a new era of banking activities throughout the European Mainland. In the South Asian region, early banking system was introduced by the Afghan traders popularly known as Kabuliwallas. Muslim businessmen from Kabul, Afghanistan came to India and started money lending business in exchange of interest sometime in 1312 A.D. They were known as 'Kabuliwallas'.

The territories which now constitute Bangladesh were integral part of Mughal Empire and thereafter British-India and then Pakistan. Hence we have the common historical background of banking and banking institutions as that of Pakistan and India. For the beginning of banking in the territory now comprised Bangladesh, we must go back to the Calcutta Agency Houses. These trading firms started their banking operations for the welfare of their constituents. The important among those Houses were Messers. Alexander & CO. Messers. Fargusson & Co. both the firms started the business of banking with other business, and both were the predecessors of the early joint stock Banks in the then India. The Bank of Hindustan was the earliest bank started under the direction of the British rule in British-India.

After the partition of British-India into Pakistan and India, the territories now form Bangladesh became integral part of Pakistan and was called East Pakistan. Immediately after partition, as aforesaid, in 1987, an Expert Committee was appointed to study the issue of banking in the then Pakistan. On the recommendation of the Expert Committee the Reserve Bank of India continued its function in Pakistan up to 30thSeptember, 1948 and thereafter the State Bank of Pakistan, having been established on the 1stJuly, 1948 started functioning and assumed full control of banking and currency

Banking sector of Bangladesh is one of the major sectors, which contributes significantly to the national economy. The sector comprises a number of banks in various categories.

1.2 Origin of the project

The Project is very helpful to bridge the gap between the theoretical knowledge and real life experience as the part of the MBA program. This report has been designed to have a practical experience through the theoretical understanding. For the completion of the report I have been placed in Janata Bank Limited, Konabari Branch, Gazipur. I decided to work on the credit management practices of the bank. The report focuses on "An Analysis of Credit Activities & Performance of Janata Bank Limited"

I prepared this report under the supervision of my honorable supervisor **Professor Abul Kalam,** Dean, Faculty of Business**,** Sonargaon University (SU)**,** Dhaka-1215. I have always tried my best to reflect my experience of the practical incidence in this report.

1.3 Objectives of the Study

1.3.1 Broad Objectives

The main objective is to fulfill the requirement of BBA. Program andto analyze the Credit Management system and performances of Janata Bank Limited.

1.3.2 Specific Objectives

- To present an overview of Janata Bank Limited.
- To measure the effectiveness of the bank in the utilization of available resources.
- To assess the credit structure of the Janata Bank Limited in practice.
- To find out the internal system & actual Loan and advances process of JBL
- To identify the recovery performance of Janata Bank. Limited.
- To point out the problems in fund utilization and recovery thereon.
- To compare the credit performance of Janata Bank. Limited with other bank
- To analyze the Credit performance of JBL by using some statistical measures
- To point out the major findings of the report & provide some valuable recommendations based on them.

1.4 Significance of the Study

Bank is a financial institution, which accepts money from its customers as deposit and gives money as loan to the borrowers. A bank is financial intermediary a dealer in loans and debts. After completing my Masters of Business Administration (MBA) as a student of "Sonargaon University (SU), I wanted to complete my Project program from a reputed Bank which would be helpful for my future professional career. I got the opportunity to perform my Project in the Janata Bank Limited. I was sent to Konabari Branch. It was few months theoretical orientation program.

The prime reason of this study is to become familiar with the practical business world and to attain practical knowledge about the Banking and Corporate world, which is essential for each and every student to meet the extreme growing challenges in job market. It is also known to all of us that there is no alternative of practical knowledge and the practical knowledge is much more durable and useful than the theoretical knowledge. This study will help us to get a true picture of the practical business world, particularly of banking business and also to attain practical knowledge on the various spheres of banking business. So, this study is of paramount importance for each and every student regardless of his/her study area or discipline.

1.5 Methodology of the Study:

For carrying out this report I had to study actual banking operations of JBL. In order to prepare this report I have collected the necessary data and information from various sources and used different statistical method to analyze those.

1.5.1 Sample Selection:

For secondary data I have select 5 years' (2017-21) annual reports of both banks as sample.

1.5.2 Data Collection Method:

Primary Data Sources:

Primary data are root level data and collected without correction. These data have been collected by:

- Practical work experience at different desk of the Bank
- Face to face conversation with the officers of JBL
- Sharing practical knowledge of officials
- Relevant file study provided by the officers concerned

- In-depth study of selected cases
- By observing various organizational procedures, structures
- Face to face conversation with clients

Secondary Data Sources:

Secondary data have been collected from the following sources:

- Annual report of JBL (2017-2021) and PBL (2017-2021)
- Website of JBL and PBL
- Files & Folders
- Memos & Circulars
- Daily diary (containing my activities of practical orientation in IBBL maintained by me),
- Various brochures
- Different Books and periodicals related to the banking sector.
- Journals and Articles
- Newspapers

1.5.3 Data Analysis & Presentation Method

In order to obtain the objectives of the study, statistical tools like average, standard deviation, co-efficient of variance, correlation have been used to analyze and interpretation of the data and statistical graphs, tables and charts have been used for data presentation.

1.6 Scope of the Study:

The scope of this paper is limited to the organizational structure, background, and objectives, functions, and credit performance of Janata Bank as a whole. In this study I would try to concentrate on the theoretical aspect of credit management, that is, the definition of credit management, policy of credit management, tools for managing credit etc. I would analyze the data on the bank and various programs for loan recovery, problems in loan in loan recovery, pattern of loan recovery and the performance of the bank under study in loan recovery, the information in respect to the classification of unsound credit and provision thereon and also concentrates on the performance of the bank. And finally I would conclude with the critical

evaluation of the credit management with a conventional private commercial bank like Pubali Bank Limited.

1.7 Limitation of the Study

I have faced the following barriers while preparing the report:

Lack of Time:

The time period of the study was very short. I had only 8 weeks on hand to complete this report, which was not enough. So I could not go in depth of the study. Most of the officials were busy and were not able give much time.

Insufficient data:

Some necessary information could not be collected due to confidentiality of the business.

Other limitation

As I am a new comer, there is a lack of previous experience in this concern. And many practical matters have been written from my own observation that may vary person to person.

CHAPTER TWO:
JBL at A Glance

Introduction

Generally by the word “Bank” we can easily understand that the financial institution deals with money. But there are different types of banks such as: Central Bank, Commercial Banks, Savings Banks, Investment Banks, Industrial Banks, and Co-operative Banks etc. But when we use the term “Bank” without any prefix or qualification, it refers to the ‘Commercial Banks’. Janata Bank Limited is a one kind of commercial bank in our country. It is head office in Dhaka; the bank started its operations within an initial authorized capital of TK 50 million and paid up capital of TK 10.5 million. Now it has an authorized capital of Tk. 20000 million, paid up capital of Tk. 19140.00 million, reserve of Tk.17976.20 million. The Bank has a total asset of Tk. 586082.98 million as on 31stDecember 2020.Janata Bank has a large participation in foreign exchange business in overseas remittance. Janata Bank Limited has been awarded 2020 Performance Excellence Award by Citi Bank N.A. and Asian Banking and Finance Wholesales 2020 and Retail Banking 2020.

History

Janata Bank Limited is established under the Bangladesh Banks order 1972; it is the 2ndlargest state owned commercial bank in Bangladesh immediately after the liberation. It incorporated as a Public Limited Company on 21, May 2012 vide certificate of incorporation No-C66933 (4425) 07 in the early era of privatization. The bank has taken over the business of Janata Bank at a purchase consideration of TK. 2593.90 million. The operation of Bank Limited works through 907 branches and including 4 overseas branches. It is linked 1239 foreign correspondents all over the world.

Product and services

Product and services is the main assets of any organization. JBL is playing the most significant role in offering specialized services to different clients or agencies throughout the country. JBL provides both corporate and retail banking services with a strong focus on socio economic development of the country. The bank typically provides short term working capital loan and limited long term credit exposure. Moreover, JBL offers micro enterprise and special credit as well as rural banking. Under corporate banking services, JBL provides trade finance, consumer finance, project finance, syndicate finance. On the other hand, various deposit scheme and remittance facilities are delivered through retail banking.

The following product and services are available of Janata Bank Ltd.

1. Deposits

1.1 Current & Call Deposits
- Current Deposit
- Call Deposit
- Deposit in Foreign Currency
- Resident Foreign Currency Deposit
- Deposits in F.C (WES)
- Convertible Taka A/C (D)

1.2 Savings Bank Deposits
- Savings Bank Deposit
- Savings Deposit from foreign remittance
- SB General
- Q-Cash Deposit
- NRB F.C Deposit
- School Banking Deposit

1.3 Monthly Scheme Deposits
- Deposit Pension Scheme
- JB Savings Pension Scheme
- Medical Deposit Scheme
- Education Deposit Scheme
- Ghore Ghore Sanchay
- JB Monthly Savings Scheme
- JB Special Deposit Scheme
- JB Monthly Amanat Prokalpa

1.4 Special Notice Deposit
- Fixed Deposit
- JB Double Benefit Scheme
- JB Monthly Benefit Scheme
- Retirement Savings Scheme
- JBL Retirement Savings Scheme
- Continuous Benefit Account

1.5 Term Deposits
- Special Notice Deposit
- Convertible Taka A/C (SND)
- Special Credit Program for Women Entrepreneurs

2. Loans & Advances

2.1 Term Loan
- Industrial Credit (IC)
- House Building Loan (General & Commercial)
- Agro based Industry/Project Loan
- Shipyard loan
- Loan for Overseas Employment
- Consumer Credit

2.2 Small and Medium Enterprise Loan
- Service Sector Loan
- Trading Sector Loan
- Manufacturing Sector Loan

2.3 Continuous Loan
- Cash Credit (Hypo)
- Cash Credit (Pledge)
- Export Cash Credit
- Secured Overdraft (SOD)

2.4 Rural & Agro Credit
- Crop Loan
- Fishery Loan
- Animal Husbandry Loan
- Agri. Machineries Loan
- Rural Transport Loan
- Flower cultivation

2.5 Poverty Alleviation Program
- Supervised Credit Program
- Small Farmers & Landless Labourers
- Self employment Scheme
- GhoroaProkalpa/ Family Based Micro Credit

2.6 Specialized Loan Program
- Cyber Cafe
- Service holders Loan
- Doctor's Loan Scheme

2.7 Micro & Cottage industries loan

- Dairy/ Poutry/ Fish Culture
- Loan for Handicrafts/Disabled People
- NGO linkage loan
- Weavers' Credit
- Swanirvar Loan

2.8 Import & Export Finance

- Loan Against Imported Merchandise (LIM)
- Inland Bill Purchase (IBP)
- Loan Against Trust Receipt (LTR)
- Payment Against Document (PAD)
- Packing Credit (PC)
- Local / Foreign Bills Purchased (FBP)
- Loan Against Export Development Fund (EDF)
- Advance Against Cash Incentive (Subsidy/Assistance)

2.9 Letter of Credit

- Letter of Credit - at Sight
- Letter of Credit –Usance
- Back to Back L/C

2.10 Letter of Guarantee

- Advance Payment Guarantee
- Bid Bond
- Performance Guarantee
- Shipping Guarantee

3. Services

3.1 Financial Services (Inland Remittance)

- Demand Draft (DD)
- Telephonic Transfer (T.T)
- Mail Transfer (M.T)
- JB remittance payment system (Deposit/ withdrawal from any branch)

3.2 Financial Services (Foreign Remittance)

- Maintaining NRT Account
- Foreign M.T.
- Foreign Remittance
- Foreign Demand Draft
- Collection of Draft, Cheque, TC
- Foreign Currency Endorsement

3.3 Other Financial Services

- Pay Order
- Pay Slip
- Security Deposit Receipt (SDR)

3.4 Utility Services

- Gas Bills Collection
- Electricity Bills Collection
- Telephone Bills Collection
- Water/Sewerage Bills Collection
- Municipal Holding Tax Collection
- Port Bill Collection
- Land Rent Collection

3.5 ATM Service

- Cash withdrawal
- Balance inquiry
- Mini statement of accounts
- Point of Sale (POS)

3.6 Welfare Service

- Payment of Non- Govt. Teachers' Salaries
- Payment of Primary and Secondary Girl
- Students Stipend
- Payment of Army pension
- Payment of Widows, Divorcees and Destitute Women Allowances
- Payment of Old-age/ Disabled Allowances
- Food procurement Bills

3.7 Service to the Government • Sale of Prize Bond • Sale of Wage Earners Bond (W.E.B) • Sale of SanchayPatra (S.P) • VAT collection • Tax collection • Excise duty collection **3.8** Other Service • Locker Service • SMS banking • Sale of Lottery Ticket • Foreign Currency Buying and Selling • Bangladesh Electronic Fund Transfer Network (BEFTN) • Bangladesh Automated Clearing House (BACH)	**4** Customer Care • Help/Information Desk • Inquiry Desk • Counseling **5** Web based Spot cash: • Speedy Remittance Cell • Western Union • IME • Placid N.K. Corporation • X-Press Money • NBL Quick-Pay • Prabhu Group Inc. • Trans Fast Remtt • Ria Financial service • MoneyGram

Achievements

Recently The Bank has been recognized internationally and domestically for its good performance.

International Award-The Bank of the year-2018 in Bangladesh

Janata Bank Limited has been awarded 'The Bank of the Year-2018 in Bangladesh' by the London based Financial Magazine the Banker of the Financial Times Group. This is for the sixth time the bank has been awarded 'The Bank of the Year'. Janata Bank Limited achieved remarkable progress in the year 2017.

ICMAB Best Corporate Award-2018

Janata Bank Limited has been awarded ICMAB Best Corporate Award – 2018 by the Institute of Cost and Management Accountants of Bangladesh. This Bank secured the first position among the state owned Commercial Banks in Bangladesh.

International Award -"World's Best Bank Award-2016 in Bangladesh

Janata Bank Limited was awarded Best Bank-Bangladesh in the Global Finance, World's Best Bank Awards, 2016 by New York based Financial Magazine "Global Finance". "Global Finance" has identified winning banks based on number of criteria including growth in Assets, Profitability, Strategic relationships, Customer Service, Competitive pricing and innovative products.

International Award -"World's Best Bank Award-2015 in Bangladesh

Janata Bank Limited was awarded Best Bank-Bangladesh in the Global Finance, World's Best Bank Awards, 2015 by New York based Financial Magazine "Global Finance". "Global Finance" has identified winning banks based on number of criteria including growth in Assets, Profitability, Strategic relationships, Customer Service, Competitive pricing and innovative products.

Credit rating

Credit rating is one of the deciding factors for establishing business relations including international trade. Generally, credit rating is based on some basic indicators such as capital adequacy, asset quality, management skills, risk management, profitability, liquidity, net interest margin, corporate governance etc.

According to Bangladesh Bank notification credit rating is mandatory for commercial banks and should be calculated by recognized rating agencies. Accordingly Alpha Credit Rating Limited (ACRL) has assessed Janata Bank's rating for the year 2021. The status is as follows:

Year	**Credit Rating**			
	Entity Rating		As Govt. Owned Bank	
	Long Term	Short Term	Long Term	Short Term
2021	A+	AR-2	AAA	AR-1
2020	A+	AR-2	AAA	AR-1

CHAPTER THREE:
THEORETICAL ASPECTS

3.1 Introduction:

Commercial Bank performs various responsibilities now a day. Providing Loans and Advances is one of the main duties among them. Basically credit is the institutional arrangement of lending funds mainly to the traders and industrial entrepreneurs by the banking company. The major portion of bank's funds is employed by various ways of loans and advances, which is the most profitable employment of its funds. The major part of bank income is earned from interest and discount on the funds so lent. The job in this department starts from the application made by the client; approve the same, which is disbursed to customers.

3.2.1 Definition of Credit

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

3.2.2 Importance of credit:

Bank gives interest at a fixed rate to the different types of depositor. Moreover Bank needed huge money for maintaining administrative expenses. Banks have to make profit after meeting these expenses and also providing the interest to the depositor. Bank cannot make equal profit the entire loan. It depends on the right use and principles of the loan.

All depositors do not want money at a time. If bank give the entire deposit at a time then bank can't meet the demand of the customer on the other hand all the deposit to keep as a reserve is prohibited by it principle. So, banks to make combination between them.

3.2.3 Sound Principles of Lending:

It is necessary to develop a sound lending principle and modern lending techniques to ensure the performances of the credit provided by the bank. Credit is very much dependent on the judgment of the sanctioning authority. Banker's ability in taking proper prior measures to minimize the risk is very important. To do this a Bank must follow the "Guiding Principles of Sound Lending" which include:

- **Principle of Safety:**

The first lending Principle of sound lending is safety. The very existence of a bank depends upon the safety of its advances. Safety should not be sacrificed for profitability.

So utmost care should be exercised to ensure that the funds go to the right type of borrower, are utilized in such a way that they remain safe and the repayment comes in the normal course.

- **Principle of Purpose:**

The Bank should not lend money for any purpose for which the borrowers demand loan, the purpose should be productive. So another important point to be considered by a credit officer before lending is the purpose for which the loan is required and also the resources through which the borrower is expected to repay.

- **Principle of Security:**

The security offered by a borrower for an advance is insurance to the banker. It serves as the safety value for an unforeseen emergency. So another principle of sound lending is the security of lending. The security accepted by a banker to cover a bank advance must be adequate, readily marketable, easy to handle and free from any encumbrance.

- **Principle of Profitability:**

Commercial Banks obtain funds from shareholders and if dividend is to be paid on such shares it can only be paid by earning profit. Even in the case of public sector banks although they work on service motive they also have to justify their existence by earning profit. This is not possible unless funds are employed profitably. So the fund should be employed in reliable and profitable sources, but for the sake of profitability, the other two principles safety and liquidity cannot be sacrificed.

- **Principle of Diversification:**

The advance should be as much broad based as possible and must be in conformity with the deposit structure. The advances should not be in one particular direction/ industry/ activity or one or few borrowers because adversity faced by that particular industry will have serious adverse effect on the bank.

- **Principle of National Interest:**

The development of banking has reached a stage where a banker is required to identify his business with national policies. Banking Industry has significant role to play in the economic

development of a country. So, the savings of the people which are mobilized by banks must be distributed to those sectors which require development in the country's Planning Program.

3.3.1 Credit Management

In the simplest form, management is the process of getting things done by others, in the broader concept, management involves various systematic plan and actions to achieve the goal of the organization. Here, credit means bank credit which banks generally grant to an individual or a corporate or a government organization with specific interest rate and specific repayment program. Bank takes various steps and accomplish various tasks to i9nvest their fund to ensure smooth recovery of their fund which generally termed as credit management. Hence, credit management is the process of accomplishing various tasks relating to deciding grant or not granting credit to others determination of terms and conditions, paper documentation, frequent monitoring and reviewing the performance of borrowers and taking necessary steps to ensure smooth recovery of credit which ensure profit maximization of the banks.

3.3.2 Importance of Credit Management

In making successful recovery of loan, effective credit management is needed. Credit is the heart of the banking business and by which the quality of the performance of banks are judged. The credit management deserves special emphasize because proper credit management greatly influences the success or failure of financial institutions. Studies of banking crisis throughout the world have concluded that the most frequent factor in the failure of banks has been poor asset (usually loan) quality. Effective credit management would help to prevent and minimize debt default. The ultimate gain from credit management is higher economic growth. Without sound credit management, no economy can grow to its potential.

Credit management involves an effective process of entire loan transactions, proper evaluation of credit risk, accurate documentation of the loan, security agreement s and systematic monitoring of the progress of the loans that will help to minimize loan defaults. Beyond the bank's institutional objectives' sound credit management supports broader national policy objectives by allocating scare financial resources efficiently and it foster economic growth and minimize losses to the economy.

3.3.3 Process/Steps in credit management:



3.4.1 Credit Risk Management:

Risk is inherent in all aspects of a commercial operation. However for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligation in accordance with agreed terms. Credit risk, therefore, arises from the bank's dealing with or lending to corporations, individuals, and other banks or financial institutions.

Credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn and acceptable level of return for shareholders. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, and consolidation and disintermediation, it is essential that banks have robust credit management policies and procedures that are sensitive and responsive to these changes.

Credit risk management is of utmost importance to Banks, and as such, policies and procedures should be endorsed and strictly enforced by the MD/CEO and the board of Bank.

3.4.2 Objectives of Credit Risk Management:

- Strengthen credit management system
- Reducing Loss
- Optimum Profit
- Formation of ICT based credit management
- Risk Management & Risk grading of borrowers having limit 50.00 lac & above.
- Formation of credit Management considering Globalization, Free market economy, Decentralization, Middleman free National & international environment.
- Formation of strong credit policy
- Segregation of duties
- Develop risk Management culture

3.4.3 Lending guidelines:

All banks should have established Credit Policies ("Lending Guidelines") that clearly outline the senior management's view of business development priorities and the term s and conditions that should be adhered to in order for loans to be approved.

The lending guidelines include the following:

- Industry and Business Segment Focus
- Types of loan facilities
- Single borrowers/ group limits/ syndication
- Lending caps
- Discouraged business types

As a minimum, the followings are discouraged:

- Military equipment/ weapons finance
- Highly leveraged transactions
- Finance of speculative investments
- Logging, mineral extraction/ mining, or other activity that is
- Ethically or environmentally sensitive
- Lending to companies listed on CIB black list or known
- Counter parties in countries subject to UN sanctions
- Lending to holding companies.

3.4.4 Credit Assessment:

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities.

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

- Environment or social risk inputs
- Amount and type of loan (s) proposed
- Purpose of loans
- Loan structure (tenor, covenants, repayment schedule, interest)
- Security arrangement
- Any other risk or issue

- Risk triggers and action plan-condition prudent, etc.

In addition the following risk areas should be addressed:

Borrower Analysis

The majority shareholders, management team and group or affiliate companies should be addressed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed, and risks mitigated. The analysis should be addressed:

- Share holding
- Reputation
- Education
- Experience - success history
- Net worth
- Age etc.

Industry Analysis

The key risk factors of the borrower's industry should be addressed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strength and weaknesses of the borrower relative to its competition should be identified.

Supplier/Buyer Analysis:

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

Historical Financial Analysis

The analysis should be addressed:

- An analysis of 3 years historical financial statements.
- The quality and sustainability Earnings.
- Cash flow
- Leverage
- Profitability
- Strength and reliability of Balance Sheet etc.

Projected Financial Performance

When term facilities 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.

Account Conduct

For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc.) should be addressed.

Adherence to Lending Guidelines:

Credit Application should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The bank's Head of Credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank's Lending Guidelines.

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.

Loan Structure:

The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor amount relative to business needs increases 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 and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.

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 enterprise 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 fundamental, supported by a thorough financial and risk analysis.

3.4.5 Credit Risk Grading

Credit risk is the primary financial risk in the banking system. Identifying and assessing credit risk is essentially a first step in 1993, BB as Suggested by Financial Sector Reform (FSRP) first introduced and directed to use Credit Risk Grading system in the Banking sector of Bangladesh under the caption "Lending Risk Analysis (LRA)."

Credit Risk Grading is a dynamic process and various models are followed in different countries & different organizations for measuring credit risk. The risk grading system changes in line with business complexities. A more effective credit risk grading process needs to be introduced in the Banking sector of Bangladesh to make the credit risk grading mechanism easier to implement.

Keeping the above objective in mind, the Lending Risk Analysis Manual of BB has been amended, developed and reproduced in the name of "Credit Risk Grading Manual"

3.4.5.1 Definition of Credit Risk Grading:

- The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure.
- A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure.
- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

3.4.5.2 Functions of Credit Risk Grading

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

3.4.5.3 Uses 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.

3.4.5.4 Number and short name of grades uses in the CRG:

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

Grading	Short Name	Number
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watch list	MG/WG	4
Special Mention	SM	5
Sub standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

3.4.5.5 How to Compute Credit Risk Grading of a Bank:

Step 1: Identify all the principle risk components

Credit Risk for counter party arises from an aggregation of the following:

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

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

Step 2: Allocate weight ages to Principal Risk Components

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

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

Step 3: Establish the Key Parameters

Principle Risk Component	Key Parameters
Financial Risk	Leverage, Liquidity, Profitability and Coverage Ratio
Business /Industry Risk	Size of Business, Age of Business, Business outlook, Industry Growth, Competition and Barriers to business
Management Risk	Experience, Succession, & team work
Security Risk	Security Coverage, Collateral Coverage & Support
Relationship Risk	Account Conduct, Utilization of Limit

Step 4: Assign weight ages to each of the key parameters.

Once the above mentioned key risk parameters are evaluated, analyzed and reviewed properly the next step will be to further assign weightage against each key parameter depending on its strength and merits.

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

After the risk identification & weightage assignment process (as mentioned above), the next steps will be to input actual score obtained by the Bank (under review process) against the key parameters in the score sheet to arrive at the total scores obtained.

Step 6: Arrive at the Credit Risk Grading based on total score obtained.

The following is the proposed Credit Risk Grade matrix based on the total score obtained by an obligor.

Number	Risk Grading	Short Name	Score
1	Superior	SUP	100% cash covered Government guarantee International Bank guarantees
2	Good	GD	85+
3	Acceptance	ACCPT	75-74
4	Marginal/Watch list	MG/WL	65-74
5	Special Mentioned	SM	55-64
6	Sub standard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & Loss	BL	<35

CHAPTER FOUR:
CREDIT ACTIVITIES & PERFORMANCE OF JBL

4.1 Credit Policy of JBL

4.1.1 Meaning of Credit Policy

Policy entails projected course of action. Janata Bank Ltd. has its own policy granting credit although credit is always a matter of judgment applying common sense in the light of one's experience. A sound credit policy includes among other things safety of funds invested vis-à-vis profitability of the bank. Encouraging maximum number of small loans is better than concentration in a particular type of advances, which ensures sufficient liquidity with least incidence of bad debts.

It has to be borne in mind that a good loan allowed to a properly selected borrower is half collected. In order to make a good loan there should have a good loan policy.

4.1.2 Objectives of Credit Policy

There are some objectives behind a written credit policy of Janata Bank Ltd. that are as follows;

- To provide a guideline for giving loan.
- Prompt response to the customer need.
- Shorten the procedure of giving loan.
- Reduce the volume of work from top level management.
- Delegation of authority of work from top level of management.
- To check and balance the operational activities

4.1.3 Formulation of Credit Policy

One of questions that should arise in a discussion of credit is who should formulate the policy. Although the ultimate responsibilities lay at the highest level in the organization i.e. the board of directors. Yet the actual drafting shall have to be done by the senior lending office in consultations with the chief executive officer and with contribution from senior officers, associates and subordinates. Obviously the level of origin will vary with the size and structure of the organization. The matter then referred to the board for approval after careful examination consideration and discussion.

4.1.4 Components required for a sound credit policy:

There can be some variations based on the needs of a particular organization, but at least the following areas should be covered in any comprehensive statement of credit policy and JBL's policy also covers these areas:

Legal consideration:

The bank's legal lending limit and other constraints should be set forth to avoid inadvertent violation of banking regulations.

Delegation of authority:

Each individual authorized to extend credit should know precisely how much and under what conditions he or she may commit the bank's funds. These authorities should be approved, at least annually, by written resolution of the board of directors and kept current at all times.

Types of credit extension:

One of the most substances parts of a loan is a delineation of which types of loans are acceptable and which type are not.

Pricing:

In any profit motivated endeavor, the price to be charged for the goods or services rendered is of paramount without it, individuals have few guidelines for quoting retag or fees, and the variations resulting from human nature will be a source of customer dissatisfaction.

Market Area:

Each bank should establish its proper market area, based upon, among other things, the size and sophistication of its organization its capital standpoint, defining one's market area is probably more important in the lending function than in any other aspect of banking.

Loan Standard:

This is a definition of the types of credit to be expended, wherein the qualitative standards for acceptable loans are set forth.

Credit Granting procedures:

This subject may be covered in separate manual, and usually is in larger banks. At any rate, it should not be overlooked because proper procedures are essential in loan establishing policy and standards. Without proper procedure for granting credit and constant policing to ensure that these procedures are meticulous carried out, the best conceived loan policy will not function and inevitable, problems will develop.

4.2 Loan Disbursement Procedure of JBL



Getting Credit Information

Janata Bank collects credit information about the applicant to determine the credit worthiness of the borrower. The bank collects 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 Central Bank.

The loans and advances department gets a form filled by the party seeking a lot of information. The information is listed below:

- Name and address of the borrower (present and permanent).
- Constitution or status of the business.
- Data of establishment and place of incorporation.
- Particulars of properties, partners and Directors.
- Background and business experience of the borrowers.
- Particulars of personal assets, name of subsidiaries, percentage of share holding and nature of business.
- Details of liabilities in name of borrowers, in the name of any directors.
- Financial Statement of the last three years.
- Nature and details of business/products.
- Details of securities offered.
- Proposed debt equity ratio.
- Other relevant information.

Analyzing these Information

Janata Bank then starts examination whether the loan applied for, is complying with its lending policy. If comply, then it examines the documents submitted and the credit worthiness. Credit worthiness analysis, i.e. analysis financial conditions of the loan applicant is very important. If loan amount is more than 50, 00,000, then bank goes for Lending Risk Analysis (LRA) and Spreadsheet Analysis (SA) which are recently introduced by Bangladesh Bank. According to Bangladesh Bank Rules, LRA and SA are a must for the loan exceed of one crore. If these two analyses reflect favorable condition and document submitted for the loan appeared to be satisfactory, then bank goes for further action.

Lending Risk Analysis (LRA)

LRA is a very important and vital analysis for deciding whether the loan proposal is potential or not. Many types of scientific, mathematical, statistical and managerial tools and devices are required to perform this analysis. Janata Bank maintains a prescribed format for Lending Risk Analysis, which includes a spreadsheet to analyze a lot of things. It is not possible to discuss the entire LRA in this report.

LRA has divided the various risks into two groups namely, Business Risk and Security Risk.

Business Risk: Business Risk is concerned with whatever the borrowing company would fail to generate sufficient cash out of business to repay the loan Business Risk, the main component of lending risk, consists of the Industry Risk and the company Risk.

- **Industry Risk:** Due to some external reasons a business may fail and the risk which arrives from external reasons of the business is called Industry Risk. It has two components:
    a. **Supplies Risk:** When the business fails due to disruption in the supply of inputs, the consequent risk which would arise is known as Supply Risk.
    b. **Sales Risk:** When the business fails for disruption in sales, this type of risk would generate.
- **Company Risk:** Company Risk is shown for some internal reasons of the business. It has also two main components and four sub-components-

a. **Company position Risk:** Each and every company holds a position within an industry. This position is very much competitive. Due to weakness in the company's position in its industry, a company may fail and the risk of failure is called Company Position Risk. It depends on-
    i. **Performance Risk:** If a company fails to perform well enough to repay the loan because of its weakness under given expected external conditions, the company is said to suffer from performance risk.
    ii. **Resilience Risk:** When a company fails due to lack of its resilience to unexpected external conditions, the resilience risk is generated.

b. **Management Risk:** If the management of a company fails to exploit the company's position effectively, the company can fail and this risk of failure is called management Risk. It can be subdivided further-
    i. **Management Competence Risk**: Management competence risk is the risk that the company fails because the management is incomplete.
    ii. **Management Integrity Risk:** Management integrity risk is the risk that the company fails to repay its loan due to lack of management integrity.

Security Risk: Security risk is the risk that the realised value of the security does not cover the exposure of loan. Exposure means principal plus outstanding interest. Security risk can be divided into two parts:

- **Security Control Risk:**Security control Risk is the Risk that the bank fails to realise the security because of lack of bank's control over the security offered by the borrowers.

- **Security Cover Risk:** Security cover risk is the risk that the realised security value may not cover the full exposure of loans.

Credit Analysis

When a customer requests a loan, bank officers analyse all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis in which a loan officer attempts to evaluate a borrower's ability and willingness to repay. The banker has to identify three distinct areas of commercial risk analysis related to the following questions:

- ✓ What risks are inherent in the operations of the business?
- ✓ What have managers done or failed to do in mitigating those risks?
- ✓ How can a lender structure and control its own risks in supplying funds?

The first question forces the banker to generate a list of factors that indicate what could harm a borrower's ability to repay. The second recognizes that repayment is largely a function of decision made by a borrower. Is management aware of the important risks and has it responded? The last question forces the banker to specify how risks can be controlled so that bank can structure an acceptable loan agreement. Therefore, Bankers look into key risk factors or Qualitative analysis which has been classified according to the Six Cs of credit:

1. **Character:** Character refers to the borrower's honesty and trustworthiness. A banker must assess the borrower's integrity and subsequent intent to repay. If there are any serious doubts, the loan should be rejected.
2. **Capital:** Capital refers to the borrower's wealth position measured by financial soundness and market standing. It helps cushion loses and reduces the likelihood of bankruptcy.
3. **Capacity:** Capacity involves both borrower's legal standing and management's expertise in maintaining operations so the firm or individual can repay its debt obligations. Under capacity an individual must be able to generate income to repay the cash.
4. **Condition:** A condition refers to the economic environment or industry specific supply, production and distribution factors influencing a firm's operations. Repayment sources of cash often vary with the business cycle or consumer demand.
5. **Collateral:** Collateral is the lender's secondary source of repayment or security in the case of default. Having an asset that the bank can seize and liquidate when a borrower defaults

reduces loss, but does not justify lending proceeds when the credit decision is originally made.

6. **Control:** Control means management and observation of the changes in law and regulations, whether these could adversely affect the borrower and whether the loan request meets the banks and the regulatory authorities' standards for loan quality.

Collateral:

Collateral is the lender's secondary source of repayment or security in the case of default. Having an asset that the bank can seize and liquidate when a borrower defaults reduces loss, but does not justify lending proceeds when the credit decision is originally made.

Characteristics of Good Collateral

The following five items determine the suitability of items for use as collateral. The suitability depends in varying on standardisation, durability, identification, marketability and stability of value.

- ✓ **Standardization:** The standardization leaves no ambiguity between the borrower and the lender as to the nature of the asset that is being used as collateral.
- ✓ **Durability:** Durability refers to the ability of the assets to withstand wear. Or it can refer to its useful life. Durable goods make better collateral than non-durable. Stated otherwise crushed rocks make better collateral than fresh flowers.
- ✓ **Identification:** Certain types of assets are readily identified because they have definite characteristics or serial numbers that cannot be removed. Two examples are a large office building and an automobile that can be identified y make, model and serial number.
- ✓ **Marketability:** In order for collateral to be of value to the bank, the collateral must be marketable. That is the borrower must be able to sell it. Specialized equipment is not as good as collateral as are dump trucks, which have multiple uses.
- ✓ **Stability of value:** Bankers prefer collateral whose market values are not likely to decline dramatically during the period of the loan such as common stock.

Different Kinds of Collateral

Secure loans have a pledge of some of the borrower's property behind them (such as home or an automobile) as collateral that may have to be sold if the borrowers have no other way to repay the bank. Some of the most popular collaterals are:

- **Account Receivable:** The banks take a security in the form of a stated percentage of the borrower's balance sheet. When the borrower's credit customers send in cash to retire their debts this cash payments are applied to the balance of borrowers loans. The bank may agree to lend more money as new receivable arise from the borrowers sells to its customers thus allowing the loan to continue as long as the borrower has need for credit and continuous to generate and adequate volume of sales.
- **Factoring:** Bank can purchase a borrowers account receivable based upon some percentage of the book value because the bank takes over the ownership of the receivable, it will inform the borrowers customers that he should send their payments to the purchasing bank.
- **Inventory:** A bank will lend only a percentage of the estimated market value of a borrower's inventory in order to leave a substantial cushion in case the inventories value begins to decline. The inventory pledged may be controlled completely by the borrower using a so-called floating line approach.
- **Real Property:** A bank may take a security interest in land and / or improvements on land own by the borrower and records its clime-a mortgage-with a government agency in order to define against successful claim by others.
- **Personal Property:** Bank takes a security in jewellery, securities and other forms of personal property owned by a borrower.
- **Personal Guarantees:** A pledge of the stock deposits or other personal assets held by the major stock holders or owners of a company may be required as collateral to secured a business loan.

Final Decision about the Project

If the loan decision remains with the branch level, that branch sanctions the loan and if the approving authority is Head Office then the decision comes to the branch by telex or fax.

Proper Supervision of the Project

If such provision is kept in the sanction contracts, the Janta Bank officials go to the project area to observe how the loan is utilized. If no such clause to supervise the loan is added, even then the bank can see the performance of the project.

Documentation of the Loan

These are the most frequently used and common documents of above mentioned charged and for other formalities for sanctioning the loan:

- Demand Promissory Note: Here the borrower promises to pay the loan as and when demanded by the bank to repay the loan.
- Letter of Arrangement: Here the written amount of the loan sanctioned to the borrower is specified.
- Letter of Continuity: It is used to take continuous facilities as providing continuous securities.
- Letter of Hypothecation: It is the written document of the goods hypothecated thus to put in case of need.
- Stock Report: This report is used for SOD and CC. In this report information about the quality and quantity of goods hypothecated have furnished.
- Personal guarantee: It is the additional confirmation of the borrower to repay.
- Guarantee of the Directors of the company.
- Resolution of the board of directors: It is used to borrow the fund to execute Documents and complete other documents.
- Letter of disclaimer: By this letter, the borrower withdraws his all claim on the property/mortgaged.
- Letter of Acceptance: Letter indicating the acceptance of the sanction proposal by the borrower.
- Letter of Pledge: It is the written document of the goods pledge thus the legality of holding the goods.
- Letter of Disbursement: This is the document through which the payment of sanctioned loan indicates.
- Letter of partnership: In case of partnership firm, the partnership deeds are to be provided.
- Letter of Installment: The amount of installment that is to be paid at certain intervals.

- Tax Paying Certificate.
- Any document if described, as essential in the sanctioned advice sanctioned by the Head Office.

Creation of Charges for Securing Loan

For the safety of loan, Janata Bank requires security from the loaner so that it can recover the loan by selling security if borrower fails to repay. Creation of a charge means making it available as a cover for an advance. The method of charging should be legal, perfect complete.

Importance of charging securities:

- Protection of interest.
- Ensuring the recovery of the money lent.
- Provision against unexpected change.
- Commitment of the borrower.

4.3 Loan Recovery Performance of Janata Bank

4.3.1 Programs for Loan Recovery

When Janata Bank sanctions loans and advances to its customers, they clearly state the repayment pattern in the loan agreement. But some credit holders do not pay their credit in due period. The nationalized and private sector commercial banks have to face this sort of problems. This situation is, especially severe in Janata Bank. To overcome the problem of overdue loan, the bank need take particular loan recovery program.

4.3.2 Recovery Programs to be taken by Janata Bank

- To establish credit supervision and monitoring cell in the bank.
- To re-structure the loan sanctioning and distributing policy of the bank.
- To sanction loans and advances against sufficient securities as best as possible.
- To give more powers to the branch manager in credit management decision making process.
- To offer a package of incentives to the sound borrowers.
- To give more emphasis on short term loans and advances.
- To impose restrictions on loans and advances for sick industries.

- To take legal actions quickly against unsound borrowers as best as possible within the period specified by the law of limitations.

4.3.3 Recovery Patterns and Loan and Advances

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

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

4.3.4 Problems faced by Bank in Loan Recovery:

There are a lot of reasons for which the loan recovery of the bank is very defective. In most cases, problems may be raised from sanctioning procedures of loan, investigation of the project, and investigation of the loans etc. that is, the problem in loan recovery proves the outcomes of the default process in loan disbursement. The main reasons of poor loan recovery are categorized in four broad types as follow:

4.3.4.1 Problems created by economic environment:

The following problems arise from the effect of economic environment:

- Changing in the management pattern: Changing of management patterns may delay the recovery of mature loan.
- Changing in industrial patterns: The nationalized banks sometimes sanction loan to the losing concern for further improvement of the respective sector, but in most cases, they fail to achieve progress.
- Operation of open market economy: In our country mainly industries become sick and also close their business on account of emerging of open market economy. The cost of production is high and the quality of goods is not of required of standard. As a result, they become the losing concerns and the amount of bad loan increases.

- Rapid expansion of business: There are many companies which expand their business rapidly, but the expansion is for short time. In the long run, the amount of classified loan increases.

4.3.4.2 Problems created by government:

The following problems are arisen by the government:

External pressure:

Janata Bank Ltd. has also faced many problems in the loan recovery process as a part of continuous pressure from various interested groups.

Loan to government organization:

Janata Bank Ltd. is bound to sanction loan to government organization, though these are losing concern. For this reason, banks faced problems in loan recovery.

Legal problems:

Existing rules and regulations are insufficient to cover the legal aspects of loan recovery. As a result, defaulters can get release easily from all charges against them.

4.3.4.3 Problems created by the bank:

The following problems are created by the banks:

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

4.3.4.4 Other general causes of poor loan recovery:

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

- Early sanction and disbursement of loan to the borrowers without proper inspection of the project by the bank on account of pressure from lobbying group.
- Lack evaluation of technical and economic feasibility of the program.
- Delay in disbursement of credit.
- Credit is not allowed to actual entrepreneurs.

- Lack of proper supervision.
- Illiteracy of borrowers.
- Negative attitude of borrowers to repay the loan.
- Deterioration of the value system of the borrowers.
- Money borrowers use their loan-money other than specified project, i.e., if the
- Loan is sanctioned for industrial purpose; they use the money in house building or purchase of land for their own purpose.
- Sometimes borrowers invest their money outside the country. Many borrowers transfer loan money to abroad where they deposited this money in t heir own account or spent some other purpose.
- Problems responsible for non-implementation and delayed implementation of project for which the entrepreneurs of the project cannot repay the loan. The causes of failure may be:
- Failure to ascertain the economic availability of the projects
- Time lag between approval and sanctioning of the projects
- Import of machinery and raw materials both are the problems of paucity of foreign exchange and procedures of licensing.

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

- Loans are given under fictitious names and enterprise
- Loans are given without sufficient securities
- Approval of the loans in excess of the branch manager's power
- Improper monitoring and supervision of credit
- Political misuse if loan programs operated by the public sector banks
- Lack of timely action against willful defaulter
- Loans are sometimes for economically unsound project. Problems in loan recovery are the outcome of the default on loans disbursements in the earlier period.

4.3.5 Provision for Loans and Advances

Provision for loans and advances are made on quarter basis as well as year-end review by management following instructions contained in BRPD Circulars issued by Bangladesh Bank. General Provision on unclassified loans and advances and specific provision on classified loans & advances are given below:

Particulars		**Short-term Agri. Credit**	**Consumer Financing**			**SMEF**	**BHs/ MBs /SDs**	**All other Credi**
			Other than HF & LP	HF	LP			
Unclassified	Standard	2.5%	5%	2%	2%	0.25%	2%	1%
	SMA	2.5%	5%	2%	2%	0.25%	2%	1%
Classified	SS	5%	20%	20%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	50%	50%
	BL	100%	100%	100%	100%	100%	100%	100%

HF = Housing Finance, LP = Loans to professionals to setup business, SMEF = Small & Medium Enterprise Financing, BHs = Loans to Brokerage House, MBs = Loans to Merchant Bank, SDs = Loans to Stock Dealers.

4.4 Management of Credit Risk

Credit risk is the major portion of our 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. Our goal for credit risk management is to maximize risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameter. So, our 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. We also consider the relationship between credit risk and other risks.

4.4.1 Credit Risk Management Policy of JBL

On the basis of Bangladesh Bank's credit risk management policies, a manual of Credit Risk Management (CRM) has been formulated and approved by JBL's Board of Directors. The key principle of credit risk management is client due diligence, which is aligned with our country and industry portfolio strategies before sanction of any credit facility as per CRM policies which

emphasizes on the size & type, purpose, structure (term, conditions, repayment schedule & interest rate) and securities of the loan proposed.

For actively aiming to prevent concentration (Single borrower/group borrower/geographical/sectoral concentration) and long tail-risks (large unexpected losses; JBL follows different prudential guidelines of its own and Bangladesh Bank. In all market conditions, the bank's capital is effectively protected by ensuring a diversified and marketable credit portfolio.

Risk appetite for credit risk of JBL is determined by its Board of Directors desiring optimum business mix, risk preferences, the acceptable trade-off between risk & reward etc.

The assessment process is initiated at branch/credit division and placed before Management Credit Committee (MCC) or Board for approval. This process includes borrower analysis, industrial analysis, historical financial analysis, repayment sources analysis, mitigating factors etc. Credit risk grading system has been adopted by JBL as per Bangladesh Bank's instruction that defines the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved.

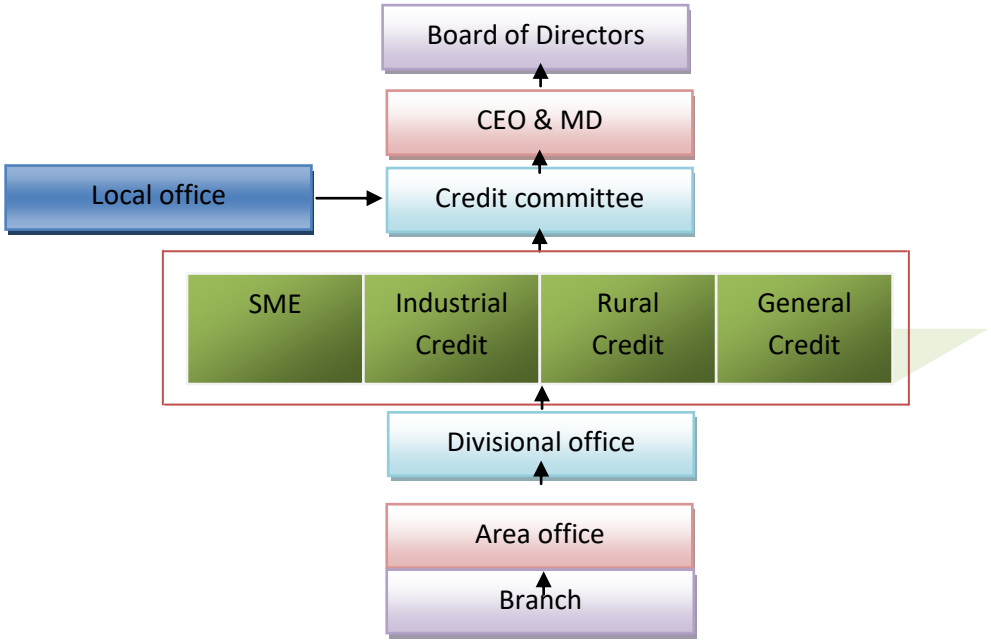
JBL is very much concern in managing non-performing loan. JBL follows Bangladesh Bank's BRPD Circular for classification of loans & advances & provisioning. Targets to recover classified loans & advances are determined for the branch, area office & divisional office at the beginning of the year. Continuous contact with the borrowers, special meeting with the defaulter formation of special task forces, announcement of special program are emphasized.

4.4.2 Procedural Framework for Credit Risk

Although the Board of Directors holds the sole right of credit sanctioning, the power is delegated to CEO & Managing Director. The credit sanctioning authority is also delegated to various lower level of the management line to strike a balance between adequate control and flexibility in credit operations to ensure full transparency and accountability at all levels. Even a manager of a small branch has the credit sanctioning authority. But there is a well defined, clear and sound credit granting process applicable for all sanctioning authority. The process includes:

1. Selection of borrower;
2. Credit appraisal;
3. Credit assessment;
4. Credit risk grading;

5. Credit approval & sanctioning;
6. Credit disbursement;
7. Credit monitoring;



Credit Granting Process of JBL

4.4.3 Credit Risk Mitigation

To mitigate credit risks, following measures are in place at JBL:

- Mission, Vision and objectives
- Credit principles
- General policy guidelines in conformity with BB guidelines and industry best practices.
- Rigorous credit process
- Sector wise lending caps
- Lending policy and strategy to different areas
- Collecting CIB of BB.
- Critical assessment of repayment capacity in pre-investment analysis stage
- Credit Risk grading of the client
- Provision for Insurance coverage
- Taking Collaterals
- Annual credit review

- Vigorous monitoring follow up
- Periodic review of market situation and industry exposure

4.5 Credit Activities of Janata Bank

4.5.1 JBL in the banking sector of Bangladesh

The objective of JBL is to become the largest commercial bank in Bangladesh by playing significant roles in the banking sector as well as, in the National economy. In 2021, JBL held 7.60 percent of total deposit and 6.05 percent of total loans and advances of the country's banking sector.

4.5.2 Loans and advances

Though loans and advances did not show remarkable growth up to the 3rd quarter of 2021 due to impact of political unrest and strict restriction of MOU, it revived its trend in the last quarter of the year and registered a moderate growth of 11.91 percent and reached to BDT 319,773.25 million in 2021. Total outstanding loans to SME stood at BDT 18,781.30 million in 2021 compared to BDT 16,955.67 million of 2020. This growth was backed by continued diversification of the bank's portfolio to have a varied client base and portfolio distributed across the sectors to reduce client as well as industry specific concentration. The later would help reduce overall portfolio risk.

Summary of Loans and Advances with risk status:

The summary of loans and advances with the risk status is given below:

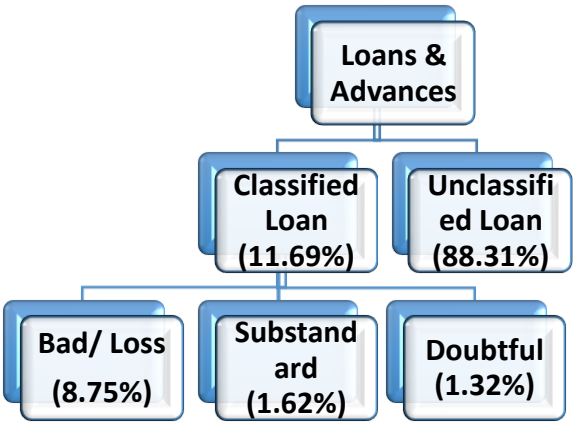
(BDT in Million)			
Types of Loans and Advances	**Position as of**		**Variance (%)**
	2021	**2020**	
Total loans & advances	319,773.25	285,747.65	11.91
Less: Total provision for Loans & Advances	3,089.21	22,291.78	(86.14)
Net Loans and Advances	**316,684.04**	**263,455.87**	

Classified Loan			
Sub-Standard	5,183.25	7,076.52	(26.75)
Doubtful	4,212.10	4,296.11	(1.96)
Bad/Loss	27,980.32	20,394.23	37.20
Total Classified Loans & Advances	**37,375.67**	**31,766.86**	**17.66**

Classified Loans as % of total Loans			
Sub-Standard	1.62%	2.48%	(0.86)
Doubtful	1.32%	1.50%	(0.19)
Bad/Loss	8.75%	7.14%	1.61%
Total	**11.69%**	**11.12%**	**0.57%**

Loan Classification

Classified loans of the bank figuring BDT 37,375.67 million increased to 11.69 percent in 2021 from 11.12 percent in 2020. Serious efforts are being continued to bring down the amount and percentage of classified loan further by exploring all options including legal actions and out of court settlements.



Classification of Loans & Advances-2021

Loan Recovery

In 2021, the bank was able to reduce classified loans by BDT 16,459.10 million where cash recovery was BDT 7,337.30 million which was 91.72 percent of cash recovery target. The bank also recovered BDT 1,374.70 million from written-off loans. JBL management was extremely concerned about recovery and reduction of classified loans (CL) from the beginning of the reporting year. At present, JBL's CL Rate is lower than those of other state owned banks.

Provision for Loans and Advances

Provision charged against loans and advances has increased to BDT 3,089.21 million in 2021 against BDT 24.86 million in 2020. As percentage of classified loans compared to that in 2020 increased, provision increased in 2021. This is why; it became indispensable to keep said provision as a safeguard against future default as well as supports business growth by strengthening the capital base.

4.5.3 Financing

Industrial Credit

By meeting demand for capital including long term project loans JBL plays a vital role in the industrialization of the country. For this, the bank provides large loans in emerging leading and well-established industrial groups which includes Akij, Beximco, Square, S. Alam, Thirmex, Basundhara, Partex, City, Apex etc. JBL also participates in syndication with other banks. Besides, the bank finances in different Government organizations such as BPC, BCIC, BADC, BSFIC etc.

Distribution of Loan to Sectors

(BDT in Million)

Sectors	2021	2020
Rural Credit	18781.30	16955.67
Export Credit	50400.00	488.40
Import Credit	46227.90	50694.9
Industrial Credit	76227.90	57530.60
Sugar & Food (Industry & Trade)	8930.50	6879.90
Steel & Engineering	8412.10	7980.80

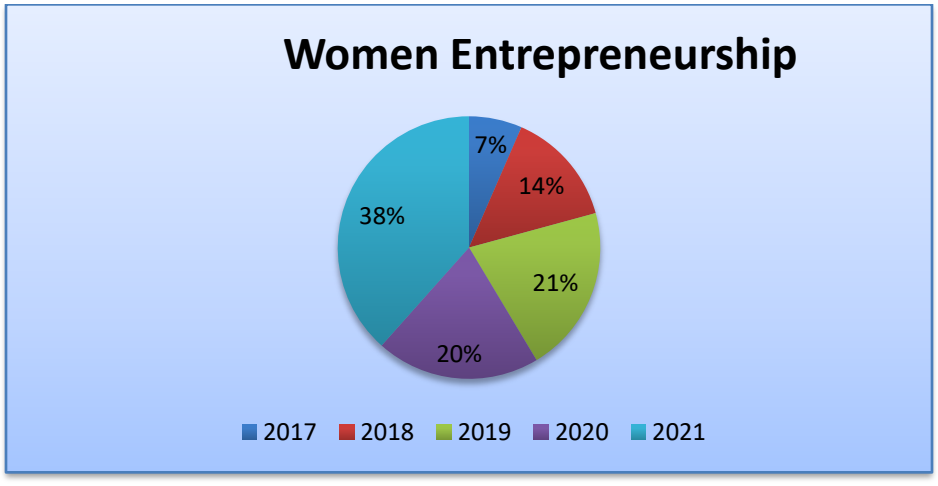
Textile (Industry & Trade)	19778.20	18805.80
Jute (Industry & Trade)	5696.70	7565.90
Tannery (Industry & Trade)	5579.10	5430.99
Transport	340.10	213.93
Other	79189.10	64838.80
Total	**319773.20**	**285747.65**

Development of Women Entrepreneurs

With a view to extending financial support to women entrepreneurs, JBL provides credits. During the year 2018, the bank will provide a total amount of BDT 55.00 million to 475 Women Entrepreneurs as loan.

Year wise Distribution of Loans toWomen Entrepreneurs		
(BDT in Millions)		
Year	**Number**	**Amount**
2021	306	27.00
2020	38	14.20
2019	35	14.50
2018	30	10.00
2017	22	4.60

Development of Women Entrepreneurship (In Percentage):



Small and Medium Enterprises

JBL is actively involved in SME financing. Through providing credits in this sector the bank plays a crucial role in income generation in rural and sub-urban areas through creation of employment opportunities. The bank extended term loans and working capital to different producers, business people and service providers under this sector. The following table summarizes the financing.

Summary of Small and Medium Enterprises Financing

(BDT in Million)					
Types	**Sectors**	**Male**		**Female**	
		Number	**Amount**	**Number**	**Amount**
Small	Service	206	866.30	108	141.70
	Business	9323	12555.80	283	308.10
	Industry	210	282.20	8	13.50
Medium	Service	2	37.60	-	-
	Business	2204	17141.70	6	28.00
	Industry	232	2731.40	26	163.20

Self-employment

In order to make the educated unemployed population self-employed, JBL allows credits to them and thus plays a key role in the economic growth of the country. For the year 2018, the bank has planned to provide BDT 28.50 million to 800 people to expand self-employment.

Loans for Self-employment

(BDT in Millions)

Year	Number	Amount
2021	542	24.46
2020	750	25.40
2019	950	37.50
2018	915	31.50
2017	850	29.50

Poverty Reduction

JBL provides credits to certain sections of the people to help them to reduce respective poverty. It plays a key role in keeping the wheel of the economy of the country in motion. For 2018, the bank has a program to provide BDT 1,055.00 million for 28,500 people as poverty reduction loan.

Poverty Reduction Loan

(BDT in Million)

Year	Number	Amount
2021	30879	1025.80
2020	22719	1042.80
2019	22685	1158.10
2018	25859	1555.60
2017	28721	1507.90

Short Term Interest Free Loan

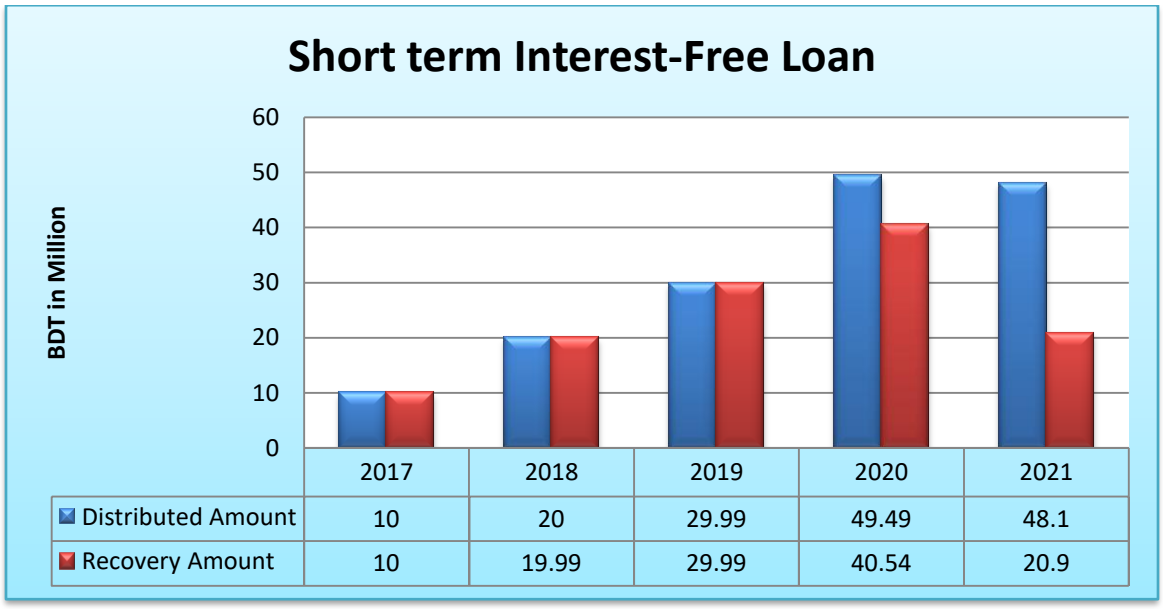
"The short term interest free loan program" for the poor and marginal farmer in the Aila, Sidre and Monga affected areas was introduced in FY 2016-10. This loan program began to make them self-reliant through creating new employment in agricultural sector. It helped in bringing them out of the vicious circle of high rate of interest of money lenders. At present, the interest free loan program is executed through 52 branches. For FY 2021-15, the bank has a plan to distribute BDT 50.00 million as loans among said section of people. Following table shows how much loans were distributed among farmers affected by Aila, Sidre and Monga.

Summary of Short Term Interest Free Loan

(BDT in Million)

FY	Allocation	Disbursement		Recovery Amount	Recovery Percentage (%)
		Beneficiary	Amount		
2020-14	50.00	3864	48.10	26.90	55.93
2019-13	50.00	4131	49.49	40.54	81.91
2018-12	30.00	3120	29.99	29.99	100
2017-11	20.00	2194	20.00	19.99	99.86
2016-10	10.00	1290	10.00	10.00	100

Short Term Interest-Free Loan Distributed & Recovery:



Agricultural or Crop Loans

Considering the pivotal importance of the agricultural sector in the overall economy of the country and under the directives of Bangladesh Bank, JBL has been crediting to this sector through its branch network across the country since 1974. During FY 2021-15, the bank aims to provide BDT 5075.10 million to 77,625 agriculturists. . Here is a break-down of the disbursement and recovery under the program from FY 09-10 to FY 13-14.

Summary of Agricultural or Crop Loans

(BDT in Million)

FY	Disbursement		Recovery (%)
	Beneficiary	**Amount**	
2020-14	89742	4290.10	56.17
2019-13	82870	4208.50	53.01
2018-12	81205	3729.40	42.91
2017-11	73574	2703.40	45.24
2016-10	80233	3626.60	39.19

4.6 Review of JBL's Performance

Operating Profit

In 2021, JBL posted an operating profit of BDT 10,683.34 million. Due to 6.78 percent decrease in interest income and an increase of interest expense by 5.18 percent from the previous year, operating profit did not grow as per expectation.

Interest Income

The interest income of the bank fell to BDT 33,734.43 million from BDT 36,189.68 million of the previous year. Due to increased classified loans and advances and lower recovery against rescheduled loans, yield on loans and advances was lower. This lower yield significantly affected overall interest income compared to that in the previous year.

Non-interest Income

Total non-interest income comprised of the commission, exchange, brokerage and other operating income increased to BDT 5,915.90 million resulting in 14.97 percent increase in 2021 over the preceding year.

Investment Income

In 2021, investment income of the bank came to BDT 16,742.67 million from BDT 13736.50 million of 2020, which is 21.88 percent higher than the preceding year. This robust improvement was mainly due to higher investments portfolio i.e. as a primary dealer of Bangladesh bank investment in Govt. Treasury bill and bond.

Other Operating Income

Other operating income of the bank grew 30.34 percent from BDT 1378.32 million in 2020 to BDT 1796.56 million in 2021. This was largely caused by recovery from written off loans, improvement of bank services and other ancillary business in 2021.

Composition of Revenue

(BDT in Million)

Revenue	Year				
	2021	**2020**	**2019**	**2018**	**2017**
Interest Income	33,734.43	36,189.68	34,239.12	26,266.12	19,027.5
Investment income	16,742.67	13,736.50	7,811.43	6,109.83	6,956.05
Non-Interest Income	5,915.90	5,145.67	7,465.07	8,259.58	4,630.33
Total	56,393.00	55,071.85	49,515.62	40,635.53	30,613.92

Profit after Tax

The net profit after taxation in 2021 stood at BDT 3,813.15 million from BDT 9,551.39 million of the preceding year. This decrease was due mainly to reduced operating profit and increased provisions.

Profitability Ratio

The key profitability performance indicators for the years 2021 and 2020 are furnished below:

Particulars	Year	
	2021	**2020**
Non-interest income to total income	10.49%	9.34%
Cost-income ratio	81.06%	77.98%
Profit after tax to total income	6.76%	17.34%
Return on average assets (ROA)	0.61%	1.42%
Return on average equity (ROE)	9.66%	30.09%

CHAPTER FIVE:

FINDINGS, RECOMMENDATIONS & CONCLUSIONS

5. Findings

Every bank has its own credit procedure. The Janata Bank Ltd possesses a standard credit procedure. As the objective of my report is to make a comment on the credit risk management of Janata Bank Ltd, I tried my best to collect data for the report and find out the reality. Based on the data generated during my Project period I have summed up my findings here and I think this will help me to achieve my objectives.

5.1 Practical Findings

- The newly prescribed account opening form is very much informative. It takes about half an hour to properly fill in the form. When four or five people come at the same time to account opening purpose, it is very difficult for the relevant officer to provide satisfied service to the client.
- According to some clients, introducer is one of the problems to open an account. If a person who is new in the city wants to open account, it is a problem for him/her to arrange an introducer to open a SB or CD account
- Insufficient modern sophisticated technology change such as use of new software there are few staff that are lacking in computer knowledge and are not efficient enough to finish every task immediately. So, before utilizing new technology proper training should be arranged.
- Inadequate skilled manpower in Janata bank Ltd, because there is lack of proper training arrangement of employees in the general banking section. For example, most of the new recruited employees learn their job tasks by observing their senior colleagues.
- Some time the branch's computers remain out of order and it is also true for the photocopiers.
- Insufficient forms and brochures will hamper customer service.
- Still heavily rely on traditional system specially in general banking department.

5.2 Analytical Findings

- The bank follows the overall credit assessment and risk grading process according to the rules of Bangladesh Bank in a somewhat manner.
- Sometime the document verification is done after loan sanctioning the loan.
- There is shortage of manpower and lack of proper training for the employees in credit section.
- The credit proposal evaluation process is lengthy. Therefore, sometimes valuable clients are lost.
- The website of JBL does not contain all required information about loan and advance.
- Janata Bank Ltd. has a significant role in long term project financing in both agriculture and industrial sectors. Again Janata Bank Ltd has a deep concern for rural farmers.
- Private sector usually concentrates in the urban areas where as public sector i.e. Janata Bank Ltd spread their banking network all over the world.
- With a view to implementing government policies, Janata Bank Ltd has been maintaining its position in extending credit to government bodies, sector corporations and private enterprises.
- Though bank required both quantitative and qualitative analysis but for big loans bank emphasizes on the (LRA). The LRA is not a perfect measure of credit analysis. Because businessmen in our society are usually tempted to take resort of window- dressing that means accounts are so manipulated that the vital facts are concealed and facts presented are superficial. So banks have to go through both quantitative and qualitative analysis.
- Janata Bank Ltd does not keep enough provisions against classified loans and advances.
- Bangladesh Bank monitors all the policies of all the private and nationalized banks of the country. According to the Bangladesh Bank's strategy, all banks must possess the standard policies which are designed by the central bank. Janata Bank Ltd. also possesses a standard credit proposal form. In that form all necessary information are required to fill up. But in practice credit officers do not fill up the proposal form properly. Most of the cases, they use assumption rather than exact figure. This practice might end up with bad or classified one.

5.4 Recommendations

As per earnest observation some suggestions for the improvement of the situations are given below:

- Proper training should be given to all employees on regular basis to identify the suspicious transactions for Anti Money Laundering compliance policy.
- Continuous monitoring of the customer should be conducted so that loan cannot be classified.
- The bank should emphasis more on loan diversification like loans on different promising sectors and newly invented thrust sectors in the economy.
- Every day the business environment is changing and so the risk. So the bank should be developed as a dynamic organization to adapt with the changing circumstances.
- All the loan documentations have to done honestly. The bank should concentrate more on proper documentation of all types of loans to make the department trustworthy & healthy.
- The documents supporting the security against the loan have to be verified properly by the bank before sanctioning the loan.
- An Early Alert Account system should be introduced to have adequate monitoring, supervision or close attention by management
- There should be a Recovery Unit to manage directly the account with sustained deterioration. To encourage Recovery Unit, incentive program may also be introduced
- JBL should built separate loan recovery division if it happen then their classified loan amount will reduce.
- The amount of non-performing loan should be reduced by analysis proper evaluation of loan proposal and monitoring.
- A negative file should be maintained to ensure that individuals with a history of default and dubious integrity do not get any loan from the Bank. This negative file is to be maintained centrally by the Retail Credit Risk Management unit. Access to this file should be controlled through maker-checker system checks.
- The Bank should send the Relationship Managers and Credit Risk Management (CRM) employees to various training programs on Loan Application Evaluation Techniques on a regular basis so that the RMs can properly evaluate all the loan applications in a structured and scientific way and select only those applications which has a sound credit worthiness and repayment capability.

5.5 Conclusions

As an organization Janata Bank Limited has earned the reputation of top banking operation in Bangladesh. The organization is much more structured compared to any other public commercial bank in Bangladesh. It is relentless in pursuit of business innovation and improvement. It has a reputation as a partner of consumer growth.

With a bulk of qualified and experienced human resource, Janata Bank Limited can exploit any opportunity in the banking sector. It is pioneer in introducing many new products and services in the banking sector of the country. Moreover, in the overall-banking sector, it is unmatched with any other banks because of its wide spread branch networking thought the country.

The current situation of Janata bank Limited is satisfactory. But in the age of competition if the bank does not provide extra ordinary that means superior services than it will be difficult to continue banking because everybody wants to maintain quality. In loan and advancement portion Janata Bank Limited has some problem. On the other hand in Ratios –liquidity, efficiency and leverage ratio of Janata Bank Limited is satisfactory which indicates better position of Janata Bank Limited. But profitability ratio of the bank is not satisfactory so Janata Bank Limited should take necessary steps to beat the overall problem as early as possible. And when Janata Bank Limited is able to overcome this type of problem then it would be more structured compared to any other bank operating local or foreign in Bangladesh

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