

# **BUS-699 Internship Report**

## **“Evaluation of Loan Product Marketing and Risk Management Process of BRAC Bank Ltd.”**

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September 06, 2015

# Letter of Transmittal

September 06, 2015

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## **Subject: Submission of internship report**

Dear Sir,

I have the pleasure to submit my Internship report on “Evaluation of Loan Product Marketing and Risk Management Process of BRAC Bank Ltd” as requirement for fulfilling my Degree of MBA. I feel privileged to be associated with an experienced, efficient and professional team in one of the most reputed Banks of Bangladesh where I have been working for last six years. I strongly believe that this report will satisfy your requirements and expectations.

I have tried my best to make this report as informative, practical, reliable and relevant as possible. In preparation of this report, I have reviewed BRAC bank website, relevant journals and articles from internet, had several discussions with relevant personnel and on the basis of all these I drew a set of recommendation which I believe will help the credit department to improve their competence.

I have toiled hard in preparing this report and tried to make this report clear and comprehensive within the limitations. I sincerely believe that it will serve the requirement. I shall always be obliged to furnish any clarification regarding this report, if required.

I appreciate your kind advice, cooperation, patience and suggestions regarding this report, which will definitely help me to follow as a guideline in future endeavors. I will be available for any further query and clarification regarding this report whenever necessary.

Sincerely Yours,

Nusrat Afrin  
ID: 09364036  
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## **Acknowledgement**

Firstly, I would like to thank my honorable faculty, Mr. Ariful Ghani for his kind patience, guidance and support for helping me preparing this report. I will always be indebted to him for the valuable suggestion and time that he had spent for guiding me throughout this period.

I would also like to acknowledge my great appreciation toward Md. Moslah Uddin Ahmed, the Customer Service Manager, Jashim Uddin Avenue Branch (Retail Banking Division) and Md. Solaiman Hossain, the Customer Service Manager, Jashim Uddin Avenue Branch (Retail Banking Division) for being patient and supporting me throughout my 3-months long internship program. They have provided their time and efforts to direct me throughout this tenure in BRAC Bank Ltd.

My peers and colleagues at the bank had also been very kind and helpful and they made my internship a more comfortable one.

Last but not the least; I also want to thank all my co-workers and employees of Jashim Uddin Avenue Branch for being patient in taking part in various discussions and queries that has been so crucial for my report.

## Executive Summary

BRAC Bank Limited is a scheduled commercial bank in Bangladesh. It was established in Bangladesh under the Banking Companies Act, 1991 and incorporated as a private limited company on 20th May 1999 under the Companies Act, 1994. BRAC Bank Ltd is a bank of new generation as its one step ahead from other banks not only in making profit but also to serve people in an effective way to meet customer needs and demand. The bank was launched some attractive products and services that show their deed orientation toward marketing philosophy. BRAC Bank, for the first time among local commercial banks, starts providing loan facilities to small and medium trading, manufacturing and service oriented enterprises all over the country.

I have been working in this bank since August 2009. Throughout the period, I had been working in branch banking but to prepare my internship Research report I had to know and collect information from the concerned departments of Head office. The report comprising with introductory chapter, organizational overview and **Loan Products and Risk Management Process of BRAC Bank Ltd** which is the main part of the report. Any study has objective and on the basis of that objective the work has to be completed. To accomplish, required objective was to study in a particular sector related with that objective and to follow a disciplinary way to present the study in the best way. For the fulfillment of the objective, different drawbacks had to face during various times of the study. All such information related with my study included in the overall report.

Although, I am officially appointed to work in the Branch Banking department but the report will reveal the background of the company, description of the loan products, findings and recommendations based on the experience gathered.

The overall report is based on my observations in to the credit division of BRAC Bank Ltd. Lending is one of the principal functions of the commercial banks. Sound lending practice is therefore very important for profitability and success of a bank. For the sake of sound lending, it is necessary to develop a sound policy and modern credit management techniques to ensure that loans/advances

are safe and the money will come back within the time set for repayment. For this purpose, proper and prior analysis of credit proposals is required to assess the risk.

The core competence of the BRAC Bank Ltd is to provide the fastest loans to the clients in the banking industry. To retain this competitive advantage BRAC Bank is trying to reduce collateral securities than other banks. It provides more collateral free secured loans to capture the market.

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## **Introduction**

Banking system of Bangladesh has undergone major changes over the last few decades. The country moved towards a relatively market-based open economy away from state control by adopting a major stabilization, liberalization and deregulation program under the influence of the World Bank and the IMF against the backdrop of serious macroeconomic imbalances in the early 1980s. After 90's the banking sector was opened to greater competition by the entry of new private banks and more liberal entry of foreign banks in line with the recommendations of this program.

With increased adoption of the internet as a delivery channel contributes to a gradual reduction in overhead expenses of the banks by providing a high level of quality services through ATM, POS (Point of Sale), Online/Internet-banking. These factors have changed the market structure of Bangladesh banking industry significantly. As a result, in recent years, the state-owned public banks have lost market share to the private commercial banks.

BRAC Bank is one of such emerging private bank emerged in the industry 2001.

## **Overview of BRAC Bank Ltd**

BRAC Bank Limited, with institutional shareholdings by BRAC, International Finance Corporation (IFC) and Shorecap International had been the fastest growing Bank in 2004 and 2005. The Bank operates under a "double bottom line" agenda where profit and social responsibility go hand in hand as it strives towards a poverty-free, enlightened Bangladesh.

BRAC Bank Limited is a scheduled commercial bank in Bangladesh. It was established in Bangladesh under the Banking Companies Act, 1991 and incorporated as a private limited company on 20th May 1999 under the Companies Act, 1994. The primary objective of the Bank is to provide all kinds of banking business. At the very beginning the Bank faced some legal obligations because the High Court of Bangladesh suspended activity of the Bank and it could fail to start its operations till 3rd June 2001. Eventually, the judgment of the High Court was set aside and dismissed by the Appellate division of the Supreme.

A fully operational Commercial Bank, BRAC Bank focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which yet has remained largely untapped within the country. In the last five years of operation, the Bank has disbursed over BDT 1500 crore in loans to nearly 50,000 small and medium entrepreneurs. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh.

The Bank has started its operations from July 04, 2001. The Chairman of the Bank is Mr. Fazle Hasan Abed. Now the Managing Director of the bank is Mr. Syed Mahbubur Rahman. The bank has made a reasonable progress due to its visionary management people and its appropriate policy and implementation. BRAC Bank is a commercial scheduled bank extending full range of banking facilities as per the directives of Bangladesh bank. It intends to set standards as the absolute market

leader by providing efficient, friendly and modern, fully automated on- line service on a profitable basis. BRAC Bank in surviving in the large banking arena through its unique and competitive products and it is the first local bank that started providing 100% integrated online banking facility. The bank has made a reasonable progress due to its visionary management people and its appropriate policy and implementation.

A fully operational commercial bank, BRAC Bank focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which till now has remained largely untapped within the country. In its last several years of operation, the Bank has disbursed over BDT 9750 cores in loans to nearly 300,000 small and medium entrepreneurs. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh.

The Bank is mainly owned by the largest NGO in Bangladesh- BRAC .The Bank has positioned itself as a new generation Bank with a focus to meet diverse financial need of a growing and developing economy. With local and international shareholding by BRAC, International Finance Corporation and Shore cap International, BRAC Bank is listed in both the Dhaka and Chittagong Stock Exchanges.

Ironically, more than ¾th of the economy is out of the reach of formal banking. BRAC Bank took a step to break this tradition of banking and tapped into the true suburb entrepreneurial initiatives. More than half of BRAC Bank's lending is for this small and medium enterprises – popularly known as 'SME'. These businesses are the dreams and achievements of individual Bangladeshis.

### **Product Offerings:**

The making of loan and advance is always profitable to a bank. As the bank mobilizes savings from the general people in the form of deposit, the most important task of it is to disburse the said deposit as loan or advance to the mass people for the development of commercial, industrial who are in need of fund for investment. Like other business firm, the main purpose of the commercial bank is to make profit. The profitability of the banks depends on the efficient manner and avenues in which the resources are employed. BRAC bank has made so far efficient use of the deposit and has the classified rates under control. The Bank disburses loan in different form. It varies in purpose wise, mode wise and sector wide.

The varieties used by BRAC Bank Ltd are briefly described below with the common terms and condition and performance in each mode.

### **Classification of Advance:**

- Corporate Credit Scheme
- Retail Credit Scheme
- SME Credit Scheme



### **Corporate Credit Scheme:**

The bank is entrusted with the responsibility of providing short, medium and long term loans and other financial assistance for promotion of industrial sectors.

There are 10 types of corporate credit schemes:

### **Corporate loan products:**

- Overdraft
- Short Term loan
- Lease Finance
- Loan against trust Receipt (LATR)
- Work order finance
- Emerging Business
- Syndication
- Term Loan
- Project Finance
- Bank Guarantees

### **Retail Credit Schemes:**

The bank also provides retail loan to individual customers. There are different types of retail loan which helps customer to fulfill their dream. There are 5 types of loan in retail credit scheme:

- Home Loan
- Personal Loan (Salaried Individuals and Businessman)
- Personal loan for Doctors
- Nijer Bari
- Auto loan
- Life Style plus
- Cash secured
- Study Loan
- Motorcycle Loan

### **SME Credit Schemes:**

BRAC Bank being the youngest bank among third generation banks of that time took a step to break away from usual tradition and tapped into the true sub-urban entrepreneurial initiatives. With over 220,139 million of loans disbursed till now, BRAC Bank is country's largest SME financier that has made more than 411,000 dreams come true. There are 6 types of SME Loan Scheme:

- Anonno Rin
- Apurbo Rin
- Prothoma Rin
- Durjoy
- Shomriddhi Rin
- Shompod Rin
- Shokti Rin

# Organizational Overview

BRAC Bank has started with an initial capital amount of BDT 250 million, while the authorized capital was BDT 1,000 million. Over time the bank has increased its capital base because of its steady growth and within three years of operations, it has doubled its capital base to BDT 500 million. The Bank then go for public offering and currently it has following shareholding structure:

Shareholders	Percentage
BRAC	44.64%
IFC	5.36%
General Shareholders (IPO)	50%
Others	0.01%
Total	100%

Table 1: Shareholder Percentage

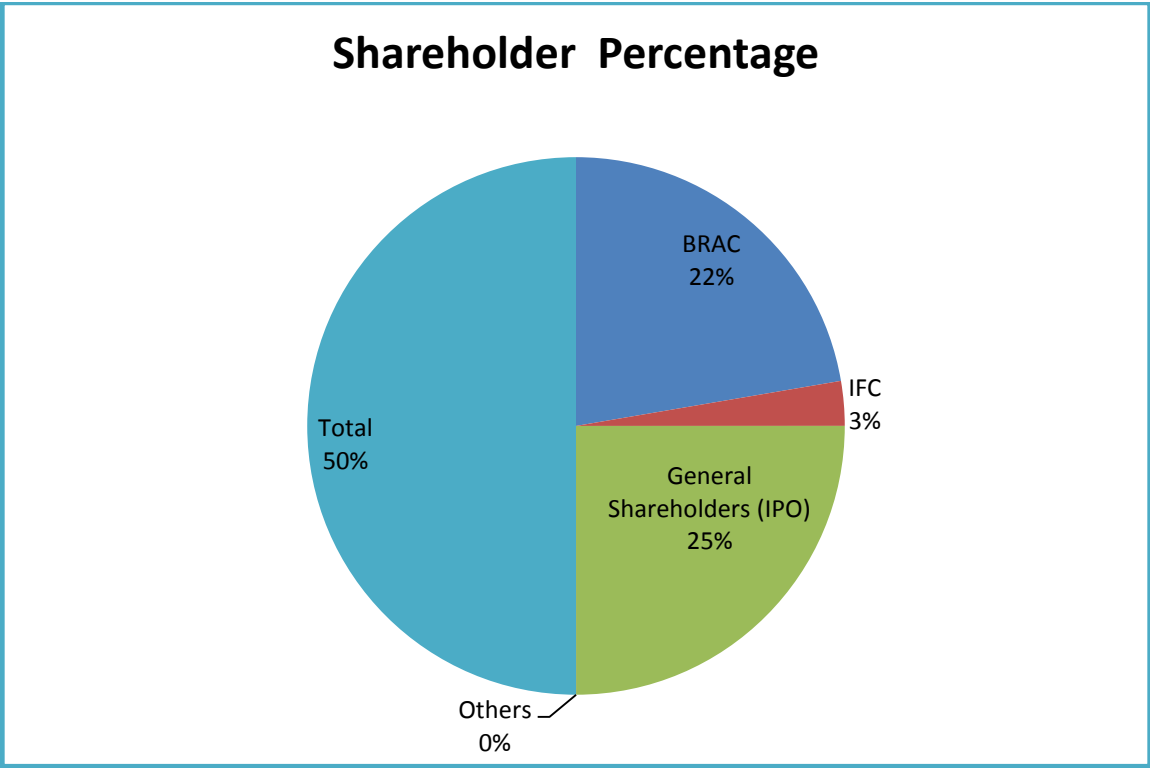


Figure 1: Shareholder Percentage

## **Business Divisions of BRAC Bank Limited**

BRAC Bank Limited consists of five major business divisions:

They are

- Retail Banking Division
- Corporate Banking Division
- Small and Medium Enterprise (SME)
- Treasury
- Remittance Services

### **Retail Banking Division**

Retail Division offers a wide array of lucrative and competitive banking products to the individual customers of the bank. It offers different types of term deposit scheme and attractive STD and Savings deposit schemes giving interest on daily balance. Retail Banking Division has the following departments:

- Branch Banking
- Alternative Delivery Channels (ATM, Apon Somoy, Cash deposit machine (CDM), Phone banking, e-statement)
- Cards Department
- Retail Risk
- Products and Marketing
- Value Centers

Currently BRAC Bank has re-organized its retail business according to customer profile. This segmentation has been done to deliver more standardized services and reduce operating costs as well. The segments are as follows-

- Premium Banking
- Supreme Banking
- Excel Banking
- Easy Banking

#### Segments of Retail Banking

- Premium Banking

Guest who maintains at least BDT 50 lacs (6 month average) is called premium customers. They are highly prioritized. They also enjoy different gift and discount through BRAC Bank. Currently BRAC Bank has around 1000 premium customers.

➤ Supreme Banking

Guests who maintain a balance between BDT 10 lacs to below 50 lacs (6month average) are treated as supreme clients. They enjoy separate service booth and cash deposit booth in the branch along with many other services.

➤ Excel Banking

Client who maintains a balance between BDT 50 thousand to below 10 lacs in an average of 6 months are called excel group of guest.

➤ Easy Banking

These are the general customers who do day to day and traditional banking with the bank. They only require a minimum balance in the account (up to BDT 50 thousand).

#### Products and Services of Retail Banking

Retail Loans are consumer's loan. Based on the customer demand these loans are given. BRAC Bank has a wide range of retail loan-

- Car loan
- Doctor's loan
- Secured Loan/OD
- High flyer loan
- Top up loan
- Credit card loan
- Study loan
- Salary loan

BRAC Bank's Retail Division is being operated centrally. Under the Retail Banking Division all the branches, which acts as sales and service center, are reportable to Head of Retail Banking. Different products of Retail Banking are as follows:

- Deposit Products
- Loan Products
- Cards
- Locker Services
- Foreign exchange and related Service

The product and services that are currently available are given below-

## Depository Products

BBL is now offering 6 depository products for mobilizing the savings of the general people:

- Savings A/C
  - Triple Benefits Savings Account
  - Savings Classic Account
  - Aporajita Account
  - Future Star Account
  
- Current A/C
  - Current Classic Account
  - Current Plus
  - EZee Account
  - Salary Account
  - Campus Account
  - Prapti Account
  
- STD A/C
- Fixed Deposit A/C
- DPS A/C

## Loan Products

BRAC Bank is offering the following loan and advance product to the client for financing different purpose that fulfill the requirements of the bank and have good return to the investment as well as satisfy the client. The loan and advance products are:

- Secured Overdraft
- Secured loan
- Life Style loan
- Professional loan
- Credit card loan

## Cards

With over 150 outlets, over 300 ATMs and over 500,000 plastics in the market, BRAC Bank offers a wide range of financial solutions to meet people's everyday need.

- Credit Card
  - Platinum Card
  - Universal Card
  - Universal Visa/MasterCard Classic

- Universal Visa/MasterCard Gold
- Co-branded Universal ICDDRB Card
  
- Debit card
  - Visa/MasterCard Planet Card
  - BRAC Bank RFCD Debit Card
  
- Prepaid Card
  - Hajj Card
  - Travel Card
  
- P@y Flex Programs
  - Regular P@y Flex
  - Interest free P@y Flex

### **Locker Service**

Locker Services are available in over 20 branches.

### **Foreign exchange and related Service**

Travel Related Services deals with the sale of Cash FCY against Individual's Travel Quota and Medical File. This entitlement is for a Calendar Year i.e. from 1st January to 31st December.

### **Corporate Banking Division**

Corporate Division provides full range of commercial banking products and services to any potential corporate clients including multinationals, large or medium local corporate, NGOs, institutional bodies.

The Corporate Banking Division has a centralized structure through on-line banking system. Any credit facility is processed at the Corporate Banking Division, Head office. After sanctioning of the facility, the limit is put on line and the customer can enjoy the facility from any of the BRAC Bank branches. Strict adherence to internal control guidelines and other legal and statutory compliance are followed. The Credit approval process involves separate Credit Division, the Managing Director and finally the Board.

Other departments like Foreign Trade, Treasury, and Credit Administration etc. play the support role for a comprehensive range of service to the Corporate Banking Division.

The facilities of corporate Division lies into two categories-

- Corporate Loan Products
  - Overdraft
  - Short Term Loan
  - Lease Finance

Loan against Trust Receipt (LATR)  
Work Order Finance  
Emerging Business  
Syndication  
Term Loan  
Project Finance  
Bill Purchase  
Bank Guarantees

➤ Trade Finance

Trade Finance are those type of facilities where customers don't get fund on their hand rather get Banks Guarantee service to do international trading-import and export. Letters of Credit, Bank guarantees etc. are the examples of the non-funded facilities.

### **Treasury Division**

Treasury Division is one of the major divisions of BRAC Bank. Treasury Division deals with money market. All treasury related products are processed in conformity with the Bank's Operational, Trading, Money market, Overnight, Term placing, Deal settlement, Commercial position keeping, Treasury, Credit, Finance and other applicable policies.

Treasury Operations calculates investment figure, prepares the auction application, forwards the application to Bangladesh Bank for Bid and Treasury Operations maintains and reconciles all accounts with foreign and local banks.

BRAC Bank has a strong presence in the Treasury Market in Bangladesh. The Money Market Desk of the Treasury Division mainly deals in Bangladeshi Taka transactions. The basic activities undertaken by the Money Market Desk are:

- Management of Statutory Reserves viz. Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
- Daily Funds and Liquidity Management
- Investment Management
- Treasury Services
- Call/Overnight Lending and Borrowing
- Term Money Borrowing and Lending
- Repurchase Agreement
- Treasury Bills (T-Bills)

### **Secured Remittance Services (SRS)**

BRAC bank has introduced an innovative remittance services for Bangladeshis living abroad with some unique features compared to any of the existing remittance program. Bangladeshi expatriates



can now send their money to their relatives anywhere in Bangladesh even to the remotest part within 24 hours at a reasonable cost and competitive exchange rate.

➤ Accounts and Deposits

- Probashi Current Account
- Probashi Savings Account
- Probashi Fixed Deposit
- Probashi Abiram
- Probashi DPS

➤ Investments

- Probashi Wage Earners' Bond
- US Dollar Premium and Investment Bond
- Probashi Biniyog

## **Corporate Vision, Mission and Goals**

### **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.

### **Mission**

- Continuous endeavor to increase fee based income
- Sustained growth in 'small and Medium Enterprise' sector
- Keep our Debt Charges at 2% to maintain a steady profitable growth
- Continuous low cost deposit growth with controlled growth in Retained Assets
- Corporate Assets to be funded through self-liability mobilization.
- Growth in Assets through Syndications and Investment in faster growing sector
- Achieve efficient synergies between the bank's Branches, SME Unit Offices and BRAC field offices for delivery of Remittance and Bank's other products and services
- Manage various lines of business in a fully controlled environment with no compromise on service quality

- Keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality

## **Goals**

BRAC will be the absolute market leader in SME business throughout Bangladesh. It will be a world-class organization in terms of services quality and establishing relationships that help its customers to develop and grow successfully. It will be the Bank of choice both for its employees and its customers, the model bank across the globe.

BRAC Bank Ltd has not just a corporate identity it has a social identity too. As a bank they are socially responsible. Fifty percent of the Loan portfolio is diverted to Small and Medium Enterprise banking, and as a financial intermediary they channel funds from the surplus ends to the needy. Countrywide network of SME Units cater to the needs of small entrepreneurs to help them build their asset base. BRAC Bank Ltd is the market leader in SME, striving for socio-economic upheaval in Bangladesh. BRAC Bank Ltd does not support any finances that are detrimental to our environment. A portion of the revenue is channeled to support BRAC schools, where children study for free. 70% of these children are female.

## **Job Overview**

I started my career in Retail banking division back in August 3, 2009. I started my carrier as a Branch Sales and Service Officer.

As a fresher, I was responsible for delivering one stop quality customer service to customers. So, that time I had been given access to Finacle Banking Software, Connect Plus Software, Central DB Log-In and so on to provide prompt customer service.

I was also responsible for providing remittance service to the customers. I also work with Western Union and MoneyGram (External software) and have access to internal software named M-Remit. We do provide all spot cash and pay cash with the help of this software.

That time, I was also responsible for daily or monthly reconciliation of Security Items. Besides operational task, I had to work for branch profit oriented jobs such as achieving branch business target for both side of the balance sheet (Asset and Liability).

In 2012, I was promoted as a Senior Officer with a bigger responsibility on my shoulder. I started monitoring internal controls against branch operations to comply with internal and external audit, preparing monthly reports for Bangladesh Bank and internal audit on top of my previous jobs.

As a Branch Sales and Service officer, I also need to concentrate on Sales besides service and operational work. Besides, loan product management and drive for branch target, leading the team for achieving targets, co-ordination with credit departments are some of my major responsibilities.

## **Background of the Study**

Internship is a prerequisite for completing MBA degree. It is essential to relate the theoretical knowledge and concepts gained in the classroom to be incorporated in real life scenarios. MBA is a professional course which is designed with the combination of both practical and theoretical aspect.

As an MBA student it is pretty much required to gather some practical knowledge. Thus, internship is designed as a part of MBA completion requirement by which one can gain some practical knowledge and understand how theoretical knowledge is implemented in practical scenarios.

This internship report is prepared as a partial requirement of the internship program for the MBA students of BRAC University.

As an existing employee of BRAC Bank Limited I have already been working as Branch Sales and Service Officer at Jashim Uddin Avenue Branch Uttara under Retail Banking Division. In my daily work, I need to deal with various loan products as well as need to promote them as part of my job responsibility.

In doing so, I have gained experience over the years and I also noticed some issues. Thus, I believe choosing a topic like **“Evaluation of Loan Product Marketing and Risk Management Process of BRAC Bank Ltd”** would be beneficial both for me and for the company to work on.

## **Objectives of the study**

With the growing demand of loan products, credit risk rating/management is becoming an increasingly important element for the commercial banks’ measurement and management of credit risk.

The report is based on my critical observation on the loan products of BRAC Bank Ltd. The report reveals the various types of loan scheme and the criterion to get the loan and the risk grading system. This report will not only help the management of the bank, but also the stakeholders as a whole.

This report also attempts to investigate the extent to which the credit rating systems are used in context of BRAC Bank Ltd based on my working experience over the years.

Several risks relevant to this are:

- Credit Risk
- Process Risk
- IT System Risk
- Foreign Exchange Risk
- Credit Sensitivity
- Compliance Risk

- Internal and External Fraud Risk
- Documentation Risk
- Operational Risk

Lending is one of the main functions for any commercial Bank. In formulating a credit judgment, the credit officers of BRAC Bank must be equipped with all information needed to evaluate a borrower. In all kinds of business dealings, officers and employees must be guided by the principles of honesty, integrity and safeguard the interest of the depositors and shareholders of the Bank. They should strictly adhere to the Banking Laws, Rules and Regulations of the Govt. of Bangladesh, the instructions issued by the Bangladesh Bank or Head Office from time to time that affects the business practices of the Bank.

The scope of the study will be as follows:

- Making a clear overview of the financial performance measurement criteria
- Overview of bank's financial performance in aspect of BARC Bank Ltd
- Find out overall situation of BRAC Bank Ltd in the aspect of financial performance
- Earnings and profitability of the bank by the financial activity

## **Literature Review**

Treacy and Carey (2000) suggest that in designing a credit rating system, a bank should consider numerous factors, including cost, efficiency of information gathering, consistency of rating produced, staff incentives, nature of a bank's business, and uses to be made of the internal ratings. They notice that the proportion of grades used to distinguish among relatively low-risk credits versus the proportion used to distinguish among riskier pass credits tend to differ with the business mix of a bank. A rating system with more rating categories is better than a system with just a few categories.

When assigning a loan applicant to a particular grade, Crouhy et al. (2001) suggest that banks should analyze three different categories of variables – quantitative, qualitative and legal. The quantitative analysis concentrates mainly on financial analysis and is often based on a firm's financial reports. The four main quantitative factors used in the assessment model include net income, total operating income, total equity capital and total asset values. These factors allow the banks to calculate a variety of ratios including return on assets (ROA), return on equity (ROE) and assets utilization (AU), etc. Once computed, these ratios would be compared with the Credit Risk Rating System in the Banking Sector industry standard. In addition to the information disclosed in the financial statements, the rating also includes information about the quality of Collateral and the third party support. For certain type of loans like overseas loans or loans for customer in import/export business, country risk is also another important factor to take in to account.

### **Credit risk**

Credit risk means, the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Jarrow, Lando and Turnbull (1997) study the term structure of credit risk spreads in a model with the bankruptcy process following a discrete state space Markov chain in credit rating. Crouhy , Galai and mark(2000) make a comparison of Credit Risk to the other models, they state that credit risk is easy to apply as it drive a closed form solution for the loss distribution of a credit portfolio. There is no market risk in credit risk because both market risk and credit migration are ignored in this model, each borrowers exposure is the same changes in its credit quality do not affect its exposure.

### **Credit monitoring**

Credit monitoring plays crucial role in achieving financial goals. With a healthy score and responsible past credit behavior, you'll make it more likely for lenders to offer you lower interest rates on mortgages, auto loans, other loans and credit cards – even your property and insurance rates can benefit.

Christopher J. Cowton, Peter C. Ho, (1985) "Credit Control The success of a credit system, in terms of both effectiveness and cost, is largely determined by policy established within the company. Too

conservative a policy will entail high opportunity cost through loss of business, but too liberal a policy results in the cost of tying up funds in debtors and the increased possibility of bad debts. A survey investigating building merchants' practices in Wales (1984), conducted by questionnaire, reflects some variety in approaching the provision of trade credit, but a relatively high degree of uniformity and lack of sophistication in monitoring systems. Stigitz and Weiss(1988) are the example of papers advancing the idea that banks are institutions "specializing suggest that monitoring the behavior of customers over time including repayment of loans and other transactions, provides banks with an information advantage they can use to successfully perform the function of resource allocation in an economy.

### **Reliability**

Risk has become a key concept in modern society. Growing concern about the environment and a number of disasters has served to focus attention on the hazards and risks involved in a wide range of activities. There is a wide range of techniques available to assess risk and reliability, both in relation to safety and in the wider sense. These techniques now underpin new legislation on safety and have relevance over a broad spectrum of activities, including environmental and other systems, where risk and reliability are key concerns. Chee Tong (2001) Structural risk and reliability analysis has been identified as the potential tool for satisfying these requirements. It is capable of identifying the sources of variables affecting the fatigue life and fatigue strength of the structure in terms of risk.

### **Assurance**

Douglas L. King and Rocie C. Wellman (1995) A system and method of accepting risk though contractual obligations transfer a portion of the risk to investors and includes means for absolute assurance of timely payment to contract holders, and segregation, of interests of particular investors to specifically identified risk in a risk to capital matching system, the system creates agreements which promise payments, Based on loss from risk including investment risk. Data processing provides legally segregated relationship management links, supervising and balancing the interests of professionals in a Risk transfer and diversification system.

## **Main Concentration**

### **Retail Loan Products**

#### **Home Loan and Home Credit:**

Home loan is a term loan facility for middle class and upper class people and greater Dhaka, Chittagong, Sylhet, Comilla, Khulna, Narayanganj City, Saver, Gazipur, Tongi, Bogra Municipal area. It is given to purchase of under-construction/completed flats/Apartments or to construct/extend/renovate of house or flats. Under this scheme, Bank secures the facility through mortgaging the property or through any other form of security accepted by the prevailing law of the country.

#### **Customer segment:**

- Salaried: All salaried individuals (Type A and B) and BBL payroll companies
- Self Employed and BBL payroll companies

Self Employed Professional /Businessman: Self Employed professionals i.e. Doctor, Architect Engineer, Chartered accountant etc who are engaged in independent profession. Businessmen means owner/partner/director/shareholder of proprietorship/partnership/private limited company.

- Land lord: landlords having a stable source of earnings from rented properties.
- 100% cash covered: this segment consists of wage earners/ Non-resident Bangladeshis (NRB) maintaining resident a/c with us or any other banks, any person wants to avail Home loan against cash security.

**Age Limit:** Min 25 to maximum 65 years.

#### **Minimum Income:**

Salaried: BDT 20000

Self Employed/ Businessman: BDT 30,000

Landlord: BDT 25,000

#### **Job/Business Experience:**

3 years works experience for service holder and businessman. There should be one main applicant and another joint applicant. Owner of the property should be main applicant.

**Loan amount:** Minimum 10 lac to 1.2 crore



Home Credit:

Maximum 70% of property value or BDT 1,00,00,000 whichever is lower.

**Personal Loan:**

Personal loan is an unsecured term loan facility to individual Salaried/Businessman/Self-employed person for catering their personal or professional needs.

**Minimum age:** 23 years at the time of application

**Maximum age:** Retirement age or 60 years at the time of loan maturity, whichever is earlier.

**Work Experience:** Confirmed employment with minimum 6 months in current organization but total length of service of 2 years (continued services).

**Size of the Company:** Minimum 5 years in operation and minimum 10 permanent staff employed at any time.

**Minimum Income:** BDT 17,000 for salaried person and BDT 25,000 for Business person.

**Loan Size:** Minimum BDT 1,00,000 to maximum BDT 10,00,000

**Personal Loan for Doctors:**

Personal loan for doctors is a term loan facility under “Loan for Professionals” category designed to fulfill the personal requirements of the individual doctors living in the cities/ towns where the Bank has its operations.

**Customer segments**

**Type A**

Assistant professor/Associate professor or equivalent designation having post graduate degree working in any Type A hospitals.

**Type B**

Doctors of Type A hospitals not meeting above the qualifying criteria and doctors of type B hospitals.

## **Type C**

All other doctors having minimum MBBS degree will be fall under this category (i.e., salaried doctors, self-employed).

**Loan Tenure:** 12 months to 5 years

### **Personal Loan for land lord:**

Minimum Age: 35 years at the time of loan underwriting

Minimum Age: 65 years at the time of loan maturity

Minimum Rental income: BDT 50,000 monthly

### **Rental Reflection in Account Statement:**

- At least amount equivalent to EMI should be credited to bank account for Last 6 months as rental reflection if rental income is below 1 lac.
- If the rental income is more than 1 lac then at least 30% of rental income should be reflected in the account statement
- In any case, latest 1 year continuous bank statement should be available.

### **Loan Tenure:**

- Maximum 36 months
- Minimum 18 months

### **Auto Loan:**

Auto loan is a term loan facility for the middle class to upper class people of the cities, where the bank has its operations, to buy automobiles for their personal use. Under this scheme, the vehicle is hypothecated to the bank only. In addition to this registration requirement, the loan may also partially secured by the commonly acceptable form available in the market as hypothecation.

### **Loan size:**

Minimum: 2 lac

Maximum: 40 lac (including insurance)

Tenure: 12 to 60 months

Monthly Income: 25,000 for salaried and 35,000 for businessman

**Type of Vehicle:****Category - 1:**

New and reconditioned automobiles: all sedan cars, SUV, Jeep and up to 9 seater micro bus for personal use.

**Category - 2:**

New automobiles and reconditioned automobiles: all pick up, up to 11 seater and low grade microbus for personal use.

**Approved Brands:**

Brand new vehicle: any brands

**Reconditioned vehicle:**

Toyota (Including lexus), Honda, Nissan, Mitsubishi, Mazda, Hyundai and KIA

Minimum Margin: 50% down payment required prior to loan disbursement.

**Executive Study Loan:****Features:**

- Target Segment : Only Salaried Individuals (Type A and B Companies) and Contractual employees of only Type A
- Target Areas: Customer must reside in the city/town where listed educational institutions are located. However, in addition customer's residence must be situated within 10 KM of any BBL Branch/SME Service Center
- Loan Amount: BDT 25,000 to BDT 5 Lac
- Loan Tenure: 12 months to 36 months

**Minimum Monthly Net Income:**

BDT 15,000 for Type A and BDT 17,000 for Type B

**Minimum Age:** 28 years

**Maximum Age:** 50 years the time of loan maturity

**Interest Rate:** 13% (Corporate Clients and Type A); 14% (Type B)

**Processing Fee:** 0.25% of the loan amount

**Interest Rates of Loan Products:**

<b>Product</b>	<b>Interest Rate</b>
Quick Loan	20%
Home Loan and Nijer Bari (Floating rate)	12.00% for takeover - all segments
	12.50% for regular loan – all segments
Home Loan and Nijer Bari (Fixed rate)	13.50% for payroll
	14.50% for other salaried segments including salaried doctors, take over
	15.50% for businessmen and others including practicing doctors
Personal Loan for Doctors	14.50%
Personal Loan for Landlord	20%
Personal Loan for RMG workers	20%
Auto Loan	13.50%
Motorcycle Loan	14.00% for corporate clients, Type A companies and all Doctors
	16.00% For others
Lifestyle Plus (PB and SB customers)	20% for unsecured
	Security rate+2% for secured

**Table - 2: Current Interest Rates of Loan Products**

## **Credit Card:**

BRAC bank credit card is a universal credit card. So it is accessible through all VISA/Master card linked ATMs and POS around the globe. It is tie up with renowned shops and outlets for Payflex. Having facilities of reward point, card cheque, Discount at lifestyle/Hotel/ Restaurant etc.

## **Types of Credit card:**

- Classic card (VISA/Master) : Credit limit BDT 10,000 to BDT 75,000
- Gold card (VISA/Master) : Credit limit BDT 80,000 to BDT 5 Lac
- Platinum Card (VISA/Master) : Credit limit BDT 2,50,000 to BDT 5 Lac

## **Benefits of Platinum Credit card:**

- Priority passes for world's largest independent airport lounge access program over 600 airport lounge.
- Buy one get one free buffet at the Westin Dhaka and the Peninsula Chittagong
- Enjoy round-the-clock access to the VISA platinum Customer Center.
- Discount in many local and global retail stores, hotels, hospitals etc.
- Free access for 2 (including card holder) at BALAKA VIP LOUNGE in Hazrat Shahjalal International Airport
- Free priority Welcome Service in Hazrat Shahjalal International Airport
- 100%/50% annual fee reversal with 8000/ 4000 reward points.

Income: BDT 25,000

Minimum Age: 21 Years for primary card and 18 years for supplementary card

Maximum age: 62 years for any cards

## **Overall Credit Management Process of BRAC Bank Ltd:**

- Wholesale Credit receives Credit Proposal with documents from Corporate Banking and SME Medium Business
- Wholesale Credit Analysts checks the Proposals for consistency and completeness
  - If any discrepancy is found, Wholesale Credit informs the respective RM about the discrepancy through lotus mail.
  - RM rectifies the discrepancies and sends the docs/rectified proposals to CRM.

### **Credit Control Point:**

Wholesale Credit receives the following to ensure credit control:

- Credit Proposal
- CRG Sheet
- FSS
- Search Report
- CIB Report

Then, it checks the following things:

- Emerging Unit Credit Proposals are checked by Credit Analyst (Emerging)
- Large Unit Credit Proposals are checked by Credit Analyst (Large)
- Credit may ask for documents related to additional analysis (if and when needed)
- ✓ If everything is found ok, Credit Analysts make recommendations (approve/ decline) of the Credit proposals depicting loan amount, tenor, Interest Rate and additional terms and condition (if any) and forward the Proposals to the Head of Credit Wholesale Banking and Medium Business.
- ✓ Head of Credit Wholesale Banking and Medium Business approves/ decline/ recommends to Chief Credit Officer if not within the approval authority.
- ✓ Chief Credit Officer approves/declines/ recommends to the Managing Director and CEO if not within the approval authority.

Individual Credit Proposals other than Board's approval authority are placed at Credit Committee Meeting on a case to case basis for decision of Managing Director/CEO:

- ✓ Managing Director/CEO approves/declines/ recommends to the Board if not within the approval authority
- ✓ Board approves/ declines the Credit Proposal at the monthly Board Meeting

Individual Credit Proposals other than Board's approval authority are placed at Credit Committee Meeting on a case to case basis for decision:

- ✓ The loans get approved as per Delegated Approval Authority subject to creditworthiness
- ✓ Wholesale Credit sends back the declined Credit Proposal to Corporate Banking Division/ SME Medium Business
- ✓ Wholesale Credit forward the approved Credit Proposals to the respective RM of Corporate Banking or SME Medium Business
- ✓ RM prepares Sanction Advice as per approval term and conditions and mails to Wholesale Credit for validation
- ✓ Wholesale Credit validates the sanction (Following the maker checker concept) and mails back to RM for print out and sign off.

### **Collecting CIB Report from Bangladesh Bank**

After receiving the application for credit line, Bank sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Credit Information Bureau) report. Basically branch seeks this report from the head office for all kinds of loans. The purpose of this report is to being informed that whether the borrower the borrower has taken loan from any other bank; if 'yes', then whether the party has any overdue amount or not.

### **Making Credit proposal (CP)**

Branch then has to find the right borrower by considering the following 6 C's. These are character, capital, capacity, cash, collateral, condition (economic). If the branch thinks that the project is feasible then he will prepare a Proposal. Bank prepares the proposal in a specific form called credit proposal. Significance the proposal branch sends it to head office for approval.

### **Credit assessment**

A thorough credit and risk assessment needs be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a credit application that originates from the Relationship Manager, and is recommended by Branch Credit Committee (BCC). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the bank's Lending Guidelines and should conduct due diligence on new borrowers, principals and guarantors.

Credit Applications should summarize the results of the RMs risk assessment and include as a minimum, the following details:

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

In addition, the following risk areas are analyzed:

- Borrower analysis
- Industry analysis
- Supplier/ Buyer analysis
- Historical financial analysis

### **Risk Grading**

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

### **Project Appraisal**

It is the pre-investment analysis done by the officer before approval of the project. Project appraisal in the banking sector is needed for the following reasons:

- To justify the soundness of an investment
- To ensure repayment of bank finance
- To achieve organizational goals
- To recommend if the project is not designed properly

### **Head Office Approval**

The respective officer of Head Office appraises the project by preparing a summary named "Top Sheet" or "Executive Summary". Then s/he sends it to the Head Office Credit Committee (HOCC) for the approval of the loan.

The Head Office Credit Committee (HOCC) considers the proposal and takes decision whether to approve the loan or not. If the loan is approved by the HOCC, the HO sends the approval to the concerned branch with some conditions such as:

- Drawing will not exceed the amount of bill receivables
- The turnover in the account during the tenure of the limit should not be less than four times of the credit limit
- All other terms and conditions, as per policy and practice of the bank for such advance to safeguard the banker's interest shall also be applicable for this sanction also
- Branch shall not exceed the sanctioned limit
- Required charge documents with duly stamped should be obtained
- Drawing shall be allowed only after completion of mortgage formalities and other security arrangement



After getting the approval from the HO, the branch issues the sanction letter to the borrower. The borrower receives the letter and returns a copy of this letter duly signed by him as a token of having understood and acceptance of the terms and conditions above.

### **Documentation of loans and advances**

In spite of the fact that banker lends credit to a borrower after inquiring about the character, capacity and capital of the borrower, he must obtain proper documents executed from the borrower to protect him against willful defaults. Moreover, when money is lent against some security of some assets, the document must be executed in order to give the banker a legal and binding charge against those assets. Documents contain the precise terms of granting loans and they serve as important evidence in the law courts if the circumstances so desire. That is why all approval procedure and proper documentation shall be completed before the disbursement of the facilities. The documents for loans and advances can be classified into two categories, namely Charge documents and Security documents.

### **Disbursement**

After verifying all the documents the branch disburses the loan to the borrower. A loan repayment schedule is also prepared by the bank and given to the borrower.

### **Follow up**

After the disbursement of the loan bank officials time to time monitor the loan by physical observation of the activities of the party. It is done in the following manner.

- Constant supervision
- Working capital assessment
- Stock report analysis

### **Credit Monitoring**

Monitoring is a process of taking care of loan cases starts from the selection of the borrower and remains live throughout the life of a loan.

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

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

- All borrower relationships/loan facilities are reviewed and approved through the submission of a Credit Application at least annually.

## **Issues to be considered during Credit Management:**

### **Credit Risk:**

Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms (e.g. overdue / classified loans due to irregular repayments).

### **Mitigation**

Following absconding borrower declaration process gives BRAC Bank the idea of how Bank should have managed their Credit assessment process in selecting their borrowers and approving their credits.

### **Process Risk:**

It arises from loopholes and shortfall in existing process or from having inadequate /no process manuals for daily routine activities.

### **Mitigation:**

Development of an end-to-end Absconding Declaration Process mitigates the shortfall or absence of process to carry out daily routine activities in this area.

### **Compliance Risk:**

It arises from delayed/ wrong response to queries and wrong returns and information submitted to Bangladesh Bank and other regulatory authorities which may cause for penalty imposition and also affects bank's reputation.

### **Mitigation:**

Respective Business Finance should promptly reply to query or send reports to Bangladesh Bank for Absconding Borrowers as per this approved process.

### **IT System Risk:**

This risk is caused from faulty system design, malfunctioning, lack of data / network / software / hardware security and disaster recovery, protection of copyrights and other intellectual property rights etc.

### **Mitigation:**

Legal Support MIS team of SAM should maintain sufficient and accurate data in BBL system properly, so that no data get lost due to malfunction or for system disruption.

## **Methodology of the Report**

My objective was to find out any improvement area of the credit department along with finding any loophole. For this, I have gone through detail credit approval process and credit risk analysis part of BRAC Bank Ltd.

Alongside I have personally talked with my co-workers, supervisors, colleagues in Credit department to draw a real picture.

Thus, it can be said that primary and secondary data of my report is collected in the following manner:

### **Primary Data:**

- Data collected from co-workers through personal interview/communications.
- Informal discussion with the banks staffs, especially the credit division managers of corporate segment.

### **Secondary Data:**

I have collected the secondary data from the following sources:

- Relevant data from the banks reports, presentations and other documents
- Annual report of BRAC Bank Ltd
- Internal documentations of BRAC Bank Ltd
- Different publications and journals regarding banking activities and policies.
- Circulars from Credit Department
- Auditors report of BRAC Bank Ltd
- Official website of BRAC Bank Ltd
- Various web researches/write ups

### **Problem Identification:**

- The Bank does not always properly go through back ground investigation for all the parties
- In some cases, loan documentation is not fairly completed
- Sometimes the document verification is done after loan approval
- The Individual loan section is not so strong because they focus mostly on SME and corporate loan sectors

### **Remedy**

BRAC Bank Limited recently signed a memorandum of understanding on Identification Verification Services with Election Commission Bangladesh.

Under the agreement, Election Commission Bangladesh will provide National ID Card verification services for valued customers of BRAC Bank Limited. BRAC Bank and Dutch-Bangla Bank are first two commercial banks to have signed with Election Commission for the verification services.

With the agreement, BRAC Bank will be able to verify National ID of all customers for transparency and accountability in account opening and banking services. It will help prevent identity fraud and ensure authenticity of 'Know Your Customer' form. It will also facilitate smooth operations of mobile banking services as bKash will also avail the verification services through BRAC Bank.

With support of Election Commission and guidance of Bangladesh Bank, the banking sector will benefit from rich data bank of NID Project which is a valuable asset of the country.

This verification process will definitely help to minimize credit risk factors drastically in the coming days.

### **Recommendations**

- The bank should immediately establish integration with N.ID data base (as per MoU with Election Commission) in order to get competitive advantage on risk monitoring and prevention
- The Bank need to establish a strong "Credit Manual"
- The Bank need to go through back ground investigation for all parties and it should be strictly maintained
- All the loan documentations have to be done completely and comprehensively
- All the document verifications have to be done before loan approval
- The Bank need to implement a long term and strong investment policy
- The Loan and Advance section has to be strong enough and the employees have to be devoted towards the Bank
- The Bank has to give emphasis on the individual loan section
- The Bank should introduce more attractive loan products to be competitive in the market

## **Conclusion**

BRAC Bank Ltd started its banking services with a view to minimize customer's needs by offering different products and services which are easy and affordable for all level of customers and they have divided their customer into four segmentations - easy, excel, supreme, premium to provide easy and better service.

To that extent, BRAC Bank Ltd always emphasized its customer services, product development, resource management, branch networking and towards the contribution to the economic development of the country.

BRAC Bank Limited is one of the most potential Banks in the banking sector of Bangladesh. It has a very large portfolio with vast assets to meet up its liabilities and management of this bank is equipped with the quality bankers and managers in all level of management.

With the recent MoU (Memorandum of Understanding) with Bangladesh Election Commission, BRAC bank will definitely get competitive advantages over other commercial banks to closely monitor fraudulent activities as well as to prevent them.

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