



## **Chapter # 1**

### **Introduction to the Report**

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## 1.1 Background of the Study

Now we are living in the age of competition at anything in any places. From that tendency recently Education is also in the age of competition. So the procedures and standards of teaching are upgraded by different universities and institutions in our country. In respect to that, internship is mandatory for our BBA program offered by Stamford University Bangladesh. This program is a partial fulfillment of our BBA curriculum. To do so I decided to complete my internship in **BASIC Bank Limited**. In connecting, HRD of **BASIC Bank Limited** sent me to the Bangshal Branch and assigned to prepare this report.

## 1.2 Rationality of the Study

Internship program is the practical aspect of our theoretical learning. It makes a bridge between the gap of classroom learning and practical learning. In this view, Internship plays a pivotal role for each professional degree like BBA. The study will help formulate suitable policies taking into consideration different ideas, suggestions and feelings of the customers and bankers. Further more, it may note that BASIC Bank executives who are really executing the policies undertaken by the top management will have a chance to communicate their interaction and provide necessary feedback.

## 1.3 Objectives of the Report

- ◆ To fulfill academic requirement.
- ◆ To gain practical knowledge in banking sector of our country.
- ◆ To evaluate the various loans programs of BASIC bank which includes Industrial, Trade and Commerce etc.
- ◆ To explain the procedures, systems of the credit operations of BASIC Bank.
- ◆ To inspect the recovery of loans by BASIC Bank.
- ◆ To measure the actual position in classified Loan and provisions maintained by the BASIC Bank Limited.
- ◆ To get acquainted with the loan structure, size, profile of sector wise outstanding position of loans and system of loan classification of BASIC.



- ◆ To identify major strength and weakness of BASIC Bank Limited in respect to other Banks.
- ◆ To assess and evaluate the growth trends on BASIC Bank Limited among other Banks.
- ◆ To recommend ways and means to solve problems regarding Banking.

### **1.4 Scope of the Report**

The Report mainly focuses on the following areas:

- ✓ The kinds of credit facilities extended by BASIC Bank Limited.
- ✓ General procedures for getting those credit facilities.
- ✓ What kinds of standard documents are required for getting those credit facilities
- ✓ How different kinds of projects are appraised and financed at BASIC Bank Limited.
- ✓ Present scenario of recovery rate and classified loan of BASIC Bank.

### **1.5 Limitations of the Study**

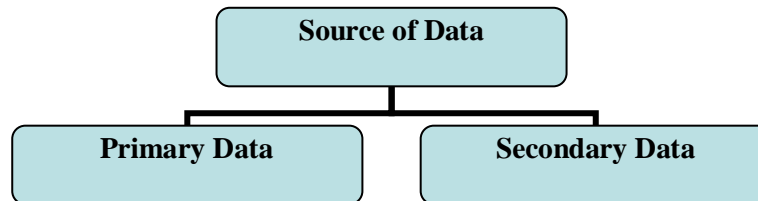
The major limitations of this study are:

- Sufficient records, publications were not available as per my requirement.
- Time constraint.
- Non-cooperative behavior of some officials of the bank.
- 3 months are very short time to prepare this.
- Lack of opportunity to work in all the departments for a longer time.
- Up to date data are not available.
- Lack of opportunity to visit more than one branch.



## 1.6 Methodology

To make the Report more meaningful and presentable, two sources of data and information have been used widely.



Both primary and secondary data sources were used to generate the report.

**Primary:** Interview, observation, and 3-months work experience with different divisional In-charge and suggestions of many executives of the bank.

**Secondary:** Annual reports of BASIC Bank Limited, Instruction circular of Head Office, Brochures of different Banks, News Paper & Magazine regarding Banking issues, Seminar papers and so on.



## **Chapter # 02**

### **Overview of the BASIC Bank Limited**

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## 2.1 Background of the BASIC Bank

BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited) registered under the Companies Act 1913 on the 2<sup>nd</sup> of August, 1988, started its operations from the 21<sup>st</sup> of January, 1989. It is governed by the Banking Companies Act 1991. The Bank was established as the policy makers of the country felt the urgency for a bank in the private sector for financing small scale Industries (SSIs). At the outset, the Bank started as a joint venture enterprise of the BCC Foundation with 70 percent shares and the Government of Bangladesh (GOB) with the remaining 30 percent shares. The BCC Foundation being nonfunctional following the closure of the BCCI, the Government of Bangladesh took over 100 percent ownership of the bank on 4<sup>th</sup> June 1992. Thus the Bank is state-owned. However, the Bank is not nationalized; it operates like a private bank as before.

BASIC Bank Limited is unique in its objectives. It is a blend of development and commercial banks. The Memorandum and Articles of Association of the Bank stipulate that 50 percent of loan able funds shall be invested in small and cottage industries sector.

## 2.2 Functions

The Bank Offers:

- ◆ Term loans to industries especially to small-scale enterprises.
- ◆ Full-fledged commercial banking service including collection of deposit, short term trade finance, working capital finance in processing and manufacturing units and financing and facilitating international trade.
- ◆ Technical support to Small Scale Industries (SSIs) in order to enable them to run their enterprises successfully.
- ◆ Micro credit to the urban poor through linkage with Non- Government Organizations (NGOs) with a view to facilitating their access to the formal financial market for the mobilization of resources.

## 2.3 Corporate Strategy

- ✦ Financing establishment of small units of industries and business and facilitate their growth
- ✦ Small Balance Sheet size composed of quality assets.
- ✦ Steady and sustainable growth.
- ✦ Investment in a cautious way.



- ❏ Adoption of new banking technology.

## 2.4 Organizational Goals

- ❖ To employ funds for profitable purposes in various fields with special emphasis on small scale industries.
- ❖ To undertake project promotion on identify profitable areas of investment.
- ❖ To search for newer avenues for investment and develop new products to suit such needs.
- ❖ To establish linkage with other institutions which are engaged in financing micro enterprises.
- ❖ To cooperate and collaborate with institutions entrusted with the responsibility of promoting and aiding SSI sector.

## 2.5 Organizational Structure

To achieve its organizational goals, the Bank conducts its operations in accordance with the major policy guidelines laid down by the Board of Directors, the highest policy making body. The day to day operation of the Bank is looked after by the management.

### A. Board of Directors

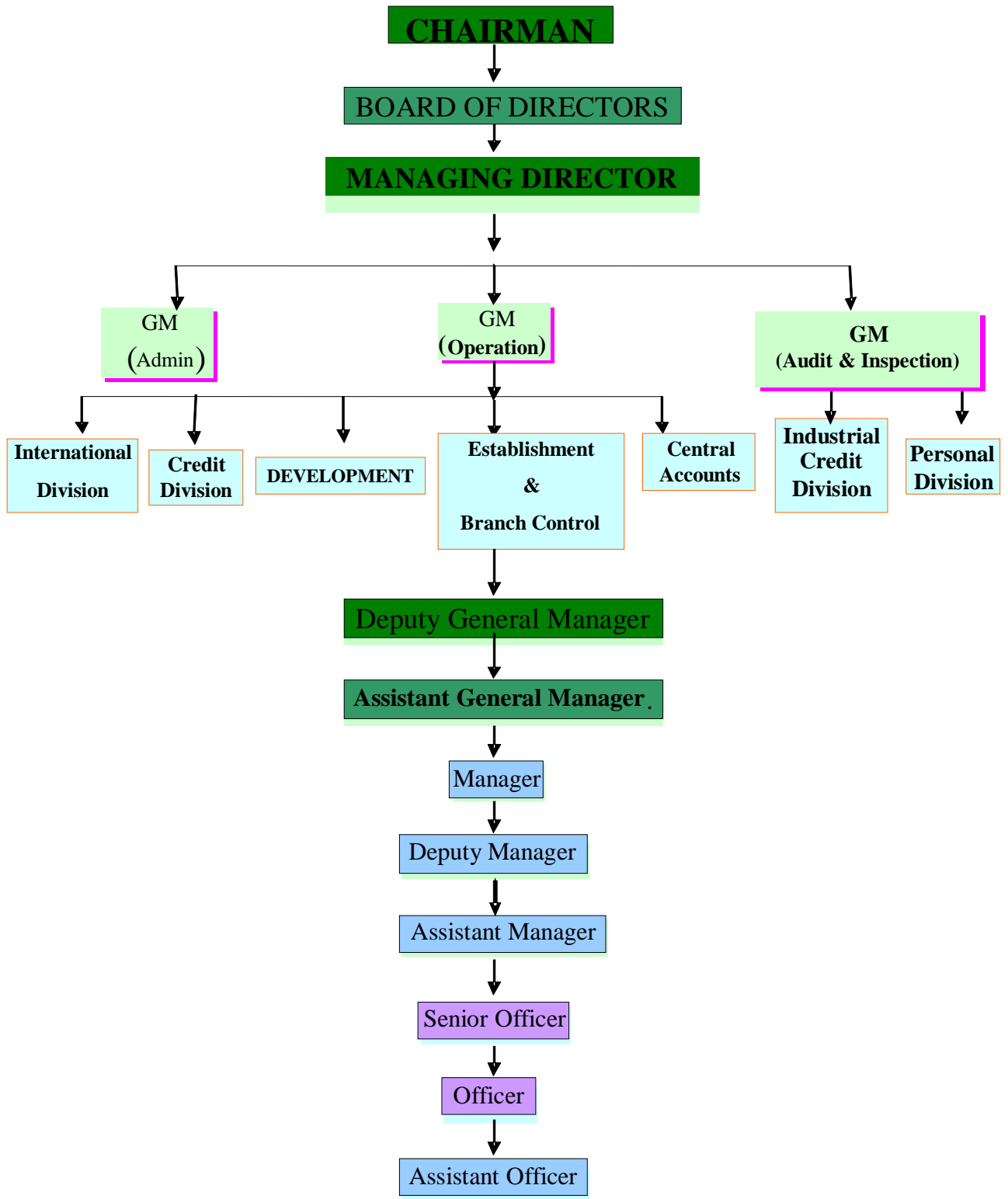
The Government holds 100% ownership of the bank. The Government of Bangladesh appoints all the directors' of the Board. The Secretary of the Ministry of Industries is the chairman of the bank. Other directors of the bank are high government and central Bank executives. The Managing Director is an ex.-official member of the Board of Directors. There are at present 7 directors including the Managing Directors of the Board. The present Board of Directors of the Bank consists of the following members.

### B. Management

The management is headed by the Managing Director. He is assisted by the General Managers and Departmental Heads in the Head Office. BASIC Bank is different in respect of hierarchical structure from other banks in that it is much more vertically integrated as far as reporting to the Chief Executive is concerned The Branch Managers of the Bank report direct to the Managing Director and, for functional purposes, to the Heads of Departments. Consequently, quick decision making in disposal of cases is ensured.



## 2.6 Organogram of BASIC Bank Ltd.







## 2.7 Capital Position (31.12.2008)

<b>Authorized capital</b>	Tk. 2000 million
<b>Paid up capital</b>	Tk. 1309.77 million.
<b>Total Reserve and Surplus up to</b>	Tk. 1681.39 million

**The Bank is required to transfer 20 percent of its net profit before Tax to Capital Fund as per the Banking Companies Act 1991.**

## 2.8 Resources and Capabilities

BASIC Bank Limited is well prepared to and capable of meeting the demand for a broad range of banking services. It has got adequate resources, both human and physical, to provide the customers with the best possible services.

### 2.8.1 Physical and technological resources

A great deal of investment for developing the physical resource base of the Bank has been made. The Bank has its presence in all the major industrial and commercial hubs of Bangladesh in order to cater to the needs of industry and trade. At present, there are twenty-seven conveniently located branches throughout Bangladesh. There are ten branches in the capital city of Dhaka, six in Chittagong and one each in Narayanganj, Narsingdi, Rajshahi, Saidpur, Bogra, Khulna, Jessore, Sylhet, Moulvibazar, Comilla, Barisal and Sirajganj.

Major features of these branches are:

- Fully computerized accounts maintenance.
- Well decorated air conditioned facilities.
- A fully operational computer network which is currently being implemented. The work of Local Area Network (LAN) and Wide Area Network (WAN) installation having reliable and secured communication between the branches and the Head Office is in progress to facilitate any Branch Banking and ATM Services.
- Money counting machine for making cash transactions easy and prompt.
- Fifteen out of twenty six branches are authorized dealers of foreign exchange. This facilitates speedy disposal of transaction of export and import trade.



## **2.8.2 HRD**

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BASIC has a well-diversified pool of human resource, which is composed of personnel with high academic background. Also, there is a positive demographic characteristic. Most employees are comparatively young in age yet mature in experience. As at end 2008 the total employee strength was 735. The Bank follows a strict recruitment policy in order to ensure that only the best people are recruited. The Bank, so far, has recruited four batches of entry-level management staff, all of whom have got excellent academic background.

## **2.8.3 Training**

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Intensive training program, on a regular basis, is being imparted to employees of both management and non-management levels to meet the challenges in the banking industry and to help employees to adapt the changes and new working conditions. Human resource is the main driving force and quality human resources are the key sources for the success of today's banking business. Keeping this view in mind and recognizing the importance of training for professional excellence BASIC Bank Ltd. has established its own training institute in 2005 with modern facilities. In 2008 the institute arranged 27 training courses and provided training to as many as 517 employees of the bank. To cater to the needs of the employees and to keep pace with demand of the time it will continue to arrange regular training courses in the days ahead. During the year 2008, a total of 602 employees of the Bank were provided with training in various fields. Out of them 11 employees participated in training courses held abroad. In 2007 total 122 employees of various stages were given promotion which is almost 17.00 percent of total employees of the bank.

## **2.9 Monetary/Financial Resources**

Like any other financial intermediaries, BASIC Bank Limited is no exception in performing its core functions viz. Mobilization of fund and utilizing such mobilized fund for profitable purposes.

### **2.9.1 Mobilization of fund**

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The main sources of fund for the Bank are:

- i. Deposit, and**
- ii. Borrowing**

**i. Deposit:**

Deposit is the mainstay of the Bank's sources of funds. Following usual practices, it collects deposit through:

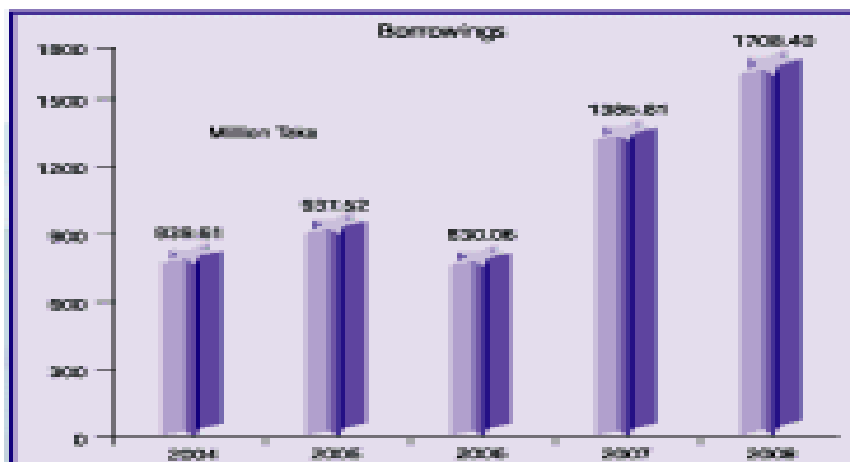
- a. Current Deposit
- b. Savings Deposit
- c. Term Deposit



**ii. Borrowing:**

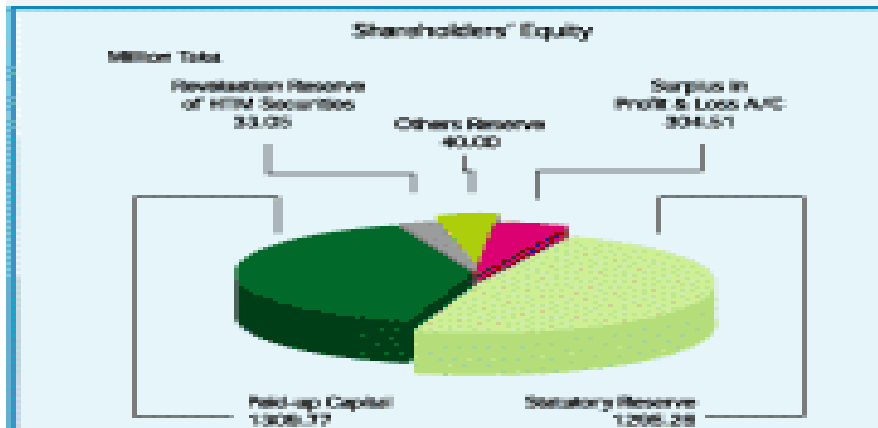
Apart from deposit, BASIC Bank Limited received funds from:

- Bangladesh Bank
- Asian Development Bank (ADB)
- KfW (kreditanstalt für Wieder-aufbau Credit Institution for Reconstruction), a German development bank. All of these funding sources are for relatively longer period. Receiving the credit lines from ADB and KfW has been a recognizing of the Bank's highly satisfactory performance.



## 2.9.2 Utilization of Fund

BASIC Bank Limited utilizes its funds in accordance with its organizational goals and corporate strategy. Main use is for lending to industrial and trade sectors. Maintenance of cash and statutory liquidity reserve with the Bangladesh Bank covers 20 percent of demand and time liabilities. Placement of funds in Nostro Accounts to handle foreign trade and investment in money market is also done as usual



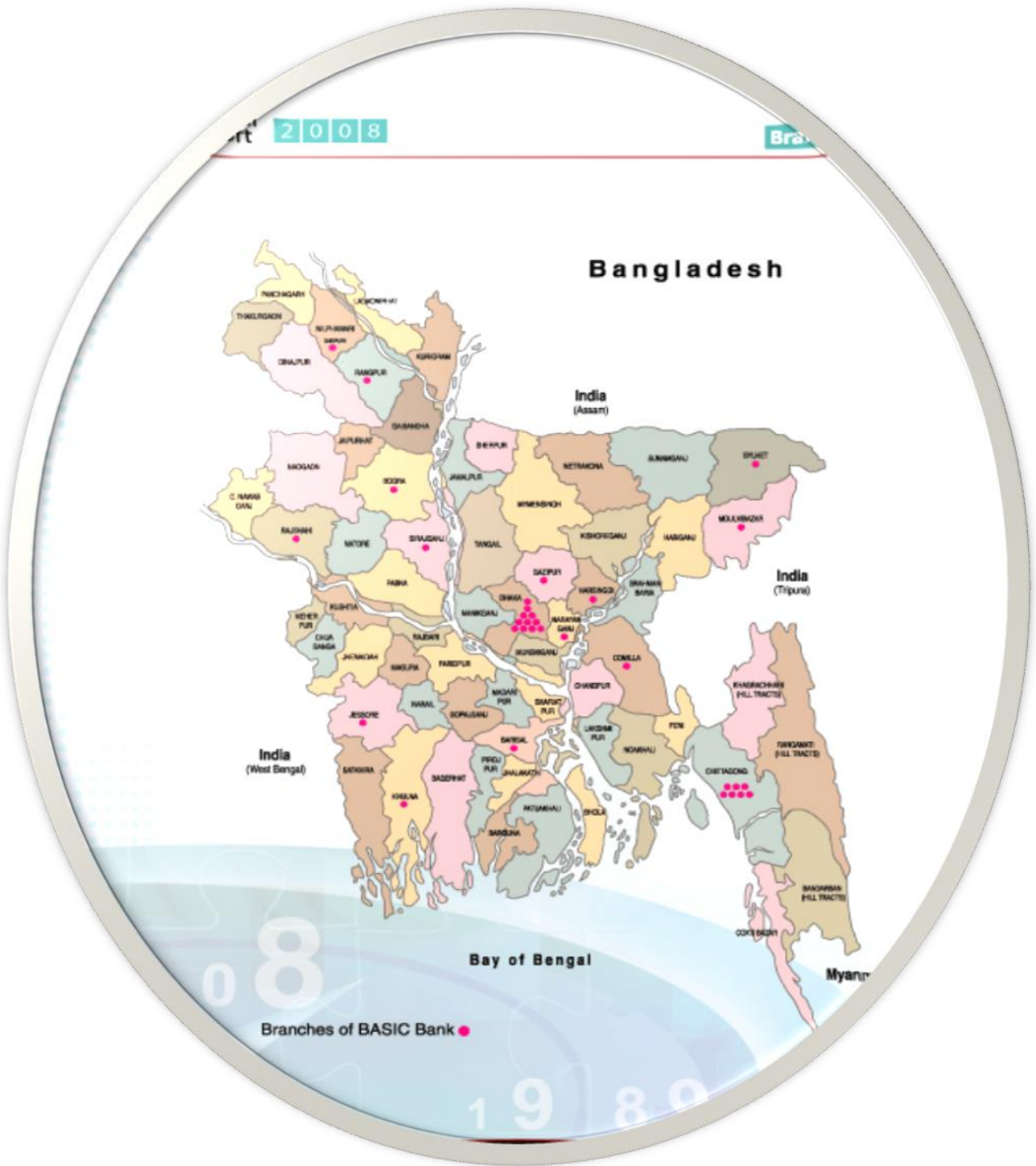
## 2.10 Risk Management

In banking environment no reward can be expected without risk. In this backdrop, the management has established a formal program for managing the business risk faced by the bank. Considering the present non-performing loan position of the country, Basic Bank is very much cautious about its investment. Every loan proposal is placed under care scrutiny before approval. Proposals of large amount of loans need approval of the Board of Directors. Internal Audit team exercise close monitoring on every loan transaction. Management regularly reviews the Bank's overall assets and liability position and makes necessary changes in its mix as and when required. The Bank also has a liquidity policy to ensure financial flexibility to cope with unexpected future cash demands.



## 2.11 Branches of BASIC Bank Limited

BASIC is a state-owned scheduled bank. It is adjudged as one of the soundest banks in Bangladesh. The Bank has currently been operating with a network of 32 Branches across the country.





## **Chapter # 03**

### **General Activities of BASIC Bank Limited**

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### 3.1 General Banking

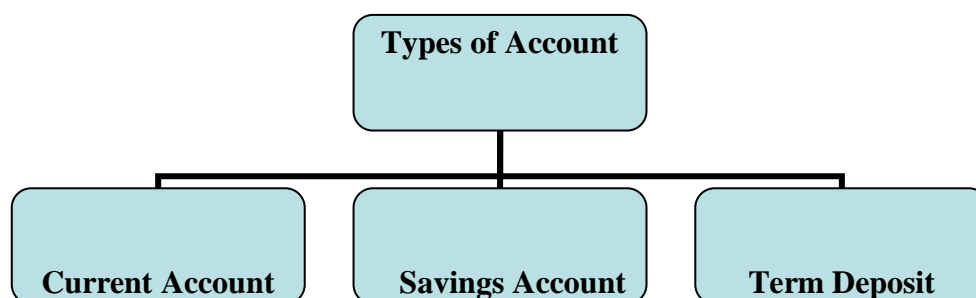
General Banking department performs the majority functions of a bank. It is the core department of BASIC Bank Limited like other banks. In fact, bank operates with the people's money. And this process starts with the General Banking Department. The activities of the General Banking Department of BASIC Bank Ltd. are mainly divided into the following categories:

- Account Opening Section,
- Remittance Section,
- Clearing Section,
- Cash Section,
- Accounts Section,

#### 3.1.1 Account Opening Section

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

##### 3.1.1.1 Types of Account





### **3.1.1.2 Procedure to open an Account**

- Account opening form to be filled in and properly signed by each account holder.
- Copy of passport/Voter identity card/Motor driving license/Office ID/Other ID acceptable to the Bank.
- Latest passport size photograph (2 copies) for each accountholder attested by the introducer.
- Introduction of account holder to be signed by introducer with ID and account number.
- A/C payee cheque in favor of the Account holder or Cash.
- Minor accounts additional require 1 copy passport size photograph of minor.
- Foreign citizens in Bangladesh additionally require photocopy of Passport with valid visa and work permit.

#### **Documents/Papers are obtained while opening following types of account:**

##### **a) For limited companies:**

- i) Certificate of incorporation.
- ii) Memorandum and Articles of Association.
- iii) Full list of Directors of the company.
- iv) Board's Resolution to open an account and its operation.
- v) Certificate of commencement of business for Public Limited Company.

##### **b) For partnership accounts:**

- i) AOF is duly filled in and signed by all the partners.
- ii) Copies of registered partnership deed and partnership letter are obtained duly verified with original.
- iii) Operational instruction must be signed by the partners and authenticated by an authorized officer of the branch.

##### **c) For associations, club, society, voluntary organization:**

- i) Copy of By-laws.
- ii) Resolution to open account and its operation.





iii) Certificate of incorporation/registration.

iv) List of office bearers.

**d) For trust accounts:**

i) Copies of trust deeds.

ii) List of trustees.

iii) Operational instruction of Bank Account.

**e) Proprietorship accounts:**

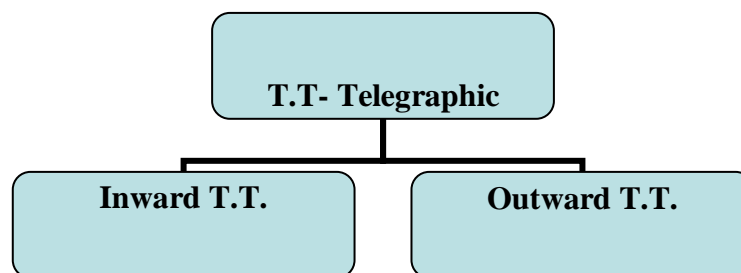
Valid Trade license is obtained at the time of opening the account.

### 3.1.2 Remittance Section

Local remittance is one of the main components of general banking. The activities of local remittance are ---

- i. Telegraphic Transfer,
- ii. Demand Draft issue,
- iii. Pay order.

#### 3.1.2.1 Telegraphic Transfer (T.T):



In this procedure one can transfer money from one place to another place. For this reason money carrying risk is reduced. As well as time also save.

This procedure is only applicable for in this bank & its other branches, on one can do T.T. from in this bank to another bank. Cause, for any T.T clients must have accounts in this bank.

#### Procedure of inward T.T:



This means any client of our branch want to does T.T. then he inform his branch & from that branch inform to main branch through telephone.

In this case branch must see some important things as follows:

- a. T.T. control number
- b. Payee name & account number
- c. By order
- d. Test number ( for any amount of money this number must be needed)
- e. Amount in ward
- f. Amount in figure.

After getting this T.T., bank check that T.T. & register book according to that branch. In this case most important thing is test number. Cause it maintaining for the client's security. If the test number does not match with the register book then bank informs it to that branch & bank does not play that money. But usually this type of mistake does not happen.

After register T.T. bank makes an advice which has four parts. Bank indicates clearly the date, the amount of T.T. inward & in amount.

In this advice bank does a customer account debit & head office account credit & write test number.

Two copies send to that branch, one to the head office & one attach with voucher.

### **Procedure of outward T.T:**

This likes reverse of inward T.T. In this case if any client wants to transfer money or accounts, he informs bank. Bank informs that branch where the client wants to transfer his amount. In this case, bank communicates with that branch through telephone. Bank must inform the payee name. By order as inward T.T. procedure that branch makes advice against this branch.

For an example if any client of our branch wants to T.T. to Khulna then he must fill up the form of T.T. where he writes all information as per T.T. form. Then bank check all information & charge commission, vat & telex charge. For any amount of T.T. test number is needed.

Charges for T.T as follows:

<b>Charges</b>	<b>Percentage</b>
<b>Commission</b>	Minimum 150 taka or 0.1% which one greater.



<b>Vat</b>	15%
<b>Telex Charge</b>	50 Taka

### 3.1.2.2 Demand Draft

Demand draft is another way to pay money or transfer account one branch to another branch. In this case one can pay money to his client to any place of Bangladesh. In this case client does need account in this bank.

This is two types.

- Inward D.D.
- Outward D.D.

In this procedure one can transfer money one place to another place. For this reason money carrying risk is reduced. As well as time also save.

#### **Procedure of Outward D.D.:**

In this case transferee fills up the D.D. from where he must write the drawee name & A/c # & the bank name where branch office collects the money.

#### **In D.D there must have important information as follows:**

- D.D number
- Control number
- Payee name A/c number
- Amount in ward & in amount
- Branch code of from & to
- Test number
- Signature of applicant.

For an example if any client of our branch wants to D.D to Khulna then he must fill up the form of D.D where all information as per D.D forms. Then bank check all information & charge commission, vat & postage charge.

For D.D 1 to 49,999 taka, there is no test number is needed. Greater than 49,999 taka D.D needs test number.

Charges for D.D as follows:



Charges	Percentage
Commission	Minimum 50 taka or 0.1% which one greater.
Vat	15%
Postage Charge	25 taka

Then register D.D in register book. Where bank writes control number, test number, amount in figure & word, payee name, the branch name where it sends.

Then bank makes an advice, which has four parts. Two send to the payee's branch. One copy sends to the head office & another in this bank's voucher.

### **Procedure of Inward D.D:**

When D.D comes from any branch, then we register it in register book, in this case bank must see the previous serial number. If it is correct, then bank register it in register book. Where bank entry date on the D.D, D.D number, payee name, amount, and serial number.

For an example if any D.D comes from Rajshahi. Then bank does

Head office a/c (Rajshahi Br.)	Dr.
D.D payable a/c	Cr.

When branch gets that money from head office then bank does

D.D payable a/c	Dr.
Coustomer a/c	Cr.

Branch offices maintain an account with head office, which is called Head office Account

### **3.1.2.3 Pay Order**

It is another facility for client to transfer his money to another place. In this he must has an account in this bank. If he has no account in this bank, he can deposit money in this bank & does pay order. But in this case he must need a person how knows him. He can deposit cheque then bank does this pay order.

Applicant must fill up the pay order form. Where payee order number, payee name, amount in figure & words

Bank takes commission & vat as follows:

Charges	Percentage
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<b>Commission</b>	50 taka
<b>Vat</b>	8 taka

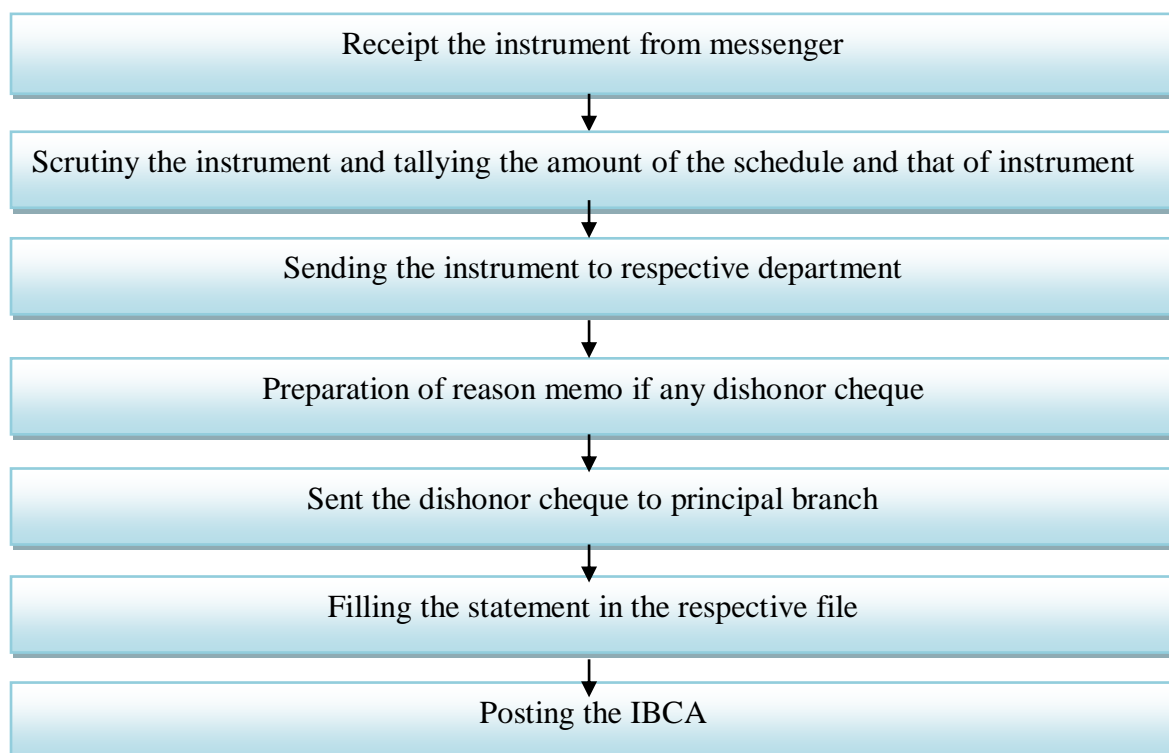
### 3.1.3 Clearing Section

Collection of cheques on behalf of its customer is one of the basic functions of a bank. Clearing stands mutual settlement of claims made in between member banks at an agreed time and place.

#### 3.1.3.1 Types of clearing:

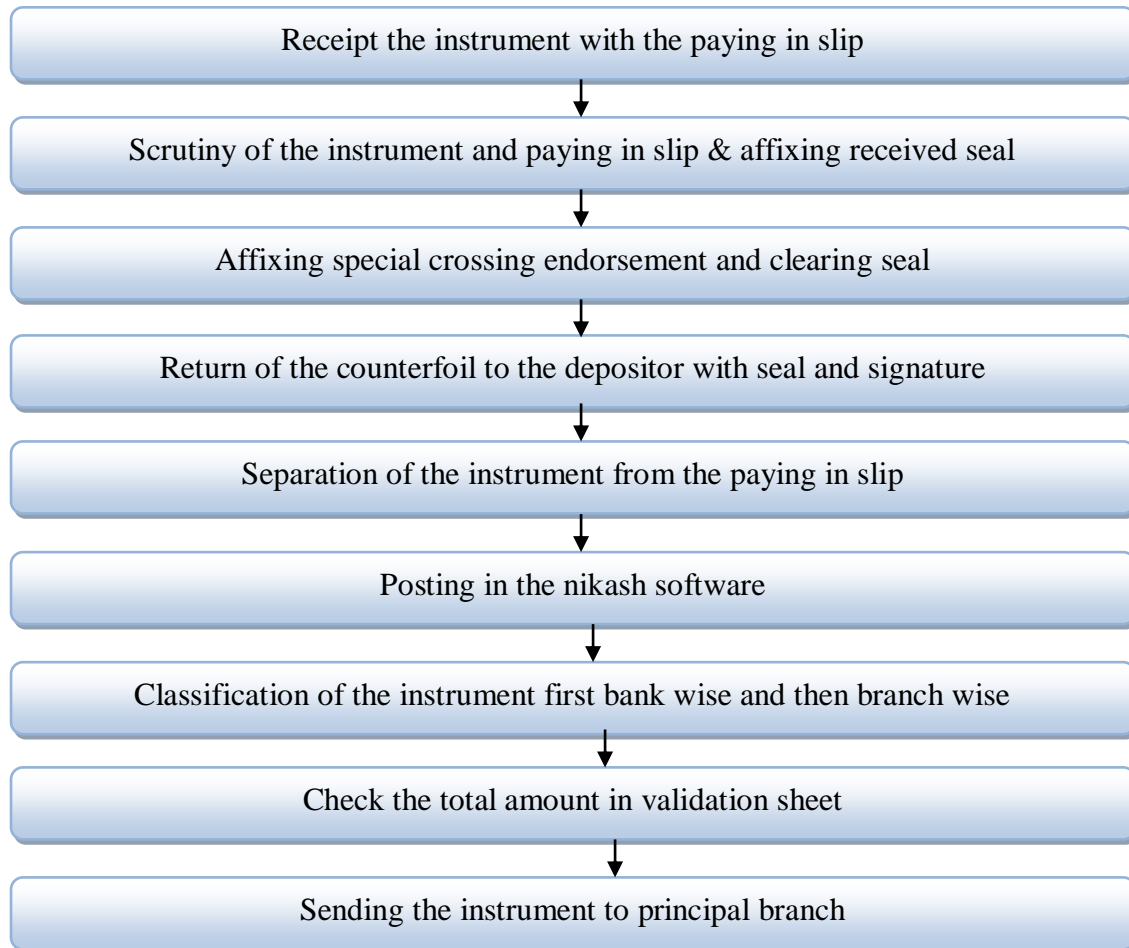
- i. Inward Clearing
- ii. Outward Clearing

#### Process flow chart for inward clearing:





**Process flow chart for outward clearing:**



**3.1.4 Cash Section**

Cash section is a very sensitive organ of the branch and handle with extra care. Operation of this section begins at the start of the banking hour. Cash officer begins his/her transaction with taking money from the vault, known as the opening cash balance. Vault is kept in a much secured room. Keys to the room are kept under control of cash officer and branch in charge. The amount of opening cash balance is entered into a register. After whole days'



transaction, the surplus money remain in the cash counter is put back in the vault and known as the closing balance. Money is received and paid in this section.

### **3.1.5 Accounts Section**

In banking business transactions are done every day and these transactions are to be recorded properly and systematically as the banks deal with the depositors' money. Any deviation in proper recording may hamper public confidence and the bank has to suffer a lot. Improper recording of transactions will lead to the mismatch in the debit side and credit side. To avoid these mishaps, the bank provides a separate department whose function is to check the mistakes in passing vouchers or wrong entries or fraud or forgery. This department is called Accounts Department.

Besides these, the branch has to prepare some internal statements as well as some statutory statements, which are to be submitted to the Central Bank and the Head Office. This department prepares all these statements.

### **3.2 Loans and Advances**

In BASIC Bank Ltd., Loans and advances consist of industrial loans, commercial loans, micro credit and bills increased 22.48 percent to Tk. 27,269.13 million compared to Tk. 22,263.63 million in 2007.

#### **3.2.1 Industrial Credit:**

BASIC Bank's services are directed towards the entrepreneurs in the small industries sector. A small industry, as per Industrial policy 1999 approved by the Cabinet, has been defined as an industrial undertaking whose total fixed investment is less than Tk.100 million.

The industrial loan reflected a significant growth of 23.91 percent over the previous year. Total outstanding industrial loans including term and working capital stood at Taka 17,226.40 million at the end of 2008 compared to Taka 13,901.40 million of 2007. Total outstanding term loan stood at Taka 6,206.75 million as on December 31, 2008 compared to Taka 5,055.58 million in 2007 reflecting a growth of 22.77 percent. The outstanding working capital finance extended to industrial units stood at Taka 11,784.08 million at the end of the reporting period compared to Taka 9,525.98 million in 2007. Growth



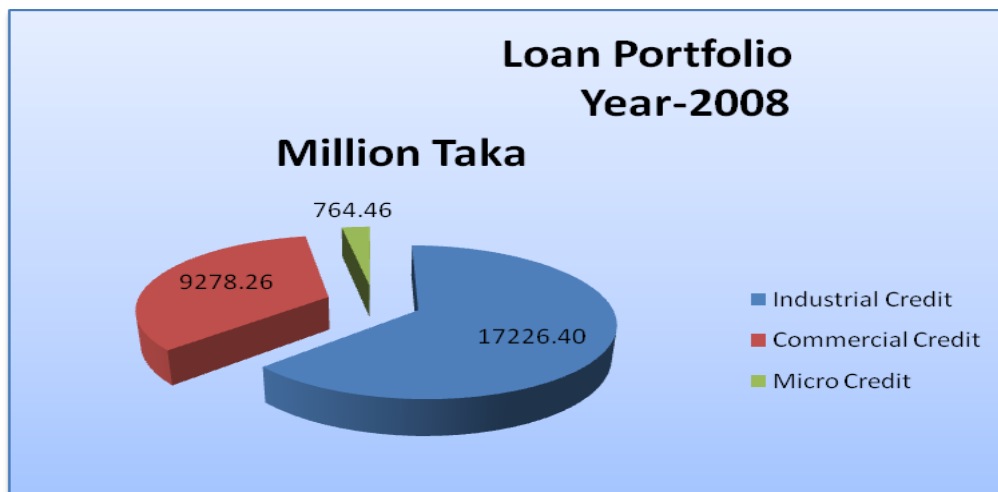
rate here was 23.70 percent. BASIC Bank's services are specially directed towards promotion and development of small industries. Its exposure to small and medium industries sector accounted for 56.52 percent of the total loans and advances. During the year total of 87 projects were sanctioned term loan. Out of which 26 were new and the rest were under BMRE of the existing projects. As on 31 December 2008, 801 projects were in the portfolio of the bank. The textile sector including garments being one of the major contributors to national economy dominated the loan portfolio of the Bank. Other sectors financed include engineering; food and allied industries; chemicals, pharmaceuticals and allied industries; paper, board, printing and packaging; glass; ceramic; and other non-metallic goods and jute products. Recovery rate of project loan was 90.81 percent.

### **3.2.2 Commercial Credit:**

The Bank also supports development of trade, business and other commercial activities in the country. It covers the full range of services to the exporters and importers extending various facilities such as cash credit, export cash credit, packing credit, short term loans, local and foreign bills purchase facilities. As on December 31, 2008 total outstanding commercial loans stood at Taka 9,278.26 million compared to Taka 7,681.74 million in 2007.

### **3.2.3 Micro Credit:**

BASIC Bank launched a Micro Credit Scheme in 1994. Micro Credit Scheme provides for the poor for generation of employment and income on a sustainable basis particularly in urban and suburban areas. The Bank follows three systems of credit delivery. At the end of 2008, total amount of Taka 764.46 million remained outstanding as against Taka 680.13 million in 2007. Recovery rate during this period remained at a satisfactory level of 98.00 percent.

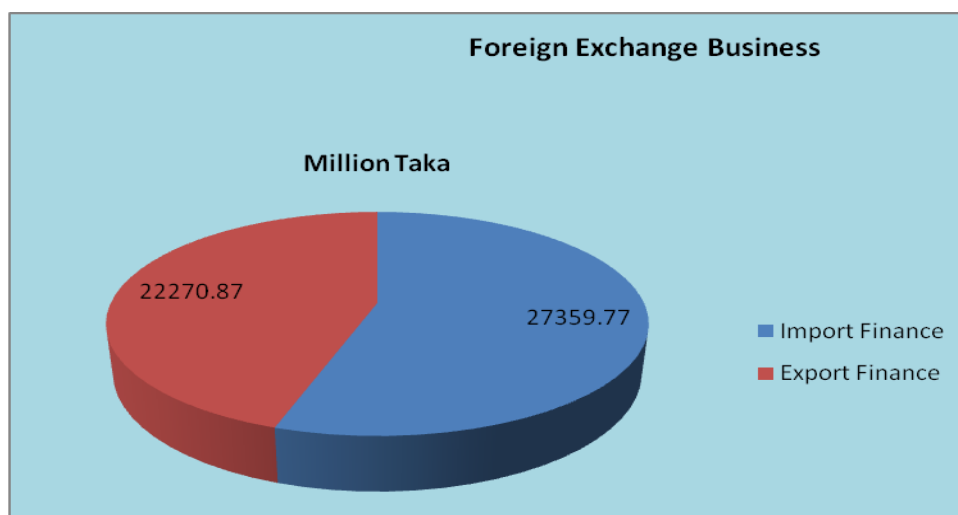






### 3.3 Foreign Exchange

The bank achieved substantial growth in export in 2008 and the performance of the bank in import business was also satisfactory. The Bank handled total export business of Taka 27,359.77 million and import business of Taka 22,270.87 million in 2008. The export and import business grew by 28.65 percent and 32.60 percent respectively. Major items of exports were garments, jute products, textile, leather etc. Items of import included mainly industrial raw materials, garments accessories, capital machinery, food items and other essential commodities.



The Bank became a proud member of SWIFT (Society for Worldwide Interbank Financial Telecommunication) that would pave the way to achieving uninterrupted communication related to banking for international trade. Business and fund transfer.

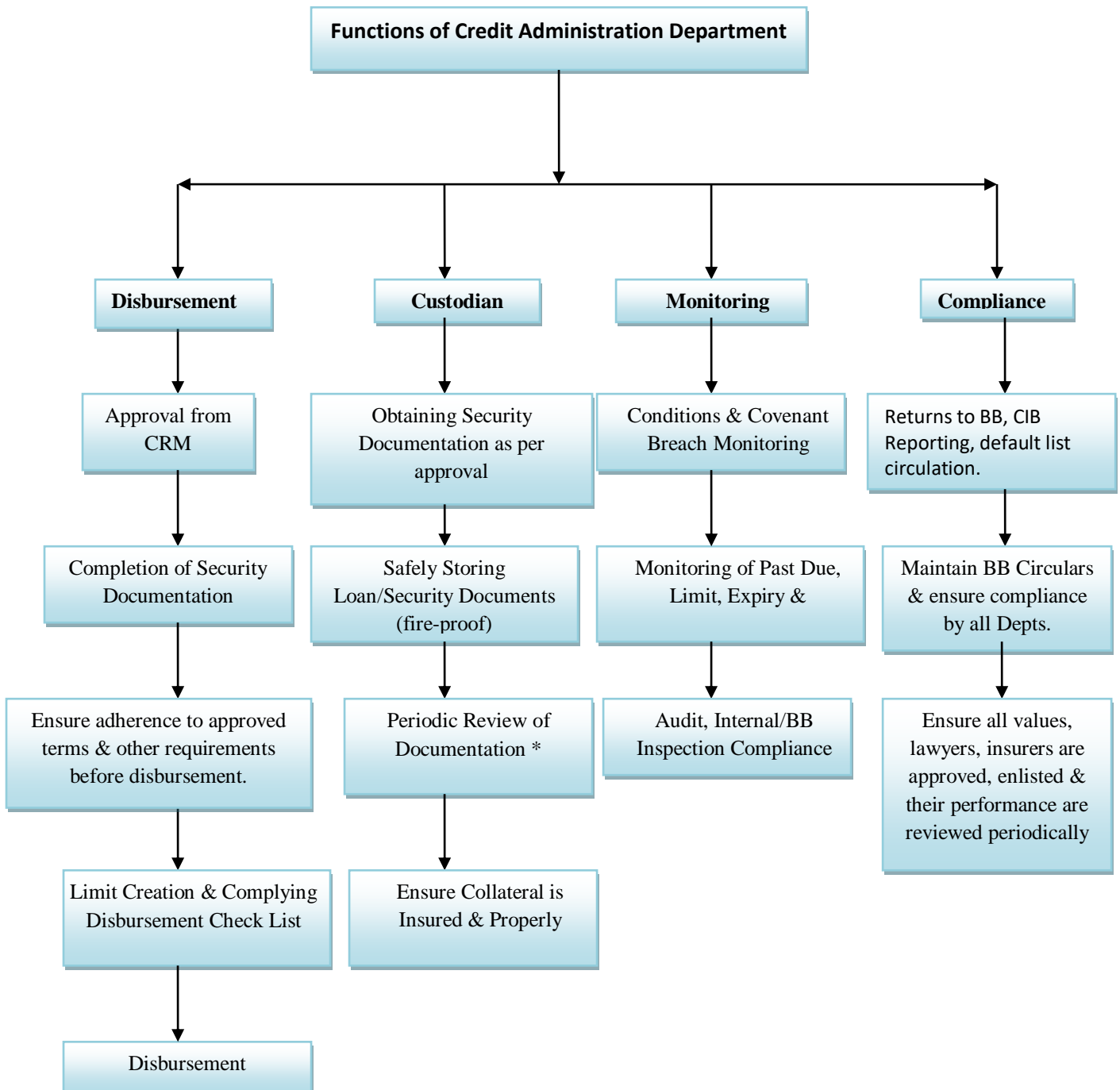


## **Chapter # 04** **Credit Operating System of BASIC Bank Ltd.**

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## 4.1 Functions of Credit Administration Department





## ***4.2 Basic Principles of Loans & Advances in BASIC Bank***

1. Aggregate loans and advances shall not exceed the Bank's net worth or 65% of customers deposit whichever is lower (excluding loans and advances covered by specific counter - finance arrangements).
2. Within the aggregate limit of loans and advances as mentioned in (1) above 50% of lending will be small industry sector in accordance with prescribed norms of the government and the Central Bank in terms of the banks objectives with 50% to the commercial sector. No term loans will be approved for the commercial sector. Exceptions will be rare and will require approval of the Executive Committee.
3. All lending will be adequately secured with acceptable security and margin requirement as laid down by the Head office credit committee.
4. The bank shall not incur any uncovered foreign exchange risk (currency exposure) in the lending of funds.
5. The Bank shall not incur any risk of exposure in respect of unmatched rates of Interest of funding of loans and advances beyond 15% of outstanding loans and Advances.
6. End - Use of working capital facilities will be closely monitored to ensure lending used for the purpose for which they were advanced
7. Country risk in loans and advances will be accurately identified and shall be within the country limits if any approved for the bank.  
  
The same treatment will be given to country risk arising out of contingent liabilities relating to Letters of credit and letters of guarantee.
8. Loans and advances shall be normally funded from customers' deposits of a permanent nature, and not out of short-term temporary funds of borrowings from other banks or through short-term money market operations.
9. The aggregate outstanding loans and advances (excluding loans advances covered by specific counter – finance arrangement) shall be dispersed according to the following guidelines (subject to item above whereby 50% of lending being to small industry sector)
10. Spreads over cost of funds on loans and advances and commissions and fees on other transactions should be commensurate with the rating of the borrower, quality or risk and the prevailing market conditions.
11. Credit risk evaluation will include an accurate appraisal of risk in any credit exposure is highly subjective matter involving quantitative and qualitative judgments. The financial statements of the borrower do not always provide a complete picture of the borrower.



Therefore the bank has to use all financial data available and combine this with a number of qualitative factors analyzing the borrower's financial position.

## **4.3 Lending Criteria**

### **4.3.1 Entrepreneur:**

Entrepreneur / promoter have to be creditworthy and competent enough to run the proposed industry.

### **4.3.2 Viability of the Project:**

The project should be viable from organizational, technical, commercial, financial and economic points of view.

#### **a. Technical Viability:**

- ◆ The project should be technically sound and environment-friendly.
- ◆ Technology transfer in case of borrowed know-how ought to be ensured.
- ◆ Building should be well planned and well constructed.

#### **b. Commercial Viability:**

- ◆ Market prospect and potential for the product has to be fully assured at competitive prices.
- ◆ Marketing channel for the product should be accessible to the entrepreneur.

#### **c. Financial Viability:**

- ◆ There should be reasonable debt equity ratio as determined by the Bank on individual case basis.
- ◆ Debt service coverage ratio should be at least 2.5 times at the optimum level of production.
- ◆ IRR should preferably be not less than 20 percent.

#### **d. Economic Viability:**

The project should ensure benefit to the national economy and create sufficient employment opportunity and be environment friendly.



## **4.4 Eligibility of the client for Loans and Advances**

Confidential reports are prepared on the Loans and Advances client and information contained therein is substantiated by-

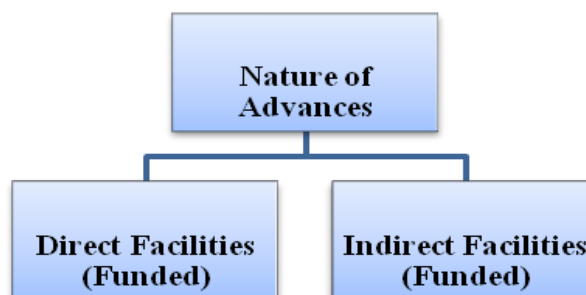
- Customer's declaration of liabilities.
- Client's status report from other banks of the locality.
- Credit references from third parties, as far as practicable.
- Cash flow, personal net worth statements and financial accounts obtained and evaluated where applicable.
- Updated valuation of securities taken as collateral.
- Monthly declarations of trading inventory and receivables duly signed.
- Working capital assessment where applicable.
- Purpose of Loans and Advances/Facility.
- CIB Report obtained.

## **4.5 Definition and Explanation of Credit Facilities**

Loans and Advances include Cash Credit, Overdraft on Current Accounts, Loans against Imported Merchandise, Term loan etc. Foreign Currency Loans extended by the Banks to the domestic economic sectors should also be included here.

### **4.5.1 Nature of Advances:**

---





#### **4.5.1.1 Direct Facilities (Funded):**

---

##### **i. Cash Credit:**

Cash Credit or continuing credit is those which form continuous debits and credits up to a limit and have an expiration date. A service charge which in effect an interest charge is normally made as a percentage of the value of purchases. These credits may be of the nature of pledged and/or hypothecated and banks should report these in separate heads incorporated under the main head Cash Credit. a detailed explanation of pledge and hyphenation is given below:

##### **a. Cash Credit against Pledge:**

Under this arrangement a cash credit is sanctioned against pledge of goods or raw- materials. By signing the letter of pledge, the borrower surrenders the physical possession of the goods under the banks effective control as security for payment of bank dues. The ownership of the goods, however, remains with the borrower. The pledge creates an implied lien in favour of the bank on the underlying merchandise. In the event of failure of the borrower to honour his commitment the bank can sell the goods for recovery of the advance. No collateral security is normally asked for granted of such credit.

##### **b. Cash Credit against Hypothecation:**

Under this arrangement a cash credit is sanctioned against hypothecation of the raw materials or finished goods. the letter of hypothecation creates a charge against the goods in favour of the bank but neither the ownership nor its possession is passed on to it; only a right or interest in the goods is created in favour of the bank and the borrower binds himself to give possession of the goods to the bank when called upon to do so. When the possession is handed over, the charge is converted into pledge. This type of facility is generally given to the reputed borrowers of undoubted integrity.

##### **ii. Overdrafts:**

A loan facility on a customer's current account at a bank permitting him to overdraw up to a certain agreed limit for an agreed period. The terms of the loan are normally that it is repayable on demand or at the expiration date of the agreement.

##### **iii. Loan against imported merchandise (LIM/LTR):**

This is a loan facility up to a satisfactory limit to the traders/customers by a bank against security of the value of the imported merchandise. The item also includes loan against Trust Receipts.

##### **iv. PAD/BLC/BE:**

A loan facility provided by the banks to the customers against documents/bills.



**v. Demand loan:**

The demand loan is such type of loan the repayment of which is required to be made after a formal notice is given to the borrower by the bank.

**vi. Export credit:**

All advance facilities provided to the exporters by the banks other than cash credit.

**vii. Term loan:**

A bank advance for a specific period repaid with interest under fixed schedules. The term loans may be as follows.

<b>Term Loan</b>	<b>Duration</b>
<b>i. Short term</b>	Up to and including 12 months.
<b>ii. Medium term</b>	More than 12 months up to and including 60 months.
<b>iii. Long term</b>	More than 60 months.

**viii. Other:**

Any loan that does not fall in any of the above facilities is considered as “other”. Blocked /Segregated continuing credits (pledge, hypothecation or overdraft) when re-scheduled by the banks for payments over a number of periods should also be reported against the head “other”

**4.5.1.2 Indirect facilities (non-funded):**

**i. Guarantee:**

A credit facility is contingent liabilities form extended by the banks to their clients for participation in development work like supply of goods and services.

**ii. Letter of credit:**

A credit facility in contingent liabilities form provided to the clients by the banks for import/procurement of goods/ services.





## 4.6 Credit Facilities -BASIC Bank Ltd.

Credit facilities offered to various industries by BASIC Bank Ltd.

<b>A. Working Capital</b>	Cash Credit (Hypothecation), Cash Credit (Pledge), Secured Overdraft (SOD)
<b>B. Term Loan</b>	Term Loan (T/L), Short Term Loan (STL)
<b>C. Trade Finance</b>	Loan against Trust Receipt, Loan against Merchandise, Packing Credit, Letter of Credit, Issuance of Bank Guarantee, Foreign Export Bill Purchased, Local Export bill Purchased, Local Import bill Purchased, Payment against Documents.

Credit Facilities	Interest Rate	Recovery Rate
<b>A. Working Capital:</b>		
Cash Credit (Hypothecation)	9%-10% p.a	
Secured Overdraft (SOD)	10%-12% p.a	
<b>B. Term Loan:</b>		
Term Loan (T/L)	9%-11% p.a	88%
Short Term Loan (STL)	9%-12% p.a	
<b>C. Trade Finance:</b>		
Export Cash Credit	7% p.a	
Packing Credit	7% p.a	
Loan against Trust Receipt	10%-12% p.a	
Payment against Documents.	10%-12% p.a	
Loan against imported Merchandise	10%-12% p.a	



## 4.7 Loans Categories

### Loans Categories:

Term Loan	Issuance of Bank Guarantee
Cash Credit (Hypothecation)	Foreign Export Bill Purchased
Cash Credit (Pledge)	Local Export bill Purchased
Secured Overdraft (SOD)	Local Import bill Purchased
Loan against Trust Receipt	Payment against Documents
Loan against Merchandise	House Building Loan
Packing Credit	Staff Consumer Credit Scheme
Letter of Credit	BASIC Kalayani

## 4.8 Securities

To make the loan secured, charging sufficient security on the credit facilities is very important. The banker cannot afford to take the risk of non-recovery of the money lent. BASIC Bank Limited charges the following two types of security:

**Primary security:** Primary security is that security which is regarded as the prime cover for an advance and is ordinarily tender by the borrower e.g. Hypothecation of goods. It is considered as main security.

**Collateral security:** Collateral security means additional /subsidy or secondary security as opposite to prime security i.e. land & building.

## 4.9 Modes of Security

**There are different modes of security are exercised by the BASIC Bank Limited:**

### i. Pledge:

Pledge is the bailment of the goods as security for payment of a debt or performance of a promise. A pledge may be in respect of goods including stocks and share as well as documents of title to goods such as railway receipt, bills of lading, dock warrants etc. duly endorsed in bank's favor.



### **ii. Hypothecation:**

In case of hypothecation, the possession and the ownership of the goods both rest the borrower. The borrower to the banker creates an equitable charge on the security. The borrower does this by executing a document known as Agreement of Hypothecation in favor of the lending bank.

### **iii. Lien:**

Lien is the right of the banker to retain the goods of the borrower until the loan is repaid. The bankers' lien is general lien. A banker can retain all securities in his possession till all claims against the concern person are satisfied.

### **iv. Mortgage:**

According to section (58) of the Transfer of Property Act,1882 mortgage is the "transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, existing or future debt or the performance of an engagement which may give rise to a pecuniary liability". In this case the mortgagor does not transfer the ownership of the specific immovable property to the mortgagee, only transfers some of his rights as an owner. The banker exercises the equitable mortgage.

## **4.10 Charge Documents**

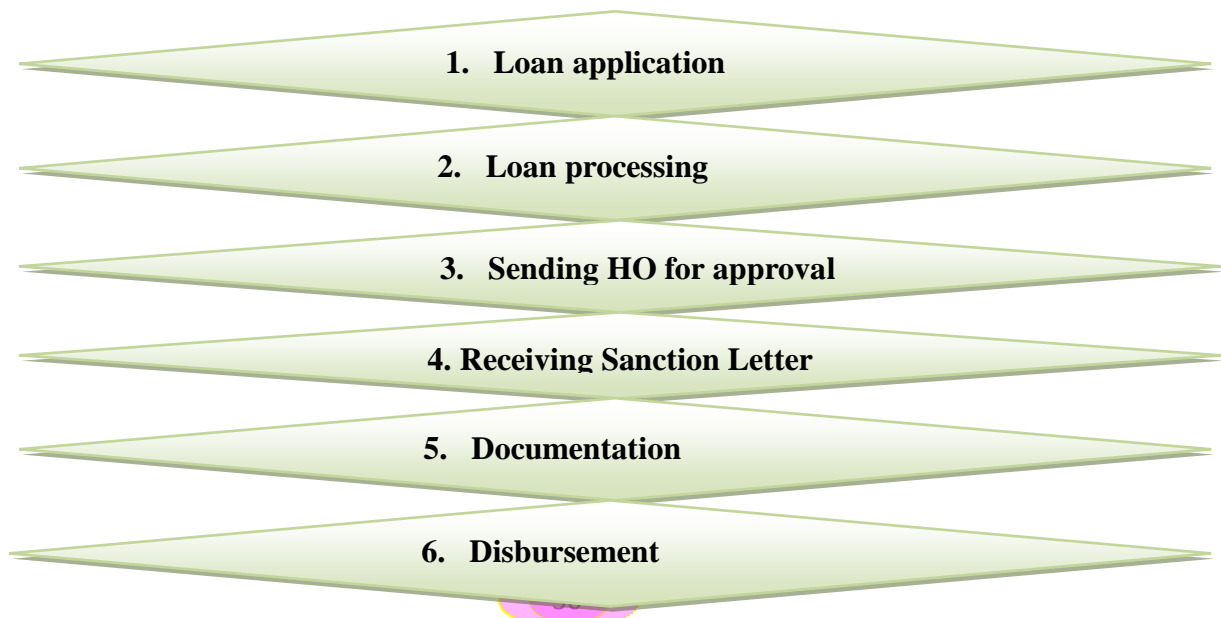
The following charge documents are required to secure loans and advances. All of these documents must be stamped and duly signed by the party to secure the bank's loans and advances.

1. Disbursement Request
2. Balance Confirmation
3. D.P. Note Delivery Letter
4. Promissory Note (I)
5. Promissory Note (We)
6. Promissory Note (For Limited Co.)
7. Letter of Continuity
8. Letter of Arrangement
9. Hypothecation of Goods
10. Hypothecation of Machinery



11. Trust Receipt
12. Revival Letter Form-I
13. Revival Letter Form-II
14. Memorandum of Deposit of Title Deed
15. Letter of Guarantee
16. Letter of Counter Guarantee
17. General Hypothecation of Negotiable Instrument.
18. Letter of Hypothecation (Bill)
19. Letter of Authority
20. Letter of Disclaimer
21. Letter of Lien for Advances against Shares, Stock and Securities.
22. Letter of Lien and Authority for Advances against Fixed Deposits/ FCY Deposits/  
Call Deposit / Special deposits Or Margin deposits.
23. Letter of Lien and Authority for Advances to Third Parties against Fixed Deposits/  
Call Deposit / Special deposits Or Margin Deposits.
24. Letter of Ownership
25. Partnership Letter
26. Pledge of Goods To Secure A Demand Cash Credit.
27. Promissory Note ( We Jointly & Severally )
28. Undertaking & Declaration.

#### **4.11 Loan Sanctioning Procedure of BASIC Bank**





## **4.12 Explanation of Loan Sanctioning Procedure**

### **4.12.1 Loan application:**

After filling up loan application, the following information to be furnished with application form:

- Copy of Business Registration / Company Incorporation Certificate.
- In the case of a Limited Liability Company, copy of Memorandum and Article of Association duly certified by the Chairman or the Secretary of the Company
- Copy of certified lease Agreement in the case of existing leasehold premises.
- Details of existing machinery / equipment / vehicles etc. (such as name, make, installed capacity, date of purchase and purchase price.)
- If a land is proposed to be purchased or taken in a lease, a copy of the letter from the vendor, or lessor confirming his agreement to sell or lease indicating land extent and expected price.
- Approved plans and priced BOQs (detailed cost estimate) for proposed buildings
- Proforma invoices / Quotations from at least two suppliers with catalogues for proposed machinery (if the value of machinery exceeds US dollar 50,000.00, three alternative quotations should be submitted).
- Cost estimate from relevant authority on power supply and its confirmation on ability to provide the required load.
- In the case of an existing business please submit financial statements like Current Assets, Fixed Assets, Liabilities and Net Worth for the past three years
- In the case of loan requested against mortgage of land, a recent mouza, site plan depicting the allotment of land and copy of original title deed of transfer, Mutation Certificate.
- Additional information of Owner / Partners / Directors separately
- In the case of loan exceeding Tk. 40.00 lac profitability forecast for three years.
- Letter of Authorization to the Banker in respect of all accounts held by the Business concern and Owner / Partners / Directors with other Banks
- Copy of letter issued by the Ministry / Department of Environment if any confirming that measures have been taken to prevent industrial pollution.



#### **4.12.2 Loan processing:**

---

The following List of documents required for processing a loan proposal:

##### **Applicant:**

1. Application for loan
2. Photocopy of passport/citizenship certificate (Proprietor/ M. D. /Director(s))
3. Photographs 4 copies of each (Proprietor/ M. D. /Director(s)) duly attested by MD/Chairman/1<sup>st</sup> Class Gazetted officer
4. Voter ID card (both sides) attested photocopy
5. Asset and wealth statement (from income tax file) (Proprietor/ M. D. /Director(s))
6. Signed Letter of undertaking (for CIB) (Proprietor/ M. D. /Director(s))
7. Charge documents

##### **Company/Firm:**

8. Memorandum and Article of Association
9. Certificate of Incorporation
10. Minutes of Board Resolution
  - a. For obtaining loan from BASIC bank Ltd., Bangshal Branch
  - b. For renewal of existing loan
  - c. Opening account
  - d. Authorized person to operate account
11. Stock Report up dated
12. Purchase/Production and Sales Statement month wise for one year
13. Form 117 duly signed (share transfer)
14. Form XII – List of directors duly collected from RJSC
15. Form XV – Allotment of shares duly collected from RJSC
16. Share Certificate (if issued)
17. List of existing machinery (name, brand, nos, origin, purchase price, , year of purchase, written down value)
18. Audited Financial Statements
19. No demand certificates from the company for income tax
20. Charge documents
21. Any audit compliance



**Government:**

22. Up-to-date trade license (City Corporation)
23. TIN Certificate of the Company
24. VAT Registration Certificate
25. TIN certificate of each Director
26. Certificate from environment department
27. Certificate from Chief explosive inspection department (Explosive items, Boiler etc.)
28. NOC from roads and highway (will not be acquired by Govt/R&H to widen road)
29. NOC from Traffic Engineering Department, Dhaka City Corporation
30. NOC/Approval for gas line connection
31. NOC/Approval for electric line connection
32. NOC/Approval from City Planning Department, RAJUK
33. NOC/Approval from Dhaka Metropolitan Police Department
34. NOC from Fire Service and Civil Department
35. Utility bill (attested photocopy latest) (Electricity, Gas, Water)
36. Permission/NOC from local authority (factory purpose)
37. Member certificate from chambers of industries/Association
38. Up-to-date rent receipt of all the properties held under mortgage with BASIC bank limited
39. Municipal/city corporation Tax receipt
40. Registration of board of investment (export oriented)
41. No demand certificates from authority (income tax, Gas, Electricity, water)
42. up-to-date IRC, ERC renewal photocopy
43. Tenancy agreement
44. Project profile (New loan)
45. List of machinery with Pro-forma invoice (to be imported), or agreement (to be procured locally)
46. Details construction cost estimate



### **4.12.3 Sending HO for approval:**

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After processing loan proposal Forwarding is sent to the Head Office for approval. The following information is enclosed with Forwarding:

- ❖ **Client's Request letter**
- ❖ **Credit Line Proposal (CLP)**
- ❖ **Production and sales report**
- ❖ **Stock Report**
- ❖ **Account statement**
- ❖ **CIB report**

### **4.12.4 Receiving Sanction Letter from Head Office:**

---

In this stag, branch receives sanction letter form head office where Loan Amount is sanctioned by Bank Management. In sanction letter the following terms and conditions are mentioned:

- ↪ The Nature of Facilities
- ↪ Security
- ↪ Other Terms and Conditions

### **4.12.5 Documentation:**

---

It is essential that the proposal define clearly the purpose of the facility, the sources of repayment, the agreed repayment schedule security and the customer relationship considerations implicit in the credit decision.

Where security is to be accepted as collateral for the facility all documentation relating to the security shall be in the approved form.

All approval procedures and required documentation shall be completed and all securities shall be in place, prior to the disbursement of the facilities. General documentations as require for different kinds of advance are enumerated below. There may be requirement of specific banking or legal documents to secure a credit according to sanction terms and conditions, which should also be obtained in addition to the following:





### **A) Loan**

- D.P Note
- Letter of partnership (in case of partnership concerns) or resolution the Board of Director (in case Limited Companies)
- Letter of arrangement
- Letter of disbursement
- Letter of Pledge (in case pledge of goods)
- Letter of hypothecation (in case of hypothecation of goods)
- Trust receipts
- Letter of lien and ownership/share transfer form (in case advance shares)
- Letter of lien for packing credits (in case of packing credit)
- Letter f lien and transfer authority
- Legal documents for mortgage of property (as drafted by legal Advisor)
- Copy of scansion letter mentioning details of terms & conditions duly acknowledge by the borrower.

### **B) Overdrafts**

- D.P. Note
- Letter of partnership (in case of partnership concerns) or Resolution of the Board of Directors (in case of Limited companies)
- Letter of arrangement
- Letter of continuity
- Letter of lien
- Letter of lien and ownership/share transfer form (in case of advance against shares)
- Letter of lien and transfer authority
- Legal documents for mortgage of property

### **C) Cash Credit**

- D.P Note
- Letter of partnership (in case of partnership concerns) or Resolution of the Board of Directors (in case of limited companies)
- Letter of arrangement
- Letter of continuity
- Letter of Hypothecation {in case of cash credit (Hypo)}
- Letter of pledge/Agreement of pledge {in case of Cash Credit (pledge)}
- Legal documents for mortgage of property (as drafted by legal Adviser)

### **D) Bill Purchased**

- D. P. Note
- Letter of Partnership (In case of partnership concerns) or Resolution of the Directors (in case of limited companies)
- Letter of arrangement
- Letter of Hypothecation of bill
- Letter of Acceptance, where it calls for acceptance by the drawee.



All required documents, as enumerated above, should be obtained before any loan is disbursed. Disbursement of any credit facility requires approval of then sure, before exercising such authority that all the required documentation has been completed.

#### **4.12.6 Disbursement:**

---

After completing all the necessary steps for sanctioning loans bank will create a loan account by the name of the party and deposit the money to that account. Bank will give cheque books to the party and advise them to draw the money and use it as soon as possible, because whenever the money will transfer to the account interest will count from that time.

### **4.13 Credit Monitoring**

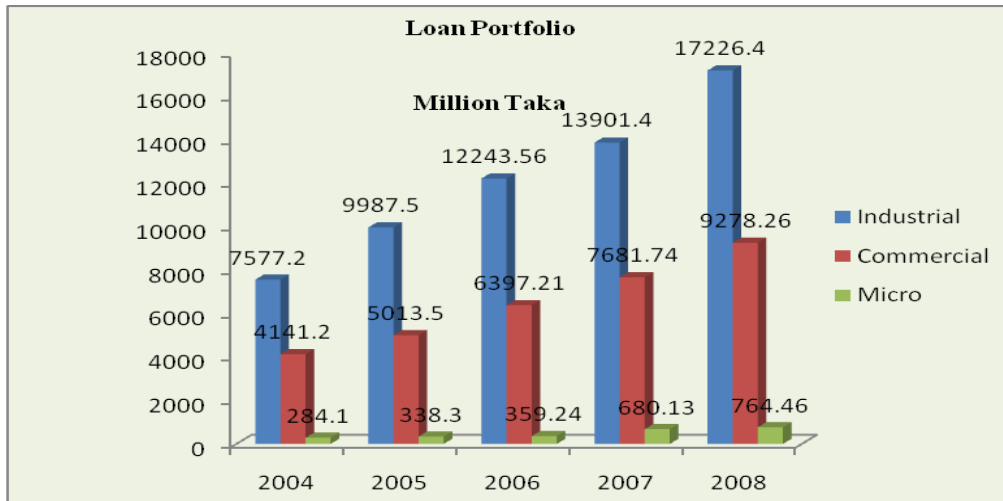
To minimize credit losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of a borrower. At a minimum, systems should be in place to report the following exceptions to relevant executives in CRM and RM team:

- ❑ 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.



### 4.14 Sector Wise Distribution of Loans in BASIC

Loans and Advances consist of industrial loans, commercial loans, micro credit and bills increased by 22.48 percent to Tk. 27269.13 million compared to Tk. 22263.34 million in 2007

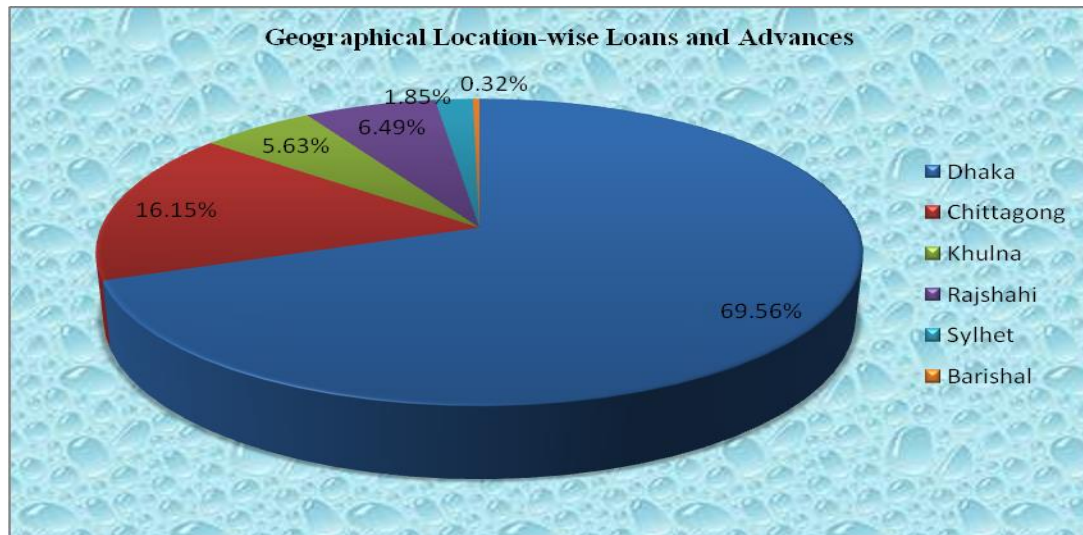


### 4.15 Advances to Industrial Sector

As on 31 December 2008, 801 projects were in the portfolio of the BASIC bank. The textile sector including garments being one of the major contributions to national economy dominated the loan portfolio of the Bank. Other sectors financed include engineering; food and allied industries; paper; board, printing and packaging; and other non-metallic goods, leather and jute products. Recovery rate of project loan was 90.81 percent.



## 4.16 Geographic Location-wise Loans and Advances



## 4.17 Valuation of Securities

### 4.17.1 Valuation of goods:

#### a. Loan against Imported Merchandise (LIM):

LIM facility shall be allowed, as post-import finance against imported goods under our L/Cs. LIM facility should not exceed invoice value net of L/C margin unless the Bank agrees to finance duties VAT. However, where market price of the goods is lower than landed cost necessary arrangement should be made with the customer should be additional deposit. The price at which LIM goods to be released to customer should be approved by Head office or it may be at market price or landed cost whichever is higher.

#### b. Cash Credit (Pledge):

Valuation of the goods to be pledged to the bank against cash credit (pledge) limit shall in no cases exceed:

1. The landed cost or market prices whichever is lower in case of imported goods.
2. The ex-mill/factory price or market prices whichever is lower in case of domestically manufactured commodities as evidenced by invoice.
3. The wholesale price/competitive marker price duly verified by the Branch and approved by Head office.



#### **4.17.2 Valuation of Collateral Security:**

In case of taking mortgage of Land and Building as collateral security to secure banks advances the following instructions should be meticulously followed by the branches:

1. The property should be physically inspected and verified jointly by 2 (two) Banks officers, one of who should be the branch manager or the 2<sup>nd</sup> officer. A valuation certificate mentioning market value and forced sale value should be prepared in the designated form supplied to branches and to be jointly signed by the above mentioned 2(two) inspecting officers of the bank. The forced sale value of the collateral Security will have to be 1.5 times higher than the facility/facilities allowed unless specifically waived by the approving authority giving full justification.
2. “A site plan” and “Map” along with 3r size distinct photographs of the mortgaged property covering full exposure from 3 angles mentioning detailed particulars on the back of the photographs duly authenticated by the authorized officer to be obtained by the branches.
3. It should be ensured that the collateral security is in the physical possession of the mortgagor and the mortgagor owner has/have valid title over it.
4. A certificate from the Banks lawyer to be obtained that the mortgage formality has been property created.

#### **4.18 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.

#### **4.19 Functions of Credit Risk Grading**

Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Grading systems 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.



## 4.20 Use of Credit Risk Grading

- The Credit Risk Grading matrix allows application of uniform standards 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 evident, the CRG outputs would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is rated. 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.

## 4.21 Number and Short Name of Grades Used in the CRD

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

<b>GRADING</b>	<b>SHORT NAME</b>	<b>NUMBER</b>
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



## 4.22 Credit Risk Grading Definitions

A clear definition of the different categories of Credit Risk Grading is given as follows:

- **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 - (SM) - 5**
  - ⇒ This grade has potential weaknesses that deserve 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.

### 4.23 Principal Risk Components of Credit

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.

- a) **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.
- b) **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.
- c) **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.



d) **Evaluation of Security Risk:**

Risk that 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.

e) **Evaluation of Relationship Risk:**

These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

#### 4.24 Ratio Analysis as per CRGM

As per CRGM the Ratios are broadly presented into Six (6) categories & thirty (30) numbers of Ratios.

<b>Growth Ratios(6):</b>	Sales Growth, Sales % = Net Sales Growth, Composite % = Net Income Growth, % = Total Assets Growth, % = Total Liabilities Growth, % = Net Worth Growth, % =
<b>Profitability Ratios(11) :</b>	Gross Margin, Composite % = SG & A, % = Cushion (Gross Margin-SG & A), % = Depreciation, Amortization, % = Operating Profit Margin, % = Interest Expense, % = Operating Margin, % = Net Margin, % = Return on Assets, % = Return on Equity, % = Cash withdrawal/ Dividend payout rate, % =
<b>Coverage Ratios(2) :</b>	Interest Coverage (EBIT/Total Interest) = Debt Service Coverage (EBITDA/Total Interest +CMLTD) =
<b>Activity Ratios(4) :</b>	Receivables in days Payables in days



	Inventory in days Sales/Total Assets (x)
<b>Liquidity Ratios (4):</b>	Working Capital Quick Ratio (x) Current Ratio (x) Sales / Net Working Capital (x)
<b>Leverage Ratios (3):</b>	Total Liabilities / Net Worth (x) Affiliate Exposure / Net worth (%) Total Liabilities / (Net Worth – Affiliates) (x)

### 4.25 Ratio Analysis Done by BASIC Bank

The following Ratios are calculated by BASIC Bank LTD. to determine the CRG:

- a. Leverage Ratio
- b. Profitability Ratio
- c. Coverage Ratio
- d. Liquidity Ratio

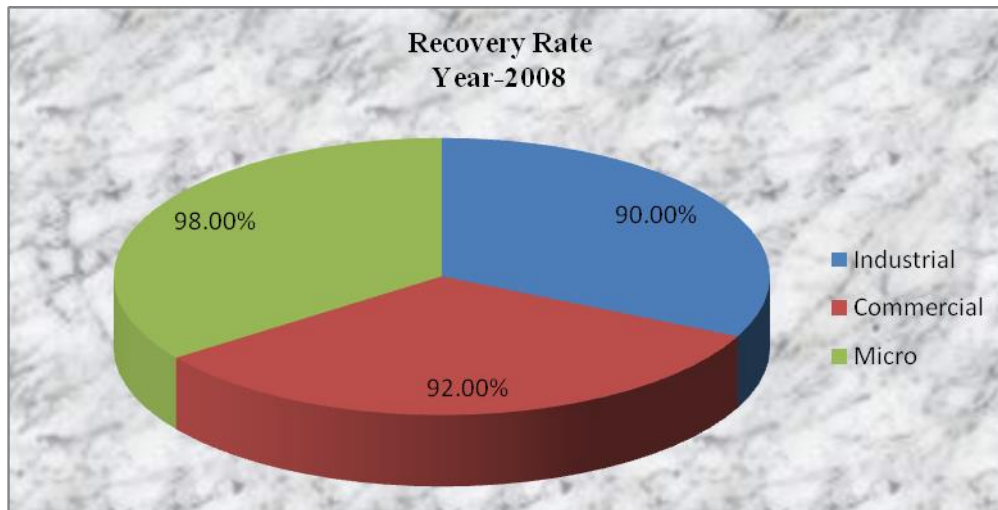
### 4.26 Credit Recovery

The RU's primary functions 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.

### 4.27 Credit Recovery Rate

During 2008, the recovery rate of sector loan of BASIC Bank Ltd. was at a highly satisfactory level.



### 4.28 Classification of Loan

Loan may be classified in three categories. These are:

- Sub-Standard (SS)
- Doubtful (DF)
- Bad & Loss (BL)

**a. Sub-standard (SS):**

If the installment is not paid for 6 months and above are categories as SS.

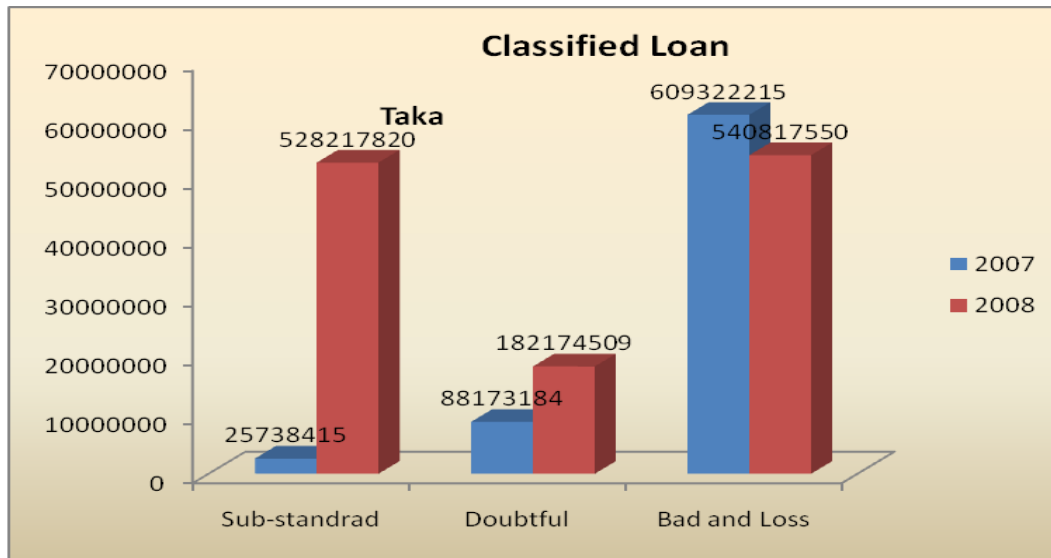
**b. Doubtful (DF):**

If the installments are not paid for more than six months but less than one year are classified as DF.

**c. Bad & Loss:**

If the installments are not paid for one year and more are classified as bad.

#### 4.29 Classified Loan of BASIC Bank Ltd.



#### 4.30 Rescheduling

The term “Rescheduling” has now become a common word in the banking scenario of the loan recovery measured resorted to by the banks for recovery/adjustment of the overdue/stuck-up loans and advances. The term rescheduling means that upon written application by a loan defaulter, bank allows extension of repayment time with a specific repayment schedule for adjustment to the outstanding defaulted loan by monthly installments of specified fixed amounts or by lump-sum payment, usually with interest.

For “Rescheduling” purpose, Bangladesh Bank has set the following guidelines for the scheduled Banks, which are being observed by all banks:

- The issue of waiver/remission of interest for the purpose of rescheduling of the overdue outstanding loan is to be decided by the financing Banks themselves. And consequently, for consideration of such matter, the rate of the down payment may be decided on case-to-case basis by the banks themselves, at their own discretions. But the down payment must be 5% but not less than 50 lac of the overdue outstanding amount, under any circumstances.
- The matter relation to rescheduling of the installments during the validity of the repayment period will be decided by the banks at their own discretion and on the basis of banker-customer relationship.



- The repayment schedule to be submitted by the borrower should be realistic and logical. Banks should also ensure whether adequate securities are held against the rescheduled outstanding loan.
- Bangladesh Bank in the decent bankers meeting also resolved the rescheduling facility that should not allowed for more than twice, avoiding the delaying tactics to the loan defaulters in repayment of the bank dues.

Since the rescheduling proposal (s) are required to be approved by the Banks competent authority (head /board of Directors) individually, branches should forward all such rescheduling proposals, as submitted by the borrowers with their recommendation/comments, in a case to case basis of head office, for consider.

### **4.31 Default Borrower**

There are two types of Default borrower:

#### **4.29.1 Business Defaulter:**

There are some reasons behind Business Defaulter in BASIC Bank Ltd.

- ❖ Decreasing sales
- ❖ Decreasing production etc.

#### **4.29.2 Willful Defaulter:**

There are some reasons behind the Willful default borrower:

##### **Tendency of nonpayment:**

It is the most common characteristics of default borrowers of BASIC. Almost 70 percent of default borrowers of BASIC tend to avoid repaying loan.

##### **Frequent manipulation in financial statements:**

The main objective of this manipulation is deceit the lender before and the sanction of loans. Before sanction borrowers submit inflated figures of projected cash flow to convince the lender that the business is profitable. But after getting the loan they try to show the gloomy picture of the market and economy.

##### **Bad securities offered to bank and their over valuation:**

Inexperience in the business tends to exercise external influence to get the credit approval. Some of the default borrowers of BASIC, got credit against such projects in which they had no previous experience.



### **Usually evade bank's call to contact and communicate:**

BASIC is always first to communicate with default borrowers by letters and telephone calls. But borrowers even do not bother to respond to those. Sometimes BASIC has to urge them respond to those. Sometimes BASIC has to urge them for rescheduling their loans.

### **Diversion of Funds to Non-Project Concerns:**

It is one of the prime obligations of a bank to ensure that the funds advanced as loans to the borrowers are spent for the purpose for which these are sanctioned. To make sure, monitoring, follow-up and ends-use of the loan is a must. After a loan is disbursed, a branch should keep regular follow-up for adjustment/performance by the client as per the sanction terms. But unlike other banks, BASIC's clients are also engaged in diversion of funds.

## **4.32 Legal Action**

Legal action being a very complicated and lengthy procedure, is the most extreme measure, or so to loans and advances with the loan-defaulter before taking the last step i.e. legal action. Before filling case in the court against the loan defaulter, BASIC makes serious follow-up efforts with the client in the following way:

- ☐ Call on the client (borrower) and make verbal requests for adjustment of bank dues.
- ☐ Issuing of reminder letters requesting the client to arrange adjustment to submit acceptable repayment schedule for adjustment/amicable settlement.
- ☐ Issuing of "Final Notice" giving 15/30 days time to the client with the request to of arranging adjustment/ /acceptable repayment schedule for adjustment /amicable settlement, mentioning in the notice the banks intention of initiating legal action in the event of clients default.
- ☐ In case the client fails to respond to the "Final Notice" bank will request its lawyer (Legal Adviser) to serve "Legal Notice" upon the loan defaulter. Accordingly, banks lawyer will serve the formal "Legal Notice", on behalf of the bank, upon the borrower demanding adjustment of the entire bank dues with interest within 15/30 days from the date of the notice and specifically mentioning that legal suit will be filed against the borrower if the fails to comply with the legal notice.
- ☐ Thereafter, if the client (Loan-defaulter) fails to respond positively to the legal notice, bank will finally arrange to file suit in court by paying the requisites court/fees through the legal Adviser, paying for realization of the entire outstanding dues own by the borrower to the bank.
- ☐ After promulgation of Banditry Act. 1997, Bankruptcy Courts have been establishes in Dhaka and Chittagong. As per Bangladesh Banks directives/guidelines, BASIC



Bank, as well as other banks, has already filed a few suits in formal 90 (ninety) days notices served upon the borrowers under Section-9 (1) of the Bankruptcy Act.





## **Chapter # 05** **Performance Analysis of BASIC bank Ltd.**

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<b>Ratio Analysis:</b>	
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## 5.1 Progress at a Glance (2000-2008)

<b>Progress at a glance</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>From the Balance Sheet (Million Taka)</b>					
Authorized Capital	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
Paid-up Capital	1309.77	1247.40	945.00	810.00	675.00
Reserve and Surplus	1681.39	1349.17	1294.00	916.14	816.23
Shareholders' Equity	2,982.60	2,596.58	2,239.00	1,726.14	1,491.23
Fixed Assets	228.36	196.11	154.52	135.78	101.41
Total Assets	46,651.53	38,773.91	29,417.09	27,136.37	19,436.57
Deposits	38,368.23	31,947.98	24,084.65	22,325.58	15,509.18
Long- term Debt	1708.4	1385.81	830.06	937.51	839.61
Loans and Advances	27,269.13	22,263.35	19,000.00	15,339.35	12,000.15
Placement & Investment	15,653.2	13,560.92	8,212.23	10,236.82	6,098.51
<b>From the Income Statement (Million Taka)</b>					
Gross Income	5,060.29	3,549.51	2870.32	2,228.21	1768.85
Gross Expenditure	3,526.18	2,741.37	1,858.69	1,599.77	1,241.63
Profit before Tax	1534.11	808.14	1,011.62	628.44	527.22
Profit after Tax	549.95	282.96	554.14	285.49	291.48
Tax Paid (Cumulative)	3,538.09	2,790.98	2,245.16	1,777.70	1,434.76
<b>Others (Million Taka)</b>					
Import Business	27,359.77	21,266.57	17,804.27	14,094.96	12,508
Export Business	22,270.87	16,794.96	15,463.74	11,097.23	7,908
<b>Financial Ratios (Percentage)</b>					
Capital Adequacy Ratio	12.02	12.91	11.98	11.66	12.49
Capital Fund to Deposit Liabilities	7.81	9.23	10.34	10.36	10.47
Liquid Assets to Deposit Liabilities	47.70	49.10	40.42	58.01	50.36
Loan to Deposit Liabilities	71.07	69.69	78.89	69.74	77.37
Earning Assets to Deposit Liabilities	114.69	109.70	112.99	114.56	116.70
After Tax Return on Average Assets	1.30	.83	1.94	1.23	1.70
Net Profit to Gross Income	10.87	7.97	19.31	12.81	16.48
Interest Margin Cover	137.08	176.80	211.72	214.56	205.07
After Tax Return on Equity	19.68	11.70	27.82	17.75	21.27
SMI/SSI Loan and Micro Credit to Total Loan	59.32	56.73	53.43	67.00	62.21
<b>Number of Branches</b>	<b>31</b>	<b>30</b>	<b>28</b>	<b>27</b>	<b>27</b>
<b>Number of Employees</b>	<b>735</b>	<b>721</b>	<b>651</b>	<b>601</b>	<b>578</b>

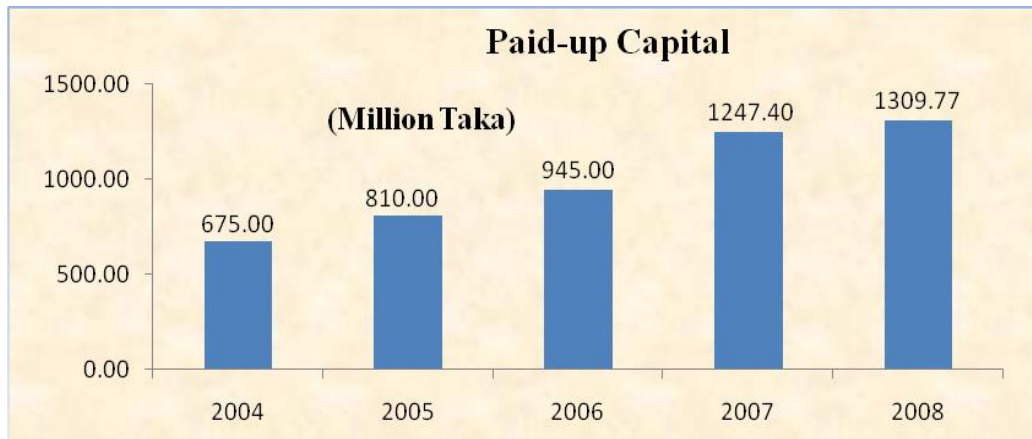


<b>Progress at a glance</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>From the Balance Sheet (Million Taka)</b>				
Authorized Capital	2,000.00	500.00	500.00	500.00
Paid-up Capital	450.00	300.00	300.00	240.00
Reserve and Surplus	799.29	712.90	461.39	457.77
Shareholders' Equity	1,249.29	1,012.90	761.35	697.77
Fixed Assets	73.49	76.68	65.73	51.11
Total Assets	14,766.32	13,019.42	9,721.93	7730.67
Deposits	11,266.54	10,021.24	7,512.62	5,845.15
Long- term Debt	690.95	676.51	582.82	555.98
Loans and Advances	9,282.20	7,957.04	6,260.78	4,618.73
Placement & Investment	4,361.93	3,988.76	2,605.23	2,462.17
<b>From the Income Statement (Million Taka)</b>				
Gross Income	1,290.66	1,290.66	1,041.76	877.48
Gross Expenditure	856.15	856.15	685.64	573.30
Profit before Tax	434.51	434.51	356.12	304.18
Profit after Tax	251.55	251.55	213.67	173.34
Tax Paid (Cumulative)	881.73	881.73	698.76	556.31
<b>Others (Million Taka)</b>				
Import Business	1,558.52	8,645.00	7,542.80	7,948.00
Export Business	1,004.85	5,557.60	5,957.90	5,557.00
<b>Financial Ratios (Percentage)</b>				
Capital Adequacy Ratio	12.57	13.20	12.49	15.30
Capital Fund to Deposit Liabilities	10.65	10.11	10.13	11.94
Liquid Assets to Deposit Liabilities	51.05	54.80	51.47	59.52
Loan to Deposit Liabilities	82.39	79.40	83.34	79.02
Earning Assets to Deposit Liabilities	121.10	119.20	118.01	117.74
After Tax Return on Average Assets	1.70	2.20	2.45	2.33
Net Profit to Gross Income	15.17	19.35	20.51	19.75
Interest Margin Cover	210.87	187.00	173.91	150.67
After Tax Return on Equity	20.90	28.18	28.06	27.04
<b>Small Scale Industries Loan and</b>				
Micro Credit to Total Loan	59.16	63.00	50.18	46.96
<b>Number of Branches</b>	<b>26</b>	<b>26</b>	<b>25</b>	<b>25</b>
<b>Number of Employees</b>	<b>523</b>	<b>510</b>	<b>497</b>	<b>453</b>

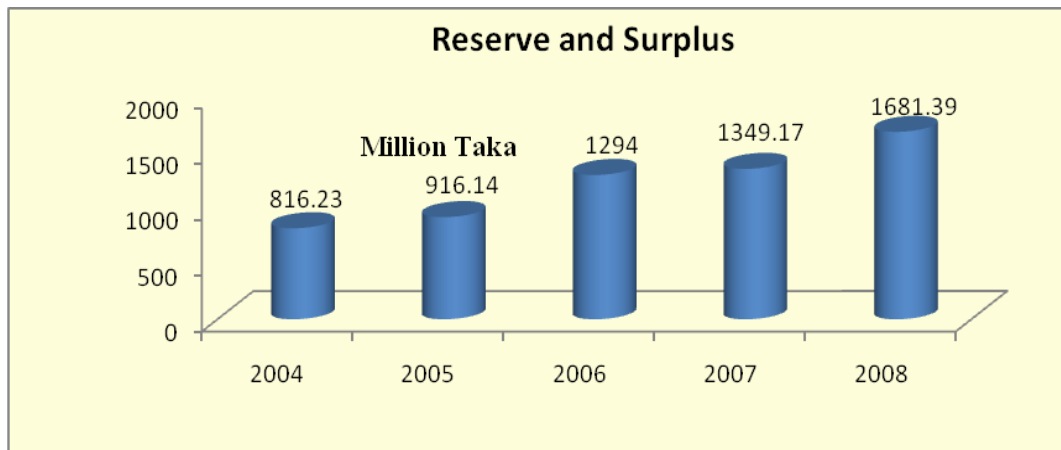


## 5.2 Graphical Analysis of Financial Health

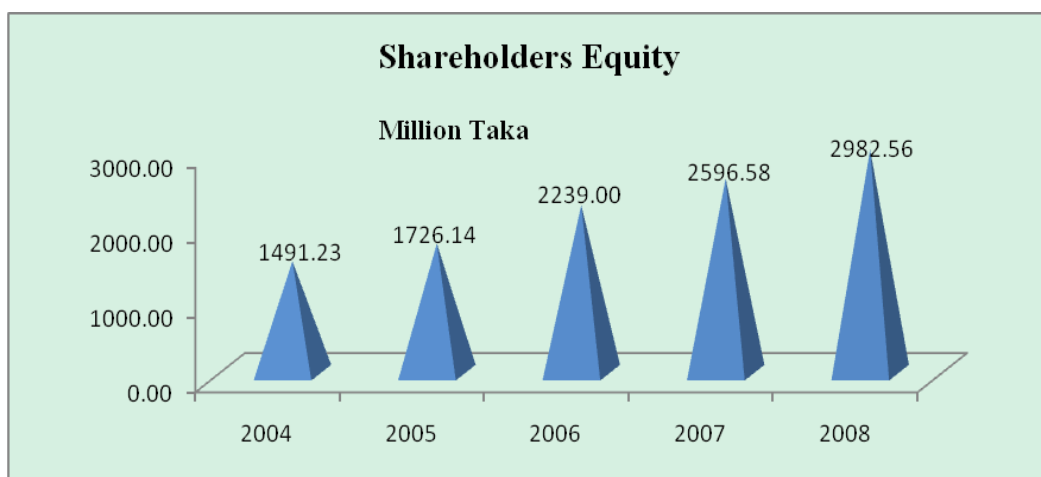
### Paid-up Capital:



### Reserve and Surplus:

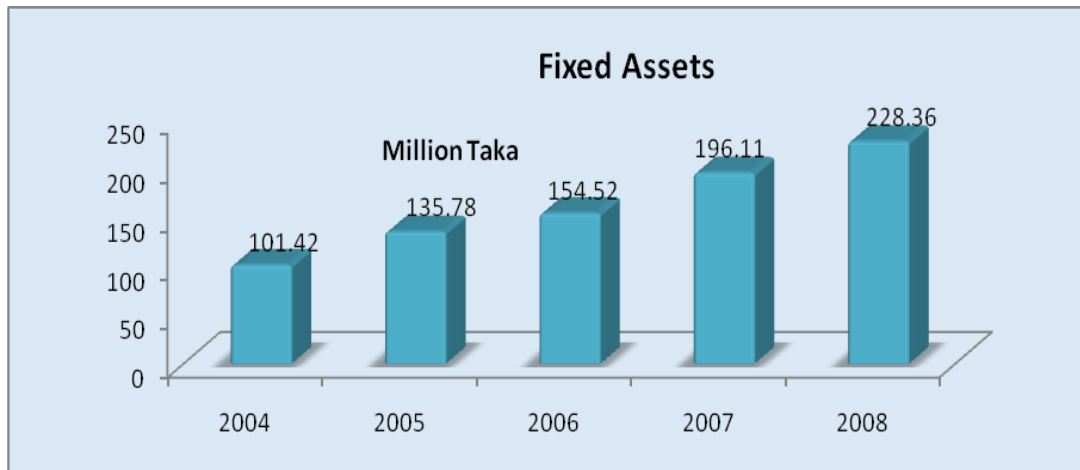


### Shareholders' Equity:

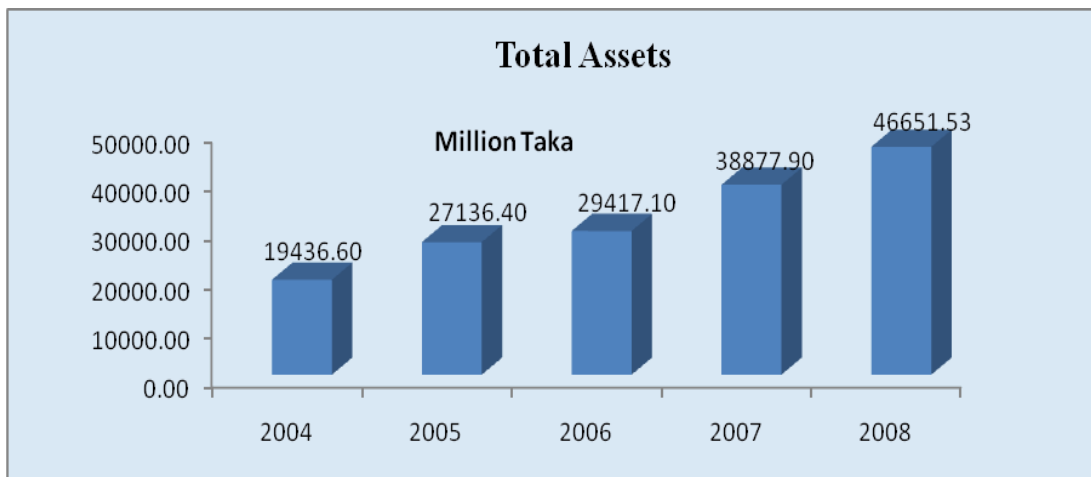




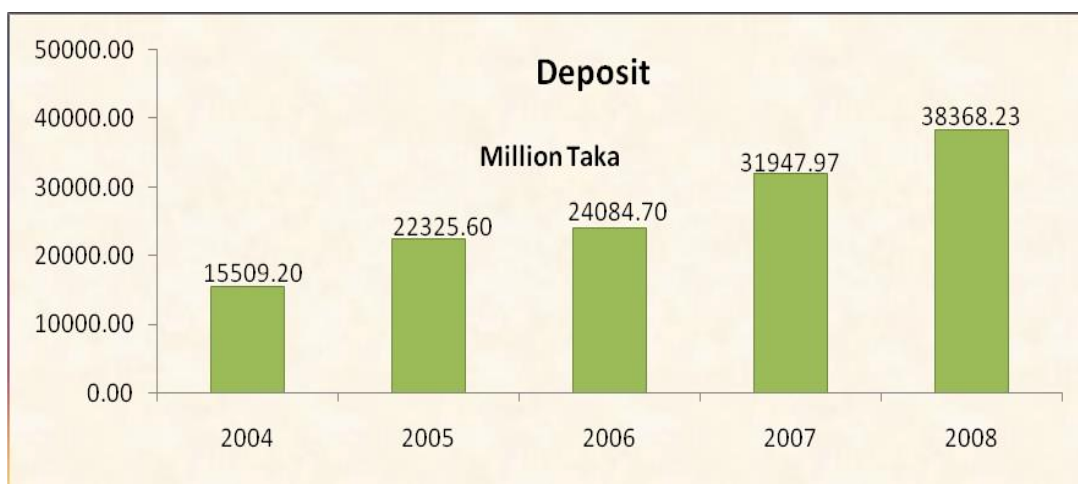
### Fixed Assets:



### Total Assets:

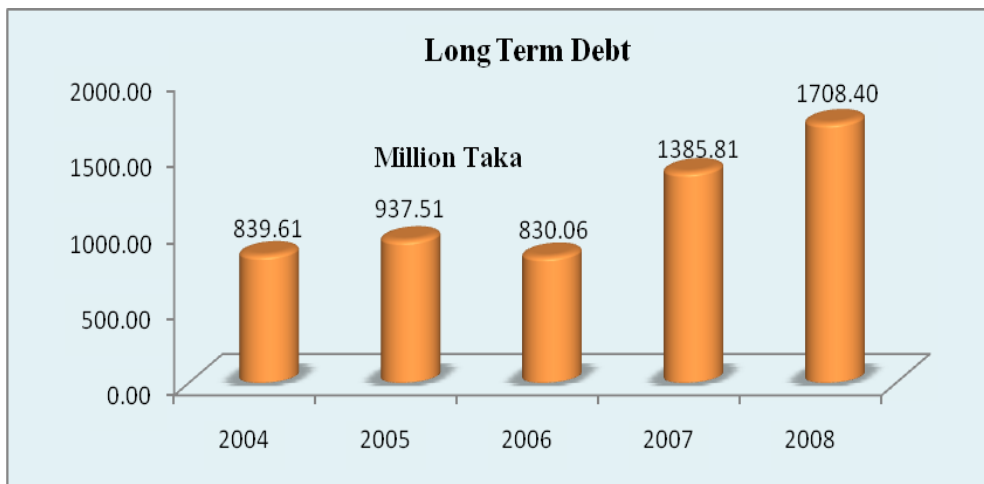


### Deposit:

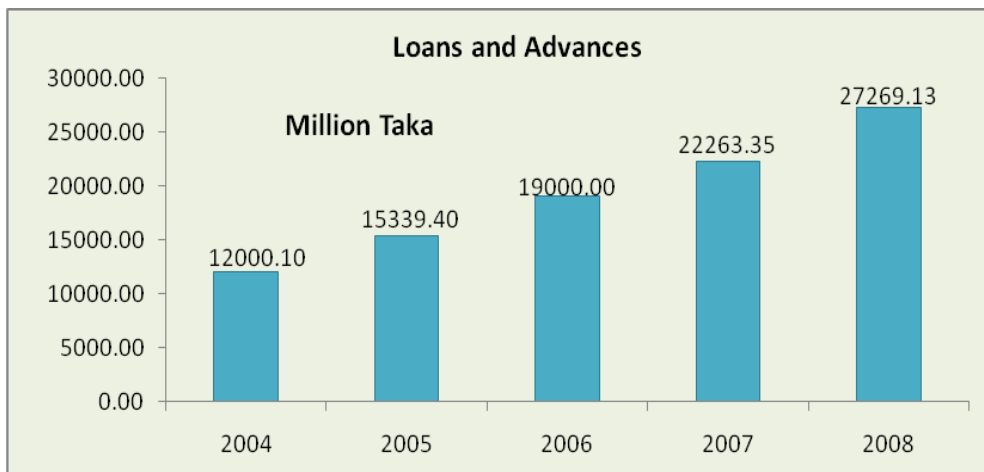




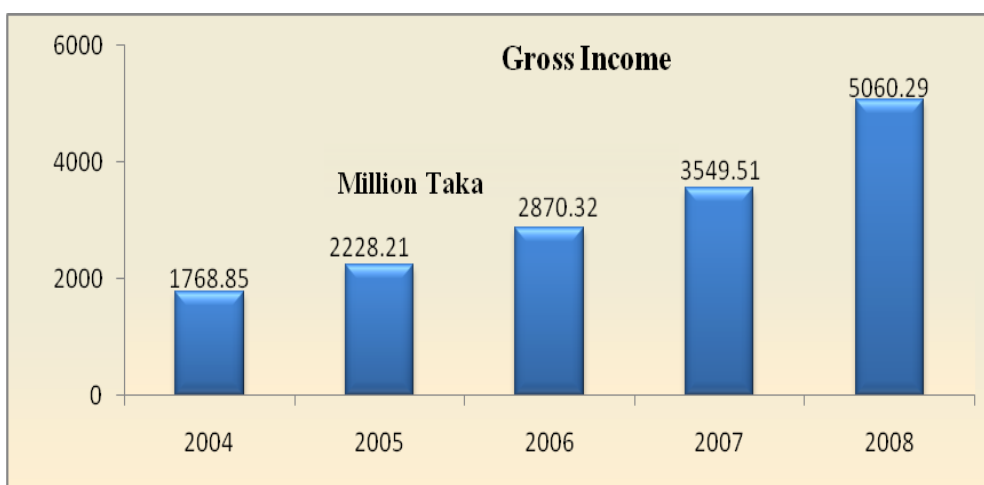
### Long-Term Debt:



### Loans and Advances:

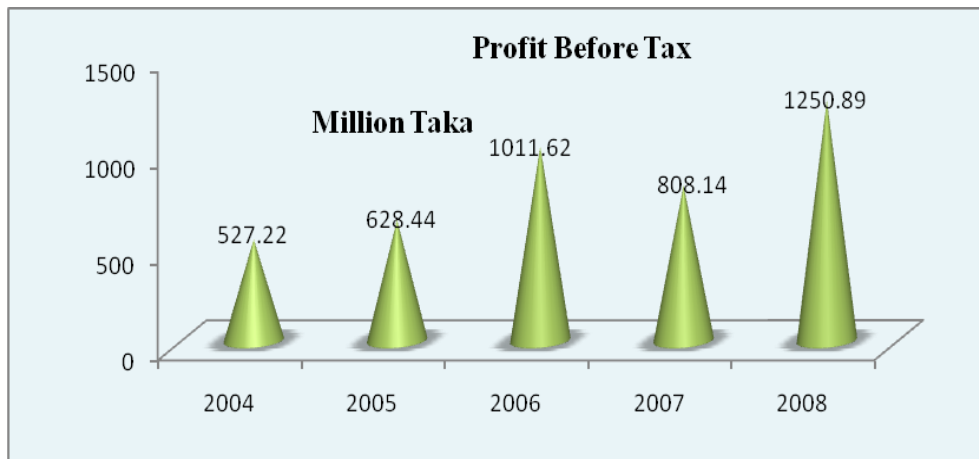


### Gross Income:

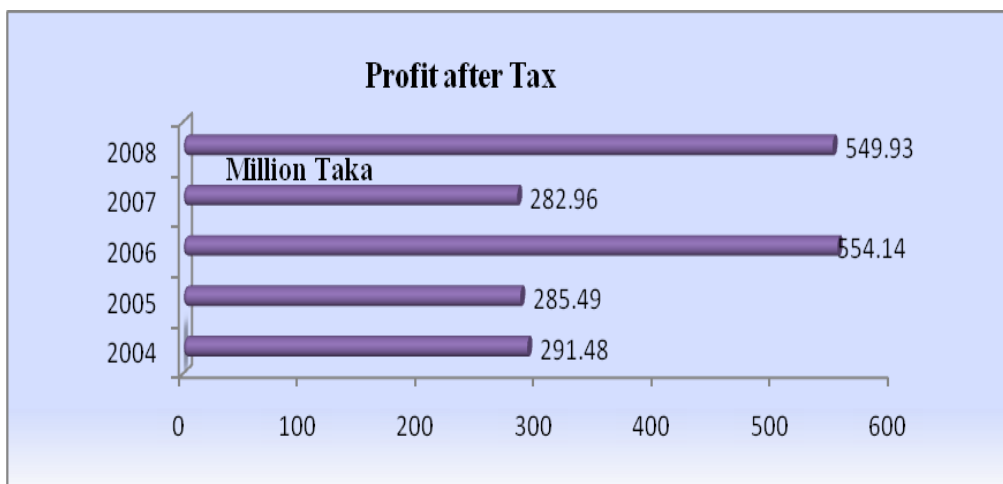




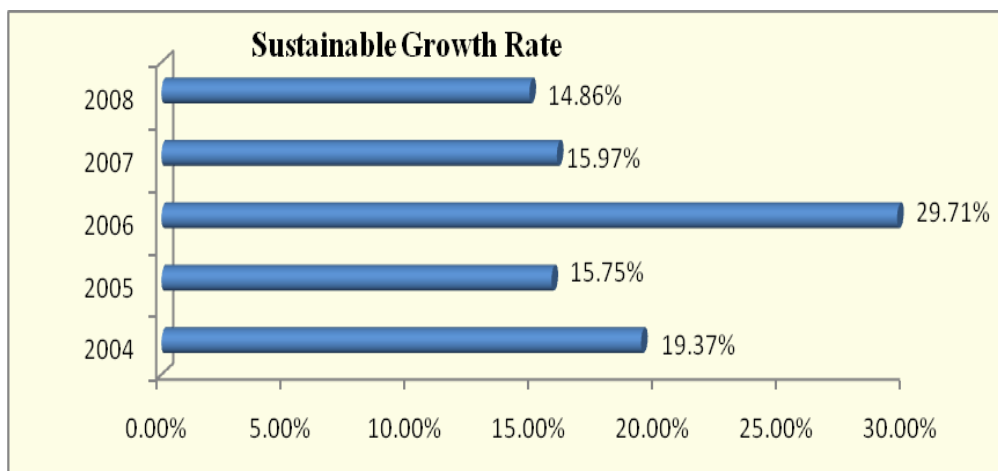
### Profit before Tax:



### Profit after Tax:

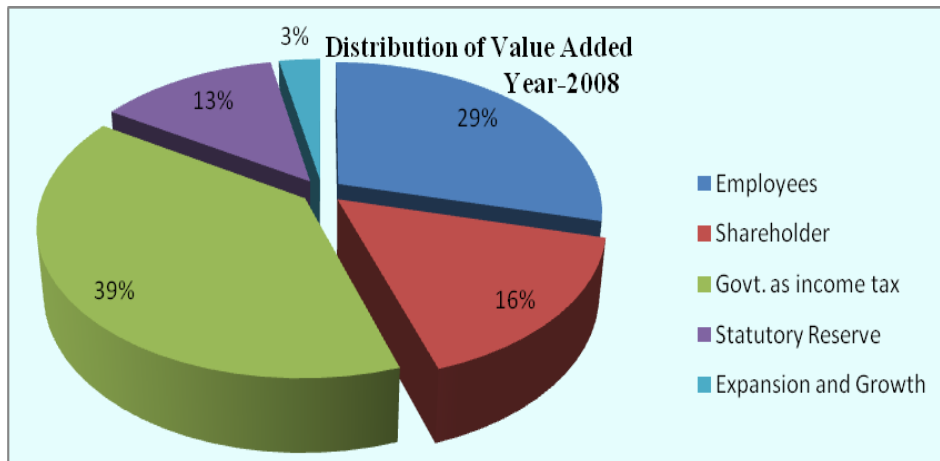


### Sustainable Growth Rate:

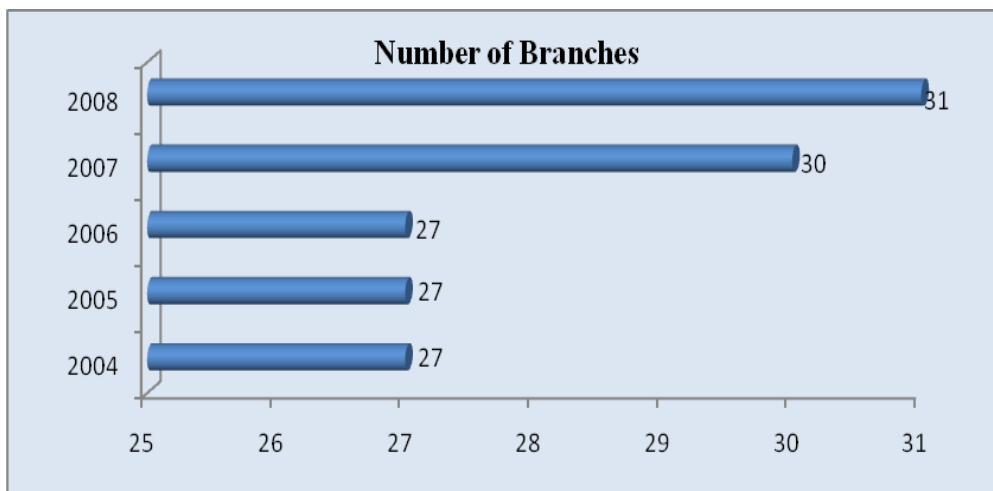




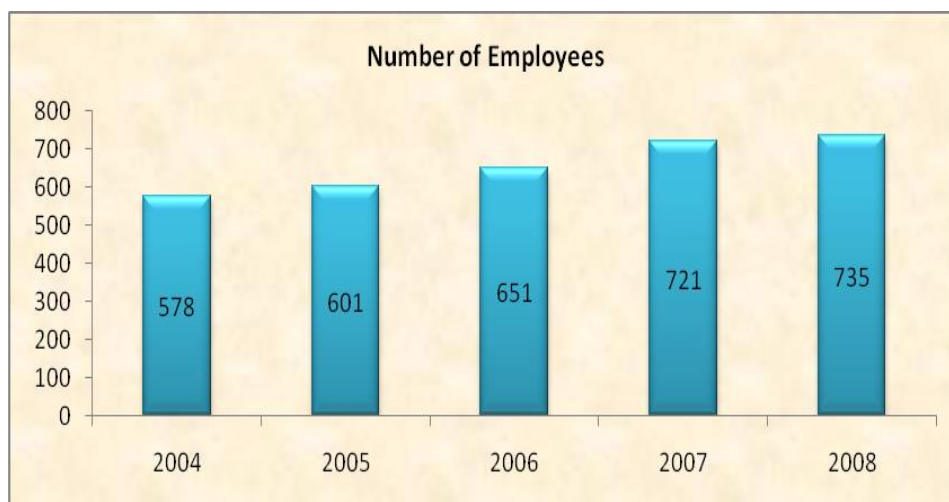
### Distribution of Value added:



### Number of Branches:



### Number of Employees:

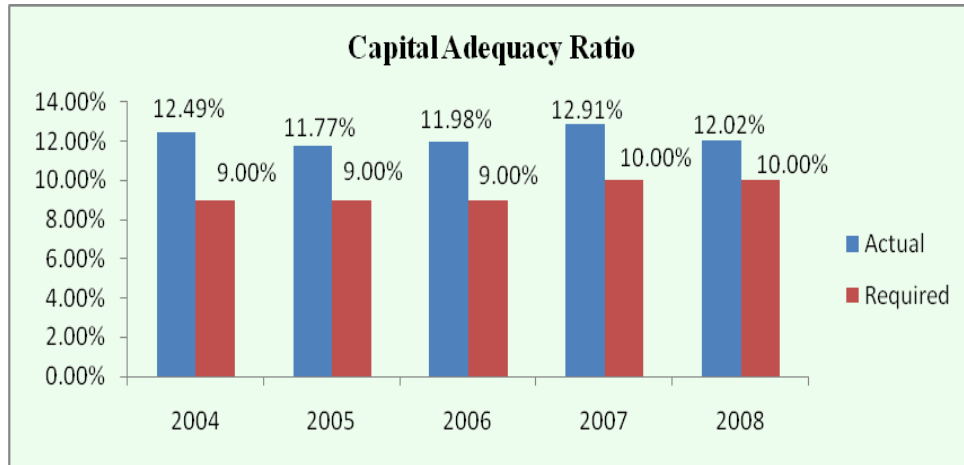




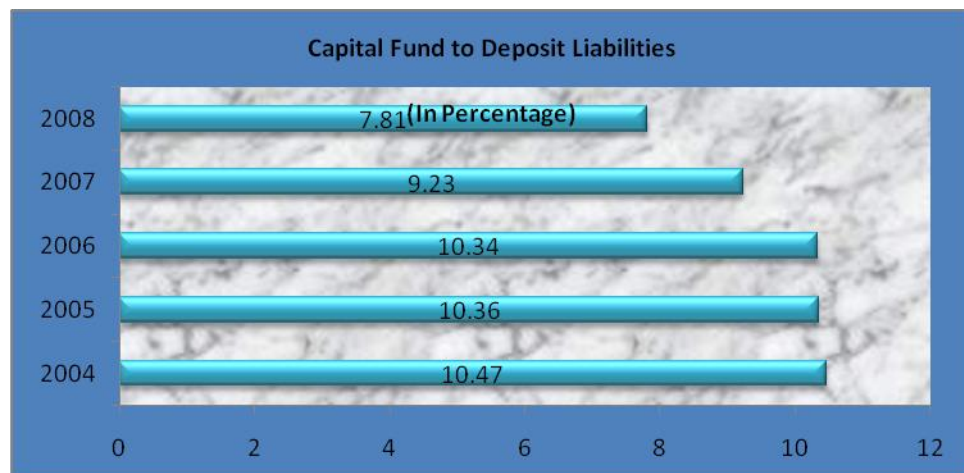


### 5.3 Graphical Analysis of Financial Ratios

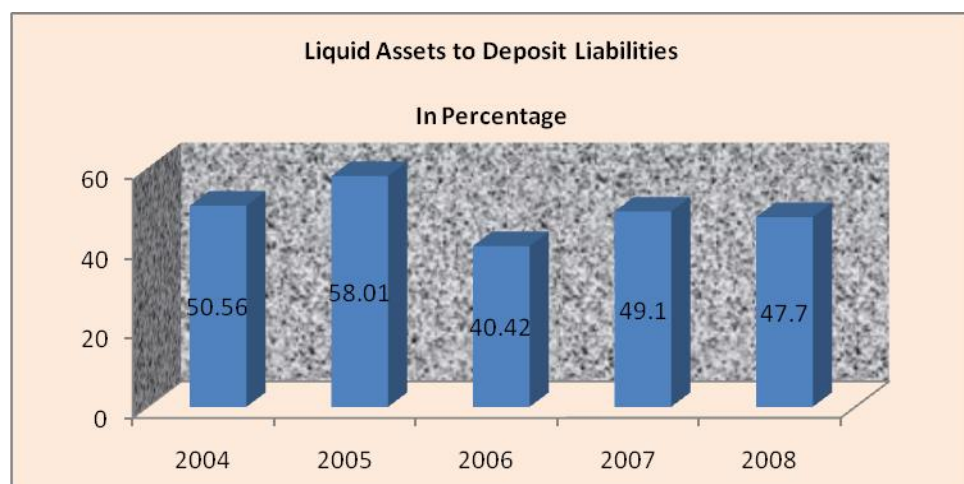
#### Capital Adequacy Ratio:



#### Capital Fund to Deposit Liabilities:

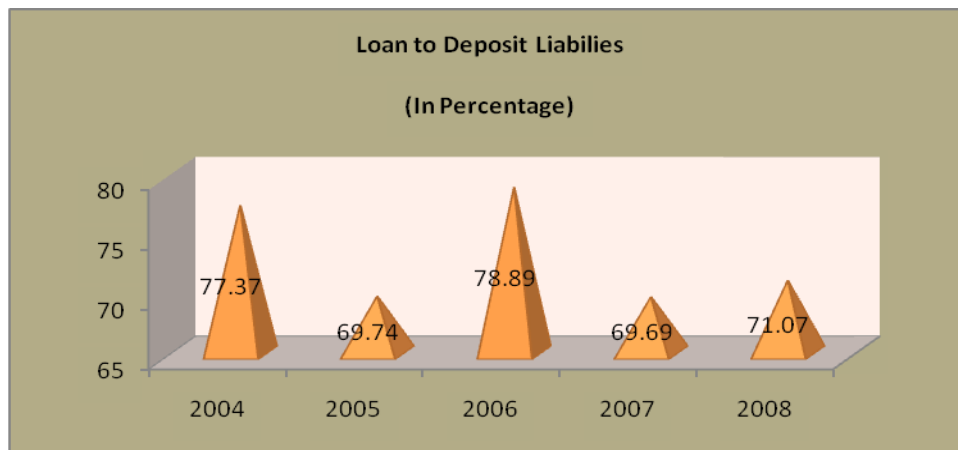


#### Liquid Assets to Deposit Liabilities:

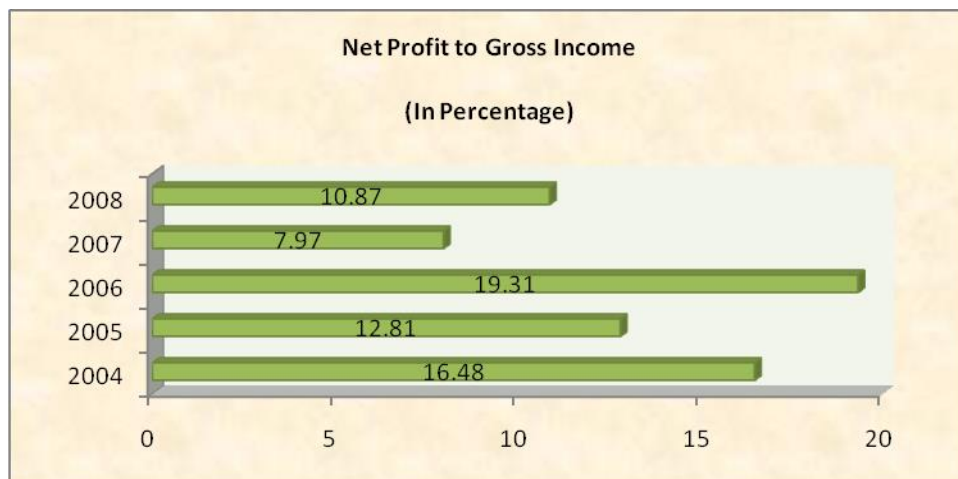




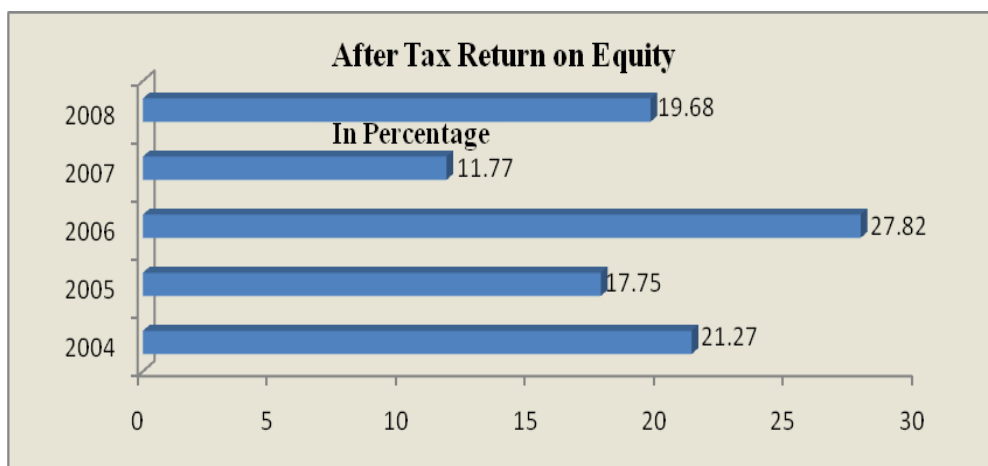
### Loan to Deposit Liabilities:



### Net Profit to Gross Income:



### After Tax Return on Equity:





## 5.4 BASIC Bank, Bangshal Branch at a Glance

3 year's comparative position of Deposit, Advance, Profit/Loss, Classified loan & SMA

Description	Position as on 31-12-2007		Position as on 31-12-2008		Position as on 11-10-2009	
	No. of A/C.	Amount in Taka.	No. of A/C.	Amount in Taka.	No. of A/C.	Amount in Taka.
<b>Deposit</b>	1277	91,03,70,567	1192	130,10,04,878	1230	132,65,00,291
<b>Advance</b>	354	147,32,95,202	465	234,67,49,062	430	243,19,22,525
<b>Import</b>	---	270,84,59,568.4	---	291,68,01,883	---	236,89,72,917.35
<b>Export</b>	---	31,94,96,500.81	---	93,28,72,875.03	---	30,95,023.87
<b>Profit/Loss</b>	---	8,31,67,671	---	9,60,00,191	---	5,14,52,853
<b>Classified Loan</b>	26	8,42,50,046	27	24,89,98,989	31	26,21,45,904
<b>SMA</b>	1	15,60,81,063	---	-----	2	22,57,23,201
<b>No. of borrowers</b>	107	147,32,95,202	127	234,67,49,062	126	243,19,22,525
<b>No. of loan A/Cs</b>	354	147,32,95,202	465	234,67,49,062	430	243,19,22,525



### 5.5 Distribution of loans of the branch

SL.#	Mode	Amount in lac Taka	% of total loans of the branch
01.	Industrial (SSI)	1686.29	6.93%
02.	Industrial (MSI & LSI)	17903.13	73.62%
03.	Commercial (Medium & Large)	351.75	1.45%
04.	Commercial Small Enterprise	3734.14	15.35%
05.	Micro Credit	0.00	--
06.	Consumer Finance	0.00	--
07.	Staff loan	362.44	1.49%
08.	Others	281.48	1.16%
	<b>Total</b>	<b>24319.23</b>	<b>100%</b>



## 5.6 SWOT Analysis

I get the following Strengths, weaknesses, opportunities, and threats (SWOT) from my practical observation in three months Internship Program, of BASIC Bank Ltd. as follows:

<b>Strengths</b>	<b>Weaknesses</b>
1. Conservative approaches to reduce the risk of classification.	1. The techniques specified for credit appraisal is not sufficient.
2. Assign adequate power to the top management to monitor credit operation	2. More dependency rests on government sources for deposit mobilization.
3. Clearly specifies the documentation process to reduce the risk of classification.	3. Services offered are not adequate.
4. Provide guideline to furnish loans only to small-scale industries for short time, which minimizes hug loss.	4. Small market in Banking-business.
5. Clearly defined measure in dealing with foreign exchange transaction.	
6. Strong procedure in selection of new borrower	
<b>Opportunities</b>	<b>Treats</b>
1. Suitable for small-scale business, this is growing day by day.	1. Not suitable for future competition in the market.
2. Government and other International agencies positive attitude toward low classification rate.	2. Major economic depression.
3. Opportunity to expand in business banking.	3. Govt. pressures to reduce interest rate



## **Chapter # 06** **Concluding Chapter**

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## 6.1 Findings

1. Aggregate Loans and advances are 79% of the total Deposit.
2. Approximately 77% of the loans and advances have been given to small and cottage industries:
3. Head Office of the bank is monitoring all kind of loans and advances.
4. Branch managers are fully liable for the selection of the borrower.
5. Continuous monitoring of the working capital facilities are ensured by the inspection of the stocks.
6. Conservative approach is taken to avoid any kind of foreign exchange exposure.
7. I have found that, in 90% cases standard documentation has been maintained.
8. No credit is extended to customer client Entity, which exceeds in total commitment more than 10% of the Bank's capital and fees reserves.
9. House building loan facility and other commercial loan facility has been demoralized by the branch authority.
10. Persuasion and monitoring are moderately maintained for ensuring the prompt payment.
11. Credit evaluation techniques are not enough to judge the credibility of the borrower.
12. Excessive measures are taken to reduce foreign exchange risk.
13. In most of the cases BASIC Bank limited is perfectly following the credit practices except the credit analysis technique. If the Bank can improve that technique it will be able to reduce its classification rate more effectively.
14. Small range of loan portfolio is restricting further improvement.
15. Lack of up-to-date credit manual.
16. Recovery rate of loan during 2008 remained at a highly satisfactory level of 96.00 percent.



## **6.2 Recommendations**

Banks should establish a review process to examine the changing circumstances of borrowers to determine the position of loans. Attention devoted to these loans is more likely to result in proper action to safeguarded the Banks position and to assist the borrower to take appropriate steps in their business to bring back loan performing. Here some recommendations are made to enrich the credit operation system of the bank:

### **1. Loan appraisal technique should be modernized:**

In Government commercial banks, LRA method is followed to appraise the loan application. And in private commercial banks LRA and other systematic method is followed to judge a client. Compared to those technique BASIC's loan appraisal techniques are relatively traditional and ineffective. And using that technique it is not possible to evaluate the financial soundness of a company. As such it is essential for BASIC to change its loan appraisal technique.

### **2. Documentation process should be improved:**

As I have discussed the documentation process of BASIC Bank is fair relative to other commercial banks operating in Bangladesh. But this process is fair as long as BASIC is interested only in small loan amounts and small loan portfolio. When the volume and amount of loan will increase then this documentation process will not be suitable. As such identical documentation and filling process should be introduced for the betterment of the bank.

### **3. Customer Services should be enhanced:**

Every bank's prime objective is to satisfy its client. Increased customer services are must for it. In Bangladesh all foreign banks and some private commercial banks are now providing excellent services like: ATM, Credit card, phone banking, and super saving facilities and other fast service facilities to its client. But in that area BASIC has taken no pragmatic steps. As such they are loosing its valuable client to those which are providing these services. So BASIC should improve its service portfolio and should introduce more technology-oriented services to its customer.

### **4. Marketing for selling the services should be encouraged:**

Most of the employees of BASIC or the top management of it is not very much interested for marketing for BASIC Bank. Door to door or business to client relationship is not maintained in this respect. The reason behind this may be that, no incentives are given for this job. So special incentive schemes should be introduced for mass marketing of services.

### **5. Adequate training is required for credit officer:**

Adequate training is essential for the efficient credit management. Almost all recognized commercial bank have its own training center, where continuous training is given to the managers and credit officers for their improvement. But no such training center has yet been





established in BASIC Bank. In our study we have revealed that, the training that has been given to the employees is not adequate. So from our viewpoint adequate training should be arranged for better credit management and implementation of credit policy.

#### **6. Adequate measure should be taken for small industrial loan:**

In our study I have revealed that, most of the small industrial loans become bad or classified. This is due to the weak financial capacity of the firm. So adequate measure should be taken before disbursing the loan. Especially alternative sources of repayment or adequate security coverage should be checked and satisfied in this regard.

#### **7. Management should be careful about high liquidity ratio:**

As per Bangladesh Bank inspection report it has been revealed that, most of the branches are keeping more funds in their hand, which are affecting the profitability. Also the conservative approach of the bank is affecting its profitability. As such the bank now should involve more of its strength to find new investment area and let its idle funds to be used.

#### **9. Some discretionary power should be given to the branch management:**

When we have discussed with the clients of BASIC Bank they have complained us about the extra time needed for sanctioning a loan. They have said that, if no LC limit is there it takes two days for opening a LC that creates problems for them. This problem arises, as the branch managers don't have discretionary power to sanction any advance above BDT 30.00 lac. So the branch manager should be given discretionary power to furnish loans more than 1 crore.

#### **10. Others:**

- Banks should establish a review process to examine the changing circumstances of borrowers to determine the position of loans. Attention devoted to these loans is more likely to result in proper action devoted to these loans is more likely to result in proper action to safeguarded the Banks position and to assist the borrower to take appropriate steps in their business to bring back loan performing.
- Major problems in a business arises when changes in management (Business concern) occurs. The loan officer should observe that whether there is loss of the top executive, demand, or any other most important new one has entered and often the change may be worse.
- Bank should also be aware of significant changes in the personal habits of current management.
- Changes in industry trends may directly affect business so that it can no longer completely profitable. Therefore, the Bank should keep information about the environment of each industry in which its customers operate.
- Deterioration in the overall economy can turn a good loan a week one. During unusual inflation or depression, many companies experiences difficulties. The loan department should be aware of it.



- From the beginning of the relationship, the loan officer should know who the company's major trade suppliers are. If he can discover that a major supplier is reducing credits to the customers, this could be a sign that the borrowing company is facing serious financial difficulties. Bank should start credit inquiries from trade suppliers.
- Real value of business can come from making regular visits to the customer's place of business rather than holding all meetings in the Bank.
- For improving the recovery position and reducing huge over due loans, first action needed to attract political support and urge upon the govt. and political parties to take necessary steps for repayment of defaulted loans within a limit.
- Against big willful defaulters legal action should be taken promptly. This step should be taken as soon as one installment is defaulted without waiting for default of total loan.
- New credit culture needs to be developed in place of default culture. Efforts to be taken as soon as possible to safeguard the interest of banking sector.



## Conclusion

BASIC Bank was established as the policy makers of the country felt the urgency for a bank in the private sector for financing for small scale industries (SSIs). BASIC Bank is a unique in its objectives. It is a blend of developments and commercial banks. The Memorandum and Articles of Association of the bank stipulate that 50 percent of loan able funds shall be invested in small and cottage industries sector.

BASIC Bank's services are directed toward the entrepreneurs in the small industries sectors. A small industry, as per industrial policy 1999 approved by the cabinet, has been defined as an industrial undertaking whose total fixed investment is less than Tk. 100 million.

The Bank also supports development of trade, business and other commercial activities in the country. It covers the full range of services to the exporters and importers extending various facilities such as Cash Credit, Export Cash Credit, Packing Credit, Short Term Loan, and Local and Foreign Bill Purchase facilities. BASIC Bank launched a Micro Credit Scheme provides for the poor for generation of employment and income on a sustainable basis particularly in urban and suburban areas.

The Bank also provides funds to investment and leasing companies. They have recently created a venture capital fund for equity support to innovative but risky projects.



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- ◆ Internal Audit Report of BASIC Bank Limited (2008, 2007)
- ◆ Credit Policy Manual of BASIC Bank Limited.
- ◆ A Hand Book on Credit Appraisal – published by BIBM
- ◆ Several Booklets from BASIC Bank Ltd.
- ◆ Journals of Bangladesh Bank



## Appendix

### 1. Credit Risk Grading Score Sheet of a Client of BASIC Bank Ltd. Bangshal Branch.

**Client: M/S. RAHMAN METAL INDUSTRIES**

#### CREDIT RISK GRADING SCORE SHEET

**Reference No: BASIC/BANG/ADV/2007/891**

**Date: 18.02.07**

<b>Borrower:</b>	<b>M/S. RAHMAN METAL INDUSTRIES</b>	<b>Aggregate Score: 72</b>
<b>Group Name (if any):</b>		
<b>Branch:</b>	<b>BASIC BANK LTD., BANGSHAL BR.</b>	<b>Risk Grading: Marginal/Watch List</b>
<b>Industry/Sector:</b>		
<b>Date of Financials:</b>	<b>31-Dec-06</b>	
<b>Completed by:</b>		
<b>Approved by:</b>		
<b>Number</b>	<b>Grading</b>	<b>Short</b>
1	Superior	SUP
		<b>Score</b>
		Fully cash secured, secured by Government/International Bank Guarantee
2	Good	GD
3	Acceptable	ACCPT
4	Marginal/Watchlist	MG/WL
5	Special Mention	SM
6	Substandard	SS
7	Doubtful	DF
8	Bad & Loss	BL
		<b>Score</b>
		85+
		75-84
		65-74
		55-64
		45-54
		35-44
		<35

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
<b>A. Financial Risk</b>	<b>50%</b>				
1. Leverage: (15%)		Less than 0.25×	15	0.90	11
		0.26× to 0.35 x	14		
Debt Equity Ratio (×) - Times		0.36× to 0.50 x	13		
Total Liabilities to Tangible Net worth		0.51× to 0.75 x	12		
		0.76× to 1.25 x	11		
All calculations should be based on annual financial statements of the borrower (audited preferred).		1.26× to 2.00 x	10		
		2.01× to 2.50 x	8		
		2.51× to 2.75 x	7		
		More than 2.75×	0		



2. Liquidity: (15%)	Greater than 2.74x	15	1.46	11
	2.50x to 2.74 x	14		
Current Ratio (×) - Times	2.00x to 2.49 x	13		
Current Assets to Current Liabilities	1.50x to 1.99 x	12		
	1.10x to 1.49 x	11		
	0.90x to 1.09 x	10		
	0.80x to 0.89 x	8		
	0.70x to 0.79 x	7		
	Less than 0.70x	0		
3. Profitability: (15%)	Greater than 25%	15		
Operating Profit Margin (%)	20% to 24%	14		
	15% to 19%	13		
$\frac{\text{Operating Profit} \times 100}{\text{Sales}}$	10% to 14%	12		
	7% to 9%	10		
	4% to 6%	9		
	1% to 3%	7		
	Less than 1%	0		
4. Coverage: (5%)	More than 2.00x	5	3.87	5
Interest Coverage Ratio (×)-Times	More than 1.51x Less than 2.00x	4		
	More than 1.25x Less than 1.50x	3		
$\frac{\text{Earning Before Interest \& Tax (EBIT)}}{\text{Interest on debt}}$	More than 1.00x Less than 1.24x	2		
	Less than 1.00x	0		
<b>Total Score–Financial Risk</b>		<b>50</b>		<b>36</b>

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
<b>B. Business/Industry Risk</b>	<b>18%</b>				
1. Size of Business (Sales in BDT crore)		> 60.00	5	22.00	3
		30.00 – 59.99	4		
The size of the borrower’s business measured by the most recent year’s total sales. Preferably based on audited financial statements		10.00 – 29.99	3		
		5.00 - 9.99	2		
		2.50 - 4.99	1		
		< 2.50	0		
2. Age of Business		> 10 years	3	18	3
		> 5 - 10 years	2		
The number of years the borrower has been engaged in the primary line of business.		2 - 5 years	1		
		< 2 years	0		
3. Business Outlook		Favorable	3	Favorable	3
		Stable	2		
A critical assessment of the medium term prospects of the borrower, taking into account the industry, market share and economic factors.		Slightly Uncertain	1		
		Cause for Concern	0		
4. Industry Growth		Strong (10%+)	3	Good (>5% - 10%)	2
		Good (>5% - 10%)	2		
		Moderate (1% - 5%)	1		
		No Growth (<1%)	0		
5. Market Competition		Dominant Player	2	Moderately Competitive	2
		Moderately Competitive	1		
		Highly Competitive	0		
6. Entry/Exit Barriers		Difficult	2	Average	1
		Average	1		
		Easy	0		
<b>Total Score-Business/Industry Risk</b>			<b>18</b>		<b>10</b>



Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
<b>C. Management Risk</b>	<b>12%</b>				
1. Experience (Management & Management Team) The quality of management based on the aggregate number of years that the Senior Management Team has been in the industry.		More than 10 years in the related line of business 5–10 years in the related line of business 1–5 years in the related line of business No experience	5 3 2 0	5–10 years in the related line of business	3
2. Second Line/ Succession		Ready Succession Succession within 1-2 years Succession within 2-3 years Succession in question	4 3 2 0	Ready Succession	4
3. Team Work		Very Good Moderate Poor Regular Conflict	3 2 1 0	Very Good	3
<b>Total Score-Management Risk</b>			<b>12</b>		<b>10</b>

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
<b>D. Security Risk</b>	<b>10%</b>				
1. Security Coverage (Primary)		Fully pledged facilities/substantially cash covered/Reg. Mortg, for HBL Registered Hypothecation (1 <sup>st</sup> charge/1 <sup>st</sup> Pari passu charge) 2 <sup>nd</sup> Charge/Inferior charge Simple hypothecation/negative lien on assets. No security	4 3 2 1 0	Registered Hypothecation (1 <sup>st</sup> charge/1 <sup>st</sup> Pari passu charge)	3
2. Collateral Coverage (Property Location)		Registered Mortgage on Municipal Corporation/Prime area property. Registered Mortgage on Pourashava/semi-urban area property Equitable Mortgage or No property but plant & machinery as collateral Negative lien on collateral No collateral	4 3 2 1 0	Registered Mortgage on Municipal Corporation/ Prime area property.	4
3. Support (Guarantee)		Personal guarantee with high net worth or Strong Corporate Guarantee Personal Guarantees or Corporate Guarantee with average financial strength No Support/Guarantee	2 1 0	Personal guarantee with high net worth or Strong Corporate Guarantee	2
<b>Total Score- Security Risk</b>			<b>10</b>		<b>9</b>



Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
<b>E. Relationship Risk</b>	<b>10%</b>				
1. Account Conduct		More than 3 (three) years accounts with faultless record	5	Less than 3 (three) years accounts with faultless record	4
		Less than 3 (three) 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 (actual/projection)		More than 60%	2	100.00%	2
		40% - 60%	1		
		Less than 40%	0		
3. Compliance of Covenants / Conditions		Full Compliance	2	Some Non-Compliance	2
		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	No depository relationship	0
The extent to which the bank maintains a personal banking relationship with the key business sponsors/principals.		No depository relationship	0		
<b>Total Score-Relationship Risk</b>			<b>10</b>		<b>7</b>
<b>Grand Total- All Risk</b>			<b>100</b>		<b>72</b>