Thesis Report

on

(Credit Risk Management of Sonali Bank PLC)



Submitted By

Name: Al-Amin
ID No: EMBA 2303030023
Program: Executive Masters of Business Administration
Major: Finance
Semester: Fall-2024

Submitted To

Shakila Yesmin
Lecturer
Department of Business Administration
Sonargaon University (SU)

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Letter of Transmittal

5th January, 2025

Shakila Yesmin
Lecturer
Department of Business Administration
Sonargaon University (SU)

Subject: Submission of Thesis Report.

Dear Sir,

It is my great pleasure to submit the report on "Credit Risk Management of Sonali Bank PLC" as a part of my thesis program. I have tried to make the report a comprehensive one within the given three months of time. I earnestly thank you for your guidance during the preparation of this report. Any sort of suggestion regarding the report will be greatly acknowledged and I will be gratified if my report serves its purpose.

I therefore, request you to accept this report and give me proper suggestion to work in my professional life. I am very much glad that you have given me the opportunity to prepare this report for you and hope that this report will meet the standards of your judgment.

Sincerely yours,

Al-Amin
ID: 2303030023
Program: Executive Masters of Business Administration
Department of Business Administration

Acknowledgement

I am pleased to get this opportunity to give special thanks to the persons whose ideas, views and supports have provided fluency to prepare this report and also enriched this report. I am grateful & truly happy to work on organization of Sonali Bank PLC

I am greatly appreciated and inspired by Shakila Yesmin, Lecturer of Sonargaon University (SU) to write this thesis report on "Credit Risk Management of Sonali Bank PLC". My special thanks go to Ms. Lamia Afroj and. Mr. Omar Faruk from Industrial project & financing division, Sonali Bank PLC, Head Office Dhaka. I would also like to express my gratitude to all my Colleague of Sonali Bank PLC, for supervising me at the time of my thesis attachment with their best efforts.

At all I am greatly thanking to the persons whose enrich books, journals and working papers on international financial management have provided a guideline to me in preparing this report. Moreover, I am very much grateful to all my Colleague of Sonali Bank PLC. This report would not be possible without the cooperation of all the persons of Sonali Bank PLC. Finally, I would like to thank all others whose strong support makes me able to complete this report.

Executive Summary

This thesis report is based on my thesis program and financial statements of 2020- 2023 of Sonali Bank PLC. In my thesis period, I worked in Industrial project & financing division, Sonali Bank PLC, Head Office Dhaka. It was a great opportunity to experience and gather knowledge about different types of banking operations. My faculty supervisor helped me to choose the topic- "Credit Risk Management of Sonali Bank PLC". Sonali Bank PLC is a Largest Commercial Bank in Bangladesh having the aim of serving the community. Sonali Bank focuses on a wide range of financial products and services comprising commercial banking through conventional and Islamic mode, brokerage services, SME agriculture, consumer banking, credit card and offshore banking. The bank has established leadership in corporate banking with growing focus on SME and consumer business. It also plays a leading role in syndicated and structured financing. Sonali Bank has almost all banking products in its stock from student banking to Business banking. The study not only focuses on the activities of Sonali Bank but also highlights the credit management system of the bank. It also contains information about all credit proceedings. In the introduction chapter background, rationales, scope, objective of the study, the methods used for collecting information, limitations has been discussed. Moreover, I have focused on the overview of banking industry in Bangladesh as well as overview of Sonali Bank and its performance. The mission, vision, objectives, products and services have also been reflected in this report. Then, I emphasized on my thesis topics, that covering credit risk analysis, how credit risk is measured and the models and tools available to evaluate it. I have discussed about loans and advances of Sonali Bank Then, I focused on credit sanctioning system, norms of credit sanction, supervision and monitoring of credit and the present changes in credit approval system. I have conducted in depth interview with various officials of the banks to collect necessary information. The findings show that to reduce the non-performing loans, the bank should select borrowers in respect of their credit worthiness, capability to repay the loans; credit rating report of the borrower has a vital role in selection of borrower. In the context of Bangladesh, most of the banks use CRG with few supplementary tools and their personal judgment to evaluate risk. The study was conducted to know the credit sanctioning system of Sonali Bank. The banking sector of Bangladesh is passing through a tremendous reform under the economic deregulation and opening up economy. Currently, this sector is extremely competitive with the arrival of multinational banks, technological infrastructure, effective credit management, higher performance level and utmost customer satisfaction. Sonali Bank followed the credit policy and practices set by the management and the guideline set by the Bangladesh Bank. As a result, they are performing well in reducing the high classification rate and achieving the profit target of the bank. As a part of my EMBA program, I have spent Industrial project & financing division, Sonali Bank PLC, Head Office, Dhaka and learning the activities of HR Division. I have analyzed the financial statements of Financial Performance Analysis of Sonali Bank PLC to find out its ratios by using its past and current records. After preparing this report I came to know that analysis of financial statements through ratios helps to overcome the past flaws and make the future decisions and strategies. Therefore, it is very necessary for every organization whether the company's size is to make financial statement and to analyze it by ratios.

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Chapter: One
Introduction

Introduction

Generally by the word “Bank” we can easily understand that the financial institution dealing with money. The whole scenario of the economy of a country can be ascertained by examining the condition of the banking sector. Banking sector has a vital role to play in the economic activities and development of any country. There are different types of banks like Central Banks, Commercial Banks, Savings Banks, Investment Banks, Industrial Banks, and Co-operative banks etc. But when we use the term “bank” without any prefix or restriction, it refers to the Commercial Banks. Commercial Banks are the primary contributors to the economy of a country like Bangladesh. In Bangladesh, the commercial banks are dominating the financial sector and macroeconomic management largely depends on the performance of the commercial banks as well as banking sector. Banking grew primarily in the public sector with main emphasis on restructuring of the financial system and development needs of the war-torn economy with gradual liberalization in subsequent years. It was increasingly felt that banks should be allowed in the private sector for giving a fillip to development process on the basis of private initiative. In the 80,s for the first time a number of banks in the private sector were allowed. Sonali Bank is one of them. Today the banking concept is not continuing inside the branches or the cabin of the branches. The bankers are now practicing the non-cabin banking. The assurance of the availability of the service provider is main factor in bank service. As a result, it has become essential for every person to have some idea on the bank and banking procedure. At present, there are 62 scheduled banks operating all over the country. Out of these, 6 are state-owned, 11 specialized banks, 43 are private commercial banks and the rest 9 are foreign commercial banks.

Even though banking sector in Bangladesh is going through a radical change, it still suffers from chronic in efficiency. The biggest problem of Bangladesh banking system is the bank loan default problem. Various initiatives have been undertaken to tackle the loan default problem in Bangladesh. One of them is to have a credit policy and procedures guideline mandated by the Bangladesh Bank.

Origin of the report:

Thesis Program of Sonargaon University is a Graduation requirement for the EMBA students, which is also a partial requirement of the Thesis program of EMBA curriculum. The main purpose of thesis is to get the student exposed to the job world. Being in tern the main challenge was to translate the theoretical concepts into real life experience.

The thesis program and the study have following purposes:

- To get and organize detail knowledge on the job responsibility.
- To experience the real business world.
- To compare the real scenario with the lessons learned in the University
- To fulfill the requirement of EMBA Program.

To accomplish the thesis, I was placed at Sonali Bank, Head Office Dhaka, under the guidance of Shakila Yesmin, Lecturer of Sonargaon University, and my academic supervisor. The report topic was approved by the supervisor to satisfy the organizational requirements and fulfillment of the thesis program. As a requirement of the completion of the thesis program, I had to submits is report, which includes an over view of the organization and Credit Risk Management of Sonali Bank PLC

Back ground of the Report:

The main purpose of thesis program is to expose the students to the real world situation. This report is prepared for the thesis program consisting of a major in depth study of total banking business of Sonali Bank Limited. The goal of this analysis is to expose the students in the organizational work situation and also to provide an opportunity for applying classroom learning in practice. The thesis in the final of the program gives the way to practice what we have learnt. It enables students to apply their conceptual knowledge in the practical situation and to learn the art of conducting study and presenting its findings in a systematic manner. The report has been prepared on the basis of experience obtained throughout the thesis period.

Objectives of the Report:

The objective of the report can be viewed as:

- General Objective
- Specific Objective

General Objective: This thesis report is prepared primarily to fulfill the Executive Masters of Business Administration (E.M.B.A) degree requirement under the Department of Sonargaon University. The general objective of this report is to understand the importance of the credit and the performance of the Sonali Bank PLC.

- To fulfill the requirement for the completion of EMBA program.
- To observe and learn the Credit Process & Risk Management of Sonali Bank PLC

Specific Objective: More specifically, this study entails the following aspects:

- To identify the procedure of loans and advances.
- To identify the main factors of credit risk and computation of credit risk grading of Sonali Bank PLC.
- To identify the financial performance by analyzing ratios.
- To observe the working environment in Sonali Bank PLC.

Scope of the Report:

The report plots a chronicle outline of Sonali Bank Limited and its operation. The information consists of the observation and the job experience acquired throughout the thesis period. The report concerns about the Credit Division of Sonali Bank. Sonali Bank invested under the guidelines of the central bank framed for the banking system as a whole and for bank of individual sector to achieve the objective of the study. There portal so particularizes the thesis research focus, financial performance of Sonali Bank PLC. This report has been prepared according to extensive analysis of financial statements, credit operating system and procedures of loan supervision.

Limitations of the Report:

Banking contains a huge volume of operation and it is quite impossible to gain knowledge about all activities during a research period. The major limitations of the study faced in preparing this report on disclosure procedure of Sonali Bank PlC are:

- Getting the information and interpreting it, on the basis of my understanding and the implementing it.
- Being public limited company, the private commercial banks like Sonali Bank PLC keep some information restricted like the actual amount of classified loans.
- Financial statements only portray the figures or numbers and their break down but do not clarify the justifications in most of the time.
- Some essential data could not gather because of confidentially concerns.
- Many procedural matters were conducted directly in the operations by the top management level, which may also give sort of restrictions.
- For credit risk analysis Sonali Bank PLC mainly focuses on personal judgment about the borrower and Credit Risk Grading (CRG) manuals is followed in risk analysis.

Methodology:

In order to generate this report both primary and secondary data has been used. The sources that have been used to gather and collect data are given below.

I. Primary Sources: Primary sources of the report are given below-

- Face to face conversation with officers.
- Face to face conversation with clients and vendors.
- Personal diary that contains everyday's experience in bank while undergoing practical presentation.

II. Secondary Sources: Secondary sources of the report are given below-

- Annual reports of Sonali Bank PLC from 2020 to 2023.
- Different written document of Sonali Bank PLC.
- Credit Risk Grading Manual, published by Bangladesh Bank.
- Website.
- Articles.

Chapter: Two
Overview of Banking Industry in Bangladesh

History of Banking in the World:

When money became an accepted medium of exchange, the need arose to keep the money safe. In addition, some people needed to borrow money. These needs led to the development of banks. The earliest banking records, dated around 2000 B.C., indicate that Babylon had a highly developed banking system. Babylonian banks were not unlike the banks of today, except that you might say they had a monopoly. Many years later, in the sixth century B.C., the first private bank emerged-the Igibi bank.

Like today's bank, it accepted for deposit money on which it paid interest. It also lent money to persons who needed the money for worthwhile purposes and who repaid the borrowed funds with interest. By the fourth century B.C. Greece was the dominant nation in the world. Private and city-state-owned banks existed in the outlying lands of the Greek Empire, but only privately owned banks were allowed in Greece. Government to a great extent regulated these banks; however, Rome then became the dominant empire. Under early Roman law, banks could only be privately owned, but they were regulated by law. With the fall of the Roman Empire, banking became essentially illegal until the third century A.D. By the fourteenth century, when trade routes were being developed, privately owned banks were once again allowed. And by the fifteenth century, banks were needed to advance the huge sums of money required to send out ships to bring back valuable commodities such as spices; silk, and gold. At this time in history, banking was big business.

Banking System in Bangladesh:

The banking system of Bangladesh has undoubtedly made significant strides during the last years. Banking network now covers the entire country. Commercial banks play a very important role in our economy; in fact, it is difficult to imagine how our economic system could function efficiently without many of their services. They are the heart of our financial structure since they have the ability, in co-operation with Bangladesh bank to add to the money supply of the nation and thus create additional purchasing power. This characteristic sets commercial Banks apart from other financial institutions. In addition to issuing deposits

Payable in demands, they accept time deposits. By Lending and investing these resources and by transferring funds throughout the nation and even between countries, they make possible a more complete utilization of the resources of the nation. Although banks create no new wealth, their lending, investing and related activities facilitate the economic processes of production.

After the nationalization of banks in 1972, it was expected that the banks would play theirdueroleforprotectingsocialinterestandintheeconomicdevelopmentprocessofthecountry and thus reverse the trend as set in before liberation. Though Bangladesh Banks (Nationalization) Order, 1972 did not specifically spell out the objectives of the nationalization of banks, but considering the discontentment prevailing during Pakistan period and the basic principles of the country which were constitutionally established in1972, the following major objectives of the nationalization of commercial banks might be discerned:

1. Expansion of bank branches for extension of bank services into rural areas.
2. Mobilization of domestic savings, particularly rural savings more effectively.
3. Providing of adequate credit to priority sectors such as agriculture, small industries,
4. Ensuring balanced regional development.
5. Removal of control of banks by few individual.

List of Banks in Bangladesh

The commercial banking system dominates Bangladesh's financial sector. Bangladesh Bankis the Central Bank of Bangladesh and the chief regulatory authority in the sector. At present, there are 62 scheduled banks operating all over the country. Out of these, 6 are state-owned, 11 specialized banks, 43 are private commercial banks and the rest 9 are foreign commercial banks.



AB Bank



Agrani Bank



Al-Arafah Islami Bank



Bangladesh Commerce Bank



Bangladesh Development Bank



Bangladesh Krishi Bank



Bank Alfalah



Bank Asia



BASIC Bank



Bengal Commercial Bank



BRAC Bank



Citibank



Citizens Bank



City Bank



Commercial Bank of Ceylon



Community Bank



Dhaka Bank



Dutch-Bangla Bank



Eastern Bank



EXIM Bank



First Security Islami Bank



Global Islami Bank



Habib Bank



HSBC Bank



ICB Islamic Bank



IFIC Bank



Islami Bank



Jamuna Bank



Janata Bank



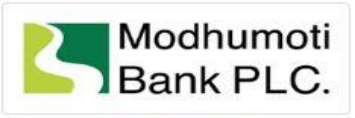
Meghna Bank



Mercantile Bank



Midland Bank



Modhumoti Bank



Mutual Trust Bank



National Bank



National Bank of Pakistan



NCC Bank



NRB Bank



NRB Commercial Bank



One Bank



Padma Bank



Premier Bank



Prime Bank



Probashi Kallyan Bank



Pubali Bank



Rajshahi Krishi Unnayan Bank



Rupali Bank



SBAC Bank



Shahjalal Islami Bank



Shimanto Bank



Social Islami Bank



Sonali Bank



Southeast Bank



Standard Bank



Standard Chartered Bank



State Bank of India



Trust Bank



Union Bank



United Commercial Bank



Uttara Bank



Woori Bank

Chapter: Three
Organizational Background

Overview of Sonali Bank PLC

Sonali Bank PLC Soon after independence of the country Sonali Bank emerged as the largest and leading Nationalized Commercial Bank by proclamation of the Banks' Nationalization Order 1972 (Presidential Order-26) liquidating the then National Bank of Pakistan, Premier Bank and Bank of Bhwalpur. As a fully state owned institution, the bank had been discharging its nation-building responsibilities by undertaking government entrusted different socio-economic schemes as well as money market activities of its own volition, covering all spheres of the economy.

The bank has been converted to a Public Limited Company with 100% ownership of the government and started functioning as Sonali Bank Limited from November 15, 2007 taking over all assets, liabilities and business of Sonali Bank. After corporatization, the management of the bank has been given required autonomy to make the bank competitive & to run its business effectively.

Sonali Bank PLC (before Sonali Bank Limited) is governed by a Board of Directors consisting of 11 (Eleven) members. The Bank is headed by the Managing Director & Chief Executive Officer, who is a well-known Banker and a reputed professional. The corporate head quarter of the bank is located at Motijheel, Dhaka, Bangladesh, the main commercial center of the capital.

Background of Sonali Bank Limited

Sonali Bank PLC: Bangladesh's Largest State-Owned Commercial Bank

Sonali Bank PLC, the largest state-owned commercial bank in Bangladesh, was established under the Nationalization Order of 1972 (Presidential Ordinance No. 26 of 1972) by merging National Bank of Pakistan, Bank of Bahawalpur, and Premier Bank. To enhance efficiency and service quality, it was registered as "Sonali Bank Limited" with the Joint Stock Companies and Firms on June 3, 2007. Subsequently, the Bangladesh Bank issued a banking license on June 5, 2007, and following a "Vendor Agreement" between the Government of Bangladesh and Sonali Bank Limited, the bank started its operations as a company from November 15, 2007.

In addition to expanding banking services, Sonali Bank Limited formed a subsidiary company named "Sonali Investment Limited," initiating merchant banking operations from September 14, 2009, to encourage investments and promote robust economic growth.

From June 29, 2010, the bank launched Shariah-based Islamic banking services through Islamic banking windows in Dhaka, Chattogram, Sylhet, Khulna, and Bogura. Moreover, the bank fulfills its corporate social responsibility through the establishment of "Sonali Foundation."

Currently, Sonali Bank PLC operates 1,233 branches, including 1,231 domestic branches and 2 international branches. Among the domestic branches, 695 are located in rural areas and 536 in urban areas. Additionally, 48 branches are authorized dealer (AD) branches that handle foreign trade operations. The bank's international branches include one each in Kolkata and Siliguri, India.

For efficient administrative and business management, Sonali Bank has 18 General Manager's Offices and 69 Principal Offices. Its Head Office oversees the bank's overall activities through 47 departments. The bank serves approximately 24.7 million accounts of various types.

To enhance employee efficiency, the bank provides training through its "Sonali Bank Staff College" in Dhaka and additional training institutes in Chattogram, Rajshahi, Khulna, Bogura, and Mymensingh.

Sonali Bank PLC has expanded its presence internationally by establishing "Sonali Exchange Company Inc." (SECI) in the USA in 1994, which operates nine branches. In the UK, "Sonali Bank (UK) Ltd." a joint venture between Sonali Bank PLC and the Government of Bangladesh—has been operational since 2001, with six branches. The bank also has representative offices in Riyadh and Jeddah in Saudi Arabia, as well as in Kuwait.

Through partnerships with institutions like Malaysia's May bank and IME (M), SDN, BHD, the bank facilitates the remittance of funds by Bangladeshi workers abroad. It also processes remittances using methods like Western Union, IME, TRANSFAST, EXPRESS MONEY, and SPOT CASH, even for non-account holders. Sonali Bank collaborates with 80 banks and exchange houses worldwide for remittance services and conducts foreign trade operations through 48 authorized branches and 617 foreign correspondents globally. The bank employs a skilled workforce of 18,115 personnel, including 17,030 officers and 1,085 staff members.

Sonali Bank PLC is committed to advancing Bangladesh's socio-economic development. It offers various deposit products to encourage public savings and provides loans for agriculture, industry, small businesses, SMEs, consumer goods, and import-export activities.

Additionally, the bank handles government treasury operations in areas without Bangladesh Bank branches. It also facilitates pension and retirement payments for government and private employees, disburses salaries for educational institutions, offers scholarships, processes social safety net allowances, manages sales and purchases of government savings bonds, pays for government food grain procurements, collects bills for service organizations, and handles funds for Hajj and Zakat, among other social services.

Corporate Information:

Name of the Bank	**Sonali Bank PLC**
Status:	**Public Limited Company**
Head Office:	**35-42,44 Motijheel Commercial Area, Dhaka-1000**
Phone:	**+8809610016639, - 16639**
Swift Code:	**BSONBDDH**
E-mail:	**info@ sonalibank.com.bd**
Web Page:	**www. sonalibank.com.bd**

The Vision of Sonali Bank PLC:

A leading bank dedicated to ensuring socio-economic development of the country through efficient, inclusive, modern technology-based, creative and responsible banking services.

The Mission of Sonali Bank PLC:

To be the premier financial institution in the country providing high quality products and services backed by latest technology and a team of highly motivated personnel to deliver **"**Excellence in Banking."

Slogan:

Trusted and smart

The Corporate Values of Sonali Bank PLC:

- Customer Focus
- Integrity
- Quality
- Team Work
- Respect for the individual
- Responsible Citizenship

The Strategic Objectives of Sonali Bank PLC:

Our objectives are to conduct transparent and high quality business operation based on market mechanism within the legal and social frame works pelt in our mission and reflected in our vision.

⇨ **Customer satisfaction:** Providing quality and timely services to ensure customer satisfaction

⇨ **Security:** Helping clients secure their wealth through a secure banking system

⇨ **Regional development**: Expanding the loan portfolio to the business, agro-sectors, and industry

⇨ **Online services:** Expanding online services, such as online checking, issuing visas and Master cards, and online settlement of customer accounts

⇨ **Reducing third-party dependency:** Reducing third-party dependency in providing banking services

⇨ **Call center**: Introducing a call center to provide services to customers 24/7 via telephone

⇨ **Cashless transactions**: Working in line with the Bangladesh Bank's aim of making 75% of total financial transactions cashless by the year 2027

⇨ **Corporate governance:** Promoting transparency, accountability, and ethical conduct in the bank's governance framework, board structure, and governance policies

⇨ **Sustainable finance**: Supporting actions mitigating or addressing a specific social issue and/or seeking to achieve positive social outcomes

Sonali Bank PLC is a fully state-owned institution that is governed by a Board of Directors consisting of 11 members. The bank's corporate headquarters is located at Motijheel, Dhaka, Bangladesh

- Our greatest concerns are our customers to provide them continually efficient, innovative and high quality products with excellent delivery system.

- Our motto is to generate profit with qualitative business as a sustainable ever-growing organization and enhance fair returns to our shareholders
- We are committed to our community as a corporate citizen and contributing towards the progress of the nation as our corporate social responsibility.
- Our employees are our backbone. We promote their well being through attractive compensation package, promoting staff morale through training, development and career planning.
- We strive for fulfillment of our responsibility to the government through paying entire range of taxes and duties and abiding by the other rules.

SWOT Analysis:

SWOT analysis is done for a company to find out its overall strength, weaknesses, threats and opportunities leading to gauging the potential of the company. The SWOT analysis enables a company to recognize its market standing and adopt strategies accordingly. Here SWOT analysis of Sonali Bank Limited is made to understand the positioning of Sonali Bank Limited

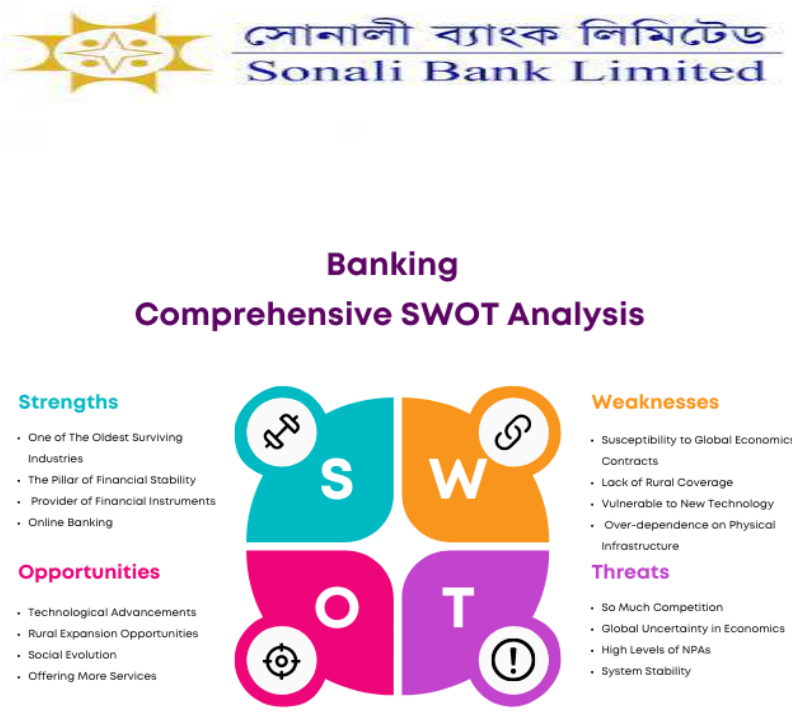


Fig: SWOT Analysis of Sonali Bank PLC

Strengths:

- **Strong Corporate Identity:** According to the customer, SBL is the leading provider of financial services identity worldwide. With its strong corporate image and identity, it has better positioned itself in the minds of the customers. This image has helped SBL grab the personal banking sector of Bangladesh very rapidly.
- **Strong Employee bonding and Belongings:** SBL employees are one of the major assets of the company. The employees of SBL have a strong sense of commitment towards organization and also feel proud and a sense of belongings towards SBL.
- **Efficient Performance:** SBL provides problem free customer services to its clients comparing to other financial institutions.
- **Young Enthusiastic Workforce:** The selection and recruitment of SBL emphasizes on having the skilled graduates and postgraduates who have little or no previous work experience.
- **Empowered Workforce:** The HR of SBL is extremely well thought and perfectly managed. The empowered environment makes SBL a better place for the employees.
- **Hospitable Working Environment:** The working environment of SBL is really good and comfortable.
- **Strong Financial Position:** SBL is not just sitting on its previous year's success but also taking initiatives to improve.

Weaknesses:

- **High charges of L/C:** Presently SBL charges same rates for all types of import L/C. But for import L/C of exports oriented industry, SBL should reduce the charge of L/C. As a result, country will be benefited and the country will earn more foreign exchange.
- **Absence of strong marketing activities:** SBL does not have any strong marketing activities through mass media and television. Although SBL does lots of CSR activities compared to other banks.
- **Not enough innovative products:** In order to be more competitive in the market, SBL should come up with more attractive and innovative products.
- **Lack of proper motivation:** The salary at SBL is very decent, but it lacks other sorts of motivation such as: incentive bonuses.
- **High cost for maintaining account:** The account maintenance cost for SBL is comparatively high. As a result, this might turn out to be a negative issue for SBL.

Opportunities:

- **Distinct operating procedure:** Repayment capacity by SBL of individual clients helps to decide how much one can borrow. So, the recovery rate helps SBL to be remaining in the long run.
- **Country wide network:** The ultimate goal of SBL is to expand its operations to whole Bangladesh. So, by holding the mission and vision SBL can secure its existence in the long run.
- **Experienced Manager:** One of the key opportunities for SBL is its efficient managers. SBL has employed experienced managers to facilitate its operation.
- **Huge population:** Bangladesh is a developing country. So to satisfy the needs of the huge population, a large amount of investment is required. The foreign investment in our country made it attractive to the foreigners to invest in our country.

Threats:

- **Similar products are offered:** Nowadays different foreign and private banks are also offering similar types of products with an almost similar profit margin.
- **Default loans:** The problem of default loans or non-performing loans is very minimum or significant. For this reason, some proactive measures should be taken to minimize this position.
- **Industrial downturn:** Unemployment may create industry wide recession. On the other hand, inflation also may create downward pressure on the capital demand for investment.

Management Aspect:

Like any other business organization, all the major decision in Sonali Bank Ltd. is made by the top management. The boards of directors being at the higher level of organizational structure play an important role in policy formulation. The board of directors is not directly concerned with the day- to -day operation of bank. They have delegated this duty to the management committee. The board mainly establishes the objective sand policies of the bank. There are two committee of the board for different purposes:

- **Audit Committee:** The Chief Audit Officer (CAO) reports to the Audit Committee, as well as the CEO and MD. The CAO is responsible for communicating with the competent authority about internal audits and inspections.
- **Board Risk Management Committee:** The CAO also reports to the Board Risk Management Committee.

Sonali Bank has a board of directors with 11 members. The bank has a corporate governance structure that promotes transparency, accountability, and ethical conduct

The chief executive officer, who is assisted by executive vice presidents (EVPs), looks after the day-to-day affairs of the bank. Human resource department, MDs secretariat and audit and compliance department are under direct control of the CEO. The EVPs are in charge of operations, credit and corporate banking respectively. They control the affairs of departments through the managers who are in charging of various departments under these divisions. Mid and low level employees get the direction and instruction from the top executives about the duties and tasks they have to perform. Management of Sonali Bank Limited assumes that employees are member of the team, who actively participate in accomplishing the organizational goals. The chief executive provides the guideline and board direction to the managers and employees but delegates responsibility for determining how tasks and goals are to be accomplished.

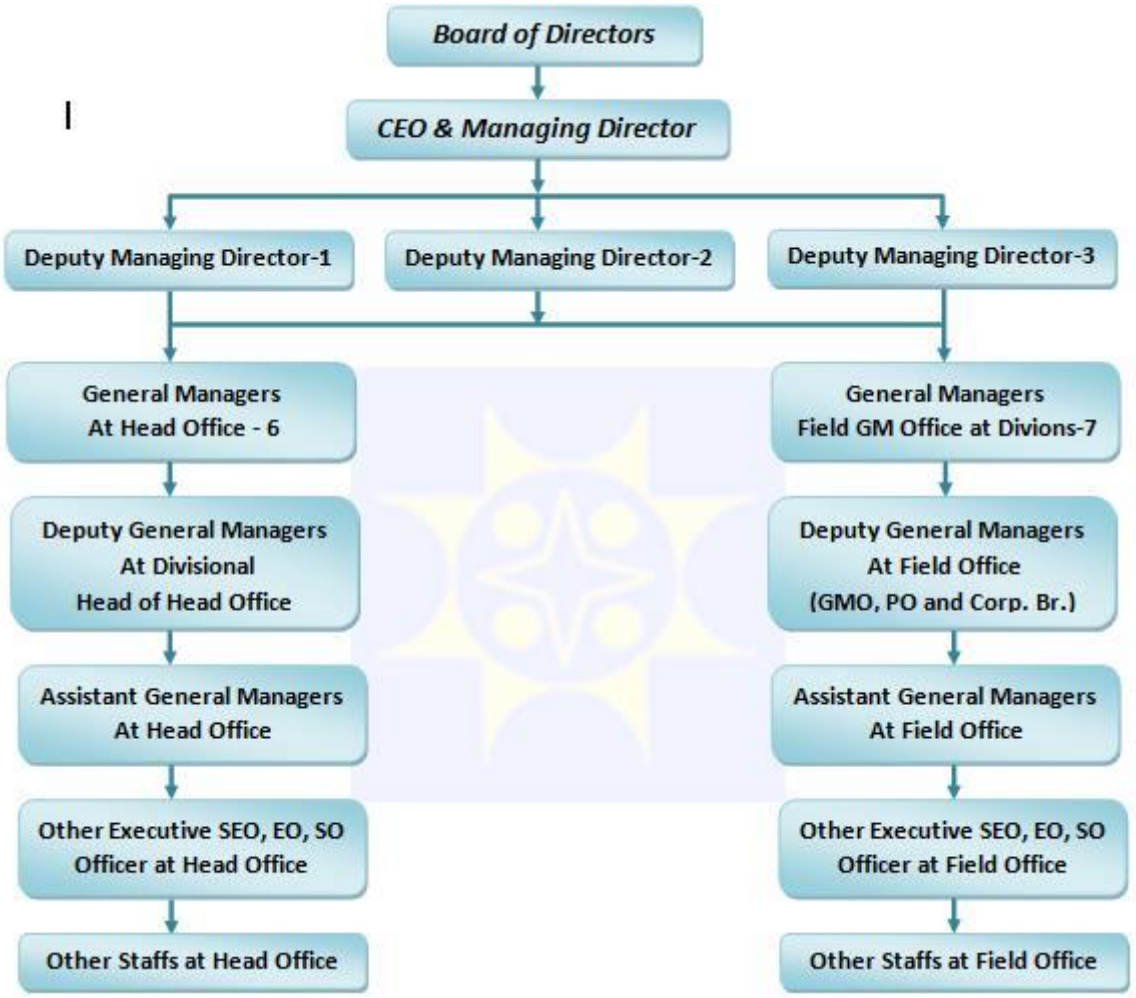


Fig: Level Management of Sonali Bank

CSR Activities of Sonali Bank Limited:

Every business has three major goals: sustaining profit, sustaining the brand and sustaining the staff. And a business has to strive for earning profit as it is essential for its survival and growth as an enterprise. Socially responsible business practices reduce a company's financial profit but could potentially enhance its value. Sustainable Corporate Social Responsibility (CSR) initiatives are embedded in the viable business strategy of organization. The role of CSR, especially from the viewpoint of company, is important in bridging the economic divide that exists in the country.

Sonali Bank Limited (SBL) is a state-owned commercial bank in Bangladesh that engages in a number of Corporate Social Responsibility (CSR) activities. These include:

Financing

SBL finances capacity building, education, and employment generation through microfinance institutions (MFIs) and government-approved NGOs.

Green banking

SBL finances the trading of green and agro products through online and e-business platforms.

Distributing aid

SBL has distributed blankets and mosquito curtains to poor, homeless, and helpless people

Spending on CSR

SBL spends on CSR initiatives in education, health, culture, sports, and social welfare. CSR activities can contribute to economic growth, ethical behavior, and the quality of life for employees, their families, and the local community.

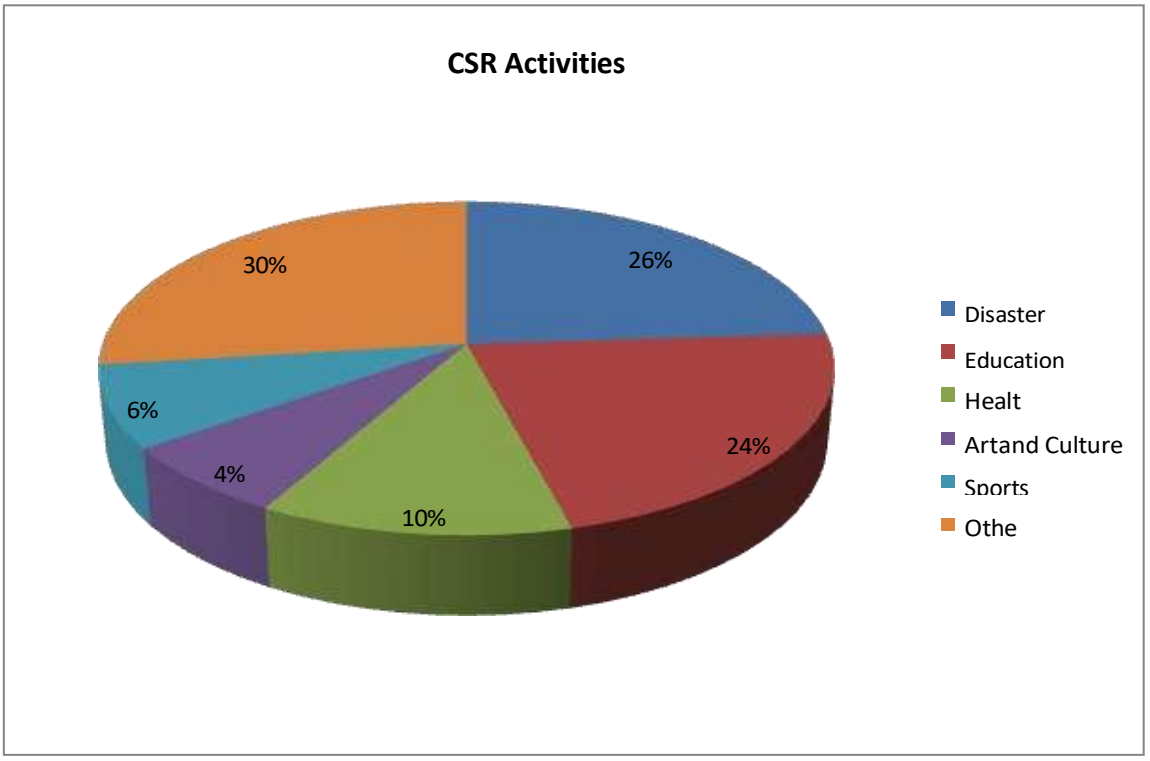


Fig: CSR Activities Percentage of Sonali Bank

Total Branches of Sonali Bank Limited in Bangladesh:

According to the "Annual Report 2023"thereare1233 branches allover Bangladesh which includes 536 urban and 695 rural branches an offshore banking unit.

Branches & Subsidiaries:

1.	Total No of Branches			**1233**
	a.	No of Foreign branches		2
	b.	No of Local branches		**1231**
		i)	No of Rural Branches	695
		ii)	No of Urban Branches	536
2.	No of G.M. Offices			18
3.	No of Principal Offices			69
4.	No of Regional Offices			0

Products and Services of SBL:

Sonali Bank Limited has provided the following products.

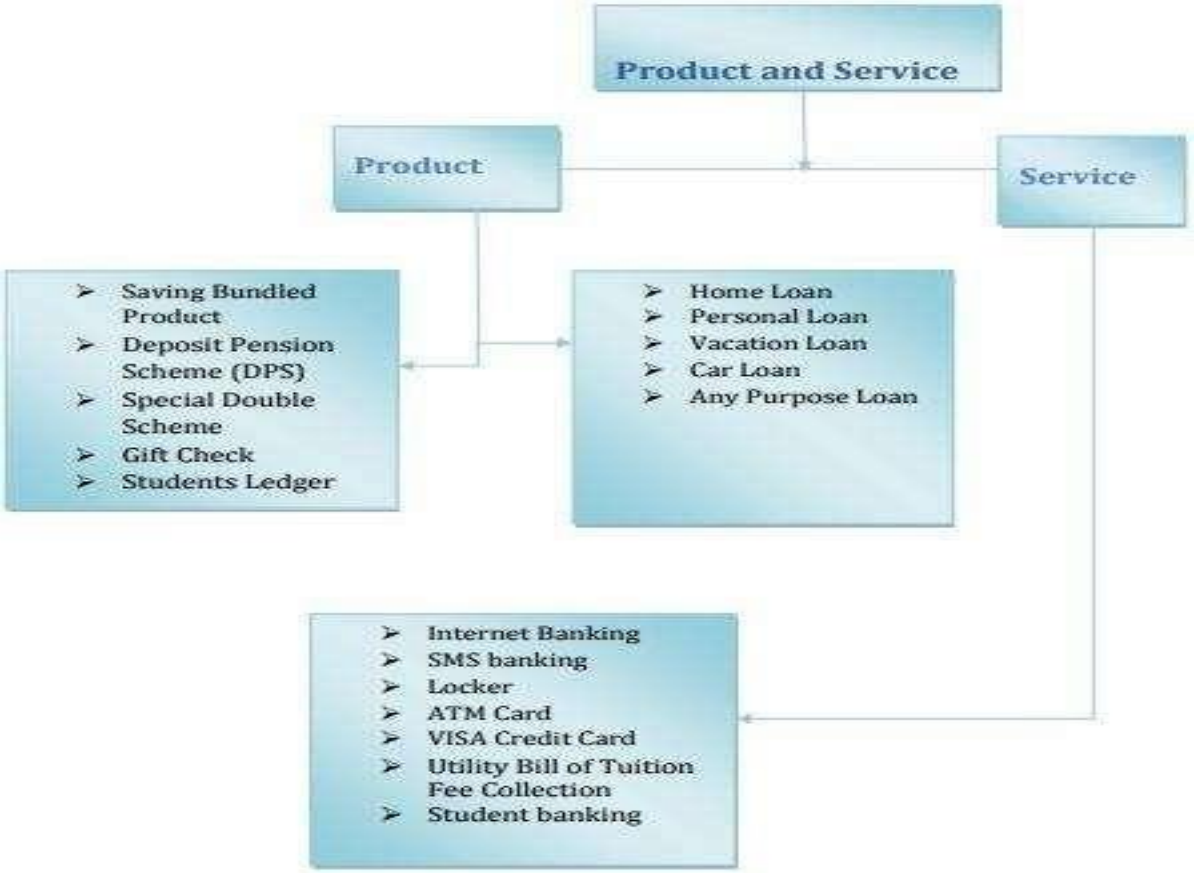


Fig: Products and Services of Sonali Bank Limited

Sonali Bank PLC offers multiple special services with its network of branches throughout the country in addition to its normal banking operations.

Collection:	Payment:
• A Challan • Source tax and VAT. • Customs & Excise duties. • Gas bills • Electricity bills. • Telephone bills. • WASA bills. • Municipal Holding Tax. • Passport fees, visa fees and Travel tax. • Jakat fund. • Hajj deposit. • Land development tax.	• Pension of employees of Government and other Corporate Bodies. • Bangladesh Bank employee's pension. • Army pension. • British pension. • Students' stipend/scholarship. • Govt. & Non-Govt. Teachers' salary. • Food procurement bill on behalf of the Govt.

Social Services:

- Widows, divorcees and destitute women allowances.
- Freedom Fighters' allowances.
- Rehabilitation allowances for acid survival women.

Sale & Encashment/Purchase:

- Savings Certificates.
- ICB Unit Certificates.
- Prize Bonds.
- Wage Earner's Development Bonds.
- US Dollar Premium & Investment Bond.
- Lottery tickets of different Semi-Govt. and Autonomous Bodies.
- Sanchaypatra.
- Public Service Commission's application form.
- Judicial Service Commission's application form.
- Exchange of soiled / torn notes.

Misc. Services:

- Bank a/c information of tax payer client according to demand of NBR.
- Local Governance Support Project.
- Enlist of Non Government Insurance Company.

Corporate Banking:

Sonali Bank recognizes that Corporate Customers' needs vary from one to another and a customized solution is critical for the success of their business. Sonali Bank offers a full range of tailored advisory, financing and operational services to its corporate client groups combining trade, treasury, investment and transactional banking activities in one package. Whether it is a Project Finance, Term Loan, Import or Export Deal, Working Capital Requirement or Forward Cover for a Foreign Currency Transaction, Corporate Banking Managers will offer the right solution.

Securitization of Assets: Sonali Bank play a significant role in ensuring that Securitization of Assets becomes a normal part of the range of financial instruments available for organizations who can counting steady, but piecemeal, flow of revenue and want to translate this stream into cash resources with which to carry out further lending activities to new customers. Some practical issues still need to be settled such as those concerning pricing, or the legal framework, but it are expected that, as Sonali Bank and- other institutions pursue more such securitization activities these will be resolved.

Finance & Advisory Services: Given the needs of its large and varied base of corporate clients Sonali Bank will be positioning itself to provide investment banking advisory services. These could cover whole spectrum of activities such as Guidance on means of raising finance from the local Stock markets, Mergers and Acquisitions, Valuations, Reconstructions of Distressed companies and other expert knowledge based advice. By this means Sonali Bank hopes to play the role of strategic counselor to blue-chip Bangladesh companies and then move from the level of advice to possible implementation of solutions to complex financing problems that may arise from time to time. This would be an extra service that would complement the normal financing activities that Sonali Bank already offers to corporate business houses.

Working Capital Finance: Sonali Bank caters to the working capital needs of the client taking into account the current asset requirement of the client. Sonali bank extends different types of working capital facility like Back-to- Back LC, Loan against Trust Receipt(LTR),Cash Credit(CC),Overdraft (OD)facility, Short Term Loan (STL), Bank Guarantee, etc. to facilitate the business operation of the client.

Online Banking: Convenience is the key feature of SBL service. SBL's aim is to provide every customer easy access to his/her account from any branch and ultimately from anywhere. Recognizing the need of customers SBL has networked all of its branches all over the country to permit its valued customers to carry out transactions from any branch.

Status of Tax Assessment of the Company

The Company has submitted Income Tax Return for the year 2010 to DCT showing total income of Tk 53,142,899 and Tax amounting Tk. 17,674,025 has been paid before submission of Return. DCT settled the income tax case with an additional income tax claim for Tk. 4,434,098. The company has appealed against the claim. The Commissioner of Taxes (Appeal) settled the appeal case on 21 August 2013 with reduced to Tax amount Tk. 4,420,163. The company has appealed to the Taxes Appellate Tribunal Division against the claim. The Commissioner of Taxes (Tribunal) rejected the appeal case on 26 August 2015. The company has filed an Income Tax Reference Application to High Court Division on 26 October 2016 against the Commissioner of Taxes (Appeal) decision. The Company has submitted Income Tax Return for the year 2011 to DCT showing total income of Tk 81,584,399. Tax amounting Tk. 30,433,875 has been paid before submission of Return. DCT settled the income tax case with an additional income tax claim for Tk. 549,784. The Company was paid the such amount. The Company has submitted Income Tax Return for the year 2012 to DCT showing total income of Tk 26,343,997 and payable tax Tk 7,943,390. Tax amounting Tk. 22,080,941 has been paid before submission of the said Return. The company has claimed the excess amount of Tk.19,121,429 for refund. DCT settled the income tax case with an additional income tax claim for Tk. 121,816,431. The company was appealed to Commissioner of Taxes (Appeal) against the claim. The Commissioner of Taxes (Appeal) rejected the appeal on 22 October, 2015. The company appealed to the Taxes Appellate Tribunal Division against the claim and as per order of the Taxes Appellate Tribunal, Benches-5, the appeal is sent back on remade to the learned CT(A) concern with direction do dispose of the appeal on merit after allowing the assessed an opportunity of being heard. As the appeal is remanded other ground have became redounded. CT (A) sent back to DCT as per Tribunal Order. But DCT did not accepted for review and Revised their order as it is. The Company again appealed to the Commissioner of Taxes (Appeal) against the DCT order. The Commissioner of Taxes (Appeal) did not accept the Appeal. The company has again appealed to the Taxes Appellate Tribunal Division against the claim. The Commissioner of Taxes (Tribunal) rejected the appeal case on 27 January 2020. The company has filed an Income Tax Reference Application to High Court Division on 26 January 2021 against the Commissioner of Taxes (Appeal) decision.

At a Glance, Sonali Bank plc Achievements in 2023 are as Follows:

Particulars	Amount in Million		% Change
	2022	2023	
Total Loans & Advance	846430.23	1008052.68	19.09 %
Total Deposits	1420362.93	1506183.93	6.04 %
Advance Deposit Ratio	59.59%	66.93%	7.34 %
% of Classified Loans	14.83%	13.11%	-1.60 %
Net Interest Margin	2089.43	4758.67	127.75%
Total Income	91301.70	119721.55	31.13%
Total Operating Profit	23823.07	38461.88	61.45%
Net Profit	3710.42	6514.80	75.58%

Investment of Sonali Bank Limited:

Year	Investment
2022	TK.621272573226.00
2023	TK.623541132682.00

Total Asset of Sonali Bank Limited:

Year	Investment
2022	TK.1789772287480.00
2023	TK.1981129661716.00

Chapter: Four

Credit Risk Management

Credit Risk Management

Credit is the ability to command goods or services of another in return for promise to pay such goods or services at some specified time in the future .For a bank, it is the main source of profit and on the other hand, the wrong use of credit would bring disaster not only for the bank but also for the economy as a whole. Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions. The objective of Credit Risk management of Sonali Bank Limited (SBL) is to minimize the risk and maximize banks risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. The Credit Risk Management department is responsible for upholding the integrity of the Bank's risk/return profile. It ensures that risks are properly assessed, and that risk/return decisions are made accurately and transparently. The overall success in credit management depends on the banks credit policy, portfolio of credit, monitoring, supervision and follow-up of the loan and. advance. Therefore, while analyzing the credit risk management of Sonali Bank Limited (SBL), it is required to analyze its credit policy, credit procedure and performance regarding credit risk management.

Types of Credit Risk

A credit risk can be of the following types:

1. **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.
2. **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.
3. **Country Risk:** The risk of loss arising from a sovereign state freezing foreign currency payments (transfer/conversion risk) or when it defaults on its obligations (sovereign risk); this type of risk is prominently associated with the country's macroeconomic performance and its political stability.

Credit risk is the risk that a borrower will not make full and timely payment of debt service once a borrower falls behind in debt servicing; credit risk also involves the relative size and probable duration of default. It is one of the significant risks a bank is exposed to. Each of the risk areas requires be evaluating and aggregating to arrive at an overall risk grading measure.

The Credit Policy that SBL has followed

In order to minimize the credit risk, Sonali Bank Limited has formulated a comprehensive credit policy according to Bangladesh Bank Core Risk Management guidelines. Credit policy of the Bank provided for the separation of the credit approval function from business, marketing and loan administration function. Credit policy of SBL recommended through credit assessment and risk grading of all clients at the time of approval and portfolio review. The credit policy of SBL has been formulated of the plan of "All New Loans to Be Goods Loans". To form the plan there are some objectives. The objectives are:

- To maximize the profit of the bank by making sound lending
- To deliver credit to viable borrowing at a reasonable cost
- To provide satisfactory return on investment
- To assist the social and economic development of the country
- To deliver general banking services to the public and credit to viable borrower sat a reasonable cost Credit policy of SBL also provides the guidelines of required information for credit assessment, marketing strategy, approval process, loan monitoring, credit recovery, NPL account monitoring, NPL provisioning and write off policy etc.

The Credit Risk Management of SBL

The loan and credit department is a very important department of a bank. The money mobilized from ultimate surplus units are allocated through this department to the ultimate deficit it (borrower).the success of this department keeps a great influence over the profit of a bank. Failure of this department may lead the bank to huge losses or even to bankruptcy. Loan and credit department receive application from client in a prescribed application form supplied by the Sonali Bank Limited. The Bank implemented the system of credit risk assessment and lending procedures by stricter separation of responsibilities between risk assessment, lending decisions and monitoring functions to improve the quality and soundness of loan portfolio. The total volume of loans and advances disbursed by the bank reached a milestone, exceeding Tk 1.0 trillion in 2023. This signifies a notable growth of 19.1 per cent, equivalent to an increase of Tk 161.66 billion

The positive impact has been reflected in its business performance while the Bank has achieved the highest operating profit (Tk. 38,461.88 million) and net profit (Tk. 6,514.80 million) in 2023 among the Bangladeshi banks and is moving faster to achieve more in the upcoming years.

Considering the key elements of Credit Risk, the Sonali Bank Ltd has segregated duties of the officers/ executives involved in credit related activities. Separate division for Corporate, SME, Retail and Credit Cards have been formed which are entrusted with the duties of maintaining effective relationship with the customers, marketing of credit products, exploring new business opportunities etc. According to SBL credit policy, for transparency in the operations during the entire credit year four teams have been set up. Those are:

- Credit Approval Team
- Asset Operations Department
- Recovery Unit
- Impaired Asset Management

A credit management process has been made that helps the credit risk department to deal with the customers and employees. The process is given below.

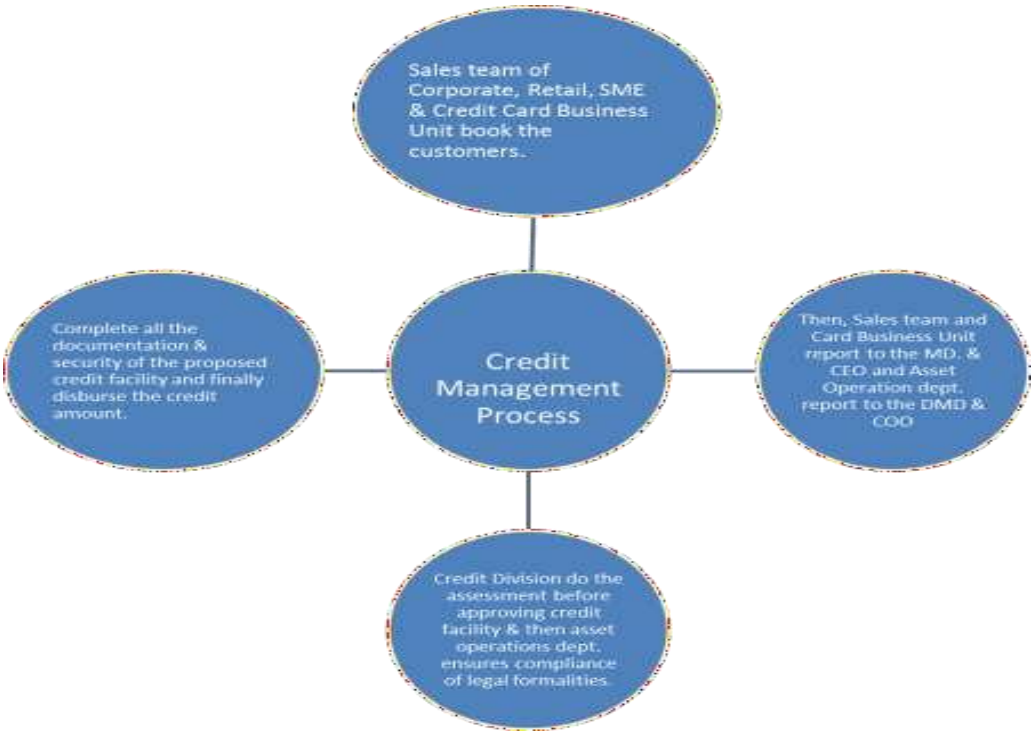


Fig: Credit Management Process

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

Functions of the Credit Department

Lending money is one of the main functions of a commercial bank. In the lending process, selection of borrower is the most crucial and vital job for a banker. Before a customer enjoys credit facilities it is important that the applicant should qualify for five **"C"** s. The five **"C"** s are:

Character-Intention to pay back the loan

Capacity- Borrower's competence in terms of utilizing the fund profitably and generate income

Capital-Financial strength to cover the risk

Conditions-General business condition between two parties

Collateral-Implies additional securities

In addition, objectives of the credit department are managing credit exposure of the bank, maintaining credit risk, compliance of Central Bank Ltd., recovering or collecting dues of retail loans or advances. At present credit division of SBL performs following activities.

- Credit Approval Process
- Corporate Credit.
- Retail Credit
- Collection and Monitoring Activity
- Recovery
- Risk management

Besides this, the activities of Credit Risk Department that are maintained in their working process are given below.

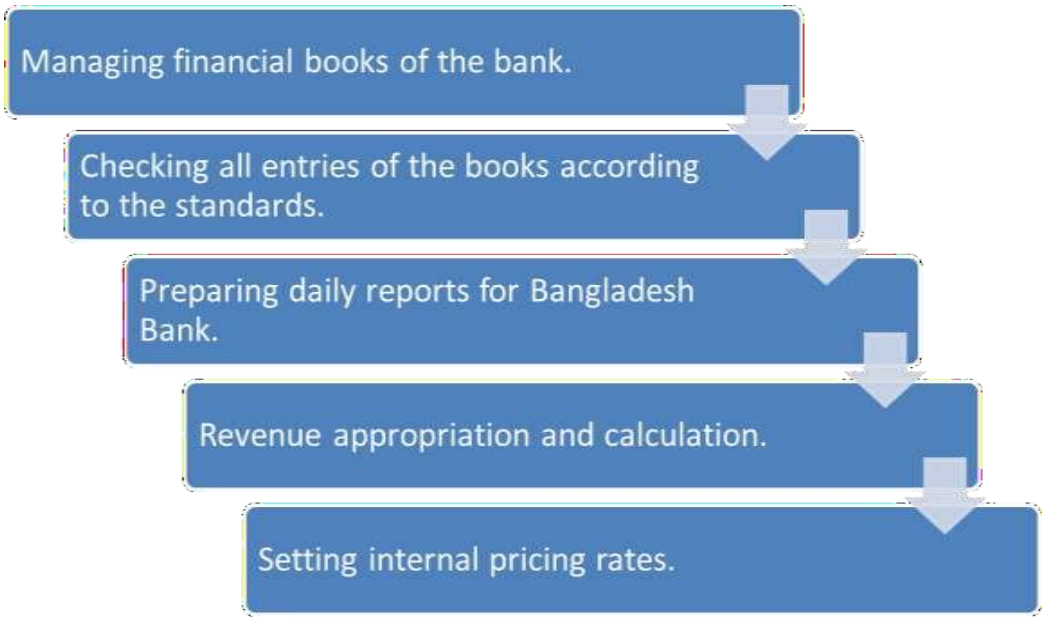


Fig: Activities of Credit Risk Department of SBL

Credit Risk Analysis of SBL

The Sonali Bank Limited has a term for credit analysis. Credit analysis include credit scoring, it is more commonly used to refer to process that entail human judgment. Credit professionals in bank review the client's balance sheet, income statement, recent trends in its industry, the current economic environment, etc. from this they can also assess the exact nature of an obligation. Based on this analysis, the credit manager assigns the client a credit rating, which can be used for making credit decision.

From the observation of Credit Risk Department's working process, it can be said that the credit risk of SBL arises from the following issues:

a) Financial Risk
b) Business/Industry Risk
c) Management Risk
d) Security Risk
e) Relationship Risk

Each of the abovementioned key risk areas require be evaluating and aggregating to arrive at an overall risk grading measure.

- **Evaluation of Financial Risk:** Financial analysis of leverage, liquidity, profitability and interest coverage ratios will help to analyze the risk that borrower might fail to meet obligation due to financial distress.
- **Evaluation of Business/industry Risk:** Analyzing the business outlook, size of business, industry growth, market completion and barriers to entry or exit to understand the industry situation or unfavorable business condition that might have an impact on borrower's capacity to meet obligation. This capitalizes on the risk of failure due to low market share and poor industry growth.
- **Evaluation of Management Risk:** Due to poor management skill, experience of the management, its succession plan and teamwork might cause the borrower to default.
- **Evaluation of Security Risk:** Risk that the bank might be exposed due to or quality or strength of the security in case of default. This may involve the strength of security and collateral, location of collateral and support.
- **Evaluation of Relationship Risk:** These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

Credit Rating Report of SBL

Sonali Bank is managing Credit Risk through a powerful process that enables the bank to manage loan portfolios proactively in order to minimize losses and earn an acceptable level of return for shareholders. Sonali Bank Limited was rated by Emerging Credit Rating Limited (ECRL) on the basis of audited Financial Statements as on December 31, 2014. The summary of SBL‟s Rating is presented below:

Status	2021	2022	2023
Long Term	AA-	AA-	AA-
Short Term	ECRL-2	ECRL-2	ECRL-2
Outlook	Stable	Stable	Stable

Emerging Credit Rating Limited (ECRL) rated `AA' indicates a very strong ability to repay principal and pay interest on a timely basis, with limited increment risk compared to issues rated in the highest category. Emerging Credit Rating Limited (ECRL) rated

`AA-' in the Long Term are adjudged to have a-very strong capacity to meet their financial commitments, and is generally in a position to withstand adverse developments in the economy, and in business and other external conditions. Emerging Credit Rating Limited rated ECRL-2 in the short term is considered to have a strong capacity to meet its financial commitments in a timely manner.

The Outlook "Stable "indicates that a rating is likely to remain unchanged.

Credit Facilities in Sonali Bank Limited

I have noticed that the CRM department has different types of loan facilities to its borrowers. The credit facilities that are offered by SBL in Credit Risk Department are given below.

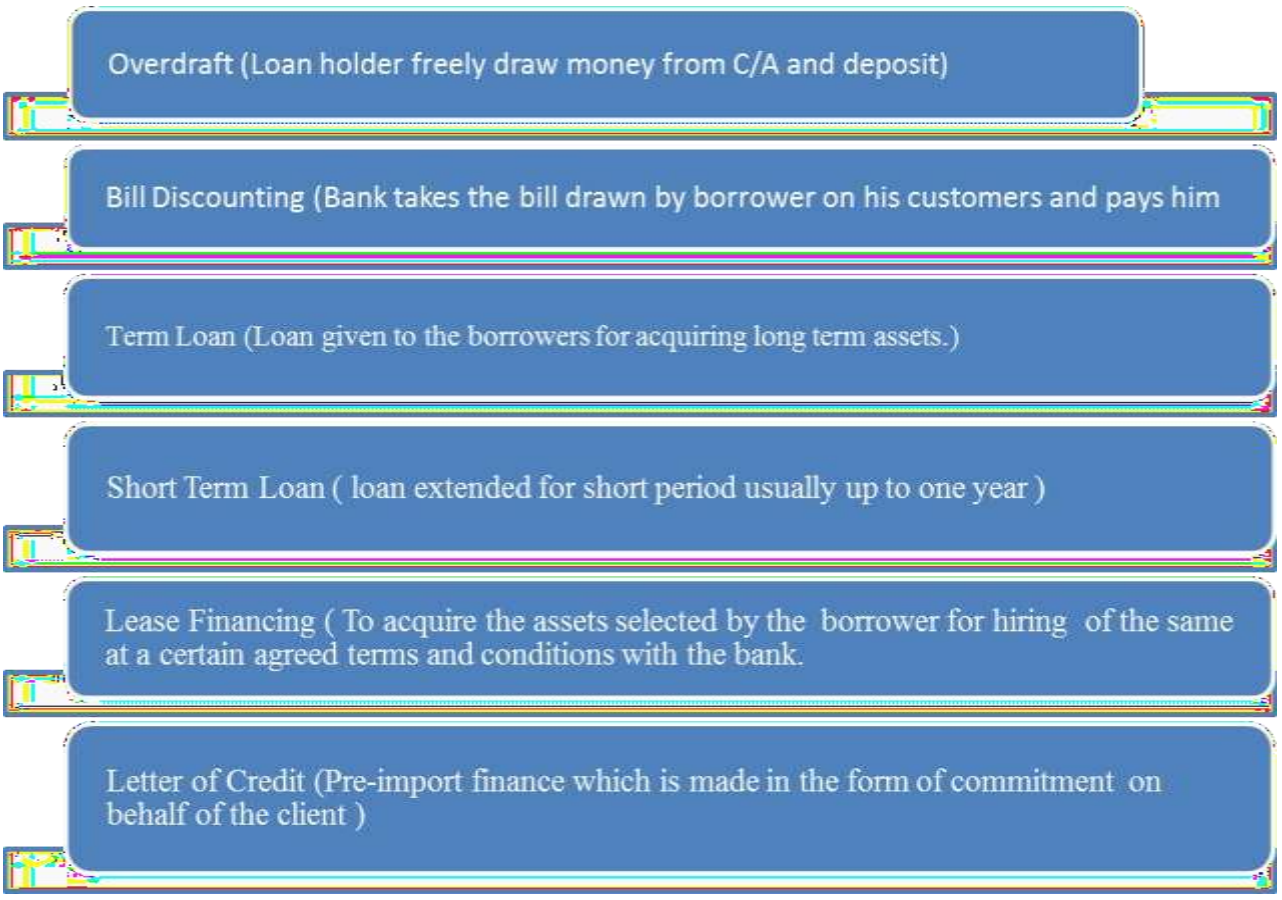


Fig: Different Credit Facilities

There are some other loans that the Credit Risk Department of SBL provides its borrowers. They are:

1. **Personal Loan:** This type of loan is to provide to its fixed income group and other eligible borrowers. Car loan, marriage loan and loan for household income are fall under personal loan. Depending on the size of the loan, the installments vary from 12 to 48 months.

The person who can apply for the loan:

-Professionals

-Salaries individuals.

Loan Size:

-Minimum Loan Amount: Tk.25, 000

-Maximum Loan Amount: Tk.5, 000,000

2. **Car Loan:** The Credit Risk Department provides car loan mainly for purchasing cars that customers want to purchase.

The person who can apply for the loan:

-Professionals

-Salaries individuals.

Loan Size:

-Minimum Loan Amount: Tk. 500,000

-Maximum Loan Amount: Tk.2,000,000

3. **Home Loan:** SBL also provide home loan to its borrower by the following situation.

The person who can apply for the loan:

-Professionals

-Salaries individuals.

Loan Size:

-Minimum Loan Amount: Tk. 500,000

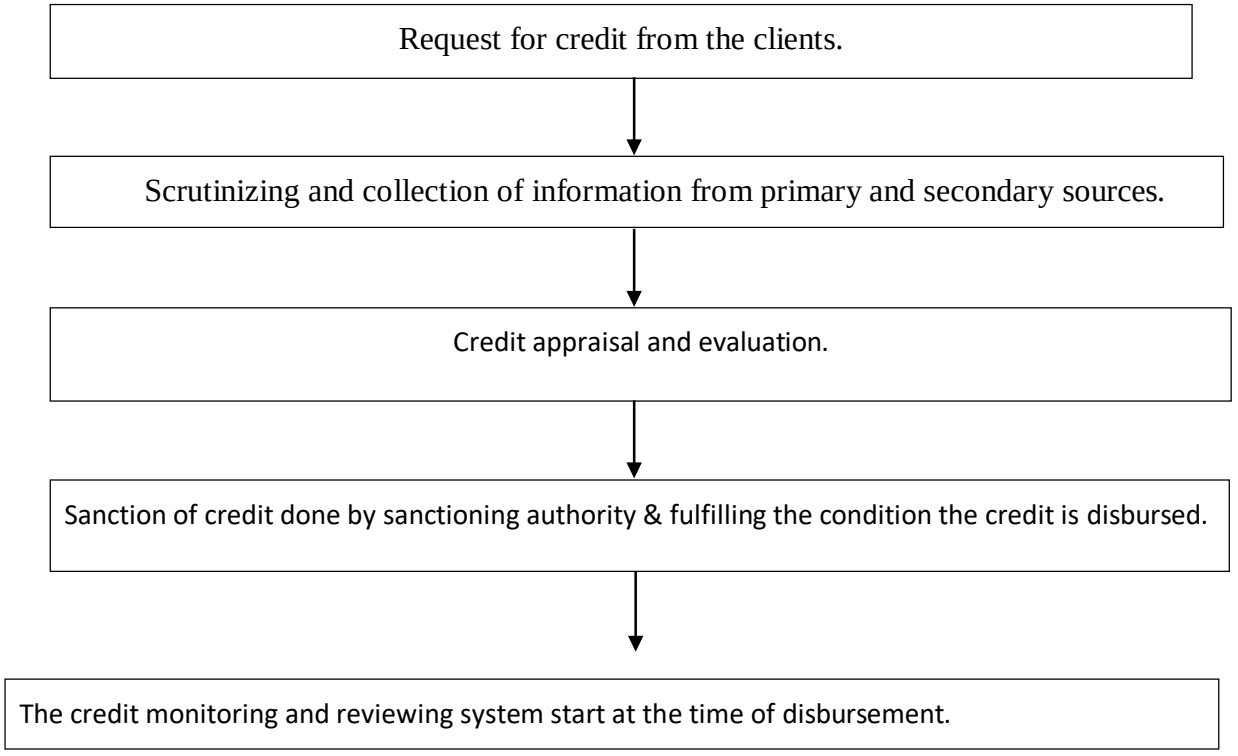
-Maximum Loan Amount: Tk.7,500,000

Chapter: Five
Credit Sanctioning System

Credit Sanctioning System

There is no hard and fast procedure of managing credit; it should follow the instructions of the Bangladesh Bank, Central Bank of Bangladesh and the Circular of Head Office from, time to time.

The steps that have been followed for proceeding credit are:



Preliminary Screening of a Credit Proposal in SBL

Screening means critical diagnosis of a credit proposal at the very initial stage. At the time of screening of a credit proposal the preliminary screening is done on the following aspects.

- Quality of management and the entrepreneurial background of the sponsors
- Equity strength the own capital positions
- Position of assets &properties
- Lineofbusiness,it'sfutureprospectsandtheexistingpositionoftherespective industry
- Required technology, machinery, equipment and their availability
- Location, when there the infrastructural facilities are available
- Potential contribution to the overall economic development of the country
- Security proposed to be given and the genuinely of the title of documents

Analyzing the above matters, it is to be convinced that the credit proposal of SBL satisfies all the key elements of a lending policy such as:

- Safety of fund
- Security
- Liquidity
- Profitability
- Diversity
- National Interest

Approval of Credit by Higher Authority in SBL

Branch credit committee to be headed by the Branch Manager, other members is selected by the manager in consultation with Head Office of Sonali Bank Ltd.

a) **Head Office Committee:** Sonali Bank Limited Head office credit committee works in accordance with authority established and delegated by the Board of Directors. Their functions are as follows:

- Reviewing, analyzing and approving extension of credit in accordance with authority is established and delegated by the Board of Directors.
- Evaluation of the quality of tending staff in the bank & take appropriate steps to improve upon.
- Recommending credit proposal to the Executive Committee Board of Directors which are beyond the delegated authority.
- Ensuring, that all elements of Credit application i.e. Forms, Analysis of statements and other papers have been obtained and are in order.
- Confirming that the transaction is consistent with existing loan policy and Bangladesh Bank guidelines & if not the Committee may prepare a recommendation from an exception to or change in policy for consideration by the Executive Committee Board of Directors.

b) **Executive Committee:** Approving credit facilities as delegated by the Board of Directors. Supervising the implementation of the directives of the Board of Directors. Reviewing of each extension of credit approval by the Head Office Credit Committee/Managing Director. Keeping Board of Directors informed covering all these aspect.

c) **Board of Directors:** Establishing overall policies and procedures for approving and reviewing credits. Delegating authority to approve and review credits. Approving credit for which authority is not delegated. Approving all extensions of credit which are contrary to bank's written credit policies

Norms of Credit Sanction in SBL:

Most important step of providing credit facility is the sanctioning of credit. In this step all the documentation is completed and the customer is sent an advice letter for the credit facility along with all the terms and conditions.

Norms maintained in sanctioning of credits are described below:

- Credit will be sanctioned and disbursed strictly in terms of the approved Credit Operating Manual of the Sonali Bank Ltd. Head Office Circulars issued from time to time.
- All norms informed through the Circulars of Credit Division in particular and all other relevant circulars in general, which are to be followed meticulously while exercising power.
- Credits will be subject of Bangladesh Bank restriction.
- The party to whom credit will be allowed should be as far as possible within the command area
- No Sanctioning Officer can sanction any credit to any of his/her new relations and to any firm/company where his/her relations have financial -interest. Such cases should be sent to the SBL Head Office.
- All Sanctioning Officers maintain a Sanction Register for recording serially all the credits sanctioned by him/her.
- All approval of credit facilities must be conveyed under dual signature. Ideally both the signatories must have the required lending authority. If, however, two lending officers of the required lending are not available, one of the signatories must have the required authority.

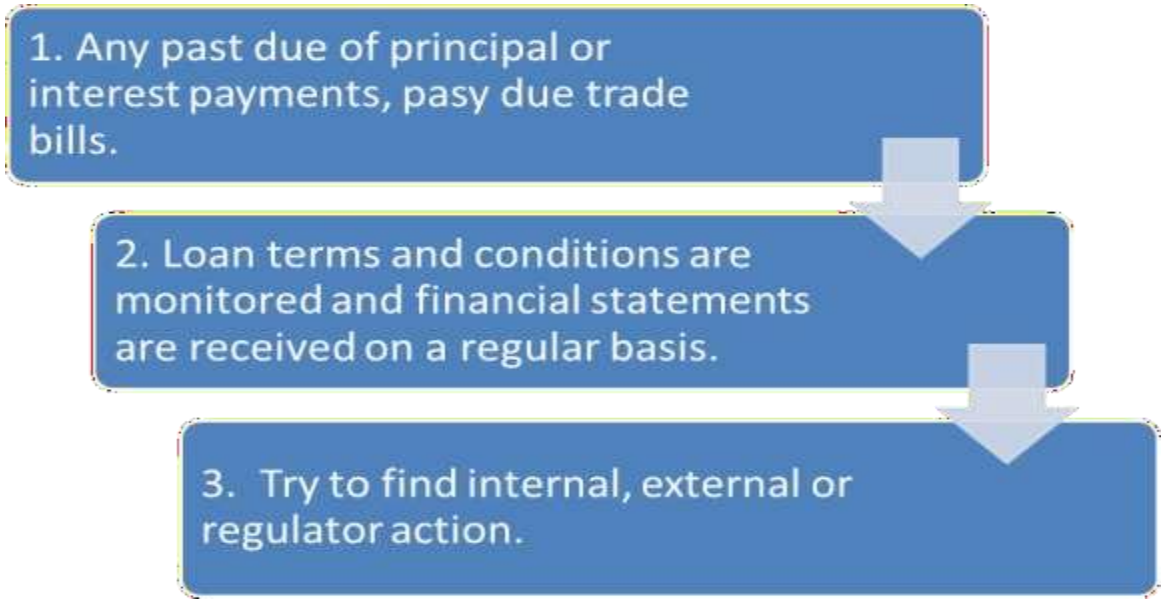
Disbursement Process of Credit in SBL:

Disbursement of credits requires observance of all norms and procedures, which are conveyed through different Circulars of Sonali Bank Limited Head Office, issued from time to time. The processes of disbursement of Credit in Credit Risk Department are:

- All standard and security documents are prepared in accordance with approval terms.
- Documentation check list has been prepared.
- Credit administration department thistly authorized the disbursement.
- Disbursement authorization form is documented as an evidence of document.
- A proper of backup of all the documents is maintained in the computer system.
- Exceptions should be referred to legal counsel for advice based on authorization from an appropriate executive in CRM.
- Disbursements under loan facilities are only be made when all security documentation is in place.
- CIB report should include the name of all the lenders with facility limit &outstanding.

Credit Monitoring Policy in SBL:

To minimize credit losses, SBL tries to maintain credit monitoring process. The process of credit monitoring is given below.



The Credit Administration & File Maintenance of SBL

The credit file for each facility shall contain all information necessary to facilitate ready monitoring of that facility. It should contain a thorough history of file customer relationship to help credit officer to track any problem, assist a newly assigned credit officer in understanding the customer and make the lending process transparent, primary items are given below-

- **Credit application and Credit approval notes/analysis:** Evidence of credit approval and data upon which approval was granted together with any continents, if appropriate.
- **Copy of sanction and loan agreement:** A checklist along with copies of all legal& banking documents obtained/to be obtained. Details and six-monthly updated information of all related facilities to the name customer.
- All supporting data such as financial statements and analysis, references, credit investigation results, CIB & other Banks' reports and notes of all discussions with the borrower and other relevant parties with paper clipping.
- Correspondences, call reports, site visit reports, stock reports etc. Each credit file shall be maintained in a secured location and where access restricted to authorize personnel's only. Copies of the information may be kept where regular access is required.

Pricing of Loan

Pricing of loan is a great important element in banking business. Because through pricing, bank usually create margin/profit so it is determined carefully. In pricing, four` components are needed to create a definite loss for the bank. The components that Sonali Bank Limited used are given below:

- Interest Expense or Cost of Fund
- Administrative Cost
- Cost of Capital
- Risk Premium

The Reasons behind loans to be defaulted

During my thesis period, I have noticed that sometimes the loans are defaulted. The loan borrowers came and asked for the suggestions why their loans are being defaulted. Then, I asked the employees what are the reasons behind this issue. By asking questions, I found some reasons for which sometimes Credit Risk Department are defaulting borrowers loan.

The reasons are:

- Some borrowers are usually predetermined that he will take loan from bank and will not repay it.
- Borrowers take loan by stating one purpose and then use it for another purpose thus proper investment is not made and loan defaults.
- Borrowers exploit the loan. For example, a borrower of Garments factory took loan to purchase materials but bought an imported car thus exploited the loan.
- If borrower dies unexpectedly and family members do not have the circumstances to repay the loan then the loan defaults.
- If the ship on which the goods were coming suddenly drowns then default case arises.
- If the product on the basis of which loan was taken looses the market demand then the borrower faces a huge loss in the market and thus becomes unable to make payment.
- Default case arises if there is fired a mage to the factory, equipments, warehouse, offices etc.
- Natural disasters such as earth quakes or flood.

Loan Recovery of Sonali Bank Limited

1. **Special Asset Management and Retail Banking:** SAM deals with Bank' non-performing loans through legal persuasion/procedure and facilitates external and internal recovery forces to maintain Bank's portfolio at risk (PAR) at a steady position. SAM department deals with the legal actions regarding mitigation of bad portfolio under SME & Retail Banking Division.
2. **File Transfer:** Files transfer to SAM from SME when the loan reaches at DPD 180. SAM receives the file from Retail when the loan reaches at DPD 360.
3. **Legal Notice:** SAM-S&R would arrange to serve 1st legal notice for warning the default borrower to adjust the total outstanding and 2nd legal notice would be served after bouncing the cheque or before litigation. 1st legal notice served centrally across the country and 3rd party recovery agencies are working with retail defaulters.
4. **Write-off Management:** Sonali Bank has a specific Write-off policy developed based on Bangladesh Bank circulars. SAM takes initiative to write-off bad portfolios as per policy if following criteria satisfied,

- Classification status will be Bad/Loss(BL)
- 100% provided
- Litigated(under any kind of Law of the land)

5. **Case Withdraw:** SAM withdraw the case when a litigated defaulter adjusts outstanding amount in full with updated interest, legal costs and other expenses if any, and/or upon amicable settlement SAM withdraws the case against such defaulters on receipt of clearance certificate from Operations.
6. **External 3rd Party Agency Management:** SAM hands over the files to 3rd party recovery agency after one month of issuance of 1st legal notice. Only the retail loan files, which are delinquent, are handed over to outsource. SAM takeover the files from 3rd party recovery agency after 90 days.

Business department is split up from the Corporate CRM to maintain and ensure appropriate recovery strategies are implemented as per policy guideline. The department functions under three major areas which are as follows:

- Credit Inspection through File and Field level area
- Early Alert Account
- Legal Procedure

7. **Non Performing Loans Account Monitoring:** Nonperforming loans (NPLs) refer to those financial assets from which banks no longer receive interest and installment payments as scheduled. As the account is handed over to SAM, the account is assigned to an account manager within SAM, who will review all documentation, meet the customer with RM and prepare a Classified Loan Review (CLR) report. The CLR must be approved by the Chief Credit Officer and copied to the Head of Corporate Banking.

Corrective Measures Not To Default Loan

- Legal review of documents & situation.
- Workout strategy& action.
- Stay or leave decision &reclassification.
- Continuous visits to the client (Defaulter).
- Negotiation versus court action.
- Obtain support-senior management, legal counsel and specialist; legal, business, and government.

Diversification of Credit of SBL:

As per Bangladesh Bank rule on credit, Sonali Bank can extends 80% of its deposits. Sonali Bank extends credit in four sectors which are organized under a board sector:

- Agriculture Loan
- Commercial Lending
- Export Financing
- Consumer Credit Scheme
- Small and Medium Enterprise
- Staff Loan
- Other

Socially Responsible activities/projects linked to Sustainable Finance

1. Financing/Investment through MFI (MRA Regulated)/NGO (Govt. Approved) Linkage Mode for capacity building, Education, employment generation including self employment
2. Financing in trading of green and agro products using ICT/online/e-business platform (as recognized by BB)

iii. Financing in Orphanage/Child Rehabilitation Center/Old Age Home

Sustainable Linked Finance of Sonali Bank PLC.

(Amount in Million BDT)

Sustainable Linked Finance Sectors	Amount of Disbursement 2021	Amount of Disbursement 2022	Amount of Disbursement 2023	Outstanding as on December 2023
Agriculture	7278.81	10028.66	13680.26	80814.42
CMSME	210.6	609.15	338.3	5808.16
Socially Responsible Financing (SRF) (Financing in MFI/NGO Linkage Mode for capacity building, Employment generation & self employment	379.87	5731.06	1659.32	3834.62
Working Capital & Demand loan of Green Products	34.78	0	0	0
Priority Green Products for Trading Sector	0.32	0	0	0
Grand Total	7904.38	16368.87	15677.88	90457.2

List of Green Products/Projects/Initiatives applicable for Term Finance

Renewable Energy

1. Net Metering Rooftop Solar System
2. Solar Grid
3. Solar Park
4. Solar Irrigation Pumping System
5. Solar Photovoltaic (PV) Assembly/Manufacturing Plant
6. Solar Water Heater Assembling/Manufacturing Plant
7. Solar Home System
8. Solar Pump for Drinking Water
9. Solar Cooker Assembly/Manufacturing Plant
10. Solar Air Heater & Cooling System Assembly/Manufacturing Plant
11. Solar Powered Cold Storage
12. Biogas Plants7
13. Integrated Cow Rearing and Setting up of Bio-gas Plant
14. Wind Power Plant
15. Hydro Power Plant
16. Portable Solar Charging Station

Chapter: Six
Finding, Recommendations & conclusion

Findings of Credit Risk Department

Though I started my thesis program in HR Division but I got the chance to work in the Credit Risk Department for two weeks. During my thesis period, I found some lacking in Credit Risk Department of SBL. They are given below.



Moreover, there are some other issues for which Credit Risk Department of Sonali Bank Limited are lagging behind compare to the other banks. The other reasons are:

1. Installment period and installment time duration is relatively low. For this reason, sometimes the borrower cannot utilize their debt facility properly for profit maximization.
2. Note no ugh innovative products have been used in Credit Risk Department.
3. Online banking facilities, ATM services and mobile banking facility are not available.
4. Maximumamountofloansareprovidedinthelongtermindustrialloansector.
5. The loan and advance activities of Credit Risk Department of SBL are not appropriate enough to survive in the market.

Recommendations

The Top management of Sonali Bank Limited should be more effective to the employee then current situation. Because they should take care the branch level employee's benefits, opportunities etc.

The bank has highly skilled employee in the branch level. But the bank should be able to utilize these employees at appropriate way to take out the bank's output

The website design is need to improve. Therefore, the website should be changed and can put more information about the bank. The existing design cannot capture the customer's attention.

The cheque's design is poor. The good-looking cheque design can motivate the customer.

The human resource division can be more effective. Because this human resource department should think about the employee benefit much.

In the training institute, the training process should be used latest technology to provide to the trainee. The bank should give training about the office package, basic idea on computer and internet.

In the branch level when employees could transfer to another department during that time that employee is needed at least ten days training according on the transfer position.

The higher management should be more effective about the employee, to take right strategy, right decision making.

In the branch level employee is working so many extra times, so management should provide some extra incentives to motivate the employee.

On-line banking is coming soon so the responsible employee should be trained effectively.

The training evaluation process and form is to be more modernized.

Physical and technological facilities should be increased in evaluating credit proposals.

Infrastructure should be modernized.

The cost of fund needs to be minimized.

The gap between employees and customers will be reduced through arranging meetings.

Conclusion

The Sonali Bank limited is not only a commercial bank but also a government bank. As a bank Sonali Bank Limited has to do a lot of things for the betterment of the country. The Bank is strongly positioned in the market and with its core strengths it can match shareholders' expectations and thus raise their wealth in future through ethical banking and best pricing. Thus, it has to take initiative so that it can fulfill the desire of the govt. as well as people. It will enhance more public services and build up working teams to provide the best services to its valuable customers. It must be run in organized way and discipline must be ensured in all sphere of its performance. Efficient export team, import team and remittance team must be formed and perform duties properly. More training, computerization, data collection, market analysis and swiftness in servicing are essentially required. To do these the recommended suggestions can be used. Although it is theoretical suggestions, it is not valueless. It has great impact on the banking business and other sectors of the economy. For this, govt. help is essential and it is expected that govt. will broaden its hand for implementing the recommendations for the welfare of the people of Bangladesh

References

To prepare this report I have collected data mainly from annual reports of Sonali Bank Limited, different books regarding ratio analysis, the websites of Bangladesh Bank and others websites about ratio analysis. The references are given below:

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- https://www.sonalibank.com.bd/SonaliMobileApps.php
- http:// partha.itd@gmail.com
- https://www.bb.org.bd/en/index.php

List of Abbreviations:

SBL	**Sonali Bank Limited**
BB	**Bangladesh Bank**
CIB	**Credit Information Bureau**
SAM	**Special Asset Management**
SME	**Small and Medium Enterprise**
CRM	**Credit Risk Management**
MD	**Managing Director**
DMD	**Deputy Managing Director**
C/A	**Current Account**
ATM	**Automated Teller Machine**
CRG	**Credit Risk Grading**
HR	**Human Resource**
CSR	**Corporate Social Responsibility**