



REPORT ON
‘Credit Risk Management of BRAC Bank Limited’

SUBMITTED TO

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Subject: Submission of Internship Report

Dear Sir,

With due respect I would like to inform you that I have completed my internship program in BRAC Bank Limited, Head Office, Gulshan-I, Dhaka - 1212, and prepared my internship report titled '**Credit Risk Management of BRAC Bank Limited**' I am placing my internship report to you as a requirement of the MBA Program.

The internship program and writing this report has been a great pleasure and an extremely interesting and rewarding experience. It has enabled me to get an insight into the practical arena of Banking.

Sincerely Yours,

Sakid Hossain

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Finally, I would like to convey my gratitude to my parents, teachers, friends and many others who extend their support to prepare the report.

.....
Sakid Hossain

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EXECUTIVE SUMMARY

BRAC Bank Limited is a scheduled commercial bank in Bangladesh. This is one of the leading private commercial banks which is established under the banking companies Act 1991, the bank began its operation on 4th July, 2001 with a primary objective of offering all types of commercial banking services mostly emphasizing on promoting small and medium entrepreneurs all over the country. At present BRAC Bank Limited has 151 branches, over 300 ATM Booths, 405 SME Unit Offices, 1,800 remittance delivery points and 8,306 human resources.

This report is the fulfillment of the requirement for the evaluation process of the internship program. The main purpose of the report is to have an overall idea about function and process of credit risk management, analyzing tools and techniques used to evaluate credit proposal, analyzing steps taken to recover Bank's bad portfolio of BRAC Bank Limited.

Lending is one of the main functions of a bank. The objective of Credit Risk management of BRAC Bank Limited is to minimize the risk and maximize banks risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. The Credit Risk Management department is responsible for upholding the integrity of the Bank's risk/return profile.

Credit Risk Management Department of BRAC Bank Limited conducted their functions by six wings. Wholesale Credit, Retail Underwriting and SME underwriting- these three wings of Credit Risk Management assess and approve the loan for the respective customers. Central Collection Unit collects the credit. Special Asset Management wings help the bank to recover Bank's bad portfolio.

For credit approval, the Bank has a team who approve the credit. Different tools and techniques are being used to evaluate a credit proposal. Retail Credit, Cards Credit, Authorization and Fraud Control, Central Verification Unit (CVU) are related with retail underwriting.

Credit Collection Unit of BRAC Bank Limited collects credit based on the level of delinquencies of credit. Special Asset Management wings help the Bank to recover bad portfolio by taking different types of steps.

Although BRAC Bank Limited is successfully operating credit risk management, the Bank should improve in some areas which will take help the Bank to become the leader of banking sector.

Part One

INTRODUCTORY PART



1.0 Introduction of Report

1.1 Introduction:

Risk is the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any time. In the financial arena, enterprise risks can be broadly categorized as Credit Risk, Operational Risk, Market Risk and Other Risk. Credit risk is the possibility that a borrower or counter party will fail to meet agreed obligations. Globally, more than 50% of total risk elements in Banks and Financial Institution (FI) s are credit risk alone. Thus managing credit risk for efficient management of a FI has gradually become the most crucial task. Credit risk management encompasses identification, measurement, matching mitigations, monitoring and control of the credit risk exposures. As a leading bank of Bangladesh, BRAC Bank Limited has a fully functioning department to perform the crucial task of Credit Risk Management (CRM).

1.2 Origin of the Report:

To complete MBA Program in Institute of BRAC Business School, BRAC University, a Student requires completing an Internship Program of three months attachment with an organization followed by writing a report at the final and 8th semester of MBA program. This report is the fulfillment of the requirement for the evaluation process of the internship program. This report titled ‘Credit Risk Management of BRAC Bank Limited’ is conducted on the basis of my practical experience of three months long internship at Gulshan Branch of BRAC Bank Limited. After consultation with my faculty supervisor Asst.Prof.Riyashad Ahmed Lecturer, Institute of BRAC Business School, BRAC University and under the direction of my organizational supervisor ,BRAC Bank Limited, I have prepared this internship report with the mentioned topic.

1.3 Rational of the Report:

Bangladesh is one of the developing countries in the world. The economy of the country has a lot left to be desired and there are lots of scopes for massive improvement. In an economy like this, banking sector can play a vital role to improve the overall socio-economic condition of the country.

The banks by playing the role of an intermediary can mobilize the excess fund of surplus sectors to provide necessary finance to those sectors which are needed to promote for the sound development of the economy. As the banks provide finance or lending to its counter parts, there arises a risk of credit risk, which is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Even at present, this problem is haunting many banks and poses a major threat towards their sound performing. So it’s very important to have an effective and sound credit risk management system in place which will help the bank mitigate its risk factors and carry out successful financing service or lending. With that issue in mind, the topic ‘Credit Risk Management of BRAC Bank Limited’ has been undertaken as topic for my internship report.

1.4 Objective of the Report:

The report is prepared on the ‘Credit Risk Management of BRAC Bank Limited’ with the thought of getting in depth of the credit risk management approval and collection for different kinds of credit and collection procedures of default loan.

Broad Objective: The broad objective of report is to evaluate the total Credit Risk Management (CRM) process of BRAC Bank Limited.

Specific Objectives:

To attain the broad objective the following specific objectives will be pursued:

- Identification of different wings and their sub units of CRM
- Identifying different types of credit facilities offered to different types of clients
- Identifying the functions of different wings as well as the whole department of CRM
- Analyzing tools and techniques to evaluate a credit proposal
- Identifying the collection process of default loans
- Identifying steps taken to recover the bank's bad portfolio
- Analyzing performance of CRM on the basis of amount of non performing loans
- Analyzing performance of CRM on the basis of loan recovery performance

1.5 Scope:

Through this report emerging Banks and other Financial Institutes who want to develop an effective Credit Risk Management Department as well as business students who want to learn about various functions of Credit Risk Management will be benefited.

1.6 Methodology:

After starting my internship at BRAC Bank Limited, I had assigned by my faculty supervisor and organizational supervisor to conduct my internship report titled „Credit Risk Management of BRAC Bank Limited“. To complete this report, I have collected my necessary information from both Credit Risk Management department and branch level to successfully understand the whole process. After completing my three months internship at Gulshan branch of BRAC Bank Limited, with the guidance of my faculty supervisor Mr. Sabbir Abedin, I have completed my report by using my collected information. I have also tried to focus on the performance of credit risk management in my report by conducting different tables and figures related to credit risk management. To make the report more meaningful and presentable, both primary and secondary data sources were used to prepare this report. The nature of this report is descriptive with some numerical analysis.

Primary Sources: The primary source of information is based on my practical experience of three months long internship at Gulshan branch of BRAC Bank Limited.

Secondary Sources: The secondary source of information is based on official website of BRAC Bank Ltd. , operation manual of Credit Risk Management and annual report of BBL as well as related different other websites, books etc.

1.7 Limitations:

On the way of preparing this report, I have faced following problems that may be termed as the limitation of the study:

- Bank's policy of not disclosing some sensitive data and information for obvious reason posed an obstacle to prepare more informative report.
- Personal limitations like inability to understand some official terms, office decorum etc. created a few problems.

1.8 Structure of the Report:

The report is divided into three main parts:

Part 1: Introductory Part includes origin, rationale, objectives, methodology, scope, limitations of the report.

Part 2: Organizational Part contains company profile, human resource; CRAB rating, mobilization of fund of BRAC Bank Limited.

Part 3: Project Part contains credit risk management practice, credit approval, credit collection, bad portfolio recovery, performance of Credit Risk Management of BRAC Bank Limited, recommendations and lastly conclusion.

Part Two

ORGANIZATION PART



2.0 Overview of BRAC Bank Limited:

2.1 Company Profile of BRAC Bank Limited:

BRAC Bank Limited, one of the third generation of commercial banks started its journey on July 04, 2001. It is an affiliate of BRAC (Bangladesh Rural Advancement Committee), one of the world's largest non-governmental development organizations founded by Sir Fazle Hasan Abed in 1972. 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 focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which has remained largely untapped within the country. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh. Since inception in July 2001, the Bank's footprint has grown to 151 branches, over 300 ATM Booths, 405 SME Unit Offices, 1,800 remittance delivery points and 8,306 human resources. In addition to small business lending, BRAC Bank has fast growing remittance, savings mobilization and consumer lending businesses

BRAC Bank intends to set standards as the market leader in Bangladesh. The Bank wants to demonstrate that a locally owned institution can provide efficient, friendly and Modern full- service banking on a profitable basis. The Bank produces earnings and pay out dividends that can support the activities of BRAC, the Bank's major shareholder. Development and poverty alleviation on a countrywide basis needs mass production, mass consumption and mass financing. The goal of BRAC Bank is to provide mass financing to enable mass production and mass consumption, and thereby contribute to the development of Bangladesh.

2.2 Human Resource:

At present, there are total 8,306 employees at BRAC Bank Limited. BRAC Bank Limited has a vertical organizational structure with total 15 designations at the management hierarchy. The management of BRAC Bank Limited is consisted of Board of Directors, Executives and Officers & Staves. The Top management makes all the major decisions at BRAC Bank Limited. The Board of directors being at the highest level plays an important role on the policy formulation. The Executives and Officers are directly concerned with the day-to-day operation of bank.

2.3 CRAB Rating:

Credit Rating Agency of Bangladesh (CRAB) Limited has retained „AA3“ rating in Long Term and „ST-2“ rating in the Short Term of BRAC Bank Limited in view of the performance of the Bank for year 2010. The AA3 rating refers that BRAC Bank Ltd. has very strong capacity to meet bank's financial commitments. The Bank differs from the highest-rated Commercial Banks only to a small degree. AA3 is judged to be of very high quality and is subject to very low credit risk. The „ST-2“ rating in the short term refers that the Bank has strong capacity for timely repayment. This rating also refers that the Bank is characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds.

2.4 Mobilization of Fund: The main sources of fund for BRAC Bank Limited are:

i. Deposit

ii. Borrowing

i. Deposit: Deposit is the mainstay of the Bank's sources of funds. Following usual practices, the Bank collects deposit through: Current Deposit, Savings Deposit, Term Deposit.

ii. Borrowing: Apart from deposit, BRAC Bank Limited receives funds from other Banks, Financial Institutions and Agents as borrowing which are in Bangladesh and also outside of Bangladesh. In 2011, BRAC Bank Limited only receives funds as demand term borrowing from Bangladesh Bank Uttara Bank Limited Beside this, in previous years the Bank borrowed from other Banks, Financial Institutions and Agents as demand term borrowing, short term deposit borrowing and fixed deposit borrowing in Bangladesh. The Bank also received funds as demand term borrowing (non-interest bearing) from different outside bank i.e. Standard Chartered Bank –USA, The Bank of Nova Scotia- Canada, Citibank NA-USA, ICICI-India, Standard Chartered Bank-UK, Hypo Vereins Bank Germany, HSBC-USA, HSBC-UK, HSBC-AUS, HSBC-Pakistan etc

**PART
Three**

**Credit Risk Management Practice of BRAC Bank
Limited**



3.0 Credit Risk Management Practice of BRAC Bank Limited

3.1 Overview:

Credit is the ability to command goods or services of another in return for promise to pay such goods or services at some specified time in the future. For a bank, it is the main source of profit and on the other hand, the wrong use of credit would bring disaster not only for the bank but also for the economy as a whole. Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

The objective of Credit Risk management of BRAC Bank Limited is to minimize the risk and maximize banks risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters. The Credit Risk Management department is responsible for upholding the integrity of the Bank's risk/return profile. It ensures that risks are properly assessed, and that risk/return decisions are made accurately and transparently. The overall success in credit management depends on the banks credit policy, portfolio of credit, monitoring, supervision and follow-up of the loan and advance. Therefore, while analyzing the credit risk management of BRAC Bank Limited, it is required to analyze its credit policy, credit procedure and performance regarding credit risk management.

3.2 Credit Policy of BRAC Bank Limited:

In order to minimize credit risk, BRAC Bank Limited has formulated a comprehensive credit policy according to Bangladesh Bank Core Risk Management guidelines. Credit policy of the Bank provided for the separation of the credit approval function from business, marketing and loan administration function. Credit policy of BBL recommended through credit assessment and risk grading of all clients at the time of approval and portfolio review. Credit policy also provides the guidelines of required information for credit assessment, marketing strategy, approval process, loan monitoring, early alert process, credit recovery, NPL account monitoring, NPL provisioning and write off policy, etc. The board of directors reviews the credit policy of the bank annually.

3.2 Credit Risk Management:

Considering the key elements of Credit Risk the bank has segregated duties of the officers/ executives involved in credit related activities. Separate division for Corporate, SME, Retail and Credit Cards have been formed which are entrusted with the duties of maintaining effective relationship with the customers, marketing of credit products, exploring new business opportunities etc. For transparency in the operations during the entire credit year four teams have been set up. Those are:

- i. Credit Approval Team
- ii. Asset Operations Department
- iii. Recovery Unit
- iv. Impaired Asset Management

In credit management process, Sales Teams of the Corporate, Retail, SME, AND Credit Cards business units book the customers; the Credit Division does thorough assessment before approving the credit facility. Asset Operations Department ensures compliance of all legal formalities, completion of all documentation, and security of the proposed credit facility and finally disburses the amount. The Sales Team reports to the Managing Director & CEO through their line, the Credit Division reports to the Managing Director & CEO, while the Asset Operations Department reports to the Deputy Managing Director & COO. This arrangement has not only ensured segregation of duties

and accountability but also helps in minimizing the risk of compromise with quality of the credit portfolio.

3.3 Wings of Credit Risk Management Department:

Credit Risk Management Department of BRAC Bank Limited conducted their functions by six wings. Those are:

- I. Wholesale Credit
- II. Retail Underwriting
- III. SME Underwriting
- IV. Central Collection Unit
- V. Special Asset Management, SME and Retail Banking
- VI. Special Asset Management & Credit Inspection, Wholesale Banking & Medium Business

Wholesale Credit, Retail Underwriting and SME underwriting- these three wings of Credit Risk Management assess and approve the loan for the respective customers. Central Collection Unit collects the credit. Special Asset Management wings help the bank to recover Bank's bad portfolio.

Part Four

Credit Approval of

BRAC Bank Limited



4.0 Credit Approval of BRAC Bank Limited

4.1.1 Wholesale Credit & Medium Business:

Wholesale or corporate Credit means a contractual agreement in which a corporate client receives something of value now and agrees to repay the lender the principle with interest at some later date. Wholesale credit (WC) team mainly looks after two kinds of portfolio.

- i. Corporate Business: WC team assesses and approves proposals from large established corporate and emerging business
- ii. Medium Business: WC team financing businesses which have crossed their early years but has not yet become a large corporate entity

4.1.2 Types of Facilities Offered to Corporate Client:

BRAC Bank offers two types of credit facilities to corporate clients. Those are: (i) Funded and (ii) Non-funded.

- i. **Funded facility:** Funded facility means financing through cash. Overdraft, import and export loans, long term loans are example of funded facility.
- ii. **Non-funded facility:** Non- funded facility means non-involvement of fund/cash. Banks extend this type of facility against some documents to third party on behalf of corporate clients. Import and Export Loans i.e. Letter of Credit. and Guarantees and Bond i.e. Performance Guarantee, Advance Payment Guarantee, Bid Bonds are examples of Non-funded facility.

Beside these two types of facilities, BRAC Bank also offers Syndication Loan.

4.1.3 Approval Authorities of the Corporate Loans:

The approval authority of corporate loan may change time-to-time based on business volume and person behind the desk but it mainly consists of

- I. Head of Credit, Wholesale Banking & Medium Business
- II. Chief Credit Officer
- III. Managing Director & CEO
- IV. Board

Due to large ticket size of loan facility, most of the proposals received by Wholesale Credit team are approved by the Board of Directors.

4.1.4 Analyzing Tools and Techniques to Evaluate a Corporate Proposal:

To evaluate a corporate proposal, Wholesale Credit team apply the General 5C"s which are-

- Character
- Capacity
- Capital
- Conditions
- Collateral

4.2. Retail Underwriting:

Retail Underwriting is a unit of Credit Risk Management which deals with Retail Loans of the Bank. Total retail underwriting is done from this wing. There is a prescribed Product Program Guide (PPG) for each product & on the basis of that PPG, retail loans are approved.

Retail Underwriting is comprised with the following sub units:

- i. Retail Credit
- ii. Cards Credit
- iii. Authorization & Fraud Control
- iv. Central Verification Unit (CVU)

4.2.1 Retail Credit:

Currently Bank is offering Retail Loans under Retail Credit in following three categories:

- I. **Unsecured personal Loan:** Unsecured personal loan is clean loan product where no cash security is taken against the loan. Currently BRAC Bank is offering two Types of Unsecured Personal Loans which are Quick Loan and Salary Loan.
- II. **Secured Loan:** There are two secured retail loans offered by BRAC Bank which are Auto Loan and House Building Loan.
- III. **Cash Covered loan:** The general terms “Cash Secured Facilities” is used to indicate two specific Retail Lending products. These are: Secured Overdraft (SOD) & Secured Loan (SL) which are the major products of Retail Lending Portfolio of the bank.

All retail loans are EMI (Equal Monthly Installment) based loans other than Secured Overdraft facility.

4.2.2 Cards Credit:

The main objective of Cards Credit sub wing is to assess the applications and come to a decision whether to approve for issuing of credit card or not. If everything provided document is ok of a particular application; credit then fix a credit limit according to PPG of Credit Cards. Another important job is done by Cards Credit is duplicate checking. This is done to stop issuing more than one card for a particular applicant. To have the control existing credit card database is checked by several criteria i.e. Name, DOB, Mother’s Name, Contact no. etc.

4.2.3 Authorization & Fraud Control Unit:

Authorization & Fraud Control Unit, Cards is functioning into three areas:

- i. **Authorization:** Authorization is a process of approval or refusal of a payment card transaction, limit issued in BDT, USD or in dual currency according to customized amount desired by customer on different time and location. The major activity of the unit is processing credit card cheque request from BBL branches and ROC’s and providing manual Authorization against specific code.
- ii. **Transaction Monitoring:** Transaction Monitoring and detection team usually make calls to all BBL credit card customer (Issuing and acquiring) to verify (POS and non POS) transactions that fall under certain rules. As soon as a suspicious transaction is noticed through live monitoring or internal reports, designated officer from detection team contact the customer for authenticity of the transaction. If the customer disputed the

transaction/s, the card is blocked immediately by placing specific block code. The customers are also requested to send disputed letter to Customer Service regarding the transaction/s.

- iii. **Detection and Investigation:** Detection and Investigation Unit performs to check credit card/loan applications after approval to prevent fraud attempts on sample basis. At the same time, objective of Investigation team is to investigate fraud cases relating on situation basis to identify the actual facts and build control measures to prevent the similar fraud attempts in future.

4.2.4 Central Verification Unit (CVU):

As BRAC bank has a huge customer base it felt the importance of verifying clients before disbursing any loan. The main purpose of this wing is to ensure contact point verification. CVU is committed is delivering a contact point verification (CPV) services and other pertinent task in relevance to loan, credit card application from prospective customer's for services in consumer credit division of the Bank.

4.3.1 SME Underwriting:

SME Credit team is a unit under Credit Risk Management Division of BRAC Bank Limited which manages the credit risk of Bank's SME credit portfolio.

Credit Analysts of SME Credit team assess the proposal with due emphasis on Client's requirement and capacity. During assessment the analysts fulfill a Risk Evaluation Sheet (which covers most PPG criteria) to ensure compliance with Policy and PPG. Identifying key risks involved in the proposal is one of the most critical and tricky tasks for the credit analysts; it requires experience of handling such clients directly to understand the business modalities and more importantly behavioral issues viz. reputation, character etc.

Unlike Corporate, Retail and Cards (where all loan proposals require approval from Head office) SME credit deals with approval of loan proposals of certain area at present.

4.3.2 SME Credit Risk Management Process:

The whole process of Credit Risk Management of SME is as follows –

Step 1: CRO's located in the unit offices across the country prepares a loan proposal

Step 2: Respective Supervisor (ZM / ARM) Recommends the loan proposal and sent to SME Credit

Step 3: Credit Analysts analyzes the loan proposal and place it before approver

Step 4: Credit Approver Approves / Declines the loan proposal based on the recommendation

Step 5: File sent to disbursement unit for disbursement

Part Five
Credit Collection of
BRAC Bank Limited



5.0 Credit Collection of BRAC Bank Limited:

5.1 Credit Collection Unit:

The collection process for SME and Retail starts when the customer failed to make one or more contractual payment (installment). It therefore becomes the duty of the collection unit to minimize the outstanding delinquent receivable and credit losses. Collection plays a key part in the credit process and in ensuring the profitability of asset products and quality of the portfolio by collecting the delinquent receivables efficiently and effective. The main objective of collection is to ensure that, wherever possible, an account that is in arrears is brought up to date and the customer's goodwill is retained.

5.2 Collection Processes:

Customers are provided with an Offer Letter or Banking Arrangement letter during Loan disbursement where the total payment mood and loan details are described. When a customer fails to fulfill the agreed terms or misses the required payment, the account then enters collections. Collection department is responsible for collecting the overdue amount from the delinquent customers. There are different stages involved in collection after an account enters delinquency till regularization of the account by recovering the overdue. Basically collection can be broadly divided into four stages which are servicing, locating, collecting and cancellation & write-off. The aging of an account in collections is with reference to the days since missed payment.

5.3 Classification of Loan on Basis of Days Past Due:

The level of delinquencies of loan is determined based on the number days past of monthly installment from 1st payment date by the customer, following are basis of bucket calculation as guided in the Days Past Due (DPD):

Table 5.1: Classification of Loan on Basis of Days Past Due

| Particulars | DPD | Reporting as |
|---|-------------------|--------------|
| Regular Customer | 0 DPD | Regular |
| The sum past due is equivalent to one month's payment | X DPD(0-29) | Delinquent |
| The sum past due is equivalent to two month's payment | 30 DPD(30-59) | Delinquent |
| The sum past due is equivalent to three month's payment | 60 DPD(60-89) | Delinquent |
| The sum past due is equivalent to four Month's payment. Interest to be suspended at this point. | 90 DPD(90-119) | Delinquent |
| The sum past due is equivalent to five month's payment | 120 DPD (120-149) | Delinquent |
| The sum past due is equivalent to six month's payment. 50% charge off at this point. | 150 DPD (150-179) | Delinquent |

5.4 Cards Collection Unit:

The collection process of credit cards starts when the card holder failed to meet one or more contractual payment (i.e. minimum 5 % of the outstanding payment) or exceeds the allocated credit limit or both. It therefore becomes the duty of the Collection Unit to minimize the outstanding delinquent receivable and credit losses.

Part Six

Bad Portfolio Recovery of

BRAC Bank Limited



6.0 Bad Portfolio Recovery of BRAC Bank Limited:

6.1 Special Asset Management- SME and Retail Banking:

Special Assets Management (SAM)-SME & Retail Banking is a special department under CRM. Its vital role is to recover the Bank's bad portfolio. SAM deals with Bank's non-performing loans through legal persuasion/procedure and facilitates external and internal recovery forces to maintain Bank's portfolio at risk (PAR) at a steady position.

Based on priority, SAM is designed mainly as SME unit and Retail unit and also two separate units for Legal support & MIS and a Monitoring unit which acts as internal audit of the both portfolio. SAM department deals with the legal actions regarding mitigation of bad portfolio under SME & Retail Banking Division. Now Showing SAM Portfolio as on June-15.

SAM Portfolio (As on June-15)

| Unit | No.A/C | OS in Cr. |
|---------|--------|-----------|
| SME | 36386 | 994.00 |
| Retails | 16770 | 296.00 |
| Total | 53158 | 1290.00 |

6.1.1 File Transfer:

Files transfer to SAM from SME when the loan reaches at DPD 180. SAM receives the file from Retail when the loan reaches at DPD 360.

6.1.2 Legal Notice:

Legal notice issued to SME at DPD 145 and for Retail at DPD 360, SAM-S&R would arrange to serve 1st legal notice for warning the default borrower to adjust the total outstanding and 2nd legal notice would be served after bouncing the cheque or before litigation. 1st legal notice served centrally across the country and 3rd party recovery agencies are working with retail defaulters. 15 (fifteen) days in 1st legal notice and 30 (thirty) days in 2nd legal notice under NI Act given to the defaulter to adjust the total outstanding. SAM will offer Auction to recover the overdue loan against mortgaged properties before filing the case.

6.1.3 Write-off Management:

BRAC Bank has a specific Write-off policy developed based on Bangladesh Bank circulars. SAM takes initiative to write-off bad portfolios as per policy if following criteria satisfied,

- Classification status will be Bad/Loss (BL)
- 100% provided
- Litigated (under any kind of Law of the land)

6.1.4 Waiver process:

SAM with its country wide recovery structure takes initiative to settle bad loans amicably by giving delinquent customer waiver facility. The waiver amount will be fixed on judgmental basis i.e. affected by natural calamities, demise, business closed etc. however, in any cases, waiver of principal portion is not awarded.

6.1.5 Case Withdraw:

SAM withdraw the case when a litigated defaulter adjusts outstanding amount in full with updated interest, legal costs and other expenses if any, and/or upon amicable settlement SAM withdraws the case against such defaulters on receipt of clearance certificate from Operations.

6.1.6 External 3rd party agency Management:

SAM hands over the files to 3rd party recovery agency after one month of issuance of 1st legal notice. Only the retail loan files, which are delinquent (if minimum 30% of outstanding is not recovered within 30 days after 1st legal notice) are handed over to outsource. SAM takeover the files from 3rd party recovery agency after 90 days.

6.2 Special Asset Management & Credit Inspection - Wholesale Banking & Medium Business:

Special Asset Management & Credit Inspection - Wholesale Banking & Medium Business department is split up from the Corporate CRM to maintain and ensure appropriate recovery strategies are implemented as per policy guideline.

The department functions under three major areas which are as follows:

- i. Credit Inspection through File and Field level area
- ii. Early Alert Account
- iii. Legal Procedure

6.2.1 Credit Inspection:

Credit Inspection through file and field level area deals with all matters relating to credit inspection, ensuring compliance of BBL policy towards credit granting process, corporate portfolio review and physical inspection of client's premise and files, including security documents, for providing management information reports on a regular and ad hoc basis.

6.2.2 Early Alert Account (EAA):

Early Alert Process is an effective tool & technique that help BBL in detecting any deterioration in corporate and medium enterprise clients account and trigger Bank's problem accounts at an early stage so that proper attention can be given to avoid any losses. An Early Alert Report (EAR) is developed by respective RM and sent to CRM within 07 days for identification of weakness and other discrepancy. On the basis of market information/ industry position or other subjective issues which has some strong ground, CRM may recommend transferring the status of a regular account to EAA status.

6.2.3 Legal Procedure:

SAM & CI deals with managing impaired assets, Non-Performing Loan and the associated legal aspects.

6.2.3.1 Account Transfer Procedure:

When an account is being downgraded to SS and below, a Request for Action (RFA) along with a checklist should be completed by RM with the help of CRM division and forwarded to Head of Special Asset Management & Credit Inspection" (HOSAM&CI) for acknowledgement.

6.2.3.2 Non Performing Loans Account Monitoring:

Nonperforming loans (NPLs) refer to those financial assets from which banks no longer receive interest and/or installment payments as scheduled. As the account is handed over to SAM & CI, WB & MB, the account is assigned to an account manager within SAM, who will review all documentation, meet the customer with RM and prepare a Classified Loan Review (CLR) report. The CLR must be approved by the Chief Credit Officer and copied to the Head of Corporate Banking. The initial CLR should highlight any documentation issues, loan structuring weakness, proposed workout strategy and seek approval for any loan loss provisions that are necessary (Please see Appendix for details of initiatives taken for NPLs).As a result BRAC Bank has overcome their default SME loan recovery by SAM .

Part Seven

Performance of Credit Risk Management

of BRAC Bank Limited



7.0 Performance of Credit Risk Management:

7.1 Performance of Credit Risk Management on the Basis of Amount of Unclassified Loans and Non Performing Loans:

Non Performing Loans can be classified into different varieties usually based on the “length of overdue” of the said loans. NPLs are viewed as a typical byproduct of financial crisis: they are not a main product of the lending function but rather an accidental occurrence of the lending process, one that has enormous potential to deepen the severity and duration of financial crisis and to complicate macroeconomic management. This is because NPLs can bring down investors’ confidence in the banking system, piling up unproductive economic resources even though depreciations are taken care of, and impeding the resource allocation process. For this reasons, a bank’s Credit Risk Management performance can easily measured by analyzing present balance of NPL or in other words by analyzing the year by year ratio of loans which are grouped on basis of classification rules in the total Loan and Advances.

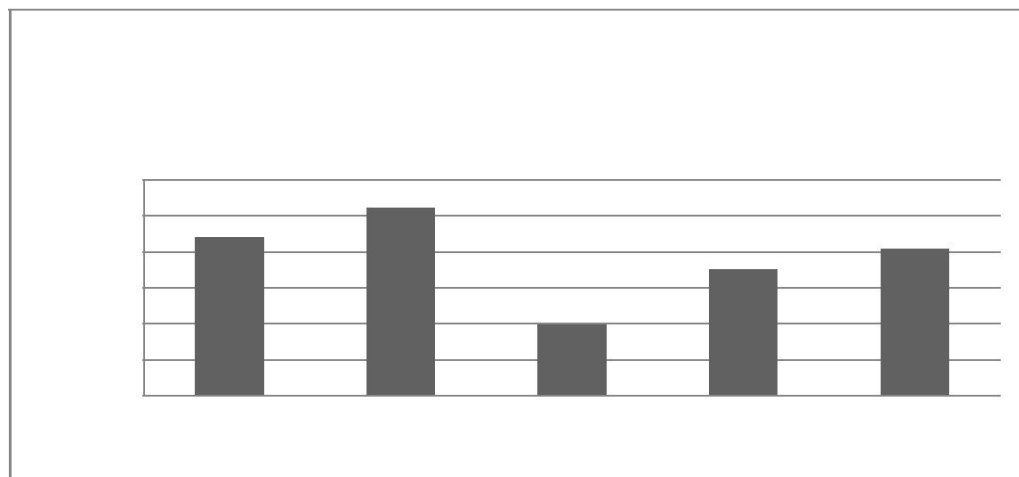
7.1.1 Standard Loan:

Standard loan is an unclassified loan. These types of loan accounts are performing satisfactorily in the terms of its installments and no overdue is occurred.

Table 7.1: Standard Loan of BRAC Bank Limited from Year 2011 to Year 2015

| Year | Total Loans and Advances(in BDT) | Amount of Standard Loan (in BDT) | Ratio of Standard Loan to Total Loans and Advances |
|------|----------------------------------|----------------------------------|--|
| 2011 | 32,461,102,180 | 30,001,002,686 | 92.42% |
| 2012 | 52,676,716,740 | 49,102,865,704 | 93.22% |
| 2013 | 64,150,835,159 | 57,728,435,549 | 89.99% |
| 2014 | 84,302,789,317 | 77,162,088,870 | 91.53% |
| 2015 | 90,822,174,665 | 83,649,643,140 | 92.10% |

Figure 7.1: Standard Loan of BRAC Bank Limited from Year 2007 to Year 2011



From the above figure of ratio of Standard Loan to Total Loans and Advances of BRAC Bank Ltd., we can see that in year 2013 the ratio declined .Otherwise in other four years the ratio increases than the previous year.

7.1.2 Special Mention Account-SMA:

Special Mention Account-SMA is an unclassified type of loan. This classification contains where irregularities have been occurred but such irregularities are temporarily in nature. The overdue period of this type of loan is 90-179 days.

Table 7.2: Special Mention Account-SMA of BRAC Bank Limited from Year 2011 to Year 2015

| Year | Total Loans and Advances(in BDT) | Amount of Special Mention Account-SMA (in BDT) | Ratio of SMA to Total Loans and Advances |
|------|----------------------------------|--|--|
| 2011 | 32,461,102,180 | 1,015,321,964 | 3.13% |
| 2012 | 52,676,716,740 | 1,100,839,246 | 2.09% |
| 2013 | 64,150,835,159 | 2,544,742,867 | 3.97% |
| 2014 | 84,302,789,317 | 2,211,142,271 | 2.62% |
| 2015 | 90,822,174,665 | 2,217,648,340 | 2.44% |

Figure 7.2: Special Mention Account-SMA Loan of BRAC Bank Limited from Year 2011 to Year 2015



From the above figure, it can easily be understood that in year 2013 the SMA slightly increases than the previous year. Otherwise in other four years the ratio decreases than the previous year.

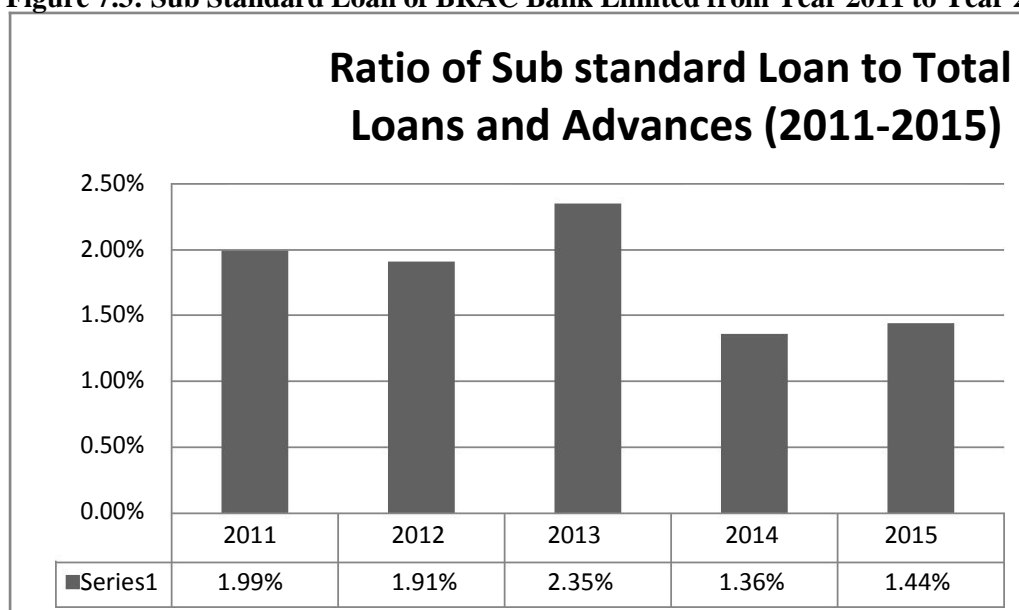
7.1.3 Sub Standard Loan:

Sub Standard –SS is a classified loan. The overdue period of this type of loan is 180-269 days.

Table 7.3: Sub Standard Loan of BRAC Bank Limited from Year 2011 to Year 2015

| Year | Total Loans and Advances(in BDT) | Amount of Sub standard Loan (in BDT) | Ratio of Sub standard Loan to Total Loans and Advances |
|------|----------------------------------|--------------------------------------|--|
| 2011 | 32,461,102,180 | 646,601,996 | 1.99% |
| 2012 | 52,676,716,740 | 1,004,430,866 | 1.91% |
| 2013 | 64,150,835,159 | 1,504,126,278 | 2.35% |
| 2014 | 84,302,789,317 | 1,142,795,194 | 1.36% |
| 2015 | 90,822,174,665 | 1,487,012,988 | 1.44% |

Figure 7.3: Sub Standard Loan of BRAC Bank Limited from Year 2011 to Year 2015



From the above figure, we can say that in year 2013 the ratio of Sub standard loan to total loan and advances were the highest.

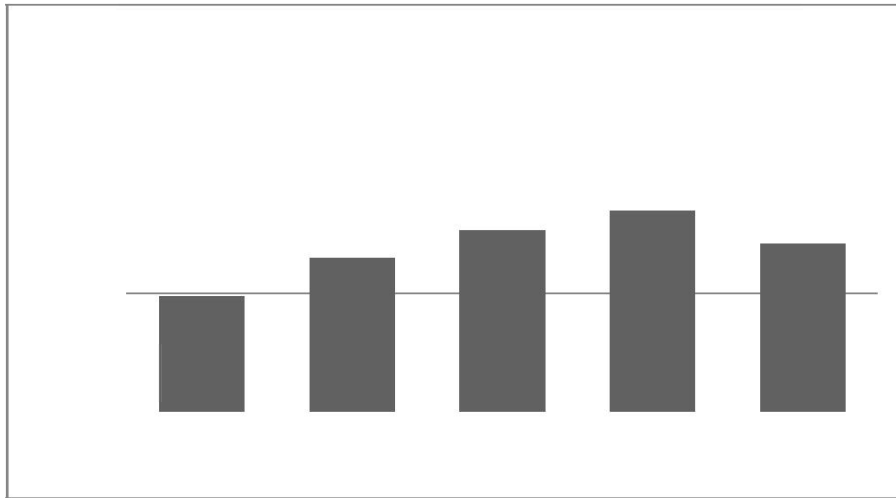
7.1.4 Doubtful Loan:

This classification contains where doubt exists on the full recovery of the loan and advance along with a loss is anticipated but can not be quantifiable at this stage. The overdue period of this type of loan is 270-359 days. This type of loan is an example of classified loan.

Table 7.4: Doubtful Loan of BRAC Bank Limited from Year 2011 to Year 2015

| Year | Total Loans and Advances(in BDT) | Amount of Doubtful Loan (in BDT) | Percentage of Doubtful Loan in Total Loans and Advances |
|------|----------------------------------|----------------------------------|---|
| 2011 | 32,461,102,180 | 317,048,692 | 0.98% |
| 2012 | 52,676,716,740 | 684,605,428 | 1.3% |
| 2013 | 64,150,835,159 | 990,855,828 | 1.54% |
| 2014 | 84,302,789,317 | 1,430,876,989 | 1.7% |
| 2015 | 90,822,174,665 | 1,289,101,344 | 1.42% |

Figure 7.4: Doubtful Loan of BRAC Bank Limited from Year 2011 to Year 2015



Although the ratio of doubtful loan to total loan and advances continuously increases since 2014, the ratio decreases in 2015.

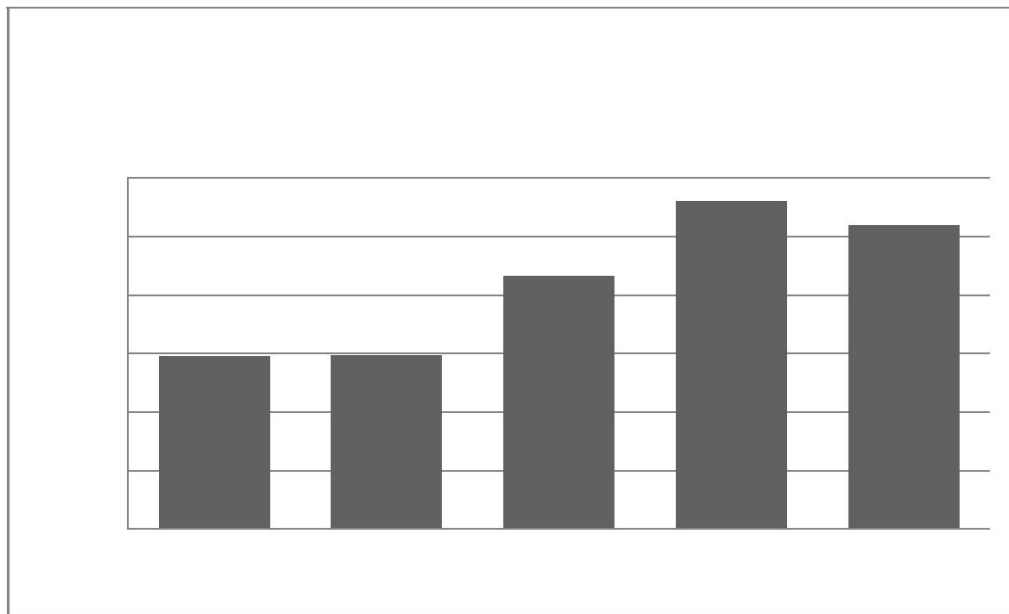
7.1.5 Bad/Loss Loan:

Bad/Loss Loan is a particular loan and advance fall in this class when it seems that this loan and advance is not collectable or worthless even after all the security has been exhausted. This type of loan is not recovered within more than 360 days. This type of loan is another example of classified loan

Table 7.5: Bad/Loss Loan of BRAC Bank Limited from Year 2011 to Year 2015

| Year | Total Loans and Advances(in BDT) | Amount of Bad/Loss Loan (in BDT) | Percentage of Bad/Loss Loan in Total Loans and Advances |
|------|----------------------------------|----------------------------------|---|
| 2011 | 32,461,102,180 | 481,126,842 | 1.48% |
| 2012 | 52,676,716,740 | 783,975,496 | 1.49% |
| 2013 | 64,150,835,159 | 1,382,674,637 | 2.16% |
| 2014 | 84,302,789,317 | 2,355,885,993 | 2.80% |
| 2015 | 90,822,174,665 | 2,361,372,301 | 2.6% |

Figure 7.5: Bad/Loss Loan of BRAC Bank Limited from Year 2011 to Year 2015



Although the ratio of doubtful loan to total loan and advances continuously increases since 2014, the ratio decreases in 2015.

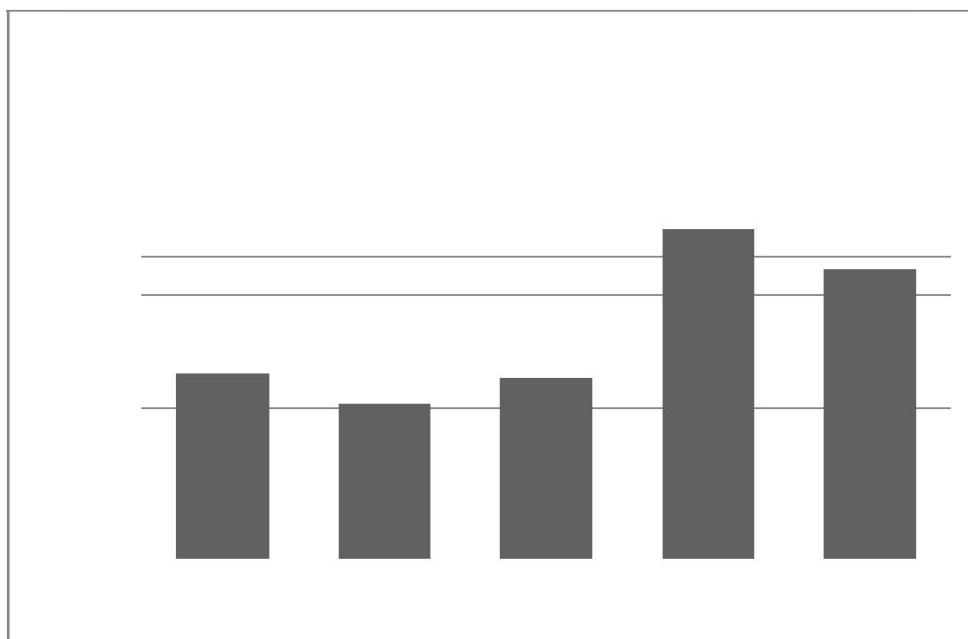
7.2 Loan Recovery Performance of BRAC Bank Limited:

The recovery performance of the bank was not so good during the period 2011-2015. In the year 2014, the Bank recovered that most percentage of recovery write off to total write off loans and advances which is 8.73%. But the rate declines in 2015. Loan recovery is a time-consuming and there are lots of works to do for the recovery of loans.

Table 7.6: Loan Recovery Performance of BRAC Bank Limited from Year 2011 to Year 2015

| Year | Write off Loans and Advances (in BDT) | Recovery of Write off Loans (in BDT) | Ratio of Loan Recovery to Total Write off Loans and Advances |
|------|---------------------------------------|--------------------------------------|--|
| 2011 | 103,825,117 | 5,104,282 | 4.92% |
| 2012 | 160,400,517 | 6,573,347 | 4.10% |
| 2013 | 1,156,448,923 | 55,497,494 | 4.80% |
| 2014 | 2,123,858,831 | 185,483,529 | 8.73% |
| 2015 | 2,932,247,750 | 224,876,871 | 7.67% |

Figure 7.6: Loan Recovery Performance of BRAC Bank Limited from Year 2011 to Year 2015



On the other hand if we look in SME sector in BRAC Bank recovery performance was good during period 2012 and 2014. The percentages were 77.92 to 81.31 respectively.

7.3 Summary of the Findings:

From the performance analysis, it is found that the collection of Standard Loan decline in year 2012 because of the national and global economic situation which reflects a low ratio of Standard Loan to total loans and advances which is 89.99%. As a result, the balance of SMA, Sub standard, Doubtful and Bad/Loss loan increases in year 2013. Since 2013, national as well as global economy started to fall in a dangerous phase of slowing growth and rising risk. But with the right initiatives taken by the top management of BRAC Bank Limited i.e. establishment of regional Credit Risk Management Centers, introduction of new wing called Special Asset Management & Credit Inspection, since the following year 2014 the situation has become normal which reflects the economy Bangladesh where economy starts back to upward growth phase from the impact of global recession. Beside this in year 2014, the Bank also achieves a better loan recovery performance which reflects by an 8.73% ratio of loan Recovery to total write off loans and advances which continues in year 2015. BRAC Bank Limited is also rated AA3" in Long Term and this rating is judged to be of very high quality and is subject to very low credit risk.

Part Eight

Recommendation and Conclusion



Recommendation and Conclusion

8.0 Recommendation:

To improve credit risk management further, BRAC Bank Limited should improve in some areas. Those are:

- The Bank should apply 7C instead of 5C as evaluation tools and technique of a credit proposal. Additional 2C which are Coverage and Cash flow to better understand the credit worthiness of borrower.
- In the Classified loan amount the Bank should identify which sector has the largest position of loan classification. By analyzing past data this kind of risky sector can be identified. After identifying it, strict monitoring can be done for avoiding classified loans.
- Various facilities should be provided to regular borrowers which will encourage a borrower to be a good borrower. Names of defaulters as well as the good and regular payers may be published in various publications which would help the bank to decrease the number of defaulter as well as the volume of large outstanding loan amount.
- Like SME sector, in wholesale and retail sector credit approval authority should be delegated to individual executives rather than Board to ensure accountability. This system will not only ensure accountability of individual executive but also expedite the approval process.

8.2 Conclusion:

Credit Risk Management is very important for any bank. As a third generation bank, BRAC Bank Limited has a great credit risk management practice which is one of the best in Bangladesh. To prepare this internship report, I have tried to incorporate the necessary and relevant information in my report from my own personal experience as well as other sources. The study was conducted by using the data of BRAC Bank Limited from the year 2011 to 2015. Like previous years, BRAC Bank Limited should continue to take regular initiatives to achieve better quality portfolio and move the Bank forward.

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