**Credit Risk Management of Commercial Banks- A case on Bangladesh Development Bank Limited**



**United International University**

**Internship Report on**

Credit Risk Management of Commercial Banks- a case on Bangladesh Development Bank Limited (BDBL)

**Submitted to:**

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**Date of Submission:**

**Declaration**

I undersigned, hereby declare that the piece of work has been prepared by me under the guidance of Professor Mohammad Musa as a requirement for the accomplishment of BBA program under School of Business and Economics in United International University, Dhaka, Bangladesh.

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Md. Sohel Hossain

November, 2018

Professor Mohammad Musa

School of Business and Economics

United International University

**Subject:** Submission of Internship Report on “Credit Risk Management of Commercial Banks- a case on Bangladesh Development Bank Limited (BDBL)”.

Dear Sir,

As a part of fulfillment of requirements for the internship program of Bachelor of Business Administration (BBA) degree at United international University, I have completed the report on Credit Risk Management of Commercial Banks- a case on Bangladesh Development Bank Limited (BDBL) according to your prescribed requirements.

I am especially thankful to you for giving me such a topic that enabled me to know many aspects of Commercial Banking Sector of Bangladesh. I hope that you will find this paper worth of my labor.

Sincerely

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Md. Sohel Hossain

Student ID: 111 132 098

School of Business and Economics

United International University

**Acknowledgement**

I know that practical knowledge in subject matter is essential to sub assistant the theoretical knowledge gathered in the educational institutions. In order to gather knowledge and practical use of framework, I have made a report on “Credit Risk Management of Commercial Banks; a case on BDBL. I express my heartiest gratefulness to honorable faculty and report supervisor Professor Mohammad Musa for his continues help, support, valuable advises and for proper guidance, without which my work would have never been completed.

**Executive Summary**

Bangladesh Development Bank Limited is a fully state owned commercial bank in Bangladesh. This is one of the leading public commercial banks which is established under the banking company’s ACT 1991, the bank began its operation on 3rd January, 2010 with a primary objective of offering all types of commercial banking services mostly emphasizing on promoting small and medium entrepreneurs and industrial development all over the country. This report is the fulfillment of the requirement for the evaluation process of the internship program. The main purpose of the report is to have an overall idea about function and process of credit risk management, analyzing tools and techniques used to evaluate credit proposal, analyzing steps taken to recover bank’s bad portfolio mostly of BDBL and other five commercial banks. Lending is one of the main function of the bank. The objective of Credit Risk Management (CRM) of BDBL and other five commercial bank is to minimize the risk and maximize bank’s risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. The CRM department is responsible for upholding the integrity of the bank’s risk/return profile. CRM department of BDBL conducted their functions by six wings. Wholesale Credit, Retail Underwriting and SME underwriting- these three wings of credit risk management assess and approve the loan for the respective customers. Central Collection Unit collects the credit. Special Asset Management wings help the bank to recover bank’s bad portfolio. For credit approval, the bank has a team who approve the credit. Different tools and techniques are being used to evaluate a credit proposal. Retail Credit, Card Credit, Authorization and Fraud Control, Central Verification Unit (CVU) are related with retail underwriting. Credit Collection Unit of BDBL collects credit based on the level of delinquencies of credit. Special Asset Management wings help the bank to recover bad portfolio by taking different types of steps. To understand the performance of present credit risk management process, the year by year ratio of loans which are grouped on basis of classification rules in the total loan and advances has analyzed. From the performance analysis, it is found that the collection of standard loan of BDBL from year 2012 to 2016 is not so good. Among the other five banks, private commercial banks have the higher collection of standard loan. The reason behind the lower standard loan of BDBL can be many like- fallen of national economy, fallen of world economy etc. As the standard loan decreased in these years, the balance of Special Mention Account (SMA), Sub Standard, Doubtful and Bad/Loss loan increased these years. If we see the previous performance of BDBL of credit collection, which is mostly commendable. Now BDBL is taking the most effective initiatives especially for the Credit Risk Management. In 2015, the bank has taken different steps for reducing Bad/Loss accounts such as establishment of regional CRM Centers, introduction of a new wing called Asset management and Credit inspection and so on.

As a state-owned commercial bank, Bangladesh Development Bank Limited is successfully operating Credit Risk Management. The bank should more improve the CRM sector as well as other sectors which will help take the bank to become the leader of banking sector.

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**Chapter: 01**

**Introduction**

1.1 **Background of the study:**

Risk is one of the major factors that exist in all type of commercial operations. For Banks and Financial Institutions (FIs), risk is generally known as credit risk. Credit risk means the probability that a borrower or counter party will fail to meet its obligations in comply with agreed terms. Credit risk arises when banks lend to the corporate, individuals, and other banks or financial institutions. Credit risk management needs to be a strong process that helps banks to reduce losses and earn a respectable level of return for stakeholders. It is important for banks having strong credit risk management policies that are perceptive and sensible to these changes. Bangladesh Bank provides guidelines about credit risk management function and it gives important on Policy guidelines and Organizational structure. Globally, more than 50% of total risk elements in Banks and Financial Institutions (FIs) are credit risk alone. Thus managing credit risk for efficient management of a Financial Institution (FI) has gradually become the most crucial task. Credit risk management encompasses identification, measurement, matching mitigations, monitoring and control of the credit risk exposures. As a leading Bank of Bangladesh, Bangladesh Development Bank Limited (BDBL) has a fully functioning department to perform the crucial task of Credit Risk Management (CRM). The performance of BDBL in this credit risk management sector will be evaluated through the comparison with different commercial banks in Bangladesh.

1.2 **Statement of the problem:**

The profit of commercial banks depends on utilization of their funds and making of loans and advances profitable to the bank. As the bank mobilizes saving of general public in the form of deposits, the most important task of bank is to disburse the said deposits as loans or advances to the mass people for the development of commercial, industrial, who are in need of funds or investment. A bulk of problem loan has brought a gloomy situation in the cost of fund. Loan default culture has started in Bangladesh mainly after the nationalization of banks. However, it was enhanced by the availability of huge amount of credits in the name of developing private and industrial sectors. Industry set-up was shown as sick industry to get additional loan and relieve from interest. Several studies conducted on the tools used to evaluate credit risk in commercial banks. In Bangladesh very few studies have been undertaken about the tools available to evaluate credit risk.

Lending is the primary business of a bank and profit is a measure of its success. Therefore, the main objective of lending is to earn profit on loans for the ongoing viability of a bank. Clients apply for loans for various purposes. The number of borrowing is increasing day by day simultaneously default rate is also increasing. So credit risk analysis is important for banks to reduce non-performing loans/credits and to prosper in the banking sector. We know that Credits comprise the most important asset as well as the primary source of earning for the banking institutions. On the other hand, Credit is also the major source of risk for the bank management. So a prudent bank management should always try to make an appropriate balance between its return and risk involved in the loan portfolio. Credit appraisal process is the tool which helps the bank to predict the risk and return on the proposed project for credit disbursement.

**1.3 Objective of the study:**

* To give an overview of different commercial banks about Credit Risk Management (CRM).
* To give an overview of BDBL, with special reference of CRM.
* To know how well BDBL is performing in terms of Credit Management by comparing with other commercial banks.
* To analyze the existing Credit Risk Management practice of BDBL, especially Principle Branch & Elephant Road Branch.
* To express the effects of CRM practice on Credit performance of the Branch.

**1.4 Importance of the study:**

Bangladesh is one of the developing country in the world. The economy of the country has a lot left to be desired and there are lots of scope for massive improvement. In an economy like this, banking sector can plays a vital role to improve the overall socio-economic condition of the country. The banks by playing the role of an intermediary can mobilize the excess fund of surplus sector to provide necessary finance to those sectors which are needed to promote for the sound development of the country. As the banks provide finance or lending to its counter parts, there arises a risk of credit risk, which is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Even at present, this problem is haunting many banks and poses a major threat towards their sound performing. So it’s very important to have an efficient and sound credit risk management system in place which will help the bank mitigate its risk factors and carry out successful financing service.

**1.5 Limitations:**

On the way of preparing this report, I have faced following problems that may be termed as the limitation of the study. The problems are as follows-

* Banks’s policy of not disclosing some sensitive data and information obvious reason posed an obstacle to prepare more informative report.
* Personal limitations like inability to understand some official terms, office decorum etc. created few problems.

**1.6 Methodology of the study:**

The entire study was based on secondary sources of information the details of which are given in a structured form:

|  |  |  |
| --- | --- | --- |
| Serial no. | Sources | Nature of Data |
| 1. | Annual Report (2016)Annual Report (2012-2016) | Organizational OverviewFinancial Performance of Loans |
| 2. | Website of BDBL(www.bdbl.com.bd) | Mission, Vision and some Findings |
| 3. | Test Materials of CRM * Credit Contribution and Performance of BDBL
 | Performance of CRM of BDBL on the basis of amount of unclassified loans and non-performing loans. |
| 4. | Bangladesh Bank Guidelines of CRMRating Report | Credit Risk ManagementCRAB rating |

**Chapter: 02**

**Overview of the Bank (BDBL)**

**2.1 Historical Background of BDBL:**

Bangladesh Development Bank Limited (BDBL) is fully state owned commercial bank of Bangladesh. Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Shangsta were established at 3rd January, 1972 under the president order no. 129.

BDBL has started its journey in 3rd January, 2010 through the merger of the Bangladesh Shilpa Bank (BSB) and the Bangladesh Shilpa Rin Shangsta (BSRS), two public sectors specialized development bank. The BSB and BSRS were merged into Bangladesh Development Bank Limited (BDBL) at 16th November, 2009 and comes effective at 3rd January, 2010.

BDBL provides financial and technical assistances to broaden the public sector as well as private sector industrial based of the company. The Bank give priority to the promotion of agro based industry, export oriented industrial unit, joint venture, and commercialization of the local industry etc. Now the Bank has 24 branches which are running their operation smoothly. To operate across the whole country by setting up branches at district is their objective.

**2.2 Merger of BSB and BSRS:**

The merger of BSB & BSRS and transforming the government owned proposed public limited company name Bangladesh Development Bank Limited has been approved in the meeting of advisor committee and passed in the first season of the 9th national assembly held on 24th February, 2009 as Bangladesh Shilpa Bankbill, 2009. Tow vendor agreement were signed between the government of People ’s Republic of Bangladesh and BDBL 31st December, 2009 to acquire and take over all their (BSB&BSRS) assets, benefits, power, rights, authorities, obligations, borrowing and obligations and to carry on the same business.

**2.3 Ownership of the Bank:**

Bangladesh Development Bank Limited (BDBL) is fully state owned commercial bank of Bangladesh. In addition commercial banking, BDBL provides financial and technical assistances to broaden the private as well as public sector industrial base of the country. It prioritizes especially export oriented/ export linkage industrial units, efficient import substitution, joint venture, commercialization of the local technology and promotion of agro based industry.

**2.4 Vision of BDBL:**

To emerge as the country’s prime financial institution for supporting private sector industrial and others project of great significant to the country’s economic development. Also be active participant in commercial banking by introducing new lines of product and providing excellent services to the customers.

**2.5 Mission of BDBL:**

* To be competitive with other Banks and Financial institutions in rendering services;
* To contribute to the country’s socio-economic development by identifying new and profitable areas for investment;
* To mobilize deposits for productive investment;
* To expand branch network in commercially and geographically important places;
* To employ quality human resource and enhance their capability through motivation and right- type of training at home and abroad.
* To delegate maximum authority ensuring proper accountability;
* To maintain continuous improvement and up-gradation in business policies and procedures;
* To adopt and adapt to new technology;
* To maximize profit by strong, efficient and prudent financial performance; and
* To introduce new product lines according to market needs.

**2.6 Core Objectives of BDBL:**

Bangladesh Development Bank Limited (BDBL) believes in its uncompromising commitment to fulfill its customer’s needs and satisfaction and to become their first choice in banking. Taking indication from its pool of esteemed clientele. BDBL intends to pave the way for a new area in banking that upholds and epitomizes its vaunted marquees “Your Trusted Partner”.

**2.7 Goal of BDBL:**

To share a significant portion of banking sector’s by utilizing available manpower and also state of the art technology for maximizing the shareholders wealth.

* Long-term goal: To maximize the wealth of the shareholders.
* Short-term goal: To earn satisfactory rate of return on investment providing wide range of banking services.

**Chapter: 03**

**Performance of Credit Risk Management of Commercial Banks in Bangladesh**

**3.1 Performance of Credit Risk Management of BDBL on the basis of amount of Unclassified Loans and Non-Performing Loans:**

Non-Performing loans can be classified into different categories usually based on the length of overdue of the said loans. NPLs are viewed as a typical byproduct of financial crisis. They are not a main product of the lending function but rather an accidental occurrence of the lending process, one that has enormous potential to deepen the severity and duration of financial crisis and to complicate the macroeconomic management. This is because NPLs can bring down investor’s confidence in the banking system, piling up unproductive economic resources even though depreciations are taken care of, and impeding the resource allocation process. For this reasons, a bank’s Credit Risk Management can easily measure by analyzing present balance of NPL or in other words by analyzing the year by year ratio of loans which are grouped on basis of classification rules in the total loan and advances.

**3.1.1 Standard Loan:**

Standards loan is an unclassified loan. These types of loan accounts are performing satisfactorily in the terms of its installments and no overdue is occurred.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total Loans and Advances (Amount in BDT) | Amount of Standard Loan (Amount in BDT) | Ratio of Standard loan to Total loans and Advances |
| 2016 | 17,809,001,073 | 9,525,360,000 | 53% |
| 2015 | 17,964,535,490 | 9,978,004,000 | 56% |
| 2014 | 16,412,730,473 | 9,473,627,932 | 58% |
| 2013 | 15,392,302,825 | 9,731,565,976 | 63% |
| 2012 | 14,745,820,362 | 8,339,634,655 | 57% |

**Table 1.1: Standard Loan of BDBL from year 2012 to 2016**

Source: Annual Report of BDBL (2012 to 2016).

**Figure 1.1. Standard Loan of BDBL from year 2012 to 2016**

**3.1.2. Special Mention Account (SMA):**

Special Mention Account is an unclassified type of loan. This classification contains where irregularities have been occurred but such irregularities are temporarily in nature. The overdue period of this type of loan is 90-179 days.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total Loans and Advances(Amount in BDT) | Special Mentioned Account(Amount in BDT) | Ratio of SMA to Total Loans and Advances |
| 2016 | 17,809,001,073 | 965,344,000 | 5% |
| 2015 | 17,964,535,490 | 147,920,000 | 1% |
| 2014 | 16,412,730,473 | 1,547,654,609 | 9% |
| 2013 | 15,392,302,825 | 233,136,108 | 2% |
| 2012 | 14,745,820,362 | 625,536,692 | 4% |

**Table 1.2. Special Mention Account of BDBL from year 2012 to 2016.**

**Figure 1.2. Special Mention Account of BDBL from year 2012 to 2016.**

**3.1.3. Sub Standard Loan:**

Sub Standard Loan is classified loan. The overdue period of this type of loan is 180-269 days.

**Table 1.3. Sub Standard Loan of BDBL from year 2012 to year 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total Loans and Advances (Amount in BDT) | Amount of Sub-Standard Loans | Ratio of Sub-Standard loan to Total loans and Advances  |
| 2016 | 17,809,001,073 | 738,109,000 | 4% |
| 2015 | 17,964,535,490 | 461,500,000 | 3% |
| 2014 | 16,412,730,473 | 533,500,000 | 3% |
| 2013 | 15,392,302,825 | 68,605,601 | 0% |
| 2012 | 14,745,820,362 | 416,891,355 | 3% |

**Figure 1.3. Sub Standard Loan of BDBL from year 2012 to 2016.**

**3.1.4. Doubtful Loan:**

This classification contains where doubt exists on the full recovery of the loan and advances along with a loss is anticipated but cannot be quantifiable at this stage. The overdue period of this type loan is 270-359 days. This types of loan is an example of classified loan.

**Table 1.4. Doubtful Loan of BDBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total Loans and Advances (Amount in BDT) | Amount of Doubtful Loans | Ratio of Doubtful loan to Total loans and Advances  |
| 2016 | 17,809,001,073 | 539,447,000 | 3% |
| 2015 | 17,964,535,490 | 1,173,900,000 | 7% |
| 2014 | 16,412,730,473 | 95,600,000 | 1% |
| 2013 | 15,392,302,825 | 104,493,895 | 1% |
| 2012 | 14,745,820,362 | 1,579,810,533 | 11% |

**Figure 1.4. Doubtful Loan of BDBL from year 2012 to 2016.**

**3.1.5 Bad/Loss Loan:**

Bad/Loss Loan is a particular loan and advance fall in this class when it seems that this loan and advance is not collectable or worthless even after all the security has been exhausted. This type of loan is not recovered within more than 360 days. This type of loan is also an example of classified loan.

**Table 1.5 Bad/Loss Loan of BDBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total Loans and Advances (Amount in BDT) | Amount of Bad/Loss Account | Ratio of Bad/Loss Account to Total loans and Advances  |
| 2016 | 17,809,001,073 | 6,040,741,000 | 34% |
| 2015 | 17,964,535,490 | 5,310,225,000 | 30% |
| 2014 | 16,412,730,473 | 4,619,179,000 | 28% |
| 2013 | 15,392,302,825 | 5,037,384,132 | 33% |
| 2012 | 14,745,820,362 | 3,421,185,049 | 23% |

**Figure 1.5 Bad/Loss Loan of BDBL from year 2012 to 2016.**

**3.2 Performance of Credit Risk Management of Islami Bank Bangladesh Limited (IBBL) on the basis of amount of Unclassified Loans and Non-Performing Loans:**

Ialami Bank Bangladesh Limited is the pioneer of Islamic Banking in Bangladesh. Now-a-days, IBBL is one of the leading commercial bank in Bangladesh. Like others, IBBL has a Credit Risk Management Policy which is named as Investment Risk Management Policy. To ensure effective risk management, Risk Management Unit was introduced by IBBL in November, 2009. The unit was functioning like a committee comprising of members from different divisions. In April 2011, a separate risk management unit headed by a senior executive has been formed. Later on, understanding the importance of risk management such a leading entity in the industry, the Board of Directors of IBBL has given highest emphasis on risk governance and risk management and upgrade the unit into an independent and separate risk management wing in its 193rd meeting held on 14 May, 2012.

The performance of Credit Risk Management of IBBL on the basis of amount of unclassified loans and Non-performing loans are as follows-

**3.2.1. Standard Loan:**

**Table 2.1: Standard Loan of IBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Standard Loans (Amount in BDT) | Ratio of Standard Loans to Total Loan & Advances |
| 2016 | 616,418,912,766 | 572,356,659,974 | 93% |
| 2015 | 530,194,502,716 | 490,091,826,375 | 92% |
| 2014 | 463,475,467,466 | 424,231,589,013 | 92% |
| 2013 | 406,804,555,430 | 375,148,939,514 | 92% |
| 2012 | 372,920,722,887 | 342,136,151,887 | 92% |

**Figure 2.1: Standard Loan of IBBL from year 2012 to 2016.**

**3.2.2 Special Mention Account:**

**Table 2.2: Special Mention Account (SMA) of IBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Special Mention Account (Amount in BDT) | Ratio of Standard Loans to Total Loan & Advances |
| 2016 | 616,418,912,766 | 20,460,660,728 | 3% |
| 2015 | 530,194,502,716 | 17,561,436,522 | 3% |
| 2014 | 463,475,467,466 | 16,436,640,275 | 4% |
| 2013 | 406,804,555,430 | 16,713,715,269 | 4% |
| 2012 | 372,920,722,887 | 16,571,771,000 | 4% |

**Figure 2.2: Special Mention Account (SMA) of IBBL from year 2012 to 2016.**

**3.2.3 Sub Standard Loan:**

**Table 2.3: Sub Standard Loan of IBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Substandard Loans (Amount in BDT) | Ratio of Substandard Loans to Total Loan & Advances |
| 2016 | 616,418,912,766 | 2,341,644,862 | 0% |
| 2015 | 530,194,502,716 | 1,839,659,677 | 0% |
| 2014 | 463,475,467,466 | 2,235,222,352 | 0% |
| 2013 | 406,804,555,430 | 1,707,265,721 | 0% |
| 2012 | 372,920,722,887 | 2,094,313,000 | 1% |

**Figure 2.3: Sub Standard Loan of IBBL from year 2012 to 2016.**

**3.2.4 Doubtful Loan:**

**Table 2.4: Doubtful Loan of IBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Doubtful Loans (Amount in BDT) | Ratio of Doubtful Loans to Total Loan & Advances |
| 2016 | 616,418,912,766 | 1,064,123,908 | 0% |
| 2015 | 530,194,502,716 | 2,392,059,142 | 0% |
| 2014 | 463,475,467,466 | 1,513,000,505 | 0% |
| 2013 | 406,804,555,430 | 653,099,020 | 0% |
| 2012 | 372,920,722,887 | 1,295,180,000 | 0% |

**Figure 2.4: Doubtful Loan of IBBL from year 2012 to 2016.**

**3.2.5 Bad/Loss Loan:**

**Table 2.5: Bad/Loss loan of IBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Bad/Loss Account (Amount in BDT) | Ratio of Bad/Loss Account to Total Loan & Advances |
| 2016 | 616,418,912,766 | 20,195,823,294 | 3% |
| 2015 | 530,194,502,716 | 18,309,521,000 | 3% |
| 2014 | 463,475,467,466 | 19,059,015,321 | 4% |
| 2013 | 406,804,555,430 | 12,581,535,906 | 3% |
| 2012 | 372,920,722,887 | 10,823,307,000 | 3% |

**Figure 2.5: Bad/Loss loan of IBBL from year 2012 to 2016.**

**3.3 Performance of Credit Risk Management of Janata Bank Limited (JBL) on the basis of amount of Unclassified Loans and Non-Performing Loans:**

Janata Bank Limited (JBL) is a state-owned commercial bank which is established in 1972. Among the state-owned commercial banks JBL is one of the most profitable bank in Bangladesh. As JBL is a most profitable bank, they should have a lucrative policy in Credit Risk Management. Basically, JBL follows the Credit Risk Management policies that are implied by Bangladesh Bank. The performance of Credit Risk Management of Janata Bank Limited (JBL) on the basis of amount of Unclassified Loans and Non-Performing Loans are as follows-

**3.3.1 Standard Loan:**

**Table 3.1: Standard Loan of JBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Standard Loans (Amount in BDT) | Ratio of Standard Loans to Total Loan & Advances |
| 2016 | 403,037,412,397 | 276,537,212,397 | 69% |
| 2015 | 349,861,299,466 | 250,204,799,466 | 72% |
| 2014 | 319,773,246,472 | 274,411,802,487 | 86% |
| 2013 | 285,747,654,328 | 247,850,744,937 | 87% |
| 2012 | 305,339,578,715 | 247,892,147,704 | 81% |

**Figure 3.1: Standard Loan of JBL from year 2012 to 2016.**

**3.3.2 Special Mention Account:**

**Table 3.2: Special Mention Account of JBL from year 2012 to 2016**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Special Mention Account (Amount in BDT) | Ratio of SMA to Total Loan & Advances |
| 2016 | 403,037,412,397 | 67,140,400,000 | 17% |
| 2015 | 349,861,299,466 | 56,474,800,000 | 16% |
| 2014 | 319,773,246,472 | 7,985,778,287 | 2% |
| 2013 | 285,747,654,328 | 6,130,047,397 | 2% |
| 2012 | 305,339,578,715 | 4,245,737,794 | 1% |

**Figure 3.2: Special Mention Account of JBL from year 2012 to 2016**

**3.3.3 Sub Standard Loan:**

**Table 3.3: Sub Standard Loan of JBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Substandard Loans (Amount in BDT) | Ratio of Substandard Loans to Total Loan & Advances |
| 2016 | 403,037,412,397 | 9,816,400,000 | 2% |
| 2015 | 349,861,299,466 | 10,747,800,000 | 3% |
| 2014 | 319,773,246,472 | 5,183,245,643 | 2% |
| 2013 | 285,747,654,328 | 7,076,520,900 | 2% |
| 2012 | 305,339,578,715 | 12,958,263,341 | 4% |

**Figure 3.3: Sub Standard Loan of JBL from year 2012 to 2016.**

**3.3.4 Doubtful Loan:**

**Table 3.4: Doubtful Loan of JBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Doubtful Loans (Amount in BDT) | Ratio of Doubtful Loans to Total Loan & Advances |
| 2016 | 403,037,412,397 | 9,704,400,000 | 2% |
| 2015 | 349,861,299,466 | 3,708,500,000 | 1% |
| 2014 | 319,773,246,472 | 4,212,102,563 | 1% |
| 2013 | 285,747,654,328 | 4,296,113,060 | 2% |
| 2012 | 305,339,578,715 | 8,081,127,764 | 3% |

**Figure 3.4: Doubtful Loan of JBL from year 2012 to 2016.**

**3.3.5 Bad/Loss Loan:**

**Table 3.5: Bad/Loss Loan of JBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Bad/Loss account (Amount in BDT) | Ratio of Standard Loans to Total Loan & Advances |
| 2016 | 403,037,412,397 | 39,839,000,000 | 10% |
| 2015 | 349,861,299,466 | 28,725,400,000 | 8% |
| 2014 | 319,773,246,472 | 27,980,317,492 | 9% |
| 2013 | 285,747,654,328 | 20,394,228,034 | 7% |
| 2012 | 305,339,578,715 | 32,162,302,113 | 11% |

**Figure 3.5: Bad/Loss Loan of JBL from year 2012 to 2016.**

**3.4 Performance of Credit Risk Management of Sonali Bank Limited (SBL) on the basis of amount of Unclassified Loans and Non-Performing Loans:**

Sonali Bank is the largest state-owned commercial bank in Bangladesh. Sonali Bank Ltd. has established Asset-Liability Management Committee (ALCO) determine the maximum risk exposure. ALCO also assesses, recommends and controls cross border/country risk.

 To manage the Non-Performing Loans (NPL), Sonali Bank Ltd. has a comprehensive remedial management policy, which includes a framework of controls to identify weak credits and monitoring of these accounts.

The performance of Credit Risk Management of Sonali Bank Limited (SBL) on the basis of amount of Unclassified Loans and Non-Performing Loans are as follows-

**3.4.1 Standard Loan:**

**Table 4.1: Standard Loan of SBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Standard Loans (Amount in BDT) | Ratio of Standard Loans to Total Loan & Advances |
| 2016 | 384,538,118,238 | 246,281,255,675 | 64% |
| 2015 | 346,346,340,867 | 238,412,220,570 | 69% |
| 2014 | 337,554,433,143 | 243,200,580,000 | 72% |
| 2013 | 343,450,525,505 | 232,178,890,000 | 68% |
| 2012 | 378,147,055,602 | 245,662,000,125 | 65% |

**Figure 4.1: Standard Loan of SBL from year 2012 to 2016.**

**3.4.2 Special Mention Account:**

**Table 4.2: Special Mention Account of SBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Special Mention Account (Amount in BDT) | Ratio of SMA to Total Loan & Advances |
| 2016 | 384,538,118,238 | 28,919,067,000 | 8% |
| 2015 | 346,346,340,867 | 20,763,200,000 | 6% |
| 2014 | 337,554,433,143 | 7,625,140,000 | 2% |
| 2013 | 343,450,525,505 | 7,256,430,000 | 2% |
| 2012 | 378,147,055,602 | 6,229,685,900 | 2% |

**Figure 4.2: Special Mention Account of SBL from year 2012 to 2016.**

**3.4.3 Sub Standard Loan:**

**Table 4.3: Sub Standard Loan of SBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Substandard Loans (Amount in BDT) | Ratio of Substandard Loans to Total Loan & Advances |
| 2016 | 384,538,118,238 | 13,567,770,000 | 4% |
| 2015 | 346,346,340,867 | 8,963,700,000 | 3% |
| 2014 | 337,554,433,143 | 6,317,580,000 | 2% |
| 2013 | 343,450,525,505 | 5,734,510,000 | 2% |
| 2012 | 378,147,055,602 | 16,181,400,793 | 4% |

**Figure 4.3: Sub Standard Loan of SBL from year 2012 to 2016.**

**3.4.4 Doubtful Loan:**

**Table 4.4: Doubtful Loan of SBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Doubtful Loans (Amount in BDT) | Ratio of Doubtful Loans to Total Loan & Advances |
| 2016 | 384,538,118,238 | 8,125,726,563 | 2% |
| 2015 | 346,346,340,867 | 4,901,720,297 | 1% |
| 2014 | 337,554,433,143 | 11,361,250,000 | 3% |
| 2013 | 343,450,525,505 | 4,464,490,000 | 1% |
| 2012 | 378,147,055,602 | 10,296,566,662 | 3% |

**Table 4.4: Doubtful Loan of SBL from year 2012 to 2016.**

**3.4.5 Bad/Loss Loan:**

**Table 4.5: Bad/Loss Loan of SBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Bad/Loss Account (Amount in BDT) | Ratio of Bad/Loss Account to Total Loan & Advances |
| 2016 | 384,538,118,238 | 87,644,299,000 | 23% |
| 2015 | 346,346,340,867 | 73,305,500,000 | 21% |
| 2014 | 337,554,433,143 | 69,049,880,000 | 20% |
| 2013 | 343,450,525,505 | 93,816,200,000 | 27% |
| 2012 | 378,147,055,602 | 99,777,402,122 | 26% |

**Figure 4.5: Bad/Loss Loan of SBL from year 2012 to 2016.**

**3.5 Performance of Credit Risk Management of Dutch Bangla Bank Limited (DBBL) on the basis of amount of Unclassified Loans and Non-Performing Loans:**

Dutch-Bangla Bank Limited (DBBL) is a bank in Bangladesh. DBBL is a scheduled [joint venture](https://en.wikipedia.org/wiki/Joint_venture) [commercial bank](https://en.wikipedia.org/wiki/Commercial_bank) between local Bangladeshi parties by M Sahabuddin Ahmed (Founder & Chairman) and a Dutch company [FMO](https://en.wikipedia.org/wiki/Netherlands_Development_Finance_Company). DBBL was established under the Bank Companies Act 1991 and incorporated as a public limited company under the Companies Act 1994 in Bangladesh with the primary objective to carry on all kinds of banking business in Bangladesh. In DBBL, only calculated risks are taken while conducting banking business to strike a balance between risk and return. Risk is clearly identified, mitigated or minimized and if possible eliminated to protect capital and to maximize value for shareholders. It is also ensured that on balance sheet and off-balance sheet risks taken by the Bank are consistent with risk appetite and strategic objectives of the Bank.

The performance of Credit Risk Management of Dutch Bangla Bank Limited (DBBL) on the basis of amount of Unclassified Loans and Non-Performing Loans are as follows-

**3.5.1 Standard Loan:**

**Table 5.1: Standard Loan of DBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Standard Loans (Amount in BDT) | Ratio of Standard Loans to Total Loans & Advances |
| 2016 | 173,397,797,631 | 159,305,264,601 | 92% |
| 2015 | 152,270,000,465 | 140,317,638,920 | 92% |
| 2014 | 124,422,990,617 | 118,715,610,830 | 95% |
| 2013 | 106,422,781,334 | 99,249,548,334 | 93% |
| 2012 | 91,648,946,694 | 87,209,358,809 | 95% |

**Figure 5.1: Standard Loan of DBBL from year 2012 to 2016.**

**3.5.2 Special Mention Account:**

**Table 5.2: Special Mention Account of DBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Special Mention Account (Amount in BDT) | Ratio of SMA to Total Loans & Advances |
| 2016 | 173,397,797,631 | 5,093,502,835 | 3% |
| 2015 | 152,270,000,465 | 6,327,504,475 | 4% |
| 2014 | 124,422,990,617 | 232,095,775 | 0% |
| 2013 | 106,422,781,334 | 2,997,605,000 | 3% |
| 2012 | 91,648,946,694 | 1,711,226,455 | 2% |

**Figure 5.2: Special Mention Account of DBBL from year 2012 to 2016.**

**3.5.3 Sub Standard Loan:**

**Table 5.3: Sub Standard Loan of DBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Substandard Loans (Amount in BDT) | Ratio of Substandard Loans to Total Loan & Advances |
| 2016 | 173,397,797,631 | 352,956,624 | 0% |
| 2015 | 152,270,000,465 | 1,215,748,451 | 1% |
| 2014 | 124,422,990,617 | 475,257,003 | 0% |
| 2013 | 106,422,781,334 | 193,367,000 | 0% |
| 2012 | 91,648,946,694 | 440,155,275 | 0% |

**Figure 5.3: Sub Standard Loan of DBBL from year 2012 to 2016.**

**3.5.4 Doubtful Loan:**

**Table 5.4: Doubtful Loan of DBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Doubtful Loans (Amount in BDT) | Ratio of Doubtful Loans to Total Loan & Advances |
| 2016 | 173,397,797,631 | 340,001,334 | 0% |
| 2015 | 152,270,000,465 | 191,276,743 | 0% |
| 2014 | 124,422,990,617 | 777,040,007 | 1% |
| 2013 | 106,422,781,334 | 819,219,000 | 1% |
| 2012 | 91,648,946,694 | 275,127,097 | 0% |

**Figure 5.4: Doubtful Loan of DBBL from year 2012 to 2016.**

**3.5.5 Bad/Loss Loan:**

**Table 5.5: Bad/Loss Loan of DBBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Bad/Loss Account (Amount in BDT) | Ratio of Bad/Loss Account to Total Loan & Advances |
| 2016 | 173,397,797,631 | 8,306,072,236 | 5% |
| 2015 | 152,270,000,465 | 4,217,831,876 | 3% |
| 2014 | 124,422,990,617 | 4,222,987,002 | 3% |
| 2013 | 106,422,781,334 | 3,163,042,000 | 3% |
| 2012 | 91,648,946,694 | 2,013,079,058 | 2% |

**Figure 5.5: Bad/Loss Loan of DBBL from year 2012 to 2016.**

**3.6 Performance of Credit Risk Management of Mutual Trust Bank Limited (MTBL) on the basis of amount of Unclassified Loans and Non-Performing Loans:**

Among the leading private commercial banks, Mutual Trust bank is one of them. In 2015, MTBL bank became one of two local partners of [Life Insurance Corporation of India](https://en.wikipedia.org/wiki/Life_Insurance_Corporation_of_India) in Bangladesh.The Daily Star 15th Bangladesh Business Awards described the bank as "one of the best-run banks in Bangladesh".

The Performance of Credit Risk Management of Mutual Trust Bank Limited (MTBL) on the basis of amount of Unclassified Loans and Non-Performing Loans are as follows-

**3.6.1 Standard Loan:**

**Table 6.1: Standard Loan of MTBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Standard Loans (Amount in BDT) | Ratio of Standard Loans to Total Loan & Advances |
| 2016 | 110,834,548,494 | 102,626,596,814 | 93% |
| 2015 | 96,216,724,073 | 91,251,517,649 | 95% |
| 2014 | 75,707,231,791 | 72,714,845,924 | 96% |
| 2013 | 58,001,823,105 | 54,799,177,846 | 94% |
| 2012 | 55,082,049,670 | 52,126,161,670 | 95% |

**Figure 6.1: Standard Loan of MTBL from year 2012 to 2016.**

**3.6.2 Special Mention Account:**

**Table 6.2: Special Mention Account of MTBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Special Mention Account (Amount in BDT) | Ratio of SMA to Total Loan & Advances |
| 2016 | 110,834,548,494 | 3,224,863,681 | 3% |
| 2015 | 96,216,724,073 | 2,930,784,645 | 3% |
| 2014 | 75,707,231,791 | 905,106,948 | 1% |
| 2013 | 58,001,823,105 | 1,005,876,067 | 2% |
| 2012 | 55,082,049,670 | 870,876,000 | 2% |

**Figure 6.2: Special Mention Account of MTBL from year 2012 to 2016.**

**3.6.3 Sub Standard Loan:**

**Table 6.3: Sub Standard Loan of MTBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Substandard Loans (Amount in BDT) | Ratio of Substandard Loans to Total Loan & Advances |
| 2016 | 110,834,548,494 | 846,750,537 | 1% |
| 2015 | 96,216,724,073 | 79,709,495 | 0% |
| 2014 | 75,707,231,791 | 173,481,479 | 0% |
| 2013 | 58,001,823,105 | 613,445,688 | 1% |
| 2012 | 55,082,049,670 | 521,483,000 | 1% |

**Figure 6.3: Sub Standard Loan of MTBL from year 2012 to 2016.**

**3.6.4 Doubtful Loan:**

**Table 6.4: Doubtful Loan of MTBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Doubtful Loans (Amount in BDT) | Ratio of Doubtful Loans to Total Loan & Advances |
| 2016 | 110,834,548,494 | 405,055,372 | 0% |
| 2015 | 96,216,724,073 | 169,186,865 | 0% |
| 2014 | 75,707,231,791 | 71,783,635 | 0% |
| 2013 | 58,001,823,105 | 103,252,034 | 0% |
| 2012 | 55,082,049,670 | 149,389,000 | 0% |

**Table 6.4: Doubtful Loan of MTBL from year 2012 to 2016.**

**3.6.5 Bad/Loss Loan:**

**Table 6.5: Bad/Loss Loan of MTBL from year 2012 to 2016.**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Total Loans & Advances (Amount in BDT) | Bad/Loss Account (Amount in BDT) | Ratio of Bad/Loss Account to Total Loan & Advances |
| 2016 | 110,834,548,494 | 3,731,282,091 | 3% |
| 2015 | 96,216,724,073 | 1,785,525,418 | 2% |
| 2014 | 75,707,231,791 | 1,815,013,805 | 2% |
| 2013 | 58,001,823,105 | 1,439,071,470 | 2% |
| 2012 | 55,082,049,670 | 1,414,140,000 | 3% |

**Table 6.5: Bad/Loss Loan of MTBL from year 2012 to 2016.**

**3.7 Comparison of BDBL with other 5 commercial banks:**

**3.7.1 Ratio of Standard loan to Total loans and Advances:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **BDBL** | **IBBL** | **JBL** | **SBL** | **DBBL** | **MTBL** |
| **2016** | 53% | 93% | 69% | 64% | 92% | 93% |
| **2015** | 56% | 92% | 72% | 69% | 92% | 95% |
| **2014** | 58% | 92% | 86% | 72% | 95% | 96% |
| **2013** | 63% | 92% | 87% | 68% | 93% | 94% |
| **2012** | 57% | 92% | 81% | 65% | 95% | 95% |

From this Figure we can see that the performance of the state-owned commercial banks have the poorer portion of standard loans than the other commercial banks. But these type of banks are renowned for their long term loan management. Here, from the table we can see that BDBL’s standard loans have been decreasing from 2014 to 2016, but the other banks standard loans has not decreased rather it is in a good position than BDBL.

**3.7.2Ratio of Special Mention Account (SMA) to Total Loans & Advances**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **BDBL** | **IBBL** | **JBL** | **SBL** | **DBBL** | **MTBL** |
| **2016** | 5% | 3% | 17% | 8% | 3% | 3% |
| **2015** | 1% | 3% | 16% | 6% | 4% | 3% |
| **2014** | 9% | 4% | 2% | 2% | 0% | 1% |
| **2013** | 2% | 4% | 2% | 2% | 3% | 2% |
| **2012** | 4% | 4% | 1% | 2% | 2% | 2% |

From this table we can find that BDBL’s SMA portion is not intolerable. Whether JBL’s SMA portion is in a position that they should take some initiatives to decrease it in an acceptable positon. So, we can say, here BDBL is in a good position but it could have been better if their standard loan was much better than the following.

**3.7.3 Ratio of Sub-Standard loan to Total loans and Advances**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **BDBL** | **IBBL** | **JBL** | **SBL** | **DBBL** | **MTBL** |
| **2016** | 4% | 0% | 2% | 4% | 0% | 1% |
| **2015** | 3% | 0% | 3% | 3% | 1% | 0% |
| **2014** | 3% | 0% | 2% | 2% | 0% | 0% |
| **2013** | 0% | 0% | 2% | 2% | 0% | 1% |
| **2012** | 3% | 1% | 4% | 4% | 0% | 1% |

The performance of sub-standard loan of BDBL is not that much better than the other banks. From this table we can say that BDBL should have concerned about their Sub Standard loan because these types of loans become overdue from 180 to 269 days. So these loans have a little bit chance to become doubtful or bad/loss account within a short time of period.

**3.7.4 Ratio of Doubtful Loans to Total Loan & Advances**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **BDBL** | **IBBL** | **JBL** | **SBL** | **DBBL** | **MTBL** |
| **2016** | 3% | 0% | 2% | 2% | 0% | 0% |
| **2015** | 7% | 0% | 1% | 1% | 0% | 0% |
| **2014** | 1% | 0% | 1% | 3% | 1% | 0% |
| **2013** | 1% | 0% | 2% | 1% | 1% | 0% |
| **2012** | 11% | 0% | 3% | 3% | 0% | 0% |

The less the doubtful loans, the more the banks have chance to be in a better position. Here, we can find that BDBL’s doubtful loan is in a poor position than other banks. In 2012 it was at most that was 12%, where other banks doubtful loans were in an acceptable position.

**3.7.5 Ratio of Bad/Loss Account to Total loans and Advances**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **BDBL** | **IBBL** | **JBL** | **SBL** | **DBBL** | **MTBL** |
| **2016** | 34% | 3% | 10% | 23% | 5% | 3% |
| **2015** | 30% | 3% | 8% | 21% | 3% | 2% |
| **2014** | 28% | 4% | 9% | 20% | 3% | 2% |
| **2013** | 33% | 3% | 7% | 27% | 3% | 2% |
| **2012** | 23% | 3% | 11% | 26% | 2% | 3% |

The more the bad/loss account the more the chance of a bank to be bank bankrupted. We can see from the chart BDBL’s bad/loss account is much higher than any other banks. Its bad/loss account is increasing year by year. So, they should take some initiatives to decrease the amount of bad/loss account.

**Chapter: 04**

**Credit Risk Management (CRM) practice of Bangladesh Development Bank Limited (BDBL)**

**4.1 Overview of Credit Risk:**

Credit is the potentiality to mandate goods or services of others in return for guarantee to giving back those goods or services at certain time of period. For a bank or financial institution, it is one of the essential parts of earning profit. The right use of credit bring welfare for the institution as well as for the country. Credit risk means that the borrower or counter party does not able to pay their obligations within a certain time of period. The main purpose of Credit Risk Management of Bangladesh Development Bank Limited is to reduce the credit risk and to increase the bank’s risk adjusted rate of return by maintaining an acceptable standard. The Credit Risk Management department is responsible for issuing credit, monitoring these credits and the collection of the credit. It makes sure that risks are accurately appraised, and that risk/return choices are made meticulously and clearly. The success of credit management of a bank depends on their credit policy, portfolio of credit, monitoring and supervision of those credits. As analyzing the credit risk management of Bangladesh Development Bank Limited, it is needed to analyze their credit policy and performance towards credit risk management.

**4.2 Types of Credit Risk:**

Credit Risk can be classified in the following ways:

* **Credit default risk:** The risk of loss arising from a debtor being unlikely to pay its loan obligations in full or the debtor is more than 90 days past due on any material credit obligation. Default risk may impact all credit-sensitive transactions, including loans, securities and derivatives.
* **Concentration risk:** The risk associated with any single exposure or group of exposures with the potential to produce large enough losses to threaten a bank’s core operations. It may arise in the form of single name concentration or industry concentration.
* **Country risk:** The risk or loss arising from sovereign state freezing currency payment (transfer/conversion risk) or when it defaults on its obligations (sovereign risk).

**4.3 Principal of Bank’s Credit Risk Management:**

**Principal 1:** The board should have responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank’s risk appetite and the level of profitability the bank expects to achieve for incurring various credit risks.

**Principal 2:** Senior management should have responsibility for implementing the credit risk strategy approved by the board and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank’s activities and at both the individual credit and portfolio level.

**Principal 3:** The bank should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate procedures and controls before being introduced or undertaken, and approved in advance by the Board of Director or its appropriate committee.

**Principal 4:** The bank must operate under sound, well-defined credit-granting criteria. These criteria should include a thorough understanding of the borrower or counter party, as well as the purpose and structure of the credit, and its source of repayment.

**Principal 5:** The bank should establish overall credit limits at the level of individual borrowers, and group of connected counter parties that aggregate different types of exposures, both in the banking and trading book and on and off balance sheet.

**Principal 6:** A bank should develop and utilize internal risk rating systems in managing credit risk. The rating system should be in line with the regulatory instructions and consistent with the nature, size and complexity of a bank’s activities.

**4.4 Credit Policy of BDBL:**

In order to reduce credit risk, Bangladesh Development Bank Limited has developed a complete credit policy by the approval of Bangladesh Bank. Credit policy of the bank administered for the distinctions of the credit confirmation function from business, marketing and loan approval function. Credit policy of BDBL prescribed through credit appraisal and risk covering of all customers at the time of permission and portfolio review. Credit policy also gives the guidelines of needed information for credit appraisal, marketing strategy, loan monitoring, early alert process, credit recovery, non-performing loan (NPL) account monitoring, NPL provisioning and write off policy etc. Credit policy of BDBL publish annually by the Board of Directors.

**4.5 Credit Risk Management:**

In order to maintain the credit risk, the bank has separated duties of the officers/executives who engaged in credit related enterprises. The bank separated their duties to Corporate, SME, Retail and credit cards have been made which are allocated with the burdens of managing effective relationship with the clients, marketing of credit goods and services, opening new business opportunities etc. For clarity in the operations in the time of the entire credit year, four teams have been made. These teams below-

1. Credit Approval Team.
2. Assets Operations Department.
3. Recovery Unit.
4. Impaired Asset Management.

In credit management process, sales teams of the corporate, retail, SME, and credit cards business units book the customers; the credit division does thorough the assessment before approving the credit facility. Asset Operation Department ensure compliance of all legal formalities, completion of all documentation, and security of the proposed credit facility and finally disburses the amount. The sales team reports to the managing director and & CEO through their line, the credit division reports to the managing director & CEO, while the Asset Operation Department reports to the deputy managing director & COO. This arrangement has not only ensured segregation of duties and accountability but also helps in minimizing the risk of compromise with quality of the credit portfolio.

**4.6 Credit Risk Management of BDBL:**

A corporate division has been formed at Head office of BDBL to maintain an effective relationship with the exploring new business opportunities, consumers and marketing of credit products etc. that are the main duties of the division. Segregation of approval of credit, credit administration, and monitoring and recovery functions have been accomplished. Within the credit division, three separate units have been formed. These three units are as follows-

* Credit Risk Management Unit.
* Credit administration Unit.
* Credit Monitoring & Recovery Unit.

**4.6.1 Credit Risk Management Unit:**

The credit risk management unit usually performs the following analysis or activities:

**Financial Analysis:**

The analysis of financial statement is the traditional way that bank uses to evaluate the credit risk. There are two major reasons behind the use of financial analysis. The reasons are-

* The first is to determine the financial condition and credit worthiness of potential and existing borrowers. If making loan causes credit risk to the bank means the customers to whom credit has been extended may default on payment which causes credit risk to the bank.
* The second is to monitor the financial behavior of borrower after the credit has been disburse. This is necessary to detect the activities that may impair their ability to pay loans and advances or their ability to honor commitments.

**Ratio Analysis:**

Modern banking practices focus on using different spreadsheet programs and customized software programs to calculate several related ratios of the borrowing firms. These ratios are common and widely used in credit risk management process. The widely used ratios to measure the financial condition of the borrowing firm includes-

**a) Profitability Ratio:**

Profitability is the ultimate measurement of firm’s efficiency. This is also the ultimate effectiveness of management of the firm. It can be measured in terms of Return on Assets (ROA), Return on Equity (ROE), Net Income margin, Earning Per Share (EPS) and Dividend Per Share (DPS) etc. The formula of these selected ratios are as follows-

|  |  |
| --- | --- |
| Name of the Ratio | Formula |
| Return on Asset (ROA) | Net Income/ Total Asset |
| Return on Equity (ROE) | Net income/ Equity |
| Net Income Margin | Net Income/ Sales  |
| Earning Per Share (EPS) | Net Income/ No. of share outstanding |
| Dividend Per Share (DPS) |  |

**b) Liquidity Ratio:**

Every firm needs to survive in the short run in order to perform in the long run. Insufficient liquidity may turn the firm into a distress. The following measures of liquidity examines the firm’s ability to meet its short run demand or current obligations. These ratios includes-

|  |  |
| --- | --- |
| Name of the Ratio | Formula |
| Current Ratio | Current Asset/ Current Liabilities |
| Quick Ratio | Quick Asset/ Current Liabilities |
| Average Collection Period | Account Receivables/ Credit sale per day |
| Average Payout Ratio | Accounts Payable/ Credit purchase per day |
| Net Working Capital | Current Asset – Current Liabilities |

**c) Efficiency Ratio:**

Efficiency indicators measure how effectively certain assets and liabilities are being used in the production process of the firm. These ratios are used to measure the efficiency of borrowing firm including Asset Turnover Ratio, Debt Ratio, and long term debt as percentage of total asset. Asset turnover ratios are used to measure the relative strength of assets to generate revenue. At the same time Debt ratios measures the use of debt in the firm’s capital structure. The necessity of optimum debt equity ratio can be measured using this ratio. Efficiency ratios and their formulas are as follows-

|  |  |
| --- | --- |
| Name of the Ratio | Formula |
| Asset Turnover Ratio | Sales/ Total assets |
| Debt Ratio | Total Debt/ Total asset |
| Long term Debt as percentage of total asset | Long term debt/ Total asset |

**Credit Processing:**

Appraisal and approval process of a bank loan application involve a series of activities. These activities reveal a true element of banking intermediation ranging from establishing relationship with a stranger (walk-in customer) to maintain a credit line for the current clients. For managing the risk involved in leading, banks across the world development many tools. These processes are gradually benchmarked for application across the bank.

**4.6.2 Credit Administration Unit:**

Credit Administration Division will be responsible for the followings:

**Limit Maintenance:** Limit creation and maintenance originated from loan account & verification, limit setup, renewal, rescheduling, enhancement, reduction, rate of interest, modification and other important issues will be done centrally by Credit Administration Division. On receipt of copy of limit, approval letter or sanction advice and confirmation regarding completion of documentation. Credit Administration Division will create and maintain limit(s) for the clients and take necessary steps for managing MIS database.

**Verification of Security:** Credit Administration Division must check all collateral, primary securities and legal opinion may be obtained to protect bank’s interest. To ensure mortgage, documents are properly vetted by legal counsel of panel lawyer as per existing norms of the bank. Project appraisal unit will primarily check valuation of inventory and credit administration division will crosscheck machineries and the same.

**Credit Disbursement:** The customer should be advised of the terms and conditions of the credit by way of a letter to offer. Once the credit is approved, this duplicate form should be duly signed and returned to the institution by the customer. Upon receipt of this letter and it should of inter area, the completion of formalities regarding documentation process, the collateral registration, insurance coverage in the institution’s favor and the vetting of documents by a legal expert and the facility disbursement process should start only. In most of the cases, funds should be released prior to compliance with pre-disbursement conditions and approval by the relevant authorities in the financial institution.

**4.6.3 Credit Monitoring & Recovery Unit:**

**a) Credit Monitoring:** To minimize credit losses, monitoring procedures and system should be in place that provides an early indication of the deteriorating financial health of a loan seeking people. Systems should be in place to report the following expectations to relevant executives in Credit Risk Management (CRM) and Risk Management (RM) team:

* Monitoring the approved terms and conditions.
* Review documentation periodically but at least annually.
* In case of any Excess over Limit (EOL) or Temporary Accommodation is allowed to any case account, ensure that there is approval.
* Check and review the periodical statement to ensure compliance to the conditions laid down in the loan approval advice and/or the covenants of loan reschedule agreement.
* Prepare client to the consolidated expectation or deficiencies reports in regard to the following:
* Past due or non-collection of loan installment at maturity.
* Non-collection of principle at maturity and non-servicing of interest.
* Unauthorized EOL (Excess over Limit).
* Expired limit.
* Early Alert List (EAL).
* Special Mention Account (SMA).

**b) Credit Recovery:** Recovery strategy includes but not limited to the followings:

* Meeting with the client.
* Phone call.
* Checking and verification of collateral security.
* Explore the possibility of amicable settlement.
* Initiate legal action.
* Any other strategy depending on the situation deemed appropriate.

**4.7 Wings of Credit Risk Management Department:**

Credit Risk Management department of Bangladesh Development Bank Limited conducted their functions by six wings. These are as follows-

1. Wholesale Credit
2. Retail Underwriting
3. SME Underwriting
4. Central Collection Unit
5. Special Asset Management, SME & Retail Banking
6. Special Asset Management and Credit Inspection, Wholesale Banking & Medium Business Wholesale Credit, Retail Underwriting and SME underwriting-these three wings of CRM assess and approve the loan for the respective customers. Central collection unit collects the credit. Special Asset Management wings help the bank to recover bank’s bad portfolio.

**4.8 Credit Approval of Bangladesh Development Bank Limited (BDBL):**

 **4.8.1.0 Wholesale Credit & Medium Business:**

Wholesale or corporate credit means a contractual agreement in which a corporate client receives something of value now and agrees to repay the lender the principle with interest at some later date. Wholesale credit team mainly looks after two kinds of portfolio. They are-

* **Corporate Business:** Wholesale Credit team assesses and approves proposals from large established corporate and emerging business.
* **Medium Business:** Wholesale Credit team financing businesses which have crossed their early years but has not yet become a large corporate entity.

 **4.8.1.1 Types of Facilities Offered to Corporate Client:**

Bangladesh Development Bank offers two types of credit facilities to corporate clients. These facilities are as follows-

* **Funded Facility:** Funded facility means financing through cash, overdraft, import and export loans etc. Long term loans are the example of funded facility.
* **Non-Funded Facility:** Non- funded facility means non-involvement of cash/fund. Banks extend this types of facility against some documents to third party on behalf of corporate clients. Import and Export loans i.e. Letter of Credit and guarantees and bond i.e. performance guarantee, advance payment guarantee, Bid bonds are the examples of non-funded facility.

**4.8.1.2 Approval authorities of the Corporate Loans:**

The approval authority of corporate loan can changes time-to-time based on business volume and person behind the desk but it mainly consists of following factors-

* Head of Credit, Wholesale Banking & Medium Business.
* Chief Credit Office.
* Managing Director and CEO.
* Board due to large ticket size of loan facility, most of the proposal received by wholesale credit team are approved by the Board of Director.

**4.8.1.3 Analyzing Tools & Techniques to Evaluate a Corporate Proposal:**

To evaluate a corporate proposal, Wholesale Credit team apply the General 5’Cs which are-

* Character
* Capacity
* Capital
* Conditions
* Collateral

**4.8.2.0 Retail Underwriting:**

Retail Underwriting is a unit of Credit Risk Management which deals with retail loans of the bank. Total retail underwriting is done from the wing. There is a prescribed Product Program Guide (PPG) for each product and on the basis of that PPG retail loans are approved. Retail Underwritings is compromised with following sub units-

* Retail Credit
* Cards Credit
* Authorization & Fraud Control
* Central Verification Unit (CVU)

 **4.8.2.1 Retail Credit:**

Currently Bank is offering Retail loans under Retail credit in the following three categories-

* **Unsecured personal loan:** Unsecured personal loan is clean loan product where no cash security is taken against the loan. Currently Bangladesh Development Bank Limited is offering two types of unsecured personal loans which are Quick Loan and Salary Loan.
* **Secured Loan:** There are two secured retail loans offered by BDBL which are Auto Loan and House Building Loan.
* **Cash Covered Loan:** The general terms “Cash Secured Facilities” is used to indicate two specific retail lending products. These are Secured Overdraft (SOD) & Secured Loan (SL) which are the major products of retail lending portfolio of the bank.

All retails loans are EMI (Equal Monthly Installment) based loans other than secured overdraft facility.

 **4.8.2.2 Cards Credit:**

The main objective of Cards Credit sub wing is to assess the applications and come to decision whether to approve for issuing of credit card or not. If everything provided document is ok of a particular application; credit then fix a credit limit according to PPG of credit cards. Another important job is done by cards credit is duplicate checking. This is done to stop issuing more than one card for a particular applicant. To have the control, existing credit card database is checked by several criteria i.e. Name. Father’s name, Mother’s name, contract no. etc.

 **4.8.2.3 Authorization and Fraud Control Unit:**

Authorization and Fraud Control Unit accomplish their functions into these three following areas-

* **Authorization:** Authorization is process of approval or refusal of payment card transaction; limit issued in BDT, USD or in dual currency according to customized amount desired by customer on different time and location. The major activity of the unit is processing credit card cheque request from BDBL branches ROC’s and providing manual authorization against specific code.
* **Transaction Monitoring:** Transaction monitoring and detection team usually make calls to all BDBL credit card customer (issuing and acquiring) to verify (POS and non POS) transaction that all under certain rules. As soon as a suspicious transaction is noticed through live monitoring or internal reports, designated officer from detection team contact the customer for authentication of the transaction. If the customer disputed the transaction(s), the card is blocked immediately by placing specific block code. The customer is also requested to send disputed letter to customer service regarding the transaction(s).
* **Detection and Investigation:** Detection and investigation unit performs to check credit card/ loan applications after approval to prevent fraud attempts on sample basis. At the same time, objective of investigation team is to investigate fraud cases relating on situation basis to identify the actual facts and build control measures to prevent the similar fraud attempts in future.

**4.8.2.4 Central Verification Unit (CVU):**

As Bangladesh Development Bank Limited has a huge customer base, it felt the importance of verifying clients before disbursing any loan. The main purpose of this wing is to ensure Contact Point Verification (CVU). CVU is committed for delivering a Contact Point Verification (CPV) services and other pertinent task in relevance to loan, credit card application from prospective customers for services in consumer credit division of the Bank.

**4.8.3.0 SME Underwriting:**

SME Credit team is a unit under Credit Risk Management division of Bangladesh Development Bank Limited which manages the credit risk of Bank’s SME credit portfolio. Credit analysts of SME Credit assess the proposal with due emphasis on client’s requirement and capacity. During the assessment analysts fulfill a risk evaluation sheet (which covers most PPG criteria) to ensure compliance with policy and PPG. Identifying key risks involved in the proposal is one of the critical and tricky tasks for the credit analysts; it requires experience of handling such client directly to understand the business modalities and more importantly behavioral issues viz. reputation, character etc. Unlike corporate, Retail and Cards (where all loan proposals require approval from Head Office). SME Credit deals with approval loan proposals of certain area at present.

**4.8.3.1 SME Credit Risk Management Process:**

The whole process of Credit Risk Management of SME department are as follows-

Step 1: CRO’s located in the unit offices across the country prepares a loan proposal.

Step 2: Respective Supervisors (ZM/ARM) recommends the loan proposal and sent to SME Credit.

Step 3: Credit analysts analyzes the loan proposal and place it before approver.

Step 4: Credit Approvers approve/ decline the loan proposal base on the recommendation.

Step 5: File sent to disbursement unit for disbursement.

**4.9 Credit Collection of Bangladesh Development Bank Limited:**

**4.9.1 Credit Collection Unit:**

The collection procedure for SME and Retail begins when the customer does not able to pay one or more contractual payment (Installment). Now it is the duty of the collection unit to reduce the remaining errant receivable and credit losses. It plays a vital part in the credit procedure and in establishing the profitableness of asset products and quality of the portfolio by collecting the errant receivables expeditiously and effectively. The main objective is to secure that, an account that is in accrued is brought up to date and the customer’s goodwill is retained.

**4.9.2 Collection Processes:**

Bank provides offer to the customer with letter or banking provision letter within the time of loan paying out where the schedule are described. When a customer misses needed payment, then account start collections. Collection department always collects the due amount of loan from those customers who miss the installments. There are divergent steps engaged in collection after an account become delinquent till methodization of the account by recovering the accrues. Generally collection has four stages that are servicing, locating, collecting and cancellation & write-off.

The level of suspicious loan is implacable based on the number of days partly of a month’s installment from 1st payment payable by the customer.

**4.9.3 Cards Collection Unit:**

The collection process of credit cards begins when the cardholder does not able to pay one or more contractual payment (i.e. minimum 5% of the outstanding payment) or exceeds the allocated credit limit or both. Now the collection unit try to reduce the accrued suspicious receivable and credit losses.

**4.10 Bad Portfolio Recovery of Bangladesh Development Bank Limited:**

**4.10.1 Special Asset Management- SME and Retail Banking:**

Special Asset Management (SAM)-SME & Retail Banking is a unique division under Credit Risk Management. It plays a vital role to cover the bank’s worst portfolio. It approaches with bank’s non-performing loans by the valid cogency and expedite outside and inside return forces to manage bank’s portfolio at a durable point. Most top priority, it is formed primarily as SME bunch and Retail bunch and also two independent bunches for valid support & MIS and an audit bunch which plays role as inside audit of the both portfolio.

**4.10. 2 File Transfer:**

File send to SAM from SME in a time when the loan arrives at the position of DPD 180. SAM collect the file from Retail when the loan is at DPD 360.

**4.10.3 Legal Notice:**

Valid notice send to SME when DPD is 145 and in case of Retail when DPD is 360, SAM – SME and Retail would organize to deliver 1st valid notice as reminder to the failed borrower to cope up the total accrues and second valid notice would be delivered after bump the cheque or before prosecution. 1st valid notice delivered centrally outside the country and 3rd party return agencies are working those who have failed to pay installments. 1st legal notice send after 15 days and 2nd legal notice send after 30 days according to the NI Act given to the failed borrowers to cope up with the total accrues. SAM will feelers bargain option to regain the overdue loan in term of pledged properties before register the case.

**4.10.4 Write-off Management:**

Bangladesh Development Bank Limited follows specific write-off policy which is provided by Bangladesh Bank. If following criteria satisfied, SAM will take action to write-off the bad portfolios -

* When the loan will be Bad/Loss
* When the loan is fully paid

**4.10.5 Waiver Process:**

SAM try to recover the bank’s bad portfolio by offering waver facility. The waiver amount will be count when the borrower affected by natural calamities, demise, business close etc. But this system is not favor toward the bank policies.

**4.10.6 Case Withdraw:**

SAM withdraw the case when cased defaulter pays all of their installments or in a portion that is accepted by the bank’s policy.

**4.10.7 External 3rd Party Agency Management:**

After the issuance of 2nd legal notice, SAM provides liability of collection to the 3rd party agency. If 3rd party agency be able to recover 30% of outstanding within 90 days, the bank will return the file from the 3rd party agency.

**4.11 Special Asset Management & Credit Inspection- Wholesale Banking and Medium Business:**

Special Asset Management & Credit Inspection- wholesale banking and medium business department follow some certain guidelines to collect installment from the customers. This department functions under three major areas which are as follows-

* Generally, the department monitor loans from the file to field area
* They alert the customer on a regular basis

**Chapter: 05**

**Findings & Recommendations**

**Recommendations:**

To improve credit risk management further, Bangladesh Development Bank Limited should improve in some areas. Those are as follows-

* The Bank should apply 7C instead of 5C as evaluation tools and technique of a credit proposal. Additional 2C which are Coverage and Cash Flow to better understand the credit worthiness of borrower.
* In the Classified loan amount the Bank should identify which sector has the largest position of loan classification. By analyzing past data this kind of risky sector can be identified. After identifying it, strict monitoring can be done for avoiding classified loans.
* Various facilities should be provided to regular borrowers which will encourage a borrower to be a good borrower. Name of defaulters as well as the good and regular payers may be published in various publications which would help the bank to decrease the number of defaulter as well as the volume of large outstanding loan amount.
* Like SME sector, in wholesale and retail sector credit approval authority should be delegated to individual executives rather than board to ensure accountability. This system will not only ensure accountability of individual executive but also expedite the approval process.

**Chapter: 06**

**Conclusions**

**Conclusions:**

Credit Risk Management is very important for any bank. As a third generation bank, Bangladesh Development Bank Limited (BDBL) has a great credit risk management practice which is one of the best in Bangladesh. To prepare this internship report, I have tried to incorporate the necessary and relevant information in my report from my own personal experience as well as other sources. The study conducted by using the data of BDBL and other five commercial banks from the year 2012 to 2016. Like previous years, Bangladesh Development Bank Limited should continue to take regular initiatives to achieve better quality portfolio and move the bank forward. From my opinion, the bank has the great opportunities to go forward.

Researchers found the fact that economic and financial development of a country mostly depend on its banking and financial system. The better the banking system of a country, the better the position of a country. The bank is now adopting with new system of credit risk assessment and lending procedures. Now-a-days, BDBL has also become more conscious about credit collection. Credit appraisal system of the bank is pretty efficient.

We assume that BDBL will be heading towards continue its sufficient lending policy in charge the bank’s financial performance factors at above industrial average and supplement to country’s economic development-thus obtaining higher income status in the world.

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