

**A STUDY IN GENERAL BANKING & CREDIT MANAGEMENT
SYSTEM OF JANATA BANK LIMITED**

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**MASTER OF BUSINESS ADMINISTRATION IN AGRIBUSINESS
FACULTY OF AGRIBUSINESS MANAGEMENT
SHER-E-BANGLA AGRICULTURAL UNIVERSITY**

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**A STUDY IN GENERAL BANKING & CREDIT MANAGEMENT
SYSTEM OF JANATA BANK LIMITED**



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Internship Report
on
A Study in General Banking & Credit Management System
of Janata Bank Limited

By
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An Internship Report
Submitted to the Faculty of Agribusiness Management,
Sher-e-Bangla Agricultural University, Dhaka,
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for the degree of
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Letter of Transmittal

24 September, 2017
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Subject: Submission of the internship report entitled "**A Study in General Banking & Credit Management System of Janata Bank Limited.** ”

Dear Madam,

I have put my best effort to prepare an effective & creditable internship paper. With great pleasure I submit my internship paper on “**A Study in General Banking & Credit Management System of Janata Bank Limited.**” that you have assigned to me as an important requirement of MBA program. I have found the study to be quite interesting, beneficial & insightful. Here I have gathered information through secondary sources.

I therefore, pray and hope that you would be kind enough to accept this report as fulfillment of the requirement of my post graduation.

Sincerely yours,

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SUPERVISOR'S CERTIFICATE

This is to certify that the internship report entitled “**A Study in General Banking & Credit Management System of Janata Bank Limited**” submitted to the Faculty of Agribusiness Management, Sher-e-Bangla Agricultural University, Dhaka, in partial fulfillment of the requirements for the degree of **MASTER OF BUSINESS ADMINISTRATION (MBA) IN AGRIBUSINESS**, embodies the results of a piece of bonafide internship carried out by **DHIMAN CHANDRA ROY**, Registration No. 10-03906 under my supervision and guidance. No part of this report has been submitted for any other degree or diploma.

I further certify that such help or source of information as has been availed of during the course of this investigation has duly been acknowledged.

Dated:18.05.2017

Dhaka, Bangladesh

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Student Declaration

I hereby declare that the internship report entitled "**A Study in General Banking & Credit Management System of Janata Bank Limited**" has been prepared by me under the supervisor of **Assistant Professor Bisakha Dewan**, Dept. of Agribusiness & Marketing , Faculty of Agribusiness Management, Sher-e-Bangla Agricultural University.

I also declare that the matter embodied in this report is original and neither this report nor any part of this report has been submitted elsewhere for the award of any other any degree or any other purpose.

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ACRONYMS

A/C	Account
BB	Bangladesh Bank
CC	Cash Credit
DD	Demand Draft
DPS	Deposit Pension Scheme
FDR	Fixed Deposit Receipt
GB	General Banking
IT	Information Technology
JBL	Janata Bank Limited
L/C	Letter of Credit
MBA	Master of Business Administration
MT	Mail Transfer
NRB	Non Resident Bangladeshi
OBC	Outward Bill Collection
PO	Pay Order
POS	Point of Sales
SME	Small and Medium Enterprise
SOD	Secured Overdraft
STD	Short Term Deposit
TC	Travelers Cheque
TOD	Temporary Overdraft
TT	Telegraphic Transfer
UGC	University Grants Commission
ROA	return on assets
SCB	State Owned Commercial Bank
SB	Savings bank
CD	Current deposit
JBDS	Janata Bank Deposit Scheme
MDS	Medical Deposit Scheme
EDS	Education Deposit Scheme
JBSPS	Janata Bank Sanchoy Pension Scheme
LSC	Local Short Credit
LRA	Lending Risk Analysis
BL	Bad/ loss
DF	Doubtful
SS	Sub standard

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At first I present my due regards to God, who provided me the excellent opportunity to build and complete this Internship report on **“A Study in General Banking & Credit Management System of Janata Bank Limited.** I am deeply indebted to my supervisor Assistant Professor Bisakha Dewan, Dept. of Agribusiness & Marketing, Sher-e-Bangla Agricultural University for his whole-hearted supervision during my organizational attachment period. Her suggestions and comments were a great source of spirit to make the report a good one.

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ABSTRACT

In “Internship Program” course Students have to prepare an Internship Report at the end of the semester. The report is prepared on “General Banking & Credit Management System of Janata Bank Ltd” University Grants Commission Bhaban Branch (UGC Branch), Dhaka. 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. So the purpose of this study is to assess the customer perception on general banking system and find the Credit management system (its outstanding, recovery, classified loans etc), approval and monitoring process of Janata Bank Limited. To fulfill the objectives of this report data were collected from secondary sources. Collected information have then processed & compiled with the aid of MS Word, Excel & other related computer software. Major findings of this report are Janata Bank has a significant role in long term project financing in both agriculture and industrial sectors. Again Janata Bank has a deep concern for rural farmers. Most of the loans that Janata Bank distributes are as cash credit hypothecation and Janata Bank emphasizes less on demand loan. Janata Bank distribute loans without sufficient security in some cases. This is violation of the Bangladesh bank order. In many cases bank face this problem because bank’s 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. The recovery performance of Janata Bank is not in a satisfactory level at all and the position of those in that respect deteriorated heavily during last two phases. The recovery performance in agriculture is worse than in other sectors. On the other hand, as private sector banks distribute more loans on short term basis and relatively better than public sector. But if we compare it from the efficiency point, then it is clear that they are not still efficient in credit management as they are unable to recover half of their distributed loan in different sectors. Janata Bank does not keep enough provisions against classified loans and advances. Private sector banks are relatively efficient in processing and executing legal actions against defaulters for their nonpayment of loans and advances in due time that of public sector bank. The overall credit activity of Janata Bank Limited is composed of corporate credit division and credit administration. 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.

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

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. After the completion of third semesters academic MBA program I, Dhiman Chandra Roy student of Sher-e-Bangla Agricultural University was placed in University Grants Commission Bhaban Branch(UGC Branch) of Janata Bank Limited for the Internship Program. As a requirement for the completion of the program I need to submit a report, which includes “A Study in General Banking Activities and Credit management of Janata Bank Ltd.”

1.1 ORIGIN OF THE REPORT

The report entitled “**A Study in General Banking & Credit Management System of Janata Bank**” has been prepared as a partial fulfillment of Master of Business Administration (Agribuisness) in Department of Agribusiness Management from The University of Sher-e-Bangla Agricultural University. During the period of my internship, I am adjusting and applying my theoretical knowledge with my practical experience. The main purpose of the program is to expose the students to the professional life.

1.3 RATIONALE OF THE STUDY

Due to the increased competition of the increased number of commercial banks and the growing economy, the expectations of the customers have also increased than ever before. Realizing the present condition, banks, especially the commercial banks are trying to elevate their different service as much as reachable to their customers. The most serious difficulty facing the financial sector is the high level of interest rate and inflation rate. So it is the duty of the top management of the commercial banks to work with the situation.

1.4 OBJECTIVES OF THE REPORT

1. To know the General Banking and credit management of Janata Bank Limited in University Grants Commission Bhaban Branch.
2. To find out risks associated with the credits Management of Janata Bank Limited in University Grants Commission Bhaban Branch.
3. To recommend some suggestions based on findings Janata Bank Limited in University Grants Commission Bhaban Branch.

1.5 LIMITATIONS OF THE STUDY

There are some specific problems and limitations those were faced during the entire process of preparing the report. Some of them are-

- a) As the data, in most cases, are not in organized way, the bank failed to provide all information.
- b) Due to time limitation, many of the aspects could not be discussed in the present report.
- c) The main constraint of the study was insufficiency of information, which was required for the study. There are various information the bank employee cannot provide due to security and other corporate obligations.

1.6 SCOPE OF THE STUDY

Janata Bank Ltd is the second largest commercial Bank in Bangladesh. Janata Bank Ltd operates through 898 branches including 4 overseas branches at United Arab Emirates. It is linked with 1221 foreign correspondents all over the world. I am assigned to learn practical knowledge from Janata Bank Ltd, University Grants Commission Bhaban Branch, Dhaka. In this study I would try to concentrate on the theoretical aspect of credit management, that is, the definition of credit management, policy of credit management, tools for managing credit etc. I would analyze the data on the bank and various programs for loan recovery, problems in loan in loan recovery, pattern of loan recovery and the performance of the bank under study in loan recovery, the information in respect to the classification of unsound credit and provision thereon and also concentrates on the performance of the bank.

CHAPTER TWO

REVIEW OF LITERAURE

2.1 LITERATURE REVIEW

Biagio bossone, (2001) feels that Banks are special as they not only accept and deploy large amounts of uncollateralized public funds in a fiduciary capacity, but also leverage such funds through credit creation. Thus Banks have a fiduciary responsibility. Banks play a crucial role in deploying funds mobilized through deposits for financing economic activity and providing the lifeline for the payments system. A well regulated Banking System is very central to the country's economy. The author examines the way Banking and other financial institutions interact with each other during different stages of economic development. As per the author the shareholders of the banks who are supposedly owners have only a minor stake and the considerable leveraging capacity of banks put them in control of very large volume of public funds, though their actual stake may be very limited say sometimes only ten per cent or even lower. The author feels that in the light of this leveraging capacity, the Banks should act as trustees. The author underlines the need for the Supervisors and Regulators of the country's Banking system to discharge the onerous responsibility of ensuring that the Bank Managements fulfill this fiduciary relationship well, as in a developing economy there is far less tolerance for downside risks among depositors, many of whom place their life savings in the Banks. The author feels that diversification of ownership is desirable as the risk of concentration of ownership can lead to moral hazard problem and linkages of owners with businesses. When the ownership is diversified there is greater need for corporate governance and professional management in order to safeguard the depositors' interest and ensure systemic stability. Hence the regulatory and supervisory framework has to ensure that banks follow prudent and transparent accounting practices and are managed in accordance with the best practices for risk management.

Carl Felsenfeld, (1968) outlined the patterns of international Banking regulation and the sources of governing law. He reviewed the present practices and evolving changes in the field of control systems and regulatory environment. The book dealt a wide area of regulatory aspects of Banking in the United States, regulation of international Banking, international Bank services and international monetary exchange. The work attempted in depth analysis of all aspects of Bank Regulation and Supervision. Money Laundering has been of serious concern worldwide. Its risk has wide ramifications. Money Laundering has lead to the fall of Banks like BCCI in the past. In this context the book on Anti-Money Laundering: International Practice and Policies by John Broome Published by Sweet and Maxwell (August 2005) reviews the developments in the area of Money Laundering. The author explains with reference to case studies the possible effects of Money Laundering. The book gives a comprehensive account of the existing rules and practices and suggests several improvements to make the control systems and oversight more fail safe.

Daniele Nouy (2012) elaborates the Basel Core Principles for effective Banking Supervision, its innovativeness, content and the challenges of quality implementation. Core Principles are a set of supervisory guidelines aimed at providing a general framework for effective.

Banking supervision in all countries. They are innovative in the way that they were developed by a mixed drafting group and they were comprehensive in coverage, providing a checklist of the principal features of a well designed supervisory system. The core Principles specify preconditions for effective banking supervision characteristics of an effective supervisory body, need for credit risk management and elaborates on Principle 22 dealing with supervisory powers.

Dearth of skilled human resources, poor financial strength of supervisor and consequent inability to retain talented staff, inadequate autonomy and the need for greater understanding of modern risk management techniques are identified as the main difficulties in quality implementation. The critical elements of infrastructure, legal framework that supports sound banking supervision and a credit culture that supports lending practices are the essence of a strong banking system. Widespread failures have occurred during a period of increased vulnerability that can be traced back to some regime change induced by policy or by external conditions.

Patrick Honohan,(2008) explains the use of budgetary funds to help restructure a large failed Bank/Banking system and the various consequences associated with it. The article discusses how instruments can best be designed to restore Bank capital, liquidity and incentives. It considers how recapitalization can be modeled to ensure right incentives for new operators/managers to operate in a prudent manner ensuring good subsequent performance It discusses how Government's budget and the interest of the tax payer can be protected and suggest that monetary policy should respond to the recapitalization rather determine its design. The author proposes the following four distinct policy tools to achieve four distinct goals-injecting assets, adjusting capital claims on the Banks, rebalancing the govt's own debt management and managing monetary policy instruments to maintain stability. The author also assessed the effect of bank recapitalization for budget and debt management and implications for monetary policy and macro-economic environment in his article.

Rust and Oliver, R.L (1994) Many business practitioners have addressed the importance of delighting the customer as an extension of providing basic satisfaction. Yet the concept of customer delight has not been given a clear behavioral foundation, and the antecedents and consequences of customer delight, when manifest in specific service contexts, have not been empirically explored. This paper attempts to provide a first step toward establishing a behavioral basis for customer delight, empirically testing its hypothesized antecedents and consequences, and exploring the resulting implications. Based on data from two service fields, structural equation results support the proposition that unexpected high levels of satisfaction or performance initiate an arousal \Rightarrow pleasure (positive affect) \Rightarrow delight sequence.

Mixed support is found for the hypothesis that delight is a combined result of pleasure and arousal.

Satisfaction, acting in parallel with delight, was strongly related to pleasure and disconfirmation and had a clear effect on behavioral intention; the effect of delight on intention, however, appears to be moderated by the service context. Managerial implications include the consideration of whether delight is a reasonable and meaningful consumer expression in particular service contexts, the necessity of focusing on surprising levels of satisfaction or performance when attempting to produce delighting consumption experiences, and potentially separate strategies for inducing satisfaction and delight.

Timothy H. Hannan and Gerald A. Hanweck, (1988) felt that the insolvency for Banks become true when current losses exhaust capital completely. It also occurs when the return on assets (ROA) is less than the negative capital-asset ratio. The probability of insolvency is explained in terms of an equation $p = 1/(2(Z^2))$. The help of Z-statistics is commonly employed by Academicians in computing probabilities.

CHAPTER THREE

METHODOLOGY

3.1. METHODOLOGY OF THE STUDY

The study requires a systematic procedure from selection of the topic to preparation of the final report. To perform the study, the data sources were to be identified and collected, to be classified, interpreted and presented in a systematic manner and key points were to be found out. To fulfill the objectives of this report total methodology has divided into three major parts:

a) Area selection:

The present study was conducted to know the general banking system and the credit management system of Janata Bank Limited under the branch of University Grants Commission Bhaban Branch (UGC Branch). This branch was selected as it was close to my university and this helps me to recover the time limitations.

b) Data Collection Procedure:

In order to make the report more meaningful and presentable one sources of data and information have been used widely.

The “secondary Sources” are as follows:-

- Annual report of Janata Bank
- Periodicals records of Janata Bank Limited.
- Office files and documents
- Study related books and journals
- Websites

c) Data Processing & Analysis:

Collected information have then processed & compiled with the aid of MS Word, Excel & other related computer software. Necessary tables have been prepared on the basis of collected data and various statistical techniques have been applied to analyses on the basis of classified information. Detail explanation and analysis have also been incorporated in the report.

CHAPTER FOUR

COMPANY PROFILE

4.1 HISTORY OF JANATA BANK

The bank was initially emerged in the banking scenario of the then East Pakistan as “The United Bank Limited” and “The Union Bank Limited” at the initiative of some Bengalese entrepreneurs in the year 1959 under Bank Companies Act 1913. After the independence of Bangladesh in 1972 this Bank was nationalized as per policy of the Government and renamed as Janata Bank Limited. Janata Bank Limited is a 100% government owned commercial bank in Bangladesh.

Janata Bank Limited operates through 911 branches including 4 overseas branches at United Arab Emirates. It is linked with 1239 foreign correspondents all over the world. The Bank has more than 15(fifteen) thousand employees.

4.2 OBJECTIVE OF THE BANK

- ❖ Alongside up gradation and diversification of banking service to provide maximum satisfaction to the respected clients.
- ❖ To build up a deep-rooted and harmonious banker-customer relationships by dispensing prompt and improved services to the clients.
- ❖ To develop a vibrant capital market by ensuring more effective participation of the Bank in the share market.
- ❖ To make best use of latest technologies for giving the clients a taste of modern banking so as to encourage them to continue and feel proud of banking with JBL.
- ❖ To gain confidence of all quarters involved in the economic development of the country.

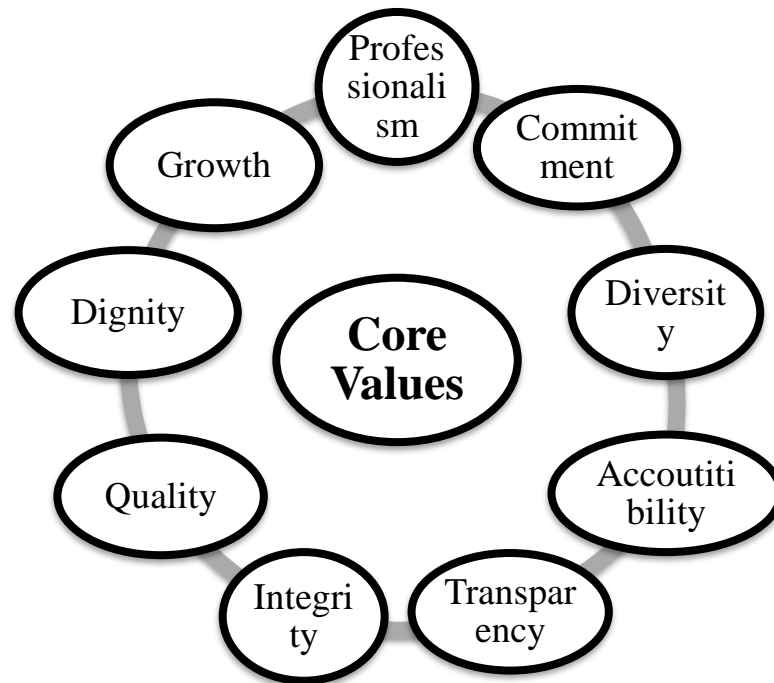
4.3 MISSION OF JANATA BANK

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 depositor's funds and providing a satisfactory return on equity to the owners.

4.4 VISION OF JANATA BANK

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. Ensuring highest standard of clientele services through best application of latest information technology, making due contribution to the national economy and establishing themselves firmly at home and abroad as a from ranking bank of the country are their cherished vision.

4.5 CORE VALUES OF JANATA BANK LIMITED:



4.6 THE FUTURE THRUST

- ❖ Full duplex on-line Banking
- ❖ Introducing more innovative products and services
- ❖ Opening new branches
- ❖ Expansion of business network at home and abroad
- ❖ SMS Banking
- ❖ Introduction of new liability/Asset products

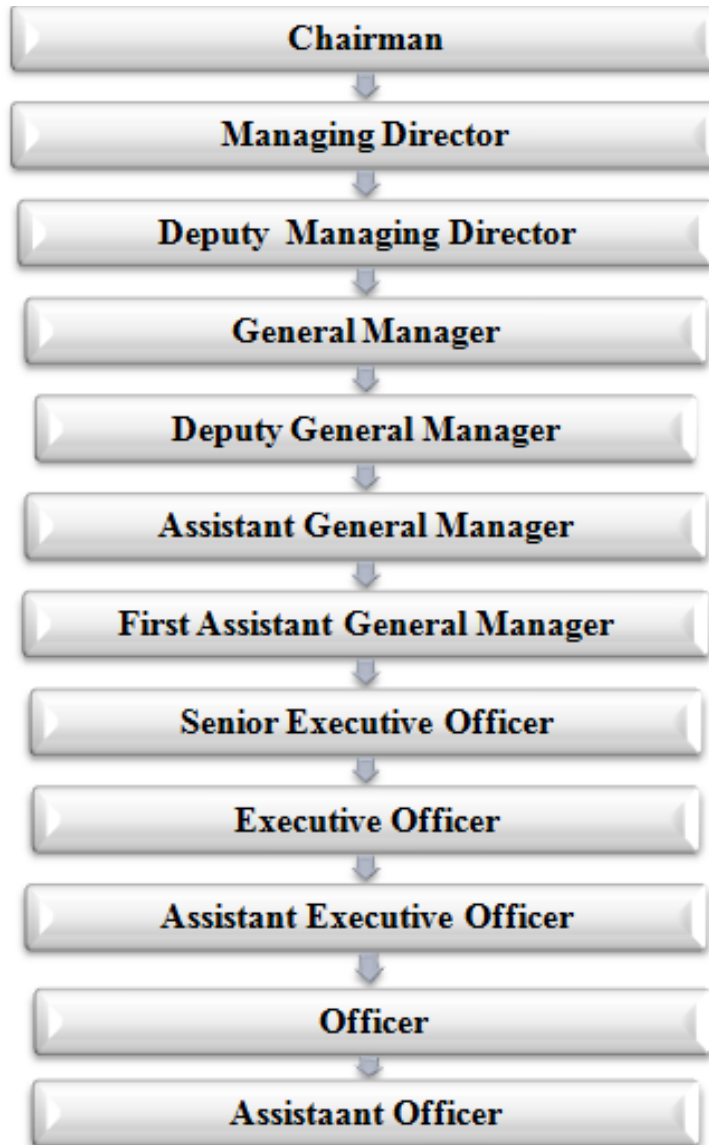
4.7 CORPORATE CULTURE

- ❖ Employees of JBL share certain common values, which helps to create a JBL Culture The client comes first
- ❖ Search for professional excellence
- ❖ Openness to new & new methods to encourage creativity
- ❖ Quick decision making
- ❖ Flexibility and prompt response
- ❖ A sense of professional ethics

4.8 STRUCTURE OF THE ORGANIZATION

4.8.1 MANAGEMENT HIERARCHY OF JBL

Table no. 4.1: Management Hierarchy Of JBL



4.8.2 CORPORATE INFORMATION

The corporate head office is located at Dhaka with 10 (ten) Divisions comprising of 38 (thirty eight) Departments.

Table no. 4.2: corporate information

FEATURES	VALUES
Name	Janata Bank Limited
Genesis	Janata Bank Limited, the 2nd largest State Owned Commercial Bank (SCB) in Bangladesh, is playing pivotal role in overall financial activities of the country. The Bank emerged as ‘Janata Bank’ by combining the erstwhile United Bank Limited and Union Bank Limited under the Banks Nationalization Order (President’s Order- 26) of 1972 and was restructured as a limited company in November, 2007.
Registered Address	Janata Bhaban,110,Motijheel Commercial Area Dhaka-1000, Bangladesh
Legal Status	Public Limited Company
Chairman	Shaikh Md. Wahid-uz-Zaman
Managing Director & CEO	Md. Abdus Salam
Company Secretary	Md. Mosaddake-Ul-Alam
Date of Incorporation	21 May 2007
Authorized Capital	BDT 30,000 Million
Paid up Capital	BDT 19,140 Million
Face value per share	BDT 100 per share
Shareholding Pattern	100% Share owned by the Government of Bangladesh
Number of Employees	13,498(As on 31.10.2016)
Banking license obtained from Bangladesh Bank	31 May 2007
Phone	+88 02-9560000, 9566020, 9556245-49, 9565041-45, 9560027-30
Fax	88-02-9554460, 9553329, 9552078
SWIFT	JANBBDDH
Website	http://jb.com.bd ,
E-mail	md@janatabank-bd.com

Source: Bangladesh Bank BCD & BPRD circulars

4.9. DOMESTIC NETWORK

Table no. 4.3: Domestic Network

Offices	No.
Head Office Divisions	14
Head Office Departments	49
Number of Divisional offices	12
Number of Area Offices	49
Branches including Overseas	911
Corporate-1 Branches (Including JBCB & LO)	30
Corporate-2 Branches	77
Grade-1 Branches	209
Grade-2 Branches	223
Grade-3 Branches	275
Grade-4 Branches	93
AD Branches	56
Urban	481
Rural	426
Overseas	4
Staff College	8

Source: Bangladesh Bank BCD & BPRD circulars

4.10 Government Intervention

Financial services have traditionally been the subject of close government scrutiny and it is expected that exchange rates, interest rates and terms of credit should be monitored in the public interest. In recent years governments have tried to use interest rates, credit regulations and informal controls on banks as a means of managing the supply of money in the economy in an effort to increase or reduce consumer spending and to hold or promote investment in business. From 1976 to now, these policies have added a new dimension of risk and uncertainty to financial markets, which have already fluctuated for various reasons such as inflation, exchange rate, oil crisis etc. Sometimes government is a big problem for the nationalized bank in Bangladesh. Government forced to the nationalized bank to lend to government's priority sector, state-owned sectors, state-owned enterprises, sick industries, borrowers with political influence as well as provide exemption schemes to fulfill its pre-election commitment.

The loan exemption program of 1986-87 and 1991-92 are 11.37% and 25.56% respectively of total bank loan outstanding. As a result nationalized commercial banks are burdened with very large classified loans (32% of total loans) against which very large provisions are made which affect profit position very adversely. Classified loan in the country's banking sectors on June 30, 1996 was 33.0% of total loans. It was 34.9% on December 31, 1993. Net income of local bank is reduced drastically for maintaining very large provisions for bad debts and interest suspense accounts.

4.11 Personal Banking

Janata Bank Limited extends all the major personal banking facilities and services to its customers with its skilled manpower and largest network of around 860 branches covering all the urban and remote rural areas of Bangladesh.

Janata Bank Ltd. provides Local and Foreign Remittance in the quickest possible time.

Foreign Remittance is available in both T.C and taka draft.

1. Transfer of fund from one branch to another by

- Demand Draft saving A/C
- Mail Transfer FDR A/C
- Telegraphic Transfer Trade Finance

2. Transfer of fund on Standing Instruction Agreement

3. Collection of cheques through clearing house.

4. Issuance of payment order.

5. Locker facilities for safe keeping of valuable.

6. Corporate client services with computerized systems at selective branches.

4.12 Training

Janata Bank Training Institute 107/2, Kakrail Dhaka-1000, training institutions in Rajshahi and Comilla have been conducting training programs covering total banking activities in order to impart training to all categories of officers and staff of Janata Bank.

4.13 Library Facilities

With the objective of enriching knowledge and efficiency of the officers and staff of Janata Bank, it has a central library. The library is situated on the 6th floor of its Head Office Building. It has been turned into a modern library by extending its facilities. It has been enlarged with the latest books on banking, Foreign Exchange, Computer, Management, Accounting, Agriculture, Finance, Economics, Religion, Literature and many other disciplines.

4.14 Awards and Achievements

Recently the Bank has been recognized internationally and domestically for its good performance. Few of these recognitions are given below:

Best Presented Annual Report Awards and SAARC Anniversary Awards for

Corporate Governance Disclosers 2013

The awarding ceremony was held on 4th December 2014 at Hotel Mayfair, Bhubaneswar, India. Dr. Prodip Kumar Panigrahi, Minister of State, Higher Education, Science and Technology Ministry of Odisha, India, handing over South Asian Federation of Accountants (SAFA) award to Md. Mosaddake-Ul-Alam, company secretary of Janata Bank Ltd.

14th ICAB National Award for Best Presented Annual Reports 2013

The Institute of Chartered Accountants of Bangladesh (ICAB) awarded Janata Bank Limited with the ICAB National Awards for best presented annual reports in 2013 and in the category of public-sector bank Janata Bank Limited secured first position. In the category of corporate governance disclosure, Janata Bank Limited was awarded second position by the same institution.

ICMAB Best Corporate Award

This Bank secured the first position among the state-owned Commercial Banks in Bangladesh.

The Institute of Cost and Management Accountants, Bangladesh (ICMAB) recognized the achievements of Janata Bank Limited with the following awards:

ICMAB Best Corporate Award 2014

ICMAB Best Corporate Award 2012

ICMAB Best Corporate Award 2011

CHAPTER FIVE

RERSULT AND DISCUSSION

GENERAL BANKING IN UNIVERSITY GRANTS COMMISSION BHABAN BRANCH

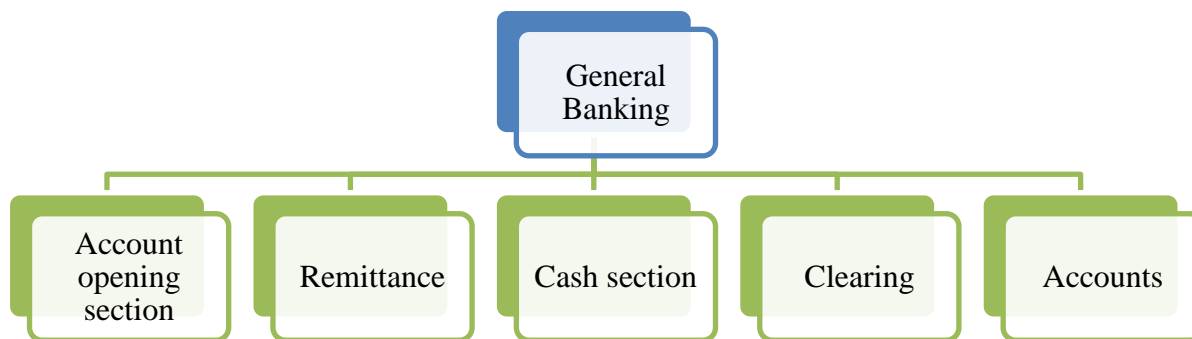
5.1. General Banking

General banking department performs the core functions of bank, operates day-to-day transactions of banking operation.

Every day it receives deposits from customers and meets their demand for cash. It opens new accounts, remits customer's money from one place to another through issuing bank draft, pay order, telegraphic transfer, collects all bills. Since bank is bound to provide these services everyday, general banking is also known as retail banking.

General banking of Janata bank consists of:

Fig. 5.1: General banking



5.1.1. Account Opening Section:

To establish a Banker and customer relationship Account opening is the first step. Opening of an account binds the Banker and customer into contractual relationship. But selection of customer for opening an account is very crucial for a Bank. Indeed, fraud and forgery of all kinds start by opening account. So, the Bank takes extremely cautious measure in its selection of customers.

a) Various types of account offered by Janata Bank Ltd.

Janata Bank Ltd. offers various types of account to its different types of customer. These are as follows:

- Current deposit (CD) account
- Savings bank (SB) account
- Short-term deposit (STD)
- Fixed deposit (FDR)
- JBDS (Janata Bank Deposit Scheme)

- MDS (Medical Deposit Scheme)
- EDS (Education Deposit Scheme)& SPS

b) Procedure to open an Account:

(1) For opening an account, at first the prospective account holder will apply for opening an account by filling up account opening form. Account opening form consists of the name of the branch, type of account, name of the applicant(s), present address, permanent address, passport number (if any), date of birth, nationality, occupation, nominee(s), special instruction (if any), initial deposit, specimen signature(s) of the applicant(s), introducer's information etc.

The prospective customer should be properly introduced by the followings:

- i. An existing customer of the bank.
 - ii. Officials of the bank not below the rank of Assistant Officer.
 - iii. A respectable person of the locality who is well known to the manager or authorized officer.
- (2) Two copies of passport size photograph duly attested by the introducer.
- (3) Signature of the prospective account holder in the account opening form and on the specimen signature card duly attested by the introducer.
- (4) Then the concerned authority will allocate a number for the new account.
- (5) The customer than deposit the “initial deposit” by filling up a deposit slips. Initial deposit to open a current account in JBL is Tk. 10000.00 and saving account is Tk.1000.00. After doing the above formalities, the branch provides the customer pay-in-slip and a cheque- book. The cheque-book may be off 10 pages, 20 pages, 50 pages or 100 pages depending on the type of account the customer has opened. A customer has to fill up the ‘Requisition Slip’ for cheque-book. Then a new cheque-book will be filled with the account number of the customer and name of the branch in each page of the cheque-book. Then name and account number of the customer are registered in the ‘Cheque-book Issue Register’. After depositing the initial deposit, the account is considered to be opened. The requisition slips are maintained and recorded as vouchers. The serial number of the cheque-book is also entered in the computer for maintenance of records and to prevent any attempt of forgery.

5.1.2. Various types of Account holder need documents and maintain rules relating to open Bank Account

Owner of personal A/c: If any person opens account in his own name and maintain it, he will be termed as the owner of personal A/c. He has to maintain the bank A/c. Nobody for him can maintain the A/c.

Owner of Joint A/c: When two or more persons open an account jointly, it is called a joint A/c and such account holders are termed as joint A/c holder. While maintaining, the following rules and regulations are followed:

- The joint account holders or any one of them authorized to operate the A/c may open either a joint account.
- The joint account holders are equally liable for repayment of debt taken from the bank.
- If after the death of a owner, if at least two of them are alive, then the money is withdrawn from the A/c through Cheque and new A/c is opened for the alive persons and the money is deposited to the A/c.

Joint Stock Company:

While opening an account in the name of a company, the Banker must satisfy himself about the following:

- The name of the company, the shareholders name and addresses.
- Whether the company is registered or not.
- The following document must be collected:
 - The signature of the shareholders in the application form.
 - A document containing the shares of shareholders, their responsibilities and duties.
 - Naming the person or persons who are authorized to operate the bank A/c on behalf of the company.
- If there is any change among the shareholders, it must be informed to the bank.
- All the shareholders are equally liable for the repayment debt taken from the bank.

Public Limited Company:

While opening an account in the name of public limited company the Banker should take the following particulars: The application for opening an account Naming the person who is authorized by the managing director or managing committee to operate the bank A/c. Specimen signature of the customer. Certified copy of constitution and memorandum of the company List of directors and their signature certified by chairman Scrutiny the financial condition, nature of business of the company. The company is liable for the repayment of debt taken from the bank.

Non-trading Organization:

Clubs, societies, charitable and religious institutions not engaged in trading activities can open their accounts in the bank. According to the constitution of this institution one or more employee authorized to operate the bank A/c can operate the A/c. If the institutions are not registered, Bank Account cannot be opened.

Special types of Account holder:

A contractual relationship is created between the Banker and customer by opening an account. Basically a person whose age is 18 years or more can be competent to open an account with the bank. But there are some special types of account holder specified below:

Minor: According to the law of Bangladesh, a person who has not completed 18 years of age is a minor. A minor is not capable of entering into a valid contract. A minor cannot open any account or operate it until he completes 21 years.

The bank records the date of birth of the minor while opening an account. A Banker should be very careful in dealing with a minor. If an overdraft or advance is granted to a minor even by mistake or unintentionally, the Banker has no legal remedy to recover the amount from the minor.

Married women: A married woman is competent to enter into a valid contract. The Banker may therefore open an account in the name of a married woman. In case of a debt taken by the married woman her husband shall not be liable. But if the wife works as an agent of his husband, then the husband has to be liable for his wife's debt. While granting loan to a married woman the Banker should therefore examine her own assets and ensure that the assets are sufficient to cover the amount of loan.

Illiterate person: Illiterate person cannot sign their names and hence the Banker takes their thumb impression as a substitute for signature and also a copy of their recent photograph. An approved witness should attest the application form and the photograph.

Blind person: A blind person can open account and the procedure would be the same as illiterate persons. In both cases the terms and conditions of opening account should have to be read in front of them and if they agree with it only then the account can be opened.

Deaf and Dumb: Deaf and Dumb can open account but the respective Banker should have to become careful about the background and character of the person.

Mad and Lunatic: Mad and Lunatic person cannot open a Bank Account.

Closing of Bank Account: The relationship between a Banker and his customer is a contractual one and may be terminated by either of them by giving notice of his intention to the other person. The rights and obligation of a Banker in this regard is as follows:

- If a customer directs the Banker to close his account
- On receipt of the notice of the death of a customer
- If a Banker receives a notice regarding the insanity of his customer
- On receipt of a Garnishee order from the court
- Fixed account is closed automatically after the specified date.

5.1.3. Steps of Cash Management at Branch Level:

Cash Receipt: The cash receipts procedure, as I found, is summarized below:

- Pay-in-slip or credit voucher are given to the cash counter for depositing cash.
- Cash deposit section checks the title of account, its number, amount in words and figures in the pay-in-slip or credit voucher.

- Cash receiving officer after receiving the cash giving records/denomination of the currency on the back of the voucher shall enter the particulars of the voucher in the cash receiving book under progressive serial number & puts his signature putting the date stamp both on counter foil & pay-in slip voucher. Then he will pass it on to the officer-in-charge of cash section for his signature along with the register
- The officer will then detach pay-in-slip from the counter foil and return it to the receiving officer along with the register.
- The officer sends the pay-in-slip/ credit voucher to the deposit section in case of pay-in-slips and credit vouchers to the respective section to which it relates.
- Cahier and cash-in-charge puts signature on the book at time of closing cash.

Cash Payment:

Generally cheques, D.D, T.T, M.T, pay order and cash deposit voucher etc. are received from customer and institutions. The formalities are given below:

- The instrument is checked for any discrepancy, posting and cancellation
- Specimen signature of cancellation officer should be available
- Cash is counted and the denomination of notes are written on the reverse of the instrument
- Cash is paid to the bearer of the instrument
- Particulars of the instruments are entered in paying cash book
- Paid instruments are kept with the paying officer

Token issue:

I was assigned to issue token. However I issued token in the following manner:

At the very outset, I examined the validity of the cheque. In this connection, attention was given of the cheque following points: -

- Date of issue of cheque (a cheque is valid for six months only)
- Signature of the account holder (rubbing, overwriting etc.)
- Amount of cheque (the similarities between the words and figures of the cheque)
- Signature on the reverse page
- After that the amount, token number, account number etc. were entered in the daily transaction register. Usually called day book.
- Then, the token was issued to the bearer of the cheque.
- Token number was thereafter taken down on the reverse page of the cheque
- After that the cheque was passed on to the other section for other necessary formalities.

Posting and Cancellation of Cheque:

At the time of posting of cheques, the cheque is examined carefully. Attention on the following more aspects is given:

- Whether the account had desired amount of money or not.
- Prefectures of serial number of the cheques

After careful examination, the drawing amount of cheque was entered in the ledger. For cancellation of cheques, Janata Bank, Unuversity Grants Comission Bhaban Branch, Dhaka is followed the bellowed steps:

- The cancellation officer shall keep the specimen signature card under his personal custody.
- All specimen signature cards will be kept in serial order.
- In case of difference of signature, cheques shall not be passed.
- Officer shall not pass any cheque unless it is posted against the account and initialed by the ledger keeper.
- The cancellation shall be made waving a red line across the signature of the drawer's of the cheque.
- The Cancellation shall sign in full using red ink the drawer's signature.

Cash Balancing:

The entire cash related employees ensure the balancing of cash on daily basis:

- All cash register written in words and signed
- Checking agreed with each other
- Preparing cash position memo
- Writing cash Balance book
- Checking all registers and signing
- Ensuring that Balance is correct.
- Preparing cash cum daybook

Checking Cash in hand:

Cash should be checked as per cash balance books.

- Counting the loose cash entirely also coin
- Petty cash
- Prize bond stick
- Late paid cash/Scrutiny instrument
- Surplus cash if any pass voucher

Cash safe keeping:

All the custodians of cash must ensure overnight safe keeping of cash at branch level. Counted cash to keep under following precaution:

- Iron safe condition
- Strong room as per specification
- Lodgment of keys
- Maintain safe limit
- Excess over limit disposal

Cash Remittance:

Only cash feeding branch is entitled to carry the cash for remittance purpose. Precautions are as follows:

- Cash carrying team with armed guards
- Transport mode, Conventional / non-Conventional
- Cash transit limit
- Cash movement register

Cheque Dishonored by a Banker:

If a cheque is dishonored the Banker return it to the depositor. The statutory duty of a bank is to honor his customer's but it is dishonored in the following circumstances:

- If the amount mentioned in the cheque is greater than that of deposit.
- If the cheque is past dated or a stole cheque.
- If the cheque contains an apparent material alteration, which is not properly mentioned by the drawer.
- If the signature of the drawer is a forged one or does not tally with his specimen signature.
- On receipts of reliable information about the death of the customer.
- If a debtor commits an act of insolvency as defined in the insolvency law.
- If the cheque is not submitted during the banking hour.

5.1.4. Collection of Deposit Section:

Janata Bank, University Grant Commission Bhaban Branch, Dhaka collects deposits from surplus unit in the following forms:

Time deposits:

- Fixed Deposits Receipt (FDR)
- Short Term Deposits (STD)
- Deposit Pension Scheme (DPS)
- Janata Bank Sanchoy Pension Scheme(JBSPS)

Fixed Deposits Receipt (FDR)

Fixed deposits are deposits in which an amount of cash is deposited in bank for a fixed period specified in advance. Hence these deposits are time deposits or time liabilities. Normally, the money on a fixed deposit is not repayable before the expiry of the fixed period. At the time of opening the deposit account, the banker issues a receipt acknowledging the receipt of money on deposit account. It is popularly known as FDR. After opening a FDR A/C, it is usually recorded in the 'FDR Register'. In the case of Fixed Deposit Account, the bank needs not hold a cash reserve to repay money to the customers. The payment will be made after the completion of a certain period. Hence, Janata Bank Ltd offers a high interest rate in Fixed Deposit Account. The interest rates followed by Janata Bank Ltd for Fixed Deposit Account are-

Table no. 5.1: Fixed deposit rates

Period	Interest rates
For 3 months to > 6 months	@7.00%
For 6 months to > 12 months	@7.50%
For 12 months to > 24 months	@7.75%
For 24 months to > 36 months	@8.00%

Source: Bangladesh Bank BCD & BPRD circulars

Normally a customer is not allowed to withdraw money before the expiry of the fixed period in case of Fixed Deposit Account. However, Janata Bank Ltd. allows its customers to withdraw fixed deposit amount at any time after giving a short notice. In this case the customers will get interest rate by the following ways-

- If withdrawal happens before 3 months, there will be no interest.
- If withdrawal happens before 6 months, 3 months' interest rate.
- If withdrawal happens before 1 year, 6 months' interest rate.
- If withdrawal happens before 2 years, 1 years' interest rate.
- If withdrawal happens before 3 years, 2 years' interest rate.

STD account (short Term deposit):

This kind of account is opened normally by various big companies, organizations; Government department etc. This account is operated like Current Account.

The deposits held in STD A/C are payable on short notice for 7 days or 30days. The interest rate of STD is 4% Different big organizations, companies and other Govt. Departments maintain Short Term Deposit A/C.

General Characteristics:

- Customers deposit money for a shorter period of time.
- STD account can be treated as semi-term deposit.
- STD should be kept for at least seven days to get interest.
- The interest offered for STD is less than that of savings deposit.
- Volume of STD A/C is generally high. In JBL, various big companies, organizations, Government Departments
- Keep money in STD accounts.

Janata Bank Deposit Scheme (JBDS)

According to this scheme, a person of minimum 18 years old can open any 'Janata Bank Deposit Scheme A/C' by depositing at least tk.500 or maximum tk.20000 in each month for 10 years term. After maturity of the term, the depositor can withdraw the total deposited amount with interest or can withdraw by monthly installment. The depositor has to deposit the specified amount for him/her by the 11th day of each month either in cash or cheque. In respect of JBDS account, the depositor can select more than one nominee for claiming the deposited money after his/her death. No joint account is allowed in this scheme.

The main characteristics of JBDS are as follows-

- A system of secured income has been confirmed by JBDS for the depositor in their old age who invested money from their early incomes.
- A scope of proper and exact utilization of money is possible by JBDS.
- The total deposited amount with interest will be given to the investors and this is certain.
- The JBDS gives the investors a chance of bearing the educational or marital expenses of their adult sons or daughters.
- The total invested money in JBDS is absolutely income tax free. The earning from JBDS is not considered while charging the annual income tax.
- In JBDS, an 8.5% compounding interest rate is applied and it is usually calculated on yearly basis.
- Account holder can take lone on JBDS and Interest rate for loan id 2% more than JBDS rate (8.5% + 2% = 10.5%)
- A depositor can withdraw the total amount of money (Principal + Interest) at the expiry of the certain period.

For JBDS, the payment systems in case of maturity of an account are as follows:

Table no: 5.2: payment systems in case of maturity of an account for JBDS

Amount of Monthly installment	Period (years)	Payment in case of maturity of the period	Total Payment(tk)
500	10	60000	94609
1000	10	120000	188218
2000	10	240000	375435
5000	10	600000	937088
10000	10	1200000	1873176
20000	10	2400000	3745352

Source: Janata Bank Ltd. Annual Report

Janata Bank Sonchoy Pension Scheme (JBSPS)

Janata Bank Ltd. initiated this ‘Janata Bank Ltd. Sonchoy Pension Scheme’ in order to improve the socio-economic conditions of the professionals of all levels. This system is based on a monthly basis. The main characteristics of SPS are as follows-

- Duration of the account in this scheme is either five or ten years.
- Amounts of installments are tk.100, tk.200, tk.300, tk.400 tk500, or tk.1000
- Any person of minimum 18 years old can open a SDPS account.
- A depositor should deposit his/her monthly installment by the 10th day of each month. If the 10th day is a public holiday, then deposit in next working day is allowed. The installment can be deposited either by cash or by cheque.
- The interest rates are, for five years duration 8.5% compounding interest rate and for ten years duration 9% compounding interest rate. In both cases interest is calculated on yearly basis.
- The depositor can have one or more nominees. In case of more than one nominee, the depositor can determine the portion of amount of money for each nominee.

A customer can stop operation of his/her SPS A/C at any time according to his or her own discretion. In this respect, the bank charges tk.25 to the customer.

- If she/he stops the account within one year, no interest will be given.

- If he stops the account after one year but before three years, 5% simple interest will be given.
- If he cancels his account after three years but before five years, 7% simple interest will be given.
- If he withdraws his account after five years, then 8.5% simple interest will be given.

Demand deposits:

Current Account: Current Account is the most suitable for public, individuals, traders, merchants, importer and exporters, mill and factory owners etc.

For opening of a Current Account minimum deposit of Tk. 1000 is required along with introductory reference. No interest is given in the Current Account. One can enjoy maximum flexibility and convenience when he/she opens Current Account with Janata Bank Ltd.

General Characteristics:

- CD accounts are unproductive in nature as banks' loanable fund is concerned. Sufficient fund has to be kept in liquid form, as Current Deposits are demand liability.
- Thus huge portion of this fund becomes non-performing. For this reason banks do not pay any interest to CD Account holders.
- There is no restriction on the number and the amount of withdrawals from a Current Account.
- Service charge and incidental charges are recovered from the depositors since the bank makes payments and collects
- the bills, drafts, cheques, for any number of times daily.
- Businessmen and Companies are the main customers of this product.
- The Banks through Current Accounts grant the loans and advances.
- In practice of Janata Bank Ltd, a minimum balance of Tk. 1000 has to be maintained.

Saving account: The saving account is primarily for small-scale savers. The main objective of this account is promotion of thrift. Hence there is restriction on withdrawal in a month.

General Characteristics:

As per Bangladesh Bank instruction 90% of saving deposits are treated as time liability and 10% of it as demand liability.

- Interest is paid on this account. Janata Bank Ltd offers a reasonable rate of interest for Saving A/C. Generally, Banks require a 7-day prior notice if the total amount of one or more withdrawals on any date exceeds 25% of the balance of the account.
- In practice there is no restriction about drawing money from Savings Account. Any time holders of such account can draw money of any amount without prior notice.

- The number of withdrawals in a week is limited. Only two withdrawals are permitted per week. If there are more than two withdrawals in a week, no interest will be paid on the rest amount for that month.
- Generally householders, individuals and other small-scale savers are the clients of this account. Minimum Balance of Tk. 500 is to be maintained.
- Interest will be counted on the minimum balance from the date 1-6 of a month.
- No service charge as it is an interest bearing account.

Heavy Withdraws are permitted only against permitted only against prior. Minimum amount of Tk. 500 is required as an initial deposit. Frequent withdraw is not allowed. The current rate of interest is 6%.

5.2. Bank Remittance

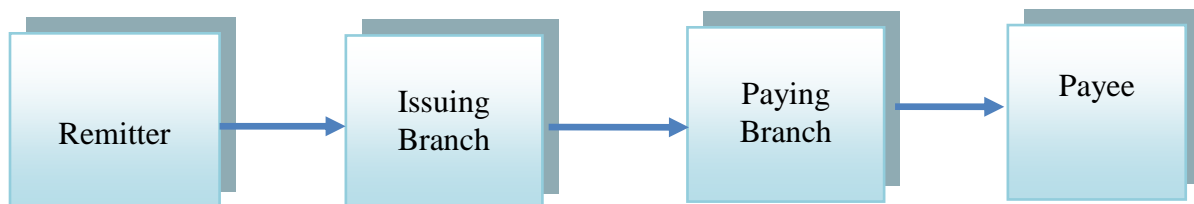
Remittances of funds are one of the most important aspects of the commercial banks in rendering services to its customers. Among various services rendered by the commercial bank to its customers, remittance facilities are very well known and popular. The word ‘Remittance’ means sending of money from one place to another place through post or telegraph. Banks extend this facility to its customers by means of receiving money from one branch of the bank and making agreement for payment to another branch within the country.

In general there are two types of bank remittance-

1. Inward remittances and
2. Outward remittances.

The remittance facilities of a commercial bank enable its customers to avoid risk arising out of theft or loss in carrying cash money from one place to another or making payment to someone in another place. Banks take the risk and ensure payment to the beneficiary by charging the customer.

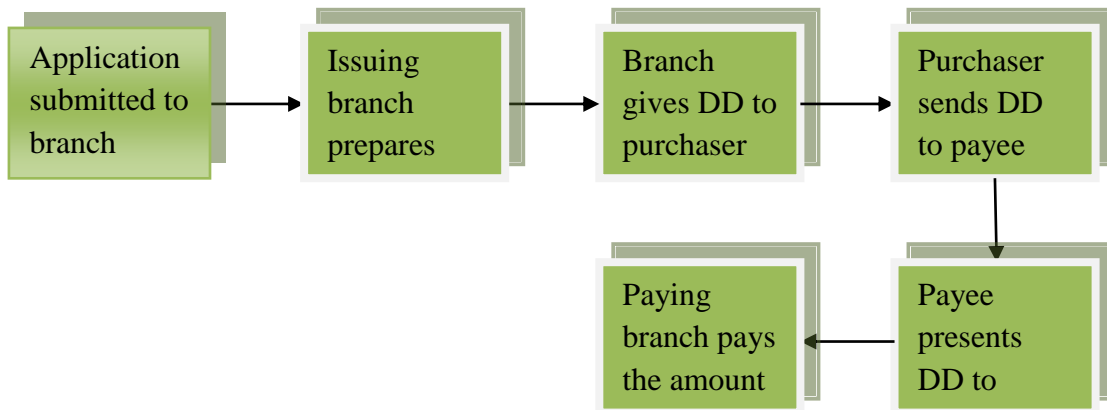
Fig:5.2: Chart for Bank Remittances Flow



5.3. Demand Draft (DD):

Demand draft is a negotiable instrument issued by a particular branch of a bank containing an order to another branch of the same bank to pay a fixed sum of money to a purchaser by for himself or order on demand. This instrument can be purchased by for himself or for beneficiary and can be handed over to the purchaser. The delivery to the beneficiary bank issues drafts for a nominal commission. The commission depends upon the amount to be transmitted. Janata Bank charges the commission on D.D minimum charge is Tk. 15.

Fig: 5.3: Flow chart for a DD



5.4. Procedure of Demand Draft Payment

After receiving the DD advices from different branches, the paying bank will verify the genuineness of the advices by verifying test numbers and signatures. Beside this, payment of drafts can be made without the advice of the issuing bank and at that time payment is called 'Acceptance Payment'. Total amount of advice is debited to SBG A/C and credited to draft payable A/C. That is-

SBG A/C-----Dr

Draft payable A/C -----Cr

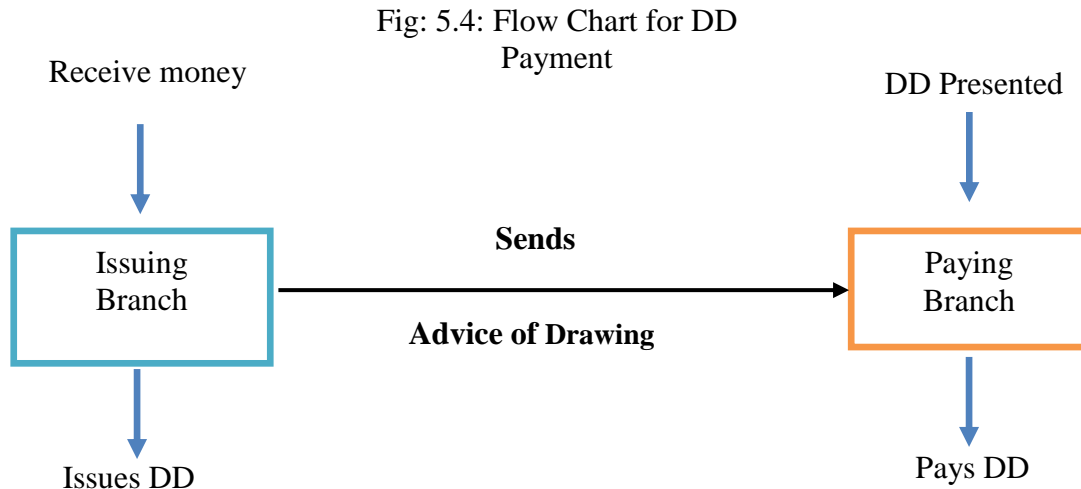
On production of DD by the beneficiary, payment will be made by the following ways-

Draft payable A/C-----Dr

SBG A/C-----Cr

If the payment is to be made before receiving of the DD advice, DD payment is recorded in the Ex-advice payment register by debiting the Draft Payable Ex-advice A/C (DD paid without advice). On receiving of the advice, it will be entered into the DD, MT Advice Receive Register and the amount will be credited to Draft Payable A/C.

Before making payment of the DD, the paying branch will ascertain the genuineness of its issuance as well as genuineness of payee. The following flow chart depicts the payment procedures of DD.



5.5. Cancellation of Demand Draft

In some cases, the purchaser of the bank draft may ask the issuing branch to return the amount of DD stating its non-requirement. In these cases, the issuing branch will obtain a written application from the purchaser whose signature must be tallied with the signature obtained earlier. An amount of tk.25 be recovered from the purchaser as 'Cancellation Charge' and will be credited to the Commission A/C. The purchaser will acknowledge receipt of the proceeds writing the words 'Received Payment by Cancellation' and will sign on revenue stamp affixed on the draft. In this case, payment is made by debiting the SBG A/C and a relative cancellation advice is sent to the paying branch.

5.6. Issuing of Duplicate Demand Draft

If DD is lost, the issuing branch may issue a duplicate DD. But before issuing a duplicate DD, the branch issued to observe the followings-

- Verify purchaser's signature on the DD application slip
- Take indemnity bond from purchaser
- Clearance from paying branch whether the DD is already paid or not to be obtained
- DD cancellation advice to be sent to the paying branch
- Lastly the duplicate DD is issued and the word 'DUPLICATE' in red ink is stamped in the front side of the DD block.

5.7. Telegraphic Transfer (TT)

Telegraphic Transfer (TT) is another widely used mode for remittances of funds. TT is quicker than DD or MT.

If an applicant wants to remit the amount urgently to the payee in another city or district he may request the issuing branch to send it by TT. For TT a branch sends a telegram instead of airmail. The branch usually recovers from the telegram charges in addition to the usual service charges. A TT could be express or ordinary and it is always sent in coded-form. Corporate branch follows the following procedures in case of TT issuing-

1. The customer deposits money in the branch.
2. The customer obtains a cash memo containing TT serial number.
3. TT serial number, notifying party name are mentioned in the telex message.
4. The telex department confirms transmission of the telex.

Accounting entries for TT

Cash/Client's account-----Dr

SBG account-----Cr

Income account (commission) -----Cr

Procedures for the incoming TT

After receiving the telex, it is decoded at first. Then the TT serial number, test number are verified. A credit voucher in favor of the beneficiary's account is prepared and passed. For TT telephone charge is tk.25 and tk.1-20000 commission is tk.20 and above it tk.1 added as commission for each tk.1000. 15% vat taken on commission.

5.8. Mail Transfer (MT)

The facility of sending money by mail is available to customers who have accounts with the bank. The remitter deposits the amount that will be transferred from the remitting branch with small commission. An advice is issued by the branch to another branch for crediting the specified amount to the account of the payee maintained with the bank. It is a non-negotiable instrument and generally is not handed over to the customer rather sent through post office to the concerned branch. Remittance of money by Mail Transfer is relatively cheaper, quite safer and more convenient. Mail Transfer is effective not only within the country but also for international remittances. For local MT (say within the area of Dhaka) special 'MT Register Book' is maintained as in like DD. MT is normally issued from branch to branch of the same bank. Normally the mail charge is tk.15 for any amount. From tk.1 to tk.20000 commission is tk.20 and for above tk.1 added for every tk.1000.

The payment procedures for MT are as follows-

1. MT is received directly from the issuing branch by post and the payee does not present it for payment.

2. The paying branch checks the name and account number of the payee in MT to determine whether it agrees with the name and account number maintained in the paying branch.
3. The paying branch verifies the signatures of the authorized officials of the issuing branch.
4. MT is entered in the 'DD, MT, TT Payment Register'.
5. No commission is deducted.
6. If everything related to MT is correct then the passing officer will pass the MT by putting signature on it and the voucher is credited to the respective beneficiary's account.

Pay Order (PO):

Payment order is a written document. This pay order can be enacted on the branch from where it is issued. Several suppliers, Organizations use this PO. It is issued locally.

The procedure for selling P.O. is as follows:

- Purchasing must be an A/C holder of JBL, Dhaka Branch.
- Depositing money with P.O. application form.
- Giving necessary entry in the Bills Payable (P.O.) register;
- Payee's name, date, P.O. No. etc.
- Preparing the instrument.
- After it has been scrutinized & approved by higher authority, the instrument is delivered to customer. Signature of customer is taken is the counterfoil.

5.9.Operation of Cheque

A cheque, signed by the drawer is an unconditional order in writing and drawn on a specified bank. Bank will pay a certain sum of money to the cheque bearer. A cheque involves three parties-

1. The drawer
2. The drawee (the bank) and
3. The payee (to whom the cheque is to be paid)

The following procedures are usually done for passing a cheque-

- A clerk scrutinizes the cheque for the date, the amount and the signature and then he gives the drawer of the cheque a token number and he also writes that number at the back side of the cheque. He then passes the cheque to the ledger-keeper after giving a seal.
- The ledger-keeper again scrutinizes the cheque for his satisfaction. He then debits the amount in the ledger book and passes the cheque to the authorized officer. The authorized officer verifies the signature of the account holder very carefully to protect any kind of fraudulent activities and passes it to the cash officer for payment.

- The drawer of the cheque presents the token in the ‘Cash Payment Counter’ and the cashier makes payment after verifying the token. The cashier may want another signature to compare with the previous one.

5.10. Stopped Cheque

In case of stopped cheque the following formalities are done-

- The accountant keeps the ‘Stopped Cheque Register’ and reserves the pertinent documents.
- After receiving a letter or telegram for stopping the payment of cheque, the time of its receipt is noted down by the accountant.
- The ledger-keeper and the officials are also informed immediately.
- Lastly the cheque is stopped.

5.11. Collection of Cheque

In **University Grants Commission Bhaban Branch** cheques of its customers are received for collection. In case of received cheque, the following points are followed carefully-

- The cheque should not carry a date older than the receiving date for more than six months. In that case the cheque will be a ‘stale cheque’ and it will not be allowed for collection. Again the date of cheque should not be more than one day forward than the receiving date.
- The amount in figures and words in both sides of the pay-in-slip should be same and they will also be same in the cheque.
- The name mentioned in cheque should be same in both sides of the pay-in-slip and in the cheque.
- The cheque must be crossed.

For the collection of cheques the branch can be divided in to three sections-

1. Short Credit (SC)
2. Local Short Credit (LSC)
3. Clearing.

5.12. Clearing

Janata Bank Ltd is a schedule bank. According to the Article 37(2) of the Bangladesh Bank Order, 1972, the banks that are member of the Clearing House are called as ‘Schedule Banks’. The schedule banks clear the cheques drawn upon one another through the clearing house. This is an arrangement by the central bank where the representatives of the banks gather to clear the cheques everyday. The place where the banks meet and settle their dues is called the clearing house. The clearing house sits for two times in a working day.

From the aforementioned discussion it become clear that JBL, **University Grants Commission Bhaban Branch**; Dhaka does almost all the operations of general banking and in the recent years it has been yielding better performance in case of deposit collection and in proving the general banking services to meet it's purpose of profit earning and rendering social service.

CREDIT MANAGEMENT IN UNIVERSITY GRANTS COMISSION BHABAN BRANCH

5.13 CREDIT MANAGEMENT

Credit management is the process of accomplishing various tasks relating to deciding grant or not granting credit to others, determination of terms and conditions, proper documentation, frequent monitoring and reviewing the performance of borrowers and taking necessary steps to ensure smooth recovery of credit which ensure profit maximization of the bank. Loans or credits comprise the most important asset as well as the primary source of earning for the banking institutions. A prudent bank management should always try to make an appropriate balance between its return and risk involved with the loan portfolio.

Credit:

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

- Background, Character and ability of the borrowers
- Purpose of the facility,
- Term of facility,
- Safety,
- Security,
- Profitability,
- Source of repayment,
- Diversity.

5.14 PROCESS 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:

5.14.1 Policy guidelines:

- a. Lending guidelines
- b. Credit assessment and risk grading
- c. Approval authority
- d. Segregation of duties
- e. Internal control and compliance

a. 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.

b. Credit Assessment and Risk Grading:

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.

c. Approval Authority:

Approval authority may be as the following:

- Credit approval authority has been delegated to Branch Manager, Credit Committee by the MD/ Board
- Delegated approval authorities shall be reviewed annually by MD/ Board.

MD/ Board:

- Approvals must be evidenced in writing. Approval records must be kept on file with credit application
- The aggregate exposure to any borrower or borrowing group must be used to determine the approval authority required.
- Any credit proposal that does not comply with Lending Guidelines, regardless of amount, should be referred to Head Office for approval.

d. Segregation of Duties:

Banks should aim at segregating the following lending function:

- Credit approval/ risk management
- Relationship management/ marketing
- Credit administration

e. Internal Control and Compliance:

Banks must have a segregated internal audit/ control department charged with conducting audits of all branches.

5.14.2 Management structure and responsibilities

The following chart presents an example of credit management structure:

Fig. 5.5: Management structure



5.14.3. Program guidelines

a. **Approval process:** The following diagram illustrates an example of the approval process:

Fig. 5.6: Approval process



b. **Credit administration:** The credit administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of loan facilities.

c. Credit monitoring: To minimized credit losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of borrower.

d. Credit recovery: The recovery unit of branch should directly manage accounts with sustained deterioration (a risk rating of sub-standard or worse). The primary functions of recovery unit are:

- Determine account action plan/ recovery strategy
- Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.

5.15 CREDIT PROGRAM

General and Industrial Credit:

Janata Bank has formulated its policy to give priority to small and medium business while financing large scale enterprise through consortium of banks total loan and advance of the bank stood at BDT 307785.76 million as of December 31, 2015 as compared to BDT 301,461.88 million in 2014. Increase rate is 6% compared to 2014.

Following the guideline of Bangladesh Bank, credit facilities have been extended to productive and priority sectors. In extending credit facilities, the Bank has given due importance to sectoral needs and requirements of both public and private sectors. Major sectors include Jute, Textile Ind. & trade, Steel & Engineering, Food & Allied, and Export & Import etc.

Table no. 5.3 loan and advance

Year	Advance
2012	103293.9
2013	111748.7
2014	151461.9
2015 (up to oct' 2014)	177786

Source: Janata Bank Ltd. Annual Report

Rural Credit, Micro Ent. & SP. Program Financing:

Loan is provided to the rural people for agricultural production and other off-farm activities.

- Loan pricing system is customer friendly.
- Prime customers enjoy prime rate in lending and other services.
- Quick appreciation, appraisal, decision and disbursement are ensured.

Credit facilities are extended as per guide-lines of Bangladesh Bank (Central Bank of Bangladesh) and operational procedures of the Bank. The rates may, however, change from time to time depending on the level of competition in the financial sector.

As a nationalized Bank it has a social responsibility to improve the financial condition of the poor/unemployed people. With a view to perform that social responsibility, Bank has initiated rural credit program since 1974. Now under this rural portfolio there are 33 products.

Information related to important products under this program are shown below:

Table: 5.4 Different products under the program (Tk in million)

Sl. No.	Name of product	No of loanees	Outstanding Amount 2015 (upto Oct'14)	%
1	Cyber-café loan	66	14.6	.15
2	Credit for forestry/ horticulture nursery	954	29.7	.25
3	Credit program for employees	48312	1302.00	10
4	Women entrepreneurship	525	54.5	.50
5	Financing goat and sheep farming	24109	231.8	1.00
6	Gharoa project	2321	35.3	.40
7	Crop loan program	535075	7073.8	52
8	Doctor's loan	65	30.8	.35
9	Small business Dev. Loan	113	38.0	.35
10	Others	259335	4374.0	35
	Total	870875	13183.2	100

Source: Janata Bank Ltd. Annual Report

A vast majority of the Bangladeshis live in the rural areas and their main source of income is agriculture and agro-business. Janata Bank has opened branches in rural areas to cater to the banking needs of rural people. Apart from accepting deposits from the rich and moderately well-off villagers, Janata Bank encourages the poor people to make small savings through different mechanisms. So far lending in rural area is concerned, Janata Bank has been financing agricultural production and poverty alleviation programs since 1977.

It also lends to the poor landless so that they can make a living. The average loan size is about Taka 10,000.00 (around US\$ 200) and the number of borrowers under rural credit scheme is more than 500,000.

1. Short Term Crop Production Loan
2. Irrigation and Agricultural equipment
3. Fish/Shrimp Production
4. Horticulture Development
5. Agro-based Industry
6. Rural Transport
7. Weavers Credit
8. Agri-business Loan
9. Tea Production & Processing Loan
10. Different Micro Credit Programs

5.16 PERFORMANCE OF JANATA BANK:

Janata Bank is the second largest commercial bank in Bangladesh. The aim of the Bank is to actively participate in the socio-economic development of the nation by operating a commercially sound Banking system. It provides credit to deserving borrowers and at the same time, protects depositor's interest.

Deposits:

Janata Bank mobilized total deposit of BDT 351,035.89 million as of December 31,2015 as compared to BDT 338,596.62 million in 2014. Comparative interest rates deposit mobilization efforts of the bank and confidence reposed by the customer in the bank contributed to the notable growth in deposit. The bank evolved a number of attractive deposit schemes to care to the requirement of small and medium services. This improved not only the quantum of deposits, it also brought about qualitative change in the depositors structure.

Deposit and Deposit Mix:

Table no. 5.5 Break-up of Deposit and Deposit Mix

Type	As on 31-10-13 (Tk in million)	As on 31-12-12 (Tk in million)
Current and others account deposits	26194	22378
Bills payable	1248	1141
Savings Bank Deposit	53106	48354
Term Deposit	88349	79163
Total	168897	151036

Source: Janata Bank Ltd. Annual Report

Investment:

To earn profit, the Bank Prudently invests its fund to different sectors. The investment portfolio of the Bank is comprised of Treasury bill, other bonds, Debenture, Shares etc. The Bank earns a handsome profit from this investment portfolio. Year wise investment of the Bank is shown in the following table:

Table no. 5.6 Investment

Year	Investments (Tk in million)
2012	22821.8
2013	29718.6
2014	31821.8
2015	32375

Source: Janata Bank Ltd. Annual Report

Portfolio wise investment is described below:

Types	2015 (Upto Oct'14) (Tk In Million)	2014(Tk In Million)
1 Treasury bill	Tk 18350.0	Tk 16450.0
2. Other bonds	Tk 9993.7	Tk 11057.2
3. Debentures	Tk 636.2	Tk 68.3
4. Shares	Tk 188.1	Tk 185.5
Total	29168.0	28375.0

Import Business:

For the very beginning the Bank has embarked on extensive foreign exchange business with a view to facilitating international trade transactions of the country. The Bank has provided BDT 114919.7 million loan as of October 31, 2015. Import mainly confined to consumer goods, capital machineries and industrial raw materials.

Export Business:

The total export business handled by the bank amounted to BDT 104623.3 million as of October 31, 2015 as compared to BDT 82865 million in 2014. The bank has made significant contribution to readymade garments sector which contributed 75.60% of total export of the country in 2014-15. Other items include Shrimps, Tea and Non-traditional item.

Operating Revenue:

The operating revenue of the bank stood to the BDT 4312.9 million as of October 31, 2015 against BDT 3120.9 million in 2014. After necessary provision net profit stood at BDT 41.9 million as of December 31, 2014.

Table no. 5.7 Operating Profit

Year	Operating Profit (Tk. in million)
2012	2120.9
2013	2239.8
2014	2420.9
2015 (Oct'14)	2512.9

Source: Janata Bank Ltd. Annual Report

5.17 LOANS AND ADVANCES:

The main focus of Janata Bank Credit Line/Program is financing business, trade and industrial activities through an effective delivery system. Janata Bank offers credit to almost all sectors of commercial activities having productive purpose. The loan portfolio of the Bank encompasses a wide range of credit programs covering about 200 items. Credit is also offered to 15 (fifteen) thrust sectors, as earmarked by the govt., at a reduced interest rate to develop frontier industries. Credit facilities are offered to individuals, businessmen, small and big business houses, traders, manufactures, corporate bodies, etc.

Following the guidelines of Bangladesh Bank, credit facilities have been extended to productive and priority sectors. The outstanding advance of the bank is Tk 424467.3 million on October 31, 2015. In credit facilities, the Bank has given due importance to sectoral needs and requirements of both public and private sector.

Table no. 5.8 Sector wise Advances
(Taka in million)

Sl	Name of sector	Public	Private	Toatal	%
1	Jute sector	5872.0	3801.8	9673.8	7
2	Textile Ind. & trade	975.5	4181.0	1156.5	4
3	Steel & Engineering	854.5	397.5	1252.0	1
4	Food & allied	103.0	1164.2	1267.2	1
5	Export credit	-	11256.0	11256.0	9
6	Import credit	18433.7	10870.9	29304.6	22
7	Industrial credit	-	14372.4	14372.4	12
8	Rural, ME & SP Financing	115.0	9663.6	9778.6	8
9	Housing	15.0	7999.2	8014.2	6
10	Others	3577.4	36284.6	39862.0	30
	Total	29945.2	99991.2	125937.3	100

Source: Janata Bank Ltd. Annual Report

5.18 FUND INVESTED BY JANATA BANK LTD

The principal function of a bank is to lend. Lending is a dynamic activity. It is through the medium of lending the banking industry promotes economic activity, instills and encourages, at the individual level, the principal of self-reliance, and yield earnings for the bank.

It is lending alone that brings banking into a more meaningful and purposeful contract with public and, therefore, has the greatest impact upon them. Proper utilization of fund is an essential pre-requisite of successful bank management. The procurements of funds supported by an efficient deployment of that procured fund lead a bank to the highest point of profitability.

5.18.1 ECONOMIC SECTOR WISE DISTRIBUTION OF FUND

Janata Bank is engaged in extending long, medium and short term loans to various economic sectors in the country. As Janata Bank extends its credit programs all over the economy such as agricultural credit program, industrial credit program and commercial financing, the bank tries to achieve significant profit from its operations and also to improve the economic conditions of the general public of the country.

Table no.5.9 Economic sector wise distribution of loans and advances during 2009-2015

Economic sector	2009	2010	2011	2012	2013	2014	2015 (Oct' 14)
Jute industries	718.52	719.41	747.87	778.28	870.36	837.10	855.90
Jute trade	23.69	19.18	16.30	1.32	12.36	12.50	11.50
Tannery	419.38	509.03	423.96	444.65	439.60	361.60	376.50
Textile	349.01	367.51	372.76	369.95	351.66	360.10	495.60
Transport	32.27	29.17	30.27	24.54	24.04	36.00	5.20
Steel & engineering	474.72	212.98	231.01	208.58	265.70	99.80	105.20
Tea	15.90	14.00	14.02	13.99	12.16	12.20	12.50
Sugar mills	88.46	80.01	97.17	99.50	113.24	138.20	116.40
House building	379.34	428.82	522.59	584.09	659.82	736.40	801.40
Rural credit	556.28	602.81	667.28	778.50	658.12	831.30	917.20
Bricks	45.02	41.52	79.64	88.20	90.95	85.90	86.50
Cold storage	5.03	8.45	10.38	9.54	12.32	8.60	15.70
Food	74.28	80.07	160.15	216.20	124.28	116.70	124.70
Export credit	751.30	856.38	1016.50	1019.20	1220.78	1295.00	1125.60
Import credit	634.76	964.98	1273.06	1154.98	1507.85	1614.40	2730.50
Industrial credit	782.62	894.72	1099.82	1146.35	1403.78	1381.90	1437.20
Others	1990.42	2266.15	2566.61	3036.99	2379.17	2850.90	3229.10
Total	7341.00	8095.29	9329.39	9974.87	10146.19	10778.50	12446.70

Source: Janata Bank Ltd. Annual Report

5.18.2 NATURE WISE DISTRIBUTION OF LOANS AND ADVANCES

Sanctioning advances to customers and others is one of the principal services of a modern bank. Advances by the commercial banks are made in different forms:

- Loans
- Overdrafts
- CC
- LIM
- LTR
- Bills purchase and discounted

Janata Bank sanctions loans under the above mentioned category. It usually grants short term advances which are utilized to meet the working capital requirements of the borrower.

Only a small portion of the bank's demand and time liability are advanced on long term basis where the banker usually insists on a regular repayment by the borrower in installments. While lending fund, a banker, therefore, follows a very cautious policy and conduct his business on the basis of well-known principles of sound lending in order to minimize the risk.

5.18.3 MATURITY GROUPING OF DISTRIBUTION LOANS AND ADVANCES

At the very beginning of taking decision for giving credit, Janata Bank mainly concentrates mainly on liquidity. As it is doing business by public deposits, it is bound to pay the money when people want. A sizable portion of bank advances are, therefore, granted to meet the working capital requirements of the borrower rather than to meet the fixed capital requirement, i.e., construction of building or purchase of fixed deposits. A banker would be failing in his duty to safeguard the interest of his depositors and shareholders if his credit policy does not provide a method of gradual repayment and final recovery of the money advanced.

For liquidity reasons, Janata Bank is giving credit on short period basis and against security. Short term loans ensure liquidity to a greater extent than long term loan. We can classify the bank loans and advances under the following maturity stage:

- Payable on demand
- Payable within 3 months
- Payable within 3 months to 12 months
- Payable within 1 year to 5 years
- Payable in more than 5 years

5.19 SECURITIES IN CREDIT MANAGEMENT

One of the most important functions of a bank is to employ its fund by way of loans and advances to its customers and a bank's strength depends considerably on the quality of its loans and advances.

In order times, when the bankers knew the customers personally and intimately and had complete confidence in the integrity and honesty of a customer, they used to allow loans and advances without a security. The position is quite different today. Banks having a large number of officers over a wide area cannot allow loans and advances without retention of security in one form or the other. Though the banks are now expected to lay greater emphasis on the purpose for which the borrower needs rather than security he can afford to give, security continues to be one of the most important factors which determines to a significant extent the banker's willingness to lend money. Security is obtained as a line of last defense to fall back upon. It is meant to be an insurance against emergency. But taking security, bank acquires a claim upon the assets of the borrower if repayment is not made as planned. But what should be the significant securities of loans depends in the guidelines prescribed by the Bangladesh Bank through BCD circular no. 17/1977 and also the negotiation of the respective branch to its borrowers.

The most significant categories of security lodged are as:

- Goods and commodities
- FDR
- Real estate
- Stock exchange securities
- Life insurance policies
- Gold and gold ornaments
- Documents of title of goods
- Book debts
- Supply bills

Janata Bank keeps sufficient security before final sanctioning of loans and advances.

5.20 LOAN DISBURSEMENT PROCEDURE

5.20.1 Getting Credit Information

Janata Bank Ltd. collects credit information about the applicant to determine the credit worthiness of the borrower. The bank collects the information about the borrower from the following sources:

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

5.20.2 Information Collection

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

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

5.20.3 Analyzing These Information

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

If these two analyses reflect favorable condition and document submitted for the loan appeared to be satisfactory, then bank goes for further action.

5.20.4 Lending Risk Analysis (LRA)

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

Lending Risk Analysis (LRA)

a) Industry Risk:

- i. Supply Risk- What is the risk of failure to disruption in the supply of input?
- ii. Sales Risk- What is the risk of failure due to disruption sales?

b) Company Risk:

1. Company Position Risk:

- i. Performance Risk- What is the risk if the company position is so weak that it can not perform well enough to repay the loan, given expected external condition?
- ii. Resilience Risk- What is the risk of failure due to lack of resilience to unexpected external condition?

2. Management Risk:

- i. Management Competence Risk- What is the risk of failure due to lack of management competence?
- ii. Management Integrity Risk- What is the risk of failure due to lack of Management Integrity?

c) Security Risk:

- i. Security Control Risk- What is the risk that the bank fail to realize the security?
- ii. Security Cover Risk- What is the risk that realized security value is less than the exposure?

5.21 PROPOSAL ANALYSIS

The Project Proposal is analyzed and decision about the project is taken. The loans and advance department is responsible for the analysis. After preliminary appraisal of the loan project the final approval is obtain from the manager. If the loan amount crosses a certain amount (no found), managers send the loan project to the principal office for final approval. The experts in principal office find out different projected ratios and developed and understanding about the potentiality of the project. Bank evaluates a loan proposal by considering few predetermined variables. These are:

- Safety
- Liquidity
- Profitability
- Security
- Purpose of the loans
- Sources of repayment
- Diversification of risk etc.

The most important measure of appraising a loan proposal is safety of proposal. Safety is measured by the security offered by the borrower and repaying capacity of the borrower. The attitude of the borrower is also important consideration. Liquidity means the inflow of cash into the project in course of its operation. The profit is the blood of any commercial institution. Before approval of any loan project the bank authority has to ensure that the proposed project will be profitable venture. Profitability is assessed from the projected Profit and Loss Statement. The security is the only tangible asset remains with the banker. Securing of collateral is the only weapon to recover the loan amount. So bank has to see that the collateral is easy to sale and sufficient to recover the loan amount. Bank can not sanction loan by only depending on collateral. The sources of the payment of the project should be a feasible one. During sanctioning any loan Bank has to be attentive about diversification of risk.

All money must not be disbursed amongst a small number of people. In addition any project must be established for the national interest growth.

5.22 COLLATERAL EVALUATION:

Janata Bank is very cautious about valuation of the collateral. The bank officials simultaneously evaluate the collateral of the party offered by the private firm. The valuation of the collateral increases the accuracy of its value estimated. Three types of value of the collateral are assumed:

- Current market price
- Distressed price
- Price after five years

The legal officers of the bank check the document ascertain their impurity.

5.23 FINAL DECISION ABOUT THE PROJECT

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

5.24 PROPER SUPERVISION OF THE PROJECT

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

5.25 DOCUMENTATION OF THE LOAN

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

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

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

5.26 CREATION OF CHARGES FOR SECURING LOAN

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

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

Securities are of two types:

- a) **Primary Security**-Security deposited by the borrower himself to cover the loan such as FDR, cash, PSS, PSP, easily cashable items.
- b) **Collateral Security**-Any type of security on which the creditor has personal right of action on the debtor in respect of advance.

5.27 PROGRAMS FOR LOAN RECOVERY

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

5.27.1 RECOVERY PROGRAMS TO BE TAKEN BY JANATA BANK LTD.

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

5.27.2 RECOVERY PATTERNS AND LOAN AND ADVANCES

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

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

Table no. 5.10 Recovery performance of Janata Bank
(Tk in crore)

Particulars	Phase-1					Phase-2				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 (Oct'14)
Total disbursement	1821	2310	2468	3145	3214	3546	3632	5476	5925	6542
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: Janata Bank Ltd. Annual Report

5.27.3 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:

1. Changing in the management pattern: Changing of management patterns may delay the recover of mature loan.

2. 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.

3.Operation of open market economy: In our country mainly industries become sick and also close their business on account of emerging of open market economy. The cost of production is high and the quality of goods is not of required of standard. As a result, they become the losing concerns and the amount of bad loan increases.

4.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:

- 1. External pressure:** Janata Bank has also faced many problems in the loan recovery process as a part of continuous pressure from various interested groups.
- 2. Loan to government organization:** Janata Bank is bound to sanction loan to government organization, though these are losing concern. For this reason, banks faced problems in loan recovery.
- 3. Legal problems:** Existing rules and regulations are insufficient to cover the legal aspects of loan recovery. As a result, defaulters can get release easily from all charges against them.
- 4. Frequent changes in government policies in regard to recovery of loan.**

C. Problems created by the bank:

The following problems are created by the banks:

- 1. Lack of analysis of business risk:** Before lending, Janata Bank 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.
- 2. 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.

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

- Loans are given under fictitious names and enterprise
- Loans are given without sufficient securities
- Approval of the loans in excess of the branch manager's power
- Improper monitoring and supervision of credit
- Political misuse if loan programs operated by the public sector banks

- Lack of timely action against wilful defaulter
- Loans are sometimes for economically unsound project.

Problems in loan recovery are the outcome of the default on loans disbursements in the earlier period.

5.28. CLASSIFIED LOANS AND BANK'S PERFORMANCE

Banks are financial service firm, producing and selling professional management of the public's funds as well as performing many other roles in the economy. But now- a-days commercial banks are not performing their activities smoothly for a large burden of default loan. Every year Janata Bank distributes thousand crore taka among individuals, organizations etc. but a large sum of these distributed fund cannot be recovered in due time. The Bank has to classify this loan. In this chapter I would like to concentrate on classification procedure, provision making for particular classification, performance of the bank regarding classified loan and recovery of such classified loan.

5.28.1 Signs For Classification

First and foremost requirement for any and all credit managers is to identify a problem credit in its earlier stages by recognizing the signs of deterioration. Such signs include but not limited to the following:

- Non payment of interest or principal or both on due dates or past dues beyond a reasonable period or recurring past dues.
- In case of Overdraft no movement in the account beyond a reasonable period.
- Deterioration in financial condition of the client, as gathered from client's latest financial statement.
- A shortfall in collateral coverage, particularly if the collateral was a key factor in the decision-making.
- Death or withdraw of key-owners or management personnel.
- Company filing for bankruptcy or voluntary dissolution.
- Adverse market report about the company itself or its principal owners.

5.28.2 Loan Classification-Guidelines From Bangladesh Bank

Classification of overdue loans and advances opened a new era in the credit management of commercial banks in Bangladesh. Before 1989 no specific guidelines were followed by the commercial banks for this purpose. In 1989, Bangladesh Bank issued BCD circular No.34/1989 stating specific rules and conditions of loan classification.

After that each schedule banks except BKB, RAKUB, and BSB would be responsible for its own loan classification according to the guidelines are presented in the following table:

Table no. 5.11 Loan Classification System

Length of overdue	Status of classification	Rate of provision
All loans except Agricultural loans:		Annual provision
Less than 1 year	Unclassified	1%
Loans overdue for 1 year but less than 3 years	Substandard	10%
Loans overdue for 3 years but less than 5 years	Doubtful	50%
Loans overdue for 5 years or more	Bad/loss	100%
For agricultural loan: Loans not overdue for 5 years or more	Classified, substandard, doubtful	5%
Loans overdue for 5 years or more	Bad/ loss	100%

*Source: BCD Circular no. 1989

According to this circular loans and advances were classified on a loan by loan basis rather sample classification. This process was continued till 1994. Bangladesh Bank further issued a circular in 1995 (BCD circular#20/1994). The title of the circular was “Revised rules of classification and provisioning of loans and advances,” which came into implementation from January 1, 1995.

Table no. 5.12 schedule of loan classification and provision program

a. types of classification	1st stage	2nd stage	3rd stage	4th stage	5th stage
	Period overdue	Period overdue	Period overdue	Period overdue	Period overdue
Unclassified	Less than 18 months	Less than 12 months	Less than 19 months	Less than 6 months	Less than 3 months
Substandard	18 months or more but less than 36 months	12 months or more but less than 24 months	9 months or more but less than 24 months	6 months or more but less than 12 months	3 months or more but less than 6 months
Doubtful	36 months or more but less than 48 months	24 months or more but less than 36 months	12 months or more but less than 24 months	9 months or more but less than 12 months	3 months or more but less than 6 months
Bad	More than 48 months	36 months or more	36 months or more	24 months or more	12 months or more
b. rates of provision					
Unclassified	1%	1%	1%	1%	1%
Substandard	10%	10%	15%	15%	20%
Doubtful	50%	50%	50%	50%	50%
Bad	100%	100%	100%	100%	100%
c. period of classification	Annual basis	Half yearly basis	Half yearly basis	Quarterly basis	Quarterly basis

*Source: BCD circular no. 20 of 27/12/1994

For loan classification Bangladesh Bank also issues circular time to time after 27/12/1994 like BPRD circular no 16,9,2,9 and 17 of 6/12/1998, 14/5/2001, 15/3/2005, 25/8/2005, and 6/12/2005 respectively. Some of these are as follows:

Table no. 5.13 status, type and definition of classification

Status	loan type	Definition of status
Unclassified	all current loan	all current loans with required eligible security
<p>Sub standard (SS)</p> <p>When degree of risk for non-payable is high but there is reasonable respect that the loan condition can be improved</p>	<p>Continuous/demand/ term loan (less than 5 years)</p> <p>more than 5 years</p> <p>short term agri. credit and micro credit</p>	<p>overdue is more than 3 months but less than 6 months if default amount of installment is equal to installment payable in 6 months</p> <p>If default amount of installment is equal to installments payable in 12 months.</p> <p>overdue is more than 12 months but less than 36 months</p>
<p>Doubtful (DF)</p> <p>When chance of recovery is uncertain</p>	<p>Continuous and demand</p> <p>Term loan less than 5 years</p> <p>More than 5 years</p> <p>Short term agri. credit and micro credit</p>	<p>overdue is more than 6 months but less than 9 months</p> <p>If default amount of installment is equal to installments payable in 12 months.</p> <p>If default amount of installment is equal to installments payable in 12 to 18 months.</p> <p>Overdue is more than 36 months but less than 60 months.</p>

Bad/ loss (BL) No security held, borrower not traceable, time barred loans, no hope of recovery	Continuous and demand	overdue is more than 12 months
	Term loan (up to 5 years)	If default amount of installment is equal to installment payable in 18 months.
	more than 5 years	If default amount of installment is equal to installment payable in 24 months.
	Short term agri. credit and micro credit	overdue is more than 60 months

Source: Bangladesh Bank, BRPD Circular No. 16 of 1998*

Table no. 5.14 loan classification system, 2007

Length of overdue	Status of classification	Rate of provision
Less than 6 months	Unclassified	1%
Loans overdue for 6 months but less than 9 months	Sub standard (SS)	20%
Loans overdue for 9 months but less than 12 months	Doubtful (DF)	50%
Loans overdue for 12 months or more	Bad/ loss	100%

*Source: Bangladesh Bank, BRPD Circular No. 9 of 2001

Table no. 5.15 loan classification system (international standard)

Length of overdue	Status of classification	Rate of provision
Less than 3 months	Unclassified	1%-5%
Loans overdue for 3 months but less than 6 months	Sub standard (SS)	10%-25%
Loans overdue for 6 months but less than 9 months	Doubtful (DF)	50%-75%
Loans overdue for 9 months or more	Bad/ loss	100%

*Source: Studies in Bangladesh Banking, BIBM, 2000

5.29 PERFORMANCE OF JANATA BANK LTD.

From my study it is found that during first phase (2006-2010) total loan of Janata Bank was TK 61285 crore of which classified loan was TK 9055 crore. That is, 18.71% of total credit is classified. During second phase (2011-2015), total loan of the bank was TK 102676 crore of which classified loan was TK 18163 crore. That is 28.09% of total credit is classified

Table no. 5.16 Classified loan of Janata Bank

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 (Oct'14)
Total	4875	5295	5733	7341	8095	9329	9975	10146	10779	12447
Unclassified	N/A	N/A	3440	4529	5145	6497	7031	7881	8981	11023
Loan			(60)	(62)	(64)	(70)	(70)	(78)	(83)	(89)
Classified	N/A	N/A	2293	2812	2950	2832	2944	2265	1798	2324
Loan			(40)	(38)	(29)	(30)	(30)	(22)	(17)	(11)

Source: annual report of Janata Bank 2011, 2012, 2013, 2014

5.29.1 IMPACT OF PROVISION FOR LOAN ON BANK'S PROFIT

Provisioning by the bank has not been isolated action, but represents one component in an ongoing set of negotiations and relationships between borrowers and the banks, while the borrowers wish to minimize their servicing obligations without damaging their prospect of future market access, the lending bank wish to maximize their receipts. Such maximization may involve agreeing to terms which are not so stringent as to encourage borrowers to opt for all out default. Bangladesh Bank provides specific guidelines for loan provisioning and bases for calculating such provisions. Provisions for unclassified as well as classified loan are as follows:

Table 5.17 Rates loan provision

Unclassified loan	Provision	Classified	Provision
Small enterprise financing	2%	Substandard	20%
Consumer financing	2%	Doubtful	560%
Except SEF, CF and SMA	1%	Bad or loss	1000%
Special account	Mention 5%		

Source: Bangladesh Bank BCD & BPRD circulars

Bank and financial sector may be termed as the vital complementary power of the economy. But the uncertainty in respect to effectiveness of this sector in the economy continuously increases over time. Now a days it open secret that JB is under direct control of the Finance Ministry. Credit management of Janata Bank was so meaningless and corrupted as it is now assumed that more than Tk 30000 crore have become unrealizable within the last 10 years.

5.29.2 CREDIT RATING OF JANATA BANK LTD.

Bangladesh Bank has made mandatory from January 2007 for all banks to have themselves credit rated by a credit rated agency vide BRPD Circular no. 6 of July 2006 for all banks. The first rating by an external independent rating agency will have to be completed by June 2007. Accordingly Janata Bank has appointed Credit Rating Agency of Bangladesh (CRAB) to conduct Credit Rating of the bank which completed invariably by 30th June 2007. With this end and view a memorandum of understanding has been signed in between Janata Bank and CRAB on 14th May 2007.

5.29.3 CREDIT RATING

Credit Rating of Banks provides opinion on the types of risks associated with the relative ability of a bank for timely servicing its debts and other obligations. The rating exercise is done through a quantitative cum qualitative approach following a structured methodology.

5.29.4 FACTORS OF CREDIT RATING

The major factors considered in rating analysis are as follows:

A. Quantitative Factors:

- Capital adequacy
- Assets Quality
- Funding & Leverage
- Liquidity Requirements
- Earning Quality
- Market Sensitivity

B. Qualitative Factors

- Ownership
- Management Quality
- Risk Management
- Compliance with the Statutory
- Accounting Quality
- Size & Market Pressure
- Govt. Support etc.

CHAPTER SIX

FINDINGS AND RECOMMENDATIONS AND CONCLUSIONS

6.1 FINDINGS

Every bank has its own credit procedure. As the objective of my study is to make a comment on the credit management of Janata Bank Ltd. in University Grants Commission Bhaban Branch, I try my best to collect data for the study and find out the reality. Based on the data generated during my study period I will sum up my findings here and I think this will help me to achieve my objectives.

1. Accounts section

Opening account in Janata Bank Ltd. in University Grants Commission Bhaban Branch has to follow a specific rules and regulations. But in most cases it takes more time and sometimes assumptions was used rather than exact figure.

2. Credit management system

Though bank required both quantitative and qualitative analysis but for big loans bank emphasizes on the lending risk analysis (LRA). But LRA is not a perfect measure of credit analysis.

3. Recovery performance

The recovery performance of Janata Bank is not in a satisfactory level at all and the position of those in that respect deteriorated heavily during last two phases. Day by day the numbers of defaulters are increasing.

4. Securities of loan

Janata Bank Ltd distributes loans without sufficient security in some cases. This is violation of the Bangladesh bank order. In many cases bank face this problem because bank's credit officer fails to value collateral property.

5. Employee selection

In most of the cases of credit system the employees are a not capable of performing accurate manner. For this reason loan disbursement was failed and loan recovery cannot be maintained perfectly.

6. Role of government

There are different types of problem faced by the bank for loan recovery. As a result rate of loan defaulters are increasing day by day. Different outsiders create pressure to take loan from the bank. In this sector the government plays less significant role to recover the problem.

6.2 SWOT Analysis

Each and every organization should be aware of their strengths, weaknesses, opportunities and threats. This analysis is known as SWOT analysis. The central purpose of SWOT analysis is to identify strategies that fit or match a company's resources and capabilities according to the demand of environment in which company operates. So the strategic alternatives generated by a SWOT analysis should be built on company's strengths in order to exploit opportunities and counter threats and to correct weaknesses.

SWOT analysis explains environment of an organization in two broad ways. They are:

- a) Internal Environment Analysis: It includes strengths and weaknesses.
- b) External Environment Analysis: It includes opportunities and threats.

6.3 SWOT analysis – Janata Bank Ltd.

During my internship period in Janata Bank I have found some aspects relating to the Bank's strengths, opportunities, weaknesses and threats, which I think, affect the bank's performance. These are given below:

Strengths

- As a large bank, it has qualified and experienced manpower.
- Branch location is suitable for business.
- Bank has requisite wealth to sustain in the various challenges of market economy
- Being a nationalized banking organization, it always gets government support in all of its operations.

Weakness

- As many employees retired from the bank, there is a crisis for manpower in the bank.
- Low salary structure for the employees.
- In some cases management-employee relation is not good.

Opportunities

- Expansion of new investment areas.
- Scope for automation will open a big door of opportunity.
- In case of fund crisis Janata Bank gets government support.

Threats

- Newly developed privatized and foreign banks.
- Facing a great competition with other commercial banks and financial institutions.
- Loan recovery systems are very weak.
- Policies are not practiced properly ranking bank of the country are their cherished vision

6.4 RECOMMENDATIONS

I have discussed so far about the different aspects of credit management of Janata Bank Ltd. in University Grants Commission Bhaban Branch. Janata Bank plays an important role in the banking sector as well as in our economy. The success of a bank depends largely on the efficient credit management. A successful credit management is not only need for a bank's own performance but also it is needed for the smooth development of an economy. Since this an exploratory research, hence the recommendation given are not decisions rather they are only suggestions to improve the default rate.

1. Improved information system

For developing a reliable account system for the commercial banks specially Janata Bank Ltd, it should require to introduce as improved information system within bank as well as among the borrowers. By this time limitation problems may be solved and reliable data of the borrowers may be collected. The borrowers may easily know exactly where they are going, what their opportunities and how fast they can move.

2. Improve of credit management system

Improvement of credit management depends on the development of relevant, adequate, proper and reliable data base at the public sector banks as well as private sector banks in Bangladesh.

3. Improvement of Recovery performance

Publishing the names of defaulter as well as good and regular payers in various dailies and granting various sorts of facilities to good borrowers will create a moral persuasion on the borrowers. This may decrease the number of defaulters and the volume of large outstanding loan amounts as well.

4. Securities required for loan

The security must be valued properly by the independent values and constantly watched so that the value of mortgage property becomes sufficient to recover the default loan.

5. Reduction of weakness

More and more competent personnel must be recruited to reduce the weakness of credit management. Competent executives will ensure the reduction of wrong appraisal and evaluation of loan recovery.

6. The role of government

Pressure from outsider and influence extorted by borrowers are also a great impediment in the smooth functioning of loan recovery process. The role of government in this case is the most important factor required to solve these sorts of problem. Government must not show any kind of mercy to the defaulters in any way which may encourage the default culture. This type of action may discourse the borrowers to become willful defaulters.

6.5 CONCLUSIONS

It goes without saying that credit policy cannot be isolated from the broader monetary 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 in University Grants Commission Bhaban Branch must closely follow the progress of the loan and the way the borrower is utilizing the funds. In this way the Janata Bank Limited in University Grants Commission Bhaban Branch will deter any fake activities on the part of the borrower Credit evaluation system of Janata Bank Limited .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 in University Grants Commission Bhaban Branch 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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