

INTERNSHIP REPORT ON

Analysis of Credit Risk Management of



BASIC Bank Limited

Serving people for progress

A STATE OWNED SCHEDULED BANK

Submitted To

Ms. AfsanaAkhtar

Senior Lecturer

BRAC Business School

BRAC University

Prepared By

Mehedi Hassan Masud

ID: 09304089

Summer-2013



BRAC Business School

BRAC University

Course ID: BUS400

29th November, 2013

Letter of Transmittal

29th November, 2013

AfsanaAkhtar

Senior Lecturer

BRAC Business School

BRAC University

66,MohakhaliC/A

Dhaka-1212

Subject: Submission of Internship Report.

Dear Madam,

It is my great pleasure to submit this report on the “**A Study on Credit & Risk Management of BASIC Bank limited**” as a part of my BBA curriculum. To prepare this report, I have gathered what I believe to be the most complete information available. The experience will remain as a valuable asset of immense useful in my life.

I have worked hard preparing this report and sincerely tried to make the paper a comprehensive one within the given time span. I will be always available for answering any query regarding this paper. I believe that the preparation to prepare my report will help me to work at banking sector.

Thanking you

Mehedi Hassan Masud

ID- 09304089

BRAC Business School

Acknowledgement

I am very glad that in spite of many limitations I have completed the Report successfully. Preparing this report, I received cordial and sincere assistance from many concerns.

First of all I wish to thank the immeasurable grace and profound kindness of the Almighty Allah, the supreme authority of the universe. From the first inception to the final completion of this report, the success of this study rests not on me alone but on the contributions of many persons who have inspired, influenced and guided my work.

I express my deep sense of gratitude and sincere appreciation to my term paper supervisor Afsana Akhtar, Senior Lecturer of BRAC Business School at BRAC University, for her guidance and special supervision during my work.

I want to give special thanks to Mr. Palash Das Gupta, Assistance General Manager & Branch In Charge, Mr. Md. Matiur Rahman, Deputy General Manager, and Md. ABM Abu Sayadat Mondol, Credit In Charge, Islampur Branch, BASIC Bank Limited for their required support, encouragement, guidelines as well as generous comments and suggestions despite their very busy schedule.

I am exceedingly thankful to my parents who have always been an inexhaustible source of inspiration and motivation for me.

And finally, I like to say that I have tried heart and soul to prepare this report accurately. However, there might be some errors and impractical mistakes due to my limited aptitude and time constraint. In this regard, I seek your kind consideration as I am in the process of learning.

Executive Summary

Banking sector of Bangladesh is one of the major sectors, which contributes significantly to the national economy. The sector comprises a number of banks in various categories. Considering ownership the sector can be classified in to four major categories - such as Nationalized Commercial Banks (NCBs), Specialized Banks (SPBs), Private Commercial Banks (PCBs), and Trans-National Banks (TNBs).

BASIC Bank Limited is one of oldest commercial bank operating in Bangladesh. It has over the years created one of the largest networks among all the other banks in Bangladesh. Although a trendsetter in offering a various ranges of products in the market, the products offer by BASIC Bank are quickly imitated by competitors. The profitability of a bank always depends on the efficient management of fund and exploring the genuine avenues in which its resources are invested to produce the maximum income.

In this report I tried to analyzethe Credit Risk Management of BASIC Bank Ltd. Credit is one of the most important section for a bank. If the credit operation system is easier to the customer then it is acceptable to the client. Now it is a time when the banking section is too much competitive. If the operation policy is not good then it cannot exist for a long time in the market. I go through the following description. What are the strategies are followed by BASIC Bank Ltd and what are their priorities? What are the values considered as their guided factors, such as- placing the interest of clients and customers first, teamwork to the smallest unit to the enterprise as a whole.

BASIC Bank enrich their credit system by offering several product offers, such as- General loan scheme, lease finance, consumer credit scheme, small and medium enterprise, advance against salary, all the offers are too much attractive because of having an attractive interest rate for all the scheme. The credit Policy framework is very organized at BASIC Bank Ltd. Credit risk management policy is also very important for the bank because of having different types of risk in credit. Credit risk management needs to be a robust process that enables a Bank to proactively

manage its loan portfolio in order to minimize losses and earns an acceptable level of return for stakeholders. Given the fast changing dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that BASIC Bank has a robust credit risk management policy and procedures that are sensitive and responsive to these changes. BASIC Bank will always comply with the prevailing banking regulation regarding Single Customer Exposure Limit set by Bangladesh Bank from time to time.

The BASIC Bank Ltd. ensures that the loan or credit they lend is given to the right person. For this, BASIC follows a strict rules and regulation. Lending operation starts from selection of borrower from field level and ends with disbursing sanctioned amount after proper credit analysis and documentation.

TABLE OF CONTENTS

Chapter No.	Chapter Name	Page No.
	EXECUTIVE SUMMARY	v-vi
1.	INTRODUCTION	1-4
1.1	Introduction	2
1.2	Origin of the Study	2
1.3	Scope of the Report	3
1.4	Objective of the Report	3
1.5	Methodology	3
1.6	Limitations	4
2.	ORGANIZATION OVERVIEW	5-14
2.1	Introduction	6
2.2	Background of the BASIC Bank	6-7
2.3	The BASIC Brand	7
2.4	Strategic Priorities of BASIC	7
2.5	BASIC Branches	8
2.6	Profile of BASIC Bank Limited	8
2.7	Product & Customer Service	8-9
2.8	Future Strategies: Launching	9

	of Deposit Products	
2.9	Green Banking	9
2.10	Poverty Alleviation	10
2.11	Women Empowerment	10
2.12	Operational Network Organogram	10-11
2.13	Vision for the future	11-12
2.14	SWOT Analysis of BASIC Bank Limited	12-14
3.	JOB PART	15-17
3.1	Nature and Specific Responsibilities	16
3.2	Different Aspects of Job Performance	16-17
3.3	Critical Observation and Recommendation	17
4.	LITERATURE REVIEW	18-20
4.1	Credit risk	19
4.2	Credit Risk Management Policy	19
4.3	Purpose	20
4.4	Credit Risk Strategy	20
5.	PROJECT PART	21-37
5.1	Scope of the Project	22
5.2	Objective	22
5.3	Methodology	22-23
5.4	Limitations	23

5.5	Credit & Risk Management of BASIC Bank	23
5.6	Loans & Advances Arena of BASIC	24-28
5.7	Principles of Loans & Advances in BASIC Bank	28
5.8	Eligibility for Credit Facilities	29
5.9	Securities to the loan	29-30
5.10	Charge Documents	30
5.11	Loan Sanctioning Procedure of BASIC	31-35
5.12	Credit and risk monitoring	35
5.13	Credit Monitoring in Basic Bank	36
5.14	Preferred Risk Management Structure and Responsibilities	36-37
6.	OBSERVATION CONCLUSION & RECOMMENDATION	38-44
6.1	Observation	39-41
6.2	Findings	42
6.3	Recommendation	43
6.4	Conclusion	44
7.	REFERENCES	45-46
8.	APPENDIX	47-57

Chapter 1

INTRODUCTION

1.1 Introduction

Now a time when banking is the most sophisticated and organized business all over the world. Day by day it becomes more challenging like other sectors of economy. Credit department is one of the most important departments in every bank, because of having a high risk over there. All the banks always try to make an appropriate balance between its risk and return. This sector is also very sensitive because some unregulated banking financial system might be fraught with unmanageable risk for the purpose of maximizing their profit. For the above reason general people are affected and the shareholders of the bank are also affected. The deterioration of loan quality will also affect the intermediation efficiency of the financial institutions and thus the economic growth process of the country. This establishes the fact that banks should provide increasing emphasis on various analytical tools and techniques for screening proposals and loan decision taking. Credit Worthiness Analysis is one of the most important activities before sanctioning any credit to a new borrower as well as existing borrower to avoid any default risk and for improving the operational efficiency of nationalized and private sector commercial banks.

I want to go through our analysis on credit system in BASIC bank limited to analysis it properly. I discuss about the credit policy framework, general credit principal, different types of credit products, credit risk, credit risk management, credit risk assessment, credit approval authority. Without these factors it is not possible to analysis the credit system of BASIC Bank Limited.

1.2 Origin of the Study

This report has been prepared as a requirement of the internship program .I have been assigned to work on this internship project titled “**A Study on Credit & Risk Management of BASIC Bank Limited**”by my Supervisor at BASIC Bank Limited, Mr. A. B. M Abu SayadatMondol, Loans & Advances Department, under the guidance of my University Supervisor, Mr. Dr. ShyamapadaBiswas, Professor, Department of Business Administration. I have worked on this project for the last three months long internship period with BASIC Bank Limited started on April 8, 2013. During the course of the work as an intern, I was monitored by the Faculty Advisor and given valuable guidance and advice regarding the report. Hence, this report has been prepared as a requirement for the successful completion of BBA program under the department of Finance.

1.3 Scope of the Report

This report has covered mainly the Credit Risk management division of BASIC Bank Limited. In addition, I also found that their loan procedure system and to whom they provide their loans. Finally, I tried to give some recommendations regarding the Credit Risk Management Department of Basic Bank Limited.

1.4 Objective of the Report

a) Broad Objective

- ✓ First and foremost the objective is to fulfill my academic requirement.

b) Specific Objective

- ✓ To be familiar with the banking background especially in credit arena of BASIC Bank Limited.
- ✓ To get idea about what are the procedures they basically follows during giving any loans and advances
- ✓ To get knowledge about product and services that provide by the BASIC Bank Limited

1.5 Methodology

The report is prepared on the basis of information collected from both secondary sources and primary data collection survey.

- ✓ The primary sources are as follows face to face conversation with my boss and colleagues.
- ✓ The secondary sources of data and information are:
 - a) Website of BASIC Bank Limited
 - b) Annual Report of BASIC Bank Limited
 - c) Bangladesh Bank Circular (www.bangladesh-bank.org)
 - d) Files, records, journals, manuals and publications obtained from library of the bank

1.6 Limitations

There are certain limitations that I faced while doing this report as follows:

- ✓ From my point of view three months time period is too much short for preparing this report. But as far I got the information from BASIC Bank Limited, I tried to present it in the report.
- ✓ The organization maintains some confidentiality while giving information regarding their department. So I am trying to focus the limited factors and leaving out some other relevant factors.
- ✓ Due to rush banking hour it's quite difficult for me to collect the information from the respective person. So I am providing all those information that I got from my boss and colleagues.

Chapter 2
ORGANIZATION
OVERVIEW

2.1. Introduction

Bangladesh is a developing country. Most of the people in our country live in the poverty level. To develop our country's economy situation we need more money and capital. We all know that Economic development of a country depends on its strong Banking and Financing Institutions. In our country Banks and Financial Institutions plays an important role to make our economic situation better than earlier. Also it plays an important role to develop our country's infrastructure as well as bringing growth in people's economic life.

Banking is now an essential part of our life. Banking may develop any country's infrastructure, education, business, economy, communication etc. This is developed if the banking system is developed. BASIC Bank Limited plays important role in the development of business and industry to local area. The effectiveness of its role would depend on how efficiently the banks resources could be utilized.

Banks as the financial services industry is approaching full historical cycle. Originally the banking system operated as full service industry, performing directly or indirectly all financial services. Banks are direct agents to create opportunities for development in a country and provide large scale of employment opportunities(Journal of Business Research, 2012).

2.2. Background of the BASIC Bank

In the beginning BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited) started its operation as a joint venture enterprise. The joint ventures were the BCC Foundation with 70 percent shares and the Government of Bangladesh with 30 percent shares. In 1992 the Government of Bangladesh took over 70 percent shares from the BCC Foundation. Because BCC foundation being nonfunctional following the closure of the BCCI. After that Government of Bangladesh became 100 percent owner of the Bank. However, the Bank is not nationalized as well as it operates like a private bank as before.

The BASIC Bank Limited was established as a banking company under the company Act 1913 and launched its operation in January 1989.It is governed by the Banking Companies Act 1991

adjudged as one of the soundest banks in Bangladesh. From the beginning of the bank BASIC Bank is unique in its objectives because the bank mixes its development and commercial banking functions together. They maintain a steady growth in client base and also they maintain high retention rate of clients year by year for its products and services. Basic Bank diversified products in both liability and asset sides. Mainly they offer a wide range of lending products related to development of small and medium and commercial sectors to attract entrepreneurs from varied economic fields. Along with promotion of products special importance is given to individual clients through providing personalized services.

Basic Bank's first priority is to develop the economic situation of the country; therefore the Bank has already made a distinct mark in the area of Private Sector Banking through personalized service, innovative practices, dynamic approach and efficient Management.

2.3 The BASIC Brand

BASIC's superior service quality, strong corporate governance has given it an Excellent "Brand Image". To continue to reinforce the BASIC'S Brand, BASIC Bank limited is continuously improving its customer service, corporate governance and CSR activities by remaining innovative and caring.

2.4 Strategic Priorities of BASIC

The Bank is focused on few strategic issues. They applied various policies, processes and activities to ensure continuous, sustainable and qualitative growth. The company believes that communication with, and feedbacks from its clients help it achieve its goal of providing world-class products and services. It also constantly monitors its standards, and strives to exceed client's expectations. Other strategies are as follows-

- Steady and sustainable growth.
- Investment in a cautious way.
- Adoption of new banking technology.
- 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.

2.5 BASIC Branches

BASIC is operating all over the country with **65** branches. Most of branches are in Dhaka but they have braches in all the main cities like- Chittagong, Sylhet, Khulna, Jessore and Rajshahi, Comilla, Barisal, Bograetc (Annual Report, 2011).

2.6 Profile of BASIC Bank Limited

1	Date of Incorporation	: 2nd of August, 1988
2	Date of Inauguration of Operation	: 21st of January, 1989
3	Name of the Chairperson of the Board	: Mr. Sheikh Abdul HyeBacchu
4	Name of the Managing Director	: Mr. KaziFaqrul Islam
5	Number of Branches	: 65
6	Banking Operation System	: Conventional Banking System
7	Technology Used	: Member of SWIFT Online Banking KASTLE Core Banking System
8	Head Office	: SenaKalyanBhaban (5th Floor) 195 Motijheel C/A, Dhaka-1000

2.7. Product & Customer Service

a) Deposit Scheme

BASIC Bank always values highly the needs of people. To fulfill the savings desire of people/clients, they always think to develop and present initiative products. In line with these objectives they developed some innovative deposit products that will meet the savings need of the common people and at the same time Bank will mobilize individual level deposit to increase

loan able fund to make more investment in the productive sector that will ultimately contribute to overall economic development of the country. Keeping this view in mind BASIC has introduced the following deposit products to cater the savings needs for a rainy day of the common people:

- ❖ BASIC Double-Benefit Scheme
- ❖ BASIC Fixed Deposit Scheme
- ❖ BASIC Fortune Plus
- ❖ BASIC Saving Account
- ❖ BASIC Current Account
- ❖ BASIC Premium Plus Current Account
- ❖ BASIC Monthly Benefit Scheme
- ❖ BASIC School Banking Scheme

b) Loan Scheme

- ❖ General Loan scheme
- ❖ Small and Medium Enterprise
- ❖ Cash Credit
- ❖ Sod (small over draft against fixed deposit)
- ❖ Term loan

2.8 Future Strategies: Launching of Deposit Products

BASIC Bank always to introduce new products to satisfy the needs of different strata of people and they are on the verge of launching the following Deposit Products:

- ❖ Reality Pension Scheme
- ❖ BASIC Marriage Deposit Scheme
- ❖ BASIC Education deposit Scheme
- ❖ Hajj Deposit Scheme

2.9 Green Banking

Green Banking is a part of international initiative. Government and central banks have been undertaking initiatives and make directions to support green banking activities. From past few years Banks or other enterprises takes initiative to save environment from global warming, climate change, green house effect, air pollution, water pollution, waste disposal. BASIC Bank being socially and environmentally trying to improve its own standard and also contributing to build up socially responsible business. BASIC bank has taken initiative at the very beginning to implement green banking and formulated its Green Banking policy approved by the Board of Directors. This policy has been circulated to all branches as well as all the clients in the Bank. .As a part of green banking Basic Bank invested in those industries that omit low carbon in the environment.

2.10 Poverty Alleviation

It is globally accepted that the Non Government organization (NGOs) have been performing an impressive role in poverty alleviation across the globe, especially in Bangladesh. Since 1995 Basic Bank works with 65 NGO's of different categories and capacities to finance for poor communities of the country. They invested at a privileged interest rate for poor people. Such activities also contributed to generation of income and employment as well.





2.11 Women Empowerment

As half of our population are women. A sustainable national progress can't be attained if women are left aside. Therefore, they should progressively be brought to the mainstream of our development activities. Considering this reality BASIC Bank has been mobilizing credit facilities to the capable women entrepreneurs at a reduced rate of interest. So far they have financed several women entrepreneurs and it will gain due momentum in the days

2.12 Operational Network Organogram

Management Hierarchy

BASIC Bank limited is a hundred percent government scheduled bank. The shareholders are the proprietors of the banks. There are 10 members of the Board of Director who are managing the total management & Human Resources of the bank. At present **Mr.Sheikh Abdul HyeBacchu**, is the chairperson of BASIC & the Managing Director of this bank is **Mr.KaziFaqrul Islam**. The chairperson & Managing Director both are the members of this bank. The chairman of the bank is the head of the Board of Directors. The main function of the Board of Directors is to formulate policy. From the top to the bottom management body of BASIC Bank Limited can be divided into four levels:

-  Top Level Management
-  Executive Level Management
-  Mid Level Management
-  Junior Level

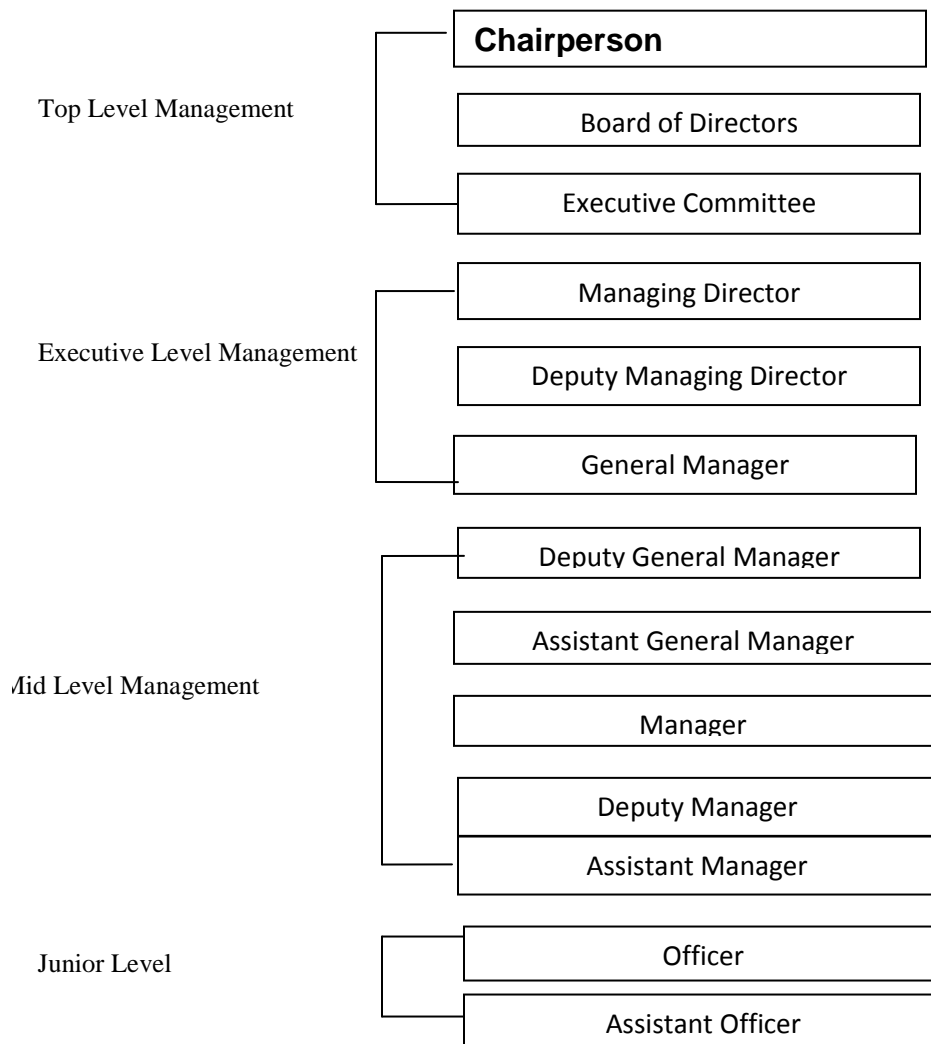


Figure-1: Management Hierarchy

2.13 Vision for the Future

“To be the best Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity”

“To build BASIC Bank Limited into an efficient, market driven, customer focused institution with good corporate governance structure.

Continuous improvement in our business policies, procedure and efficiency through integration of technology at all levels”

To establish general banking through the introduction of welfare oriented banking system and to ensure equity and justice in the field of all economic activities, to achieve balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less development areas of the country is the mission of BASIC Bank Ltd. Its aims are to encourage socio-economic uplift and financial services to the low income community particularly in the rural areas and specially, small business and industry.

2.14 SWOT Analysis of BASIC Bank Limited

SWOT analysis refers to analysis of strengths, weaknesses, opportunities and threats of an organization. This facilitates the organization to make its future performance improved in comparison to its competitors. An organization can also study its current position through SWOT analysis. For all of these, SWOT analysis is considered as an important tool for making changes in the strategic management of an organization.

a) Strengths of BASIC

Followings are strengths of BASIC:

- **The management** -The BASIC Bank Limited is operated by a very efficient management group. The top management officials have all worked in reputed banks and their years of banking experience, skill, and expertise will continue to contribute towards further expansion of the bank. So, the top management of the bank is the major strength for BASIC
- **Company Reputation** - BASIC has already established a favorable reputation in the banking industry of the country. It is one of the leading private sector commercial banks in Bangladesh. The bank has already shown a tremendous growth in the profits and deposits sector.
- **Many Branches** - In Bangladesh, The bank has 63 branches to provide services to the people. All these branches are located in such places where customers feel Comfortable and safe to make their transactions. This creates a positive image in the minds of the potential customers and many people get attracted to the bank.
- **Corporate Culture** - BASIC has an interactive corporate culture. The working environment of BASIC is very friendly, interactive and informal. And, there are no

hidden barriers or boundaries while communicate between the superior and the employees. This corporate culture works as a great motivation factor among the employees of the bank.

- **Various Products and Services** - BASIC offers various types of products and services to their clients. So those, Customers can choose the right products that will fulfill their needs.
- **Technological Advancement** - The bank started online service in all branches. It is fully online service provider.

b) Weakness of BASIC

Followings are Weakness of BASIC:

- Heavily depended on head office for decision making – Branch manager can not take any decision without Head office permission. Each and every branch is heavily depended on head office decision.
- Absence of upgraded website- Although Basic Bank Limited started online banking services but the website they use is not upgraded. They still use the old version software, which is very slow indeed.
- Low promotion campaign- Basic Bank Limited's promotional activities are not sufficient. Even most of the people around Islampur do not know about their bank and products.

c) Opportunities of BASIC

Followings are opportunities of BASIC:

- **Product line proliferation**BASIC must expand its product line to enhance its sustainable competitive advantage. For example, BASIC can introduce mobile banking.
- **Introducing more branches**There are many important places in Bangladesh, where customers are eagerly waiting for doing banking transactions. But no existence of banks is in those places. Although BASIC already has 63 branches to provide services to its customers, it must also open more branches in those places where people needs banking facilities.
- **Introducing special corporate scheme**BASIC can introduce special corporate schemes

for the corporate customers or officers who have an income level higher from the service holders. At the same time, they can introduce schemes or loans for various service holders. And the schemes should be separate according to the professions, such as engineers, lawyers, doctors etc.

- **Developing new products and services** The bank should offer new products and service

d) Threats of BASIC

Followings are threats of BASIC:

- The default risks of all terms of loan have to be minimizing in order to sustain in the financial market. Because default risk leads the organization towards to bankrupt. BASIC has to remain vigilant about this problem so that proactive strategies are taken to minimize this problem if not elimination.
- Certain Bangladesh Bank rules and regulations.
- Some commercial/ foreign as well as private banks.
- Similar types of retail banking products: Other banks can also capture a huge market share by offering similar products and services provided by the Bank.

Chapter 3

JOB PART

3.1 Nature and Specific Responsibilities

Internship is a part of our studying method. But it is very important in our life. Because it will help us to overcome from the upcoming obstruction in our job sector. Basically the intention is to get practical knowledge about the job life. As I am studying in Marketing and Finance sector, so it is important for me to know the markets as well. Therefore, I think internship training will bring positive result for me. As a student of finance I need to know the financial industry of Bangladesh. Also we know that in our country Banks are playing a vital role in finance market. Therefore I liked to work in a Bank. Fortunately I got the opportunity and joined the Basic Bank Limited (Islampur Branch). In Basic Bank Limited I worked both in depository products and loan able products. First 15 to 20 days, I worked in general banking. General banking basically related with the depository products like current account/FDR/monthly deposit scheme and savings account, also different types of paper work like clearing the check, bill payment, salaries etc. After that I worked with Loan able products Cash credit account, Special over drafts etc. As we know that Loan department is the most important and risky department in the bank, therefore it is not possible for me to do all the work like field visiting and giving authority, even I am not allowed to watch all the documents, files and information. In the loan and advanced department I typed different types of Loans related documents and read different types of circular. Also I did group work with my colleagues about promotional activities such as School Banking.

3.2 Different Aspects of Job Performance

I think doing internship at Basic Bank Limited is a great opportunity for me because I worked in two departments and learn how all departments worked together and co-ordinate with each other. Even though Basic Bank Limited has 65 branches all over the country but the entire branches worked like a family. Each of the branches can easily access to the others bank. As I have informed earlier that I worked under Loan department and General Banking Division, therefore it is easy for me to access with the other department as well. That's why I got easily access in different departments and the employees also helped me all the time. Besides these there are some other aspects such as-

- I got real life example from branch manager and deputy general manager and my initial boss. Also I learned how to get rid from the problems. I think it will be e big bonus for me from my internship.
- I learned different banking terms from my boss and managers. As they have arranged a meeting in every Thursday morning for the employees about different banking problems and the solutions. I am pleased to attend those classes.

3.3 Critical Observation and Recommendation

Working at Basic Bank Limited was a great experience for me. I able to learnt many things throughout my internship period. I think it will help me when I will work for banks, corporate house or any other multinational companies. Internship gives me an opportunity to know the real working environment and get real life experience. Also it allowed us to know, what types of difficulties we are going to face in the future and how to get rid from those difficulties as well. From my internship period I have observed some things and from my little knowledge I have made some recommendation for the bank. Such as-

- ✓ All the employees and managers of the bank are very friendly and they are ready to help me all the time.
- ✓ The working environment of the bank is very friendly. Throughout my internship period they never underestimate me for anything. What I have needed, they are ready to give it.
- ✓ They are strictly following the rules, which I really like. They never ignore the rules.
- ✓ Chain of command is excellent in the branch, as well as with the other branches of the bank.
- ✓ Basic Bank Limited (Islampur Branch) need to have highly qualified employees. I do not say that current employees are not good but they need more training about banking terms and rules.
- ✓ They have to arrange more training programs around the branch and also around the bank as well.
- ✓ They should arrange more meetings to increase employee's efficiency in the branch.
- ✓ Man power of the branch is not sufficient, so they have to increase the man power.

Chapter-4
LITERATURE REVIEW

4.1 Credit risk

The word credit comes from the Latin word “**Credo**” meaning “**I believe**”. It is a lender’s trust in a person’s/ firm’s/ or company’s ability or potential ability and intention to repay. In a simple word Credit risk means a borrower will fail to meet the agreed terms and conditions. In other words, it is the loss that associated with lack of credit worthiness of the borrowers. In a Bank’s portfolio losses comes from entire default due to the inability or unwillingness of the customer to meet financial transactions. Credit risk may take the following forms:

- ❖ In direct lease/term finance: rentals/principal/and or interest amount may not be repaid
- ❖ In issuance of guarantees: applicant may fail to build up fund for settling claim, if any;
- ❖ In documentary credits: applicant may fail to retire import documents and many others.
- ❖ In factoring: the bills receivables against which payments were made, may fail to be paid
- ❖ In treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases
- ❖ In securities trading businesses: funds/ securities settlement may not be effected
- ❖ In cross-border exposure: the availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the sovereign

4.2 Credit Risk Management Policy

Every financial institution should have a credit risk management policy. Credit risk management should have the documents that contain risk identification, risk measurement, risk grading, and legal issues to measure the credit risk. To build up a credit risk management framework, the top management level of the financial institutions should develop and establish credit policies and credit administration procedures as a part of credit risk management and get those approved from Board. Then those policies and procedures should be treated as a scale of lending different types of loans such as corporate, commercial, SME etc. Credit risk policies are as follows:

- Provide detailed and formalized credit evaluation appraisal process.
- Provide risk identification, measurement, monitoring and control.
- Define target markets, risk acceptance criteria, credit approval authority, credit origination/ maintenance procedures and guidelines for portfolio management.

- All the officers in credit risk management have clear ideas about institutions approaches and credit sanction procedure. Also it is necessary for them to communicate with the branch controlling officers.

4.3 Purpose

The main purposes of the credit risk policies are –

- Establishing an appropriate credit risk environment.
- Setting up a sound credit approval process.
- Maintaining an appropriate credit administration and monitoring process.
- Ensuring adequate controls over credit risk.

4.4 Credit Risk Strategy

The very first purpose of banks credit strategy is to determine the risk acceptance by the Institution. Once it is determined the bank could develop a plan to optimize return while keeping credit risk within predetermined limits. It is essential that the banks consideration their target market while planning credit risk strategy. The credit procedures should aim to obtain an in-depth understanding of the clients, their credentials & their businesses in order to fully know their customers.

Chapter-5

PROJECT PART (CREDIT RISK MANAGEMENT OF BASIC BANK LIMITED)

5.1 Scope of the Project

The scope of this project report is not too far stretching to the whole of BASIC Bank Ltd. rather it only covers the loans & advances activities. The project mainly deals with the present method of credit risk management at BASIC Bank Ltd. during the term of the project. The project covers loans & advances operation, credit risk evaluation conducted before and after.

5.2 Objective

a) Broad objective

The broad objective of the project is to be familiar with the Loan and Advanced division of Basic Bank Limited and what are the steps they are mainly follows during giving any kind of loans.

b) Specific Objective

- To know the credit management system of BASIC Bank Limited.
- To know the credit sanction policy of BASIC Bank Limited.
- To know what the factors those are mostly treated as the purpose of loan.
- To have an adequate knowledge about which factors mostly affects the loan sanction decision.
- To identify the factors this can attract the customer to take loan.

5.3 Methodology

The report is prepared on the basis of information collected from both secondary sources and primary data collection. During my internship period there was an excellent opportunity for me to know about the banking working procedure. Also it was an opportunity to have clear ideas about the loans and advanced department arena of the bank. As I have mentioned it earlier that the report is prepared on the basis of information collected from the both primary and secondary sources. The under mentioned methods were adopted to conduct the activity.

a) Primary Sources

- The face-to-face interview was taken. In order to get the real information and data about the loans & advances activities, various officials were interviewed directly.
- Observation method was followed during the internship period. Many of the activities of Loans & Advances have been observed during working period.

b) Secondary Sources

- Banks Annual Report.
- Bank Web site.
- Files, records obtained from library of the bank
- Bangladesh Bank Circular.

5.4 Limitations

In every project there are some certain limitations that come arise. I also faced some limitations during preparing my project. The limitations are as follows –

- First of all, the time limitation for the course is too short to make the project. As we have only given three months time to take training and preparing report. From my point of view which was not adequate time limitation for us to complete that course.
- During making my report I observed that Basic Bank Limited maintain confidentiality to give some information related to the Loans. As Loans division is the most risky division of the bank. Therefore I faced some problem due to have inadequate information.
- In the annual report of Basic Bank Limited, I did not find adequate information about Loans and Advanced. Also they did not publish the latest annual report of the bank during my internship period.

5.5 Credit & Risk Management of BASIC Bank

Basic Bank Limited is a commercial bank established in Bangladesh in 2nd August, 1988 under the Companies Act, 1994. Basic Bank Limited has been working for inspiring the trade and commerce. Also it works to speed up the pace of industrialization, boosting up export, creating employment opportunity, removing poverty, raising standard of living of the people etc.

At present, the bank has a network of 63 (Sixty Three) branches both rural and urban areas of the country and they are planned to open 4 or 5 new branches every year. From the beginning, the Bank has been making significant profit every year and positioning itself as one of the highest profit-making bank in the country for last few years.

5.6 Loans & Advances Arena of BASIC

As it is mention earlier that Basic Bank Limited has been working for inspiring the trade and commerce. Therefore the bank's Loans and advance consist of industrial loans, commercial loans, micro credit, small enterprise financing loan for women entrepreneurs, agro based industry financing and agricultural loan etc. Butat present the bank mainly focus on industrial, commercial and small enterprise financing loans. Most important thing is that Basic Bank does not give any kinds of private loan like car, home, education, marriage loan etc. The making of loan and advance is always profitable to a bank. The BASIC Bank Limited has made so far efficient use of the deposits. The Bank disbursed loan in different form. Loan and advances have primarily been divided into two major groups:

Term Loan	Duration
Short Term	Up to and including 12 months.
Medium Term	More than 12 months up to and including 60months.
Long Term	More than 60 months

These are the loans made by the Bank with fixed repayment schedules. Fixed term loans are categorized into three based upon its tenure which is defined as follows:

- ❖ Industrial Credit Scheme.
- ❖ Micro Credit Scheme
- ❖ Commercial credit.

a) Industrial Credit Scheme

BASIC Bank Ltd is providing short, medium and long term loans and other financial support for promotion of industrial sectors. To support the industrial sectors Basic Bank Limited invested at least 50 percent of their loan able funds. These 50 percent loan able funds basically invested in

small and medium industries sector. Thus the bank's most priority remains with promoting and financing small scale industries in the country (Small & Medium Enterprise).

Small Enterprise

Small Enterprise refers to those enterprises: -

- ❖ where goods are produced, recycled, repaired or traded in traditional way;
- ❖ where total bank investment is limited to Tk.250,000;
- ❖ where 10 or less workers are engaged on wages or commission basis;

Medium Enterprise

Medium Enterprise refers to those enterprises:-

- ❖ Where goods are produced, recycled, repaired or traded applying some capital machinery;
- ❖ Where 20 or less people are engaged on wages or commission basis;
- ❖ Where total bank investment does not exceed Tk.75, 00,000.
- ❖ The net fixed assets (excluding land and buildings) of borrowers may not exceed Tk. equivalent of US \$250,000, (*Loans & Advances Documents*, BASIC Bank Limited, Islampur Branch).

Contribution in Industrial Loan

Besides the small and medium enterprises Basic Bank Limited also focused on the industrial loans. Basic Bank Limited provide huge amount of money for inspiring the industrial sector. From their annual report it has been seen that the percentage of industrial loan is increasing in every year. For an example in 2011 the percentage of industrial loans are increasing by 19.96 percent over the previous year. From their annual report of 2011 it has been noticed that the total outstanding industrial loans including term loan and working capital stood at Taka 33,323,.05 million at the end of 2011, Where in 2010 the total amount was taka 27,777.89 million. On the other hand total outstanding of term loan stood at Taka 14,731.97 million at the end of 2011, compared to Taka 12,225.49 million in 2010. If we look carefully than we can see that it reflecting a growth of 20.50 percent in one year. Also I have noticed that the outstanding working capital finance extended to industrial units stood at Taka 18,591.03 million at the end of 2011, compared to Taka 15,552.40 million in 2010. It also reflects a growth of 19.54 percent.

BASIC Banks services are specially directed towards promotion and development of small and medium industries. Because 101 projects were approved term loan .as on 31 December 2011, total 973 projects were in the portfolio of the bank including the textile sector, garments sector, poultry, food and allied industry, paper, board, pharmaceuticals, printing and packaging and other non metallic goods, leather and jute products

b) Micro Credit Scheme

The board of Directors of BASIC Bank wants to help the low income people; therefore the bank formulated Micro Credit Scheme for the poor. From the corporate social responsibility BASIC Bank since its beginning continued to focus on reaching poor section of the society by bringing them under the credit micro credit scheme of the bank through NGO linkage or its own. BASIC is the only bank among the scheduled banks of Bangladesh which can boast of pioneering microcredit through NGO linkage which became an ideal example for others. Because they have shown that two types of different institution can work jointly to reduce poverty through micro credit scheme. BASIC is working with more than 50 NGO/MFI's as co-partner and distributed credit total amount of Tk.3243.80 million to the poor section of the society through micro credit. This initiative helped near about 3, 28,762 people and majority of these people are the women who particularly had no formal source of fund.

c) Commercial Credit

- ❖ Overdraft
- ❖ Cash Credit
- ❖ Term loan

Involvement in Commercial Loan

BASIC Bank Limited also contributed support in developing trade, general business and other commercial activities in the country which covers the full range of services such as work order financing, secured overdraft. As on December 31, 2011, total outstanding commercial loans stood at Taka 22,727.40 million compared to taka 16,915 million in 2010. It is reflecting a growth of 34.36 percent.

i) Cash Credit

Cash Credit shortly known as CC Account. Cash Credit or continuing credit is those which form continuous debits and credits up to a limit and have an expiration date. Basically CC account is a day to day transaction account, because loaner can withdraw and pay the money every day. The amount of loan in CC Account is fixed. The person who is applying for loan can't take extra amount of money. For an example if a person gets 90lacs taka as a loan then the amount cannot exceed more than 90lacs. The interest amount is verifying in the CC account. Therefore the amount of money the consumer has to pay is also verifying. Service charge which affects 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:

➤ Credit against Pledge

Basic Bank Limited sanctioned Cash Credit 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 a security for payment of bank dues. The ownership of the goods, however, remains with the borrower. If borrower fails to repay the loan then bank sell the goods and recover the loans and advanced. No collateral security is normally asked for granted of such credit.

➤ Cash Credit against Hypothecation

Cash credit is sanctioned against hypothecation of the raw materials or finished goods. the letter of hypothecation creates a charge against the goods in favor 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 favor 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

Overdrafts is a kind of loans and advanced the sanctioned against customer's fixed deposits. For an example, if a customer has a fixed deposit account in the Basic Bank then Basic Bank will

provide a loan to the customer. Say a customer deposit 10lacs Taka in the account, and then he or she will get 8 or 9 lacs taka as a loan. But the interest rate of overdraft is 3 percent higher than the fixed deposit like if bank give 12 percent interest rate in the fixed deposit, they will charge 15 percent in the overdrafts. Basic Bank gives such loans to maintain the deposits.

iii) Term loan

Term loan is a loan that provide to the enterprise and industries for a certain period. Loan period could be for 9 months or 1 year or more than 1 year. The amount of loan depends on the business scale. For industries Basic Bank limited provide large amount of money but for medium enterprise the amount of money is lower than the industries. As well as the interest rate is differ in a little margin. Like for industrial loan the interest rate is 16 percent but for the medium enterprise the interest rate is 17 or 18 percent. Because Basic Bank Limited assume that medium enterprise are more risky than the industries. The difference between Cash Credit (CC) account and the term loan is that in CC account borrower can withdraw and pay the loan in any day, but in term loan borrower can withdraw the loan only once and pay the loan at the end of the loan period.

5.7 Principles of Loans & Advances in BASIC Bank

- Total loans and advances shall not exceed the Bank's net worth or 65% of customers deposit
- Within the total limit of loans and advances as mentioned 50% should be lending to the small industry sector and other 50 percent should be lending to the commercial sector as a norms of the government and the central bank. No term loans will be approved for the commercial sector. Exceptions will be rare and will require approval of the Executive Committee.
- All lending will be adequately secured with acceptable by the Head office credit committee.
- The bank shall not incur any uncovered foreign exchange risk in the lending of funds.
- Country risk in loans and advances will be accurately identified and shall be within the country limits if any approved for the bank.

- 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.
- 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.
- Credit risk evaluation will include an accurate appraisal of risk in any credit exposure is highly subjective matter involving quantitative and qualitative judgments.
- Borrower does not give all the financial statement so the financial statements of the borrower do not always provide a complete picture of the borrower. Therefore the bank has to analyze all financial data available in hand and combine this with a number of qualitative factors analyzing the borrower's financial position.

5.8 Eligibility for Credit Facilities

Entrepreneur/ promoter have to be creditworthy and competent enough to run the proposed industry. The project should be viable from organizational, technical, commercial, financial and economic points of view.

- 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.
- 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.
- IRR should preferably be not less than 20 percent.

The project should ensure benefit to the national economy and create sufficient employment opportunity and be environment friendly (Loans & Advances Documents, BASIC Bank Limited, Islampur Branch). Confidential reports are prepared on the Loans and Advances of 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 (Dhaka, 2013).

5.9 Securities to the loan

- Registered mortgage of land & building.
- Mortgage/Assignment of possession right.
- Assignment of security money, advance rent, if any.
- Assignment of Trade Receivables not older than 90 days.
- Hypothecation of machineries, equipment, vehicles, stock-in-trade, raw materials, work in-process and finished goods.
- Personal Guarantee from persons acceptable to the Bank.
- Post dated check.
- Lien on deposits/saving.
- Any other securities to be deemed suitable by the Bank depending on the situation like
- Insurance Guarantee, Corporate Guarantee, as segment of Contract, Security Money etc.

5.10 Charge Documents

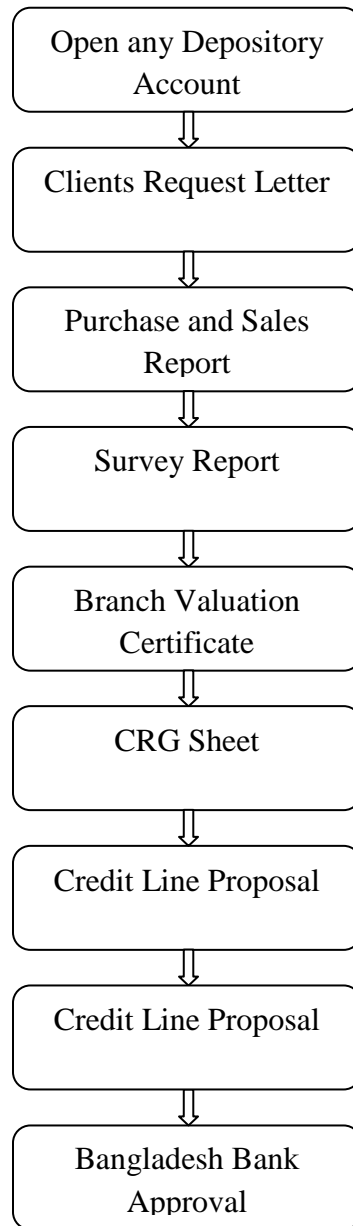
The following charge documents are required to secure loans and advances. Following documents must be stamped and duly signed by the party to secure the bank's loans and advances:

- ❖ Disbursement Request
- ❖ Balance Confirmation

- ❖ D.P. Note Delivery Letter
- ❖ Promissory Note (I) Promissory Note (We).
- ❖ Hypothecation of Goods
- ❖ Hypothecation of Machinery
- ❖ Trust Receipt
- ❖ Revival Letter Form-I
- ❖ Revival Letter Form-
- ❖ Memorandum of Deposit of Title Deed
- ❖ Letter of Guarantee
- ❖ Letter of Counter Guarantee
- ❖ General Hypothecation of Negotiable Instrument
- ❖ Letter of Hypothecation (Bill)
- ❖ Letter of Authority
- ❖ Letter of Disclaimer
- ❖ Letter of Lien for Advances against Shares, Stock and Securities.
- ❖ Letter of Ownership
- ❖ Partnership Letter
- ❖ Pledge of Goods to Secure a Demand Cash Credit.

5.11 Loan Sanctioning Procedure of BASIC

Basic Bank Limited followed a procedure to sanction the loans and advanced. The procedures are as follows:



1. Need to open a depository account – First of all the client has to open a depository account in the Bank. Client can open any of the depository accounts like FDR, Current Account, Savings Account, monthly or yearly depository scheme etc.

2. Client's request letter- After opening a depository account clients can request for the loan. For requesting the loans, client needs to write an application to the branch manager. Then branch manager will request to the head office for further process.

3. Purchase and Sales report- after requesting to the head office, then head office will asked for company's purchase and sales report for at least 3 months.

4. Survey report – If purchase and sales report are satisfactory for the bank's authority then they will hire a survey company outside of the bank (authorized by Bangladesh Bank). This survey company will survey the capital structure of the company, securities (primary and secondary), types of business, mortgage property, assets and liabilities, forced value of the asset, characteristics of clients and business etc.

5. Branch valuation certificate – Besides survey company Branch also do the valuation of the same things done by the survey company. Branch evaluation is very important in a sense it shows that whether the survey company did the right judgment of the company's asset or not. It is necessary to compare the both the evaluation done by the Survey Company and Branch.

6. CRG sheet- By evaluating all the things Branch gives a score to the company. CRG is a scale to decide whether to give loan or not. A company must get 70 marks to get loans. CRG marks gives based on the circular provided by the Bangladesh Bank. Key parameters and their weights are given below:

<u>Principal Risk Components:</u>	<u>Key Parameters:</u>	<u>Weight:</u>
▪ Financial Risk	⇒ Leverage	50% 15%
	⇒ Liquidity	15%
	⇒ Profitability	15%
	⇒ Coverage	5%
	▪ Business/Industry Risk	
	⇒ Size of Business	5%
	⇒ Age of Business	3%
	⇒ Business Outlook	3%
	⇒ Industry growth	3%
	⇒ Market Competition	2%
	⇒ Entry/Exit Barriers	2%
▪ Management Risk		12%
	⇒ Experience	5%
	⇒ Succession	4%

▪ Security Risk	⇒ Team Work	3%
		10%
	⇒ Security coverage	4%
	⇒ Collateral coverage	4%
	⇒ Support	2%
▪ Relationship Risk		10%
	⇒ Account conduct	5%
	⇒ Utilization of limit	2%
	⇒ Compliance of covenants /condition	2%
	⇒ Personal deposit	1%

7. Credit Line Proposal – credit line proposal based on survey report, branch valuation, CRG ratings. Besides this Credit line proposal contain all most all the information of the company and clients such as borrower’s information, address, constitution, date of establishment, sponsor, introducers, capital structure, business types, CIB report, stock, other bank’s information, SWOT analysis etc. In credit line proposal the branch manager will give some comments and recommendation about the business and client. Branch manager’s opinion has a vital role in loan sanction procedure.

8. Bangladesh Bank’s approval – After credit line proposal the Basic Bank Limited will wait for Bangladesh Bank’s approval. Bangladesh bank will evaluate overall information about the business and the client. Also they will determine the entire requirement and rules has been fulfilled. Besides these Bangladesh Bank will search or take information from other banks about the business and client. After clearing all the process Bangladesh Bank will approve the loans and advances.

After preceding the entire requirement head office or Board of directors will allow or give approve to sanction the loans. Getting approval from the Head office branch will pay money to the clients or business.

Following things are helps to ease the loan sanction procedure of BASIC Bank:

- 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 property.
- 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 less or confirming his agreement to sell or lease indicating land extent and expected price.
- 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.

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

- ❖ Application for loan
- ❖ Photocopy of passport/citizenship certificate (Proprietor/ M. D. /Director(s))
- ❖ Photographs 4 copies of each (Proprietor/ M. D. /Director(s)) duly attested by MD/Chairman/1stClass Gazette officer.
- ❖ Voter ID card (both sides) attested photocopy.
- ❖ Asset and wealth statement (from income tax file) (Proprietor/ M. D. /Director(s))
- ❖ Signed Letter of undertaking (for CIB) (Proprietor/ M. D. /Director(s))
- ❖ Charge documents
- ❖ Memorandum and Article of Association
- ❖ Certificate of Incorporation
- ❖ Opening account. Authorized person to operate account
- ❖ Stock Report up dated
- ❖ Purchase/Production and Sales Statement month wise for one year
- ❖ Form 117 duly signed (share transfer)

- ❖ Form XII – List of directors duly collected from RJSC
- ❖ Form XV – Allotment of shares duly collected from RJSC
- ❖ Share Certificate (if issued)
- ❖ .List of existing machinery (name, brand, origin, purchase price, , year of purchase, written down value)
- ❖ Audited Financial Statements
- ❖ No demand certificates from the company for income tax
- ❖ Any audit compliance
- ❖ Up-to-date trade license (City Corporation)
- ❖ TIN Certificate of the Company
- ❖ VAT Registration Certificate
- ❖ TIN certificate of each Director
- ❖ Certificate from environment department
- ❖ Certificate from Chief explosive inspection department (Explosive items, Boiler etc.)
- ❖ NOC from roads and highway (will not be acquired by Govt./R&H to widen road)
- ❖ NOC from Traffic Engineering Department, Dhaka City Corporation
- ❖ NOC/Approval from City Planning Department, RAJUK
- ❖ NOC/Approval from Dhaka Metropolitan Police Department
- ❖ NOC from Fire Service and Civil Department
- ❖ Utility bill (attested photocopy latest) (Electricity, Gas, Water)
- ❖ Permission/NOC from local authority (factory purpose)
- ❖ Member certificate from chambers of industries/Association
- ❖ Up-to-date rent receipt of all the properties held under mortgage with BASIC bank limited
- ❖ Municipal/city corporation Tax receipt
- ❖ Registration of board of investment (export oriented)
- ❖ No demand certificates from authority (income tax, Gas, Electricity, water)

5.12 Credit and Risk Monitoring

Basic Bank Limited is very careful about its investment. Because banking business has been associated with various risks. Therefore Basic Bank Limited established a formal program for managing different risks faced by the Bank. Every loan proposal is placed under careful analysis before approval. Proposals of large amount of loans need approval of the Board of Directors and Credit Administration Division.

Basic Bank limited formed a management regularity to reviews the banks overall assets and liabilities position and makes needful changes in its mix as and when required. The Bank also maintained a liquidity policy to ensure financial flexibility to cope with unexpected future cash demands. To manage the risks efficiently and effectively Bank has been continuously follow all the instructions and guidelines of Bangladesh Bank issued under Core Risk Management, Anti Money Laundering, Credit Risk Grading (CRG), Risk Based Capital Adequacy Framework (BASEL-1), SRP and Stress Testing etc.

5.13 Credit Monitoring in Basic Bank

Basic Bank Limited believes that if loans and advanced provide by following the rules than it reduce the failure of repairing the loans. A separate Corporate Division has been formed at Head Office which is entrusted with the duties of maintaining effective relationship with the customers, marketing of credit products, exploring new business opportunities etc. Moreover ,credit approval, administration, monitoring and recovery functions have been formed at Head Office since the inception of the Bank which are assigned with duties of marketing and assessment of credit products, maintaining effective relation with the customers and exploring new business.

Another division naming Credit Administration Division (CAD) has also been established to oversee mainly documentation facilities. In line with Bangladesh Bank guidelines the Bank has segregated marketing, approval and monitoring/recovery functions. The credit risk management includes borrower risk analysis, historical performance of the customer, security of the proposed credit facility and market reputation of the borrower etc.

5.14 Preferred Risk Management Structure and Responsibilities

The Board of directors of BASIC Bank Limited maintains the overall credit risk exposure; the importance of a sound risk management structure is second to none. It is important for Basic Bank Limited to maintain such structure that should equal with institution's size, complexity and diversification of its activities. The key feature is the separation of the Marketing/Relationship Management function from Approval/Risk/Administration functions. It must facilitate effective management oversight and proper execution of credit risk management and control processes. The Board of Directors has the overall responsibility for management of risks. The Board decides the risk management policy and set limits for liquidity, interest rate, foreign exchange and equity price risks. Credit risk management encompasses identification, measurement, matching mitigations, monitoring and control of the credit risk exposures to ensure that:

- ❖ The individuals who take or manage risks clearly understand it
- ❖ The organization's Risk exposure is within the limits established by Board of Directors with respect to sector, group and country's prevailing situation
- ❖ Risk taking Decisions are in line with the business strategy and objectives set by Board of Directors.
- ❖ The expected payoffs compensate the risks taken.
- ❖ Risk taking decisions are explicit and clear.
- ❖ Sufficient capital as a buffer is available to take risk.

Chapter-6

OBSERVATION

CONCLUSION &

RECOMMENDATION

6.1 Observation

Working for BASIC Bank Limited, Islampur Branch was totally different experience for me. From my point of view it was an experience of a life time because there I involved in working environment and gained practical knowledge like time maintaining, following rules and regulations, communicate with the consumers as well. Besides these I observed their activities and problems that BASIC Bank Limited faced during my internship period. During my internship period I worked in both general banking as well as loan and advanced department. Although my main focuses was to learn more about loan able products and services. As I have mentioned it earlier that BASIC Bank Limited is one of the leading commercial Bank in Bangladesh. They have 65 branches all over the country and they provide superior services to their clients. Therefore BASIC Bank Limited, Islampur Branch collect more than 70 corer taka in less than two years, which is quite impressive in number. BASIC Bank Limited collected deposits through different types of depository accounts like FDR, Savings A/C, Current A/C, Monthly deposit schemes. BASIC Bank Limited provide highest interest rate against FDR than the others bank. They provide 12.5% interest rate, where other banks interest rate is up to 11.5 to 12% maximum. Therefore they are able to collect maximum deposit from the FDR. Also BASIC Bank Limited gives interest against Current A/C, which is known as Premium Current A/C. Premium Current A/C is a unique services provided by BASIC Bank Limited because other commercial banks does not give any interest against Current A/C. Besides these their other depository A/C's like savings and monthly deposit schemes are also attractive for the customers.

On the other hand BASIC Bank Limited provides different types of loan able products like Industrial Loan, Micro Credit Scheme and commercial Loan. BASIC Bank Limited provides loans at a lower interest rate than the other banks. The interest rate for industrial loan is 17%, where other bank's interest is more than 18%. BASIC Bank Limited categorized this Industrial loan in two different sectors such as Small enterprise and Medium Enterprise. These two types of enterprises are also categorized in different sub-features, which are given in the project part. Micro-credit Scheme is a kind of services where BASIC Bank Limited works with different NGO's to help poor people in the country. The main motto of this service is to reduce the poverty level of the country and support the poor people. The interest rate of Micro Credit Scheme is also get able for the poor people. Besides this BASIC Bank Limited provide

Commercial Loans such as CASH Credit A/C, Overdrafts and Term Loan. CASH Credit A/C is known as CC A/C. CC A/C is a kind of loan where loans are given for a short period of time, which is not more than a 1 year or less than 1 year. CASH Credit Loan is given on the basis of two conditions such as Credit against Pledge and Cash Credit against Hypothecation. Cash Credit against pledge means borrowers surrenders their physical possession under Bank's control. Cash Credit against Hypothecation means Bank's claimed against borrower raw materials and finished goods. Although the time period for CC A/C is only 1 year, after 1 year if borrower wants to continue the CC A/C and if Bank allow and both the parties comes into mutual then the CC A/C will continue for the next year. Therefore CC A/C is also known as Continuing Credit A/C. Besides these in CC A/C clients can withdraw and deposit money anytime during the time period and of course clients have to withdraw money with in the limitation given by the Banks. Overdraft A/C is a kind of loan able product which provided against clients FDR. This A/C is also known as SOD A/C. SOD stands for Special Overdrafts A/C. Sometimes client needs urgent money; therefore they can close the FDR accounts and withdraw money from the bank. To avoid such liquidity problem and to help the clients BASIC Bank Limited provides SOD A/C. For an example if a client hold a FDR A/C of 20 Lacs taka. Then BASIC Bank will give him or her less than 20 lacs taka as a SOD loan as a security. The interest rate against SOD A/C is 3% higher than the FDR A/C such as if interest rate against FDR A/C is 12.5%, so the interest rate against SOD A/C's will be 15.5%. Term Loan is a kind of CC A/C. But the differences between CC A/C and Term Loans are time duration and withdraw process. Term Loan is given for more than 1 year and clients have to withdraw all the money at the beginning of the loan period. Also clients need to return all the deposit at the end of the loan period. There are some procedures that both Banks and clients need to fulfill to sanction the loans. The charges documents need by the Banks should be provided by the clients to make the procedure easier. Also Bank should evaluate clients according to his or her credibility. The evaluation process should not be done according to the relationship among Banks and clients.

During my internship period I observed that Banks only given less than 20% deposit to the clients as a Loan. Although Bank has more than 70 crore taka as a deposit but they are able to give only 13 to 15 crore taka as a loan to the direct clients. Rest of deposit goes to the Head Office. Then Head Office distributes these deposits to the other branches. Other branches then

provide these deposits as a loan to their clients. After that those branches return money along with the interest rate after the loan period to the head office. Then Head Office returns those amounts of money to the Islampur Branch. But the problem is that Islampur Branch collects deposits at 12.5% interest rate from the clients. Also Head Office collects deposits from Islampur Branch at the same interest rate, which is 12.5%. So there is no gain from here for the Islampur Branch. By this process they are generating loss. During my internship period I saw at the end of June, 2013 they were in loss of 37 lacs taka. The loss amount was huge for a new branch. Although the entire BASIC Bank limited are in good situation. The profit level is in satisfactory level for a commercial Bank. From my point of view I can say that instead of Head Office if Islampur Branch can provide loans to direct clients then they will be able to generate profits. Because then they will be able to collect 17 to 18% interest rate from the clients, rather than 12.5% interest rate from the Head office. So generally then they will be able to increase their profit. There are some restrictions which create a problem in loan sanction procedure. Heavily dependent on the Head office decision and third party guarantee are one of those restrictions. Another thing is that BASIC Bank does not provide any kinds of individual's loans like- education loan, car loan, home loan, credit card etc. Therefore their clients cannot take this kind of loans from BASIC Bank. That's why BASIC Bank has enough liquidity on their hand but they are not able to utilize it in proper way.

6.2 Findings

While working at BASIC Bank Limited, Islampur Branch, I have attained a newer kind of experience. After collecting and analysis data I have got some findings and recommendations. These findings are completely my personal view of point, which is given below:

- ❖ Branch Manager Conscious efforts to achieve the targets and knows how to motivate employees and how to represent the Bank well in the local community
- ❖ The employees of the bank are young, energetic, co-operative and friendly. Their dealings with the clients are co-operative and friendly which create positive perception about the bank in the clients mind.
- ❖ The credit analysts have a strong background in accounting financial statement analysis, business law and economics along with good negotiating skills. This lessens the possibility of bad debt.
- ❖ The loans and deposits of this bank are rising at an impressive rate.
- ❖ BASIC has not yet set up proper network system, which is very important to compete with others in this electronic world.
- ❖ BASIC is not providing the credit card facilities, which is now available at many other banks. Therefore they are losing many potential customers.
- ❖ The web-site of BASIC Bank is not updated. Only a few amount of information are given and products and services are written in the website.
- ❖ BASIC does not offer loan to individuals, where other banks are doing it promptly.
- ❖ BASIC Bank hasn't got available ATM booth services, which is available in many other banks and it is very important desire at present.

6.3 Recommendation

Through this study I myself gained some practical knowledge about credit business in Bangladesh and other banking stuffs. I want to put some suggestion here which I think if followed would definitely help BASIC Bank Ltd. to promotion in credit business and also their banking system.

- ❖ In the credit department, strict supervision is necessary to avoid loan defaulters. The bank official should do regular visit to the projects.
- ❖ Effective and efficient initiative is necessary to recover the default loans.
- ❖ The bank should focus more on existing customers in order to build strong and loyal relationship with them as satisfied customers more aptly or certainly recommends the bank to friends and relatives. Thus the power of relationship will foster positive Word of Mouth Communication and will attract new customers at a lower cost.
- ❖ Banks should as soon as possible install highly automated banking software to add value to its service. This will not only allow faster service but also reduce the work load.
- ❖ Banks should employ an outside company for recovery of its dues because it takes a great amount of time for the bank's employees to recover stuck up loans.
- ❖ Banks can increase its retail credit loan by allowing credit to more customers. This can be possible through relaxation of credit norms like waiver of guarantee from third parties.
- ❖ The bank must also open more branches in those places where people need banking facilities. Management should consider about the location to set up a new branch.
- ❖ More information should be added in the website of the bank and the description about products and services should be written in English also.
- ❖ Introducing the new feature of product may attract the customer to take loan from the BASIC.
- ❖ Basic should provide individuals loans like car loan, Home loan, educational loan etc.
- ❖ Basic should provide credit card or debit card to increase the profit.
- ❖ Like City bank online banking services Basic Bank can also launch online banking service.

6.4 Conclusion

BASIC started its journey on 21st January, 1989 with the commitment of economic and social development of Bangladesh. After passing almost 24 years, BASIC still have a distinguished place among the finest banks in Bangladesh. The bank has 65 branches, about 1700 dedicated employees and more than 55,000 valued clients. The bank is always committed to deliver utmost satisfaction to the customers. The bank is dedicated to provide unique service to its customers, come up with timely and innovative products and services while emphasizing on the latest technology.

The management of BASIC is taking strategic steps to enable the bank to emerge as a strong and progressive institution. With a bulk of qualified and experienced human resource, the bank can exploit any opportunity in the banking sector. It is continuing to make efforts to refine its products and operations to make them more compatible. New deposit schemes have been introduced and action plans have been taken to maintain revenue growth in future.

The image created by the bank is very good and the total condition is almost within their control. BASIC has the capacity to utilize all its resources. If it can utilize its all resources, it can earn more profit and can acquire the highest position among the banks inside Bangladesh. I am quite satisfied with their overall performance so far and wish a good success and bright future of the Bangladesh Small Industries and Commerce Bank Limited (BASIC).

Chapter-7
REFERENCES

References

Annual Reports

Basic Bank Limited, Annual report 2011

Website

1. <http://www.bangladeshbank.org.bd>
 2. <http://www.wikipedia.org>
 3. www.basicbanklimited.com
 4. Credit Risk Management
 5. <http://www.ukessays.com/essays/management/credit-risk>[accessed:20-04-2013]
11. Brigham- Garpenski “Financial Management: Theory and Practice”, Harcourt College Publishing, 1999.

Chapter -8

APPENDIX