

**AN ANALYSIS ON CREDIT AND RISK MANAGEMENT PRACTICE OF JANATA  
BANK LIMITED: A CASE STUDY ON SHER-E-BANGLA NAGAR CORPORATE  
BRANCH, DHAKA**

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**Internship Report**  
**on**  
**An Analysis on Credit and Risk Management Practice of Janata Bank Limited: A Case**  
**Study on Sher-e-Bangla Nagar Corporate Branch, Dhaka**



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## Letter of Transmittal

30<sup>th</sup> November, 2016

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**Subject:** Submission of internship report on “An Analysis on Credit and Risk Management Practice of Janata Bank Limited ”: A Case Study on Sher-e-Bangla Nagar Corporate Branch, Dhaka.

Dear Sir

I have put my best effort to prepare an effective & creditable research paper. With great pleasure I submit my master paper on “An Analysis on Credit and Risk Management Practice of Janata Bank Limited ”: A Case Study on Sher-e-Bangla Nagar Corporate Branch, Dhaka. That you have assigned to me as an important requirement of MBA program. I have found the study to be quite interesting, beneficial & insightful. It contains a detailed study on credit risk management. Here I have gathered information through primary and secondary sources.

I want to thank you for your support and patience for me and I appreciate the opportunity provided by you through assigning me to work in this thoughtful project.

Sincerely yours,

-----

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I want to say thanks, to my classmates and friends, especially Suraiya Akter, Sharmin Akter, Shaila Sayeed Tanny for their active encouragement and inspiration.

## ABBREVIATION AND ACRONYMS

<b>AD</b>	<b>Authorized Dillera</b>
<b>BACH</b>	<b>Bangladesh Automated Clearing House</b>
<b>BDT</b>	<b>Bangladeshi Taka</b>
<b>BEFTN</b>	<b>Bangladesh Electronic Fund Transfer Network</b>
<b>CAD</b>	<b>Central Accounts Division</b>
<b>CEO</b>	<b>Chief Executive Officer</b>
<b>CIB</b>	<b>Credit Information Bureau</b>
<b>CLR</b>	<b>Classified Loan Review</b>
<b>CM</b>	<b>Credit Memorandum</b>
<b>CRM</b>	<b>Credit Risk Management</b>
<b>ERM</b>	<b>Environmental Risk management</b>
<b>JBL</b>	<b>Janata Bank Limited</b>
<b>POS</b>	<b>Point of Sale</b>
<b>RU</b>	<b>Recovery Unit</b>
<b>SDR</b>	<b>Security Deposit Receipt</b>
<b>SME</b>	<b>Small and Medium Enterprise</b>
<b>SP</b>	<b>Sanchay Patra</b>
<b>TK.</b>	<b>Taka</b>
<b>WEB</b>	<b>Wage Earner Bond</b>

## Student's Declaration

I declare that the Internship Report on **“An Analysis on Credit and risk Management Practice of Janata Bank Limited ”: A Case Study on Sher-e-Bangla Nagar Corporate Branch, Dhaka** represent the result of my own internship works, pursued under the supervision of **Sharmin Akhter**, Assistant Professor, Department of Development and Poverty Studies, Sher-e-Bangla Agricultural University, Dhaka.

I further affirm that the work reported in this report is original and no part or whole of this report has been submitted to, in any form, any other university or Institution for any degree or any other purpose.

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## **Abstract**

As the MBA program is a terminal degree, it is required to have an internship program for a period of four months on a reputable organization where I can gain practical experiences what I learned at my theoretical classes. I was keen to have my internship program at banking sector that is why I joined Janata Bank Ltd, Sher-e-Bangla Nagor Branch, Dhaka as an internee for three months. They give me the opportunity to gain practical knowledge and I work in this branch by rotation.

Commercial banks lend money to different categories of borrowers for various purposes with a view to generate revenue. Accordingly, while processing and appraising a loan proposal, banks essentially analyze the information relating to borrowers, assess the purposes of loan and determine the viability of the loan proposal. If the proposal is sound and safe for lending, loan is sanctioned and disbursed. Janata Bank Limited is the second largest Government owned Bank. It operates credit facilities for business purpose as well as welfare of the economy.

The report discusses about the different credit facilities, approval process, monitoring and performance of the bank under study. In this report; I discussed about the management practices of different credit facilities, approval process, monitoring and performance of the bank under study. This report consists of nine chapters. The first chapter deals with introduction of report, essential of the study. The second chapter deals with methodology. In this research simple random sampling method was used to select the sample respondents. The third chapter deals with organization profile. The fourth chapter deals with an overview of credit risk management, The fifth chapter contains an overview of credit risk management practice of Janata bank limited, Sher-e-Bangla Nagar Corporate Branch, Dhaka. The sixth chapter deals with analysis of the study. The seventh chapter deals with strength, weakness, opportunity, and threat of Janata bank limited in banking sector. The eighth chapter contains summary of findings and the last chapter contains conclusion, and some valuable recommendations. From my overall study it is concluded that the overall credit risk management system of the branch is satisfactory, although the recovery performance is not so satisfactory.

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# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Introduction**

Today's fast growing companies need business banking services that fully meet their expectations for speed, convenience, efficiency and security. To ensure their optimum level of satisfaction, regarding their necessity for this type of affluent banking services different types of local as well as multinational banks are coming up with diverse and dynamic corporate banking services.

The term "Bank" originally referred to an individual or organization, which acted as a money changer and exchanged one currency for another. According to Prof. Sayers - "Banks are institution whose debt usually referred to as 'Bank Deposit' - are commonly accepted in final settlement of other peoples debts". According to the Banking Regulation Act,1949 – "Banking means the accepting money for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise and withdraw able by cheques, drafts order or otherwise".

Financial institutions are very much essential for the overall development of a country. Especially banks play an important role in the field of promotion of capital, encouragement of entrepreneurship, generation of employment opportunities etc. Market economy or free economy is widely used-concept about the present economy of Bangladesh. The country adopted the concept in the late seventies with the privatization of significant number of enterprises. The practices of free market economy started from the eighties with the changing of the world economy. A number of initiatives were taken from the nineties to increase the competition and efficiency in money market, relaxation of unwanted rules and regulations, improvement of loan related law and other situations and improve the financial base of the banks of the country.

Janata Bank Limited is a government owned bank with numerous branches spreading all over Bangladesh. It collects remittances from different countries and transfers the currency in BDT to the destined location. In the report I will try to describe the Credit Risk management procedure of Janata Bank Ltd. This report has a certain purpose to focus on the operations of "credit and risk management practices" of Janata Bank Limited.

## **1.2 Origin of the report**

The report entitled on “Analysis on credit and risk management practice of Janata Bank Limited, Sher-e-Bangla Nagar Corporate Branch, Dhaka” has been prepared as a partial fulfilment of MBA (Agribusiness) in Faculty of Agribusiness Management from Sher-e-Bangla Agricultural University. 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 practical applications. During the internship training, students have the opportunity to adopt themselves 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 building confidence and working knowledge in advance of the start of their career. To fulfill this requirement every university arrange a program of internship. Here we get a chance to apply our theoretical knowledge that we acquired from class lectures, books, journals, case studies, seminar, project, workshop, etc. and compare them with practical setting. As part of the internship program of Masters of Business Administration in Agribusiness course requirement, I was assigned for doing my internship in Janata Bank Limited at Sher-e-Bangla corporate branch for the period of sixteen weeks.

## **1.3 Rationale of the study**

Banking sector is one of the fastest growing sectors in our country. Currently in our country 64 banks are operating which includes local and foreign venture. Some new banks are coming in the market. Therefore, the banking industry is very much lucrative and at the same time very competitive too. All banks are offering newer products and facilities to attract the customers and retain them. Appropriate customer selection and retention is vital for bank profitability.

In case of sanctioning credit selection of borrowers, credit investigation is mostly needed. Not only these but also preparation of credit report credit approval process & administration following proper credit risk management is crucial for any bank. Because if there is any lack in credit management the loan may default this may run a bank in bankruptcy. In time of internship I found it have some lacking in this branch of Janata Bank Limited. Although it is good in credit management, the recovery performance of this branch is not satisfactory.

## **1.4 Objectives of the report**

### **General Objective**

The main objective of the report is to explore and evaluate credit and risk management practice by Janata Bank Limited.

### **Specific Objectives**

1. To acquire in depth knowledge on Janata Bank Limited
2. To identify the competitive position of the credit scheme of Janata Bank Limited
3. To identify problems related to recovery of credit
4. To give some suggestions to overcome the weakness and problems that exists in the existing system

## **1.5 Scope of the Study**

This internship program gives me a great scope or opportunity for gathering experience and knowledge in several areas of banking by which I can evaluate or expose myself. The scope of this report is mostly limited to Janata Bank Limited, as the report is based on practical observations. For the purpose of my internship program I was assigned at Janata Bank Limited, Sher-e- Bangla Nagar Corporate Branch, Agargaon, Dhaka. I have worked as an intern and focused on a bank's credit division. I highlighted the credit and management system and its present position and future aspect. I studied the disadvantages and problems of the credit management system and have tried to make some recommendations to develop credit function.

## **1.6 Limitation of the Study**

The study suffers the following limitations:

- a. Most of the information has been taken from Secondary sources.
- b. Lack of sufficient data about scheme wise loan disbursement, recovery, default risk of various sector & scheme etc. regarding credit scheme of Janata Bank Ltd. This constraint narrows the scope of real analysis.
- c. It was very difficult to get the actual information because of confidentiality.
- d. Because of time constraint, I could not spend sufficient time to make an in depth study.
- e. The bankers & clients were too busy to provide me much time for interview.



## **CHAPTER 2**

### **METHODOLOGY OF THE STUDY**

#### **2.1 Introduction**

The study requires a systematic procedure from selection of the topic to preparation of the final report. To perform the study, the data sources are to be identified and collected, to be classified, analyzed, interpreted and presented in a systematic manner and key points are to be found out. The overall process of methodology has been given below.

#### **2.2 Choosing of the organization**

I focused on a specific institution, Janata Bank Limited as it is one of the largest state own Bank in Bangladesh and it is playing important role in national economy.

#### **2.3 Selection of the Topic**

The topic of the study was assigned by the honorable supervisor. While assigning the topic necessary recommendation and suggestions are provided by my honorable supervisor to make the internship report a well organized and perfect one.

#### **2.4 Identifying data sources**

Essential data sources, both primary and secondary data source are identified that would be needed to carry on the study and complete this report. Information collected to furnish this report is both primary and secondary sources.

##### **■ Primary Sources of Data**

- i. Practical desk work.
- ii. Face to face conversation with the respective officers and clients.
- iii. Personal observation.

##### **■ Secondary Sources of Data:**

- i. Study on institution booklet & annual reports of Janata Bank Limited.
- ii. Online data from Janata Bank Limited website.
- iii. Circulars
- iv. Different Manuals of Janata Bank Limited.

- v. Published or unpublished or personally collected data from officers, Local Officers and Head office of the Janata Bank Limited.
- vi. Different journal regarding Janata banking.

### **2.5 Methods of data collection**

- i. Observation of different activity.
- ii. Consultation with respective officer.
- iii. Practical work exposure on different desk.
- iv. Interviewing the employees and customers.

### **2.6 Sampling Unit**

Primary data are collected through direct and face to face interview of the different personnel of the Janata Bank Limited (JBL), Sher-e-Bangla Nagar corporate branch and from the customers. The breakdown of respondents is as follows:

<b>Sample Framework</b>	<b>No. of Respondents</b>
Customer	10
Employee	10
<b>Total</b>	<b>20</b>

### **2.7 Sampling Procedure**

I have surveyed respondents conveniently and judgmentally. Even though, there were some refusals during the interviews from different respondents, where few people refused to participate in the survey either because they were in a hurry or they were unwilling to do so.

### **2.8 Questioner Design**

I have developed a questionnaire with ten different questions (five for customers and five for employees) to collect responses.

### **2.9 Period of Data Collection**

Practical orientation in bank has started from the 17 February, 2016 and the duration of this internship was four Months.

### **2.10 Processing and Analysis of Data**

Collected data was compiled and processed with the aid of MS Excel. The raw data was collected from various sources. The Excel program has also been used for the table, figures, percentages, charts & graphical representation. Mostly descriptive statistics were used to achieve the objectives of the report.

### **2.11 Findings of the Study**

The collected data were scrutinized and were pointed out and shown as findings. Based on the analysis of the questionnaire, I find out some category in which the bank has scope and also some problems in which the bank should be aware. Few recommendations are made for improvement of current situation.

### **2.12 Final Report Preparation**

On the basis of the suggestions of my honorable faculty advisor some correction were made to present the paper in this form. At least I came to submit this report as a whole.

## CHAPTER 3 AN OVERVIEW OF JANATA BANK LIMITED

### 3.1 History of Janata Bank Limited

Janata Bank Limited, one of the state owned commercial banks in Bangladesh, has an authorized capital of Tk. 30000 million, paid up capital of Tk. 19,140 million, deposit of Tk. 568,911.14 million. The Bank has a total asset of Tk. 683,157.58 million as on 31st December 2015. Immediately after the emergence of Bangladesh in 1971, the erstwhile United Bank Limited and Union Bank Limited were renamed as Janata Bank. On 15th November, 2007 the bank has been corporatized and renamed as Janata Bank Limited.

Janata Bank Limited operates through 889 branches including 4 overseas branches at United Arab Emirates. It is linked with 1202 foreign correspondents all over the world. The Bank has more than 15(fifteen) thousand employees.

**Table 3.1: Company profile of Janata Bank Limited**

Name of the company	Janata Bank Limited
<b>Registered address</b>	JanataBhaban, 110, Motijheel C/A, Dhaka-1000.Bangladesh
<b>Legal status</b>	Public limited Company
<b>Date of incorporation</b>	21 may, 2007
<b>Paid up capital</b>	Tk. 19,140 Million
<b>Face value per share</b>	Tk. 100 per share
<b>Total Number of Branches</b>	908
<b>Website</b>	www/janatabankltd.-bd.com
<b>Tax Identification No.</b>	001-200-2732
<b>Swift code</b>	JANB BD DH
<b>Fax</b>	Pabx ; 9560000

Source: Annual Report of Janata Bank Limited, 2015

### 3.2 Vision of Janata Bank Limited

To become the effective largest commercial bank in Bangladesh to support socio economic development of the country and to be a leading bank in south asia.

### 3.3 Mission of Janata Bank Limited

The mission of the bank is to actively participate in the socio- economic development of the nation by operating a commercially sound banking organization, providing credit to viable

borrowers, efficiently delivered and competitively priced, simultaneously protecting depositors' funds and providing a satisfactory return on equity to the owners.

### 3.4 Objectives of Janata Bank Limited

Janata Bank will be the absolute market leader in the number of loans given to small and medium sized enterprises throughout Bangladesh. It will be a world – class organization in terms of service quality and establishing relationships that help its customers to develop and grow successfully.

### 3.5 Organizational structure of Janata Bank Limited at Sher-e-Bangla corporate branch

#### Hierarchy of Janata Bank Management



Figure 3.1: Hierarchy of Janata Bank Management

### 3.6 Department of Janata Bank Limited

According to the 1<sup>st</sup> principle of management if the jobs are not organized considering their interrelationship and are not allocated in a particular department, it would be very difficult to control the system effectively. If the departmentalization is not fitted for the particular works there would be haphazard situation and the performance of a particular department would not be measured. Janata Bank Limited at sher-e-bangla corporate branch has done this work very well. Department of the branch are as follow:

1. Central Accounts Division (CAD)
2. Credit Division
3. International Division
4. Information & Technology Division
5. Human Resources Division
6. Audit & Inspection Division
7. Foreign Remittance Management Division
8. Treasury Department
  - a) Foreign Currency Management Division
  - b) Local Currency Management Division
9. Legal Matters Division
10. Human resources management division

### 3.7 Janata Bank Limited at a Glance

**Table 3.2: Janata Bank Limited at a glance**

Sl No.	particulars	(Taka in Million)
1	Authorized capital	30000
2	Paid up capital	19,140
3	Branch in Bangladesh	904
4	Overseas Branch	4
5	Number of foreign correspondent	1251
6	Number of Exchange houses	76
7	Number of Employee	13639
8	Total assets	683,157.58
9	Total deposit	568,911.14
10	Total loan & advance	349,861.30
11	Import	147181.80
12	Export	145,373.60
13	Foreign Remittance	106,336.30
14	Operating profit	107,20.50

Source: Annual Report of Janata Bank Limited, 2015

### 3.8 Function of Janata Bank Limited as a Commercial Bank

There are mainly four major business areas where the Janata Bank Ltd is performing with high reputation. These areas are:

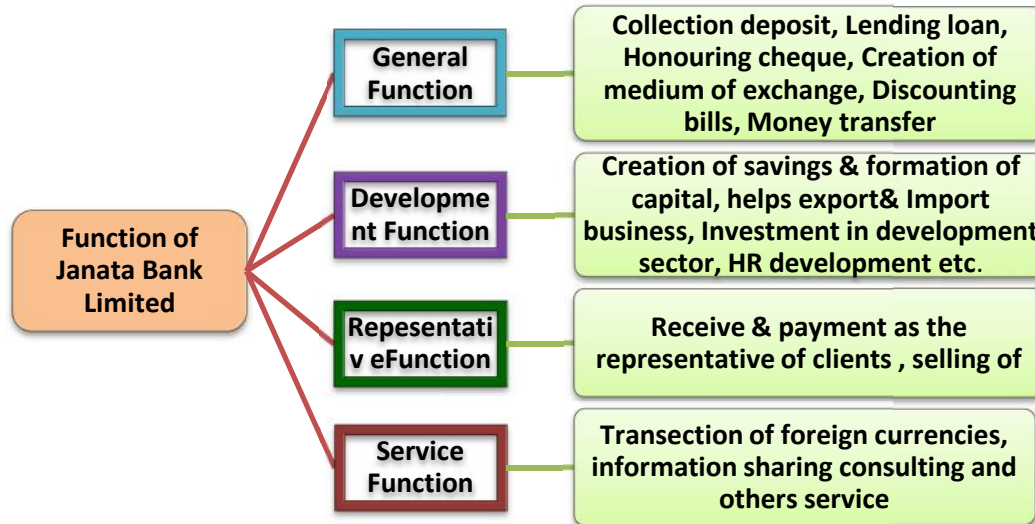


Figure 3.2: Function of Janata Bank Limited as a Commercial Bank

### 3.9 Products and Services of Janata Bank Limited

JBL provide both corporate and retail banking services with a strong focus on socio economic development of the country. The bank typically provides short term working capital loan and limited long term credit exposure. Moreover, JBL offers micro enterprise and special credit as well as rural banking. Under corporate banking services, JBL provides trade finance, consumer finance, project finance and syndicate finance. On the other hand, various deposit scheme and remittance facilities are delivered through retail banking.

#### Products of Janata Bank Limited

##### Deposits

- Current & Call Deposits
- Savings Bank Deposits
- Term Deposits
- Monthly Deposit Scheme
- Special Notice Deposit

##### i. Loans & Advances

- Agricultural Loan

- Overdraft
- Education Loan
- Term Loan
- Import Loan
- Export Finance
- Housing Loan

**ii. Other Credit Program**

- Transport
- Loan to Diagnostic Centers
- Loan to Travel Agencies
- Loan for Salt Production

**Services of JBL**

**i. Financial Services (Inland Remittance)**

**ii. Financial Services (Foreign Remittance)**

**iii. Other Financial Services**

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

**iv. Utility Services**

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

**v. ATM Service**

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



#### vi. Welfare Service

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

#### vii. Service to the Government

- Sale of Prize Bond
- Sale of Wage Earner Bond (WEB)
- Sale of SanchayPatra (SP)
- VAT collection
- Tax collection
- Excise duty collection

#### viii. Other Service

- SMS banking
- Sale of Lottery Ticket
- Foreign Currency Buying and Selling
- Bangladesh Electronic Fund Transfer Network (BEFTN)
- Bangladesh Automated Clearing House (BACH)

### 3.10 Core Values of Janata Bank Limited, Sher-e-Bangla Nagar Corporate Branch



Figure 3.3: Core Values of Janata Bank Limited

## **CHAPTER 4**

### **AN OVERVIEW OF CREDIT AND RISK MANAGEMENT**

#### **4.1 Credit Risk Management**

- **What is credit?**

In banking terminology, credit refers to the loans and advances made by the bank to its customers or borrowers. Bank credit is a credit by which a person who has given the required security to a bank has liberty to draw to a certain extent agreed upon. It is an arrangement for deferred payment of a loan or purchase.

- ◆ **What is credit risk?**

Risk means the exposure to a chance of loss or damage. Risk is the element of uncertainty or possibility of loss that exist in any business transaction. Credit risk is the likelihood that a borrower or counter party will be unsuccessful to meet its obligation in accordance with agreed terms and conditions. Credit risk means the risk of credit loss that result from the failure of a borrower to honor the borrower's credit obligation to the financial institution. Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

- **What is credit risk management?**

Credit risk management is the lending institution's primary line of defense to protect itself against customers who fail to meet the terms of the loans or other credit that was extended to them. Credit risk management is an important aspect of a bank's success and ensures a lending institution will not take on more risk than it can handle.

#### **4.2 Prerequisites for Efficient Risk Management**

In order to implement efficient risk management, sound and consistent

1. Methods
2. Processes and organizational structures and
3. IT systems and an IT infrastructure are required for all five components of the control cycle.

### 1) Methods

The methods used show how risks are captured, measured, and aggregated into a risk position for the bank as a whole. In order to choose suitable management processes, the methods should be used to determine the risk limits, measure the effect of management instruments on the bank's risk position, and monitor the risk positions in terms of observing the defined limits and other requirements.

### 2) Processes and organizational structures

Processes and organizational structures have to make sure that risks are measured in a timely manner that risk positions are always matched with the defined limits, and that risk mitigation measures are taken in time if these limits are exceeded. Concerning the processes, it is necessary to determine how risk measurement can be combined with determining the limits, risk controlling, as well as monitoring. Furthermore, reporting processes have to be introduced. The organizational structure should ensure that those areas which cause risks are strictly separated from those areas which measure, plan, manage, and control these risks.

### 3) IT systems and an IT infrastructure

IT systems and an IT infrastructure are the basis for effective risk management.

Among other things, the IT system should allow

- ❖ The timely provision and administration of data;
- ❖ The aggregation of information to obtain values relevant to risk controlling; as well as an automated warning mechanism prior to reaching critical risk limits.

## 4.3 Types of Credit Risk Management

There are 2 types of credit risk factors, namely external risk factors and internal risk factors.

### A. External Risk Factors:

1. **Economic condition:** Change in the macro-economic level, namely, global, regional, national, and regional economy such as change in national income, unemployment will impact credit risk through change in business cycle, exchange rate, interest rate, credit availability, and credit quality. In addition, change in the micro-economic level such as liquidity crunch or financial problem will impact borrowers' ability to fulfill their obligation.
2. **Correlated risk factors:** Correlated risk factors are the impact that risk factors in one market have on another market. The impact can be in 2 forms, direct and indirect correlation. Direct correlation is when an impact on one industry directly affects another industry directly such

as when loss in construction industry affects construction materials industry. Indirect correlation is when an impact on one industry affects another industry and spills over to another industry such as the case of the seemingly unrelated industries such as oil and steel.

3. **Competition:** Competition pressure among financial institutions in terms of growth, profitability, and the desire to be the market leader can cause financial institutions to lower their underwriting standards or improperly price their loan products. Such will result in higher cost from increasing non-performing loans. Competition comes from domestic financial institutions, foreign financial institutions, branches of foreign financial institutions, specialized financial institutions, and finance companies.

## **B. Internal Risk Factors:**

4. **Underwriting standards:** Underwriting standards is a process to determine what type of, to whom, for what purpose and when credits should be granted. Proper credit approval process should comprise proper guidelines on both the form and methodology in evaluating borrowers' credit worthiness, setting up of credit line and interest rate appropriate to borrowers' risk and credits. Change in underwriting standards should not occur too often.
5. **Credit concentrations:** Credit concentrations can be a major cause of most credit problems as they can affect capital fund and assets of financial institutions. Concentrations can take several forms, including concentrations on each borrower or groups of borrowers or each economic sector such as real estate, construction, manufacturing, and agriculture.
6. **Experience of staff :** Credit officers that lack experience in the activities they are responsible for, be they credits, investment, management of problem assets or new products, can lead to poor lending practice, ineffective administration, and eventually, loss to financial institutions.
7. **Management Information System (MIS):** Risk will increase if the management does not regularly receive accurate and timely reports on credits. The reports shall comprise important information related to underwriting process such as economic trends, change in the structure of industry, or market share, commodity prices, exchange rates, including past due credits, credit concentrations, and analysis of problem loans.
8. **Inappropriate assessment of credit quality:** This problem may result from competitive pressure and credit growth as they tend to put a time constraint on getting accurate data. Moreover, rapid growth and/or entry into new markets can tempt the management to lend without sufficient financial and economic analysis.
9. **Introduction of new financial products or services without thorough risk assessment:** Financial institutions that fail to thoroughly assess risk in introduction of new products and do not install risk management system prior to launch of new products represents another important problem. With rapid credit growth and/or heightened competition, financial

institutions are pressured to introduce new products and services to the market without proper testing

10. **Excessive lending:** Excessive lending imposes risk as well as lending without proper analysis. Lending in excess of borrowers' ability to repay will result in problem loans.
11. **Over-emphasis on income:** Too much emphasis on income from credits over the credit quality leads to the granting of credits with high risk. In the long run, such practice may result in problem credits and incur cost higher than the income initially received.
12. **Supervision:** Parts of problem credits arise when financial institutions' boards or management cannot oversee various units to appropriately comply with the policy or when the supervision is ineffective due to lack of knowledge of borrowers' true condition.

#### **4.4 Compliance of Bangladesh Bank Guideline for Credit**

In the previous sections of this report we have critically analyzed Janata Bank's existing credit risk management system as well as Bangladesh Bank's best practices guidelines for managing credit risk. Comparing Janata Bank's current credit risk management system with the BBK best practices guideline we see that Janata Bank lacks some of the best practices in banking industry which can be generated in the following way-

##### **1. Credit Policies/ Lending Guideline:**

In the above analysis we have seen that Janata Bank limited has no written credit policy though it follows some policy. As there is no written credit policy, branch managers sometimes get confused whether to go with a project or not.

Thus Janata Bank limited should have a lending guideline available in every branch so that credit officers can take quick decision whether to accept or reject a project. The lending guideline should include the following-

- Industry or business segment focus
- Types of loan facilities
- Details of single borrower/ group limit
- Lending caps
- Discouraged business type

- Loan facility Parameters
- Cross Border risk

## **2. Credit Assessment & Risk Grading:**

Though credit is properly assessed in JBL, but there is no risk grading system applied here. It should adopt a credit risk grading system to ensure account management, structure and pricing are commensurate with the risk involved.

## **3. Approval Authority:**

In Bangladesh Bank's guideline it is written that "Approval authority should be delegated to individual executives and not to committees to ensure accountability in approval process". But in Janata Bank limited we see that every credit goes to the board via credit committee. As a result, wastage of time occurs and no one is held accountable for a bad loan.

## **4. Segregation of Duties:**

According to Bangladesh Bank Guideline Banks should aim to segregate the following lending functions to improve the knowledge levels and expertise in each department:

- Credit Approval/ Risk Management
- Relationship Management/ Marketing
- Credit Administration

But in Janata Bank limited there is no such Department or segregation of duties. In small branches of Janata Bank Limited only single loan officer do all the jobs like loan marketing, risk assessing and credit administration.

## **5. Internal Audit:**

Janata Bank limited has a segregated internal audit/ control department charged with conducting audit of all departments as suggested by Bangladesh bank guideline.

## **6. Preferred Organizational Structure:**

Currently Janata Bank does not follow the preferred management structure as suggested by BBK guideline. The key feature in the preferred management structure is the segregation of Marketing/ Relationship function from approval/Risk management/ Administration function.

## **7. Approval process:**

According to BBK best practice guideline, 'the recommending or approving executives should take responsibility for and be held accountable for their recommendations and approval' the recommended delegated approval authority levels are as follows:

Head of Credit/CRM Executives	: Up to 15% of capital.
Managing Director/ CEO	: Up to 25% of capital.
EC/ Board	: All exceed 25% of capital.

But in Janata Bank we see that every credit proposal goes to Executive committee i.e. board.

## **8. Credit Administration:**

The BBK guidelines suggest that Credit administration be strictly segregated from relationship management/ marketing. As a result the possibility of controls being compromised or issues not being highlighted at the appropriate level can be avoided. The credit administration has the following functions-

- ❖ Disbursement
- ❖ Custodial duties
- ❖ Compliance requirement

In Janata Bank credit officers under supervision of Branch Credit In-charge or Manager also carry out all the three functions of credit administration. But Credit Marketing and administration is yet to be segregated.

## **9. Credit Monitoring:**

To minimize credit losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of a borrower. Early identification, prompt reporting and proactive management of Early Alert Accounts are prime credit responsibilities of all relationship Managers. An early Alert Account is one that has risks or potential weakness of a material nature requiring monitoring, supervision or close attention by management. In Janata Bank credit monitoring is also done by credit in charge or branch managers. As a result Early Alert Accounts do not get that much attention as needed.

## **10. Credit Recovery:**

According to BBK guideline the recovery unit (RU) of CRM should directly manage accounts with sustained deterioration. On a quarterly basis, a Classified Loan review (CLR) should be prepared by the RU Account Manager to update the action/ recovery plan, review and assess the adequacy of provisions, and modify as appropriate.

In Janata Bank the non-performing loan is very low (below 3%) and the recovery unit is yet to be formed. But for personal loan program, Personal Banking Division has a recovery unit.



## **CHAPTER 5**

### **CREDIT AND RISK MANAGEMENT OF JANATA BANK LIMITED**

#### **5.1 Introduction**

Janata Bank organ gram has been re-structured with inclusion of a separate Risk Management unit in line with the regulatory requirement to address and supervise the existing and potential business and capital risks. This specialized unit cautions the bank against any financial and operational risk at macro level impacting the micro functionalities. It oversees the management of various core risk management guidelines prescribed Bangladesh Bank and approved by the bank in different functional areas, credit, foreign exchange, asset and liability management, internal control and compliance, money laundering and information communication technology risks apart from capital adequacy risk. Essentially risk management unit is established for the following reasons:

1. Ensure quality assets as well as sustainable profit
2. Improve compliance culture
3. Reduce cost of inefficiency
4. Strong risk management due diligence reduce capital requirement foe assets under Basel-2
5. Strong risk focused risk management means lesser supervisory intervention from regulator
6. Highlight deficiency to the top management in time
7. Potential problem areas are quickly identified

The risk management units do have direct reporting line to the managing director and CEO of the bank with dotted line reporting to the Audit committee of the Board of directors of the Bank.

#### **5.2 Objectives of Credit Risk Management Policy of Janata Bank Limited**

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

1. To provide a guideline for giving loan.
2. Prompt response to the customer need.
3. Shorten the procedure of giving loan.

4. Reduce the volume of work from top level management.
5. Delegation of authority of work from top level of management.
6. To check and balance the operational activities

### **5.3 Sound Risk Management System of Janata Bank Limited**

For better risk management and a successful risk management function, leading to successful outcomes even in stressful business conditions, risk management policy of Janata bank has been outlined encompassing the following key elements:

- a) Risk management framework comprising of board and senior management
- b) Organizational policies, procedures have been developed, risk limits determined and implemented to manage business operations effectively and efficiently
- c) Adequate risk identification, measurement, monitoring, control and management information systems are in place to support all business operations
- d) Established internal control and the performance of comprehensive audit to detect any deficiencies in the internal control environment are in a timely fashion

### **5.4 Credit Policy Guidelines of Janata Bank Limited**

The credit policy guidelines of Janata Bank Limited include the following:

- a) Credit principles
- b) Credit Portfolio mix
- c) Products and services of JBL

### **5.5 Credit Principles of Janata Bank Limited**

The credit division of Janata Bank Ltd is guided by 10 specific credit principles. They are as follows:

- i) Evaluate borrower's nature for reliability and keenness to pay
- ii) Evaluate borrower's loan settlement capability
- iii) Develop action plans for the likelihood of non-payment
- iv) Extension of credit in satisfactorily controllable risk areas
- v) Guarantee self-directed participation of the credit officials in the credit extension process
- vi) Perform the credit process in an ethical manner
- vii) Be proactive in recognizing, administering and conveying credit risk

- viii) JBL requirements must be followed in ensuring the credit exposures and operations
- ix) Try to achieve an acceptable equilibrium between risk and reward
- x) Construct and sustain a diversified credit portfolio

### **Credit portfolio mix**

- Trade finance----- xx %
- Industry- Short term working capital ----- xx %
- Retail and SME ----- xx %
- Project- Finance medium and long term ----- xx %
- Others ----- xx %

### **5.6 Credit Assessment Process of Janata Bank Limited**

Before extension of loans, a comprehensive credit risk appraisal is done and annual reviews are made. A credit memorandum (CM) is prepared by the Relationship Manager (RM) which includes the findings of such assessment. The RM used to be the owner of the customer relationship and he / she is held responsible for complying with all the policies and guidelines of Bangladesh bank, bank laws, JBL policies and guidelines etc.

The credit assessment procedure can be segregated into two segments:

1. Call report
2. Credit Memorandum

#### **1. Call report**

At the time inception of a relationship, the relationship manager tries to gather more and more information about the client. He / she sometimes visit the business premises to get an idea about the financial and operational condition of the prospective client. The market reputation, competitive position etc. are also duly assessed. Branch manager along with the relationship manager is also connected in this process. These initial visits or enquiries are referred to as 'calls'.

Based on the findings of such calls, RM and the branch manager send a call report to the Head of Marketing, Head of Credit and Managing Director for initial review.

The call report contains some basic information about the client such as:

- a) Client's background
- b) Business
- c) Market share
- d) Reliability
- e) Credit exposure
- f) Existing banking relationships
- g) Credit requirements
- h) Pricing of the proposed credit facility

## **2. Credit Memorandum (CM)**

If the Head Office conveys positive sign for a call report, then only the branch RM goes for preparing a CM. The preparation of CM includes the in-depth analysis of credit risk factors, critical assessment of the client in the light of credit policy guidelines of the bank. Then it is sent to the Head of Marketing to enclose the necessary recommendations and to commence the credit approval process. The CM has to be accompanied with all the required legal documents and the financial information of the prospective client.

The CM generally contains the followings:

- a. A specific control number and base number for each client.
- b. The credit risk grading score.
- c. The authorization for the approval process.
- d. The description of the proposed facility.
- e. Rationale behind the loan extension.
- f. Financial information of the client mainly the income statements for the past years, earnings forecasts in normal and adverse conditions.
- g. Forecasted earnings from the relationship to be established.
- h. Lending agreement.

### **5.7 Credit Risk Grading of Janata Bank Limited**

According to Bangladesh Bank guidelines, all Banks should adopt a credit risk grading system. Therefore, JBL has duly implemented a credit risk grading policy in its credit risk assessment program. The system defines the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved.

Risk grading is a key measurement of a Bank's asset quality. All facilities are assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities are immediately changed. Credit Memorandum includes a clear statement of the borrower's risk grade.

Janata Bank Limited applies the following credit risk grading matrix as provided by Bangladesh Bank guidelines.

<b>Risk Rating</b>	<b>Grade</b>	<b>Definition</b>
Superior – Low Risk	1	Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentation should be in place.
Good – Satisfactory Risk	2	The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow and have an unblemished track record. All security documentation should be in place. Aggregate Score of 95 or greater based on the Risk Grade Scorecard.
Acceptable – Fair Risk	3	Adequate financial condition though may not be able to sustain any major or continued setbacks. These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. A borrower should not be graded better than 3 if realistic audited financial statements are not received. These assets would normally be secured by acceptable collateral (1st charge over stocks / debtors / equipment / property). Borrowers should have adequate liquidity, cash flow and earnings. An Aggregate Score of 75-94 based on the Risk Grade Scorecard.
Marginal - Watch list	4	Grade 4 assets warrant greater attention due to conditions affecting the borrower. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Facilities should be downgraded to 4 if the borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.

Special Mention	5	Grade 5 assets have potential weaknesses that deserve management's close attention. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30-60 days, or if a significant petition or claim is lodged against the borrower. Full repayment of facilities is still expected and interest can still be taken into profits. An Aggregate Score of 55-64 based on the Risk Grade Scorecard.
Substandard	6	Financial condition is weak and capacity or inclination to repay is in doubt. Loans should be downgraded to 6 if loan payments remain past due for 60-90 days, if the customer intends to create a lender group for debt restructuring purposes, the operation has ceased trading or any indication suggesting the winding up or closure of the borrower is discovered. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.
Doubtful and Bad  (non- performing)	7	Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Loss. Assets should be downgraded to 7 if loan payments remain past due in excess of 90 days, and interest income should be taken into suspense (nonaccrual). Loan loss provisions must be raised against the estimated unrealizable amount of all facilities. The adequacy of provisions must be reviewed at least quarterly on all non-performing loans, and the bank should pursue legal options to enforce security to obtain repayment or negotiate an appropriate loan rescheduling. In all cases, the requirements of Bangladesh Bank in CIB reporting, loan rescheduling and provisioning must be followed. An Aggregate Score of 35-44 based on the Risk Grade Scorecard

Loss (non-performing)	8	Assets graded 8 are long outstanding with no progress in obtaining repayment (in excess of 180 days past due) or in the late stages of wind up/liquidation. The prospect of recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of 35 or less based on the Risk Grade Scorecard
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Source: (Focus Group on Credit Risk Management, (2005), Credit Risk Management: Industry Best Practices, Managing Core Risks of Financial Institutions, Bangladesh Bank)

### 5.8 Risk Mitigation Methodology of Janata Bank Limited

The vital and first step of risk mitigation is the identification, analysis and measurement of risks. The risk management committee of JBL identify the risks and gives direction to mitigate them.

Types of Risk	Detail of Risks	Department	Summary of mitigation activities
Credit Risk	Risk of not being able to recover loans and other exposure owing to deterioration in the business condition and other circumstances of counterparties in transactions.	Credit Departments	<ol style="list-style-type: none"> <li>1. Overall planning of credit operations.</li> <li>2. Credit analysis and approval.</li> <li>3. Credit supervision and monitoring.</li> <li>4. Credit risk grading.</li> <li>5. Counterparty rating</li> </ol>
Market Risk	Risk of losses due to fluctuations in market interest rates, currency exchange rates, stock prices and other market indicators.	Treasury Departments	<ol style="list-style-type: none"> <li>1. Overall planning for funding and treasury operation.</li> <li>2. Treasury and securities planning.</li> <li>3. Forecasting money market and capital market trends.</li> <li>4. Monitoring F. Ex. Transactions</li> </ol>
Liquidity Risk	Risk that the bank may be short of funds to meet its obligations	Treasury Department (ALCO Unit)	<ol style="list-style-type: none"> <li>1. Maintaining standard liquidity profiles.</li> <li>2. Lessen the gap between rate sensitive assets and liabilities.</li> </ol>

			3. Formulation of strategy for liquidity contingency plan.
Operational Risk	Risk of errors, unethical conduct of other circumstances in operations.	Monitoring Department	<ol style="list-style-type: none"> <li>1. Outline and implementation of ICC policy.</li> <li>2. Monitoring of all operational activities.</li> <li>3. Taking corrective measures to reduce operational risks.</li> </ol>
Environmental Risk	Environmental risk is an actual or potential threat of adverse effects on living organisms and environment	Credit Departments	<ol style="list-style-type: none"> <li>1. Formulated an Environment Risk</li> <li>2. Management policy</li> <li>3. Environmental Risk Rating of clients</li> <li>4. Enhancement of Green Finance</li> </ol>
Strategic Risk	Current or prospective risk relates to earnings and capital that arises from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment both internal and external.	Risk Management Department	<ol style="list-style-type: none"> <li>1. Develop business strategies at the very beginning of the year</li> <li>2. Resources are employed to achieve the</li> <li>3. strategic goals</li> <li>4. Identifying potential external &amp; internal strategic risks earlier</li> <li>5. Strategic business plans are reviewed and modified analyzing the scenario</li> </ol>
Capital Risk	Improper management of capital resulting short fall against regulatory requirement.	Basel Unit	<ol style="list-style-type: none"> <li>1. Formulated a 5 year capital plan</li> <li>2. Acceleration of counterparty rating to reduce risk weighted assets</li> <li>3. Increase of capital through broadening profitability</li> <li>4. Formed taskforce to accelerate recovery of classified loans</li> </ol>

Source: Annual Report of Janata Bank Limited, 2015

### 5.9 Credit Assessment Process of Janata Bank Limited



Before commencing the credit approval process, a proper credit analysis is done through Credit Memorandum. No credit facility may be approved unless a satisfactory presentation package has been prepared. Prior to securing the requisite approval, the authority ensures due diligence that:

- a) The Bank is in possession of all credit information required to properly evaluate the risk being undertaken.
- b) A detailed credit analysis has been completed, to include a written analysis of the financial condition of the borrower.
- c) The proposed extension of credit fully meets the standard of purpose, quality etc.
- d) The Board of Investment Registration, permission for all regulatory bodies, clean CIB reports etc. are obtained.

In the approval process, the bank segregates its relationship management from the approving authority. All the facilities offered by the branch must be approved from the Herd of Credit Committee.

### **5.10 Sanction Advice**

After the facility has been approved, the credit officers of the branch prepare a sanction advice which is addressed to the client. It is a kind of formal letter addressed to the client that provides information regarding the amount of the loan, its purpose, tenor, interest, security details, insurance coverage and other specific and general conditions applicable to the client.

A sanction advice contains the following information:

- a) Address of the client
- b) Subject
- c) Facility type
- d) Review / repayment date
- e) Security details
- f) Insurance coverage
- g) Specific conditions
- h) General conditions
- i) Other conditions and covenants

A sanction advice is accompanied with the necessary legal documents. These documents may include:

- a) Demand promissory note
- b) Letter of agreement
- c) Letter of continuity
- d) Letter of revival
- e) Letter of disbursement
- f) Letter of hypothecation with supplementary documents
- g) Registered deed of mortgage
- h) Letter of guarantee
- i) Registered power of attorney etc.

### **5.11 Credit Recovery Process of Janata Bank Limited**

The credit division performs the following recovery related functions:

- a) Directly managing accounts with sustained deterioration (a risk rating of sub standard or worse)
- b) Determining work out plan / Recovery strategy.
- c) Pursuing all avenues to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- d) Ensuring adequate and timely loan loss provisions are made based on actual and expected losses.
- e) Keeping top management apprised of grade 6 or worse accounts

### **5.12 Problems in Loan Recovery**

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

#### **a. Problems created by economic environment**

The following problems arise from the effect of economic environment:

- Changing in the management pattern: Changing of management patterns may delay the recovery of mature loan.

- Changing in industrial patterns: The nationalized banks sometimes sanction loan to the losing concern for further improvement of the respective sector, but in most cases, they fail to achieve progress.
- Rapid expansion of business: There are many companies which expand their business rapidly, but the expansion is for short time. In the long run, the amount of classified loan increases.

#### **b. Problems created by government**

The following problems are arisen by the government:

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

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

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

#### **c. Problems created by the bank**

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

### **5.13 Recovery Program to taken by Janata Bank Limited**

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

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

## CHAPTER 6 ANALYSIS OF THE STUDY

### 6.1 Contribution of Janata Bank Limited in the banking sector

Banking sector of Bangladesh operates consisting of 56 banks having more than 9 thousand branches. Along with maximum contribution to the socio-economic development of the country, JBL has earned 10,720.50 million operating profit in 2015 which is the highest among the State Owned Commercial Banks. Data as on 31 December 2015 shows 8.36% of assets, 7.76% of deposit, 5.83% of loans and advances of the banking sector are possessed by JBL. Details are narrated below:

Table 6.1: Contribution of Janata Bank Limited in the banking sector

Sl. No.	Components	Amount (BDT in million)	Market Share (%)
1	Loans and Advances	349,861.30	5.83
2	Deposits	568,911.14	7.76
3	Total Assets	683,157.58	8.36
4	Import	147,181.80	5.19
5	Export	145,373.60	5.79
6	Foreign Remittance	101,348.20	9.48
7	Branches (number)	908	10.00
8	Manpower (number)	14,151	8.00

Source: Annual report of Janata Bank Limited, 2015

### 6.2 Percentage of the Summary of Property and Assets

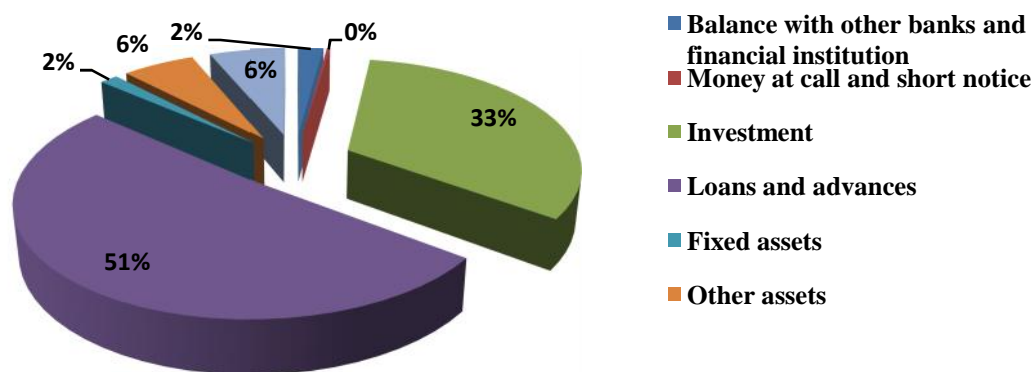


Figure 6.1: Percentage of the Summary of Property and Assets of Janata Bank Limited in 2015

In year 2015, highest percentage of the summary of assets is Loans & Advances than the other assets and it is 51%.

### 6.3 Overall Position of General Credit of Janata Bank Limited in 2015

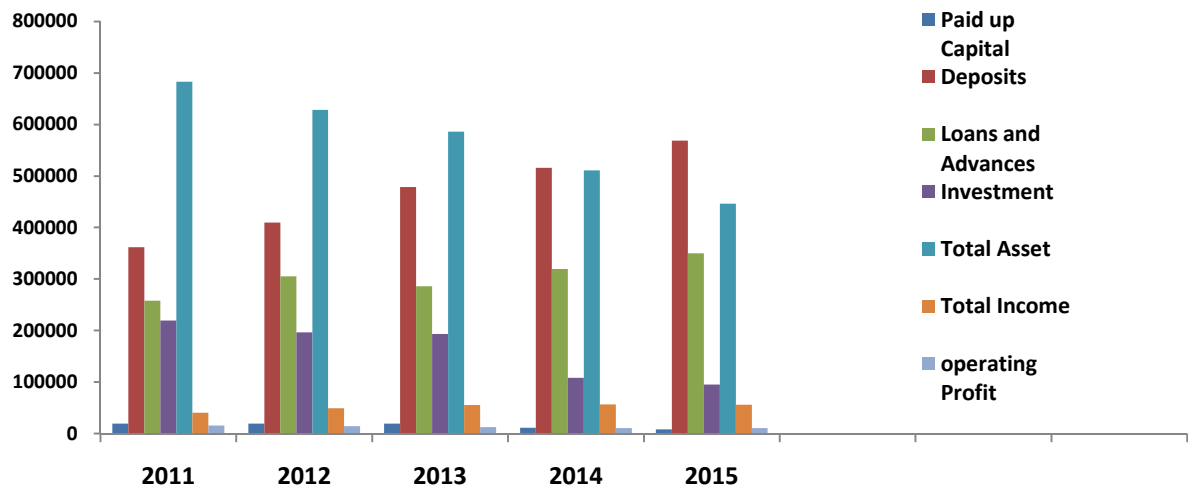


Figure 6.2: Overall Position of General Credit of Janata Bank Limited in 2015

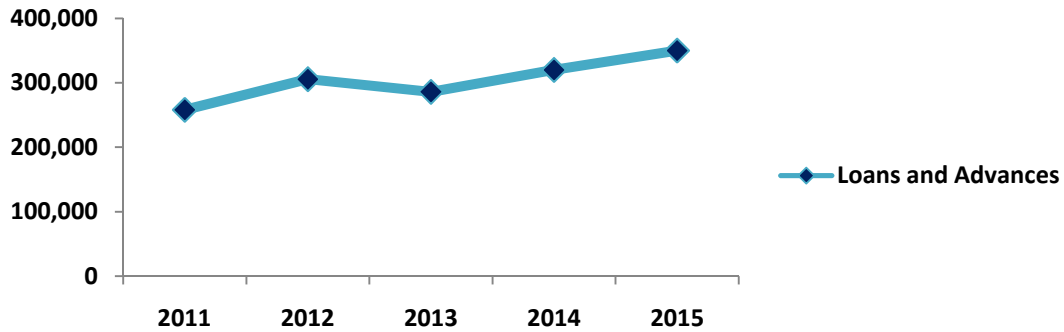
Source: JBL Annual Report-2015

Above table show the overall position of general credit of the bank. The paid up capital is tk. 8125 million, deposit is tk. 568,911 million, loan and advances is tk. 349,861 million, total investment is 95,257.29 million, total assets Tk. 446,111.42 million , Total income Tk. 55,678.82, and total operating Profit Tk. 10,720 million.

### 6.4 Loans & Advances of Janata Bank Limited

Loans & advances constitute the largest portion in asset side of JBL's Balance sheet which was Tk. 34,986 crore in 2015. JBL has continued its lending operations in productive and priority sector covering agriculture, industry, SME, trade and commerce.

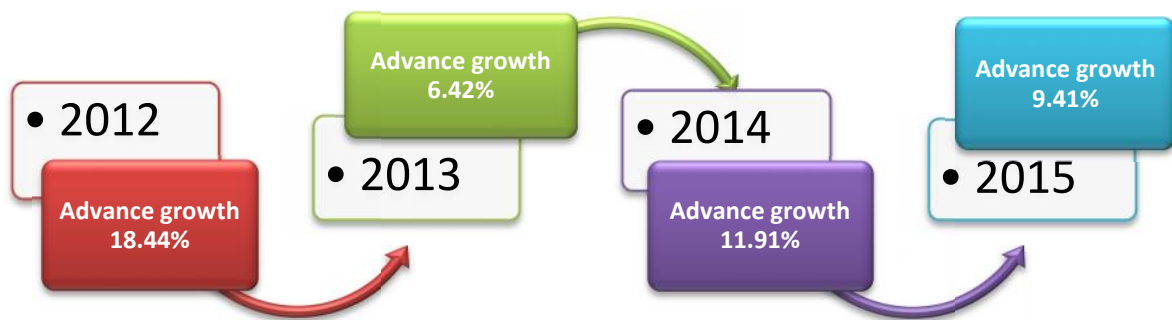
## Loans and Advances



**Figure 6.3: Total loans and advances Janata Bank Limited (2011-2015)**

### ✚ Growth rate of loans and advances of Janata Bank Limited (2011-2015)

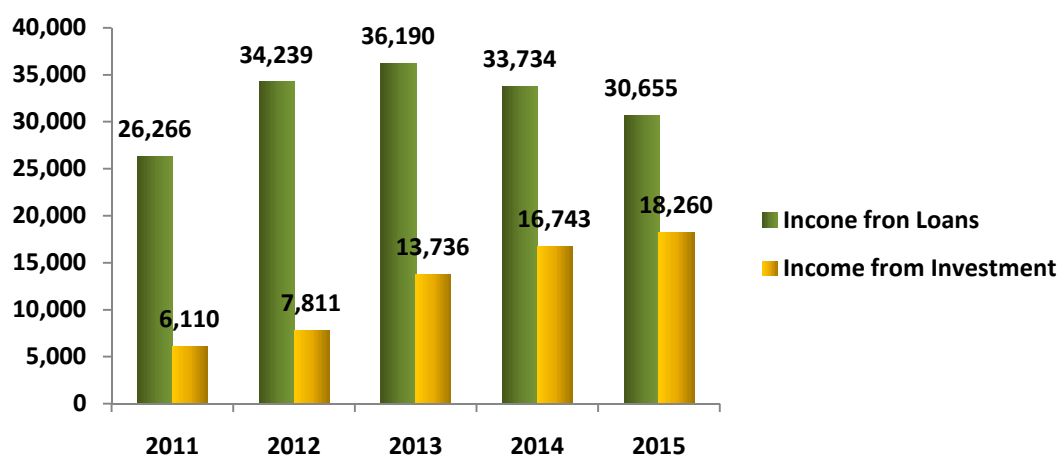
Loans & Advances increased by BDT 30,088.05 million during the year 2015 and stood BDT 349,861.30 million which was BDT 319,773.25 million in 2014 showing a sustainable growth of 9.41 percent over the previous year. Concentration of loans and advances was well managed and details of concentration are given at notes to the financial statements.



**Figure 6.4: Growth rate of loans and advances of Janata Bank Limited (2011-2015)**

### ✚ Income on Loans and Investment of Janata Bank Limited (2011-2015)

Although the income on loans was slightly reduced by BDT 3,079 million during the year 2015 and down up to BDT 30,655 million which was BDT 33,734 million in 2014, the income on investment was increased by BDT 1517 million and stood up to BDT 18,260 million in 2015 showing a sustainable growth over the previous year.



**Figure 6.5: Income on Loans and Investment of Janata Bank Limited (2011-2015)**

### 6.5 Budget & Budget Variance of Janata Bank Limited

The banking sector of Bangladesh is not only competitive but also an unequal contest exists here between the public and private commercial banks. Still, JBL has come to today's position by overcoming various limitations. However, 2015 also was a year of challenges for the banking sector. Thus, during the year, the bank has to concentrate on improving customer-service quality along with cost reduction and income generating activities. I believe, as taken strategies and work enthusiasm are rightly implemented like the past times, 2015 was another successful year.

In 2015, the bank has been successfully crossed BDT 550,000 million in deposit, crossed BDT 349,800 million in loans & advances, and also crossed BDT 43,181.70 million in classified loan also has been successful in achieving remarkable growth in classified loan recovery, deposit, foreign remittance, export and import etc. against its targets set by the Board of Directors. The following table focuses on the achievement in the sectors.

**Table 6.2: Budget & Budget Variance of Janata Bank Limited in 2015**

(BDT in million)

Particulars	2015		% of Achievement
	Achievement	Target	
Operating Profit	10,720	11,000	97%
Total Deposit	568,911	560,000	1025

Total Loans & Advance	349,861	345,000	1015
Import	147,182	140,000	105%
Export	145,374	145,000	100%
Foreign Remittance	101,348	108,000	94%
Cash Recovery from CL	3,416	7,500	46%
Cash Recovery from Written-off Loans	1,664	1,300	128%
Rate of Classified Loans	12.34%	9.99%	-

Source: Annual Report of Janata Bank Limited, 2015

### 6.6 Sector-wise financing of Janata Bank Limited

JBL is financing almost all potential sectors of the economy. JBL plays a vital role in the industrialization of the country since its inception, supplying capital to entrepreneurs, meeting the demand for long term project loans and thus contributing national industrial and economic growth. For this, the bank provides large loans in emerging leading and well-established industrial groups which includes Akij, Beximco, Square, S. Alam, Thirmex, Basundhara, Partex, City, Apex etc. The following table shows the comparative distribution of sector-wise financing.

**Table 6.3: Sector Wise Distribution of Loans of Janata Bank Limited in 2015**

Sectors	2015	2014
Rural credit	20,439.39	18,781.30
Export finance	57,414.10	50,400.00
Import finance	40,458.80	46,227.90
Sugar & Food (industrial & trade)	98,235.70	76,438.20
Steel & Engineering	92,96.90	84,12.10
Textile (industry & trade)	19,752.70	19,778.20
Jute (industry & trade)	10,185.00	5,696.00
Tannery (industry & Trade)	10,225.00	5,579.10
Transport	416.13	340.10
Others	72,650.97	79,189.10
<b>Total</b>	<b>349,861.30</b>	<b>319,773.20</b>

Source: Annual Report of Janata Bank Limited, 2015

### 6.7 Financing in Small and Medium Enterprises

JBL also participates in syndication with other banks. Besides, the bank finances in different Government organizations such as BPC, BCIC, BADC, BSFIC etc. In 2015, the bank financed in various new projects. As Government has given priority for investment in SME sector, JBL is actively involved in SME financing. The bank plays a crucial role in income



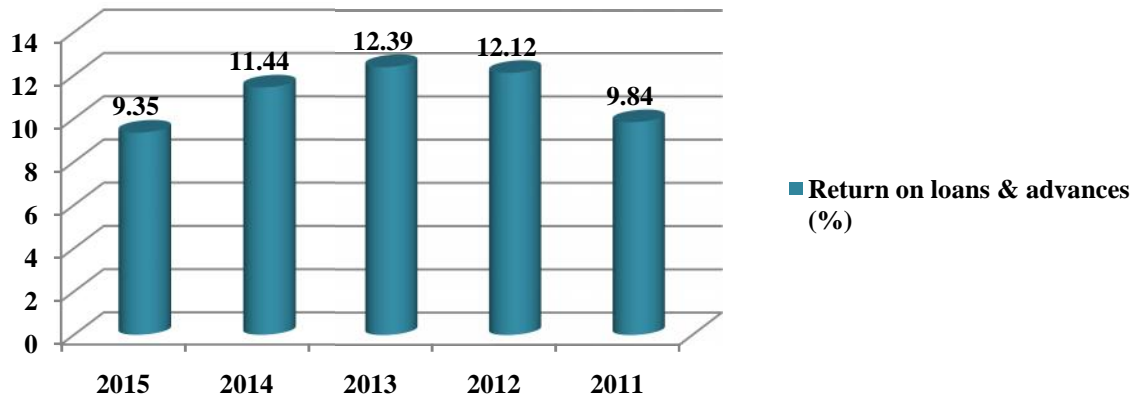
generation in rural and sub-urban areas, creating work source for the unemployed. The following table summarizes the financing.

**Table 6.4: Summary of Cottage, Micro, Small and Medium Enterprises Financing**

<b>Types</b>	<b>As on December 2015 (BDT in million)</b>
<b>Cottage</b>	42.90
<b>Micro</b>	935.50
<b>Small</b>	23,711.50
<b>Medium</b>	58,112.20

Source: Annual Report of Janata Bank, 2015

## 6.8 Yields/Return on Loans & Advances of Janata Bank Limited



**Figure 6.6: Yield/Return on Loans & Advances of Janata Bank Limited (2011-2015)**

Above figure show the return on loans and advances. In the year 2015 return is 9.35% which is down to 2.09% than the previous year.

## 6.9 Loans And Advance Position of Janata Bank Limited, Sher-e- Bangla Nagar Corporate Branch

Janata Bank Limited is currently poised among the top ranked banks in Bangladesh. Their relentless endeavor to succeed leads them to enhance their loan portfolio each and every year. From the following table it can be observed that, the total advance of Janata Bank Limited, Sher-e- Bangla Nagar Corporate Branch increased from 2010 to 2015.

**Table 6.5: Year Wise Total Loan Disbursement of Janata Bank Limited, Sher-e- Bangla Nagar Corporate Branch**

Year	Loan Disbursement (Taka in million)
2010	2537.65
2011	3268.77
2012	4633.26
2013	50,38.78
2014	6323.14
2015	72,73.54

Source: Total Loan and Advances Balancing Report of Janata Bank Limited, Sher-e-Bangla Nagar Corporate Branch

## 6.10 Recovery Performance of Janata Bank Limited

It is the duty of the recovery department of the Bank to recover the landed fund within the stipulated time and if the borrower fails to repay the money within the due period Bank will declare him as a defaulter and recover the fund by selling the securities given by the borrower or by freezing his account or make a suit against him. In the end of the year of 2015 the total disbursement of the bank was Tk. 6542 in crore and the demand for the recovery was Tk. 7544 in crore but the actual recovery was Tk. 3697 in crore, and the outstanding was Tk.12447 in crore. In 2015 the bank made all out efforts to recover non-performing loans by strengthening recovery measures like outside court settlement, extending interest expansion facilities as per Bangladesh Bank policy and Ministry of Finance guidelines.

Table 6.6: Recovery performance of Janata Bank Limited at Sher-e-Bangla Nagar corporate branch

(Tk in crore)

Particulars	Phase-1					Phase-2				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Demand for recovery	4257	4365	4825	5154	5796	5986	6475	6849	7214	7544
Recovery	1618	1921	2127	2371	2492	2933	2590	3288	3607	3697
Overdue	2639	2444	2698	2783	3304	3053	3885	3561	3607	3847
Recovery as a percentage of DFR	38%	44%	47%	46%	43%	49%	40%	48%	50%	49%
Overdue as a percentage of DFR	62%	56%	53%	54%	57%	51%	60%	52%	50%	51%
Outstanding	5875	5295	5733	7341	8095	9329	9975	10146	10779	12447

Source: Balancing Report of Janata Bank Limited, Sher-e-Bangla Nagar Corporate Branch, 2015

## 6.11 Questionnaire analysis

### Part A: Questions to Customers

1. Are you satisfied with the credit sanction and disbursement procedure of Janata Bank Limited?
2. What do you think about the interest rate of Janata Bank Limited?
3. Do you think Janata Bank Limited properly follow the rules and regulations which are provided by Bangladesh Bank?
4. Do you think Janata Bank Limited follow the technological advances in transaction?
5. Services of Janata Bank Limited to the customer are satisfactory.

#### 6.11.1: Responses from Customers of Janata Bank Limited, Sher-e- Bangla Nagar Corporate Branch

1. Customers perception about satisfaction level on credit sanction and disbursement procedure of Janata Bank Limited

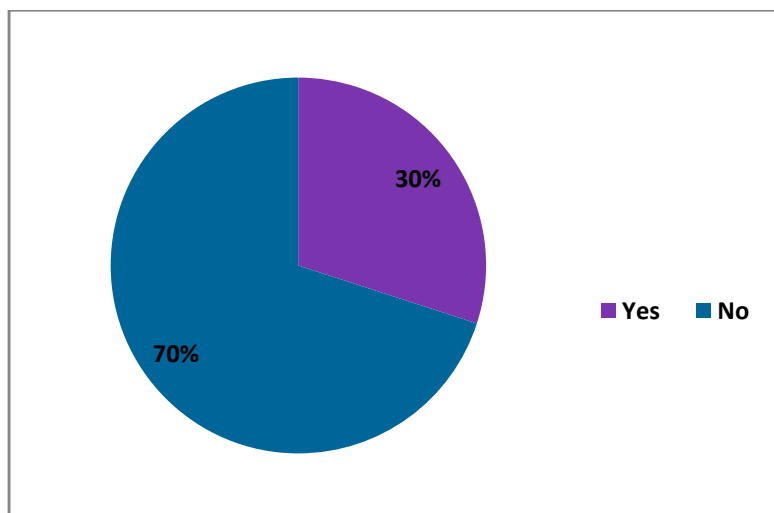


Figure 6.7: Customers perception about satisfaction level on credit sanction and disbursement procedure of Janata Bank Limited

Source: Survey of primary data, 2016

In the point “Satisfaction level of the customer with loan sanction procedure” as answer of this question, 70% of the sample customers are not satisfied with the procedure, whereas 30% of them satisfied with this.

## 2. Customers perception about the interest rate of Janata Bank Limited

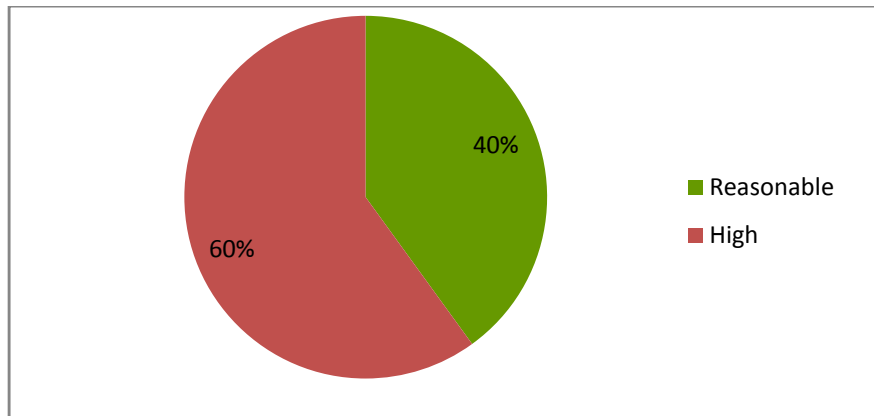


Figure 6.8: Customers perception about the interest rate of Janata Bank Limited

Source: Survey of primary data, 2016

In the point “About the interest rate of JBL” as answer of this question, 60% of the sample customers said that the interest rate is high, 40% of them are satisfied with the interest rate.

## 3. Customers perception about whether Janata Bank Limited properly follows the rules and regulations which are provided by Bangladesh Bank

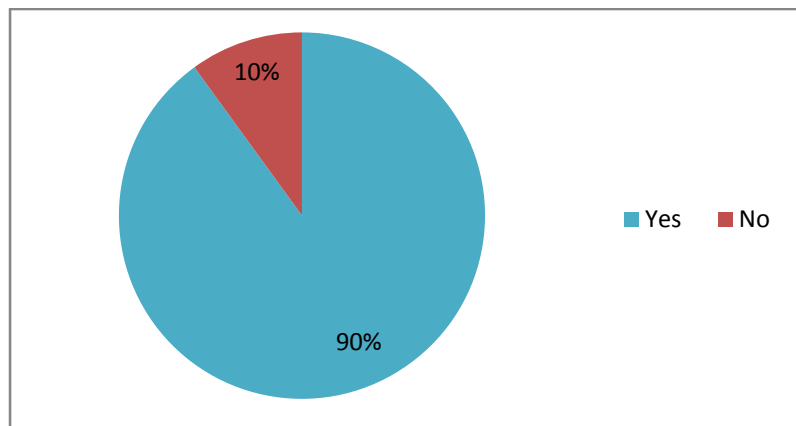


Figure 6.9: Customers perception about whether Janata Bank Limited properly follows the rules and regulations which are provided by Bangladesh Bank

Source: Survey of primary data, 2016

In the point “Regarding the following of rules and regulations provided by Bangladesh Bank ” as answer of this question, 90% of the sample customers said that the Janata Bank Limited properly follow the rules and regulations which are provided by Bangladesh Bank, 10% of them disagreed with the statement.

#### 4. Customers perception about use of technological advances in transaction in Janata Bank Limited

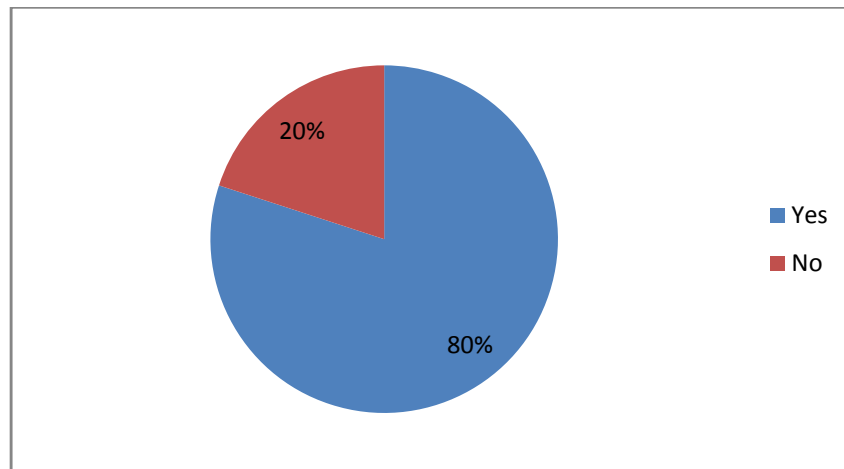


Figure 6.10: Customers perception about use of technological advances in transaction in Janata Bank Limited

Source: Survey of primary data, 2016

In the point “Whether Janata Bank Limited follows the technological advances in transaction” as answer of this question, 80% of the sample customers said that the Janata Bank Limited follow the technological advances in transaction, 20% Of them disagreed with the statement.

#### 5. Customers perception about service quality of Janata Bank limited

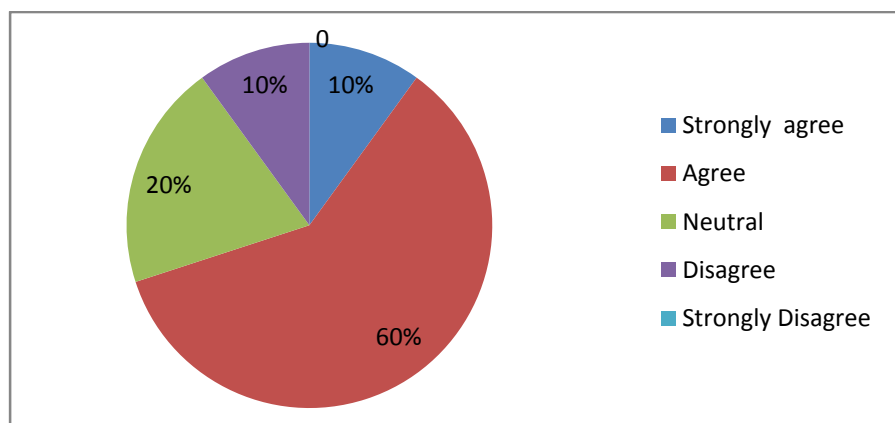


Figure 6.11: Customers perception about service quality of Janata Bank limited

Source: Survey of primary data, 2016

In the point “Services of Janata Bank to the customer is satisfactory” as answer of this question, 10% of the sample customers strongly agree, 60% agree, 20% neutral, 10% disagree with this.

## Part B: Questions to Employees

1. Do you know all the rules and regulations provided by Bangladesh Bank for sanctioning credit?
2. Do you properly fill up the credit sanction procedure of Janata Bank Limited?
3. What do you think about the risk management system of Janata Bank Limited?
4. Is recovery performance of Janata Bank Limited satisfactory?
5. What is the importance of modern technologies in credit risk management system of Janata Bank Limited?

### 6.11.2: Responses from Employees of Janata Bank Limited, Sher-e- Bangla Nagar Corporate Branch

1. Employees perception about knowing the rules and regulations provided by Bangladesh Bank for sanctioning credit

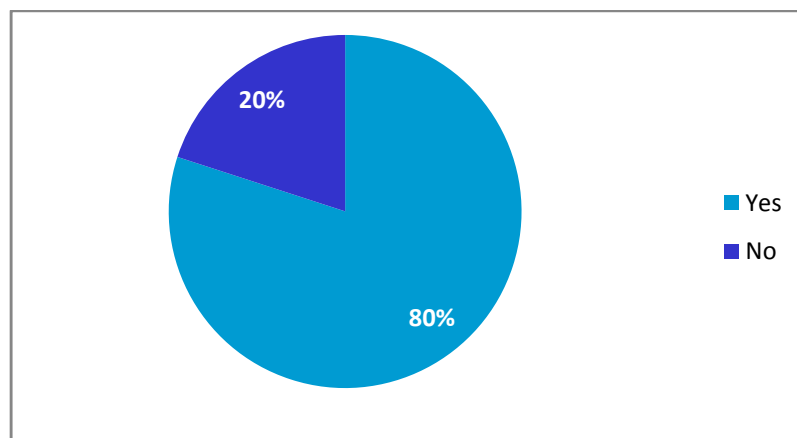


Figure 6.12: Employees perception about knowing the rules and regulations provided by Bangladesh Bank for sanctioning credit

Source: survey of primary data, 2016

In the point “knowing all the rules and regulations provided by Bangladesh Bank for sanctioning credit” as answer of this question, 80% of the respondents said that they know all the rules and regulations provided by Bangladesh Bank, 20% of them do not know all the rules and regulations provided by Bangladesh Bank.

2. Employees perception about properly filling up the credit sanction procedure of Janata Bank Limited

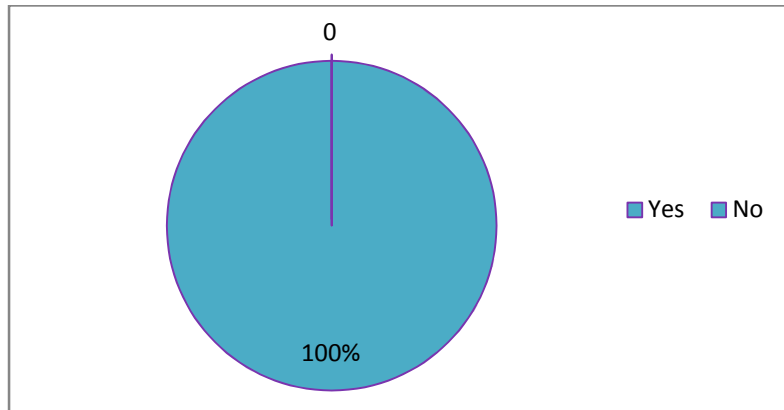


Figure 6.13: Employees perception about properly filling up the credit sanction procedure of Janata Bank Limited

Source: survey of primary data, 2016

In the point “filling up the credit sanction procedure of Janata Bank Limited” as answer of this question, all of the respondents said that they properly and carefully fill up the credit sanctioning procedure of Janata Bank Limited.

3. Employees perception about the credit risk management system of Janata Bank Limited

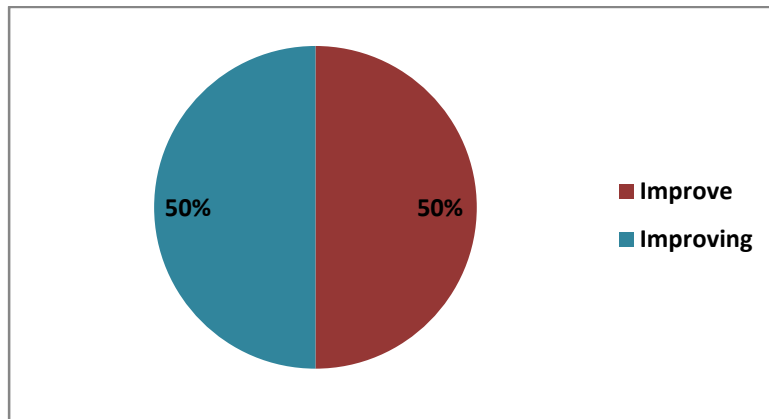


Figure 6.14: Employees perception about the credit risk management system of Janata Bank Limited

Source: survey of primary data, 2016

In the point “Risk management system of Janata Bank Limited” as answer of this question, half of the respondents said that the Janata Bank Limited has improved credit risk management system, and rest half of them said that JBL is still improving in that section



#### 4. Employees perception about recovery performance of Janata Bank Limited

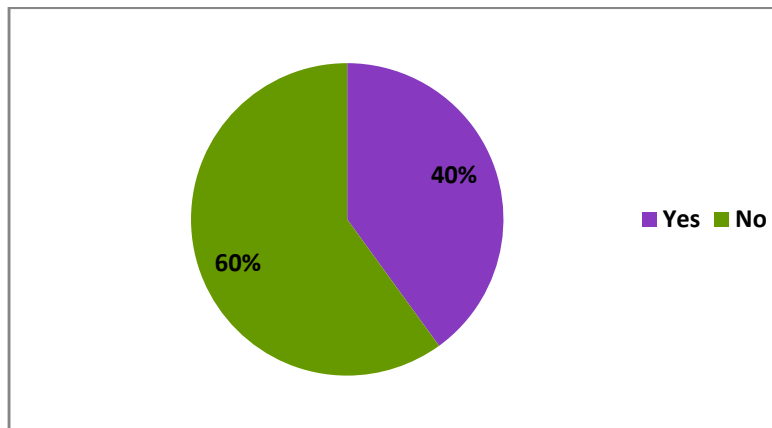


Figure 6.15: Employees perception about recovery performance of Janata Bank Limited

Source: survey of primary data, 2016

In the point “Satisfactory level of recovery performance” as answer of this question, 60% of the respondents said that the Janata Bank Limited’s recovery performance is not satisfactory, 40% of them agreed with the statement.

#### 5. Employees perception about importance of modern technologies in credit risk management system of Janata Bank Limited

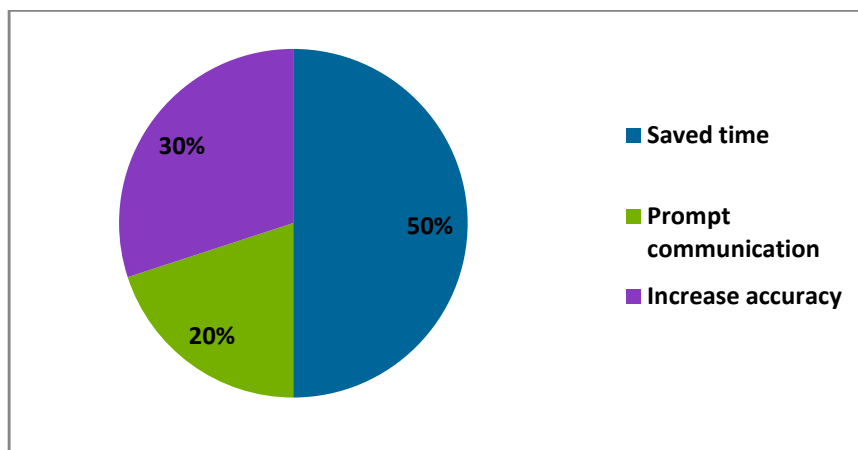


Figure 6.16: Employees perception about importance of modern technologies in credit risk management system of Janata Bank Limited

Source: survey of primary data, 2016

In the point “Importance of modern technologies in credit risk management system of Janata Bank Limited” as answer of this question, 50% of the respondents said that using modern technologies in credit management system saves time, 20% of them said that it prompt communication, and 30% said that it increase accuracy.

## **CHAPTER 7**

### **SWOT ANALYSIS**

#### **7.1 SWOT Analysis**

At the corporate level, the strategic Management process of an organization involves the environmental scanning. This environmental scanning is done both on the internal environment: Strength and weaknesses and external environment: opportunities and threats of the organization. In internal environment strengths are those factor that influence the organization to do better and weaknesses are those factors that lack the organization form its optimum performance. On the other hand external environment at analysis shows the opportunities or scope of development and external coming there at for the business. I have found both better performance in some sectors of the bank and also weak services as well that occur lacking to do better. There are also some eternal factors which height has business.

#### **Strength**

- The branch has good communication with their client. For this the client of this branch is too much loyal upon this branch.
- The working place of this branch has enough security for the personnel and client.
- Healthy correspondent relationships with other branches of Janata Bank Limited and foreign banks.

#### **Weakness**

- The credit section of head office sanctions various types of credit but Sher-e-Bangla Nagar Corporate Branch cannot able to provide those entire credit schemes to the client.
- Inadequate IT infrastructure.
- Not enough innovative products.
- Lack of Proper Motivation.
- Lack of innovative thinking.
- Lack of improve on-line banking.
- Unfavorable cash recovery position.
- Numbers of employees are fewer than the volume of works which creates problem in prompt service.

## **Opportunity**

- One of the key opportunities for Janata Bank Limited is its efficient managers. Janata Bank Limited has employed experienced managers to facilitate its operation. These managers have already triggered the business for Janata Bank Limited as being new in the market. Branch Manager of Sher-e-Bangla Nagar corporate branch Md. Aminul Islam is very energetic & very eager to achieve the targets and knows how to motivate employees.
- Customers' trust and satisfaction is the key to sustainable development. This branch believes in this motto. To meet the increasing demands of the customers, the branch is careful to deliver corporate services by diversifying existing products and services at a competitive rate. Informal conversation with some customers reveals that customer satisfaction level is quite good. It's a positive sign.
- Proper security arrangement helps staff increase their bravery and morale to provide better customer service. To avoid unexpected incidents, security system of the Sher-e-Bangla Nagar corporate branch is re-arranged and strengthened at every level under the CC cameras have been set up inside the strong-rooms, in front of the main gates of branch and inside the branch.

## **Threats**

- Some foreign banks and public banks are coming threat to Janata Bank Limited, same goes for this branch.
- Different foreign & public bank are also offering similar types of retail lending service like Janata Bank Limited. So it all competitors fight with the some weapons the natural result is declining profit.
- Bangladesh Bank providing new rules and regulations for the banking institutions made tougher banking business. When there the rules and regulations suit the organization or not it must obey these that some time imposes barriers on daily normal operation.

From the above discuss we can say that, overall Performance of Sher-e-Bangla Nagar corporate branch is satisfactory. But to face challenges of Globalization, they should restructure its operation to improve as a profitable branch.

## **CHAPTER 8**

### **FINDINGS OF THE STUDY**

#### **8.1 Findings of the Study**

Every bank has its own credit procedure. Bank under study possesses a standard credit procedure. Main objective of my study is to make a comment on the credit and risk management activities of Janata Bank. While working at Janata Bank Limited, Sher-e-Bangla Nagor Corporate Branch, I have attained to the newer kind of experience. After collecting and analyzing data, I have got some findings. Those findings are completely from my personal point of view. I think this will help me to achieve my objectives. Those are:

1. This branch office space is not large as its operation, and is not totally air controlled.
2. Numbers of employees of this branch are fewer than the volume of works which creates problem in prompt service.
3. This branch doesn't provide large amount of loan. End of the year 2015 the total loan disbursement of sher-e-bangla nagar corporate branch was only Tk. 72, 73.54 million.
4. To meet the increasing demands of the customers, Janata Bank Limited is careful in providing different attractive loan facilities but customers are not fully satisfied with the procedure. The credit sanction and disbursement procedure is quite lengthy.
5. Interest rate of Janata Bank Limited is quite high. Customers of Janata Bank Limited are not fully satisfied with the interest rate.
6. Bangladesh Bank monitors all the policies of all the private and nationalized banks of the country. Janata Bank Limited properly follows the rules and regulations which are provided by Bangladesh Bank.
7. Using technological advances for credit risk management of the bank is very necessary. Janata Bank Limited follows the technological advances in transaction.
8. To meet the increasing demands of the customers, Janata Bank Limited is careful to deliver corporate services by diversifying existing products and services at a competitive rate. Informal conversation with some customers reveals that customer satisfaction level is quite good.
9. The employees of the Sher-e-Bangla Nagor branch are young, energetic, co-operative, skilled and friendly. Most of them know all the rules and regulations provided by Bangladesh Bank.

10. According to the Bangladesh Bank's strategy, all banks must possess the standard policies which are designed by the central bank. This branch of Janata Bank also possesses a standard credit proposal form. In that form all necessary information are required to fill up. Employees of credit risk management department of this branch properly and carefully fill up the credit sanction procedure of Janata Bank Limited.
11. Risk management system of this branch is not so strong. The bank is trying their best to improve the present situation. Half of the respondents think that the Janata Bank Limited has improved credit risk management system, whereas half of them think Janata Bank Limited is still improving in that section.
12. The overall recovery performance of Janata Bank Limited is not in a satisfactory level at all.

## **CHAPTER 9**

### **CONCLUSION AND RECOMMENDATIONS**

#### **9.1 Conclusion**

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, Janata Bank 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. 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.

## 9.2 Recommendations

The failure of commendable banks occurs mainly due to bad loans which occur due to inefficient management of the loans and advances portfolio. Therefore any banks must be extremely cautious about its lending portfolio and credit policy. In the light of the above findings, following recommendations are proposed:

- Customer satisfaction level is quite good. So, Janata Bank Limited should give more emphasis on giving better customer service, full computerized of all activities, supply of new PC's in place of old one, sufficient numbers of PC needed for proper working.
- The branch should select borrower with carefully in order to improve their recovery performance. Borrower's qualification, experience, reputation will be must consider.
- Loan & Advance department should be automated as a result sanctioning of loan will be less time consuming.
- The credit sanction and disbursement procedure is quite lengthy. Legal procedure for recovery should be simplified and rationalized.
- The number of officers in loans & advances department is insufficient to provide service huge number of customers. So, Janata Bank Limited should hire more trained and skilled manpower.
- This branch office space is not large as its operation. A well decorated office will certainly change the mood of the working environment. It will not only motivate employees but also attract potential customers
- Bank should try to make understand the borrower of the rule of law. For this the borrower may repay to protect his honor and the recovery performance of the branch will improve.
- Janata Bank can become flexible in their interest rate.
- This branch of Janata bank can also increase their loan product and loan sanction amount in different sectors so that they can earn more profit.
- As a state owned bank, Janata Bank Limited is the first to introduce website. The website always needs to keep updated with important information/circulars, tender, auction and employment related information.
- In order to be more competitive in the market, the branch should come up with more new attractive and innovative products.

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## **APPENDICES**



## **Appendix 1**

### **Questionnaire for Customer**

Date:

Name:

Organization:

1. Are you satisfied with the credit sanction and disbursement procedure of Janata Bank Limited?

a. Yes

b. No

2. What do you think about the interest rate of Janata Bank Limited?

a. Reasonable

b. High

c. Low

3. Do you think Janata Bank Limited properly follow the rules and regulations which are provided by Bangladesh Bank?

a. Yes

b. No

4. Do you think Janata Bank Limited follow the technological advances in transaction?

a. Yes

b. No

5. Services of Janata Bank to the customer are satisfactory.

a. Strongly agree

b. Agree

c. Neutral

d. Disagree

e. Strongly Disagree

## **Appendix 2**

## **Questionnaire for Employees**

Date:

Name:

Branch Name:

1. Do you know all the rules and regulations provided by Bangladesh Bank for sanctioning credit?

a. Yes

b. No

2. Do you properly fill up the credit sanction procedure of Janata Bank Limited?

a. Yes

b. No

3. What do you think about the risk management system of Janata Bank Limited?

a. Improve

b. Improving

4. Is recovery performance of Janata Bank Limited satisfactory?

a. Yes

b. No

5. What is the importance of modern technologies in credit risk management system of Janata Bank Limited?

a. Save time

b. Prompt communication

c. Increase accuracy