“Credit Management Policy and Performance Analysis of Janata Bank Limited”

AN INTERNSHIP REPORT

ON

"Credit Management policy and Performance Analysis of Janata Bank Limited"

Submitted By

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This report has been prepared for submission to the Faculty of Post Graduate Studies, Hajee Mohammad Danesh Science and Technology university, Dinajpur, as a partial requirement for fulfillment of degree of Master of Business Administration MBA (Evening).

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This is a synopsis of my recent study on ***"Credit Management policy and Performance Analysis of Janata Bank Limited"*** *as a part of the internship program. At the beginning I want to remember almighty Allah for giving me the opportunity, strength to do this work smoothly& blessings for our success.*

Then of all I would like to thank my Course Coordinator as well as Supervisor of the report Rony Kumar Datta Assistant. Professor Department of Finance and Banking Faculty of Business Studies without whose help, suggestion and co operation the total report would be valueless .My sincere gratitude is due to Co-Supervisor Mahbuba Aktar, Assistant Professor, Department of Finance and Banking, who was kind enough to provide her valuable feedback and guidance. Her continuous support provides a substantial basis for this report.

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Lastly, I sincere gratitude to all the wonderful people of HSTU (my teacher, my classmates and others) for supports and understanding. It would be impossible without their help.

Student’s Declaration

I, Md. Kamruzzaman, Student ID No: 130501046, a student of MBA (Evening) program, Department of Accounting, Hajee Mohammad Danesh Science and Technology University, Dinajpur, do hereby declare that the report titled is ***“Credit Management Policy and Performance Analysis of Janata Bank Limited.”*** *prepared and completed by me under the supervisor Rony Kumar Datta Assistant Professor Department of Finance and Banking and guidance of This* ***report*** *has not viewed previously submitted elsewhere by me for any degree, title of recognition or reward before.*

I also declare that the ***report*** *is prepared for an academic purpose, alone.*

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Declaration of Supervisor

This is to certify that Md. Kamruzzaman, Student ID No: 130501046, a student of Masters of Business Administration MBA (evening) Program, Major in Accounting and Information system under the Faculty of Post Graduate Studies of Hajee Mohammad Danesh Science and Technology University, Dinajpur . He has successfully completed comprehensive internship program which is approved and suitable in eminence. During the period of his internship in Janata Bank Limited, Dinajpur Corporate Branch, he acquired practical knowledge as well as showing satisfactory overall performance to study and work on the title "Credit Management Policy and Performance Analysis of Janata Bank Limited."I wish his all success in life.

………………….……….

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Co-Supervisor's Declaration

I hereby declare that ***Md. Kamruzzaman****, Student No. 130501046., MBA (Evening) Program , Major in Accounting and Information System have submitted his internship report entitled* ***"Credit Management Policy and Performance Analysis of Janata Bank Limited."*** *after completing his internship program under my co- supervision. This report has been submitted in partial fulfillment of the requirement for the degree of Master of Business Administration MBA (Evening) program at Hajee Mohammad Danesh Science and Technology University, Dinajpur-5200.*

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ABSTRACT

The report is originated in result of my internship, which I have done, as a requirement of MBA (Evening) program. This report is done based on my three months internship in Janata Bank Limited.

During my stay at the office as an internee I never felt vague and ambiguous. The environment of the Janata Bank Ltd. is well and friendly. The staffs are specialized in their respective fields. Each of them works on their own and there id supervised from the top management. The motivation of the staff, I believe comes from the very sense of responsibility.

The Janata Bank Limited is one of the leading public Banks operating in Bangladesh. All the aspects of Credit and Risk Management of JBL Like; rules, regulations activities, approval processes of loan, credit operation dept. and also credit collection dept., various product diversity and their facilities and recovery process of different types of loan etc. have been attached to this report.

However, I've done lots of financial calculations, observed their financial reports & from my working experience I also gathered knowledge about their administrative process of managing different issues. After preparing the whole report, I had some findings regarding the ***Credit Management Policy and Performance Analysis of Janata Bank Limited****. As an inexperienced person I may have made many mistakes in those findings, but whatever I felt from my point of view, I only pointed out those. Based on those findings, I recommended some points which may help the bank to remove their many shortcomings*

CHAPTER: 01

Introduction

1.1: Background of the Study:

It has become essential for every person to have some idea on the bank and banking procedure. As our educational system predominantly text based, inclusion of practical orientation program is an exception to the norm. From practical knowledge, we will be ableto know real life situations and start a career with some practical experience. Bachelor ofBusiness Administration (MBA) is a professional course. The course is designed with anexcellent combination of practical and theoretical aspects. After completing MBA, certaintimes are preserved for internship.

As a student of MBA (Evening), internship is an academic requirement. For internship every studentis required to work in a selected institution to enhance ones practical knowledge andexperiences. For the requirement of my course I was assigned to Janata Bank Limited

Modern more, Dinajpur for my internship. In this situation I was assigned toprepare report on" Credit Management System and performance analysis of Janata Bank Limited.''.

Basically, this report is highlighted Credit management of the bank, Structure, Analysis, Present status, Performance of JBL, Own Experience, Recommendation and Conclusion

1.2: Significance of the Report:

This internship report is an important partial requirement of four years MBA graduation program. This is because knowledge and learning become perfect when it is associated with theory and practice. By this internship program students can establish contacts and networking. Contacts may help to get a job in practical life. Student can train and prepare themselves for the job market. There are many overwhelming number of unemployed educated graduates in Bangladesh. As they have no internship experience they have not beenable to gain normal professional experience of establish networking system, which isimportant in getting a job. Therefore, it is obvious that the significance of internship is clearlyjustified as the crucial requirement of four years MBA graduation.

1.3: Origin of the Report:

After completion of 60 credit hours of MBA program demands a report on practical experience. Internship program is a must criterion for Masters of Business Administration (MBA) students, designed to put them in a challenging environment of the relevant field, where the students get sample opportunity to apply their theoretical knowledge into practicalapplications. During the internship training, students have the opportunity to adoptthemselves into the particular environment of the organization. It provides a unique opportunity to see the reality of business during student life, which enables them to buildingconfidence and working knowledge in advance of the start of their career. To fulfill thisrequirement every university of business arrange a program of internship. Here we get achance to apply our theoretical knowledge that we acquired from class lectures, books,journals, case studies, seminar, project, workshop, etc. and compare them with practicalsetting.

As part of the internship program of Masters of Business Administration course requirement,I was assigned for doing my internship in Janata bank Ltd for the period of three months.During my internship period in the Janata Bank Ltd. I've worked under Credit, Remittance,Deposit, and loan and advance department. I worked under the supervision of principal &executive officer and assistant officer, for their assistance and guidance in completing thisreport.

1.4: Objectives of the Report:

1.4.1 General objective:

- To analyze the Credit Management system and performances of Janata Bank Limited

1.4.2 Specific objectives:

- To get enough knowledge about General banking activities of JBL.
- To Know about Central bank requirements for the commercial banks on
- Loan and Advances

- To analyze the Credit Management statement of JBL by using some

statistical measures

- To find out the internal system & actual Loan and advances process of JBL
- To point out the major findings of the report & provide some valuable
- recommendations based on them.

1.5: Methodology:

Methodology refers to the essential part of the study and the process of collecting informationand arranging it in terms of the relevant issues of the study. It is designed in a way so that itcorrespondent to achieve the objectives of the study.

1.6: Sources of data:

For preparing a report, someone can use basically two sources for collecting data & necessary information. Those are,

- **Primary source:** A primary source (also called original source or evidence) is an artifact, a document, a recording, or other source of information that was created at the time under study.

- **Secondary source:** A secondary source is a document or recording that relates ordiscusses information originally presented elsewhere. Secondary sources involvegeneralization, analysis, synthesis, interpretation, or evaluation of the originalinformation

I had collected data from both the primary source and secondary source.

- **Primary source:**

  I have collected data from the employees of different department of The Janata Bank Limited by communicate & working with them. I also collected information formobserving their financial status, their organizational culture, from different groupdiscussion, observing the process of managing the liquid money & assets of the bank.

- **Secondary source:**

  a) Annual Reports of The Janata Bank Limited of the year 2009, 2010, 2011, 2012, 2013

b) The basic idea about The Janata Bank Limited was taken from its website

c) Papers and Journals of central bank relating to credit management system

d) CMS solution of Janata Bank limited.

e) Analyzing all the annual reports from 2009 to 2011, 2012, 2013 I tried to identify all the elements of liquidity and prepared the report

1.7: Data Collection process:

Mainly, the purpose of data collection is to obtain information to keep on record, to make decisions about important issues, to pass information on to others. Primarily, data is collected to provide information regarding a specific topic. A formal data collection process is necessary as it ensures that data gathered is both defined and accurate and that subsequent decisions based on arguments embodied in the findings are valid. However, I've collected both primary & secondary data by different processes. Those are described below:

A. **Primary Data:** Primary data are collected by different group discussions, personal observation of the organizational culture, their internal process of managing liquidity & from different statistical measures & analysis that I've shown later on in this report
B. **Secondary Data:** From working in this organization, I've got the facility to go through maximum of the recordfile related to the liquidity issue. So many important data were been collected from there.Some other data I've collected from the website.Other than that, it was easy for me to make a positive relation with the manager of finance department & to collect all annual report from him

1.8: Techniques & Tools:

Data-collection techniques allow us to systematically collect information about our objects ofstudy (people, objects, phenomena) and about the settings in which they occur. In thecollection of data we have to be systematic. If data are collected haphazardly, it will be difficult to answer our research questions in a conclusive way. However, I’ve used somestatistical techniques to analyze the data. Those are

- ✓ Trends Analysis.
- ✓ Ratio Analysis.

Tools:

The tool those I’ve used to implicate the techniques for analyzing data, are simple MSWord& MS Excel.

1.9: Limitations of the Report:

Though I have given utmost effort to prepare this paper but there are some limitations of thestudy. Such are as follows-

- ❖ The main constrain of the study was insufficiency of information, which was required for the study. There are various information the bank employee can’t provide due tosecurity and other corporate obligations.
- ❖ Due to time limitation many of the aspects could not be discussed in the present report. Learning all the functions within just 90 days is really tough. As a result I can’t collect update information & strategy

CHAPTER: 02

Credit management Policy of Janata Bank Limited

CREDIT MANAGEMENT POLICY OF JANATA BANK LIMITED

2.1: 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.

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.

2.3: Objective of the credit policy:

There are some objectives behind a written credit risk management of Janata Bank 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 activity

2.4: Sources of Credit:

The sources of providing loan of a bank are given below:

- Different types of deposit
- Paid up Capital
- Retain earning
- Loans from Bangladesh Bank and other Bank

Among these sources different types of deposits are the main sources. Because of bank can't use the other sources as like as the different types of loan. Bank faces many problem if use other sources as a loan

2.5: Classification of Loans:

Mainly two types of loans:

2.5.1. Secured:

Secured loans are those loans that are protected by an asset or collateral of some sort. The item purchased, such as a home or a car, can be used as collateral, and a lien is placed on such item. The finance company or bank will hold the deed or title until the loan has been paid in full, including interest and all applicable fees. Other items such as stocks, bonds, or personal property can be put up to secure a loan as well. Different types of secured loans are:

- Loans
- Over Draft

- Cash credit
- Bill purchase

2.5.2.: Unsecured:

On the other hand, unsecured loans are the opposite of secured loans and include things like credit card purchases, education loans, or personal (signature) loans. Lenders take more of a risk by making such a loan, with no property or assets to recover in case of default, which is why the interest rates are considerably higher. If you have been turned down for unsecured credit, you may still be able to obtain secured loans, as long as you have something of value or if the purchase you wish to make can be used as collateral.

- TOD
- Clean OD
- Clean loans

2.6: 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 Liquidity:**

The banker while making advance must see to it that the money lent is not locked up for a long time because, majority of Bank's liabilities are payable either on demand or after short notice. So the banker should make sure that the loans are liquid enough to meet the banks liability structure. Liquidity means availability or readiness of bank funds on short notice. The liquidity of advance means its repayment on demand on due date or after a short notice. The loan must have fair chances of repayment according to repayment schedule. Otherwise, the liquidity position of a bank may be threatened.

- **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.

2.7: Creditworthiness of a borrower:

Character:

- To determine whether the borrower has a responsible attitude towards borrowed fundsand whether he will have every effort to repay what is owed.
- Responsibility, truthfulness, serious purpose, and serious intention to repay loans make up the characters of the borrower

Capacity:

- Whether customer requesting loan has the authority to request loan and have the legal standing to sign loan agreement and documents.

Economic Condition/ Assets:

- Whether borrower has sufficient assets to repay the loan.
- Other loans and liabilities of the borrower

Credit history/Credit habit:

- Whether loans borrowed by the customers previously and how those earlier loans were handled.
- Whether there is any loan default earlier
- Whether legal action has ever been taken against him for recovery of default loan.

Credit Rating:

- Credit Ratings of the borrower by credit rating agencies

2.8: Policy guidelines of Credit Management:

Credit Management Policy for any commercial bank must have been prepared in accordance with the Policy Guidelines of Bangladesh Bank's Focus Group on Credit and Risk Management with some changes to meet particular bank's internal needs.

Credit management must be organized in such a process that the bank can minimize its losses for payment of expected dividend to the shareholders. The purpose of this process is to provide directional guidelines that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of concerned bank.

The guidelines for credit management may be organized into the following sections:

2.8.1: Lending guidelines:

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.

2.8.2: 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

  .Risk is graded as per Lending Risk Analysis (LRA), Bangladesh Bank's Guidelines of

  classification of loans and advances.

2.9: 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 spolicy 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.

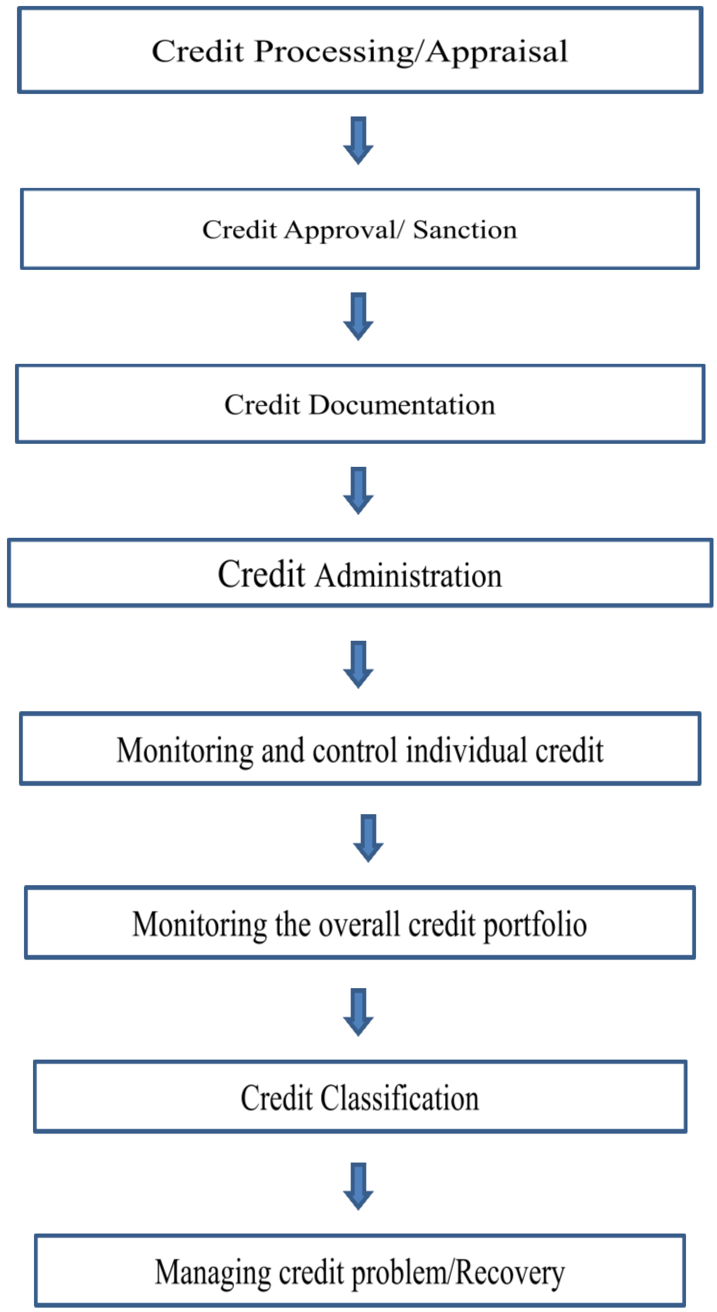
- ✓ **Pricing:** In any profit motivated endeavor, the price to be charged for the goods or services rendered is of paramount without it, individuals have few guidelines for quoting retag or fees, and the variations resulting from human nature will be a source of customer dissatisfaction.

- ✓ **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, where in 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

2.10 : Process/Steps of credit disbursement:



2.10.1: Credit Processing/Appraisal:

Credit processing is the stage where all required information on credit is gathering and applications are screened. Credit application forms should be sufficiently detailed to permitgathering of all information needed for credit assessment at the outset. In this connection,financial institutions should have a checklist to ensure that all required information is, in fact,collected. Financial institutions should set out pre-qualification screening criteria, whichwould act as a guide for their officers to determine the types of credit that are acceptable. Forinstance, the criteria may include rejecting applications from blacklisted customers. Thesecriteria would help institutions avoid processing and screening applications that would be later rejected.

The next stage to credit screening is credit appraisal where the financial institution assessesthe customer's ability to meet his obligations. Institutions should establish well designedcredit appraisal criteria to ensure that facilities are granted only to credit worthy customerswho can make repayments from reasonably determinable sources of cash flow on a timely basis.

In the case of loan syndication, a participating financial institution should have a policy toensure that it does not place undue reliance on the credit risk analysis carried out by the leadunderwriter. The institution must carry out its own due diligence, including credit riskanalysis, and an assessment of the terms and conditions of the syndication. As a general rule,the appraisal criteria will focus on:

- amount and purpose of facilities and sources of repayment Janata Bank Limited
- integrity and reputation of the applicant as well as his legal capacity to assume the credit obligation;
- risk profile of the borrower and the sensitivity of the applicable industry sector to economic fluctuations;
- physical inspection of the borrower's business premises as well as the facility that is the subject of the proposed financing;

- current and forecast operating environment of the borrower;
- Management capacity of corporate customers

2.10.2: Credit-approval/Sanction:

A financial institution must have in place written guidelines on the credit approval processand the approval authorities of individuals or committees as well as the basis of thosedecisions. Approval authorities should be sanctioned by the board of directors. Approvalauthorities will cover new credit approvals, renewals of existing credits, and changes in termsand conditions of previously approved credits, particularly credit restructuring, all of whichshould be fully documented and recorded. Prudent credit practice requires that personsempowered with the credit approval authority should not also have the customer relationship responsibility.

Depending on the size of the financial institution, it should develop a corps of credit risk specialists who have high level expertise and experience and demonstrated judgment in assessing, approving and managing credit risk. An accountability regime should be established for the decision-making process, accompanied by a clear audit rail of decisionstaken, with proper identification of individuals/committees involved. All this must beproperly documented

2.10.3: Credit Documentation:

Documentation is an essential part of the credit process and is required for each phase of the credit cycle, including credit application, credit analysis, credit approval, credit monitoring, and collateral valuation, and impairment recognition, foreclosure of impaired loan and realization of security. The format of credit files must best and standardized and files neatly maintained with an appropriate system of cross-indexing to facilitate review and follow up. The Bangladesh Bank will pay particular attention to the quality of files and the systems in place for their maintenance. Documentation establishes the relationship between the financial institution and the borrower and forms the basis for any legal action in a court of law. Institutions must ensure that contractual agreements with their borrowers are vetted by their legal advisers.

For security reasons, financial institutions should consider keeping only the copies of critical documents (i.e., those of legal value, facility letters, and signed loan agreements) in credit files while retaining the originals in more secure custody. Credit files should also be stored in fire-proof cabinets and should not be removed from the institution's premises. Financial institutions should maintain a checklist that can show that all their policies and procedures ranging from receiving the credit application to the disbursement of funds have been complied with. The checklist should also include the identity of individual(s) and/or committee(s) involved in the decision-making process.

2.10.4 Credit Administration:

Financial institutions must ensure that their credit portfolio is properly administered, that is, loan agreements are duly prepared, renewal notices are sent systematically and credit files are regularly updated. An institution may allocate its credit administration function to a separate department or to designated individuals in credit operations, depending on the size and complexity of its credit portfolio

A financial institution's credit administration function should, as a minimum, ensure that

- ✓ credit files are neatly organized, cross-indexed, and their removal from the premises is not permitted;
- ✓ the borrower has registered the required insurance policy in favor of the bank and isregularly paying the premiums;
- ✓ credit facilities are disbursed only after all the contractual terms and conditions havebeen met and all the required documents have been received;
- ✓ collateral value is regularly monitored;
- ✓ the borrower is making timely repayments on interest, principal and any agreed to fees and commissions;
- ✓ the established policies and procedures as well as relevant laws and regulations arecomplied with; and
- ✓ On-site inspection visits of the borrower's business are regularly conducted and assessments documented.

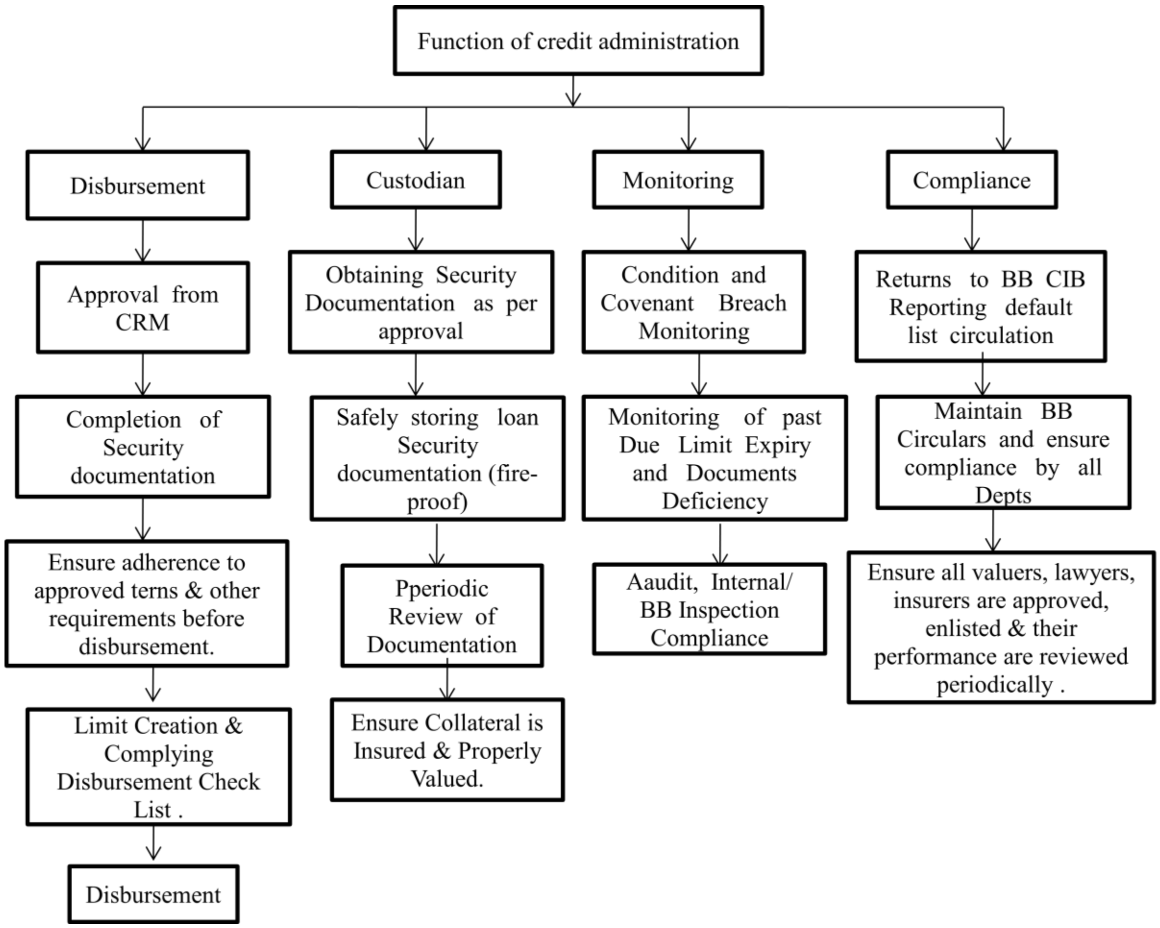


Fig1.1: Function of credit Administration Department

2.10.5: *Disbursement*

Once the credit is approved, the customer should be advised of the terms and conditions ofthe credit by way of a letter of offer. The duplicate of this letter should be duly signed andreturned to the institution by the customer. The facility disbursement process should startonly upon receipt of this letter and should involve, inter alia, the completion of formalitiesregarding documentation, the registration of collateral, insurance cover in the institution'sfavor and the vetting of documents by a legal expert. Under no circumstances shall funds bereleased prior to compliance with pre-disbursement conditions and approval by the relevantauthorities in the financial institution.

2.10.6: Monitoring and Control of Individual Credits:

To safeguard financial institutions against potential losses, problem facilities need to be identified early. A proper credit monitoring system will provide the basis for taking promptcorrective actions when warning signs point to deterioration in the financial health of theborrower. Examples of such warning signs include unauthorized drawings, arrears in capitaland interest and deterioration in the borrower's operating environment Financial institutionsmust have a system in place to formally review the status of the credit and the financial healthof the borrower at least once a year. More frequent reviews (e.g. at least quarterly) should becarried out of large credits, problem credits or when the operating environment of thecustomer is undergoing significant changes.

In broad terms, the monitoring activity of the institution will ensure that:

- ✓ funds advanced are used only for the purpose stated in the customer's credit application;
- ✓ financial condition of a borrower is regularly tracked and management advised in atimely fashion;
- ✓ collateral coverage is regularly assessed and related to the borrower's financial health;
- ✓ the institution's internal risk ratings reflect the current condition of the customer

2.10.7: Monitoring the Overall Credit Portfolio (Stress testing):

An important element of sound credit risk management is analyzing what could potentially go wrong with individual credits and the overall credit portfolio if conditions/environment in which borrowers operate change significantly. The results of this analysis should then be factored into the assessment of the adequacy of provisioning and capital of the institution. Such stress analysis can reveal previously undetected areas of potential credit risk exposure that could arise in times of crisis possible scenarios that financial institutions should consider in carrying out stress testing include:

- ✓ Significant economic or industry sector downturns;
- ✓ Adverse market-risk events; and
- ✓ Unfavorable liquidity conditions
- ✓

2.10.8: Classification of credit:

It is required for the board of directors of a financial institution to "establish credit risk management policy, and credit impairment recognition and measurement policy, the associated internal controls, documentation processes and information systems. Credit classification process grades individual credits in terms of the expected degree of recoverability. Financial institutions must have in place the processes and controls to implement the board approved policies, which will, in turn, be in accord with the proposedguideline. They should have appropriate criteria for credit provisioning and write off.International Accounting Standard 39 requires that financial institutions shall, in addition toindividual credit provisioning, assess credit impairment and ensuing provisioning on a creditportfolio basis. Financial institutions must, therefore, establish appropriate systems andprocesses to identify credits with similar characteristics in order to assess the degree of theirrecoverability on a portfolio basis. Financial institutions should establish appropriate systemsand controls to ensure that collateral continues to be legally valid and enforceable and its netrealizable value is properly determined. This is particularly important for any delinquentcredits, before netting off the collateral's value against the outstanding amount of the creditfor determining provision. As to any guarantees given in support of credits, financialinstitutions must establish procedures for verifying periodically the net worth of theguarantor.

2.10.9: Managing Problem Credits/Recovery:

A financial institution's credit risk policy should clearly set out how problem credits are to bemanaged. The positioning of this responsibility in the credit department of an institution maydepend on the size and complexity of credit operations. The monitoring unit will follow allaspects of the problem credit, including rehabilitation of the borrower, restructuring of credit,monitoring the value of applicable collateral, scrutiny of legal documents, and dealing withreceiver/manager until the recovery matters are finalized. The collection process for personalloans starts when the account holder has failed to meet one or more contractual payment(Installment). It therefore becomes the duty of the Collection Department to minimize theoutstanding delinquent receivable and credit losses. This procedure has been designed toenable the collection staff to systematically recover the dues and identify / prevent potentiallosses, while maintaining a high standard of service and retaining good relations with thecustomers. It is therefore essential and critical, that collection people are familiar with thecomputerized system, procedures and maintain effective liaison with other departmentswithin the bank (Prudential regulations for consumer financing 2004, Bangladesh Bank)

2.11: Credit Risk Management:

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterpart or customer to meet its financial obligations to the Bank. The Bank's credit risk policies define different level risk parameters under which credit risk is monitored and controlled.

Credit exposures are controlled by a system of limits/caps based on internal risk grading. Thissystem applies to all credit exposures, foreign exchange settlement exposures and exposuresarising from settling securities trades for customers.

The Bank's Credit Committee chaired by the Deputy Managing Director, Credit Division,regularly reviews the creditworthiness of issuers, counter parties and customers to who theBank provides credit. The committee makes recommendations to the approving authoritiesthrough the respective department.

Credit risk is managed by ensuring that exposures are sometime fully collateralized withappropriate higher margin. All such exposures are monitored on a regular basis and additionalmargin is called as required.

CHAPTER: 03

Performance Analysis of Janata Bank Limited

3.1: Introduction:

Banks today are great pressure to perform to meet the objectives of their stock holder, employees, depositors and borrowing customers, while somehow keeping government regulators satisfied that the banks policies, loan and investments are sound. A commercial bank is simply a business corporation organized for the purpose of maximizing the value ofthe shareholders wealth invested at the firm at an acceptable level of risk.

To evaluate the banks' performance financial statements, particularly its reports of conditionand reports of income are prepared. How its management deal with when the bank faceserious problem. Bank performance must be directed toward specific objectives. A fairevolution evaluation of any bank's performance should start by evaluating whether it hasbeen able to achieve the objectives its management and shareholders have chosen.

To evaluate the performance of Janata Bank limited some ratios are calculating given belowfrom 2009 to 2013 and after that compare it with South East Bank Limited:

3.2: Return on Equity

ROE measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities).
Among the most important ratio measures of bank profitability used today are following:

Return on Equity (ROE) = Net income after taxes / Total equity capital.

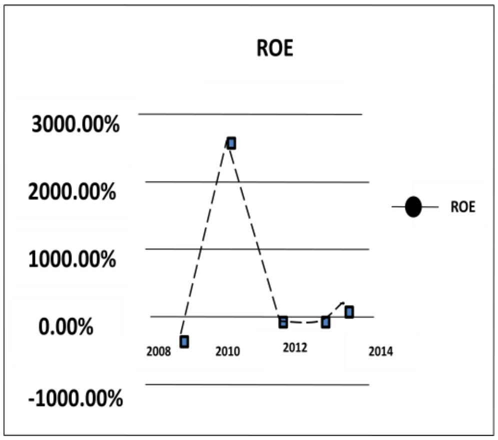
Year	2009	2010	2011	2012	2013	South East Bank(2013)
ROE	23.3%	27.80%	16.32%	(49.74%)	30.09%	16.2%

Table 1.1: Return on Equity

Interpretations:

- The ROE of Janata Bank Limited in 2013 is very satisfactory
- ROEs of Janata Bank in 2013 is far better than that of 2012.
- The ROE of Janata Bank is higher than SEBL

Graphical Representation of ROE from 2009 to 2013:



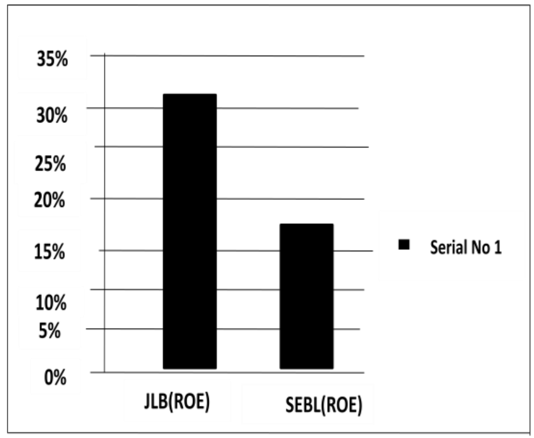


Fig 1.2: **ROE**

3.3: Return on Asset:

ROA is primarily an indicator of managerial efficiency; it indicates how capably the management of the bank has been converting the institution of assets into net earnings. The ratio of a bank's net after tax income divided by its total equity capital Return on Asset (ROA) = Net income after tax / Total Asset

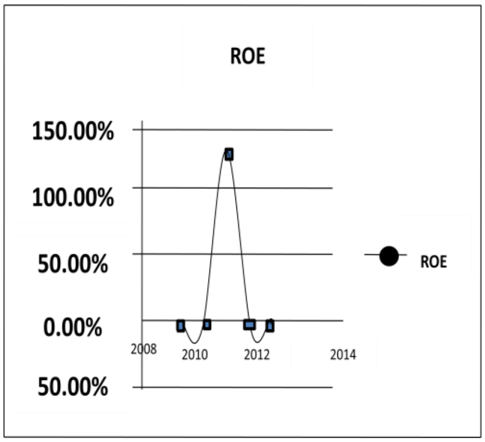
Year	2009	2010	2011	2012	2013	SBL(2013)
ROE	1.00%	.77%	1.12%	(3.50%)	1.42%	1.64%

Table :1.2: Return on Asset

Interpretations:

- Return on assets gives an indication of the capital intensity of the company, whichwill depend on the industry; companies that require large initial investments willgenerally have lower return on assets.
- The ROA of Janata Bank in 2013 is also far better than 2012.
- ROA of SEBL is slightly better than JBL

Graphical Representation of ROA from 2009 to 2013:



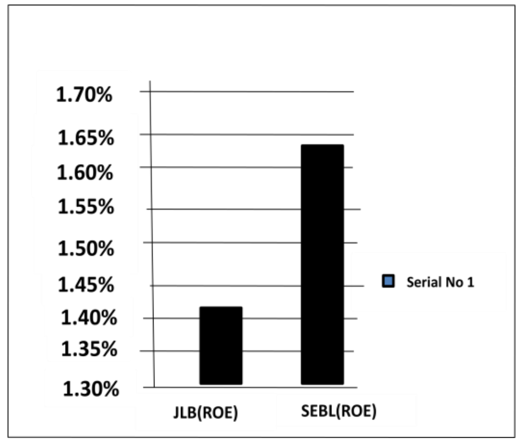


Fig 1.3 : **ROA**

3.4: Net Interest Margin:

Net interest margin is a performance metric that examines how successful a firm's investmentdecisions are compared to its debt situations. A negative value denotes that the firm did notmake an optimal decision, because interest expenses were greater than the amount of returnsgenerated by investments.

Net Interest Margin= (interest income from loans security investment)-(interest expense on deposits and other debt issue)/ Total Asset

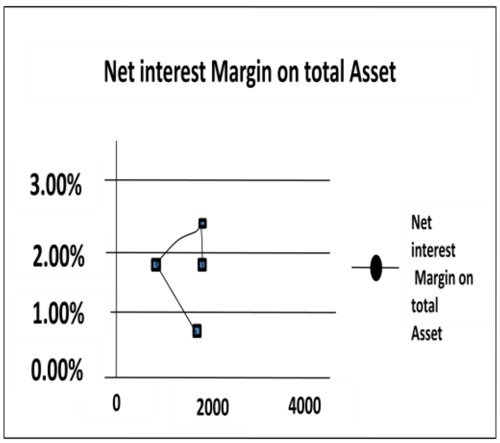
Year	2009	2010	2011	2012	2013	SEBL(2013)
Net interest Margin	1.8%	2.61%	2.53%	1.78%	.47%	.89%

Table 1.3: Net Interest Margin

Interpretations:

- Net interest margin in 2013 is very close to zero
- From the financial report of Janata Bank it can be said that the net interest
- margin in year 2012 was far better than year 2013.
- SEBL NIM is better than JBL

Graphical Representation of Net Interest Margin from 2009 to 2013:



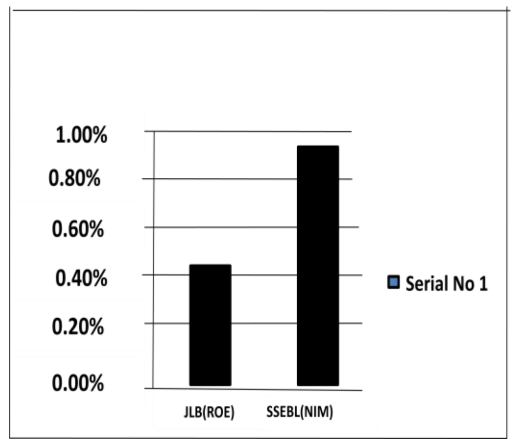


Fig 1.4 :**Net Interest Margin**

3.5: Net Non Interest Margin:

The noninterest margin, in contrast, measure the amount of noninterest revenues stemmingfrom deposit service charges and other service charges other services fees the bank has beenable to collect relative to the amount of noninterest cost incurred.

Net non-interest margin= Noninterest Revenue-noninterest expense/Total Asset

Year	2009	2010	2011	2012	2013	SEBL(2013)
Net not interest Margin	(51%)	(0.0058%)	25%	0.003.4%	(.61%)	Unavailable Data

Table 1.4 : ***Net Non Interest Margin***

Interpretations:

- In 2013 net noninterest margin is negative
- In 2012 it was little bit better than 2013 because of positive figure
- The non interest margin of SEBL is very much satisfactory than JBL

Graphical Representation of Net Noninterest Margin from 2009 to 2013:

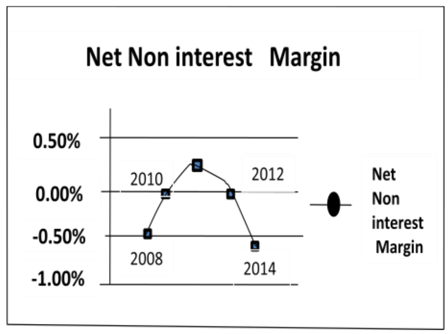


Fig 1.5 :**Net Non interest Margin**

3.6: Net Bank Operating Margin:

Operating margin is a measurement of what proportion of a company's revenue is left overafter paying for variable costs of production such as wages, raw materials, etc. A healthyoperating margin is required for a company to be able to pay for its fixed costs, such asinterest on debt. Also known as "operating profit margin" or "net profit margin".

Net Bank Operating Margin= (Total operating revenue)-(Total operating expense)/TotalAsset

Year	2009	2010	2011	2012	2013	SEBL(2013)
Net Bank Operating Margin	2.91%	3.49%	3.52%	2.84%	2.07%	3.03%

Table 1.5: Net Bank Operating Margin

Interpretations:

- In 2013 net operating margin is lower among all the years
- The net operating margin of Janata Bank is also higher in 2012
  than in 2013, so the profit earned by Janata bank was higher in year 2012.
- The NBOM is satisfactory of SEBL than JBL

Graphical Representation of Net Bank operating Margin from 2009 to 2013:

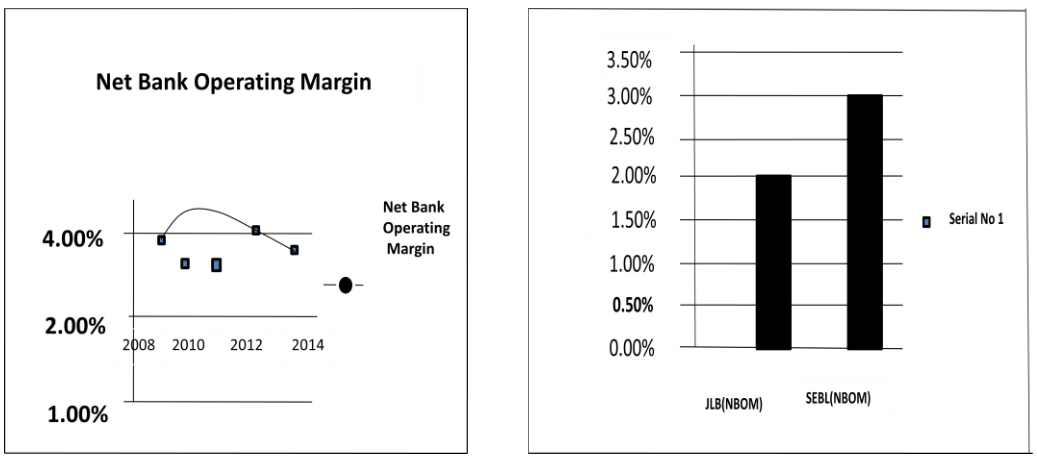


Fig 1.6 :Net Bank operating Margin

3.7: Earnings per Share (EPS):

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

Earnings per Share= Net Income after Taxes/ Common equity shares outstanding

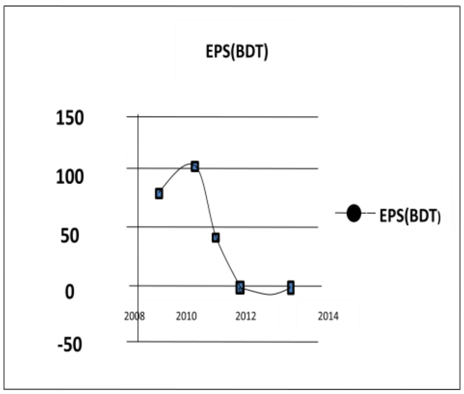
Year	2009	2010	2011	2012	2013	SEBL(2013)
EPS	79.3%	98.16%	43.46%	(138.41)%	86.34%	3.86%

Table 1.6 : Earnings per Share (EPS)

Interpretations:

- Earnings per share are positive for the shareholders.
- The earnings per share of Janata Bank Ltd. in year 2013 are 86.13 where in year 2012 it was negative. It indicates the better performance of this bank in 2013.

Graphical Representation of EPS from 2009 to 2013:



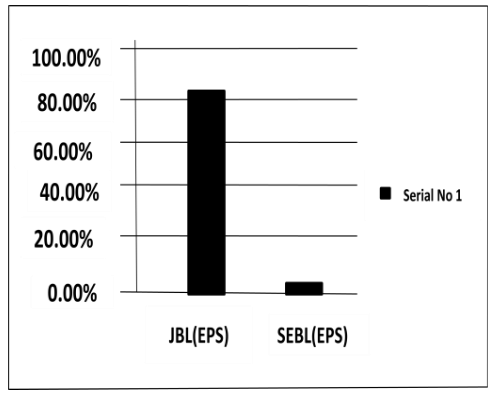


Fig 1.7 **: EPS (BDP)**

3.8: Net profit margin:

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue.

Net profit margin= Net income after taxes/ Total operating revenue

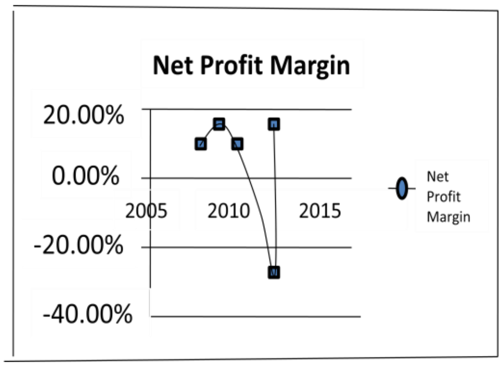
Year	2009	2010	2011	2012	2013	SEBL(2013)
Net profit margin	11.64%	16.03%	10.93%	(30.86)%	17.37%	13.55%

Table 1.7 :Net profit margin

Interpretations:

- Net profit margin is better than all previous year
- Net profit margin is 17.37% in 2013 where in 2012 it was negative.
- NPM of janata bank is 17.37 where're the SEBL is more about 5% less

Graphical Representation of Net profit Margin from 2009 to 2013:



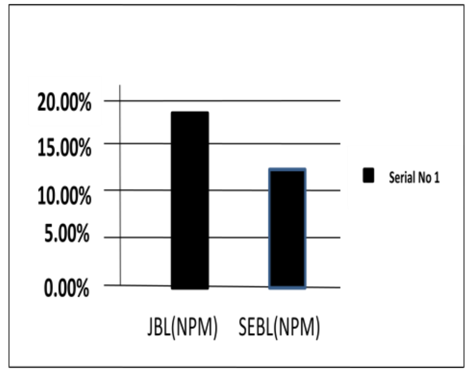


Fig 1.8 : **Net profit Margin**

3.9: Asset Utilization:

The asset utilization ratio measures management's ability to make the best use of its assets to generate revenue. The more effectively that the equipment is used, the more profitable the company will be.

Asset Utilization= Total operating revenues/Total Asset

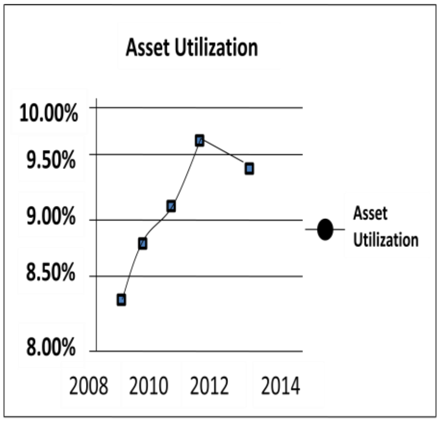
Year	2009	2010	2011	2012	2013	SEBL(2013)
Asset utilization	8.19%	8.87%	9.10%	6.69	9.39%	12.18%

Table 1.8 :Asset Utilization

Interpretations:

- Asset utilization ratio is not enough good in 2013
- In 2013 the ratio lower than 2012 which indicates assets are not properly used in 2012
- The AU ratio of SEBL is higher than JBL

Graphical Representation of Asset utilization Ratio from 2009 to 2013:



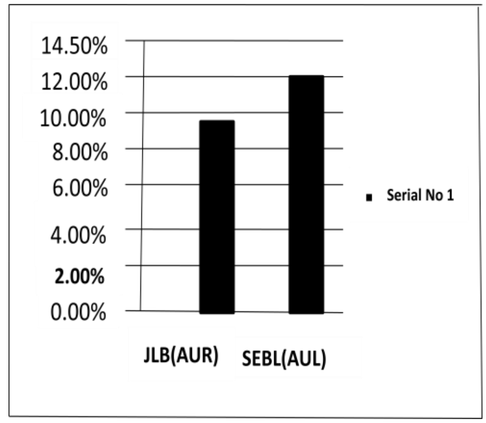


Fig 1.9: Utilization Ratio

3.10: Efficiency Ratio:

Efficiency ratios also called activity ratios measure how well companies utilize their assets to generate income.

Efficiency Ratio= Total operating expenses / Total operating revenues

Year	2009	2010	2011	2012	2013	SEBL(2013)
Efficiency Ratio	15.86%	15.11%	17.54%	21.61%	21.26%	75.11%

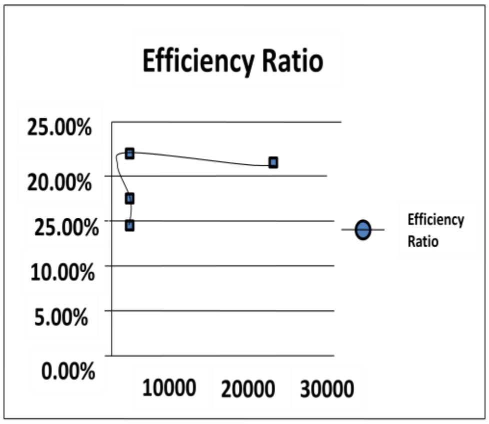
Table 1.9*: Efficiency Ratio*

Interpretations:

- Efficiency ratio is not good
- In 2013 the ratio is slightly fall than 2012
- ER is more higher of SEBL

From above analysis, it can be said that the performance of Janata Bank Ltd. is getting better day by day.

Graphical Representation of Efficiency Ratio from 2009 to 2013:



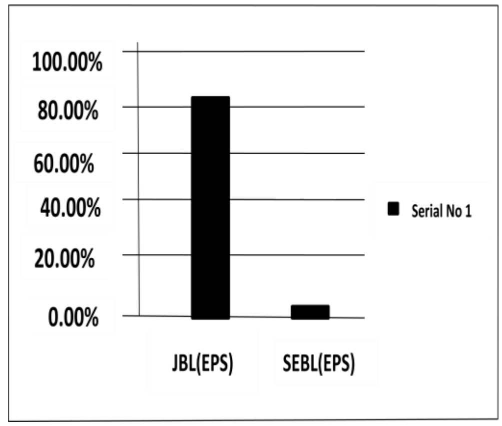


Fig 1.10 :Efficiency Ratio

From above analysis, it can be said that the performance of Janata Bank Ltd. is getting better day by day.

3.11: JBL's significant achievements:

JBL is one of the leading state owned commercial bank in the country in terms of asset quality, profitably, product diversification, capital adequacy, service portfolio etc. Inspire of persisting numerous challenges in overall banking sector, the bank has performed successfully. The major achievements of JBL in key areas during 2013 were:

In 2013, net profit after tax and provision appeared as BDT 9,551.39 million.

- In 2013, the capital sufficiency of the bank is higher than the rate of 10% that
- prescribed by Bangladesh Bank.
- In 2013, earnings per share (EPS) are BDT 86.31 which was negative in 2012.
- In 2013, the rate of classified loan reduced to 11.12% which was 17.42% in 2012.
- During 2013 (January to December), the bank deposited approximately BDT 8,327 million as tax with vat, excise duty, source-tax etc.

CHAPTER: 04

Findings, Recommendation and conclusion

4.1: Findings of the Report:

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 internship period I have summed up my findings here and I think this will help me to achieve my objectives.

- The bank follows the overall credit assessment and risk grading process according to the rules of Bangladesh Bank in a somewhat manner.
- With a view to implementing government policies, JBL has been maintaining its position in extending credit to government bodies, sector corporations and private enterprises.
- 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.
- JBL distribute loans without sufficient security in some cases. This is violation of the Bangladesh bank order.
- 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.
- In many cases bank face the problem of recovery because the credit officer fails to value collateral property. Proper valuation means collateral will exactly cover the risk of bad loan. Officials must do it with due care.
- JBL is not efficient in processing and executing legal actions against defaulters for their nonpayment of loans and advances.

4.2: Recommendations:

To improve the risk management culture further, Janata Bank Limited should adopt some of the industry's best practices that are not practiced currently. These are:

- 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.
- Political intervention should be avoided while approving and sanctioning loan.
- 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
- Janata Bank Ltd. should provide short-term scheme like Micro credit for poor people.
- it may be a fair deal if the high-risk borrowers and the low risk borrowers should not have to pay the same interest rate. Interest rate could be arranged according to the sumthey borrow
- JBL should built separate loan recovery division if it happen then their classified loanamount will reduce.
- JBL should give the competitive interest rate, so that the clients are not shifting their accounts to other bank
- The amount of non-performing loan should be reduced by analysis proper evaluation of loan proposal and monitoring.

4.3: Conclusion:

It goes without saying that credit policy cannot be isolated from the broader monitory policy of the country. Like any other segment of the economic policy, credit is very important for any financial institution as it generates profit and gear up economic activities of the country. In other words, credit is business and it is input in the production process of the country. Since credit has an inherent risk, therefore proper utilization of the loans are essential to meet the requirements of the borrower. The loan applied for by the borrower must not be employed for unproductive purpose. In this regard, the Janata Bank Limited must closely follow the progress of the loan and the way the borrower is utilizing the funds. In this way the Janata Bank Limited will deter any fake activities on the part of the borrower Credit evaluation system of Janata Bank Limited I is very lengthy process. It has been revised time to time in response to the respective circular of Bangladesh Bank. The overall credit activity of Janata Bank Limited is composed of corporate credit division and credit administration. The credit management system of Janata Bank Limited is more or less effective as recovery position of classified loan is high and classified loan has been decreasing gradually during the year. They always trying to improve their credit policy for minimizing loss and maximizing profit and various measures are undertaken to develop the credit management system

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