

**Internship Report
On
Capital Market Exposure
Of
BRAC Bank Limited**

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BRAC University



BRAC BANK
L I M I T E D

INTERNSHIP REPORT
On
Capital Market Exposure
Of
BRAC Bank Limited

April 24, 2012

Md. Jabir Al Mursalin
Course Instructor
BRAC Business School

Dear Sir,

With the passage of time, I've completed my Internship Program (BUS 400) under your guidance. As a part of my internship program requirement and learning, I've finalized the project on " Capital Market Exposure of BRAC Bank". I believe that knowledge and experience I gathered during the internship period will be helpful in my future professional life. I will be grateful to you if you accept the report. I will be available for defense on this report any time.

Your support in this regard will be highly appreciated.

Thanking You,
With best regards,

Rumpa Saha
08304108

ACKNOWLEDGEMENT

I wish to express my sincere gratitude to my internship supervisor Md. Jabir Al Mursalin for his continuous support and guidance while preparing this report. I am highly acknowledged for his insightful guidance and continuous cooperation.

I am really thankful to Mohammad Kamal Uddin (Senior Manager, Finance Division of BRAC Bank LTD.) for giving me the valuable opportunity to do my internship in his department and supporting me with knowledge and resources. I am also grateful to the entire Reporting Team of BRAC Bank Ltd. as they have always been there for me when I needed them the most. Their active participation to all my questions, queries during my internship has made this journey a true success. I would like to name here Tanjib Rubaiyat (Associate Manager, Financial Control, Finance Division), Muhammad Al-Mamun (officer, Financial Control, Finance Division) for providing me with necessary information to facilitate my overall understanding of this project. It was my privilege and I am truly honored working with such a wonderful team.

I am heartily apologizing of any omitted name whose contribution was also complimentary for any possible aspect.

Executive Summary

This is the internship report based on the three month long internship program that I had successfully completed in BRAC Bank Limited under Regulatory Reporting Department from 16.01.2011 to 16.04.2011 as a requirement of my BBA program on Department of Business Studies, BRAC University. As being completely new to practical, corporate world setting, every hour spent in the office gave me some amount of experience all the time all of which cannot be explained in words. But nevertheless, they were all useful for my career.

BRAC Bank Limited is a full service scheduled commercial bank. It has both local and International Institutional shareholder. The bank is primarily driven with a view of creating opportunities and pursuing market niches not traditionally meet by conventional banks. BRAC Bank has been motivated to provide “best-in-the-class” services to its diverse assortment of customers spread across the country under an on-line banking dais.

At present, BRAC Bank is one of the fastest growing banks in the country. In order to support the planned growth of its distribution, network and its various business segments, BRAC Bank is currently looking for impressive goal oriented, enthusiastic, individuals for various business operations.

In my internship period I got chance to observe the report done by Regulatory Reporting team to Bangladesh Bank. After my short time observation I found interest on the Capital Market Exposure of BRAC Bank and chose it as my internship report topic.

This report includes the scenario on Capital Market Exposure of BRAC Bank for last 3 years, the rules and regulation BRAC Bank have to follow under the observation of BRAC Bank management and Bangladesh Bank.

Capital Market Investment has become a very lucrative sector for investment by banks around the world. In the same way BRAC Bank is also successively making policy to diversify their

investment avenues and opportunities and generate alternate sources of revenue. In this report I have described the image of BRAC Bank in capital market exposure. I have shown the procedure followed by the BRAC Bank for capital market investment and also did an analysis for 3 years. This report also consist the rules and regulation BRAC Bank have to follow under the observation of BRAC Bank management and Bangladesh Bank. Here also mentioned some data of BRAC Bank share in Dhaka Stock Exchange.

The purpose of making this report is to represent the scenario of BRAC Bank in Capital Market Exposure , the policy BRAC Bank is following in terms of Capital market investment and also to find out how well BRAC Bank is maintaining the rules and regulation imposed by central bank.

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CHAPTER 1

INTRODUCTION

1.1 Origin of the Report

This report originated as a partial requirement of Internship under BBA program, BRAC University. The host organization is BRAC Bank Ltd. For internship purpose I was attached with the Finance Division for three months duration as from January 16 to April 16, 2012. The project is titled: “**Capital Market Exposure of BRAC Bank**”

1.2 Objective of the Study

The sensible motives of preparing the report on “**Capital Market Exposure of BRAC Bank**” are to depict the different aspects of **Capital Market Exposure** at a glance with the light of BRAC Bank. The primary and specific objectives of this study are as following:

1.2.1 Primary Objective

The prime objective of this study is to get an overall idea of **Capital Market Exposure** of BRAC Bank Limited including its mode of use, benefits and challenges.

1.2.2 Specific Objectives

- To get the idea of Capital Market Investment of BRAC Bank
- To know the following rules and regulation by BRAC Bank Limited in time of investment.
- To know the imposed guideline by Bangladesh Bank for the bank regarding Capital Market Investment.

1.3 Methodology

In order to meet the needs of fulfilling the objectives of the report, both primary and secondary data are required. The study was conducted using the participatory method. To Know the in-depth information; the topic was discussed with the expert professionals related

to the company for several times and other related secondary information.

✓ **Data Collection**

Data have been collected from two sources. These are as under:

- Primary source
- Secondary source

1.3.1 Primary sources

Direct observation (3 months):

Through the 3 months of internship period, I had worked with the Regulatory Reporting team where I had seen many report submitted to Bangladesh Bank. They submit a report on the Capital market investment as monthly .So I had a chance to have a clear idea on it.

Opinions of experts of BRAC Bank:

I've also taken the data from the experts are working with the Capital market investment such as the Treasury Department and the team with whom I had worked were really helpful in providing all necessary information.

1.3.2 Secondary Source

Official Website:

Official web site of BRAC Bank Limited helped to get the overall information about the bank Performance and general information.

E-Learning:

A side of BRAC Bank by internal server, which was introduced to me in the first day was really helpful in getting many important information.

1.4 Limitation

As nothing is perfect, I've also faced some difficulties during preparing the report. However, I've tried to complete my report properly excluding that information. The limitations are as follows:

- ✓ Due to confidentiality issue, it was not possible to collect in-depth information of the Capital market investment of BRAC Bank.
- ✓ As internship period is very short so it is difficult to get all information specifically within this time.

CHAPTER 2

COMPANY OVERVIEW

2.1 BRAC Bank Overview

BRAC started as a development organization dedicated to alleviating poverty by empowering the poor to bring about change in their own lives. In Bangladesh It was founded in 1972 and over the course of evolution, it has established itself as a pioneer in recognizing and tackling the many different realities of poverty of which **BRAC BANK** is one of the largest operational commercial venture with a **vision**:

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

BRAC Bank work for the missing middle

Established in 2001, BRAC Bank is now 11 years old and it has pioneered the small and medium enterprise (SME) banking.

If we think of the financial pyramid, there are corporate institutions (local and multinational) at the top of the pyramid and there are low income individuals at the bottom. Those at the top are served by banks and other financial institutions while those at the bottom are served by Micro Finance Institutions (MFIs), e.g. NGOs. But SME sector in the middle were missing access to necessary banking services and that’s where BRAC Bank has filled the gap.

2.1.1 BRAC Bank believe that “SME Financing Is Key To Financial Inclusion”

BRAC Bank is a financial hypermarket that offers financial solutions for all strata – be it retail, SME, wholesale banking, capital market, or remittance; but it always had a focus on SME. This bank was actually founded on a philosophy of keeping trust on the hopes and dreams of Bangladeshi entrepreneurs – and majority of these entrepreneurs have been

beyond the conventional banking reach. The bank was the PIONEER to get into this segment of SME.

The bank has so far financed women in growing cattle farms, poultry businesses, boutiques, screen-printing, schools – what not! Even, green field start-ups are also there in our successful, rich portfolio. Alongside it provides special Women Entrepreneur Cell, something that many other banks have. But at BRAC Bank, this cell is run by female personnel – just to make sure that our female entrepreneurs feel more comfortable to discuss their (business) issues. In addition Brac Bank has held a number of seminars and training programs for women entrepreneurs to strengthen their capacity and develop financial management competency.

BRAC Bank values - CRYSTAL

C stands for being **Creative**, Be a person of innovative ideas in solving issues, thinking different ideas to reach one destination; do new associations between existing ideas or concepts for the organization's overall growth.

R stands for being **Reliable**, Be worthy of reliance or trust at work so everyone could depend on you.

Y stands for remaining **Youthful**, Be a person of freshness and vibrant characteristic at work. Feel young at HEART and project enthusiasm during performing duties.

S stands for being **Strong**; Be a person of willing to move forward and apply conscious choice, willpower, discipline and passion at work.

T stands for being **Transparent**, Be transparent at work at all level both internally and externally. Show openness and honesty through communication to bring transparency.

A stands for being **Accountable**, Be accountable for own actions and take responsibilities for the outcome of the actions; be responsible and answerable towards customers, organization, regulatory bodies as well as the society.

L stands for being **Loyal**, Be loyal to the organization by being compliant at work, taking ownership and create belongingness which will carry your brand as your pride.

2.2 About BRAC Bank

BRAC Bank is one of country's fastest growing banks. With 151 branches, 250 ATMs, 421 SME Unit Offices and 8,306 human resources, BRAC Bank's operation now cuts across all segments and services in financial industry. With more than 1 Million Customers, the bank has already proved to be the largest SME financier in just 11 years of its operation in Bangladesh and continues to broaden its horizon into Retail, Corporate, SME, Probashi and other arenas of banking. In the year: 2010, BRAC Bank has been recognized as Asia's most Sustainable Bank in Emerging Markets by the Financial Times and IFC.

Recently BRAC Bank has achieved the **International award for "Excellence in Retail Financial Services"**.

BRAC bank Limited, with institutional shareholding by **BRAC, International Finance Corporation (IFC)** and **ShoreCap Exchange**, has been the fastest growing bank for last several years.

2.2.1 Slogan

The slogan of BRAC Bank is "Astha Obichol". These two words are Bengali words that denote enormous trust on the organization.

2.2.2 Logo

The logo of BRAC Bank is very indicative in conformance with the goal of the organization. This logo has a square shape which means solid and strong. The golden color indicated the "Sonar Bangla", the rising line denotes the growth of BRAC Bank, and blue is the beautiful sky where the sun is shining brightly.

2.2.3 Shareholding Structure

	% of Shareholding
Total	100%
International Finance Corporation	5.36%
ShoreCap Limited	0.86%
Name of Shareholder	0.008%
BRAC	43.77%
Institutions and General Public	50%

Table 2.1 BBL Shareholding Structure

2.2.4 Board of Directors of BRAC Bank Limited

The Board of Directors of BRAC Bank Limited includes:

Mr. Muhammad A (Rume) Ali (Nominated By BRAC)	Chairman
Mr. Shib Narayan Kairy	Director
Mr. Quazi Md. Shariful Ala (Nominated By BRAC)	Director
Ms. Nihad Kabir	Independent & Depositor Director
Dr. Hafiz G.A. Siddiqi	Depositor Director
Ms. Tamara Hasan Abed	Director
Mr. Syed Mahbubur Rahman	Managing Director and CEO

Table 2.2 BBL Board of Directors

2.2.5 Divisions of BRAC Bank

SME Banking

Retail Banking

Corporate Banking

Probashi Banking

Cash Management & Custodial Services

Human Resources

Finance

Credit Risk Management

Operations

Company Secretariat

Regulatory & Internal Control

Operational Risk Management

Treasury & Financial Institutions

Information Technology

Program Management

Research & Development

Corporate Affairs

2.2.6 Expanding horizon

EPL (Equity Partners Ltd) & **EPSL** (Equity Partners Securities Ltd) - BRAC Bank completed its acquisition of 51 percent stakes in EPL, a merchant bank & EPSL, a brokerage house operating in DSE & CSE.

- Subsidiaries are contributing substantial profits from the very first year,
- It has been expanded in to other districts.

bKash

- bKash Limited – a joint venture company between BRAC Bank Limited, Bangladesh and Money in Motion LLC, USA. It is working to provide an electronic platform to increase the access to a broader range of financial services for both banked and unbanked people of Bangladesh.
- It provides mobile Banking facilities to bring the mass people under banking network

Online Shopping

BRAC Bank launches the facility to all Bangladeshis who have an internet access can now shop online if they have a Visa card.

2.2.7 BRAC Bank Products and Services

Corporate Banking

Corporate Loan Products
Trade Finance
Corporate Cash Management
Custodial Service

Probashi Banking

Accounts & Deposits
Investments

E-Banking

E-Commerce

Internet Banking

SME Banking

Deposit Products

Loan Products

Retail Banking

Deposit Products

- Savings Accounts
- Current Accounts
- Term Deposits

Loan Products

Cards

- Credit Card
- Debit Card
- Co-branded ATM Card
- Fast Rewards Programs
- PayFlex Program

CHAPTER 3

MY INTERNSHIP EXPERIENCE

3.1 Job Description

I was assigned to work with Financial Reporting & Taxation unit of Finance Division. My assigned tasks were mainly related with the preparation of the documents of tax and vat. Besides that, I've also helped in reporting personnel to prepare the final annual report of 2011. Before going to the details of my job description; here is brief information about the reporting & taxation unit:

Overview of Financial Reporting & Taxation

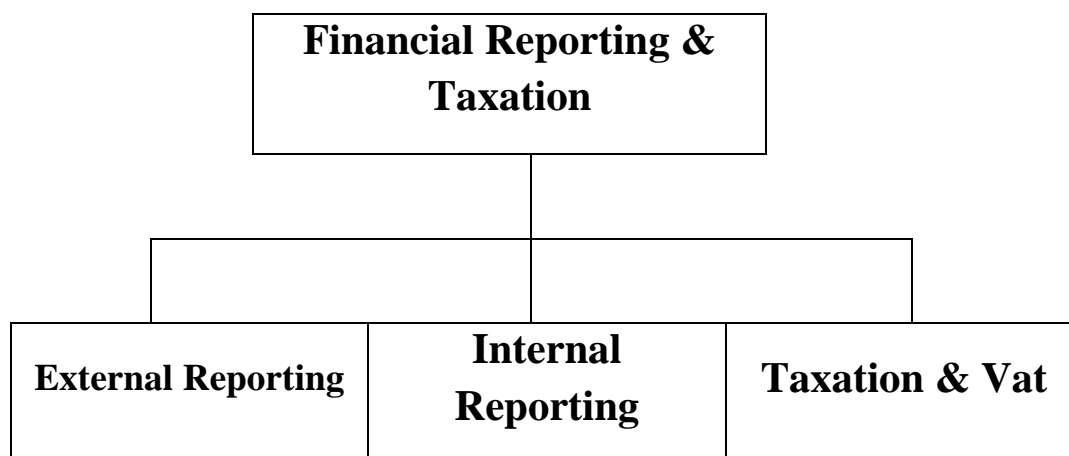


Figure 3.1: Classification of the function of reporting & taxation unit

3.1.1 External Reporting

3.1.1.1 Securities & Exchange Commission (Quarterly Reporting)

- ✓ Unaudited Financial Statements of BRAC Bank Limited is prepared on Quarterly basis.
- ✓ This report requires be submitting to Securities & Exchange Commission and Publishing into TWO daily news papers (1 Bangla & 1 English) within 30 days of Quarter End & Published into BANKS website.
- ✓ This unaudited financial statement is authorized by CFO & CEO for external submission and publication.

3.1.1.2 Annual Report (Audited Financial Statements)

- ✓ Annual Financial Statements of BRAC Bank Limited is prepared once in a year
- ✓ This Financial Statement is audited by EXTERNAL AUDITORS.
- ✓ Provide clarification to all clarification by auditors.
- ✓ Finalization of “Auditors Report to the SHAREHOLDERS”.
- ✓ Audited Financial Statement is signed by CFO, CEO, 3 Board of Directors & Audit report, Balance sheet & Profit & Loss accounts are signed by auditor.
- ✓ Annual report is printed and forwarded to shareholders & AGM is conducted accordingly.

3.1.1.3 Financial Reports to Bangladesh Bank

- ✓ BASEL – II, Classified Loan, Capital Market Exposure etc. certain regulatory reporting of Bangladesh Bank are prepared on the basis of Quarterly SEC reporting and all these reports are guided and reviewed.
- ✓ Integration of regulatory reports with SEC reporting.
- ✓ Response to Bangladesh Bank clarifications to the extent applicable to financial reporting.

3.1.2 Internal Reporting

3.1.2.1 BOARD REPORTING

3.1.2.1.1 Board Memo and Monthly Financial Highlights:

- ✓ Monthly financial data from Divisional Flash (i.e. Division wise business performance) is the raw source of the board memo.
- ✓ The memo summarizes the financial facts and gives reasons behind various differences.

3.1.2.2 MANAGEMENT & BUSINESS REPORTING:

a) Monthly Highlights on Day 1 –

On the 1st day of the month, if the system (ERP / Finacle) is properly updated, account-wise Trial Balance as on the last date of the previous month is downloaded to get the whole bank's financial picture at a glance.

b) DIVISION wise business performance:

Divisional Flash is initially reported to all business division and subsequently it is reported to the BOARD OF DIRECTORS.

c) Statement of Affairs (SOA):

Statement of Affairs (SOA) of the Bank is prepared on monthly basis and it is reported for both Board & Management reporting. It is also used for monthly ALCO meeting.

d) Pre month end forecast of monthly result:

Monthly divisional flash is projected by 25th day of each month and it is reported accordingly.

e) Operations carried out by Financial Reporting:

- ✓ At the end of each quarter, the account statement for Gratuity fund is collected from the system for observing movement of balance.
- ✓ The quarterly MIS is prepared, which contains the following:
 - Investment schedule
 - Actual & projected interest inflow from the investments
 - Cash balance movement during the quarter
 - Net asset per member calculation
 - Employee / member turnover schedule
 - Projected fund flow report
 - Final settlement schedule
 - Future investment scopes (provided by Treasury)

f) Presentation into MANCOM (Management Committee) meeting:

- ✓ The raw data for board presentation is used for this presentation as well along with some additional interdivisional data.

✓ All the presentations are circulated among the concerned parties within due time (usually one working day earlier).

3.1.3 Taxation and vat

3.1.3.1 Monthly withholding Tax:

- ✓ Monthly withholding tax is calculated and necessary schedules are prepared.
- ✓ Reviewed.
- ✓ Cheque requisition is provided to treasury.
- ✓ Monthly deposit of withholding tax is submitted and receive copy is obtained from tax authority.

3.1.3.2 Monthly withholding VAT:

- ✓ Monthly VAT is calculated and necessary schedules & VAT return is prepared
- ✓ Monthly deposit of VAT at source is submitted and receive copy is obtained from VAT authority.

3.1.3.3 TAX & VAT Deduction certificates:

- ✓ Request for Tax & VAT deduction certificates are received from suppliers, vendors, services providers etc. all interested parties applicable.

3.1.3.4 Response to All letters & circulars of Tax & VAT authority:

All clarification and letters received from Tax & VAT authority are reviewed and responded within the stipulated time.

[Source: Operational Manual. Reporting & Taxation (from page 17 to 21)]

3.2 My Specific Job

As an intern I was given all the liberty to work in a friendly environment in Financial Reporting & Taxation unit of Finance Division, BRAC Bank Limited. I was given specific tasks periodically which were important for the division.

In the starting, I got the idea about my team and their job. I was appointed in the Regulatory reporting team, where the main task is to report to Bangladesh Bank as per the requirement. They do report on BASEL-II, Credit information, Classified Loan, Capital Market Exposure and Deposit information.

After that I started to know in depth about every report and the process they follow in doing those. I remember that I had started with the classified loan report (CL). This report is regarding the condition of a loan. It shows the Lending Portfolio with classified / non classified status. So the requirement would come from Bangladesh Bank by asking about the total outstanding amount, total recovery amount etc. by mentioning month/year. Here I found that they keep all necessary information in a very structured way, so as any requirement comes they able to provide information effectively and efficiently. I had also done some part of CL report under the supervision of my senior.

The SBS report is about working with the deposit. In 2nd month my reporting manager had given me a task about finding top 50 depositors of BRAC Bank. The process she had shown me was very difficult and time consuming. So I had tried to find a shortcut to solve this task. By some time I found that it can be done in few minute if I do this with the help of pivot table which is a very powerful tool in Microsoft Excel. So I had done this in 15 minutes where it could have taken all day. My manager and colleague was really impressed with my work.

After that I had been given to put sector code for 3 Lac account holders of BRAC Bank. There is a guideline of Bangladesh bank where it has different code for different industry. So my task was to put code by observing the account name. For example, all fisheries firm will fall under the code of 901002. It took very few days to complete. In the time of doing this I was thinking what the need of doing this is. After some days I had found the necessity of doing this when I was asked to do a report came from Bangladesh Bank. In which they asked for the total outstanding, disbursement, recovery and due amount for fishery, poultry, and dairy industry. So for doing the code it is easier to find out the amount of individual industry by only doing filtering in Microsoft Excel.

I also had done some work on Finacle (banking system) of BRAC Bank, where all the information of individual account holder is given. I had been asked to find information for some given account numbers.

I did not get chance to work directly with many reports since those were not done in my internship period such as BASELL-II. But I went to one of colleague and got idea about this report. And he was really helpful in making me understand this. I also checked some documents such as EXP form and worked on database.

3.3 Critical Observation

During the course of my internship program, I have got the opportunity to observe the functions of Financial Reporting & Taxation unit and identified the regular tasks of this unit. I came to know about the hard workings of reporting personnel to prepare annual report. I have also got the chance to witness the procedures of external auditing done by the external auditors; S.F Ahmed & CO. is the external audit company of BRAC Bank Limited. I had also observed how all the concerned personnel are interdependent for reporting and resolve the problem.

During this internship period, I've found some critical issues which are as following:

- ✓ Problem occurring due to Delay submission of the Report (missing the deadline)
- ✓ I had seen the harshness of the employee of Bangladesh Bank for making any mistake, even charge money for mistake.
- ✓ The internal clash between the personnel of same unit and other unit as well
- ✓ The discrimination of giving performance bonus to the employees (some people got high performance bonus due to networking with others rather than based on performance)
- ✓ Dissatisfaction between personnel due to excess work load and poor salary as well
- ✓ I have seen the reluctance among some employee in making learn something to another.

CHAPTER 4

CAPITAL MARKET EXPOSURE

OF

BRAC BANK LIMITED

Capital market is a mechanism to flow fund from the hands of small savers (individuals and institutions) at low costs to those entrepreneurs who do need fund to start business or to business. In the other words, capital market mechanism gives a part ownership of big companies/corporations to small savers like you and me. In simple term, it is a globally accepted scheme to share ownership of economic development with general public.

History of capital market: Capital market started in USA at Wall Street in 1653. It came to Mumbai, the commercial capital of India around 1890. However, investment in shares boomed in late 1970s. It took many years to come to the land, now comprising Bangladesh. The origin of stock market in Bangladesh goes back to April 28, 1954 when a stock exchange was formed under the name East Pakistan Stock Exchange Association at Narayanganj. Trading started in 1956. It was renamed East Pakistan Stock Exchange Ltd. Transferred to Dhaka in 1958 and again renamed Dhaka Stock Exchange Ltd in 1964.

Trading remained suspended during the Liberation War in 1971. The Dhaka Stock Exchange resumed operation in 1976 with nine listed companies as against 452 today. Capital market in Bangladesh got momentum with the establishment of Securities and Exchange Commission in 1994. A big wing was added to the capital market with the incorporation of Chittagong Stock Exchange on April 1, 1995. Operation of CSE started on October 10, 1995.

4.1 Capital Market Exposure of BRAC Bank

Capital Market Investment has become a very lucrative sector for investment by banks around the world. In recent phenomenon in banking industry, this has particularly become important for banks to diversify their investment avenues and opportunities and generate alternate sources of revenues when banks can pour its liquidity in stock market for higher return.

The scope of the Capital Market Investment Policy would be to guide the investable fund under the umbrella of BRAC Bank limited ,Treasury & FI division through BRAC Equity Partners Securities Limited to invest in securities, bonds & debentures of 'A' category rates companies (by DSE) for exploiting alternative investing opportunity and generating profit. The purpose of the Capital Market Investment Policy is to provide a framework within which Treasury & FI would invest its funds to trade off its return with risks. The investment policy is prepared considering the risk factors and delegation of appropriate level of authority for effective management of this portfolio. Capital Market Investment policy would lay the framework of investment in Capital Market by BRAC Bank Limited. The objective is to earn maximum return by taking calculative risk.

A Capital Market Investment Committee (CMIC) would be formed to act as per the policy and limit set by the Board. Capital Market Trading Desk may be set under Head of Treasury & Financial institution and would act as per the decision of CMIC. CMIC or its delegated authority would comprise of the following:

- Managing Director & CEO (Chairman)
- Deputy Managing Director (Wholesale Banking)
- Chief Credit Officer
- Chief Financial Officer
- Head of Treasury & Financial Institutions
- Head of Corporate Banking
- Representative from Capital Market Trading Desk (Observer)

Managing Director & CEO or his/her delegated authority would head Capital Market Investment Committee. In case of absence of Managing Director & CEO, Deputy Managing Director (Wholesale Banking) shall chair tee Capital Market Investment Committee. There should be at least 3 (three) members to be present for the quorum of Capital Market Committee meeting and would set at least once in each month to review the balance and exposure. CMIC may invite expert from BRAC EPL/BRAC EPSL.

At BRAC Bank Limited, managing of securities investment portfolio would be operated under the guidance of Head of Treasury & Financial Institutions. The concern desk would ensure close monitoring of the investment portfolio with BRAC EPL/BRAC EPSL. CMIC would allocate limit to Capital Market Trading Desk for day-to-day trading through Equity partners Securities Limited.

4.2 Separate Trading Desk and Operation Unit:

Separate Trading Desk and Operation Unit would be placed in BRAC Bank Limited.

4.2.1 Capital Market Trading Unit:

- Would maintain compliance with the market risk limit/policies and remain within their approved limits
- To carry out regular studies of trend in Securities market & inform to Head of Treasury & Financial Institutions and complied for immediate meeting of Capital Market Investment Committee.
- Would inform to CMIC of any shifts in strategy or industry segment that may necessitate within policy framework.
- Would seek approval from CMIC prior to engaging in any new industry and company.
- Would provide daily market update report to CMIC.

4.2.2 Capital Market Operations Unit (Mid Office and Back Office)

- Would ensure the investment has been done as per Limits/Triggers
- Would ensure compliance with established policy and time to time instructions & guidelines provided by regulators
- To undertake regular evaluation of securities as per guidelines of CMIC and regulators

- To keep proper records of Securities Investment Portfolio and Safe custody of Securities, Bonds and other related security documents
- To provide daily transaction and outstanding report to CMIC of Bank's Investments portfolio
- All the deals made over phone will be recorded in the voice Recorder

Organization chart would be formed with the guidance of CMIC and the chart would be reviewed if felt necessary. The Capital Market Trading Desk would be reportable to the Head of Treasury & FI and the back office would report to the COO/CIO. Separate trading and operations unit would be placed in BRAC Bank Limited.

4.3 Rules and Responsibilities of Trading Desk and Operations Units

Job description would be well defined and separated. Key roles and responsibilities of Trading Desk and Operations units would be as under:

4.3.1 Head of Treasury & Financial Institutions

Would be responsible for all activities performed by Capital Market Trading Desk, responsible for financial strategy plan, trading business, setting individual dealer's positions and dealers adhere to all regulations, development of systems etc.

4.3.2. Dealer of Capital Market Trading Desk

Responsible for trading of securities portfolio of BRAC Bank Limited, remain within all limit imposed by CMIC time to time, profitability of trading and maintain close co-ordination with BRAC EPL/BRAC EPSL to perform the job.

4.3.3 Financial Analyst

Financial Analysis for investment would be done with the help of BRAC EPL/BRAC EPSL Research unit. This would ensure returns on investment portfolio to maximize return this policy. Financial analysis based on through understanding of risk elements, market dynamics and input to

Head of Treasury & Financial Institutions and report submit to CMIC on weekly/monthly/quarterly/yearly basis.

Operations would be responsible for ensuring of compliance of policy & process such as settlement of transactions, limit monitoring, and record keeping. Manager, Capital Market Operations will report to Head of Banking service, perform accounting, operational or monitoring functions and have the primary responsibility to carry out the functions.

Capital Market Investment Desk and Operation personnel would be guided as per their job description.

✓ Restriction for Capital Market Trading Desk:

- Own account trading
- Regulatory reporting
- Pass any accounting entries

✓ Restriction for Operations:

- Own account trading
- Investment decisions

Personnel engaged in day-to-day operations of stock and securities trading, back office personnel who are settling on trades, should always refrain themselves from disclosing any information regarding the maintained portfolio and executed trades. Head of Treasury & FI and Head of Banking Services would ensure the confidentiality of information from their end. Lastly any management report will only be restricted to Capital Market Investment Committee.

4.4 Risk Factor

A number of risk elements would need to be considered while managing security investment portfolio. The important risk issues are as follows:

4.4.1 Investment Risk:

Investment risk arises from an industry and company's failure to continuity of their business. The industry and company's risk would be calculated from their latest financials & market information and any investment proposal would be approved from Capital Market Investment Committee.

4.4.2 Liquidity Risk:

Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss or make the required profit.

4.4.3 Price Risk:

Price risk is the prime risk to be considered in the trading of securities. Any price movement would be monitored and reconciled with BRAC EPSL/BRAC EPL to generate maximum gain from this portfolio and to avoid or minimize any unforeseen loss.

4.4.4 Market Risk:

Secondary market is considerably moved with the market forces. Any market movement would be monitored and informed to Head of Treasury & Financial Institutions instantly for further course of action of our exposure.

4.4.5 Regulatory Risk:

The risk associated with the potential for laws related to a given industry, country, or type of security to change and impact relevant investments.

4.4.6 Economic Risk:

Economic risk is closely related to political risk as government decisions impacting the economy may also affect an investment. When central bank may raise interest rates or the legislature may raise taxes, and this may result in economic condition impacting an investment.

4.4.7 Management Risk:

The risk of loss due to incompetent management. That is, if a money manager consistently makes bad investment decision for a fund or portfolio, there is a substantial risk that investor will lose money. Alternatively, the managers of an individual publicly-traded company may choose to suspend its most profitable operation and invest in unprofitable ones. This may result in a loss to shareholders.

4.5 Analysis of CMIC

The Capital Market Investment management operation is managed by a team of investment professionals and is guided by CMIC. CMIC would continuously review the security portfolio selection process to ensure compliance with the objective set out. In addition, it will pay special attention to the all regularity guidelines on investment as given from time to time and it will also review the portfolio periodically to assess liquidity position and evaluate the risk parameters and would, from time to time, redesign the portfolio. In performing its critical functions, the Committee may conduct at least 3(three) types analysis:

4.5.1 Fundamental Analysis:

Fundamental analysis concentrates on macroeconomics, industry and company specific research analysis. This analysis combines valuation techniques, comparative performance analysis of the security, company, industry & market.

4.5.2 Technical Analysis:

Technical analysis is the process of analyzing a security's historical prices in an effort to determine probable future prices. This is done by comparing current price action (e.g. current expectations) with comparable historical price action to predict a reasonable outcome. Although The price of a securities are always determined by the financial performance of stock and industry, Technical analysis captures the price movement of the market index and individual stocks to provide buy-sell or entry-exit signals.

Two most important parameters for technical analysis are:

- ✓ Price Movement
- ✓ Volume Traded

4.5.3 Risk Analysis:

Risk analysis measures and monitors the various risks at the portfolio level. The main task is to reduce unsystematic risk by diversifying the portfolio adequately & efficiently. The outputs of these are then combined to generate the optimum portfolio, which will provide the highest return at given levels of risk. All the above analyses would be done with the help of BRAC EPL/BRAC EPSL Research unit.

4.6 Steps Followed in Investment Process Are Given Bellow:

4.6.1 Universe Selection

The first step of investment process begins with identifying the universe of stocks.

4.6.2 Focus List

The universe of stock is then narrowed down to build a prospective focus list. This step is usually done in phases. The first phase involves narrowing down the list through a filtering process. The second phase involves narrowing the list further through the fundamental research inputs.

4.6.3 Economy & Industry Analysis

It involves analysis of macroeconomics trends, analysis on broad market indices, analysis of fund flow trend to formulate sector biases and sector allocations.

4.6.4 Company Analysis

This step involves a combination of individual company & security analysis based on multiple parameters, including ratio analysis based on both audited annual report & unaudited quarterly reports, Z score, company valuation, qualitative analysis to identify

business trends, competitive outlook and corporate management. These analyses could be supplemented by company visits and information exchange with management.

4.6.5 Securities Selection

A list of securities would be selected after company analysis for investment in short, medium and long term basis.

4.6.6 Portfolio Construction

The next step is to create an optimum portfolio with the goal of maximizing returns and minimizing risk.

4.6.7 Risk Management

This step applies the Pre –determined position limits to the portfolio, limiting sector exposure and individual stock exposure. Maintaining lower volatility is also an important concern: to this end, beta adjustment and other sophisticated risk analysis. Various risk elements would be considered while choosing investment vehicle. The important risk issues to be considered are investment Risk, Price Risk and Market Risk etc.

4.6.8 Rate Appropriateness

All security trading has to be dealt at market rate. Any non-execution of sale or buy order provided by the trader should be reported to the Chief Trader/HOT.

4.6.9 Trade Execution

A combination of quantitative strategies and market information would be considered for the trade executions. To this end, there is a panel of brokers to execute its trades in an efficient and confidential manner. Beneficiary Owners (BO) account will be maintained with Equity Partners Securities Limited for Capital Market Trading Purposes.

Delegation of different levels authority for investment decision decided by the CMIC and delegated authority performed under the guideline of CMIC.

4.7 Accounting & Record Keeping

4.7.1 Investment Recognition

It includes cost of investment plus commissions charges, such as brokerage fee & other fees. If an investment is acquired by the issue of Securities or in exchange for another asset, the investment cost is the fair value (revalued amount) of the securities issued or the securities given up. Necessary accounting principles should always be considered for generating all necessary accounting entries.

4.7.2 Recognition of Income & loss

Return on Investment could be generated from receipt of dividends, coupon and capital gain and would be considered of there is any positive cash flow from buying and selling of securities. For fixed income securities coupon receipts may be accrued at the end of each month. For generating accounting entries all necessary accounting entries & principles always be considered.

4.8 In Amount Capital Market Exposure of BRAC Bank Limited

In BDT Crore

	2009	2010	2011
Capital Market Exposure	450.63	397.76	514.54

Table 4.1 Total capital market exposures of BBL for last 3 years

In last 3 years, Capital market exposure of BRAC Bank is highest in 2011.

The common components of Capital Market Exposure of BRAC Bank Limited are:

- a) Own Portfolio
- b) Loan to own subsidiary/subsidiaries
- c) Loan to others for merchant banking and brokerage activities

- a) Under own portfolio BRAC Bank invest on Share, Debenture & Bond and Mutual Fund Unit. For last 3 years the amount of these criteria are:

In BDT Crore

	2009	2010	2011
Share	283.51	222.76	192.19
Debenture & Bond	4.47	-	5.05
Mutual Fund Unit	2.02	-	72.29
Total	290.00	222.76	269.53

Table 4.2 Own Portfolio of BBL

Here, we can see that holding of share is a large amount in 2009 compare to 2010 and 2011. On the hand, it is showing a huge amount of investment in 2011 for Mutual fund. From this table we also can conclude that BRAC Bank does not invest much on Debenture and Bond.

- b) Under Loan to own subsidiary/subsidiaries BRAC Bank give loans to BRAC EPL Investment limited and BRAC EPL Stock Brokerage LTD. For last 3 years the amount of these criteria are:

In BDT Crore

	2009	2010	2011
BRAC EPL Investment limited	60.62	105.00	170.00
BRAC EPL Stock Brokerage LTD	100.00	20.00	25.00
Total	160.62	125.00	195.00

Table 4.3 Loan to own subsidiary/subsidiaries of BBL

From this table we can say that the total outstanding loan for BRAC Bank own subsidiaries is highest in 2011.

- c) Loan is provided to GREEN DELTA SECURITIES LIMITED and APEX Investment Limited as loan to others Merchant banking or brokerage activities. The loan amount for these criteria of last 3 years are given below:

In BDT Crore

	2009	2010	2011
GREEN DELTA SECURITIES LTD	-	25.00	25.00
APEX Investment Limited	-	25.00	25.00
Total	-	50.00	50.00

Table 4.4 Loan to others for merchant banking and brokerage activities

From the above that, it is found out that the outstanding loan to others Merchant banking or brokerage activities is equal in 2010 and 2011. And there is no investment in 2009.

4.9 Review of Policy

As per BRPD Circular No. 14 dated 25th June 2003, provision should be made, for all investments traded in stock exchange having any diminution value of investment after revaluation.

As per BRPD Circular No. 25 dated 25th June 2003, all investments in shares and securities should be revalued at the year end. The traded stocks and securities should be revalued at the market price of the stock exchange.

Regulatory report and internal report to management will be provided according to the circular and requirement respectively. Treasury Operation shall provide all the report to all relevant regulatory bodies as per their requirement.

The policy would be reviewed by CMIC as and when required and affect any changes if the committee feels necessary. Also all rules, regulation and guidelines from the regulatory bodies are subject to change and the policy will be governed by the updated rules, regulation and guidelines.

CHAPTER 5

SHARE HOLDING & CAPITAL MARKET EXPOSURE FOR BANK-INDUSTRY IMPOSED BY BANGLADESH BANK

5.1 Rules of the Central Bank of Bangladesh

No scheduled bank shall directly engage in share brokerage or merchant banking activities from 1/10/2010.

Banks shall have to establish separate subsidiary company or companies to carry out share brokerage or merchant banking activities. Banks have to comply with the requirement of maintaining two limits regarding Share holding and Capital market exposure.

The limits are applicable only for the banks and not for the subsidiary company/companies established for share brokerage or merchant banking activities.

Limits:

✓ Share holding limits

Individual- 30% of the paid up capital of the investee or 30% of the paid up capital and reserve of the investor bank whichever is lower.

Overall - 10% of the total liabilities.

✓ Capital Market Exposure Limit

10% of the total liabilities can be invested on capital market. Banks shall maintain the individual and overall limits of holding of shares of other companies by way of own investment, liened against some claims or under custody as prescribed in the section 26(2) of the Bank Company Law, 1991.

5.1 Share holding limits

5.1.1 Components which are included in Share Holding are:

Shares of different companies (listed in the stock exchange or non-listed) which is purchased by the bank under its own portfolio.

Some points to be remembered about Share Holding Limit:

- ✓ Holding of Share means holding of shares only. It does not include bond, debenture or mutual fund unit.
- ✓ Values of holding shall have to be determined by using the market value of the share.
- ✓ In case of non listed share, the cost price would be the market value.
- ✓ The total liabilities will be determined as of the last base dates i.e. end of March, June, September and December.
- ✓ At the time of purchase of a share from the secondary market for own portfolio, a bank should calculate its holding limit for that individual share and the position of the overall holding limit considering the market value i.e. the cost price of that share.
- ✓ While taking shares as collateral for loans, banks should ensure that value of the collateral does not exceed the holding limit for that individual share and the position of the overall holding limit.
- ✓ Banks should mark to market all the shares (held under own portfolio, liened and custody) everyday and should ensure that both the individual and overall share holding limits are maintained under the new market value.
- ✓ By establishing a separate subsidiary company for share trading banks can take the opportunity for better investment management.

5.1.2 The calculation for holding limit for a single share given below:

Suppose bank A wants to buy shares of company B. The following information is available:

Paid-up capital of company B is Tk. 1000 m.

Paid –up capital and reserves of bank A is TK. 6000 m.

Face value of per-share of company B is TK. 100 and market value per-share is Tk. 600

So the determination of the individual holding limit:

30% of the paid-up capital of company B= TK. 1000m*30%= Tk. 300m

30% of the paid-up capital and reserves of bank A =Tk. 6000m *30% =1800m

Now shares of company B worth Tk. 300m is the highest amount that bank A can hold (by the way of ownership, custody or lien) in.

So bank A can buy Tk. 300m/Tk. 600 = 500000 no. of shares.

5.2 Capital Market Exposure Limit

Banks total exposure in capital market will be limited to 10% of it's Total Liabilities.

Banks shall have to follow single borrower exposure limit while giving loan facilities to their subsidiaries and others for merchant banking or brokerage activities.

Total Liability

Let us consider the balance sheet equation –

Assets= Liabilities + Shareholders' equity

Then, Liabilities = Assets – Shareholder's equity

10% of these Liabilities is the limit for total share holding as well as capital market exposure.

5.2.1 BRAC Bank Investment out of its total liabilities

BRAC Bank investment on its total liabilities for the 3 years: (in BDT crore)

	2009	2010	2011
Total Liabilities	10,971.15	10,972.49	12,359.84
Capital Market Exposure	450.63	397.76	514.54
Capital Market Exposure Vs Total Liabilities	4.11%	3.63%	4.16%

Table 5.1 Investment of BBL out of its total Liability

As per the regulation, Capital market exposure of a bank cannot exceed 10% of its total liability. From the above table it is found that maximum investment of BRAC bank over last 3 years was only 4.16%.

5.2.2 Components countable for capital market exposure:

- Loan to own subsidiary / subsidiaries established for merchant banking and brokerage activities.
- Loan to others for merchant banking and brokerage activities.
- Guarantee against loan of own subsidiary / subsidiaries and others.

CHAPTER 6

SWOT ANALYSIS AND RECOMMENDATION

6.1 SWOT Analysis

Strength

- Capital Market Investment Committee (CMIC) has been formed with the member of best skilled professionals of BRAC Bank, by whom the policy is made regarding investment.
- The policy of BRAC Bank to invest in 'A' category shares implement that bank has elevated scope to get high return from the investment.
- BRAC EPL/EPSTL playing a successful role in making analysis and profitable investment.
- Reporting about the performance of investment is very structural and well monitored. Such as, Trading and operation unit have to give daily report to CMIC.
- The analysis on Capital Market exposure for last 3 years giving a result that there is a consistency in investment.
- Every rules and regulation imposed by Bangladesh Bank are practiced very obediently.

Weakness

- The dependency for reporting with other team sometime making conflict in maintaining deadline and transparency.
- The dissatisfaction among employees regarding salary and workload may not able to bring best outcome from them.
- From the analysis I have found out that BRAC Bank is not that much risk lover. Because analysis showing us that BRAC bank has the highest investment of 4.16% on its total liabilities over the last three years where a commercial bank is allowed to invest 10% of its total liabilities on the capital market.

Opportunity

After the crash on capital market in December 2010 government took a number of steps which could a great opportunity for BRAC Bank limited for future profitable investment.

Some of those are:

- Tk. 600 crore worth of funds distributed to the state-owned banks and Investment Corporation of Bangladesh (ICB), and formation of a mutual fund titled *Bangladesh Fund* with an initial resource of Tk. 1,500 crore.
- Under the national budget of FY2011-12, government announced a number of incentives to regenerate the capital market. Some of these were – re-introduction of tax repayment facilities, tax-free facilities for mutual funds
- Government has decided to take actions against people who were involved in malpractices and manipulation.

Threats

- In a strategy it has shown that, only 19 per cent of total listed companies were audited by firms that had official affiliation with international audit firms. So there have a question about the ranking of share.
- Bull cartels are reported to be formed with some members of DSE/CSE, officials of the SEC, political leaders, high-profile businessmen, officials of financial institutions, and Owners of brokerage houses, etc. So it is a great threat in taking investment decision.
- The changes in policies of Government by the changes of Government parties.
- Unstable and unpredictable capital market of Bangladesh.

6.2 Recommendation

In this part of recommendation, some valuable issues of BRAC Bank Ltd. (BBL) are discussed. These were the aspects that came out while working as an intern at BBL. These were related to various parts of BBL and thus are placed in the list of general recommendation. According to SWOT analysis some decision can be taken.

- Efficiently distribute the number of employee in required position.
- Make the salary structure attractive to the employee.
- Make succession planning.
- Reduce the extra workload of the employee.
- The co-ordination among the department should be more structural.
- Should be more serious in case of submission of report within the dead line.
- BRAC Bank could be more risk taker in terms of capital market investment.
- Should have more curiosity among employees to make learn something to a intern.

6.3 Conclusion

BRAC Bank intends to set standards as the market leader in Bangladesh. It demonstrates that a locally owned institution can provide efficient, friendly and modern banking service on a profitable basis. To make this successful, the management committee is always thinking and working to improve the performance of bank relentlessly. BRAC Bank and its other members have a clear vision of achieving 3Ps (People, Planet and Profit) philosophy in each and every activities to build a better and challenging financial future. Finance Department is the most confidential department for any organization. As I worked with the Regulatory Reporting team it was really difficult to know in depth of every report as the information is very confidential. It was an honor to get the opportunity of working as an intern in a reputed organization like BRAC Bank Limited. I hope that the knowledge and experience I've collected through the internship period, will help me a lot in future.

