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AN INTERNSHIP REPORT
ON

CREDIT RISK MANAGEMENT BASED ON CORPORATE CREDIT PRACTICES

A CASE STUDY OF

BRAC BANK
LIMITED

AN INTERNSHIP REPORT
ON

Credit Risk Management based on Corporate Credit Practices

A case Study of

BRAC BANK
LIMITED

***Prepared For*:**

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APRIL 2010

Letter of Transmittal

April, 27, 2010

MD. Ifte Kharul Alam

Assistant Professor
HOD Finance
Department of Business Administration
Stamford University Bangladesh.

Subject: Submission of the Internship Report.

Dear Sir,

I am pleased to submit the Internship Report as a partial fulfillment of BBA program. I try my best to present this internship report on "Credit Risk Management based on Corporate Credit Practices a case study of the BRAC Bank Limited". According to your guideline, I tried my best to work sincerely to cover all aspects regarding the matter. I have thoroughly enjoyed in preparing this internship report which has contributed significantly to my understanding on the essentials and importance practical knowledge.

However, if you need any clarification, suggestions, directions or recommendations for further improvement of the report, I will be obligate to provide with further explanation. I sincerely hope that you will appreciate my effort.

Sincerely yours

Firoza Habib Anne

ID:BBA 0300**9872**

Student Declaration

I declare that the presented report of Internship entitled "Credit Risk Management based on Corporate Credit of BRAC Bank Limited" Embodies the results of my own research work, perused under the supervision of MD. Ifte Kharul Alam, Assistant Professor, Department of Business Administration, Stamford University Bangladesh.

I also confirm that, the report is only prepared to my academic requirement not for any other purposes. It should not be used with the interest of opposite party of BRAC Bank Limited.

Firoza Habib Anne
BBA, 30th Batch
ID- 03009**872**
Major: Finance
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Certificate of Supervisor

This is to certify that the Internship Report on **"Credit Risk Management based on Corporate credit of the BRAC Bank Limited"** has been prepared as a part completion of the BBA program major in Finance from Stamford University Bangladesh, carried out by Firoza Habib Anne., batch 30th D, bearing ID: BBA **03009872** under my supervision.

She has done her job according to my supervision and guidance. She has tried her best to do this successfully. I think the program will help her in the future to build up her career. I wish her success and prosperity.

MD. Ifte kharul Alam
Assistant Professor
HOD Finance
Department of Business Administration
Stamford University Bangladesh

Acknowledgement

At first, I thank my almighty Allah for helping me to move on the right direction that helped me complete my internship report and BBA degree.The internship program is very helpful to bridge the gap between the theoretical knowledge and real life experience as part of Bachelor of Business Administration (BBA) program. This internship report has been designed to have a practical experience through the theoretical understanding.

I would like to express my appreciation to my honorable course teacher and my project leader, **Md. Ifte Kharul Alam**, Assistant professor, HOD Finance of BBA Department, Stamford University Bangladesh, for providing me all the guidance and support that I needed mostly during the course of internship.

I express my deep gratefulness to Md. Hasan Mahmud, Head of Credit Wholesale Banking, BRAC Bank Limited for give me the opportunity to three months in internship program. Also I express my deep gratefulness to all employees of BRAC Bank Limited, Corporate Credit, Head office, Gulshan, Dhaka for cooperated to collect various requirement supports from various sources & help me to complete this internship report.

Besides I am also grateful to the authors, researchers and articles writer who's Books, Reports, Thesis paper and journals that have helped me to prepare my Internship Report successfully.

Executive Summary

As a requirement of BBA course at Stamford University Bangladesh, I have been carried out an internship report based on my working experience in BRAC Bank Limited. The subject matter of the report is Present Scenario of Credit Risk Management (Guidelines on Corporate Credit policy) in Bangladesh, A case study of the BRAC Bank Limited.

The ongoing development of contemporary risk management methods and the increased use of innovative financial products such as securitization and credit derivatives have brought about substantial changes in the business environment faced by credit institutions today. Especially in the field of lending, these changes and innovations are now forcing banks to adapt their in-house software systems and the relevant business processes to meet these new requirements.

Credit Risk Management is intended to assist practitioners in redesigning a bank's systems and processes in the course of implementing the Basel II framework.

Throughout 2008 securitization, rating and validation, credit approval processes and management, as well as credit risk mitigation techniques. Credit risk management is based on developments in the banking sectors is meant to provide readers with best

practices BRAC Bank Limited would be well advised to implement regardless of the emergence of new regulatory capital requirements.
BRAC Bank Limited is to develop mutual understanding between regulatory authorities and banks with regard to the upcoming changes in banking. Credit Risk Management provides interesting reading as well as a basis for efficient discussions of the current changes in BRAC Bank Limited.

BRAC Bank Limited is a scheduled Commercial Bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as Private Limited Company on May 20, 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader through providing all sorts of support to people in term of promoting corporate and small entrepreneurs and individuals all over the Bangladesh.

The bank has been successful in holding its position as a progressive and dynamic financial institution in the country for a long period of time. It has now centralized all of its activities and has been acclaimed by the customers for its modern and innovative ideas and financial solution. It has been able to create a unique image for itself and significant solution in the banking sector proving its brand mantra “Committed to Cordial Service”.

Finally I got some findings from the analysis of the report that included financial position, credit policy of Bangladesh Bank and others policy of BBL.

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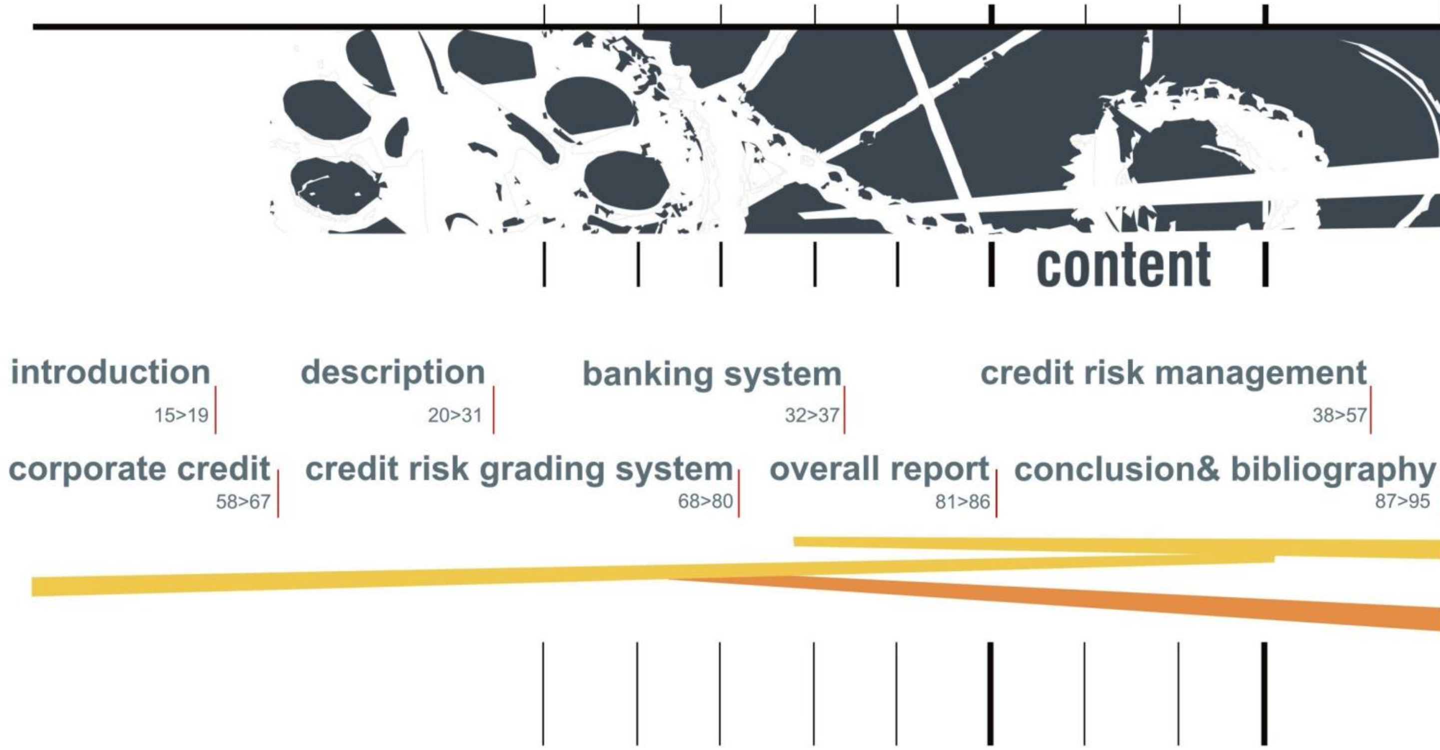

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CHAPTER 01

INTRODUCTION

BRAC BANK
LIMITED

Chapter-1

Introduction

Well- educated, dedicated, skilled and enterprising workforce is the sine-qua-non for the progress and development of a service oriented industry like Bank. From very first emergence and inception of modern civilization, Bank plays a pivotal role in case of overall financial and socioeconomic development of any modern country. The economic development of our country mainly depend upon the efficiency of the banking results is so far as, whether the bankers have been able to read the economic situation properly and are successful in selecting the promising industrial sectors seeking import and export assistance to grow. With the rapid changes of time mans are readily depend on banking services in case of handling cash, transferring cash, and also financing in various industrial and business projects. So it is very much needed to develop the general banking practices in order to provide better day-to-day banking services to the valued customers. Because a service oriented industry a bank should believe that customers is all and the king. The government of our country and the central bank i.e., the Bangladesh Bank has decided to extend considerable help in every respect of general banking to concerned people. Like other nationalized and non-nationalized commercial banks the BRAC Bank limited serves the nation by providing various modern banking services and products. So as an Intern I thought of having special knowledge on this field of increased importance.

1.1 Origin of the report

Knowledge and learning becomes perfect when it is associated with theory and practice. Theoretical knowledge gets its perfection with practical application. After the completion of the eleven semester's courses I was placed in BRAC Bank Limited, Head office at Gulshan for six weeks in order to complete an internship program of getting practical knowledge. This is an orientation to the entire banking department and finally a study on a particular arena of **"Credit Risk Management Practices (Corporate Credit)" A Case study on BRAC Bank Limited**. While working with both of my supervisors in which I can make a detail research and present my understanding about that operational area in this report. This internship program brings me closer to the practices in banking and helps to develop a little understanding about the detailed mechanism of the Overall Banking System of BRAC Bank Limited.

1.2 Objectives of the Study

In this report an attempt has been made to study the Overall Banking , general banking, loan and credit find out the problems and recommend some possible measures to solve them. The main objectives of the study are as follows:

- To describe the total procedure of Overall Banking System.
- To know and outline the concept of General Banking.
- To know and outline the concept of loan and credit management section.
- To know and outline the loan and credit criteria and risk associated with them and the ways, which must illuminate the risk, occurred.
- To analyze the performance of BRAC Bank Limited in case of day to day operation.
- To find out and analyze the major problems by BBL in case of Overall Banking Practices.
- To recommend some possible measures to overcome the problems.
- To find out the theoretical concept uses in the practical system of bank operation.

1.3 Scope of the Study:

The field of my study was the **"Credit Risk Management (Corporate Credit) Practices" A Case study on BRAC Bank Limited.** In order to conducting this report an overall theoretical knowledge on total banking system was necessary because the various departments of banking are linked with each other due to some partial proceedings. The report covers a period of 3 (three) financial and operational years from 2007 to 2009. The scope of the organizational part covers the organizational structure, background, objective, function, and departmentalization and business performance of BRAC Bank Limited as a whole.

The main part covers the Credit Risk Management System associated with different product and services of BRAC Bank Limited. This refers that how the bank helps the customers in opening account, deposit of cash, withdrawal of cash, appraisal of loan and project proposal, credit sanction, accounting systems of the bank, clearing system, using of banking software and hardware, mechanism of vault system, opening and payments of various type of letter of credit, exporting and importing the goods, how it remits the money to the foreign clients, what are its performances in the previous years etc.

1.4 Methodology of the study

This report is formatted on limited available information. After all I manage this report as an analytical report. The report formed based on general rule of report formation. The methodology used in this report pointed bellow----

- Whole report composed by using Microsoft Office Word 2003 professional edition.
- Line spacing fixed by 1.5 and overall font size 12 and font named times new roman.
- In the report design software Photoshop and Illustrator were used for logo purpose.
- The products of the bank and its credit risk measured under heading transaction risk, intrinsic risk and concentration risk.
- The credit management tools used as security, margin, and creation of charge, reporting to Credit Information Bureau (CIB) of the Bangladesh Bank, documentation and credit distribution.
- The principle of the risk components is five such financial risks, Business/ Industry Risk, Management Risk, Security Risk and Relationship Risk.
- All of that risk measured along with some primary information, which is available with balance sheet, income statement, profit and loss account, financial highlights of recent years of the bank.
- The risk measured using risk grading scale and the result will enforce to make an appropriate decision.

Sources of Data collection

The report was fully exploratory in nature. In the report data have been collected from both primary and secondary sources.

Primary sources of data

- Face to face conversation with the bank officers & staffs
- Informal /formal conversation with the clients
- Correspondence with internship supervisor of the University.

- Relevant data provided by the supervisor.
- Different manuals of B.B.L
- Different circulars of B.B.L

Secondary sources of data

- Annual report of B.B.L of past years
- Prospectus or bruisers of products of B.B.L
- Different papers such general banking manual, foreign exchange manual and credit division manual of B.B.L
- Unpublished data in the branch uses.
- Web site directory of B. B. L
- Different Text Books

1.5 Limitation of the Study

This report is a subjective report and I enclosed only available information for conducting of this appearance. Despite of all out co-ordination from the bank officials I found some limitations. These are as follows----

- Learning all the banking functions within just twelve weeks was really tough.
- Another limitation of this report is Bank's policy of not disclosing some data and information for obvious reason, which could be very much useful.
- The Bank authority was very busy, so they could not give me enough time for discussion about various problems.
- In case of performance analysis secondary data are used.
- Only four years accounting data are considered for financial analysis
- To prepare an analytical report need financial assistance. The financial assistance provided by the department is insufficient. In perspective of lack sufficient money, various types of analysis did not get right shape.
- Another problem is the communication gap between bank branch and Head office Management Information System Department.

Finally, this is my first experience on job, so there may arise some faults in this report though I have tried on my best to over come the problem.

CHAPTER 02

DESCRIPTION

BRAC BANK LIMITED

Chapter-2

The name *bank* derives from the Italian word *banco* "desk/bench", used during the Renaissance by Florentines bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times.

In fact, the word traces its origins back to the Ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called *macella* on a long bench called a *bancu*, from which the words *banco* and *bank* are derived. As a moneychanger, the merchant at the *bancu* did not so much invest money as merely convert the foreign currency into the only legal tender in Rome- that of the Imperial Mint.

The definition of a bank varies from country to country. Under English law; a bank is defined as a person who carries on the business of banking, which is specified as:

- Conducting current accounts for his customers
- Paying cheque drawn on a him, and
- Collecting cheque for his customers.

2.1 The Bank Industry

Banks have influenced economies and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies. Banks provided funds to allow businesses to purchase inventory, and collected those funds back with interest when the goods were sold. For centuries, the banking industry only dealt with businesses, not consumers. Commercial lending today is a very intense activity, with banks carefully analyzing the financial condition of their business clients to determine the level of risk in each loan transaction. Banking services have expanded to include services directed at individuals, and risk in these much smaller transactions is pooled.

In most English common law jurisdictions there is a Bills of Exchange Act that codifies the law in relation to negotiable instruments, including cheque, and this Act contains a statutory definition of the term *banker*: *banker* includes a body of persons, whether incorporated or not, who carry on the business of banking' (Section 2, Interpretation). Although this definition seems circular, it is actually functional, because it ensures that the legal basis for bank transactions such as cheque do not depend on how the bank is organized or regulated.

The business of banking is in many English common law countries not defined by statute but by common law, the definition above. In other English common law jurisdictions there are statutory definitions of the *business of banking* or *banking business*. When looking at these definitions it is important to keep in minds that they are defining the business of banking for the purposes of the legislation, and not necessarily in general. In particular, most of the definitions are from legislation that has the purposes of entry regulating and supervising banks rather than regulating the actual business of banking. However, in many cases the statutory definition closely mirrors the common law one. Examples of statutory definitions:

- "Banking business" means the business of receiving money on current or deposit account, paying and collecting cheque drawn by or paid in by customers, the making of advances to customers, and includes such other business as the Authority may prescribe for the purposes of this Act; (Banking Act (Singapore), Section 2, Interpretation).

- "Banking business" means the business of either or both of the following:

1. Receiving from the general public money on current, deposit, savings or other similar account repayable on demand or within less than [3 months] ... or with a period of call or notice of less than that period;
2. Paying or collecting cheque drawn by or paid in by customers

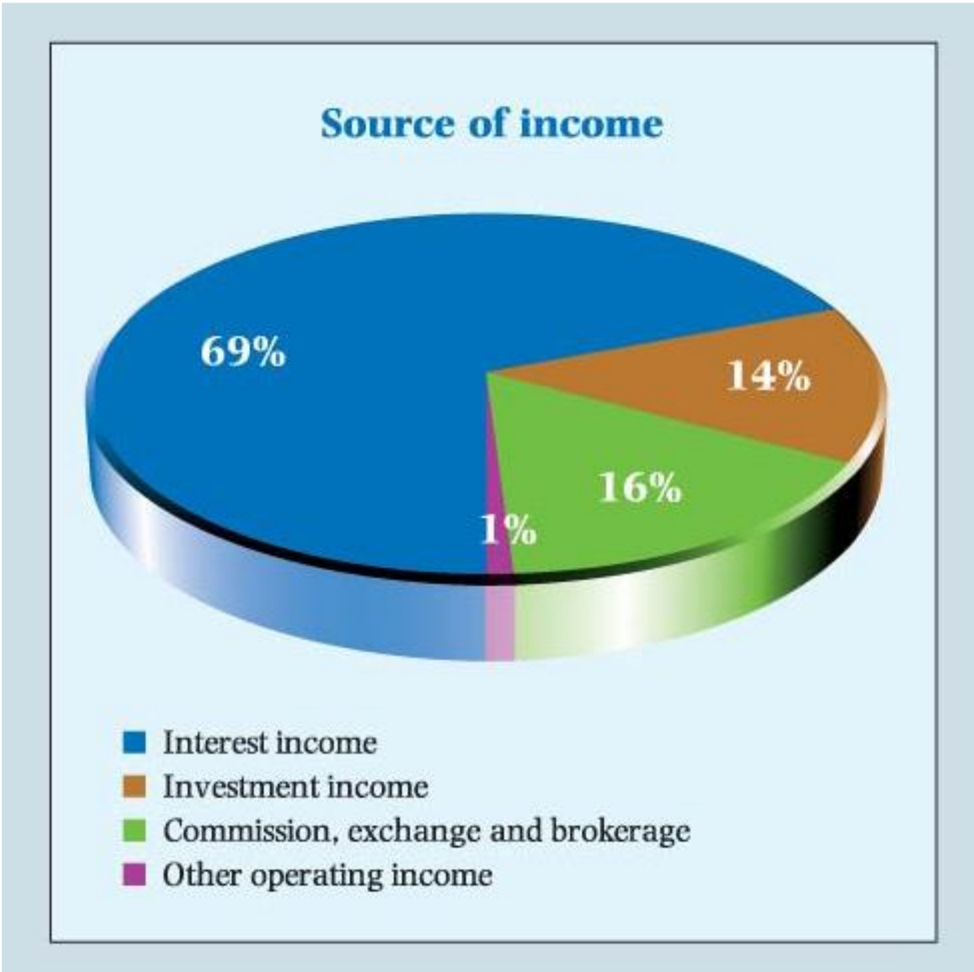
2.2 BRAC Bank Limited

BRAC Bank Limited is a scheduled Commercial Bank in Bangladesh. It established in Bangladesh under the Banking Companies Act, 1991 and incorporated as Private Limited Company on May 20, 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader through providing all sorts of support to people in term of promoting corporate and small entrepreneurs and individuals all over the Bangladesh. BRAC Bank becomes a unique organization in Bangladesh. BRAC Bank, for the first time among all local commercial banks, starts providing loan facilities to small and medium trading, manufacturing and service oriented enterprises all over the country. The Bank has already established its network in different area of the country with assistance of BRAC.

During the year bank opened 13 branches, 57 ATMs. Now 71 branches, 180 ATM booths, 30 Cash Deposit Machines, 1558 POS terminals, 19 Utility Services Bill Payment Booths and also 1900 Remittance Delivery Points. The grand total of our customer touch points is 3,814 serving a total of 878,837 customers. The core competence of the BRAC Bank is to provide the fastest loans to the clients in this country.

Last year in 2009 BRAC Bank earned BDT. 1303.58 million net profit which is 34% higher from the previous year. BBL Net Assets Value (NAV) stood BDT 371.55. In 2008 it was BDT 311.71. In 2009, Earnings Per Share (EPS) stood at BDT 60.98. Last year it was BDT 45.00, which means this year's EPS is 36% higher from the previous year. Bank's operating profit is BDT 3,717.58 million, Growth rate is 17% and total assets stand at BDT 94,581 million, which is 31% higher from the previous year.

Bank income:



The Bank undertakes all types of banking transactions to support the development of trade and commerce of the country. BBL's services are also available for the entrepreneurs to set up new ventures and BMRE of industrial units.

The Bank is being managed and operated by a group of highly educated and professional team with diversified experience in finance and banking. The Management of the bank constantly focuses on understanding and anticipating customer's needs. The scenario of banking business is changing day by day, so the bank's responsibility is to device strategy and new products to cope with the changing environment. BRAC Bank Ltd. has already achieved tremendous progress within only two years. The bank has already ranked as one of the quality service providers & is known for its reputation.

2.2 (1) Corporate Vision

Building a profitable and socially responsible financial institution focused on Markets and Businesses with growth potential, thereby assisting BRAC and stakeholders build a "just, enlightened, healthy, democratic and poverty free Bangladesh".

2.2 (2) Mission Statements

The Bank is committed to satisfying diverse needs of its customers through an array of products at a competitive price by using appropriate technology and providing timely service so that a sustainable growth, reasonable return and contribution to the development of the country can be ensured with a motivated and professional work-force.

2.2(3) Corporate Values

Our Strength emanates from our owner - BRAC. This means, we will hold the following values and will be guided by BRAC as we do our work.

- Value the fact that we are a member of the BRAC family
- Create an honest, open and enabling environment
- Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- Strive for profit & sound growth
- Work as a team to serve the best interest of our owners
- Be relentless in pursuit of business innovate on and improvement.
- Value and respect people and make decisions based on merit
- Base recognition and reward on performance
- Be Responsible, trustworthy and law-abiding in all that we do

2.2(4) Strategies

- To raise capital up to Tk. 4000.00 million by June 2011.
- To manage and operate the Bank in the most efficient manner to enhance financial performance and to control cost of fund
- To strive for customer satisfaction through quality control and delivery of timely services

- To identify customers' credit and other banking needs and monitor their perception towards our performance in meeting those requirements
- To review and update policies, procedures and practices to enhance the ability to extend better service to customers.
- To train and develop all employees and provide them adequate resources so that customer needs can be reasonably addressed.
- To promote organizational effectiveness by openly communicating company plans, policies, practices and procedures to employees in a timely fashion
- To cultivate a working environment that fosters positive motivation for improved performance
- To diversify portfolio both in the retail and wholesale market
- To increase direct contact with customers in order to cultivate a closer relationship between the bank and its customers.

2.2(5) Objectives of the Bank

- To earn and maintain CAMEL Rating 'Strong'
- To establish relationship banking and improve service quality through development of Strategic Marketing Plans.
- To remain one of the best banks in Bangladesh in terms of profitability and assets quality.
- To introduce fully automated systems through integration of information technology.
- To ensure an adequate rate of return on investment
- To keep risk position at an acceptable range (including any off balance sheet risk)
- To maintain adequate liquidity to meet maturing obligations and commitments.
- To maintain a healthy growth of business with desired image.
- To maintain adequate control systems and transparency in procedures.
- To develop and retain a quality work-force through an effective human Resources Management System.
- To ensure optimum utilization of all available resources
- To pursue an effective system of management by ensuring compliance to ethical norms, transparency and accountability at all levels.

2.3 Management Hierarchy:

Chairman

Board of Directors

Managing Director

Deputy Managing Director

Executive Vice President

Senior Vice President

Vice President

Senior Assistant Vice President

Assistant Vice President

Senior Principal Officer

Principal Officer

Senior Officer

Officer Grade II

Officer Grade I

Junior Officer

Executive

Board of Directors of BRAC Bank Ltd:

Mr. Muhammad A. (Rumee) Ali
Chairman

Mr. Shib Narayan Kairy
Director

Mr. Quazi Md. Shariful Alam, Director
(Nominated by BRAC)

Ms. Nihad Kabir
Director (Independent)

Dr. Hafiz G.A. Siddiqi
Director

Mr. Mark A. Coffey
(Nominated by ShoreCap

Ms. Tamara Hasan Abed
Director

Mr. A. E. A. Muhaimen
Managing Director and CEO

2.4 Departments of BRAC Bank Ltd:

If the jobs are not organized according to their interrelationship and are not allocated in a particular department it would be very difficult to control the system effectively. If the departmentalization is not fitted for the particular works there would be haphazard situation and the efficiency of particular department will decline. BRAC Bank Ltd. has does this work properly. There are 20 departments in BRAC Bank Ltd. These departments are as follows:

1. Human Resources Department

2. Financial Administration Department
3. Asset Operations Department
4. Credit Division
5. SME Division
6. Internal Control & Compliance Department
7. Marketing & Product Development Department
8. Impaired Asset Management Department
9. Remittance Operation Department
10. Treasury Front
11. Treasury Back
12. General Infrastructure Service
13. Information Technology Department
14. Customer Service Delivery
15. Cards Division
16. Call Center
17. Cash Management Department
18. Secured Remittance Department
19. Women Entrepreneur Cell
20. Payment Service

2.5 Distribution Network

Number of Branches	71
Human Capital	5307Million
Number of ATM	180
Number of SME Service Center	60
Number of Unit Office	429

2.5 Financial Highlights

Financial Position

Particulars	2009	2008	2007	2006	2005
Cash & bank balances	12,212.94	7,510.86	6,279.13	5,107.59	2,254.00
Investments	10,972.20	8,245.37	4,996.86	3,768.01	2,163.81
Money at call and short notice	1,300.00	0.00	0.00	0.00	0.00
Loans & advances	64,150.83	52,676.71	32,461.10	19,557.17	11,791.31
Fixed assets	1,637.90	1,472.02	942.93	389.38	156.36
Other assets	4,307.43	2,536.92	1,702.57	1,189.68	510.53
Total assets	94,581.30	72,441.89	46,382.60	30,011.82	16,876.01
Borrowings	2,450.00	2,280.00	2,240.00	1,332.97	1,473.39
Total Deposits	75,219.62	58,006.89	37,368.41	23,001.92	13,409.01
Other liabilities	8,760.73	6,717.48	3,702.16	3,559.73	1,210.68
Equity	8,150.95	5,437.53	3,072.03	2,117.19	782.93
Total liability & Shareholders equity	94,581.30	72,441.89	46,382.60	30,011.82	16,876.01
Credit deposit ratio	85.28	90.81	86.87	85.02	87.94
Interest earning assets	89,629.66	69,388.49	44,445.21	28,774.45	16,278.38
Non-Interest earning assets	4,951.63	3,103.40	3,232.90	1,237.37	597.62
Net assets value per share	371.55	311.71	214.34	196.72	156.59
Total contingent liabilities & commitments	5,989.18	2,161.00	2,156.55	1,319.23	1,392.45
Profitability					
Operating Income	7,264.16	6,036.18	3,543.15	2,077.43	1,173.32
Operating Expenses	3,546.57	2,862.28	1,597.66	1,027.02	593.00
Operating Profit	3,717.59	3,173.91	1,945.49	1,050.41	580.32
Provision for loans and others	1,574.00	1,150.46	681.16	345.05	239.96
Profit before tax	2,143.59	2,023.45	1,264.34	705.36	340.36
Provision for tax	840.00	1,050.00	646.00	371.10	147.68
Profit after tax	1,303.59	973.45	618.34	334.26	192.68
Return on Investment (ROI)	12.30%	12.61%	11.64%	9.69%	8.54%
Return on Assets (ROA)	1.56%	1.64%	1.62%	1.43%	1.43%
Return on Equity (ROE)	19.19%	22.88%	23.83%	23.05%	28.06%
Cost of deposit	8.49%	9.44%	8.91%	8.47%	7.58%
Weighted average earning per share	60.98	62.30	42.29	29.38	38.54
Net income per share	60.98	58.50	49.99	32.08	38.54

Equity measures					
Authorized capital	4,800.00	4,800.00	2,000.00	2,000.00	1,000.00
Paid-up capital	1,584.00	1,584.00	1,200.00	1,000.00	500.00
Capital - Core (Tier I)	6,074.41	4,818.63	2,571.98	1,967.15	782.89
Capital - Supplementary (Tier II)	1,434.87	1,297.95	1,220.49	529.14	206.00
Total Capital	7,509.28	6,116.58	3,792.47	2,496.29	988.89
Capital surplus/ (deficit)	1,590.68	1,322.26	704.41	835.66	40.57
Share premium	1,406.00	1,406.00	350.00	350.00	0.00
Statutory reserve	1,337.48	908.76	504.07	251.20	58.40
Retained earnings	1,271.73	919.87	517.91	365.94	224.49
Capital adequacy ratio	12.69%	12.76%	12.28%	13.53%	9.39%
Asset quality					
Total loans & advances	64,150.84	52,676.72	32,461.10	19,557.17	11,791.31
Classified loans	3,877.66	2,473.01	1,444.78	594.79	265.18
Classified loans to					
total loans and advances	6.04%	4.69%	4.45%	3.04%	2.25%
Provision for Unclassified loan	866.07	769.67	707.95	379.10	205.96
Provision for Classified loan	2,586.52	1,637.71	607.13	267.33	134.06
Provision Adequacy Ratio	1.28	1.37	1.04	1.02	1.09
Share information					
Market Price per Share (DSE)	687.50	828.00	162.00	531.50	0.00
Dividend	30.00%	30.00%	10.00%	20.00%	0.00%
Bonus	30.00%	30.00%	10.00%	20.00%	0.00%
Cash	0.00	0.00	0.00	0.00	0.00
Net Asset Value per share (NAV)	371.55	311.71	214.34	196.72	156.59
Distribution network					
Number of Branches	71	56	36	23	18
Human Capital (nos)	5,907	4,192	4,428	3,047	1,650
Number of ATM	180	125	60	22	9
Number of SME service center	60	30	0	0	0
Number of Unit office	429	429	392	355	292

CHAPTER 03

BANKING SYSTEM

BRAC BANK LIMITED

Chapter-3

The Banking system in Bangladesh Basically divided in to four part one general banking, then foreign Exchange, Loan and Credit and customer service. This four section combined face called as overall banking activities of any Bank. BRAC bank has all part of that but in general more or less in depth comparing other commercial bank. BRAC Bank conducted its Branch structure as account opening section where all types of accounts can be opened by formal banking rules. Then cash section for transaction of existing clients. The loan section serves for conduct loan repayment and disbursement of the loan. The foreign Exchange section serves for remittance, exchange of foreign money, and letter of credit for the businessmen. In this chapter express all part of banking service broadly or narrowly depending on the topic.

3.1 Personal Banking

Personal Banking of BRAC Bank offers wide-ranging products and services matching the requirement of every customer. Transactional accounts, savings schemes or loan facilities from BRAC Bank Ltd. make available you a unique mixture of easy and consummate service quality.

We make every endeavor to ensure our clients' satisfaction. Our cooperative & friendly professionals working in the branches will make your visit an enjoyable experience.

3.2 Products and Services

The Bank has an array of tailor made financial products and services. Such, products are Monthly Savings Schemes, Consumer Credit Scheme, Lease Finance, Personal Loan For Women, and Shop Finance Scheme etc. BBL also introduced Q-cash ATM cards for its valued customers giving 24 hours banking services through Debit Cards. BBL offers the following services to its valued customer:

V. SME Banking
VI. Retail Banking
VII. Wholesale Banking
VIII. E-Banking
IX. Probashi Banking

I. SME Banking

BRAC Bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives.

Today, with over 10,000 crores of loans disbursed till date, BRAC Bank is country’s largest SME financier that has made more than 265,000 dreams come true!

II. Retail Banking

With over 100 outlets, 300 ATMs and over 500,000 plastics in the market, BRAC Bank offers you a wide range of financial solutions to meet your everyday need.

Be it home loan, car loan, or simply a quick loan – simply drop an application and we shall do the rest while you enjoy life.

Deposit Products	Loan Products	Cards
Savings Accounts	Salary Loan	Credit Card
Current Accounts	Quick Loan	Co-branded ATM Card
Term Deposits	Auto Loan	Fast Rewards Programs
	Home Loan	Pay Flex Program
	Secured Loan/Overdraft	

III. Wholesale Banking / Corporate Banking

BRAC Bank offers a full array of Financial Services to Corporations and Institutions. Having access to the deepest end of the country, BRAC Bank is there to assist businesses in Bangladesh. With us on your side, you have the power of local knowledge with the capabilities of global standard.

The type of loans that are permitted should be clearly indicated, such as Working Capital, Trade Finance, Term Loan, Lease Finance, Bill Discounting, Guarantee-Bid, Performance, Advance Payment, Security Bond etc.

Corporate Loan Products

a) Working Capital:

The finance required for current operational purposes of a business concern, i.e. capital required financing the current assets generated/required for the process of manufacturing and selling is called the Working Capital.

The following facilities come under the broader head of Working Capital.

- ***Overdrafts:***

This chequable, on demand credit limit is designed to meet day-to day (recurring) operational expense of the borrower like purchasing raw materials, overhead expenses, office expenses and to mitigate temporary liquidity crisis with one year validity (renewable upon annual review). Expected repayment source is the cash flow generated from business.

- ***Revolving Loan:***

This facility is a non-chequable credit facility and could be considered as a multi-purpose credit limit. It is a short-term loan that may be called by the Bank at any time to cover short-term fund requirements. This credit line is used to retire L/Cs, to make payments to various parties against purchase, bill payments or import duty payments. There is no principal reduction during the loan term, the entire balance becoming due on maturity. The validity of the limit is for one year, which is renewable upon annual review.

- ***Loan against Trust Receipts (LATR)***

Advance against a Trust Receipt (TR) obtained from the client are allowed (for a maximum period of 180 days) when the documents covering an import shipment are given (to first class parties only) without payment. The client holds the goods or their sale proceeds in trust for the Bank, till such time, the loan allowed against the TR is fully paid of.

The amount debited to Payment against document (PAD) is transferred to Loan against Trust Receipts (LATR) A/C. The borrower is under an obligation to pay of the outstanding out of the sale proceeds of the goods.

b) Trade Finance:

- ***Irrevocable Letter of Credit:***

Letter of Credit facility is related to import or local purchase of different items. This facility is given to import and export goods (raw material, machinery, equipments, furniture-fixture, trading item or any other fixed or floating asset) that are legally permitted to import & export; to locally purchase goods (raw material, machinery, equipments, furniture-fixture, trading item or any other fixed or floating asset) that are legally permitted to trade within the country. It is a non-funded facility, tenor maximum 180 days and one year if revolving basis, which is renewable upon annual review.

- **Term Loan/ Lease Finance:**

The purpose of this facility is to support long-term growth of business concerns by financing capital/ fixed assets. The common purposes of this facility are acquisition of capital machineries, equipments, vehicle, BMRE of industry or any other fixed asset that Bank finds to be finance-worthy. The period is within 1 to 7 years with monthly/quarterly repayments. The repayment is according to amortization schedule and set by equal installments.

IV. Probashi Banking

When you send your hard-earned money from abroad to dear ones at the farthest end of Bangladesh, ask them to collect it from over 3,500 pay out locations of BRAC Bank.

Every month, Probashi Banking executes around 150,000 transactions; which has made BRAC Bank one of the largest players among private commercial banks in channelizing inward remittance in the country.

V. E-Banking

With over 100 outlets, 300 ATMs and over 500,000 plastics in the market, BRAC Bank offers you a wide range of financial solutions to meet your everyday need.

- **Internet Banking**
- **Phone Banking**
- **SMS Banking**
- **Important Security Message**

3. 3. Components of General Banking

The BBL offers various types of general banking components. They are very essential tools for the bank to serve the customers. To attract new customers the bank has to launch new components or re-furnished their existing products.

Their components of general banking are as follows:

(a) Account and Schemes

(b) Receipt and Payment of cash

(c) Remittances

d) Clearing

(e) Loans and Advances

(f) Foreign trade

(g) Credit administration and monitoring

3.4 Bank Accounts

Account opening is the first and preliminary work for a bank. Opening of an account binds the Customer and Banker into a contractual relationship. It is the most important and preliminary work for a bank. Account Opening is very important task for any kind of banking activities. Customer relationship establishes through opening an account. Generally who are receiving bank service we may call them as a customer. But bank considers them as customers who have an account with them.

- **Procedure of Opening of an Account:**

Banker's his to maintain some common principles and procedures for open all most all deposit accounts. Major information is essential for identification of the account holders individually so that banker can discharge his obligations to every one correctly and to the extent due. Following are the formalities a customer must maintain in case of opening of an account:

- Minimum age of 18 years
- Application in the prescribed form
- Furnishing Photographs of the applicant and attested by the introducer (2 copies)
- Introduction by an account holder
- Recording of specimen signature in the specimen signature card
- Mention nominee in the prescribed form
- Furnishing Photograph of the nominee (1 copies)

- **Deposit Accounts:**

There are several types of deposit accounts. Each account has different characteristics and every account has some specific purpose to serve. According to their uniqueness they are described as follows:

A) Savings Account

B) Current Deposit Account

C) Foreign Currency Account

D) Short Term Deposit Account (STD)

PART-II

Chapter- 4: Credit Risk Management of BRAC Bank

Chapter- 5: Overview of Corporate Credit Division

Chapter- 6: Credit Risk Grading of BRAC Bank

CHAPTER 04

CREDIT RISK MANAGEMENT

Chapter-4

Credit Risk Management: Of BBL

The word “Credit” is derived from the Latin word “credo” meaning “I believe”. Speaking broadly, credit is finance made available by one party (lender, seller or shareholder owner) to another (borrower, buyer, corporate or non-corporate firm).More generally the term credit is used narrowly for debt finance. Credit is simply the opposite of debt. Debt is the obligation to make future payments. Credit is the claim to receive these payments. So, credit is referred to “The right to receive payment or an obligation to make payment on demand or at same future time on account of the immediate transfer of goads securities”.

Risk is inherent in all aspects of a commercial operation, however for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the bank’s dealings with or lending to corporate, individuals, and other banks or financial institutions.

Credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. Central to this is a ***comprehensive IT system***, which should have the ability to capture all key customer data, risk management and transaction information including trade & for ex. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and dis- intermediation, it is essential that banks have robust credit risk management policies and procedures that are sensitive and responsive to these changes.

The purpose of this document is to provide directional guidelines to the banking sector that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of the banking sector in Bangladesh. Credit risk management is of utmost importance to Banks, and as such, policies and procedures should be endorsed and strictly enforced by the MD/CEO and the board of The Bank.

Before extending credit facilities we should be satisfied that the applicant qualifies the following five essentials, which may be termed as 5C's namely:

- Character- Intention to pay the Loan
- Capacity- Borrower's competence in the field of employ to fund profitability and ability to generate income
- Capital- Financial strength to cover a risk
- Conditions- It is general business condition
- Collateral- Implies additional securities

4.1 Major Functions of CRM

a) To update Banks credit policy/Lending Guideline, procedures and control mechanisms related with all credit risks arising from corporate/commercial banking and retail banking etc.

b) To approve/decline credit proposal received from Corporate Division (Presently from Branches) within delegated authority and to recommend to the higher authority if it is beyond delegation.

c) To provide advice/assistance regarding all credit matters to Corporate Division/Branches.

d) Periodical review of different types of credits, maintain effective follow-up and supervision and take all possible measures in time to save from classification.

4.2 Duties and responsibilities of CRM

a) Examine/review credit proposals (new/renewal) sent by corporate division/branches to.

   i. Process for approval.
   ii. Placing credit proposals in the Head Office Credit Committee.
   iii. Decline credit proposals if they do not meet criteria.
   iv. Recommendation of credit proposal to the Managing Director/EC/Board for their approval.
   v. Prepare facility sanction letter and send copies to:
      - Corporate division/Branches
      - Credit Administration Division

b) Review on a periodical basis in the light of

   - Structuring

- Adequacy of security
- Pricing and profitability
- Financial analysis
- Form and content
- Performance
- Turnover
- Repayment

c) Revise and ratify borrower's risk grade developed by Corporate Division/branches.
d) Review delegated credit approval authorities on an annual basis.
e) Review approval procedures of Retail Credit from time to time.
f) Review and update banks and credit operating procedures on an annual basis.
g) Conduct industry analysis and detect risk involved with each industry.
h) Formulate strategy to minimize risk of lending to specific industry.
i) Guide and educate officers of all units of credit division and corporate division/branches.

4.3Credit Risk Management Unit

The credit risk management unit shall perform interlayer the following duties

a) Assess risks inherent in the credit proposal sent by corporate division and also evaluate proposed facility pricing based on risks, security, structuring and conditions to suit the business condition and to protect bank's interest.
b) Compliance to the existing rules and regulations of the bank and all regulatory authorities and laws of the country and to advice the corporate division for rectification, if required.
c) Advice the corporate division about changes, if required, in the structure and terms and conditions of the proposed facility.
d) Process credit proposal for approval of the competent authority.
e) Issues sanction advice for credit facilities or decline.
f) Maintain limit sanction register.
g) Review the performance of the customer on off-site basis and prescribe appropriate remedial measure, if required until the account becomes a "Special Mention" one.
h) Review the performance of the customers on off- side.

i) Handover loan to the credit monitoring and recovery unit as and when it is degraded to Special monitor .

4.4 PRINCIPLES OF LENDING:

Lending is one of the main functions of a commercial Bank. But a Bank must follow certain principles for keeping the risk involvement at minimum which are known as *Principles of Sound Lending*. A prudent banker should always adhere to the following general principles of lending funds to his customers, e.g.

(i) Background, Character and ability of the Borrower
(ii) Purpose of the facility
(iii) Liquidity
(iv) Term of facility
(v) Safety
(vi) Security
(vii) Profitability
(viii) Sources of repayment
(ix) Diversity

He should never put "ALL HIS EGGS" in one basket. It should be remembered that selection of appropriate borrowers, proper follow-up and end-use supervision through constant close contact with the borrowers are the cornerstones for timely recovery of credit.

The guidelines have been organised into the following sections:

1. POLICY GUIDELINES

a) Lending Guidelines
b) Credit Assessment & Risk Grading
c) Approval Authority
d) Segregation of Duties
e) Internal Audit

2. PREFERRED ORGANISATIONAL STRUCTURE & RESPONSIBILITIES

3. PROCEDURAL GUIDELINES

a) Approval Process
b) Credit Administration
c) Credit Monitoring
d) Credit Recovery

These guidelines were prepared and endorsed by senior credit executives from private sector, foreign and nationalized commercial banks operating in Bangladesh. They are intended for use in the corporate/commercial banking businesses.

It is the expectation of **Bangladesh Bank** that these guidelines will be adopted, particularly for those institutions that have a high rate of non-performing loans and weak credit risk management procedures. Bangladesh Bank may, based on its regular examination of individual banks, enforce the specific adoption of these guidelines.

1. POLICY GUIDELINES

This section details fundamental credit risk management policies that are recommended for adoption by all banks in Bangladesh. The guidelines contained herein outline general principles that are designed to govern the implementation of more detailed lending procedures and risk grading systems within individual banks.

(a) Lending Guidelines

The Lending Guidelines should provide the key foundations for account officers/relationship managers (RM) to formulate their recommendations for approval, and should include the following:

- **Industry and Business Segment Focus**

The Lending Guidelines should clearly identify the business/industry sectors that should constitute the majority of the bank's loan portfolio. For each sector, a clear indication of the bank's appetite for growth should be indicated (as an example, Textiles: Grow, Cement: Maintain, Construction: Shrink). This will provide necessary direction to the bank's marketing staff.

- **Types of Loan Facilities**

The type of loans that are permitted should be clearly indicated, such as Working Capital, Trade Finance, Term Loan, etc.

- **Single Borrower/Group Limits/Syndication**

Details of the bank's Single Borrower/Group limits should be included as per Bangladesh Bank guidelines. However, BRAC Bank's policy is to take total exposure to any single / group borrower up to 30% of its total capital but funded facilities do not exceed 15% of the total capital. However, Board of Directors may relax this limit in deserving cases. But it will not cross the limit set by Bangladesh Bank time to time.

However, at the time when the exposure of a single borrower/ Group limits required to be beyond Bangladesh Bank set percentage, BRAC Bank may arrange syndicated credit facilities with other Banks as Lead arranger/participatory Bank to diversify/minimize risk.

Syndication means joint financing by more than one bank to the same client against a common security. This is done basically, to spread the risk. It also provides a scope for an independent evaluation of risk and focused monitoring by the agent/lead bank.

Lending Caps

Bank should look into a specific industry sector exposure cap to avoid over concentration in any one-industry sector. BRAC Bank's policy is to take total exposure of **maximum 20%** in one particular industry compare to total corporate portfolio. While calculating total funded and total non-funded limit should be considered. Any exception for exceeding the limit should be placed for Board Approval.

Discouraged Business Types

Banks should outline industries or lending activities that are discouraged. As a minimum, the following should be discouraged:

- Military Equipment/Weapons Finance
- Highly Leveraged Transactions
- Finance of Speculative Investments
- Logging, Mineral Extraction/Mining, or other activity that is Ethically or Environmentally Sensitive
- Lending to companies listed on CIB black list or known defaulters
- Counterparties in countries subject to UN sanctions
- Share Lending
- Taking an Equity Stake in Borrowers
- Lending to Holding Companies
- Bridge Loans relying on equity/debt issuance as a source of repayment.

Loan Facility Parameters

Facility parameters (e.g., maximum size, maximum tenor, and covenant and security requirements) should be clearly stated. As a minimum, the following parameters should be adopted:

- Banks should not grant facilities where the bank's security position is inferior to that of any other financial institution.
- Assets pledged as security should be properly insured.
- Valuations of property taken as security should be performed prior to loans being granted. A recognized 3rd party professional valuation firm should be appointed to conduct valuations.

Cross Border Risk

Risk associated with cross border lending. Borrowers of a particular country may be unable or unwilling to fulfil principle and/or interest obligations. Distinguished from ordinary credit risk because the difficulty arises from a political event, such as suspension of external payments.

- Synonymous with political & sovereign risk
- Third world debt crisis

For example, export documents negotiated for countries like Nigeria, Israel etc.

(b) Credit Assessment & Risk Grading

(i) Credit Assessment

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the Relationship Manager/Account Officer ("RM"), and is approved by Credit Committee/Board.

. BRAC Bank will follow **Know Your Customer (KYC) and Money laundering guidelines** which should be adhered to at all times and the RM's should be well conversant with these. To assess client's nature of business RM will visit customer's business & factory premises, as & when required (before finalizing credit proposal) and will be conversant with the management officials/employees.

A Credit Application should summaries the results of the RM's risk assessment and include, as a minimum, the following details:

- Amount and type of loan(s) proposed.
- Purpose of loans.
- Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangements

In addition, the following risk areas should be addressed:

- Borrower Analysis. The majority shareholders, management team, experience and group or affiliate companies should be thoroughly assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed, and risks mitigated. Borrower analysis through the 5 Cs (earlier stated) mean the man/person i.e. the borrower himself/herself his/her sincerity, honesty, integrity, reputation, respectability, reliability, responsibility, education, training, experience, permanency, entrepreneurial quality, ready to accept condition etc; his/her works/activities, his/her management/handling capacity, chosen location/place, his/her ability to invest some amount of money, marketability of his/her products, expected returns etc.

- Industry Analysis. The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.

- Supplier/Buyer Analysis. Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

- Historical Financial Analysis. An analysis of a minimum of **3 years** historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analysed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, working capital assessment, cash flow, leverage and profitability must be analysed.

- CIB requirement: Before disbursement 3 months latest CIB is required which should reflect/include the name of all the lenders with facility, limit & outstanding. For any renewal/restructure/enhancement proposal a fresh CIB is a prerequisite. Additionally, a half-yearly CIB to be obtained for a continuous facility.

- Projected Financial Performance. Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.

- Account Conduct. For existing borrowers, the historic performance in meeting repayment obligations [turnover in the accounts (say debit-credit summation, maximum-minimum balance in the account) trade payments, cheques, interest, total earnings and principal payments, etc] should be assessed.

- Adherence to Lending Guidelines. Credit Applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Credit Committee/Board should approve Credit Applications that do not adhere to the bank's Lending Guidelines.

- Mitigating Factors. Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

- Loan Structure. The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.

- Security. A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.

- Name Lending. Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported

independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

(ii)Risk Grading

Bank should follow the credit risk grading system. The system define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications.
(Risk grading system is showing in chapter-6)

(c) Lending Authorities /Delegation of Power/ Approval Authority:

The authority to sanction/approve loans must be clearly delegated to senior credit executives by the Managing Director/CEO & Board based on the executive's knowledge and experience. The following guidelines should apply in the approval/sanctioning of loans:

- Credit approval authority must be delegated in writing from the Board to Credit Committee, acknowledged by recipients, and records of all delegation retained in CRM.
- Delegated approval authorities must be reviewed annually by Board.
- The credit approval function must be separate from the marketing/relationship management (RM) function.
- Approvals must be evidenced in writing, or by electronic signature. Approval records must be kept on file with the Credit Applications.
- All credit risks must be authorized by executives within the authority limit delegated to them. The "pooling" or combining of authority limits should not be permitted.

- Credit approval should be centralised within the Credit Division. Regional credit centres may be established.

- The aggregate exposure to any borrower or borrowing group must be used to determine the approval authority required.
- Any credit proposal that does not comply with Lending Guidelines, regardless of amount, should be referred to Credit Committee for Approval
- Credit Committee must approve and monitor any cross-border exposure risk.
- Any breaches of lending authority should be reported to MD/CEO, Head of Internal Control, and Head of Credit.

- A monthly summary of all new facilities approved, renewed, enhanced, and a list of proposals declined stating reasons thereof should be reported by Credit Division to the Board.
- Lending authority can be exercised by the individual Executives / Officers only after getting written authorisation from the Credit Committee. The Lending Officers concerned should strictly adhere to such instructions while sanctioning loans and advances.
- While exercising the lending authority instructions / stipulations contained in the Bank's Manuals, instructions issued by Bangladesh Bank and other instructions issued by the Head Office from time to time should be strictly followed.
- All letters addressed to the borrowers sanctioning credit facilities should be prepared in duplicate and signed by two authorised officers of the Bank. If the terms and conditions of loan sanction letter are acceptable to him the borrower should return the duplicate copy duly signed.
- While determining the level of authority required to approve an extension of credit the lending officers should be guided by the "One Obligor" concept as explained below. Lending authority is not transferable or assignable. No lending officer may approve a credit extension on behalf of others or delegate his authority to others.

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- Loans and advances on becoming in operative / stuck up should not be renewed and / or re-scheduled without getting prior approval from the Credit Committee.

- While extending any credit facility to the new client Status enquiry to be obtained before disbursement of the facility.

- In case of loan take over from any bank/financial institution, then any correspondence should be made with the bank/financial institution directly, such as security takeover.

(d)Segregation of Duties

Bank's objective is to segregate the following lending functions:

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

The purpose of the segregation is to improve the knowledge levels and expertise in each department, to impose controls over the disbursement of authorised loan facilities and obtain an objective and independent judgment of credit proposals.

(e)Internal Audit

BRAC Bank's internal control and compliance department should conduct audits of all credit files, security documentations and provide an independent assessment of the quality of the asset portfolio. Audits should be carried out at periodic interval, and should ensure compliance with regulatory guidelines, internal procedures, Lending Guidelines and Bangladesh Bank requirements.

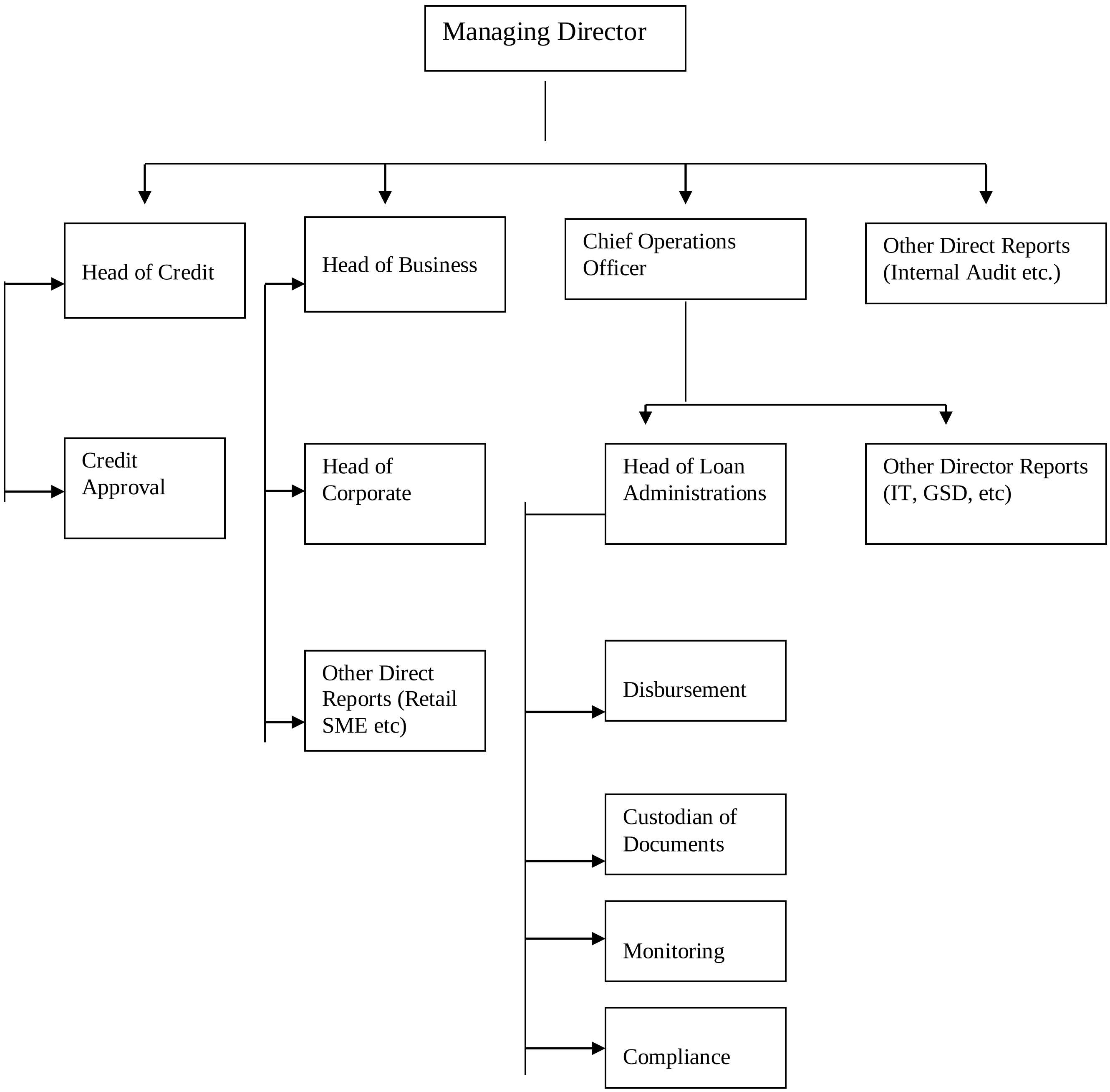
2. ORGANISATIONAL STRUCTURE & RESPONSIBILITIES

The appropriate organisational structure must be in place to support the adoption of the policies detailed in Section 1 of these guidelines. The key feature is the segregation of the Marketing/Relationship Management function from Approval/Risk Management/Administration functions.

Credit approval should be centralised within the CRM function. Regional credit centers may be established, however, all applications must be approved by the Head of Credit and Risk Management or Managing Director/CEO/Board or delegated Head Office credit executive.

(a)Organizational Structure

The following chart represents the management structure:



(b) Key Responsibilities

The key responsibilities of the above functions are as follows

Credit Risk Management (CRM)

- Oversight of the bank's credit policies, procedures and controls relating to all credit risks arising from corporate/commercial/institutional banking, personal banking, & treasury operations.
- Oversight of the bank's asset quality.
- Directly manage all Substandard, Doubtful & Bad and Loss accounts to maximize recovery and ensure that appropriate and timely loan loss provisions have been made.
- To approve (or decline), within delegated authority, Credit Applications recommended by RM. Where aggregate borrower exposure is in excess of approval limits, to provide recommendation to MD/CEO for approval.
- To provide advice/assistance regarding all credit matters to line management/RMs.
- To ensure that lending executives have adequate experience and/or training in order to carry out job duties effectively.

Credit Administration

- To ensure that all security documentation complies with the terms of approval and is enforceable.
- To monitor insurance coverage to ensure appropriate coverage is in place over assets pledged as collateral, and is properly assigned to the bank.
- To control loan disbursements only after all terms and conditions of approval have been met, and all security documentation is in place.
- To maintain control over all security documentation.
- To monitor borrower's compliance with covenants and agreed terms and conditions, and general monitoring of account conduct/performance.

Relationship Management/Marketing (RM)

- To act as the primary bank contact with borrowers.
- To maintain thorough knowledge of borrower's business and industry through regular contact, factory/warehouse inspections, etc. RMs should proactively monitor the financial performance and account conduct of borrowers.
- To be responsible for the timely and accurate submission of Credit Applications for new proposals and annual reviews, taking into account the credit assessment requirements outlined in Section 1.2.1 of these guidelines.
- To highlight any deterioration in borrower's financial standing and amend the borrower's Risk Grade in a timely manner. Changes in Risk Grades should be advised to and approved by CRM.
- To seek assistance/advice at the earliest from CRM regarding the structuring of facilities, potential deterioration in accounts or for any credit related issues.

Internal Audit/Control

- Conducts independent inspections annually to ensure compliance with Lending Guidelines, operating procedures, bank policies and Bangladesh Bank directives. Reports directly to MD/CEO or Audit committee of the Board.

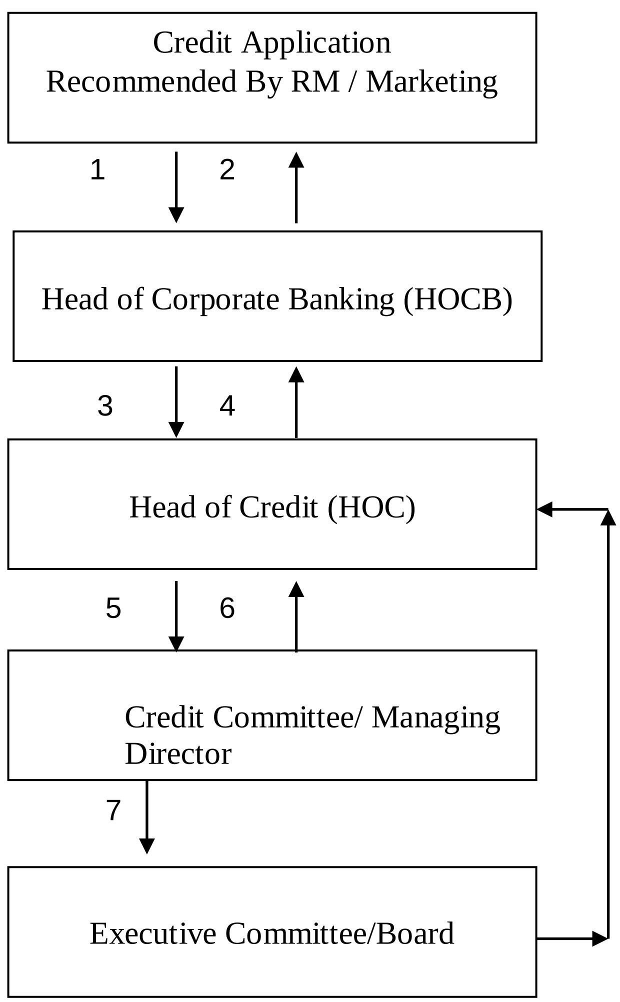
3. PROCEDURAL GUIDELINES

(a) Approval Process

The approval process must reinforce the segregation of Relationship Management/Marketing from the approving authority. The responsibility for preparing the Credit Application should rest with the RM within the corporate banking division. Credit Applications should be recommended for approval by RM and Head of Corporate Banking/Head of business unit, which will be forwarded to the credit committee for approval. Bank may wish to establish various thresholds, above which, the recommendation of the Head of Corporate Banking is required prior to onward recommendation to Head of Credit for approval. In addition, bank may wish to establish regional credit centres within the approval team to handle routine approvals.

Delegation of approval limits must be approved by the board empowering the Credit Committee.

The following diagram illustrates the preferred approval process:



1. Relationship Manager (RM) prepares the loan proposals and supports & forwards to Head of Corporate Banking (HOCB) for onward recommendation.

2. HOCB places it to Credit Committee for their recommendation

3. Managing Director approves/recommends as per delegated authority by the board.

4. Managing Director presents the proposal to EC/Board

5. EC/Board advises the decision

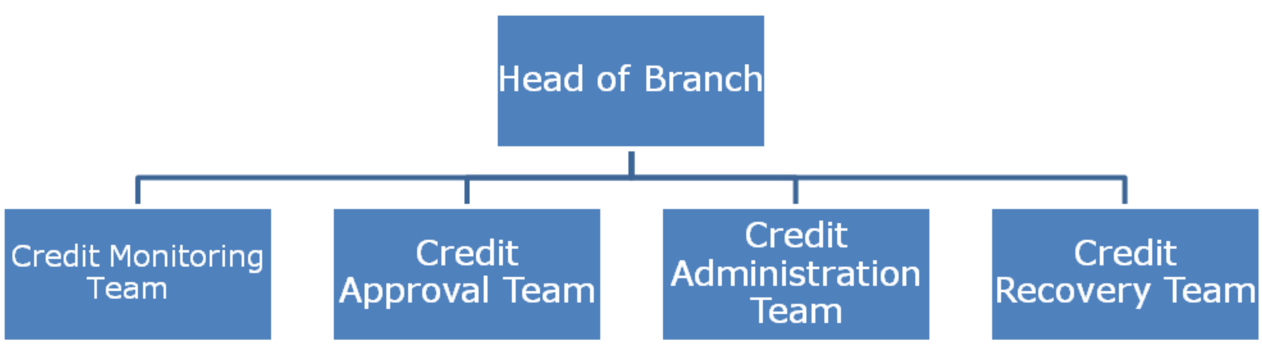
Delegated Approval Authority Levels

Head of Credit	100% cash back as set by Board time to time
Managing Director	Upto 25% of Capital and/or limit approved by the board, whichever is lower.
EC/Board	all exceed 25% of Capital and/or beyond the limit of credit committee. However, Board will approve up to the set percentage of capital as per Bangladesh Bank guidelines, which may change time to time.

However, Board may review the above delegated approval authority annually based on business volume, product nature and Bangladesh Bank guidelines.

Appeal Process

Any declined credit may be re-presented to the next higher authority for reassessment/approval. However, there should be no appeal process beyond the Managing Director.



(b) **Credit Administration**

The Credit Administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of loan facilities. For this reason, it is essential that the functions of Credit Administration be strictly segregated from Relationship Management/Marketing in order to avoid the possibility of controls being compromised or issues not being highlighted at the appropriate level.

(c) Credit Monitoring

To minimise credit losses, monitoring procedures and systems should be in place that provide an early indication of the deteriorating financial health of a borrower. At a minimum, systems should be in place to report the following exceptions to relevant executives in CRM and RM team:

- Past due principal or interest payments, past due trade bills, account excesses, and breach of loan covenants;
- Loan terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow-up.
- Timely corrective action is taken to address findings of any internal, external or regulator inspection/audit.
- All borrower relationships/loan facilities are reviewed and approved through the submission of a Credit Application at least annually.

(d) Credit Recovery

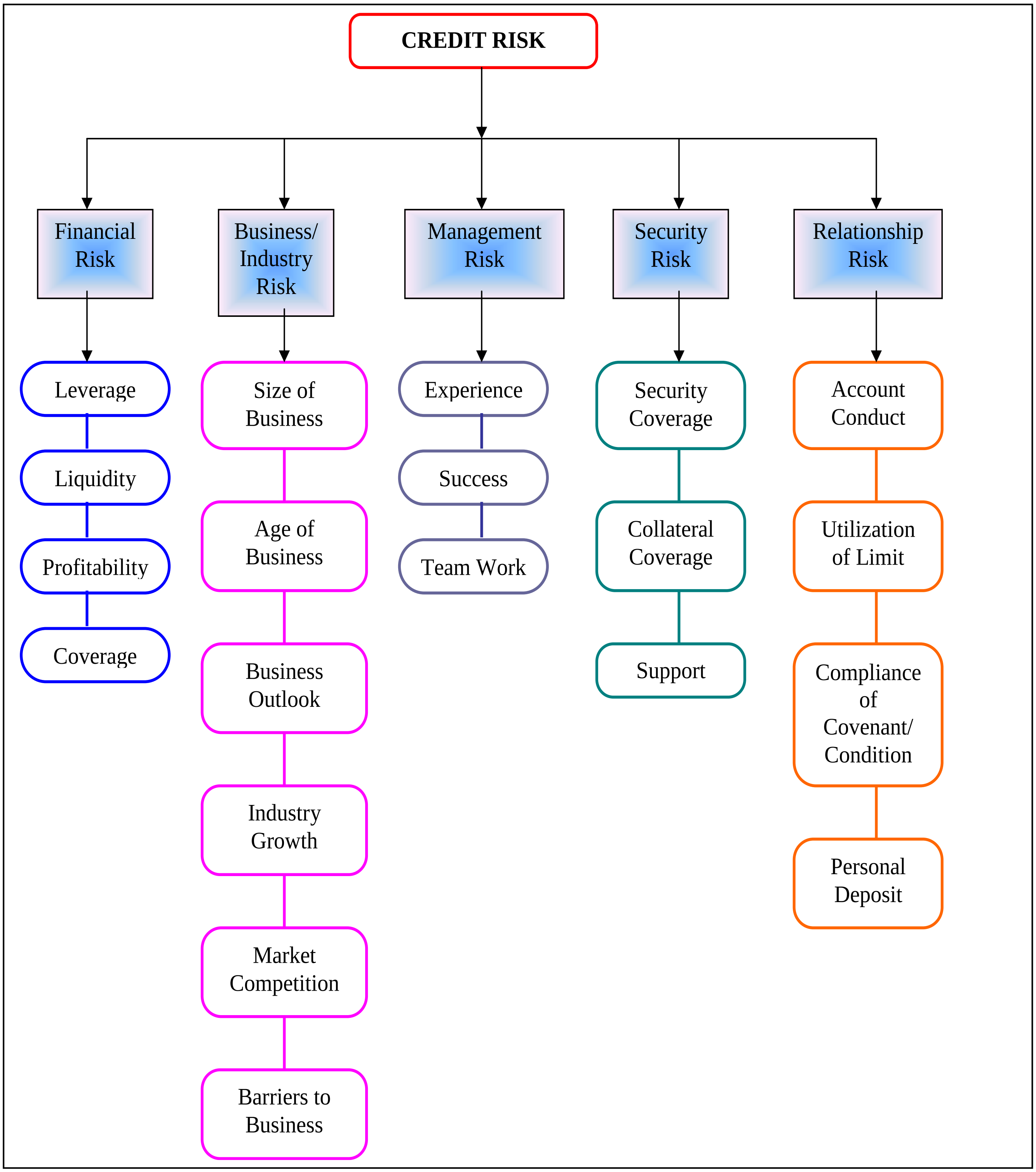
The concern RM with Credit Division will directly monitor the accounts with sustained deterioration. Bank may transfer EXIT accounts graded 4-5 for efficient exit based on recommendation of Credit and Corporate Banking. Whenever an account is downgraded the the primary functions for Credit Division with Corporate Banking Division are:

- Determine Account Action Plan/Recovery Strategy
- Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.

- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- Regular review of grade 6 or worse accounts.

The management of problem loans (NPLs) must be a dynamic process, and the associated strategy together with the adequacy of provisions must be regularly reviewed. A process should be established to share the ***lessons learned*** from the experience of credit losses in order to update the lending guidelines.

4.5 Chart of Credit Risk



4.6 Role and Responsibilities

Role of Credit Committee

- Review of Credit proposals and recommend to the Managing Director.
- Review of Bank's Loan portfolio.

Responsibilities of Head of Branches

- The head of Branches is the Relationship Manager for corporate function of his branch. He shall also exercise his business power with due diligence and prudence.
- KYC shall be done on the customer. In this respect he shall arrange for physical visit to the business of the lending customer by any responsible bank officer, know about the nature of business, volume, discuss with the important personality of the locality, his business colleagues and neighbors and try to know about the genuineness, honesty and integrity of the and his business dealings and to be documented in visit report. He shall take all precautionary measures in respect of Money Laundering issue.
- Comply with applicable laws, regulations of Bangladesh Bank, Credit Policies and Circulars of the Bank.
- Latest CIB report on the customer has to be obtained and found clean.
- Ensure continuous review of credit facilities. Early Alert Account be identified and reported to CRM through corporate Division, Head Office.

CHAPTER 05

CORPORATE CREDIT

Chapter – 5

5.1 Corporate Credit:

To understand Corporate Credit, first understand, who will be considered as corporate client? Other than individual, like proprietorship concern, partnership concern, co-operative society, club, Non-Government Organization (NGO) and limited company both public and private.

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.

5.2 Objectives of Corporate Credit Team:

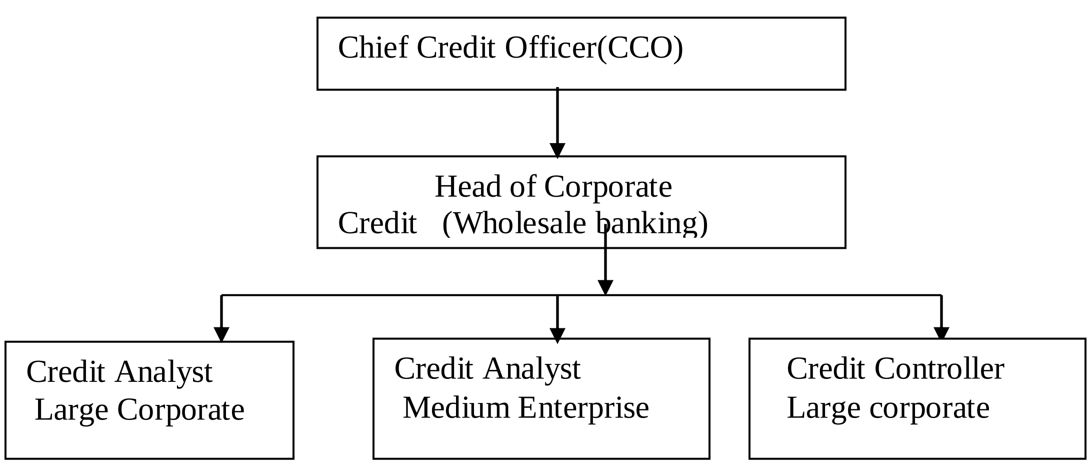
The objectives of Corporate Credit Team are as follows:

- Managing credit risk
- Managing credit risk exposure
- Compliance with the rules/guidelines of Bangladesh Bank
- Compliance with the rules/policies of BRAC Bank

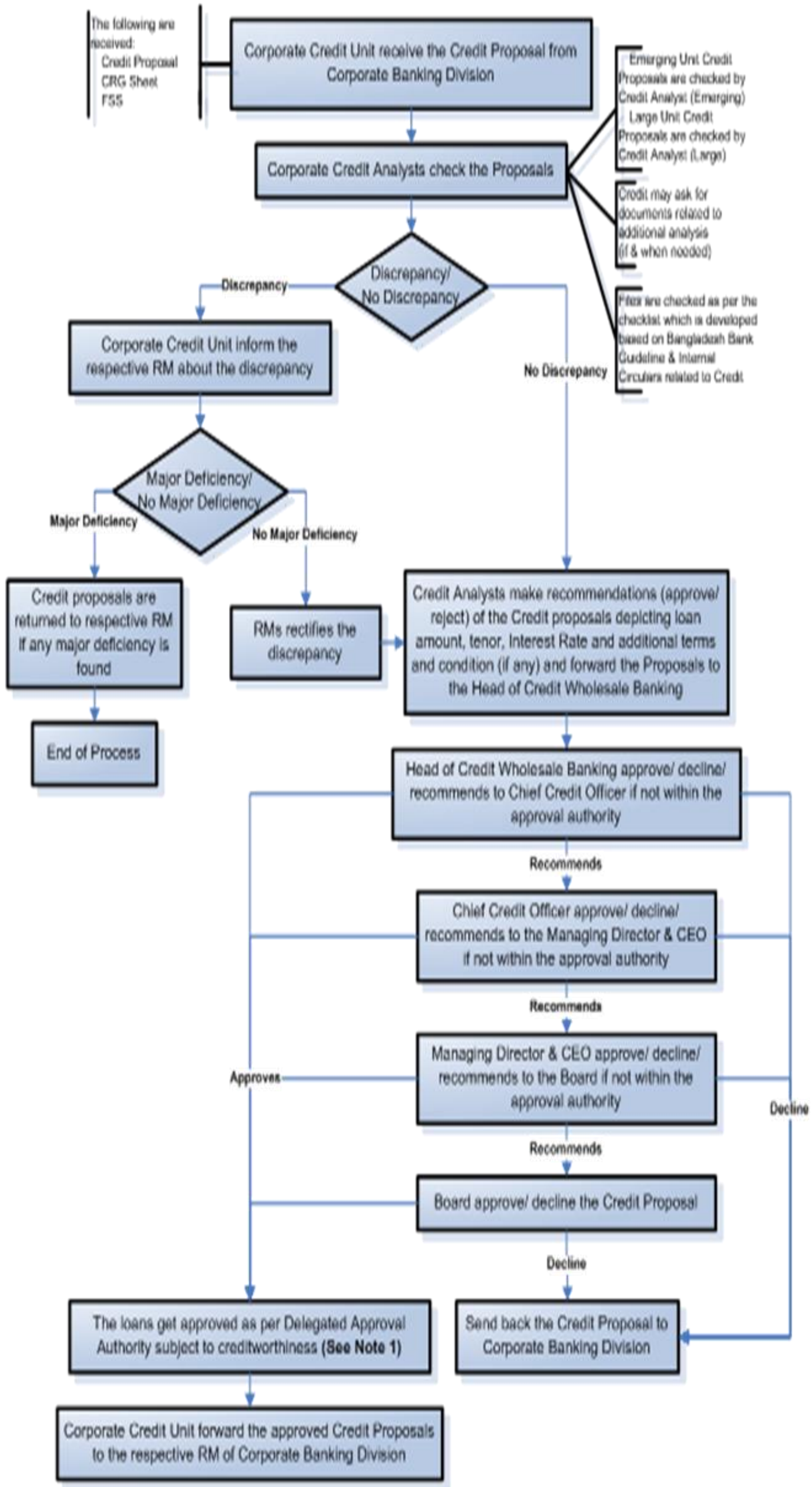
The policies we are following-

a) Credit Policy for Corporate Credit
b) Environmental Policy
c) Product Program Guide (PPG) for Commercial Banking i.e. CmmerZLoan , Supplier Loan.
d) Bangladesh Bank’s guidelines, circulars etc.

5.3 Organogram of Corporate Credit:



Corporate Credit Risk Process Flow



Note 1

The following are usually considered for approving loans:

- Respective Company's Creditworthiness
- CIB Report
- Visit report (if & when needed)

5.4 Types of facilities offer to Corporate Client:

Broadly two types: (i) Funded and (ii) Non-funded.

(I)***Funded facility:*** means financing through cash.

Product types:

a. **Overdraft:**

A convenient and flexible form of short-term financing for routine operating expenses and overheads of the company.

b. **Import and Export Loans:**

Under this category products are Payment Against Documents (PAD), Loan Against Trust Receipt (LATR), Revolving Loan (RL), Inland Bills Purchase/ Discount, etc.

c. **Long Term loans:**

Under this category products are Term Loans, Lease Finance, which we extend to finance the fixed assets the corporate business needs (such as equipment, machineries etc.). It may be a Greenfield project or an expansion of an existing plant.

(II)Non-funded facility: non-involvement of fund/cash. Bank's extend this type of facility against some documents to third party on behalf of corporate client.

a. **Import and Export Loans:** Letter of Credit

b. **Guarantees and Bonds:** Performance Guarantee, Advance Payment Guarantee, Bid Bonds

- **Syndication Loan:**

Syndication means joint financing by more than one bank to the same client against a common security. This is done basically, to spread the risk. It also provides a scope for an independent evaluation of risk and focused monitoring by the agent / lead bank.

- **Maximum tenor of Corporate Loan:**

Loan tenor of any corporate credit facility would be maximum 7 years.

5.5 Responsibilities of Corporate Credit Team:

Broadly, support Approval and post disbursement Monitoring.

At a glance overall the team responsibilities are as follows:

a. Analyze various corporate organizations and their debt structure.
b. Conducting credit reviews, discuss with Head of Corporate Banking as appropriate.
c. For new transactions/customer identify all risk issues and make a recommendation.
d. Produce updated reports on any credit developments.
e. Develop and maintain peer group analysis for a particular industry sector.
f. Ensure excess documentation is reviewed and completed within the relevant time scales.
g. Actively develops relations with Front office and provides exceptional service and advice.

5.6 Functions of Corporate Credit Team:

After receiving credit proposal from Relationship Manager of Corporate Banking Division, Corporate Credit Team go thorough the proposal not limited to credit assessment but also cross check the data in line with BBL policy and Bangladesh Bank guidelines side by side considering supporting papers / documents.

The Corporate Credit of Credit Division may visit factory and office premises of corporate borrowers as when required**,** usually with the Corporate Banking Division. However, a separate factory/ business premises visit report will be prepared by Credit Division signed by the assigned Officer.

Credit Analyst will analysis financials (i.e. working capital assessment, spread sheet) and will recheck the score sheet. If the proposal comply with Corporate Checklist / PPG / Policy and purpose of the facility / justification are satisfactory, place the proposal to Head of Credit with recommendation by Sr. Manager, Corporate Credit for approval. However, based on limit, the proposal should be placed before appropriate approval Authority i.e. Credit Committee/Board.

The officer of Corporate Credit should identify any exception required in the proposal and ensure whether it is properly recommended/ supported by the authorized person.

The result of submitted proposal should be approved / declined within 07 (seven) days from the receiving date.

5.7 Approval Authorities the Corporate Loans:

1. Head of Credit
2. Managing Director with recommendation by Credit Committee
3. Board

Authorize Person	Secured Loan	Unsecured Loan
Board	Above 10.00 crore	Above 5.00 crore
A.E.A Muhaimen Managing Director & CEO	Up to 10.00 crore	Up to 5.00 crore
Nabil Mustafizur Rahman Chief Credit Officer	Up to 5.00 crore	Up to 2.00 crore
Hasan Mahmud Sr. Manager, Corporate Credit	Up to 2.00 crore	Up to 0.50 crore

* The approval authority may change time-to-time based on business volume and person behind the desk, overall Bangladesh Bank guidelines.

Members of Credit Committee:

At present, Credit Committee consists of four persons:

a. Head of Corporate Banking
b. Head of Credit- Chairperson
c. Deputy Managing Director & COO
d. Managing Director & CEO- Approver

Single Borrower/Group Exposure limit:

As per Bangladesh Bank BRPD Circular no.05 dated 09.04.2005, bank can extend credit facilities to single borrower/group up to 35% of bank's total capital except export oriented organization / borrower, but funded facilities not exceed 15% of bank's total capital at any point of time. However, BRAC Bank policy is to take exposure to single / group borrowers up to 30% of its capital, but funded facilities not exceed 15% of total capital.

5.8 TIME FRAME FOR LOAN PROCESSING:

Corporate Division	: 60 working days (Includes loan proposal preparation, Physical visit of the client's business, Documentation) and will communicate about the declined within the stipulated time.
Credit Division	: 07 working days (Includes credit application acceptance/ decline decision, intimation to the client for more information and documents). In case of project loan, 7-15 days for Project Loan and in case of Syndicate loan 15-30 days for loans under Syndication. Or on the basis of SLA agreement between the departments.

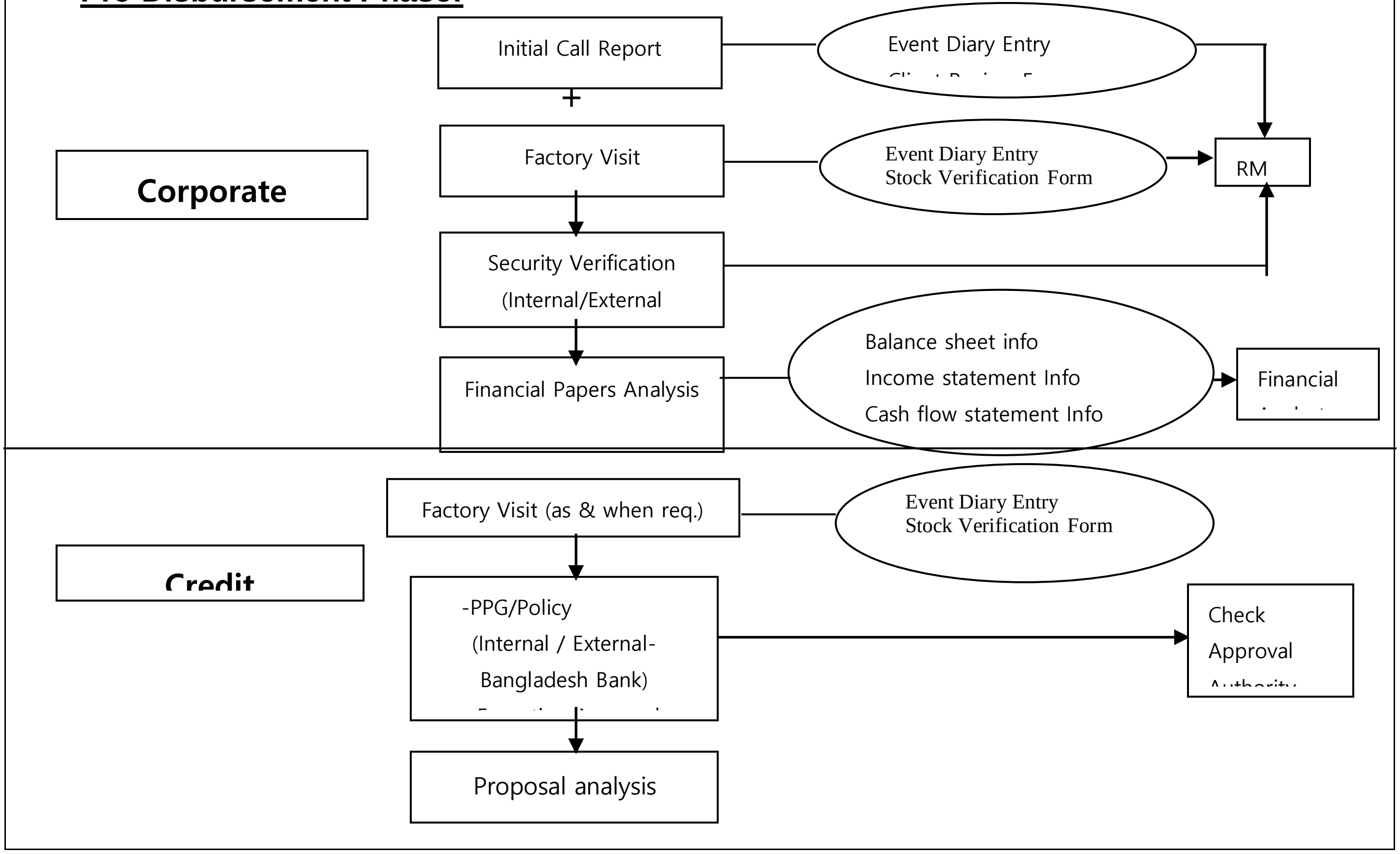
Asset Operations Department	: 07 working days for loan documentations and disbursement considering all documents are in order but case to case basis may vary based on documentations. Or on the basis of SLA agreement between the departments.

<u>Alignment of Renewal Period:</u>

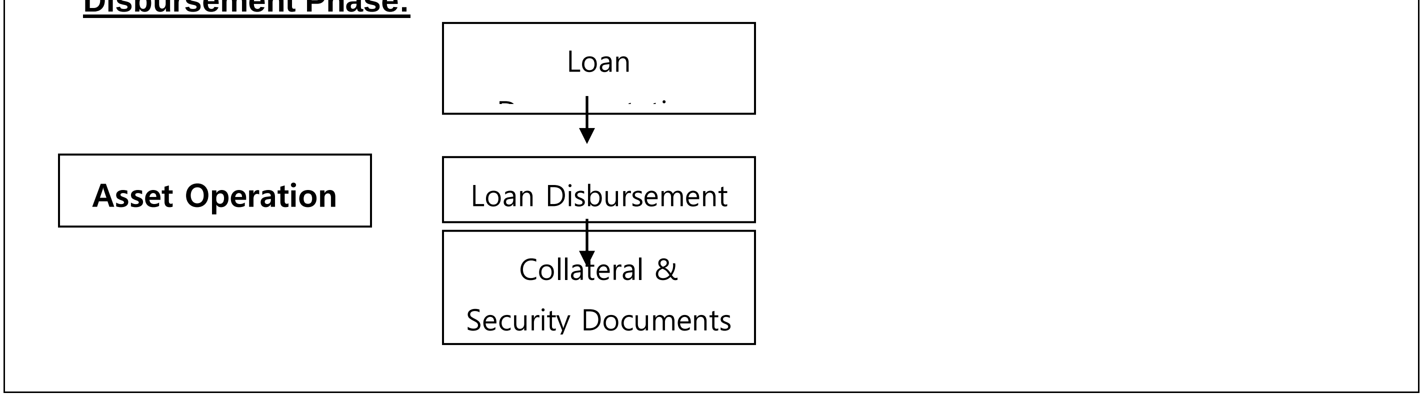
Renewal periods should be aligned with year end financials of Corporate Client. Initially renewal period will be aligned for large corporate and subsequently phase by phase will be aligned for medium borrowers.

5.9 Loan Origination, Approval & Monitoring Process Flow:

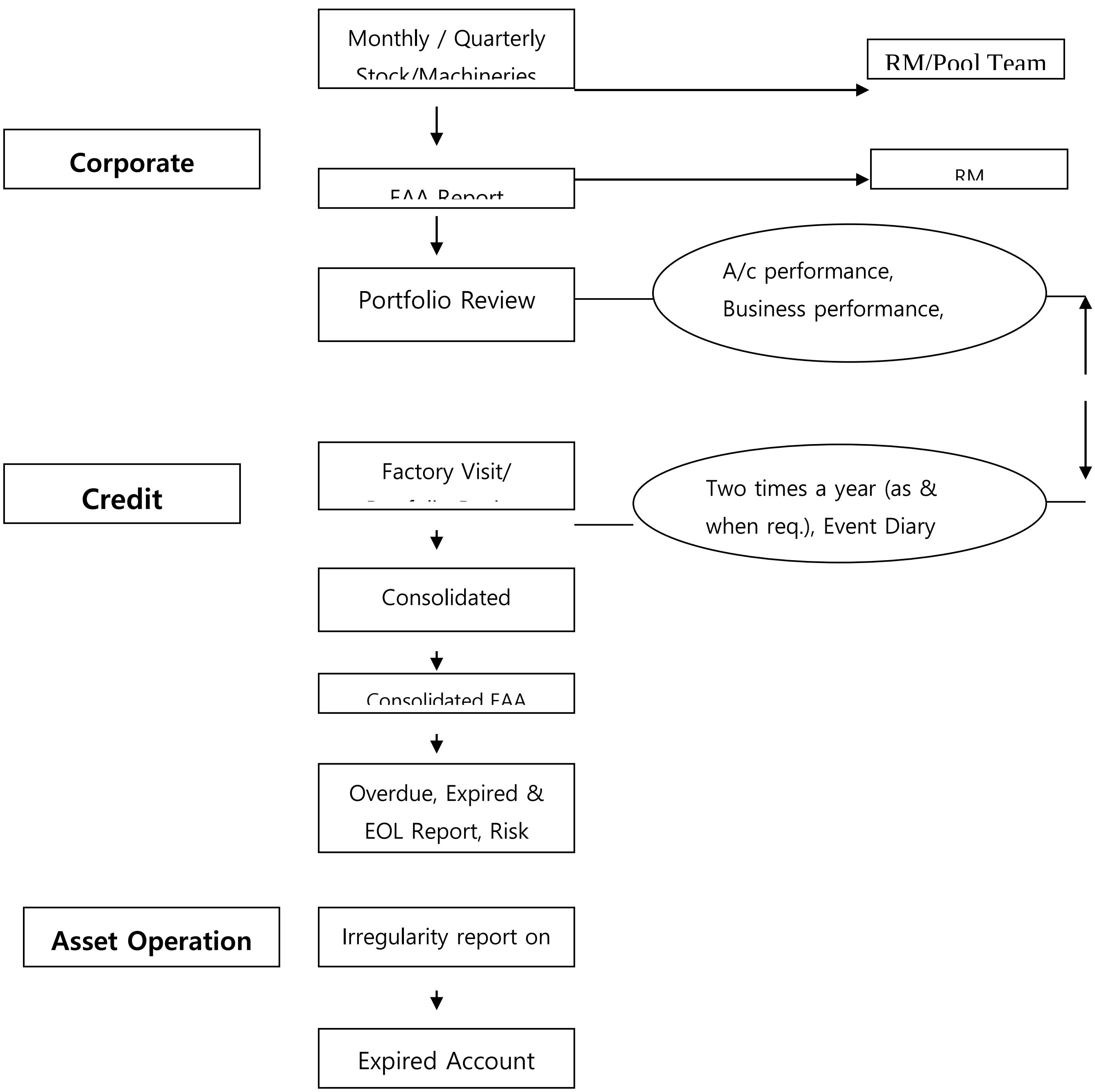
<u>Pre-Disbursement Phase:</u>

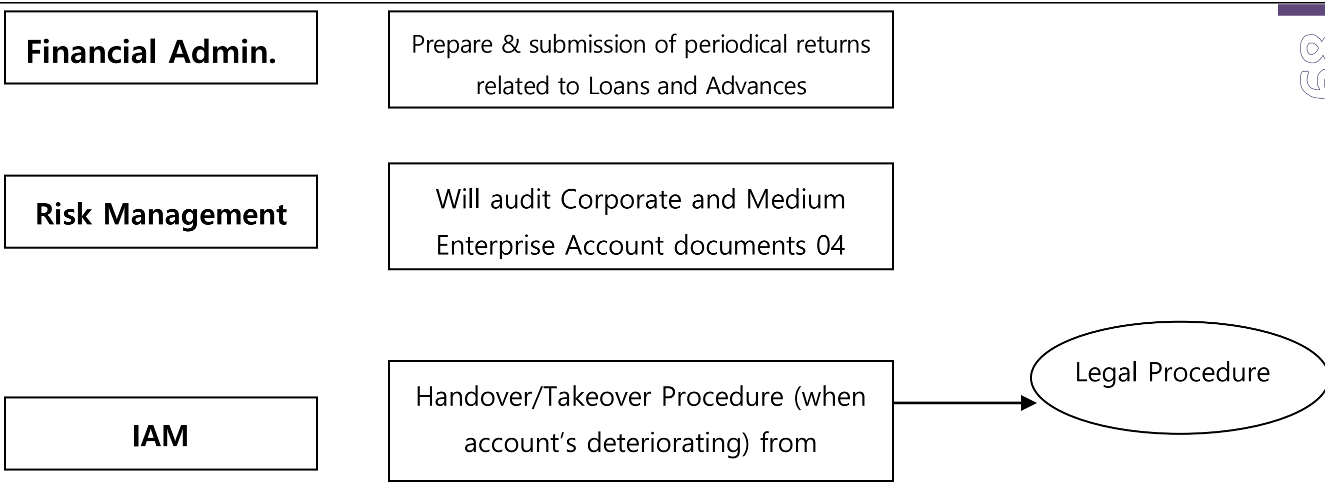


<u>Disbursement Phase:</u>



Post-Disbursement Phase:




Financial Admin.
Prepare & submission of periodical returns related to Loans and Advances
Risk Management
Will audit Corporate and Medium Enterprise Account documents 04
IAM
Handover/Takeover Procedure (when account's deteriorating) from
Legal Procedure

5.10 Credit Risk Grading:

Credit Risk Grading system is a dynamic process and technique are followed in different banks for measuring credit risk.

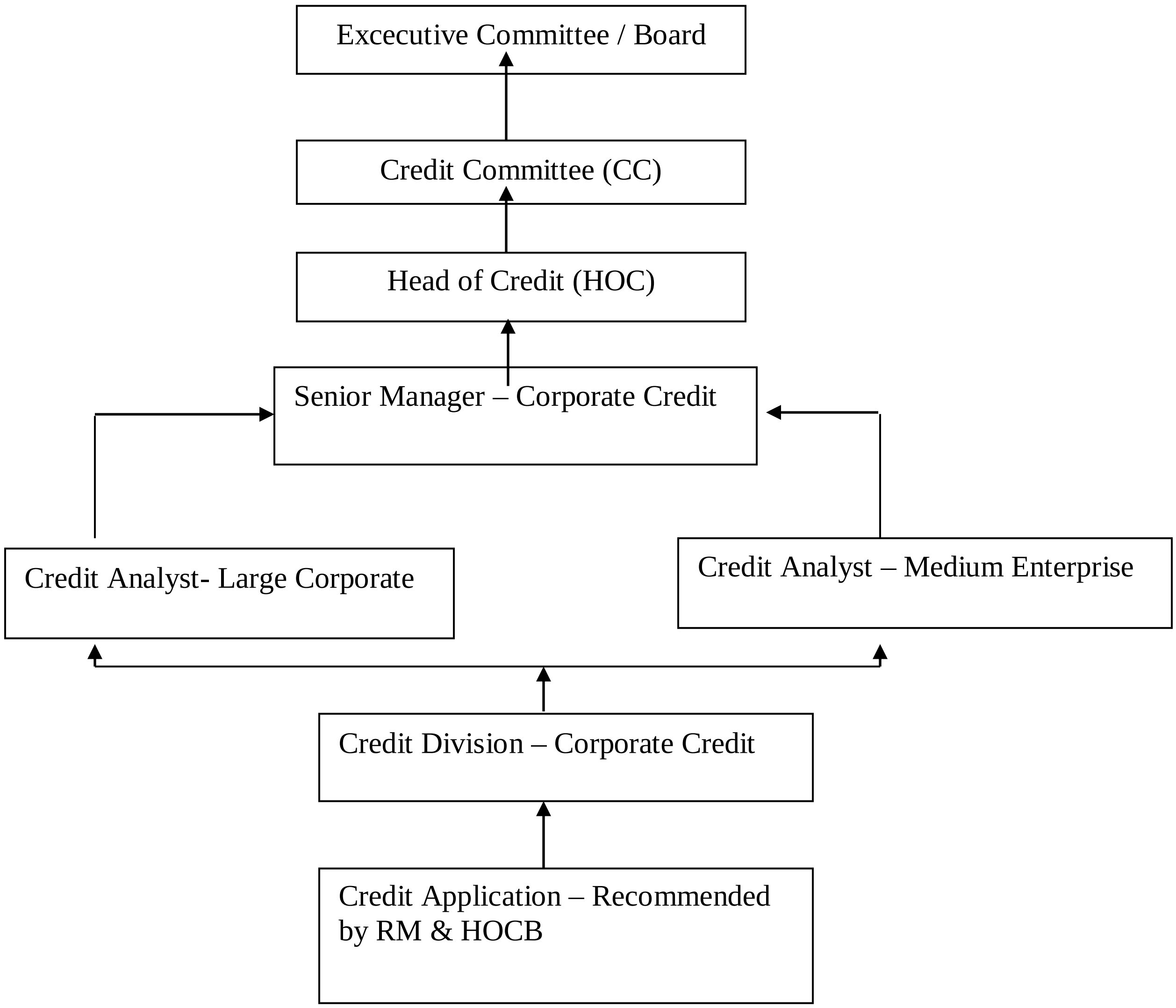
Definition of Credit Risk Grading (CRG):

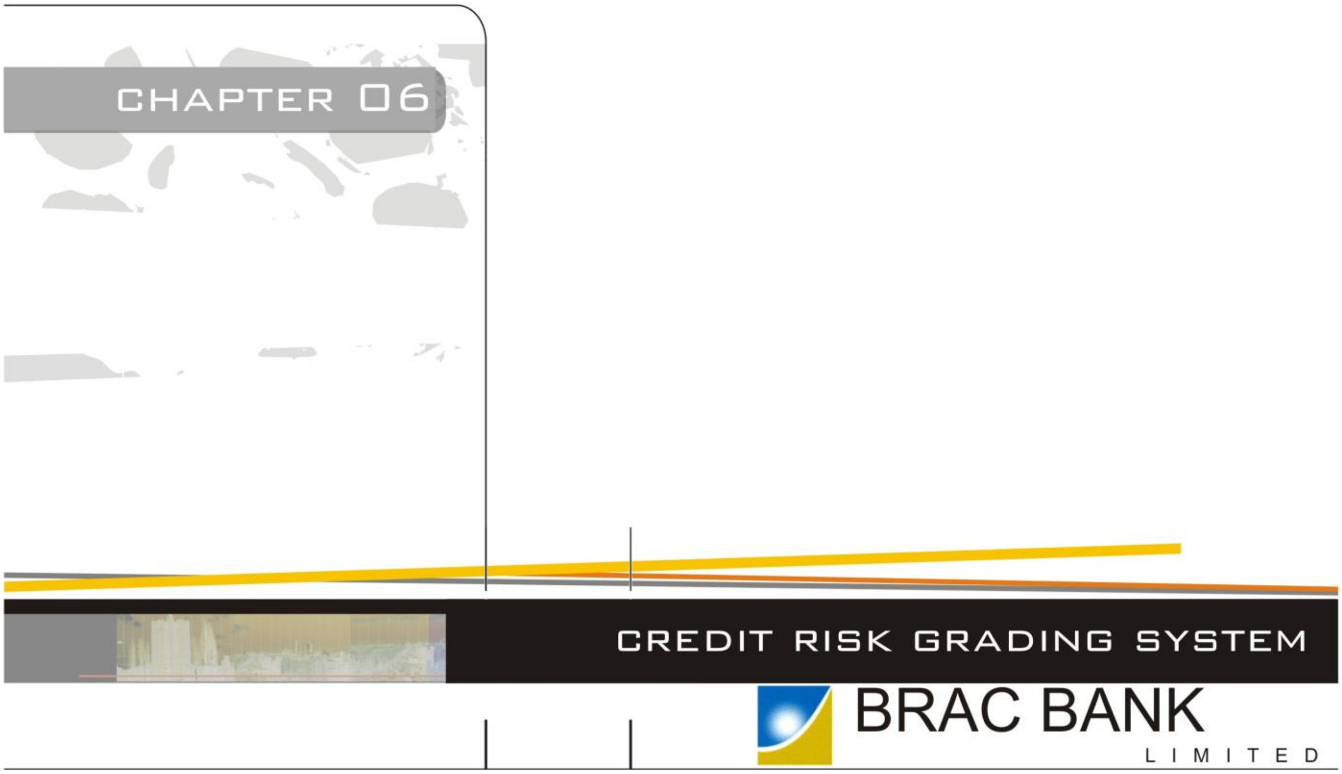
- The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure.
- A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure.
- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

CRG consists 8 (eight) grading.

1. Superior
2. Good
3. Acceptable
4. Marginal / Watch List
5. Special Mention Account
6. Substandard
7. Doubtful
8. Bad & Loss

5.11 Hierarchy/Cycle of Corporate Credit proposal:





Chapter-6

Definition of Credit Risk Grading (CRG)

The credit risk grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure**.**

A credit risk grading deploys a number/ alphabet/symbol as a primary summary indicator of risks associated with a credit exposure.

Credit risk grading is the basic module for developing a credit risk management system.

6.1 Credit Risk Grading System

Credit risk grading is an important tool for credit risk management as it helps the Banks & financial institutions to understand various dimensions of risk involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a bank or a branch. The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage.

At the pre sanction stage, credit grating helps the sanctioning authority to decide whether to lend or not to lend, what should be the loan price, what should be the extent of exposure, what should be the appropriate credit facility, what are the various facilities, what are the various risk mitigation tools to put a cap on the risk level.

Having considered the significance of credit risk grading, it becomes imperative for the banking system to carefully develop a credit risk grading model which meets the objective outlined above.

The lending risk analysis (LRA) manual introduced in 1993 by the Bangladesh Bank has been practice for mandatory use by the Banks & financial institutions for loan size of BDT 1.00 crore and above. However, the LRA manual suffers from a lot of subjectively, sometimes creating confusion to the lending Bankers in terms of selection of credit proposals on the basis of risk exposure. MEANWHILE, IN 2003 END Bangladesh Bank provided guidelines for credit risk management of Banks wherein it recommended, interlaid, the introduction of risk grade score card for risk assessment of credit proposals.

Since the two credit risk models are presently in vogue, the Governor Board of Bangladesh Institute of Bank Management (BIBM) under the chairmanship of the Governor, Bangladesh Bank decided that an integrated credit risk grading model be developed incorporating the significant features of the above mentioned models with a view to render a need based simplified and user friendly model for application by the Banks and financial institutions in processing credit decisions and evaluating the magnitude of risk involved therein.

Bangladesh Bank expects all commercial banks to have a well defined credit risk management system which delivers accurate and timely risk grading. This manual describes the elements of an effective internal process for grading credit risk. It also provides a comprehensive, but generic discussion of the objectives and general characteristics of effective credit risk grading system. In practice, a bank's credit risk grading system should reflect the complexity of its lending activities and the overall level of risk involved.

6.2 Function of Credit Risk Grading

Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Grading system measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

6.3 Use of Credit Risk Grading

The credit risk grading matrix allows application of uniform standards to credits to credits to ensure a common standardized approach to assess the quality of individual obligor, credit portfolio of a unit, line of business, the branch or the Bank as a whole.

As evidence, the CRG outputs would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is related. The other decisions would be related to pricing (credit-spread) and specific features of the credit facility. These would largely constitute obligor level analysis.

Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of a Bank. It is also relevant for portfolio level analysis.

6.4 Risk Grading System

Bank should follow the credit risk grading system. The system define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications.

CRG Scale

The proposed CRG scale consists of 8 categories with short names and Numbers are provided as follows:

GRADING	SHORT NAME	NUMBER
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watch list	MG/WL	4
Special Mention	SM	5
Sub Standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

A clear definition of the different categories of credit risk grading is given as follow:

Risk Rating	***Grade***	**Definition**

Risk Rating	***Grade***	**Definition**
Superior - (SUP)	1	⇒ Credit facilities, which are fully secured i.e. fully cash covered. ⇒ Credit facilities fully covered by government guarantee. ⇒ Credit facilities fully covered by the guarantee of a top tier international Bank.
Good - (GD)	2	⇒ Strong repayment capacity of the borrower ⇒ The borrower has excellent liquidity and low leverage. ⇒ The company demonstrates consistently strong earnings and cash flow. ⇒ Borrower has well established, strong market share. ⇒ Very good management skill & expertise. ⇒ All security documentation should be in place. ⇒ Credit facilities fully covered by the guarantee of a top tier local Bank. ⇒ Aggregate Score of 85 or greater based on the Risk Grade Score Sheet
Acceptable - (ACCPT)	3	⇒ These borrowers are not as strong as GOOD Grade borrowers, but still demonstrate consistent earnings, cash flow and have a good track record. ⇒ Borrowers have adequate liquidity, cash flow and earnings. ⇒ Credit in this grade would normally be secured by acceptable collateral (1st charge over inventory / receivables / equipment / property). ⇒ Acceptable management ⇒ Acceptable parent/sister company guarantee ⇒ Aggregate Score of 75-84 based on the Risk Grade Score Sheet
Marginal - Watch list (MG/WL)	4	⇒ This grade warrants greater attention due to conditions affecting the borrower, the industry or the economic environment. ⇒ These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. ⇒ Weaker business credit & early warning signals of emerging business credit detected. ⇒ The borrower incurs a loss ⇒ Loan repayments routinely fall past due ⇒ Account conduct is poor, or other untoward factors are present. ⇒ Credit requires attention ⇒ Aggregate Score of 65-74 based on the Risk Grade Score Sheet
Special Mention	5	⇒ This grade has potential weaknesses that deserve

Risk Rating	***Grade***	**Definition**
- (SM)		management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower. ⇒ Severe management problems exist. ⇒ Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), An Aggregate Score of 55-64 based on the Risk Grade Score Sheet.
Substandard - (SS)	6	⇒Financial condition is weak and capacity or inclination to repay is in doubt. ⇒These weaknesses jeopardize the full settlement of loans. ⇒Bangladesh Bank criteria for sub-standard credit shall apply. ⇒An Aggregate Score of 45-54 based on the Risk Grade Score Sheet.
Doubtful –(DF)	7	⇒Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. ⇒However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Bad & Loss. ⇒Bangladesh Bank criteria for doubtful credit shall apply. ⇒An Aggregate Score of 35-44 based on the Risk Grade Score Sheet.
Bad & Loss- (BL)	8	⇒ Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/liquidation. ⇒ Prospect of recovery is poor and legal options have been pursued. ⇒ Proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for. ⇒ This classification reflects that it is not practical or desirable to defer writing off this basically valueless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. Legal procedures/suit initiated. ⇒ Bangladesh Bank criteria for bad & loss credit shall apply. ⇒ An Aggregate Score of less than 35 based on the Risk Grade Score Sheet.

6.5 Credit Risk Grading Calculation

The following step-wise activities outline the detail process for arriving at credit risk grading.

STEP I : Identify all the principal risk components

Credit risk for counterparty arises from an aggregation of the following:

- Financial Risk
- Business/ Industry Risk
- Management Risk
- Security Risk
- Relationship Risk

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

- **Evaluation of Financial Risk:**

  Risk that counterparties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. Analysis of leverage, liquidity, profitability & interest coverage ratios. To conclude, this capitalizes on the risk of high leverage, poor liquidity, low profitability & insufficient cash flow.

- **Evaluation of Business/ Industry Risk:**

  Risk that adverse industry situation or unfavorable business condition will impact borrowers' capacity to meet obligation. The evaluation of this category of risk looks at parameters such as business outlook, size of business, industry growth, market competition & barriers to entry/exit. To conclude, this capitalizes on the risk of failure due to low market share & poor industry growth.

- **Evaluation of Management Risk:**

  Risk that counterparties may default as a result of poor managerial ability including experience of the management, its succession plan and team work.

- **Evaluation Of Security Risk:**

  The bank might be exposed due to poor quality or strength of the security in case of default. This may entail strength of security & 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.

Step II Allocation weight ages to principal Risk Components

According to the importance of risk profile, the following weight ages are proposed for corresponding principal risks.

Principal Risk Components:	Weight:
Financial Risk	50%
Business/Industry Risk	18%
Management Risk	12%
Security Risk	10%
Relationship Risk	10%

Step III Establish the key parameters

Principal Risk Components:	Key Parameters:
Financial Risk	Leverage, Liquidity, Profitability & Coverage ratio.

Business/ Industry Risk	Size of Business, Age of Business, Business Outlook Industry Growth, Competition & Barriers to Business Experience, Succession & Team Work.
Management Risk	Experience, Succession & Team work.
Security risk	Security Coverage, Collateral Coverage and Support.
Relationship Risk	Account Conduct, Utilization of Limit, Compliance of covenants/ conditions & personal deposit.

Step IV Assign weight ages to each of the key parameters.

Principal Risk Components:	**Key Parameters:**	**Weight:**
Financial Risk		**50%**
	Leverage	**15%**
	Liquidity	**15%**
	Profitability	**15%**
	Coverage	5%
Business/ Industry Risk		**18%**
	Size of Business	**5%**
	Age of Business	**5%**
	Business Outlook	**3%**
	Industry growth	**3%**
	Market Competition	**2%**
	Entry/ Exit Barriers	**2%**

- **Management Risk** 12%

Experience	5%
Succession	4%
Team Work	3%

- **Security Risk** 10%

Security coverage	4%
Collateral Coverage	4%
Support	2%

- **Relationship Risk** 10%

Account Conduct	5%
Utilization of limit	2%
Compliance of Covenants/Condition	2%
Personal Deposit	1%

Step V Input data to arrive at the score on the key parapet

After the risk identification & weight age assignment process (as mentioned above) next steps will be to input actual parameter in the score sheet to arrive at the scores corresponding to the actual parameters.

This manual also provides a well programmed process MS Excel based credit risk scoring sheet to arrive at a total score on each borrower. The excel program requires inputting data accurately in particular cells for input and will automatically calculate the risk grade for a particular borrower based on the total score obtained. The following steps are to be followed while using the MS Excel program.

a) Open the MS XL file named, CRG_SCORE_SHEET.

b) The entire XL sheet named, CRG is protected except the particular cells to input data.

c) Input data accurately in the cells which are BORDERED & are colored YELLOW.

d) Some input cells contain DROP DOWN LIST for some criteria corresponding to the Key parameters. Click to the input cell and select the appropriate parameters from the DROP DOWN LIST as shown below.

e) All the cells provided for input must be filled in order to arrive at accurate risk grade.

f) We have also enclosed the MS Excel file named, CRG_SCORE_SHEET in CD ROM for use.

Step VI Arrive at the Credit Risk Grading based on total score obtained

The following is the proposed Credit Risk Grade matrix based on the total score obtained by an obligor.

Number	Risk Grading	Short Name	Score
1	Superior	SUP	* 100% cash covered. * Government guarantee. * International bank guarantee
2	Good	GD	85+
3	Acceptable	ACCPT	75-84
4	Marginal/Watch list	MG/WL	65-74
5	Special Mention	SM	55-64
6	Sub-standard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & Loss	BL	<35

6.6 Credit risk grading process

- Credit risk grading should be completed by a Bank for all exposures (irrespective of amount) other than those covered under consumer and shall enterprises financing prudential guidelines and also under the short-term agricultural and Micro-Credit.

- For superior risk grading (SUP-1) the score sheet is not applicable. This will be guided by the criterion mentioned for superior grade account i.e. 100% cash covered, covered by government & bank guarantee.

- Credit risk grading matrix would be useful in analyzing credit proposal, new or renewal for regular limits or specific transactions, if basic information on a borrowing client to determine the degree of each factor is
  a) Readily available,
  b) Current,
  c) Dependable, and
  d) parameters/risk
  These factors are assessed judiciously and objectively.

- Risk factors are to be evaluated and weighted very carefully, on the basis of most up-to-date and reliable data and complete objectivity must be ensured to assign the correct grading

- Credit risk grading exercise should be originated by Relationship Manager and should be an on going and continuous process. Relationship Manager shall complete the Credit Risk Grading Score Sheet and shall arrive at a risk grading in consultation with a Senior Relationship Manager and document it as per Credit Risk Grading .
- ALL credit proposals whether new, renewal or specific facility should consist of
  a) Data collection checklist,

b) Limit Utilization form,

c) Credit Risk Grading Score Sheet, and

d) Credit Risk Grading Form.

- The credit officers then would pass the approved credit risk grading form to Credit Administration Department and Corporate Banking/ Line of Business/Recovery Unit for updating their MIS/record.

- The appropriate approving authority though the same Credit Risk Grading form shall approve any subsequent change/revision i.e. upgrade or downgrade in credit risk grade.

PART-III

Chapter-7

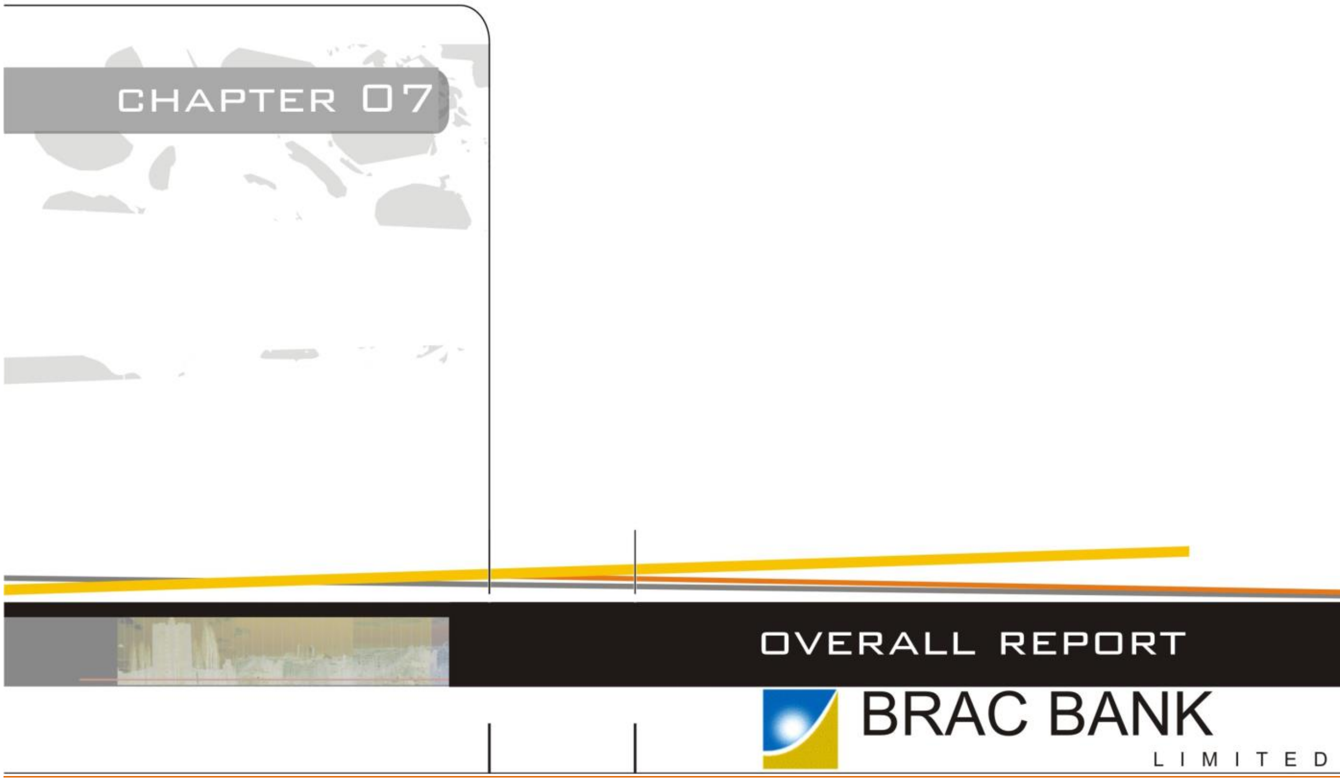
Analysis on Overall report

Chapter-8

Conclusion &

Bibliography

BRAC BANK
LIMITED



Chapter-7

Analysis on overall report

This is the most important chapter that is, described about the different implication of this bank based on this report. Different suggestion considering categories of business, age limit, educational background, area preference and the rate of interest has shown from the viewpoint of banks condition. It might be helpful for the bank to increase the profit.

7.1 Findings from Report

Credit policy:

BBL follow the Bangladesh Bank Guideline, rules and regulation. The Bank changes his policies after 1 year, Because of Total capital changes.

Credit Risk Grading:

Credit Risk Grading system is a dynamic process and technique are followed in different banks for measuring credit risk. Credit Risk Grading is the basic module for developing a Credit Risk Management system.

Profit

In 2009, BRAC Bank Limited earned BDT. 1303.58 million net profit which is 34% higher from the previous year. . Our Net Assets Value (NAV) stood BDT 371.55. In 2008 it was BDT 311.71.

EPS:

In 2009, Earnings Per Share (EPS) stood at BDT 60.98. Last year it was BDT 45.00 which means this year's EPS is 36% higher from the previous year.

Deposit & Deposit Mix:

Deposit is always been termed as the life-blood of a commercial bank. In the year 2005, due to many uncertainties on economic front, significant pressures on economic performance and among others, the adverse impact of devastating flood in July-September 2004, declining trend in interest rates and despite a devastating flood, BRAC Bank Limited was able to increase its customer's confidence and mobilized a total deposit of Tk. 14,454.13 million in 2004.

Loans & Advances

In Fiscal Year 2006 a devastating flood and declining trend in interest rate BBL, continued to explore its area of credit was successful to build up an aggregate quantum of credit, which stood at Tk. 12796.63 million, registered an overall increase by 16.20% over 2005.

Branch Expansion

BRAC Bank increases its branch up to 71 numbers in all over the country. Last 15 branches were established in 2009. Though, it is small in number but carrying much profit from the newest branches.

Loan Service

BRAC Bank expands its classified loan criteria and product and it reached Tk. 3877.36 Million in 2009. As so far in 2005 it was only Tk. 265.05 Million. It was a massive change from last year. The given chart will show its grade of change.

7.2 Problems in BRAC Bank

BRAC Bank limited as a new generation commercial bank has facing a lot of problems in compare with the other banks**.** These problems are related to operation of daily banking activities, opening new branches, Bangladesh Banks rules and regulations, customer services, customer behavior, maintenance of

- liquid assets, lack of experienced personnel etc. The problems faced by the bank are recorded as follows:
- The first problem is related to increasing market competition. As a new bank BBL has facing some problems in case of compete with some well-organized banks.
- Poor quick ratio, high receivables, high lead-time / cash conversion cycle, poor management profile did not take in to consideration for the approval.
- The overall high cost of capital is a barring to its market expansion and due to this the operational expenses are increased.

- High cost of setting the latest technology based services is an obstacle to its rapid expansion.
- Separate financial analysis of the proposal did not found.
- All customers are not concerned about the latest technology based services and all are not readily interested to accept the technology-based services.
- The low speed network online banking create problem and kill valuable time of the busy customers.
- Due to BB order among every five branch one branch should be open in the rural area. But these branches are always not able to produce the expected return to the bank.
- Overall political unrest is an indispensable problem to the bank to provide regular service to its customers.
- In case sanctioning loan always it is not possible to study the proposal due to lack of time and experienced employee.
- BBL uses Flora Bank (Online Banking Software) which is not comprehensive software for modern banking.
- Due to tremendous financial strength of Multinational Bank BBL has facing to some problem.
- Insufficient salary of junior officer is an obstacle to provide better services.

7.3 Some Recommendations to overcome the problems

As a new generation commercial bank yet BBL facing to some serious problems but it is also true that these problems may be turn into opportunity if the authority takes some initiatives. The initiatives may be as follows:

- The working condition should be improved. Employees must be provided with adequate working equipment in order to provide better customer service.
- BBL should recruit experienced personnel from other banks and financial institutions in order to provide better and efficient banking services and ensuring growth.

- In case of sanctioning loan and advances the documents should be properly check and appraised in order to ensure repayment of the loan amount.
- Ensure the security / collateral has been assessed correctly and the security is maintained properly.
- Ensure that the disbursements are made as per procedure and terms of sanction.
- Ensure collection of periodical reports, returns and information about the borrower and the activities of projects financed.
- The competing banks performance should be carefully monitor regularly.
- New branches should be opened in the economically promising area.
- Attractive incentive packages should be provided to the exporter.
- Political and organizational pressure should be eliminated in case of sanctioning loan.
- Account opening process should be made easy to attract the customer.
- New and modern banking equipment should be arranged for providing better services.
- Flora Bank, the online banking software should be regularly updated.
- Bankers Customer relation should be closer and regular communication with the customer should be maintained.
- Bank should regularly review and update the present marketing strategy.
- Banks own training institute should be established.

CHAPTER 08

CONCLUSION& BIBLIOGRAPHY

BRAC BANK
LIMITED

8.1 Conclusion

From the very of civilization of time Banking activities is a critical job and the present days banking business is very competitive and complex. Banking sector, as a service sector of Bangladesh continues to contribution to a great deal in the economy of Bangladesh.

BRAC Bank Limited is the Third generation most modern commercial bank which has passed 9 years in operation and now enjoying the tenth year of operation. In this age of competition, every bank is passing the operational functions in hard competition. Yet it a newborn bank though it is affected by this danger. BBL is marching in an aggressive way to reach the all levels of clients and customers, which ensure certain, and mentioning position in the market.

This report is being done on the subject of "**Credit Risk Management based on Corporate credit Practices" A Case study on BRAC Bank Limited,** Head office.From the survey and observation of the study I try to gain some practical experience on critical general banking system. From the observation of the study I have gain some practical knowledge on account opening, cash receipt and payment, sanctioning of loan and advances, foreign trade and foreign exchange mechanism, local and foreign remittances, complex clearing process etc. I think this experience will set me in the advantageous position in future.

8.2 Bibliography & Annexure

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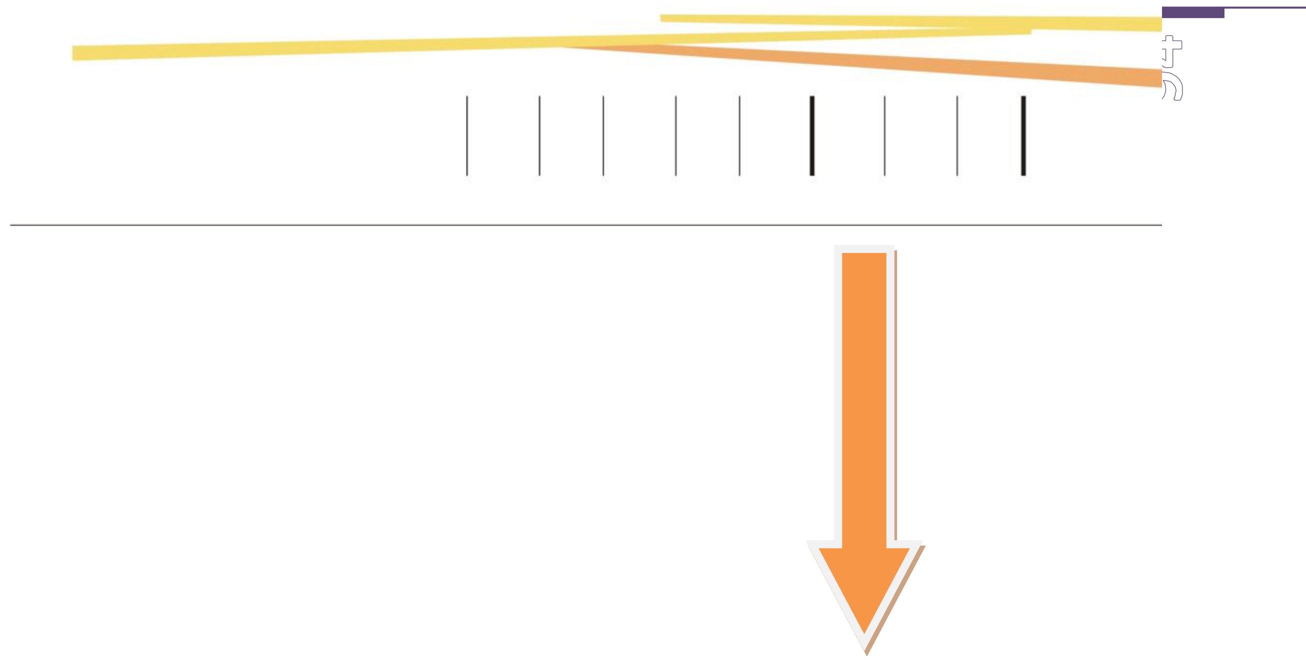
Appendix A



CREDIT RISK GRADING SCORE SHEET

Reference No.:			**Date:**
Borrower			
Group Name (if any)		**Aggregate Score:**	
Branch:			
Industry/Sector		**Risk Grading:**	
Date of Financials			
Completed by			
Approved by			

Number	Grading	Short	Score
1	Superior	SUP	Fully cash secured, secured by government guarantee/international bank guarantee
2	Good	GD	85+
3	Acceptable	ACCPT	75-84
4	Marginal/Watchlist	MG/WL	65-74
5	Special Mention	SM	55-64
6	Substandard	SS	45-54
7	Doubtful	DF	35-44
8	Bad/Loss	BL	<35

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
A. Financial Risk	**50%**				
1. Leverage: (15%)		Less than 0.25×	15		**0**
Debt Equity Ratio (×) - Times		0.26× to 0.35 x	14		
Total Liabilities to Tangible Net worth		0.36× to 0.50 x	13		
		0.51× to 0.75 x	12		
All calculations should be based on		0.76× to 1.25 x	11		
annula financial statements of the		1.26× to 2.00 x	10		
borrower (audited preferred)		2.01× to 2.50 x	8		
		2.51× to 2.75 x	7		
		More than 2.75×	0		
2. Liquidity: (15%)		Greater than 2.74×	15		**0**
Current Ratio (×) -Times		2.50× to 2.74 x	14		
Current Assets to Current Liabilities		2.00× to 2.49 x	13		
		1.50× to 1.99 x	12		
		1.10× to 1.49 x	11		
		0.90× to 1.09 x	10		
		0.80× to 0.89 x	8		
		0.70× to 0.79 x	7		
		Less than 0.70×	0		

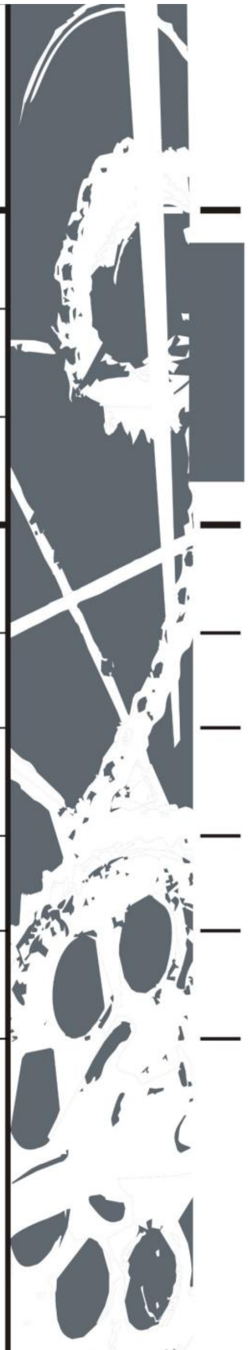
3. Profitability: (15%)	Greater than 25%	15		**0**
Operating Profit Margin (%)	20% to 24%	14		
(Operating Profit/Sales) X 100	15% to 19%	13		
	10% to 14%	12		
	7% to 9%	10		
	4% to 6%	9		
	1% to 3%	7		
	Less than 1%	0		
4. Coverage: (5%)				
Interest Coverage Ratio (×) - Times				
Earning before interest & tax (EBIT)	More than 2.00×	5		**0**
Interest on debt	More than 1.51× Less than 2.00×	4		
	More than 1.25× Less than 1.50×	3		
	More than 1.00× Less than 1.24×	2		
	Less than 1.00×	0		
Total Score- Financial Risk		**50**		**0**

B. Business/ Industry Risk 18%				
1. Size of Business (in BDT crore)	> 60.00	5		**0**
	30.00 – 59.99	4		
The size of the borrower's business	10.00 – 29.99	3		
measured by the most recent year's	5.00 - 9.99	2		
total sales. Preferably audited numbers.	2.50 - 4.99	1		
	< 2.50	0		
2. Age of Business	> 10 Years	3		**0**
	> 5 - 10 Years	2		
The number of years the borrower	2 - 5 Years	1		
engaged in the primary line of business	< 2 Years	0		
3. Business Outlook	Favorable	3		**0**
Critical assesment of medium term	Stable	2		
prospects of industry, market share	Slightly Uncertain	1		
and economic factors.	Cause for Concern	0		
4. Industry Growth	Strong (10%+)	3		**0**
	Good (>5% - 10%)	2		
	Moderate (1%-5%)	1		
	No Growth (<1%)	0		
5. Market Competition	Dominant Player	2		**0**
	Moderately Competitive	1		
	Highly Competitive	0		
6. Entry/Exit Barriers	Difficult	2		**0**
	Average	1		
	Easy	0		
Total Score- Business/Industry Risk		**18**		**0**

C. Management Risk 12%				
1. Experience	More than 10 years in the related line of business	5		**0**
Quality of management based on total # of years of experience of the senior management in the Industry.	5–10 years in the related line of business	3		
	1–5 years in the related line of business	2		
	No experience	0		
2. Second Line/ Succession	Ready Succession	4		**0**
	Succession within 1-2 years	3		
	Succession within 2-3 years	2		
	Succession in question	0		
3. Team Work	Very Good	3		**0**
	Moderate	2		
	Poor	1		
	Regular Conflict	0		
Total Score- Management Risk		**12**		**0**

D. Security Risk 10%				
1. Security Coverage (Primary)	Fully Pledged facilities/substantially cash covered / Reg. Mortg. for HBL	4		**0**
	Registered Hypothecation (1st Charge/1st Pari passu Charge)	3		
	2nd charge/Inferior charge	2		
	Simple hypothecation/Negative lien on assets	1		
	No security	0		
2. Collateral Coverage (Property Location)	Registered Mortgage on Municipal corporation/Prime Area property	4		**0**
	Registered Mortgage on Pourashava/Semi-Urban area property	3		
	Equitable Mortgage or No property but Plant and Machinery as collateral	2		
	Negative lien on collateral	1		
	No collateral	0		
3. Support (Guarantee)	Personal Guarantee with high net worth or Strong Corporate Guarantee	2		**0**
	Personal Guarantees or Corporate Guarantee with average financial strength	1		
	No support/guarantee	0		
Total Score- Security Risk		**10**		**0**

E. Relationship Risk 10%				
1. Account Conduct	More than 3 years Accounts with faultless record	5		**0**
	Less than 3 years Accounts with faultless record	4		
	Accounts having satisfactory dealings with some late payments.	2		
	Frequent Past dues & Irregular dealings in account	0		
2. Utilization of Limit	More than 60%	2		**0**
(actual/projection)	40% - 60%	1		
	Less than 40%	0		
3. Compliance of Covenants / Conditions	Full Compliance	2		**0**
	Some Non-Compliance	1		
	No Compliance	0		
4. Personal Deposits	Personal accounts of the key business Sponsors/ Principals are maintained in the bank, with significant deposits	1		**0**
	No depository relationship	0		
Total Score- Relationship Risk		**10**		**0**
Grand Total - All Risk		**100**		**0**



THANK YOU

ALLAH HAFEZ