An Internship Report on

CREDIT RISK MANAGEMENT- A CASE STUDY OF RUPALI BANK LIMITED, ZONAL OFFICE, DINAJPUR

By

Pabitra Kumer Roy

ID# E130502062

MBA (Evening), 2nd Batch, (Major in Finance)

HSTU, Dinajpur.

SUPERVISOR

Mahbuba Aktar

Assistant Professor

Department of Finance and Banking

HSTU, Dinajpur.

CO-SUPERVISOR

Md. Mamnur Rashid

Associate Professor

Department of Accounting.

HSTU, Dinajpur.

MASTER OF BUSINESS ADMINISTRATION (EVENING)

(This paper has been prepared for submission to the Faculty of Business Studies, Hajee Mohammad Danesh Science & Technology University, Dinajpur, as a partial requirement for fulfillment of the MBA (Evening) Program.)

FACULTY OF BUSINESS STUDIES

Hajee Mohammad Danesh Science & Technology University,
Dinajpur.

May, 2016

Dedicated to
my beloved parents

05 May, 2016

Mahbuba Aktar
Assistant Professor
Department of Finance and Banking
HSTU, Dinajpur.

Subject: Submission of internship report on "Credit Risk Management- A Case Study of Rupali Bank Limited, Zonal Office, Dinajpur."

Madam,

It is my real pleasure to submit this internship report on "Credit Risk Management- A Case Study of Rupali Bank Limited, Zonal Office, Dinajpur" which you have assigned me to do as a part of my MBA (Evening) program requirement.

I have tried my level best to gather all kinds of relevant information which could give an overall idea on this topic. I have worked 45 days with this bank and have observed their work. I tried to gather information regarding report as much as possible. I hope that this report will meet the expected standard. I have enjoyed preparing the report very much. Especially, the knowledge obtained from my MBA (Evening) program and some employees of this bank helped with the information which made my work a bit easier.

I am submitting this internship report for your kind consideration and thanking you for your constant assistance and guidance.

Sincerely yours,

…………………

Pabitra Kumer Roy
ID# E130502062
MBA (Evening) Program
Major in Finance
HSTU, Dinajpur.

DECLARATION OF STUDENT

I do hereby solemnly declare that the work presented in this Internship Report has been carried out by me and has not been previously submitted to any other University/College/Organization for an academic qualification/certificate/diploma or degree.

The work I have presented does not breach any existing copyright and no portion of this report is copied from any work done earlier for a degree or otherwise.

I further undertake to indemnify the department against any loss or damage arising from breach of the foregoing obligations.

…………………

Pabitra Kumer Roy
ID# E130502062
Major in Finance
MBA (Evening) Program
HSTU, Dinajpur.

DECLARATION OF SUPERVISOR

Its my pleasure to certify that Pabitra Kumer Roy, Student ID# E130502062, MBA (Evening), 2nd Batch, Major in Finance, Session 2013 (May) has successfully completed internship report titled "Credit Risk Mangement- A Case Study of Rupali Bank Limited, Zonal Office, Dinajpur" under my supervision and guidance. He has not copied from any other work.

I wish him every success in life.

…………………

Mahbuba Aktar
Assistant Professor
Department of Finance and Banking
HSTU, Dinajpur

DECLARATION OF CO-SUPERVISOR

Its my pleasure to certify that Pabitra Kumer Roy, Student ID# E130502062, MBA (Evening), 2nd Batch, Major in Finance, Session 2013 (May) has successfully completed internship report titled "Credit Risk Management- A Case Study of Rupali Bank Limited, Zonal Office, Dinajpur" under my supervision and guidance. He has not copied from any other work.

I wish him every success in life.

………………………

Md. Mamunar Rashid
Associate Professor
Department of Accounting
HSTU, Dinajpur

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Finally, appreciation is extended to my parents and family members and also grateful to “All Mighty” for making me able to complete this task.

ABSTRACT

This study of Credit Risk Management– A Case Study of Rupali Bank Limited, Zonal Office, Dinajpur is an attempt to indicate the importance of credit risk management in financial institutions such as commercial banks. Thus, the rationale behind for undertaking this study is to judge the causes of credit management problems and to suggest the possible solutions that enable the bank to run its operation in a safest way as credit is known to be the main stay of all banks.

The ability of banks to formulate and adhere to policies and procedures that promote credit quality and curtail non-performing loans is the means to survive in the stiff competition. Inability to create and build up quality loans and credit worthy customers leads to default risk and bankruptcy as well as hampers economic growth of a country. However, little work is done to search the ways and means that enable to quality loan creation and growth as well as to determine the relationship between the theories, concepts and credit policies both at country or regional level.

The main objective of the study is to make a thorough review of tools and techniques of credit risk management practiced in RBL as suggested by the relevant bodies and experts under the leadership of Bangladesh Bank.

For the purpose of the study both primary and secondary data were used. Descriptive statistical tools are used in analyzing the data collected. Hence, the nature of the study is descriptive. Finally, based on the findings possible recommendations are given. These include the issues impeding loan growth and rising loan clients complaint on the bank regarding the valuing of properties offered for collateral,

lengthy of loan processing, amount of loan processed and approved, loan period, and discretionary limits affecting the performance of credit management.

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Chapter 1: Introduction

1.1 Introduction

Banking system plays an important role in the economic development of a country. Bangladesh, as a developing country, is no exception to this. In Bangladesh, the banking sector dominates the financial sector and the macroeconomic performance largely depends on the efficiency of the banking sector. The country's banking sector comprises of Bangladesh Bank, State Owned Commercial Banks, Private Commercial Banks, Foreign Commercial Banks and other Specialized Financial Institutions. The financial sector in various economies including Bangladesh is undergoing a mammoth restructuring process in the past few years due to massive crisis in the financial sector across the globe. The recent global recession has highlighted the need for banks to incorporate the concept of risk management into their regular agenda. Various aspects of increasing deregulation, introducing innovative products, and financial instruments as well as innovation in delivery channels have highlighted the need for banks' risk management.

While providing credit as a main source of generating income, banks take into account many considerations as a factor of credit management which helps them to minimize the risk of default that results in financial distress and bankruptcy. This is due to the reason that while banks providing credit they are exposed to risk of default (risk of interest and principal repayment) which need to be managed effectively to acquire the required level of loan growth and performance.

Credit can be defined as 'A transaction between two parties which one (the creditor or lender) supplies money or monetary equivalent goods services, etc, in return for a promise of future payment by the other (the debtor or borrower)'. Prudent use of credit results in the economic growth of the borrowers, which in turn leads to overall economic well-being of the society and ultimately the country. As purchasing power increases, people tend to spend more on consumer goods and this stimulates further economic growth.

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 of counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions.

Credit risk is a critical risk area in banking business. If not effectively managed, it causes non-performing loans or bad assets, reduces a bank's profit margins, erodes capital and in extreme cases, may lead to bank failure. Credit risk management thus, has to be a vital banking practice, involving identification, measurement, aggregation, control and continuous monitoring of credit risk (Greuning & Bratanovic, 2009). Credit risk can be defined as 'the probability of loss (due to non-recovery) emanating from the credit extended, as a result of the non-fulfillment of contractual obligations arising from unwillingness or inability of the counter-party or for any other reason'. If the probability of the loss is high, the credit risk involved is also high, and vice-versa.

Credit losses are the results of the ability and willingness to repay the credit. Only a proper credit-risk analysis will bring to light the probability of credit loss arising out of genuine business factors and explore the possible mitigates regarding this ominous situation to put a check on it.

In recent times, the awareness among the bankers has grown regarding the need for managing perceived risks in credit related activities. One of the goals of credit risk management in banks is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within the acceptable level. Hence, the credit risk assessment and grading system are being applied to evaluate, identify, measure and monitor the level or status of perceived risk associated with a credit proposal. A number of financial and non-financial factors or parameters are used by the banks for these purposes. The use of comprehensive credit risk assessment and grading techniques increasing very rapidly in the banking sector in Bangladesh because of deterioration in the credit standing of the clients, adoption of Basel accords, compliance of international accounting standards (IAS) & international financial reporting standards (IFRS) and the fast revolution of technologies that has made the bankers user friendly in the adoption of these techniques.

From the findings of different studies, it can be noted that at the very outset the banking sector in Bangladesh provided huge amount of soft debt facilities to trade, industry and farming activities for enhancing overall economic growth of the country and it was done as a part of social commitment of the nationalized sector. Therefore, the bankers were more concerned to disburse credit to the clients and not to control the credit flow. At that time, bankers used to take credit decisions mostly on the basis of 5Cs consists of character, capacity, capital, collateral, condition and control for safeguarding their credit and without requiring any information of much sophisticated nature from the borrowers for using credit risk assessment for qualifying credit. Even in many cases bankers were reluctant to apply very sophisticated financial techniques in credit decision making if they were satisfied with the security or collateral supplied by the borrowers. Thus the practice of sophisticated financial techniques as well as credit risk assessment system for evaluating borrowers' creditworthiness were more or less absent in credit operations. But the bankers' attitudes towards applying in depth financial analysis in credit decision making have been changed – particularly after 1980s when they observed an alarming amount of default credit in their portfolio. They started taking the whole financial scenario of the business of the borrowers along with the security and collateral. They also started practicing the techniques of financial analysis to evaluate the financial statements submitted by the borrowers. But again the use of financial techniques was limited to the study of income statement, balance sheet and cash flow statement only with the application of some traditional financial ratios like current ratio, gross profit margin, debt service coverage ratio, debt-equity ratio, break-even point analysis, net present worth, benefit cost ratio, internal rate of return, etc.

In recent days, people are becoming more aware about the management of their resources. As the banks do business by lending their depositors' money, they are more responsible to manage their credit portfolio smoothly. The usage of banking service for any type of financial activities is increasing day by day. People are taking loans to start different types of businesses as well as other purposes. It is now very important to know the internal credit processes of the banks. According to Carey (2001), risk management is the foundation of banking business because it allows the banks to offer services sustainably and at a regular fashion. There are a number of sources of risks for banking business. These are including liquidity risk, default risk, interest rate risk, etc. Some authors rename the banking business as a business of risk. The better a bank can manage its risk, the greater its performance in the long run.

Very recently the Focus Group on risk management has prepared an industry best practice guidelines titled 'Credit Risk Management Guidelines' for the scheduled banks in Bangladesh under the leadership of Bangladesh Bank with a view to managing risk exposure effectively. To shed light this purpose and improving the credit portfolio of the banks, the guidelines consists of some directional policy frameworks and procedural methods like credit policy, credit risk assessment and risk grading system, segregation of duties of approval authority, internal audit, preferred organizational structure and responsibilities, approval process, credit administration, credit monitoring and credit recovery. To supplement the policy frameworks another manual on risk grading has also been prepared under the leadership of Bangladesh Bank.

1.2 Objective of the Study

The main objectives of the study are follows:

Broad Objectives

- To identify the Credit process & Risk Management of Rupali Bank Ltd. and its services.

Specific Objectives

The objective of the internship program is to familiarize students with the real business situation, to compare them with the business theories & at the last stage make a report on assigned task. The specific objectives are as follows:

- To apply theoretical knowledge in the practical field;
- To identify credit risk management system and procedure followed in the Rupali Bank Ltd;
- To make a thorough review of tools and techniques of credit risk management practiced in Rupali Bank Ltd. as suggested by the relevant bodies and experts under the leadership of Bangladesh Bank.

1.3 Literature review

Marrison (2002) articulate that the main activity of bank management is not deposit mobilization and giving credit. Effective credit risk management reduces the risk of customer default. They add that the competitive advantage of a bank is dependent on its capability to handle credit valuably. Bad loans cause bank failure as the failure of a bank is seen mainly as the result of mismanagement because of bad lending decisions made with wrong appraisals of credit status or the repayment of nonperforming loans and excessive focus on giving loans to certain customers. Goodhart (1998) states that poor credit risk management which results in undue credit risk causes bank failure.

Saunders and Cornett (2006) found that to address the credit risks, banks and other financial intermediaries should focus on the probability of default of the borrowers. There are several models available to analyze credit risks, some of which are qualitative models and some are quantitative models. Qualitative models indicate borrower specific factors and market specific factors.

Mosharrafa, R.A. (2013) found that credit risk grading technique is an important tool for credit management as it helps a bank to understand various dimensions of risk involved in different credit transactions.

Lahsasna et al. (2010) emphasized that credit risk decisions are key determinants for the success of financial institutions because of huge losses that result from wrong decisions. Poor evaluation of credit risk can cause money loss (Gouvea 2007). Wu et al. (2010) stressed that credit risk assessment is the basis for credit risk management in commercial banks and provides the basis for loan decision making.

Furthermore, Angelini et al. (2008) stressed that risks continues to provide a major threat to successful lending despite advancements in credit evaluation techniques and portfolio diversifications. Credit risk assessment is an integral part of the loan process in banking business. Both credit scores and credit ratings are credit risk assessment tools. Credit scoring is a credit risk management technique that analyzes the *individual borrower's* risk and is expressed in numerical form. On the other hand, credit rating is often expressed as a letter grade, conveying the creditworthiness of a business or government. Without a thorough risk assessment, banks have no way of knowing if capital reserves accurately reflect risks or if loan loss reserves adequately cover potential short-term credit losses. Vulnerable banks are targets for close scrutiny by regulators and investors, as well as debilitating losses. The Basel committee has defined credit rating as a 'summary indicator' of the risk inherent in individual credit, embodying an assessment of the risk of loss due to the default of a counter party by considering relevant quantitative and qualitative information. Bangladesh has started preparations to implement the Basel-III framework for bank companies from 2014 in line with the global standard. The global financial crisis and the credit crunch that followed put credit risk management into the regulatory spotlight. As a result, regulators began to demand more transparency. They wanted to know that a bank has thorough knowledge of customers and their associated credit risk. And new Basel III regulations will create an even bigger regulatory burden for banks.

Treacy and Carey (2000) suggested that in designing a credit rating system, a bank should consider numerous factors, including cost, efficiency of information gathering, consistency of rating produced, staff incentives, nature of a bank's business, and uses to be made of the internal ratings. Despite the advances in science and technology that allow the development of expert system or statistical classification models, human judgment is still an important ingredient in the credit assessment process. Also the rating process almost always involves the exercise of human judgment because factors to be considered in assigning a rating and the weights given to each factor differ significantly among borrowers.

Ernst and Young (2011) on behalf of the Institute of International Finance (IIF), surveyed 62 of the largest banks to assess banks' progress in the implementation of risk governance principles and practices outlined in the 2008 IIF report. Across the board, banks have embraced the IIF's principles to advance risk management, risk governance and risk appetite. Among the 62 chief risk officers (CROs) and senior risk executives who participated in our survey, the most common improvements cited included strengthened management, increased control of liquidity risk and refined reporting systems.

Lawrence (2007) posits that lenders review the borrower’s business plan and financial statements, they have a checklist (credit appraisal) of items to look at one of the being the number of financial ratios that the financial statements reveal. These ratios are guidelines to assist lenders determine whether the borrower will be able to service current expenses plus pay for the additional expense of a new loan.

Poudel (2012) appraised the impact of the credit risk management in bank’s financial performance in Nepal using time series data from 2001 to 2011. The result of the study indicates that credit risk management is an important predictor of bank’s financial performance. Mureithi, A.W (2010) found that credit appraisal is carried out for various reasons, these are; as a selection tool, to quantify risk, to aid in decision making, and to ensure good quality business with excellent credit worthiness. This makes the credit appraisal process an important activity among the lending institutions. Causes of non-performing loans include; unprofessional credit risk evaluation, moral hazard on part of management, lack of supervision of projects, lengthy litigation process and intentional default incomplete, poor and unprofessional credit risk assessment and valuation of credit appraisal model. An inefficient credit appraisal process is one of the causes of non-performing loans of various lending institutions.

Moti, H.O. et al. (2012) found that a key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns. However, it is necessary to rely on models and algorithms rather than human judgment in consumer lending because of the vast number of decisions involved (Khandai et al., 2010). This highlights the need for accurate decision support model for credit admission evaluation and also for monitoring the ongoing health of credit customers (West et al., 2005). A small improvement in the accuracy of the credit decision might reduce the credit risk and translate into important future savings (Chen and Huang, 2003).

Rahman, S. M. (2011) noted that at the very outset the banking sector in Bangladesh provided huge amount of soft debt facilities to trade, industry and farming activities for enhancing overall economic growth of the country and it was done as a part of social commitment of the nationalized sector. Therefore, the bankers were more concerned to disburse credit to the clients and not to control the credit flow. Credit Risk Grading system is a dynamic process and various models are followed in different countries and different organizations for measuring credit risk. A more effective credit risk grading model needs to be introduced in the Banking Sector of Bangladesh to make the credit risk grading mechanism easier to implement.

1.4 Methodology of the Study

This study is the result of consulting the existing literature and is basically theoretical in nature on the subject. All the discussions that have been included in this paper are the results of extensive study of existing credit risk grading and risk management systems prevailing in the bank which were issued by the central bank time to time.

Methods followed to perform a job or conducting activities to complete a task is called methodology. Both qualitative and quantitative methods were conducted in preparing this report The data were analyzed and presented by Microsoft excel and shows percentage, graphical presentation and different types of charts. Best effort was given to analyze the numerical findings.

The main focus is on numerical data in preparing the report. Also theoretical portion of the report has been used as the demand of the report. Analyzing foreign trade management of a bank, both theoretical and technical knowledge are necessary for execution, then everything with accuracy.

- Primary data

The primary data of this report is the information, which is gathered from Rupali Bank Ltd. (RBL), Zonal Office Dinajpur.

- Secondary data

The secondary data of this report are collected from the bank`s Annual Reports, different kinds of booklets and reports published time to time for various business conferences and some reports from which I got idea about the way of writing a report.

CHAPTER 2
INSTITUTIONAL PROFILE

Chapter 2: Institutional Profile

2.1 An overview of Rupali Bank Ltd.

Rupali Bank Ltd. (RBL) was constituted with the merger of 3 (three) erstwhile commercial banks i.e. Muslim Commercial Bank Ltd., Australasia Bank Ltd. And Standard Bank Ltd. operated in the then Pakistan on March 26, 1972 under the Bangladesh Banks (Nationalization) order 1972 (P.O. NO. 26 of 1972), with all their assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings and obligations. Rupali Bank worked as a nationalized commercial Bank till December13, 1986. Rupali Bank Ltd. Emerged as the largest Public Limited Banking Company of the country on December 14, 1986. At present Rupali Bank Ltd. operates through 554 branches located in 25 different Zonal Offices under 10 Divisional Offices.

The head office of the bank along with its corporate structure is located at 34, Dilkusha Commercial Area, Dhaka-1000, Bangladesh, the main commercial center of the capital with one local office (main branch), four corporate branches at Dhaka, one in Chittagong and twenty-five zonal offices all over the country. The Board Of directors is composed of eight members headed by a chairman and the directors comprise representatives from both public and private sectors and shareholders. The Bank is headed by the Managing Director (Chief executive) who is a reputed professional Banker. The Bank has an authorized capital of TK. 700 crore with a paid up capital of TK. 240.03 crore. Government of Bangladesh owns 90.19% of its share while the private share constitutes only 09.81%.

2.2 Organizational overview of Zonal Office, Dinajpur

Rupali Bank Limited, Dinajpur Zonal Office started on 01-03-1978. The first Zonal Manager was Mr. Md. Sayder Rahaman, Assistant General Manager. The office was originally situated in Basunipatty, Dinajpur but at present the zonal office is located at a more strategic location Goneshtola, Dinajpur which is very visible to people. Dinajpur Zone of RBL is comprised of 17 bank brnaches which are located in three different districsts viz. Dinajpur, Thakurgaon and Panchagarh under Rangpur Divisional Office.

2.4 Functions and Operations of the Bank

The principal activities of the bank are to provide a comprehensive range of financial services, personal and commercial banking, trade and services, cash management, treasury, securities and custody services and perform Government Treasury functions. It offers various banking services such as personal banking, rural banking, international banking, and industrial financing as well SME banking. For its retail customers it offers savings, remittance and deposit products including savings accounts, daily profit accounts as well as education deposit, Medicare deposit, marriage savings deposit and rural deposit schemes.

2.4.1 Banking Services

Rupali Bank Limited extends all the Banking facilities and services to customers. The bank has a very wide network of activities and services both in urban and rural areas through its 554 branches all over the country.

Deposit schemes

- Savings Deposit (SB)
- Current Deposit (CD)
- Call Deposit (CDR)
- Short Notice Deposit (SND)
- Fixed Deposit (FDR)

Interest Rates

SL No.	Types of Deposit	Interest Rate per annum
1.	Savings Deposit	5%
2.	Short Notice Deposit (SND)	4%-5% (Depending on average deposit)
3.	Fixed Deposit (FDR)	

	a)	3 months & above but less than 6 months	6.5%
	b)	6 months & above but less than 1 year	6.75
	c)	1 year & above but less than 3 years	7%

Schemes

- Rupali Deposit Scheme (RDS)
- Rupali Monthly Earning Scheme (RMES)
- Rupali Millinaire Deposit Scheme (RMDS)

Special Attractive Products

- Rupali Monthly Savings Scheme (RMSS)- SHOPNO
- Rupali Monthly Profit Scheme (RMPS) – RUPOSHI
- Rupali Double Benefit Scheme (RDBS)
- Festival Deposit Scheme (FDS)

School Banking Account

- Rupali Students` Savings Account (RSSA)

Street and Working Children Account

- POTHFUL (Special Savings Account)

Loans and Advances

- Industrial Porject Loan/ Term Loan
- Cash Credit (Hypothication)
- Cash Credit (Pledge)
- Overdrat(OD)
- Bank Guarantee
- Loan Under Equity Entrepreneurship (EEF)
- Green Porject Loan
- Renewal Energy Project Loan

- Syndiction/ Consotium Loan
- PPP Loan
- General House Building Loan- Residential/ Commercial
- Loan Against Deposits Schemes
- Commercial Car Loan
- Student Loan

Small and Medium Enterprise Loan (SME)

- SHOHOJ
- PESHAJIBI
- BABOSHAYEE
- MAJHARI
- Under the 4 (four) SME products, loan to Sola Installation, Bio-gas and Agro-based project and Trained-Efficient professionals are provided as the specialized area.
- Woman Entrepreneur Financing Program
- Cluster Financing
- Kormo Bandhob Rin (PROYASH)

Small Enterprise Financing

Manufacturing

- Fixed Assets Financing
- Working Capital Financing

Trading

- Working Capital Financing

Green Finance

Sola energy, Bio Gas, Bio-Fertilizer, ETP, Water Purification Plant, Waste Management Plant & HHK (Hybrid Hoffman Kiln) Brick Field, Forestation, Mashrum project, Horticulture and many other under Bangladesh`s Bank`s guidelines.

Rural and Agro Credit

- Youth/ Farmers` loan
- Fishery Loan
- Goat/ Sheep Rearing Loan
- Dairy Loan
- Poultry Loan
- Micro-Credit for the Handicapped
- Micro-Credit
- Solar-Energy and Bio-Gas Plant Installation Loan
- Shrimp cultivation
- Loan Against Crop Storage in Silos-SHAGARIP
- Pulses seeds for edible oil, Spices & Maize cultivation
- Loan for tree plantation
- Bank-NGO Linkage Credit
- Socio-economic & poverty alleviation loan

Other Loan

- Loan Against Share/ Debenture
- Transport/ Car Loan- Commercial and Consumer
- Consumer Credit

Import Finance

- Letters of Credit
- Payment Against Imported Merchandise (LIM)
- Loan Against Trust Receipt (LTR)

Export finance

- Cash Credit Against Hypothecation of Raw Materials/ Exportable Goods
- Cash Credit Against Pledge of Raw Materials/ Exportable Goods

- Packing Credit (PC)
- Back to Back L/C
- Back to Back L/C under Export Development Fund (EDF)

Post Shipment Credit

- Negotiation/ Purchase of Export Documents
- Advance against Export Bill sent for collection
- Inland Bill Purchase
- Export Bill Discounting
- Advance Against Cash Incentive / Cash Subsidy

2.4.2 Other Banking Services

Rupali Bank Ltd. provides prompt and excellent other Banking Services like-

Fund Transfer

- BEFTN
- Inter-Branch Money Transfer
- Telegraphic Transfer/ Demand Draft/ Mail Transfer
- Automated Inward Foreign Remittance

Modern Banking Services

- Online transaction facility (ABB)
- SWIFT
- ATM Service
- BACH

Value Added Service

- Locker Service

New Products and Services

- Merchant Banking Services
- Capital Market Services

Foreign Remittance

- Automated Remittance Management System
- Digital Guideline on Foreign Remittance
- Spot Cash Payment

Under Process

- Core Banking Solution (CBS) ™ Intellect
- Mobile Banking (Mobile Financial Servies- MFS)

2.4.3 Credit Facility

General Credit Line and Programme

- Rupali Bank Ltd. extends credit facility to almost every sector of the country's economic activities;
- Main focus of Rupali Bank Credit program me is on financing trade and commerce, business and industry having productive purpose;
- Credit facilities are also offered to international trade and business, export and import;
- Credit program of the bank also covers development of rural economic activities like agriculture and livestock, dairy and poultry, fishing and hatchery etc.;
- Loan is provided to thrust sectors declared by the government at concessional terms;
- Lending programs are operated as per guideline of Bangladesh Bank (the central bank of the country) through an effective lending policy and procedure of the Bank.
- Lending policy of the Bank ensures quick processing, sanctioning and disbursement of loan in all viable sectors

2.4.4 Rural Credit Program

Bangladesh is mainly a land of agriculture. A vast majority of our people lives in the rural areas and their main source of income are agriculture and agro-business. To produce agricultural output, promote agro-business, facilitate agro-based services, create and sustain employment opportunities, Rupali Bank Ltd. is disbursing agricultural loan/rural credit through its 554 branches all over the country.

2.4.5 Sectors of Financing

Rupali Bank Ltd. extends credit to the following rural sectors

1. Fishery
2. Livestock
3. Shrimp Culture
4. Poverty Alleviation Program
5. Micro-credit
6. Agricultural product processing and marketing.

2.4.6 Green Banking

The world is concerned and worried about climate change, Global warming, environment pollution and their bad impacts. The rapid change in climate have direct impacts on biodiversity, agriculture, forestry, land, water , air, human health and so on. Urgent steps are needed to save the planet against climate change. Bangladesh is the most climate change vulnerable country. Climate change has compelled us to think about protection of environment and conservation of energy. They also think about renewable energy for their existence. Banks hold a unique and vital position in the arena of economy. Bankers can contribute much to develop the country's economic system. When a bank does something good its reputation goes up and when it does something bad or accused to do so, its reputation goes down. Green banking is a tool to acquire reputation.

Green banking is a simple word but its magnitude is significantly wide covering social environment and economical aspects. Green banking is a device that considers social and ecological factors to protect environment and conserve natural resources. They think protecting environment means protecting ourselves. Green bankers think to protect environment and conserve power and energy in order to ensure a safer world for the next generation. Green bankers are concerned about sustainable development. Green banking is a proactive and effective step with a vision for future sustainability. As a human being, they are to maintain ethical standard. They don't compromise with unethical tasks. Doing harm to environment means doing harm to us as well as our next generations. They should use their resources with responsibility avoiding harm to mankind.

Rupali Bank Ltd. has significant role for setting up green banking following the rules and regulations provided by Bangladesh Bank and was capable for achieving 3rd place in implementing green financing among the top ten green banks in 2012. The bank has financed green projects s147 crore, 63 crore and 127 crore in the year of 2013,2014 and 2015 respectively. At present solar panel has been built up in 6 branches and emphasis has been given in automation process by reducing paperless banking.

2.4.7 Investment Portfolio

Rupali Bank Ltd. presently roaming in the following areas of investment:

- Bangladesh Government Securities/Bonds;
- Treasury Bills;

- Grameen Bank Bonds.
- Debentures of government and semi-government organizations & Public Limited Companies;
- hares of listed companies.

Industrial Banking

In order to support the development of industrial sector of the country through active participation of private and direct foreign investment, Rupali bank Ltd. has taken appropriate programs as per Industrial Policy of the Government. The loan portfolio of the Bank includes sizeable investment of fund towards development of thrust industrial sectors like Textile, Jute, Leather, Leather goods, Frozen and semi cooked Shrimps, Footwear, Knit Garments and other small and medium enterprises. Rupali Bank Ltd. is participating in joint venture finance and consortium finance for setting up large-scale projects. The Bank lays special emphasis on agro-based and IT related industries.

2.4.8 Utility Services

Rupali Bank Ltd. offers some special services to customers in addition to its normal banking operation. Collection of various utility bills is one of them. Under this service, the Bank benefited Customer by collecting their various utility bills like Telephone bill, Water & Sewerage bill, Electricity bill etc free of charges.

2.4.9 Other Banking Activities

74 branches of our bank are engaged in works relating to the payment of portion of salaries afforded by the government to the teachers and employees of registered non-government educational institutions including teachers of non-government educational institutional, 98 branches relating to the payment of scholarship and stipends to the

girl students at primary and secondary levels and 69 branches relating to the payment of stipends to the girl students at primary and higher secondary level. In addition to those, almost all the branches of Rupali Bank are engaged in work relating to the payment of pension bill to the retired government, civil and military personnel and the receipt of utility bills such as PDB, DESA, REB, WASA, GAS & Telephone etc. including other service-related work of the government (such as receipt of Municipal Tax and Land Development Tax, purchase and sale of Prize Bonds, receipt of Hajj money etc).

2.4.10 Corporate Social Responsibility

Rupali Bank Limited (RBL) has been rending various services for attaining greater social goals and objectives. In this process, we aim to the development of the society as a whole and fulfillment of corporate social obligation in particular. To reinforce CSR activities, the bank has undertaken fresh initiatives in line with Bangladesh Bank guidelines in the areas of social service, empowerment of poor, sports & culture, banking for the disadvantaged group, disaster & relief activities.

2.5 Corporate Profile

Name of the company	:	Rupali Bank Limited
Chairman	:	Monzur Hossain
Managing Director	:	M. Farid Uddin
Company Secretary	:	Md. Shahjahan Khandaker
Legal Status	:	Public Limited Company
Genesis	:	Rupali Bank Limited has been incorporated on 14 December 1986 under the Companies Act 1913 after taking over and acquiring as a going concern the undertaking and businesses of Rupali Bank with all of its assets, liabilities, benefits, rights, powers, authorities, privileges, borrowings and obligations. Rupali Bank, which initially emerged as a Nationalized Commercial Bank (NCB) under the Bangladesh Banks (Nationalization) Order, 1972 (President's Order No. 26 of 1972), has now become a state-owned commercial bank (SCB) through a vendor's agreement dated 15 November 2007.
Date of Incorporation	:	14 December 1986
Registered Office	:	34, Dilkusha Commercial Area, Dhaka-1000, Bangladesh
Authorized Capital	:	Tk. 700 Crore
Paid-up Capital	:	Tk. 240.03 Crore
Reserves & Retained Earnings	:	Tk. 1374 Crore
Credit Rating by CRAB(2009)	:	Long Term - A3; Short Term-ST3; National Support-AAA
Listing with DSE	:	19-08-1987
Listing with CSE	:	10-10-1995
Commencement of Trading with DSE & CSE	:	23-12-1986
VAT Registration	:	9011039307
TIN Certificate	:	177-200-0021/LTU/Dhaka
Auditors	:	AHMAD & AKHTAR, Chartered Accountants, BCIC Bhaban (3rd Floor), 30-31 Dilkusha C/A, Dhaka-1000, & G. KIBRIA & CO., Chartered Accountants, Shadharan Bima Bhaban (6thFloor), 24-25 Dilkusha C/A, Dhaka-1000,
Legal Advisor	:	S.M Atikur Rahman, Barister-at-Law, Suite- D (1st Floor), 105/A Kakrail Road, Dhaka, Bangladesh.
Tax Consultant	:	K.M HASAN & CO. Chartered Accountants, Hometown Apartment (8th & 9th Floor), 87, New Eskarton Road, Dhaka-1000, Bangladesh.

Number of Employees	:	5639 (As on 31-01-2016)
Number of Branches	:	554
Number of Subsidiary Companies	:	01 (Rupali Investment Limited)
SWIFT BIC	:	RUPBBDDH
Website	:	www.rupalibank.org
E-mail	:	info@rupalibank.org, it@rupalibank.org

2.6 Vision & Mission

Vision

- To expand our loyal customer base by being known as the financial partner of choice constantly exceeds customer expectations.

Our Mission

- Develop long-term relationships that help our customers achieve financial success.
- Offer rewarding opportunities and cultivate staff commitments.
- Uphold ethical values and meet its customer’s financial need in the fastest and most appropriate way and continue innovate works in order to achieve human resource with superior qualities, technological infrastructure and service packages.

2.7 Core Values

- Social responsibility-we care for and contribute to our communities.
- Performance-we measure and results reward achievements.
- Integrity-we uphold trustworthiness and business ethics.
- Respect-we cherish every individual.
- Innovation-we encourage creativity.
- Teamwork-we work together to succeed.

The first letters of the initial words form “SPIRIT” and carry equal importance.

2.8 Strategic Objectives

- Develop a customer oriented service culture with special emphasis on customer care and convenience.
- Increase market share by following a disciplined growth strategy.

- Achieve a significant share of deposit and credits from the existing and niche markets.
- Leverage its technology platform and pen scalable systems to achieve.
- Cost-effective operations, efficient MIS, improved delivery capability and high service standards.
- Develop innovative products and services that attract targeted customers and market segments.
- Maintain a high quality assets portfolio to achieve strong and sustainable returns and to continuously build shareholder's value.
- Explore new avenues for growth and profitability, particularly by diversifying loan portfolio through structured finance and expansion of retail and SME financing.
- Strengthen the bank's brand recognition.

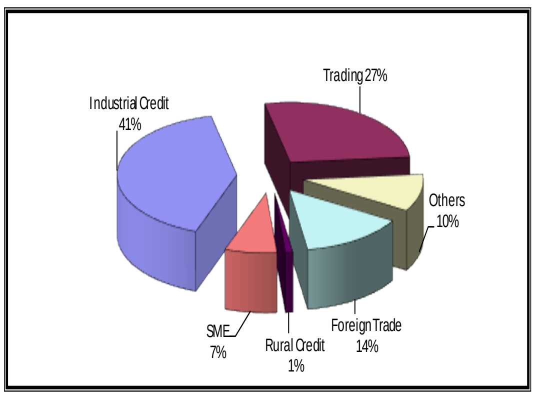
CHAPTER 3
ANALYSIS AND DISCUSSION

Chapter 3: Analysis and Discussion

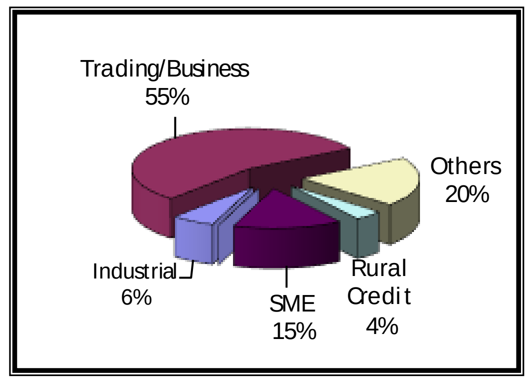
3.1 Data Analysis

A general analysis of loans and advances of Rupali Bank Ltd is given bellow (Source: Annual Report -2015):

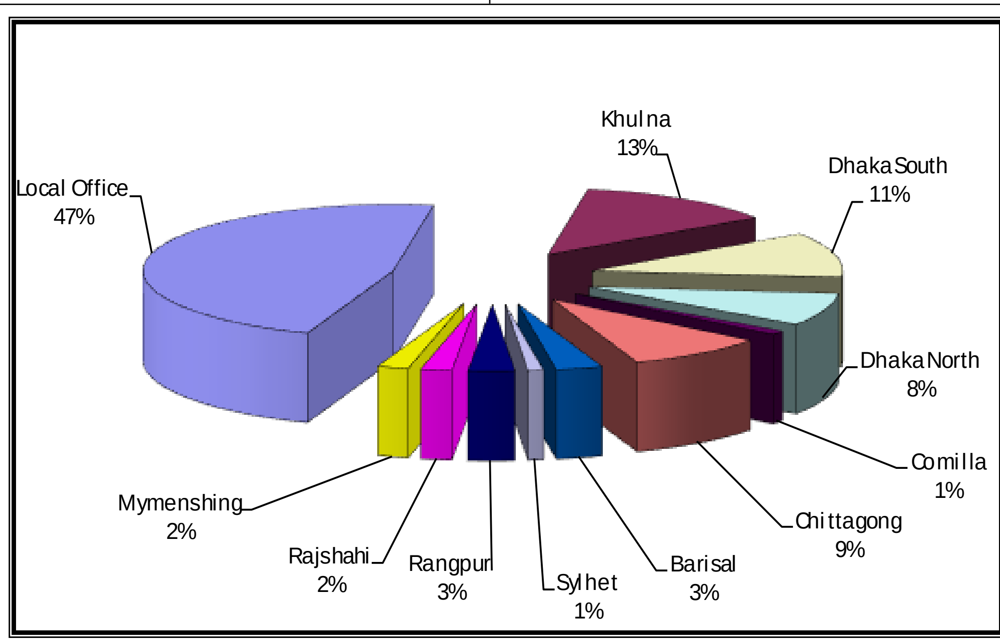
3.1.1 Sector and Divisional Office wise Loans and Advances as on 31-12-2015 :



Sector wise of RBL



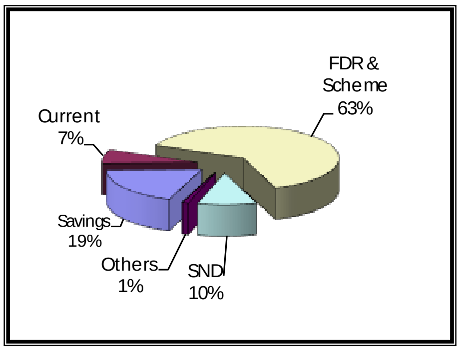
Sector wise loan of Dinajpur zone, RBL



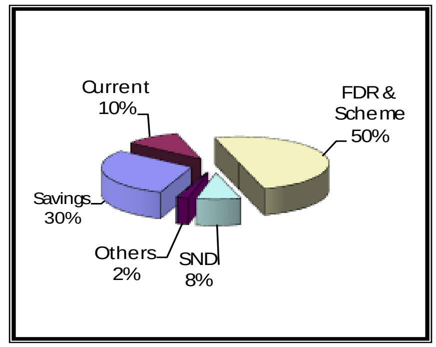
Divisional Office wise Loans and Advances of RBL

Fig. 01: Sector and Divisional Office wise Loans and Advances as on 31-12-2015.
(Soure: Annual Conference-2016)

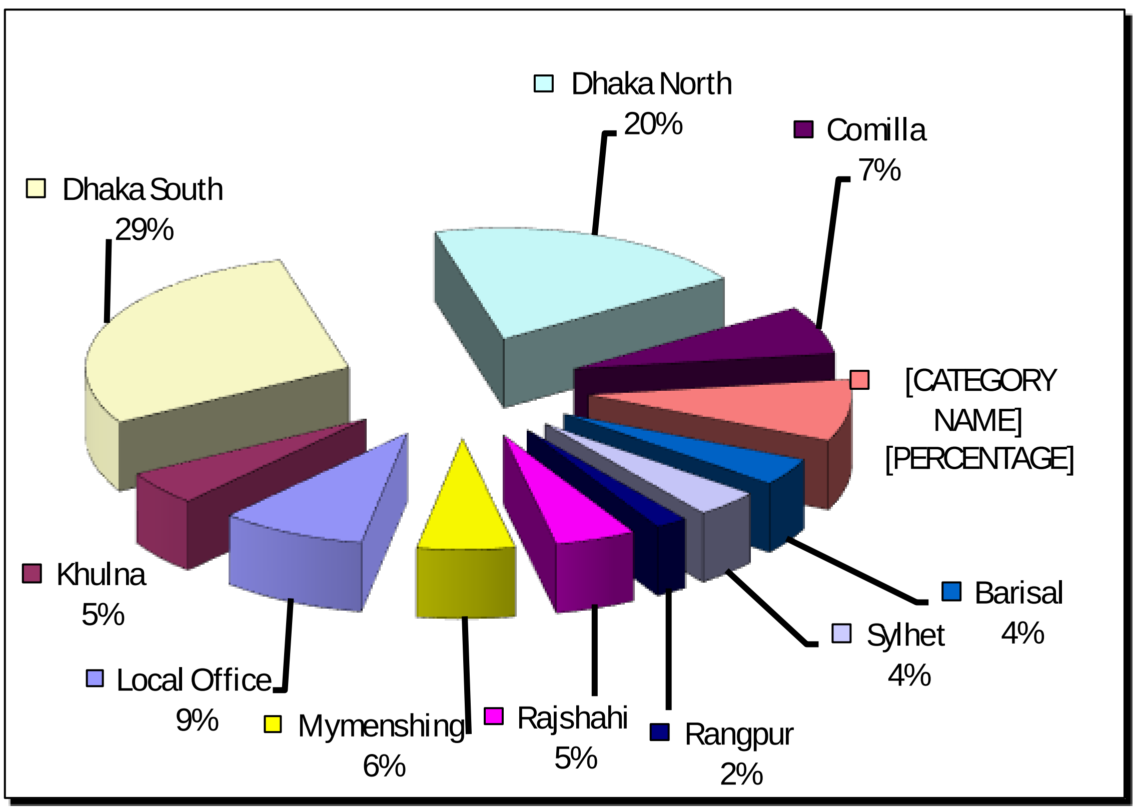
3.1.2 Deposit Mix of RBL as on 31-12-2015:



Deposit Mix of RBL



Deposit Mix of Dinajpur Zone, RBL

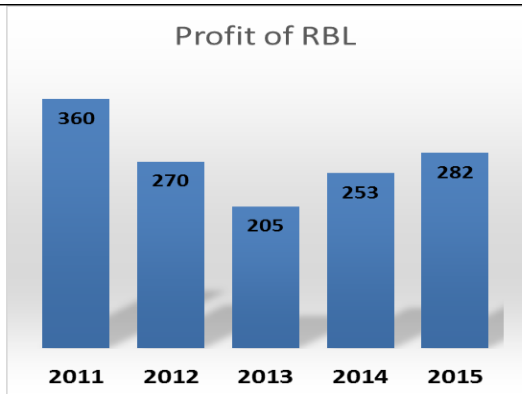


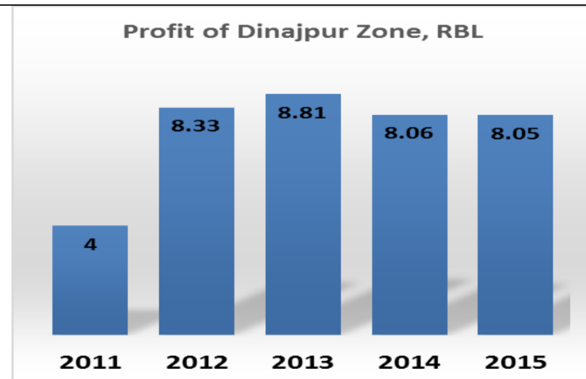
Deposit Mix of RBL Divisional Office wise

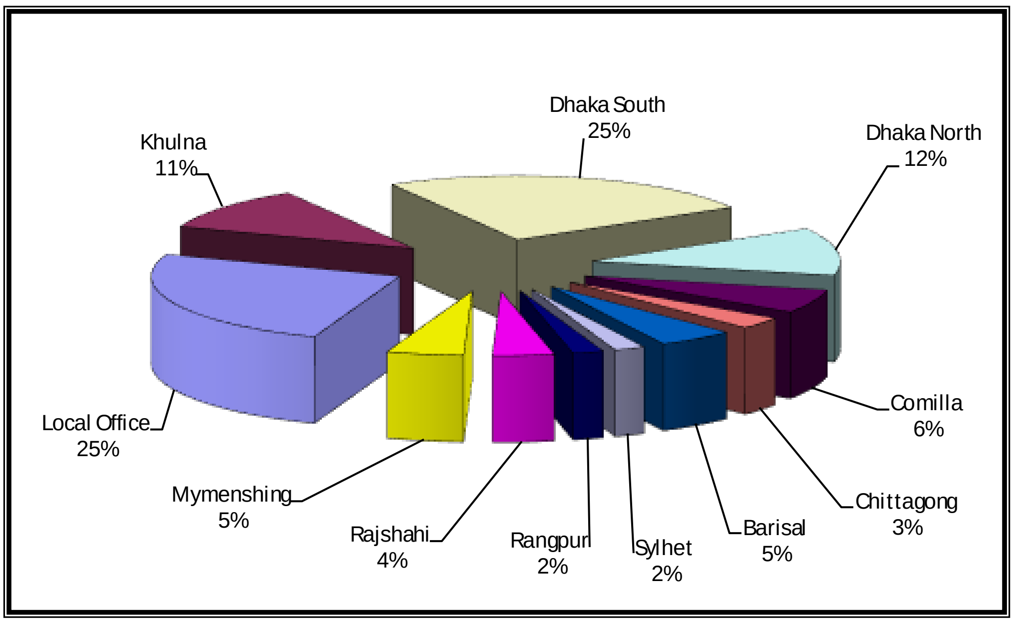
Fig. 02: Deposit Mix of RBL as on 31-12-2015; (Source- Annual Conference-2016)

The above figure shows that the deposit base of the RBL is covered with a huge amount (63%) of costilier doposit type such as FDR & Schemes and so the Dinajpur Zone (50%) and it contains poor amunt of no cost & low cost deposit type e.g. Current, Savings and SND.

3.1.3 Profit Comparisons (Amount in Crore Taka) :







Division wise profit of RBL

Fig. 03: Profit Comparision; (Source: Annual Conference-2016)

The profit generating capacity of Dinajpur Zone of Rupali Bank Ltd. remains all the same in the last fours consecutive years except in the year of 2011.

3.1.4 Recovery with respect to classified loan and total loan (Amount in Crore Taka):

Table 01: Total loan and Percentages of Classified loan and rcovery in five consecutive year of RBL

(Taka in Crore)

Year	Total Loan	Classified loan	Recovery	Percentage
2011	7653	455	311	6%
2012*	9064	2263	698	26%
2013	10743	1799	2240	17%
2014	12501	1519	104	12%
2015	14252	1549	112	11%

* The total amount of classified loan has been increased due to change of CL rules by Bangladesh Bank. (Source: Annual Conference, Dhaka-2016)

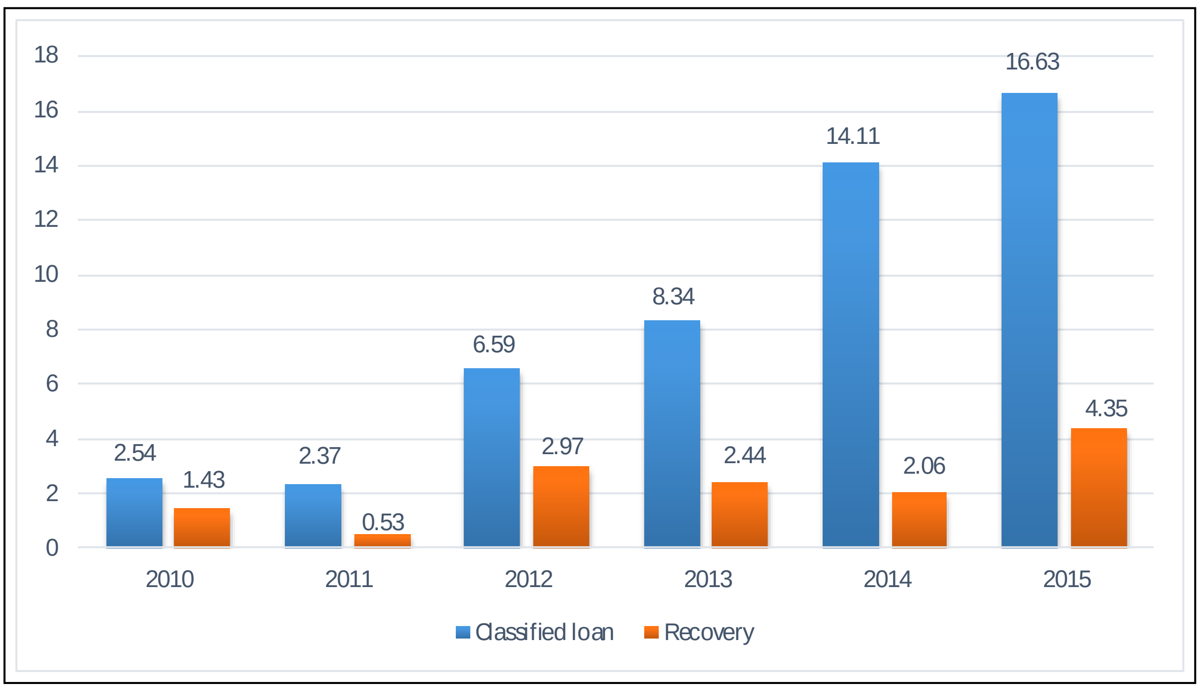


Fig. 04: Recovery with respect to classified loan Dinajpur Zone, RBL.
(Source: Prepared by the author)

The above figure shows that the non-performing loan amount has increased rapidly of the zone in the last four years while the recovery performance remains all the same. At present the zone burdened with 11.55% of classified loan.

3.1.5 Business position of Zonal Office, Dinajpur

Table 02: Year wise business position of Rupali Bank Ltd., Zonal Office, Dinajpur.

(Taka in Crore)

Year	Total Deposits	Total Loan	Classified loan	Percentage of CL	Recovery	Profit
2010	122.01	69.07	2.54	3.68%	1.80	2.50
2011	148.46	103.45	2.37	2.29%	0.53	5.24
2012	202.28	110.38	6.59	5.97%	17.90	8.33
2013	209.16	125.09	8.34	6.67%	2.44	8.81
2014	246.66	135.14	14.11	10.44%	2.06	8.06
2015	267.66	143.96	16.63	11.55%	4.35	8.05

(Source: Prepared by the author)

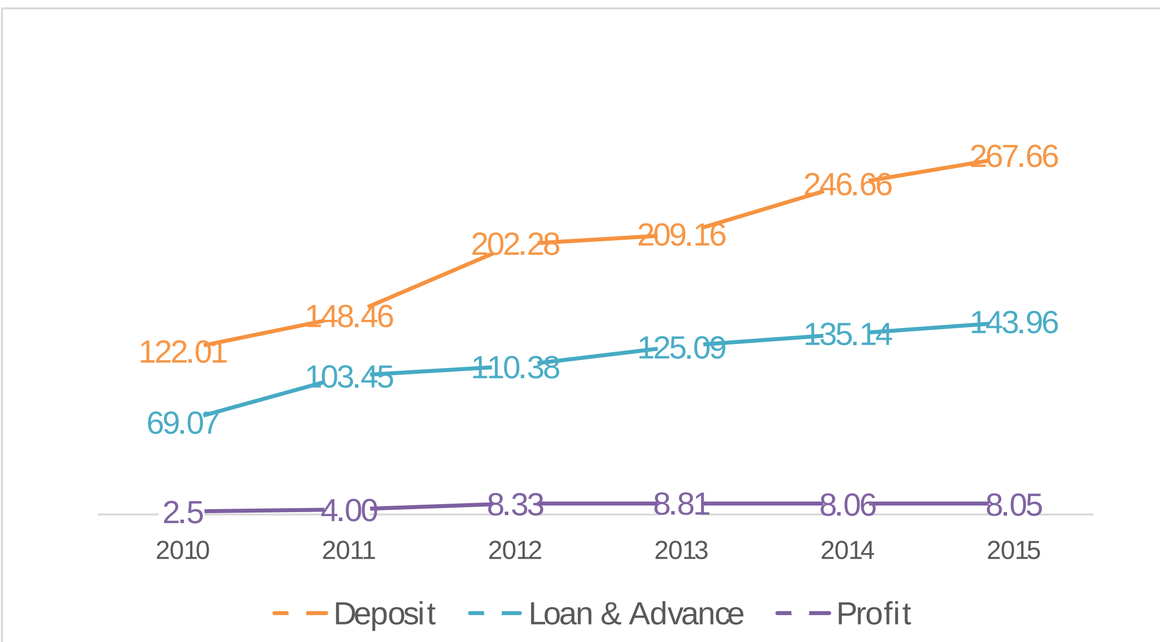


Fig. 05: Year Wise Business position of Dinajpur Zone, RBL.
(Source: Prepared by the author)

From the above table and diagram it is seen that

 The deposit figure has increased rapidly;
 The lending amount has increased steadily in the last four years in RBL and so on Dinajpur Zone of the bank due to change of dynamic business policy;
 The profit of the zone remains all the same in last four years except in the year of 2010 and 2011 due poor amount of lending operation and the profit figure doubled in 2012.

3.1.6 Category wise classified loan:

The table below shows that it has huge amount of classified loan in trading sector.

Table 03: Catagory wise classified loan of consecutive three years of RBL, Dinajpur Zone.

(Taka in Crore)

Year	Types of Loan and Advances								Total Classified Loan
	Trading		SME		Micro Credit & Agriculture loan		Others		
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)	
2013	6.65	79.74%	0.42	5.04%	1.12	13.43%	0.15	1.80%	8.34
2014	10.34	73.28%	2.01	14.25%	1.38	9.78%	0.38	2.69%	14.11
2015	78.00	54%	22.00	15.00%	6.00	4.00%	29.00	20%	16.63

(Source: Prepared by the author)

3.1.7 Non- performing Loans to Total Loan Ratio (NPTL)

This is one of the most important criteria to assess the quality of loans or asset of any commercial bank. Non-performing Loans to Total Loan Ratio (NPTL) measures the percentage of gross loans which are doubtful in banks' portfolio. The lower the ratio of Non-performing loans to total loan ratio (NPTL), the better is the performance.

The table bellow shows the non-performing loans to total loan ratio of 17 branches of Dinajpur Zone of the bank.

Table 04: Non- performing Loans to Total Loan Ratio (NPTL) of RBL, Dinajpur
Zone as on 31-12-2015

(Figure in Lac)

Branches	Deposit	Loan balance	NPL	% of NPL
Nimtala	1468.98	2605.02	371.01	14.24%
Maldahapatty	1159.92	876.27	170.30	19.43%
Thakurgaon	2043.39	1127.90	175.09	15.52%
Panchagarh	1511.02	1266.97	212.87	16.80%
Chehelgazi	1547.49	559.97	93.21	16.65%
Ladies	1531.78	208.28	0.00	0.00%
Birganj	2232.59	697.54	66.06	9.47%
HSTU	3342.01	1160.70	22.90	1.97%
Birol	1558.16	891.35	43.63	4.89%
Baliadangi	1843.22	865.17	4.05	0.47%
Ranirbandar	1586.79	744.00	106.98	14.38%
Sikdarhat	926.39	433.48	0.00	0.00%
Kabirajhat	862.44	562.97	47.30	8.40%
Daudpur	694.71	464.69	87.39	18.81%
Bhully	1164.93	730.62	19.65	2.69%
Maidandighi	717.40	843.85	177.28	21.01%
Birampur	2574.970	357.78	0.00	0.00%
Total	26766.19	14396.56	1597.72	11.17%

(Source: Prepared by the author)

3.2 Credit Risk Management of Rupali Bank Ltd.

3.2.1 Principles of credit Risk management

The management of credit risk is essential for a sound lending process, the basic principles a bank has to follow in its credit risk management are:

- Background, character and ability of the borrowers
- Purpose of the facility
- Term of facility
- Safety and Security
- Profitability
- Source of repayment
- Diversity of loan portfolio

3.2.2 Tools used in Credit Risk Management

The quality of the credit portfolio of banks depends to large extent on the quality of its borrower. To judge the quality of a borrower the bank's takes into consideration the following:

a) Character: It refers to the willingness of the customers to pay.
b) Capacity: The customer's ability to meet credit obligations.
c) Capital: The customer's financial reserves
d) Collateral: Adequate net worth to support for the loan
e) Conditions (economic) recent trends in borrower line of credit
f) Compliance (law & regulations)

3.2.3 Use of Credit Risk Grading

The Financial Sector Reform Program (FSRP) was introduced in the early nineties in Bangladesh with a view to bringing about financial discipline by undertaking appropriate reform measures in the financial sector. The program was undertaken by the Government of Bangladesh (GoB) with combined support of the World Bank and

USAID under the 'Structural Adjustment Program'. The program mainly covered the banking institutions in the financial sector and suggested several reform measures. Among the measures that FSRP recommended, the Lending Risk Analysis (LRA) constitutes as an important measure. LRA was prescribed for taking sound credit decision in consolidated form on the basis of analyzing risks involved in borrower's business and security. With a view to ensuring better credit risk management, the use of LRA was made mandatory in case of sanctioning or renewing large credits until the adoption of Credit Risk Grading (CRG) in 2003. At present LRA has been replaced by the CRG.

The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of individual borrower, credit portfolio of a unit, line of business, the branch or the bank as a whole.

- As evident, the CRG outputs would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to *pricing* (credit-spread) and specific features of the credit facility. These would largely constitute borrower level analysis.
- Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of a bank. It is also relevant for portfolio level analysis.

3.2.4 Credit Risk Grading Process:

- Credit Risk Grading should be completed by a Bank for all exposures (irrespective of amount) other than those covered under Consumer and Small Enterprises Financing Prudential Guidelines and also under the Short–Term Agricultural and Micro Credit.

- For Superior Risk Grading (SUP-1) the score sheet is not applicable. This will be guided by the criterion mentioned for superior grade account i.e. 100% cash covered, covered by government & bank guarantee.

- Credit Risk Grading Matrix would be useful in analyzing credit proposal, new or renewal for regular limits or specific transactions, if basic information on a borrowing client to determine the degree of each factor is a) readily available, b) current, c) dependable, and d) parameters/risk factors are assessed judiciously and objectively. The Relationship Manager as per Data Collection Checklist should collect required information

- Relationship manager should ensure to correctly fill up the Limit Utilization Form in order to arrive at a realistic earning status for the borrower.

- Risk factors are to be evaluated and weighted very carefully, on the basis of most up–to–date & reliable data and complete objectivity must be ensured to assign the correct grading. Actual parameter should be inputted in the Credit Risk Grading Score Sheet.

- Credit risk grading exercise should be originated by Relationship Manager and should be an on-going and continuous process. Relationship Manager shall complete the Credit Risk Grading Score Sheet and shall arrive at a risk grading in consultation with a Senior Relationship Manager and document it as per Credit Risk Grading Form, which shall then be concurred by the Credit Officer in consultation with a Senior Credit Officer.

- All credit proposals whether new, renewal or specific facility should consist of a) Data Collection Checklist, b) Limit Utilization Form c) Credit Risk Grading Score Sheet, and d) Credit Risk Grading Form.
- The credit officers then would pass the approved Credit Risk Grading Form to Credit Administration Department and Corporate Banking/Line of Business/Recovery Unit for updating their MIS/record.
- The appropriate approving authority through the same Credit Risk Grading Form shall approve any subsequent change/revision i.e. upgrade or downgrade in credit risk grade.

3.2.5 How to Compute Credit Risk Grading:

The following step–wise activities outline the detail process for arriving at credit risk grading. First of all, Financial Spread Sheets are prepared by the lending bank on the basis of financial information provided by the borrower and secondly, the Credit Risk Grading Scoring Sheet is prepared to compute the composite score of the loan proposal in order to judge the merit of the case for achieving approval of the loan.

Step -1: Identify all the Principal Risk Components

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

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

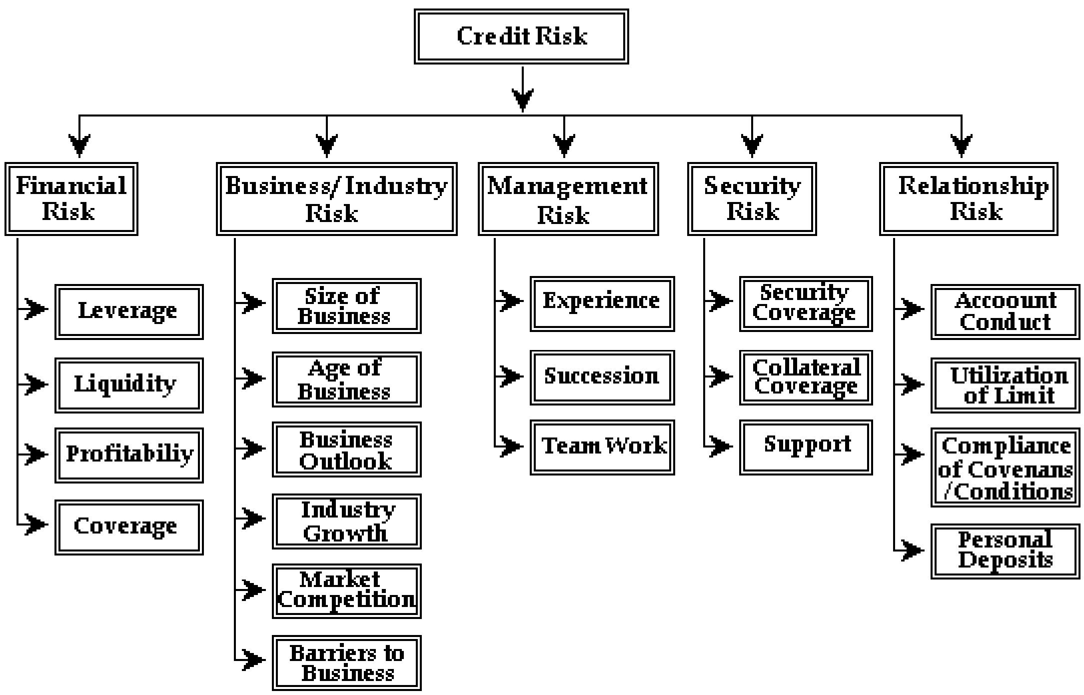


Fig. 06: Risk Components.

Each of the above mentioned key risk areas required to be evaluated and aggregated to arrive at an overall risk grading measure.

Evaluation of Financial Risk:

Risk that counterparties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. analysis of leverage, liquidity, profitability & interest coverage ratios. To conclude, this capitalizes on the risk of high leverage, poor liquidity, low profitability & insufficient cash flow.

Evaluation of Business/ Industry Risk:

Risk that adverse industry situation or unfavorable business condition will impact borrowers' capacity to meet obligation. The evaluation of this category of risk looks at parameters such as business outlook, size of business, industry growth, market competition & barriers to entry/exit. To conclude, this capitalizes on the risk of failure due to low market share & poor industry growth.

Evaluation of Management Risk:

Risk that counterparties may default as a result of poor managerial ability including experience of the management, its succession plan and team work.

Evaluation of Security Risk:

This is the risk that the bank might be exposed due to poor quality or strength of the security in case of default. This may entail strength of security & collateral, location of collateral and support.

Evaluation of Relationship Risk:

These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

Step 2: Allocate weights to Principal Risk Components

According to the importance of risk profile, the following weights are proposed for corresponding principal risks:

Principal Risk Components	Weight
Financial Risk	50%
Business/ Industry Risk	18%
Management Risk	12%
Security Risk	10%
Relationship Risk	10%
TOTAL	100%

Step 3: Establish the Key Parameters

According to the importance of risk profile, the following weights are proposed for corresponding principal risks:

Principal Risk Components	Key Parameters
Financial Risk	Leverage, Liquidity, Profitability & Coverage ratio
Business/ Industry Risk	Size of Business, Age of Business, Business Outlook, Industry Growth, Competition & Barriers to Business
Management Risk	Experience, Succession & Team Work.
Security Risk	Security Coverage, Collateral Coverage and Support.
Relationship Risk	Account Conduct, Utilization of Limit, Compliance

of covenants/conditions & Personal Deposit

Step -4: Weight the Key Parameters

According to the importance of risk profile, the following weights are proposed for corresponding principal risks:

Table 05: Key Parameters

Principal Risk Components	Key Parameters	Weight	Individual Total
Financial Risk	Leverage Liquidity Profitability Coverage	15% 15% 15% 5%	50%
Business/ Industry Risk	Size of Business Age of Business Business Outlook Industry Growth Market Competition Entry/ Exit Barriers	5% 3% 3% 3% 2% 2%	18%
Management Risk	Experience Succession Team Work.	5% 4% 3%	12%
Security Risk	Security Coverage Collateral Coverage Support	4% 4% 2%	10%
Relationship Risk	Account Conduct Utilization of Limit Compliance of covenants/conditions Personal Deposit	5% 2% 2% 1%	10%

Step -5: Input Data to arrive at the Score on the Key Parameters

After the risk identification & weight assignment process (as mentioned above), the next step will be to give input in actual parameters in the score sheet to arrive at the scores corresponding to the actual parameters. The CRG Manual (CRGM) provided by Bangladesh Bank also includes a well programmed MS Excel based Credit Risk Scoring Sheet to arrive at a total score on each borrower. The excel program requires inputting data accurately in particular cells for input and will automatically calculate the risk grade for a particular borrower based on the total score obtained.

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:

Table 06 : A Typical Risk Grading (Credit Rating) System under CRG Manual

Grade	Description	Weighted Score	Key Indicators
1.	Superior (SUP)	None.	-Facilities are fully cash secured, secured by Government/international bank guarantee
2.	Good (GD)	85 +	- Repayment capacity: Strong - Liquidity: Excellent - Leverage: Low - Earnings & Cash Flow: Consistently Strong - Track record/Account conduct: Unblemished
3.	Acceptable (ACCPT)	75 - 84	-Repayment capacity: Adequate. - Liquidity: Adequate - Earnings & Cash Flow: Adequate & Consistent. - Track record/Account conduct: Good
4.	Marginal /Watch List (MG/WL)	65 - 74	-Repayment: Routinely fall past due - Liquidity: Strained liquidity - Leverage: Higher than normal -Earnings & Cash Flow: Thin, incurs loss

			and inconsistent. -Track Record/Account conduct: Poor
5.	Special Mention (SM)	55 - 64	-Repayment: Deteriorate repayment prospects -Net-worth: Negative -Management: Severe problems -Leverage: Excessive -Earnings & Cash Flow: Consecutive losses
6.	Substandard (SS)	45 - 54	-Repayment: Capacity and inclination to repay is in doubt. -Financial condition: Weak
7.	Doubtful (DF)	35 - 44	-Repayment: Unlikely and possibility of credit loss is extremely high
8.	Bad & Loss (BL)	<35	-Repayment: Long outstanding, the prospect of recovery is poor, legal action have been pursued etc.

Source: Bangladesh Bank (2005), *Credit Risk Grading Manual*, Dhaka: Bangladesh Bank, Head Office.

Table 07: Decision Matrix

Pre-sanction stage	Grading stage	Post sanction stage
(1) Feasible	SUPERIOR	(1) Performing
	GOOD	
	ACCEPTABLE	
(2) Conditional/ Exceptionally Acceptable	MARGINAL/ WATCHLIST	(2) Early warning account
(3) Non-feasible	SPECIAL MENTION	(3) Non-performing
	SUB-STANDARD	

	DOUBTFUL	
	BAD/LOSS	

3.2.6 Risk Grading Model

There is a need to modify the existing risk grading model and need more concentration on qualitative factors. Bangladesh Bank must make mandatory to environmental risk management guidelines to make to understand and manage risks that arise from environmental concerns which bring a focus on planning and implementing policies and procedures to mitigate environmental risks. The proposed risk grading model is laid down below:

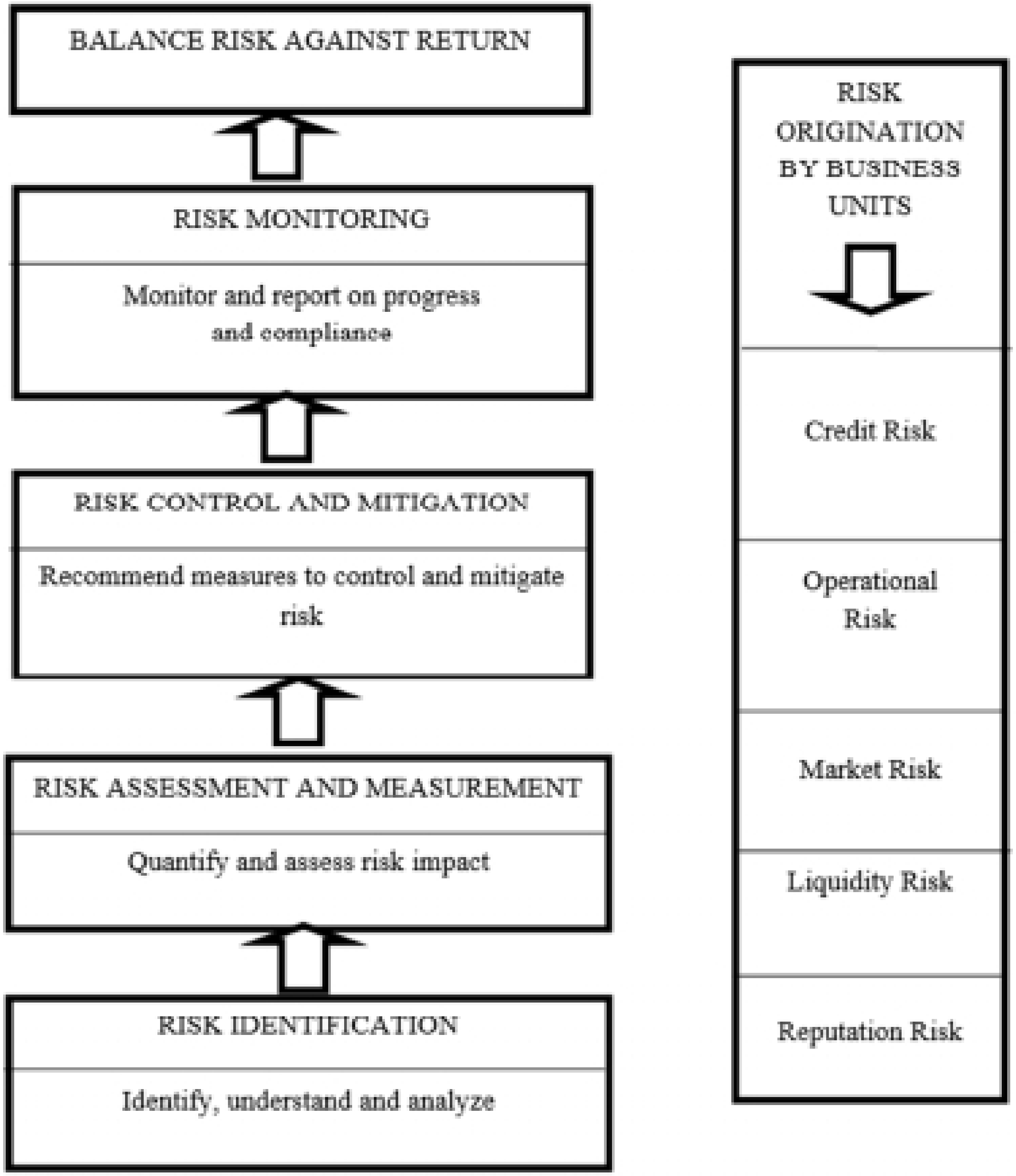


Fig. 07: Proposed Risk Management Model

3.2.7 Risk assessment and risk management

Risk assessment is the process of analyzing potential losses from a given hazard using a combination of known information about the situation, knowledge about the underlying process, and judgment about the information that is not known or well understood. The process of combining a risk assessment with decisions on how to address that risk is called risk management. Risk management is part of a larger decision process that considers the technical and social aspects of the risk situation. Risk assessments are performed primarily for the purpose of providing information and insight to those who make decisions about how that risk should be managed. Judgment and values enter into risk assessment in the context of what techniques one should use to objectively describe and evaluate risk. Judgment and values enter into risk management in the context of what is the most effective and socially acceptable solution. The combined risk assessment and risk management process can be described as a six step process. The first three steps are associated with risk assessment and the last three with risk management:

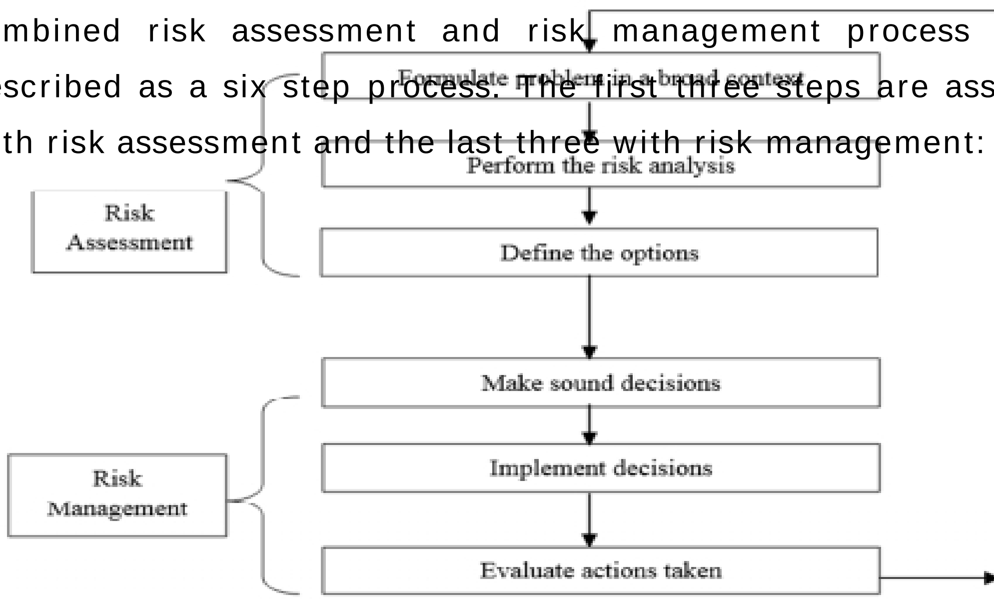


Fig. 08: Combined risk assessment and risk management process.

Credit Risk is one of the prime risks of the Bank. It indicates the potential loss arising from contractual failure of the borrower with the Bank. The failure may be resulted from unwillingness of the borrower or due to decline of the financial conditions. Therefore, Bank's Credit Risk Management activities have been designed to address all these issues.

On the basis of Bangladesh Bank's Credit Risk Management (CRM) policies, Rupali Bank has formulated a Manual of Credit Risk Management policies which have been approved by Bank's Board of Directors already in force. These help to bring the credit operation of the Bank to the level of international standard. The organizational structure of Bank's Head Office has been designed in line with CRM guidelines. The duties of the officers/ executives, working in credit areas, have been segregated for smooth functioning. Credit approval administration, monitoring and recovery function function have segregated and functioning accordingly. Credit risk Management activities ensure maintaining asset quality, assessing risks in lending to particular customer, sanctioning credit, formulating policy/ strategy for lending operation, etc.

3.2.8 Credit Process & Risk Management

Contemporary banking organizations are exposed to a diverse set of market and non-market process and the management of risk has accordingly become a core function within banks. Banks have invested in risk management for the good economic reason that their shareholders and creditors demand it. But bank supervisors, such as the Bangladesh Bank, also have an obvious interest in promoting strong risk management at banking organizations because a safe and sound banking system is critical to economic growth and to the stability of financial markets. Indeed, identifying, assessing, and promoting sound risk management practices have become central elements of good supervisory practice. Credit risk management process should cover the entire credit cycle starting from the origination of the credit in a financial institution like this:

- Credit processing/appraisal
- Credit approval/sanction
- Credit documentation
- Credit administration
- Disbursement
- Monitoring and control of individual credits
- Monitoring the overall credit portfolio (stress testing)
- Credit classification and
- Managing problem credits/recovery

3.2.9 Under credit risk management the following tasks are also done:

- Collect all relevant data from different models and information systems for analyzing risk.
- Assess the quality, completeness and correctness of all relevant data needed to analyze risks.
- Highlight risky portfolios and deficiencies of the bank on timely manner with recommendations and suggestions.
- Analyze data through preparation of paper named risk management paper.
- Identify, evaluate, control and monitor major risks in line with the standard set in the policy guideline to avoid necessary loss and ensure the banks in pricing all risk correctly .
- Review market conditions and take precautionary measures towards facing abnormal market situation.

- Ensure through independent oversight that different risks are identified, evaluated, monitored and reported within the established risk management frame work.

3.2.10 Loan Process:

I) Application for the loan

The loan process start with the submission of loan application by the borrower. The borrower submits the loan application to the branch manager. In the loan application the borrower provides the following major information.

- Personal detail of application
- Nature of business
- Amount and duration of the loan
- Purpose of the loan
- Details of the collateral

II) Preparation of loan proposal

Based on financial and management analysis and need of the client and his capability of operating the business, Relationship Manager shall design the credit keeping in mind on the following issues:

- Purpose of the credit
- Experience in the similar business
- Risk, Remuneration
- Ancillary business
- Validity Loan Period & Business Profitability
- Debt Equity Ratio
- Repayment capacity & Production capacity
- Market demand of the product

III) Documentation

Before sending proposal to the approving authority, the branch ensures that the following documents have been completed properly:

- Current CIB report
- Audited financial report
- Forecasted Financial statement
- CRG score sheet of the business
- Bank statement regarding the bank transaction of the borrower.
- Net worth of the business
- Net worth of the individual
- Total debit and credit of the business
- Trade license of the business
- Income tax return of the borrower

IV) Assessment of the loan proposal

- Borrower Analysis

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

- 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 of the borrower relative to its competition should be identified.

- 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.

- Historical Financial Analysis

Preferably an analysis of a minimum of 3 years historical financial statements of the borrower should be presented. 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, cash flow, leverage and profitability must be analyzed.

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- Projected Financial Performance

Where term facilities (tenor > 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. Facilities should not be granted if projected cash flow is insufficient to repay debts.

- Credit Background

Credit application should clearly state the status of the borrower in the CIB (Credit Information Bureau) report. The application should also contain liability status with other Banks and FI's and also should obtain their opinion of past credit behavior.

- Account Conduct

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

V) Documentation of loan agreement

In spite of the fact that banker extends credit to a borrower after inquiring about the character, capacity and capital of the borrower, he obtains proper documents executed from the borrower to protect him against willful defaults. Documents contain the precise terms of granting loans and they serve as important evidence in the law courts if the circumstances so desire. The documents for loans and advances can be classified into two categories: *Charge documents and Security documents.*

Mode of Charging Securities:

Rupali Bank practices following 2 types of securities.

- Primary Securities - Cash or cash equivalent that is easily liquidated or convertible into cash. Example-FDR, Sanchaypatra, DP Notes, etc.

- Secondary Securities - These securities are tangible securities that can be realized from sale proceeds or transfer of property. Example- immovable properties.

The modes of charging securities are as follows:

Lien:

Lien is the right to retain possession and not right of ownership. Bank's lien is general lien over its own financial obligation to clients. Property under lien cannot be sold without notice to the owner and sometimes without court's order.

Hypothecation:

This is mortgage of movables by an agreement and here neither possession nor ownership is transferred. Hypothecated goods cannot be sold out / disposed off without notice and court's order. However, if a special power of attorney is taken in that case can be disposed off without going to the court.

Pledge:

Pledge is the bailment of goods as security for payment of a debt or performance or promise. Here, title and ownership are not transferred. Pledge goods may be sold out and proceeds thereof may be appropriated towards adjustment of Liability in case of failure of the borrower to repay or fulfill the terms and conditions.

Mortgage:

Mortgage is the transfer of interest in immovable property to secure the repayment of money advanced. Ownership remains with the mortgagor. In case of equitable mortgage, Court Order is necessary and in case of registered mortgage court's order is not necessary for sale / disposal of the mortgaged property for adjustment of advance.

General Documents: In general, required papers and documents to be obtained/maintained irrespective of type of borrower, loan and security are:

1. Demand Promissory Note
2. Letter of Authority
3. Letter of Arrangement
4. Letter of Disbursement
5. Letter of Revival
6. Personal Net Worth statement
7. Copy of National ID
8. Credit Approach in Business Pad of the Borrower
9. Credit Application in prescribed format duly filled in
10. Photograph of the Borrower
11. Photograph of the business/inventory
12. Photograph of the mortgaged property
13. Up to date CIB Report
14. Credit report of the Borrower/Supplier
15. Liability Declaration of the borrower along with an Undertaking that they have no
    liability with any bank or financial institution except as declared.
16. Undertaking stating that, they will not avail any credit facility from any other bank or
    financial institution without prior consent of the bank.

17. Undertaking stating that customer does not have any relationship as Director or
Sponsor with the bank.
18. Undertaking stating that customer shall not sell or transfer the ownership of the
business/ factory/shop until all amounts due to the bank bank are fully paid or without
NOC of the bank.
19. Credit Risk Grading Score Sheet (CRGS)
20. Post-dated cheque covering the credit facility
21. Acceptance by the Borrower of the Sanction Letter
22. Proper Stamping

V) Loan Disbursement

After completing all the necessary steps for sanctioning loans bank will create a loan account by the name of the borrower and deposit the money to that account. Bank will give cheque book to the party and advise him to draw the money and use it as soon as possible.

4.3.11 Reasons for Default

There are different reasons why customers of banks become unable to pay their periodic repayment. They include market problems, environmental problems, loan diversion, credit policy of the bank, lack of follow-up, and so on.

It is obvious that these factors are not similar from place to place. Thus, to find out the major causes for default in the study area, the researcher raised questions and interviewed the clients as well as the employees of the Bank. Accordingly, the summaries of responses given are depicted in the subsequent tables. Some of these problems were from the Bank’s side while the others were from the clients’ side. The remaining factors were from external factors, like environmental and market problems.

In order to further investigate the reasons for default, the researcher asked the employees of the bank as well. Based on the question, they replied that in addition to what the clients of the bank mentioned, in adequate information about customer’s creditworthiness, lack of follow up and supervision are the other major reasons for default.

When loans failed to non-performing status the Bank uses various mechanisms. Out of the mechanisms, rescheduling is advisable if the causes of non-performing is reasonable as well as if the background, experience, and track record of the loan client in his/her previous record was trustworthy. Additional loan is not recommended unless the case is very justifiable. If there is no promising ground for rescheduling a forcing measure is used such as strict follow up and counseling followed by reminding and warning letters.

Common Banking Mistakes That Can Lead to Problem Loans

- In the Beginning

- Allowing customer to intimidate, coerce into, or sell the banker on making the loan
- Failure to ask pertinent questions for fear of angering or losing the customer
- Making difficult loans that should be handled by a more experienced officer
- Basing the lending decision on pressure from other parties, especially the competition
- Trying to be an entrepreneur/businessman through the customer using the bank’s money
- Inadequate analysis of the borrower

- Inadequate analysis of financial statements
- Inadequate analysis of loan purpose, source of repayment, and excess cash flow
- Improper loan structure—amount, source of repayment, timing of repayment (terms)
- Improper collateralization
- Failure to properly identify entity bank is dealing with
- Failure to supervise utilization of loan proceeds
- Failure to obtain and perfect valid security interest

After the Loan Was Made

- Did not effectively follow loan
- Request and review financial information
- Make periodic visits to company
- Perform periodic trade and industry checks
- Monitor impact of changing economic conditions on company
- Did not control expansion
- Let customer borrow in small amounts until he/she had too much debt or bank placed in forced lending situation
- Inappropriate management of the lending function

When the Problem is Recognized

- Afraid to look into credit—ask tough questions
- Afraid to admit made a mistake or have a problem
- Cut off communication with customer, resort to pressure/threats to collect loan
- Inaction—hoping situation will improve—"miracle approach"

CHAPTER 4
CONCLUSION AND RECOMMENDATIONS

Chapter 4: Conclusion and Recommendations

4.1 Major Findings

The major findings of my study on Credit Risk Management of RBL I have got some major findings which are given below:

- The credit risk management process of Rupali Bank Ltd. is quite commendable. The Zonal Office always try to sanction loan in the shortest period of time within its limit by ensuring the best possible documentation process.

- The Zonal Manager exercises a satisfactory level of authority in case of sanctioning loans with respect to other state owned commercial banks.

- The bank always try to follow Bangladesh Bank Guidelines in lending activities.

- Filing procedure is not maintained in a definite and clear manner. It is difficult to locate the documents in a chronological and sequential manner. A definite practice, though mentioned in the credit policy is not always maintained by the credit officials.

- The zone is overwhelmed by a percentage of double digits of NPL which indicates to be cautious in overall lending process and requires special care for recovery of those NPL.

4.2 Conclusion

Banking is the backbone of national economy. Banking sector no more depends on only on a traditional method of banking. Banking industry has been treated as a prospective financial sector in Bangladesh. Bangladesh’s banking system is heavily affected by bad loans. This is not only makes conservative, contracts the lending system, it discourages investment. As a result the growth of the economy is impeded. One major reason for default loan is banks ineffectiveness of assessing credit risk of a proposed investment. With time Bangladesh bank has set rules and general guidelines to help banks asses risk and mitigate their credit risk. In spite of that many banks fail to attract good credit and run profitably. Thus it is not only the guidance provided by the Bangladesh bank that a commercial lending institution need to follow own lending policies should be in place to ensure maximum effectiveness of credit assessment.

Credit risk management is becoming more and more important in today's competitive business world. It is all the more important in the context of Bangladesh. The tools for improving management of consumer credit risk have advanced considerably in recent years. Therefore, as a responsible and reputed commercial bank, RBL has instituted a contemporary credit risk management system. From the study, it is evident that the bank is quite sincere in their approach to managing the consumer credit risk though there are rooms for improvement. On the other hand Dinajpur Zonal Office has a lot of task managing the huge (11.17%) NPL especially for recovery. They have to be more cautious in the recovery sector and preferential treatments to some big clients should also be stopped. However, they follow an in-depth procedure in assessing the credit risk by using the credit risk grading techniques which provides them a solid ground in the time of any settlement.

From the discussion in this report, it has become clear that credit risk management is a complex and ongoing process and therefore financial institutions must take a serious approach in addressing these issues. They have to be up to date in complying with all the required procedures and must employ competent people who have the ability to deal with these complex matters. Utmost importance should be given to the improvement of the networking system which is essential for modern banking environment and obviously for efficient and effective credit risk management process.

RBL is well prepared to and capable of meeting the demand for a broad range of banking
services. It has got adequate resources, both human and physical, to provide the customers with the best possible services. The bank has already developed goodwill among its client by offering its excellent services. This success has resulted from the dedication, commitment and dynamic leadership of its management over the periods. But they must concentrate more on customer oriented services and provide better technological advancement relating to banking activities.

4.3 Recommendations

Banks may use different strategies such as collateral and guarantees etc. to mitigate credit risks. Credit Risk Mitigation strategies can be of agreements made between the bank and the borrower, or between the bank and a third party, which lower the credit risk to the bank. The existence of credit risk mitigation is no substitute for proper loan underwriting and loan administration. They are correctly viewed only as secondary sources of loan repayment, never primary sources. Given the often lengthy, arduous, and costly process of realizing the collateral or invoking the guarantee, banks are strongly cautioned against making their loans collateral- or guarantee dependent. A loan is considered collateral-dependent when repayment is expected to be provided solely by the seizure and sale of the collateral, the continued operation of the collateral, or, sometimes, both together. For proper credit risk management, banks must keep track of which loans are collateralized by which types of collateral. “Concentrations of collateral” are nearly as dangerous as concentrations by type of loan or industry

4.3.1 Borrower follow-up and corrective action

Conducting customer calls and site visits to obtain key data is a critical and continuous process. For this reason it is important for the bank to be out in the field as often as possible because:

- Problems are often evident here first.
- Problems are often disguised in financial statements.
- The loan proceeds may have been diverted to some other purpose. Depending on the size of loan and risk rating of the customer the bank should conduct a customer call quarterly.

To do this the lender should:

- Develop a call schedule plan.
- Plan other necessary data gathering.

- Determine the frequency of site visits by utilizing the loan classification. The less favorable the classification, the more frequent the visits should be.

In addition, banks need to watch carefully the financial standing of the borrowers. The key financial performance indicators on profitability, equity, leverage and liquidity should be analyzed. While making such analysis due consideration should be given to business/industry risk, borrowers' position within the industry and external factors such as economic condition, government policies and regulations. For companies whose financial position is dependent on key management personnel and/or shareholders, for example, in small and medium enterprises, institutions would need to pay particular attention to the assessment of the capability and capacity of the management/ shareholder(s). In case of an existing borrower, banks should monitor the borrower's account activity, repayment history and instances of excesses over credit limits. For trade financing, banks should monitor cases of repeat in extensions of due dates for trust receipts and bills. Banks should regularly review the credit in terms of the borrower's ability to adhere to financial covenants stated in the credit agreement, and any breach detected should be addressed promptly.

4.3.2 Timely identification of problem assets

The standard practice of "looking back" at past due status, presence or absence of collateral, and other factors resulted in provisions that turned out to be grossly inadequate on both an aggregate and individual credit basis. A more "forward-looking" approach to the identification of problem loans and the establishment of adequate provisions was clearly needed, and international standards such as International Financial Reporting Standard on the classification and measurement of financial assets are being adopted to provide this forward-looking approach.

The following warning signs are to be considered by banks in predicting that a loan will become a problem loan:

a) Documentation Weakness

- Failing to file collateral agreements/security agreements with appropriate public departments
- Transferring the collateral to another country/state
- Guaranties with expired dates
- Changes in legal status
- Unauthorized corporate/partner signatures

b) Collateral Deterioration

- Changes of value in the marketplace
- Rising interest rates decrease real estate and investments
- Technological advances
- Rapid depreciation of equipment or inventory
- Natural disasters
- Spoilage or mishandling of collateral

c) Extended Credit and High Use of Lines of Credit

- Borrower is at the top of line each month
- Failure to meet financial covenants in loan agreement
- Delays in payment of principal and interest
- Use of overdrafts/low balances in current account
- Credit inquiries from other lenders
- Change of accountants

d) Other Indications of Problem Loans

- Delay in receipt of financial statements

- Delay in management promises or returning telephone calls
- Change in senior management

4.3.3 Managing Credit Risk of Problem Assets

Problem loans are an inevitable consequence of lending. Any time a loan is funded, unforeseen events could arise and make it difficult for the borrower to live up to the terms of the loan agreement. Problem loans often begin with commercial loan officer errors – for example, inaccurately assessing the character of the borrower, misinterpreting the figures on a spread sheet, or simply not saying no to the loan request. These causes of problem loans should and can be minimized.

- Interaction with borrower

Once a potential problem loan has been identified, the banker needs to follow following steps:

- Develop a preliminary plan before meeting with the borrower.
- Schedule a meeting with the borrower soon after learning about the problem loan.
    - Discuss the problem, explore available alternatives to solve the problem, and establish what actions are acceptable and not acceptable.
    - The lender decides what additional information, such as monthly financial statements, the borrower should supply, so that the bank can more closely track the situation.
    - The borrowers also outline interim steps to resolve the problem.

- Rescheduling as a means to manage credit risk

In certain rare situations, the borrower may find itself in a period of temporary financial distress. Loan rescheduling – the stretching out over a longer time period of required payments of principal and/or interest – may be an appropriate way of handling the problem loan situation, but only if the bank is fairly certain that the borrower can fulfill the rescheduled terms of the contract. In no way must rescheduling be used if the bank has significant doubt concerning the borrower's willingness or ability to repay over the long term.

4.4 Limitations

- Time limitation

The duration of internship program was only 45 days. The allocated time is not sufficient to gather knowledge and to make the study a complete and fruitful one. It was one of the main constraints that affected covering all aspects of the study.

- Lack of Secondary Information

The study also suffered from inadequacy of data provided by Rupali Bank Ltd. Secondary source of information was not sufficient for the completion of the report.

- Limitation of the Study:

Much confidential information was not disclosed by respective personnel of the department. Other limitations are as follows:

- For the lack of our practical knowledge, some shortcoming may be available in the paper.
- The bank has naturally shown some indifference connecting its most confidential information.
- The executives of RBL were too busy to spare time for the internee.

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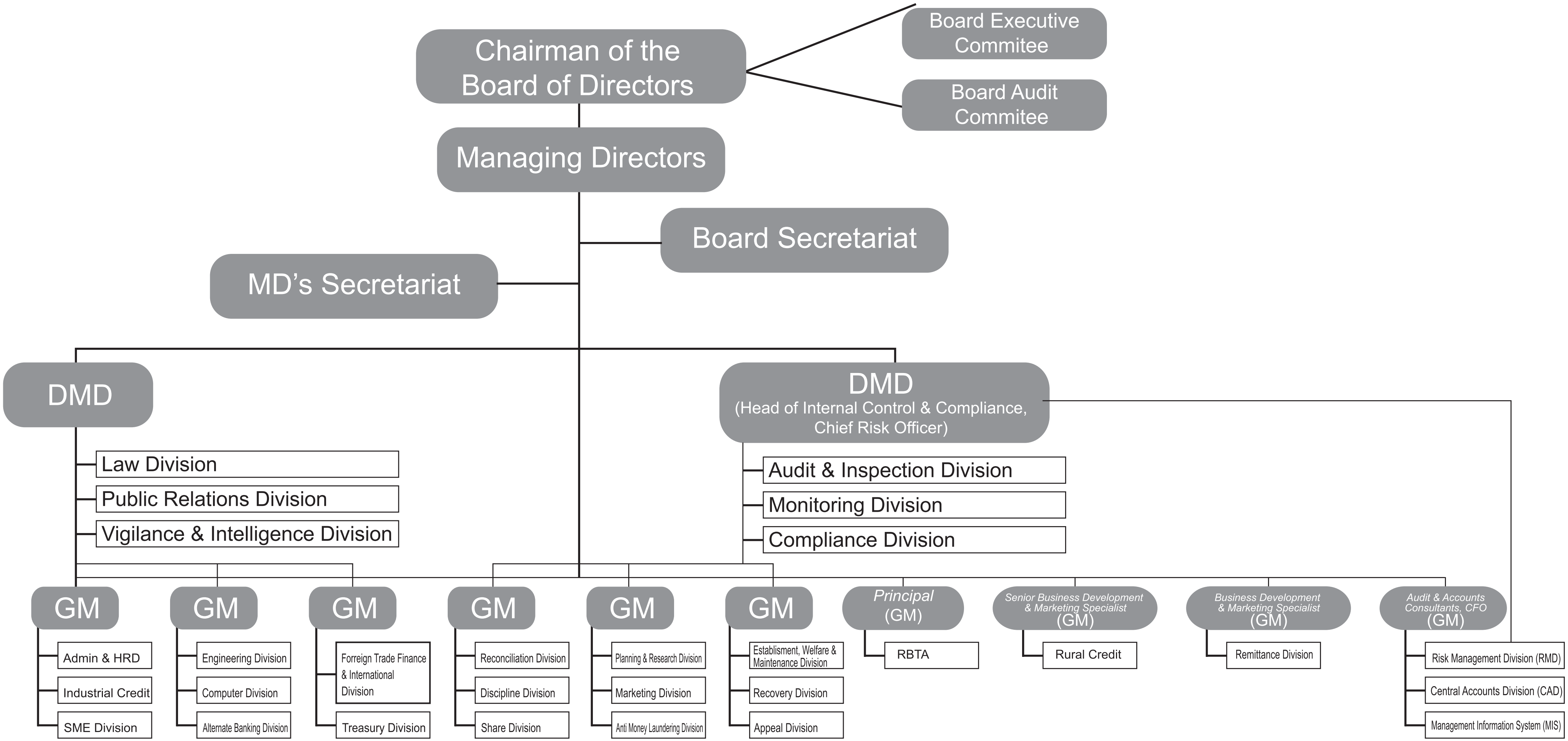
Corporate Organogram of RBL

Head Office



Source: Annual Report 2014.