

Report
On
Credit Rating Methodology of The Bangladesh Rating Agency
Ltd.

By
Humayra Tasnim

ID: 17164017

An internship report submitted to the Brac Business School in partial fulfillment
of the requirements for the degree of

MBA

Brac Business School

Brac University

Date of submission: 01.09.2019

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Declaration

It is hereby declared that

1. The internship report submitted is my own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

Humayra Tasnim

ID: 17164017

Supervisor's Full Name & Signature:

Dr. Salehuddin Ahmed

Professor, Brac Business School

Brac University

Letter of Transmittal

Date: September 01, 2019

Dr. Salehuddin Ahmed

Professor

Brac Business School

Brac University

Subject: Submission of internship report on “Credit Rating Methodology of The Bangladesh Rating Agency Limited (BDRAL)”

Dear Sir,

It is my great pleasure to submit the internship report as part of the fulfillment of the MBA program. This report emphasize on the **“Credit Rating Methodology of The Bangladesh Rating Agency Limited (BDRAL);**

I, therefore, hope that this report will provide necessary information about the credit rating methodology of The Bangladesh Rating Agency Limited. I have tried my best to make this report with proper information and guidelines. I hope that you will consider if there is any mistake or error with an eligible way.

Sincerely yours,

Humayra Tasnim

ID: 17164017

Brac Business School

Brac University

Non-Disclosure Agreement

This agreement is made and entered into by and between [The Bangladesh Rating Agency limited] and the undersigned student at Brac University Student (Name: Humayra Tasnim). I do not want to disclose some pages to be published; page numbers are **19-20 & 32-37**.

Acknowledgement

At first, I would like to express my gratitude to almighty Allah who has given me the opportunity to go through the total process of internship and to write a report in this regard. In preparing this report, I got full co-operation from my faculty that was a great advantage for me.

I would like to express my gratitude and thank to my honorable Academic Advisor Dr. Salehuddin Ahmed, Brac Business School, Brac University. He was always ready to help me by giving necessary advices & support for the preparation of this report.

I also express my gratitude and thanks to Mr. Sayed Javed Ahmad, Chief Executive Officer of ‘The Bangladesh Rating Agency Ltd.’ for giving me the opportunity to do my internship program in BDRAL & Giving me the guideline to prepare my report.

Finally, I would like to thanks and express gratitude to my corporate supervisor Mrs. Nusrat Jahan Sumi, Senior Business Analysts & Acting Head of Analyst in ‘The Bangladesh Rating Agency Ltd.’ Her support helped me to know the different section of Rating Agency. Moreover, she helps me to prepare this report.

This report suffers from many shortcomings; nevertheless, I have exerted my best efforts in preparing this report. I seek excuse for the errors that might have occurred in spite of my best effort.

So lastly, I would like to express my heart full thanks to Brac University for providing the theoretical knowledge and valuable guidelines related to report.

Executive Summary

Credit Rating is an evaluation of Credit risk of a debtor like bank, business, individuals, government etc. to pay back their borrowed loan to the creditor. Credit Rating Agency analysis this credit risk of a debtor and give them rating award, which is the indicator of credit risk. After the financial crisis started the credit rating agency or credit rating term popularized in the whole world. Bank and NBFIs giving credit money to the debtor without understanding the credit borrower business and loan repay back capacity. For that reason the Bank and NBFIs didn't get back their lending money from the debtor after that country's financial institutions and government are bankrupted because of money crisis. In this point of time top three credit rating agency come to the front and they evaluate the credit risk of debtor so that creditor can understand the debtor capacity to mitigate the loan. There are many types of Credit Rating in the world like international, corporate, insurer financial strength, and national ratings these all are the types of credit rating. At first BDRAL completes an underlying gathering with its customer and takes data. At that point a detail examination is done on customers' plan of action, money related condition, industry hazard, activity chance, administration, foundation, and credit office. After that a gathering of credit rate bankers about and chooses a suitable rating keep up every one of the sets of accepted rules for the credit value of the organization. An honor letter and credit rating report must be submitted specifying the rating to its customer. In this report I've examined about credit rating, credit rating score in Bangladesh, and necessities of rating in Bangladesh, about BDRAL, points of interest discourse on the credit rating process at BDRAL, brief exchange on the money related articulation. In my temporary position report I have completed an examination on Gulf Oil Bangladesh Limited and Freeam Trading Company Ltd. Over all, there are some references on BDRAL and its rating process. It can be said that importance of credit rating is increasing day by day.

Table of Content

Chapters	Topic Name	Page Number
	Declaration	i
	Letter of Transmittal	ii
	Non-Disclosure Agreement	iii
	Acknowledgement	iv
	Executives Summary	v
	List of Tables	1
	List of Figures	2
	List of Acronyms	3
	Introduction	4
	1.1 Origin of the Report	5
	1.2 Objectives of Reports	6
Chapter: 1	1.3 Scope of the Report	6
	1.4 Methodology of the Report	6-7
	1.5 Limitations	7
	What is Credit Rating?	8
	2.1 Literature Review	9
	2.2 Definition of Credit Rating	10
	2.2.1 Credit Rating Types	11-12
	2.2.2 Profile of Top Three Credit Rating Agencies.....	12-13
	2.3 Associations of Credit Rating Agencies	13
	2.3.1 IOSCO	13
Chapter: 2	2.3.2 ACRAA	14
	2.4 The Importance of Credit Rating Agencies	14
	2.5 Role of Credit Rating in Basel implementation	14-19
	2.6 Who are the Regulators?	19
	2.6.1 BSEC	19
	2.6.2 Bangladesh Bank	20
	2.6.3 Insurance Development & Regulator Authority.....	20

	2.7 Maturity of the Credit Rating Industry	20-21
	2.8 Credit Rating Industry of Bangladesh	22
	2.8.1 Credit Rating Industry Players	22
	Overview Report of BDRAL.....	23
	3.1 Overview of BDRAL at a glance	24
	3.2 Mission & Vision of BDRAL	24
	3.3 Objectives of BDRAL	24
Chapter: 3	3.4 Ethical Code of Conduct	25
	3.5 Business Code of Conduct	25
	3.6 Trend of Rating in BDRAL	26-27
	3.7 Rating Process of BDRAL	28-30
	3.8 Credit Rating Methodology of BDRAL	30-31
	Work Report of BDRAL	32
	4.1 SME Credit Rating Report of Gulf Oil Bangladesh Ltd.	33-35
Chapter: 4	4.2 SME Credit Rating Report of Freeam Trading Company Ltd.	35-37
	4.3 Transition Matrix	38-39
	4.4 Survey Analysis	40-44
	Findings, Recommendation & Conclusions	45
Chapter: 5	5.1 Findings	46
	5.2 Recommendations	47
	5.3 Conclusions	48
	References	49
	APPENDIX	50

List of Tables

Particulars	Page Number
Table 2.1: The Financial Service Industries of Bangladesh..	11
Table 2.2: Credit Rating Companies.....	22
Table 3.1: Overview of BDRAL	24
Table 3.2: BDRAL rating scales for SME	26
Table 3.3: Rating Outlook	27
Table 4.1: Rating Summary of Gulf Oil Bd. Ltd.	33
Table 4.2: Rating Summary of Freeam Trading Co. Ltd. ...	35
Table 4.3: Transition Matrix	38

List of Figures

Particulars	Page Number
Figure 2.1- Pillars of Basel	15
Figure 2.2- The Industry Life Cycle Stages	21
Figure 3.1: Rating Process of BDRAL	28
Figure 3.2: Rating Methodology.....	31
Figure 4.1: Investment Decision on the basis of Credit Rating ...	40
Figure 4.2: Number of Credit Rating Agencies	41
Figure 4.3: Satisfaction Level of Respondents	42
Figure 4.4: Knowledge about Credit rating	43
Figure 4.5: Purpose of credit rating	44

List of Acronyms

ACRAA	Association of Credit Rating Agencies in Asia
BB	Bangladesh Bank
BDRAL	The Bangladesh Rating Agency Limited
BSEC	Bangladesh Securities & Exchange Commission
CRAB	Credit Rating Agency of Bangladesh
ICRA	Indian Credit Rating Agency
IDRA	Insurance Development and Regulatory Authority
IOSCO	International Organization for Securities Commission
NCR	National Credit Ratings Limited
ECRL	Emerging Credit Rating Limited
ACRSL	ARGUS Credit Rating Services Limited
SRP	Supervisory review process
WCRCL	WASO Credit Rating Company (BD) Ltd.

CHAPTER: 1

INTRODUCTION

Introduction

An internship program can give a student an opportunity to familiar with the real world of business after gaining the theoretical knowledge in the university. It gives a student the best opportunity to build up our career in the upcoming future. Now the world is very much competitive. BRAC University aims to build future magnate with the theoretical knowledge as well as practical knowledge about the corporate field of our country. For completing the internship program, I have gone to the “The Bangladesh Rating Agency Limited (BDRAL)” to take the real-life experience of the corporate world to fulfill my internship program in BRAC University. The “BDRAL” can be divided by in three parts – Business Development, Rating department, and Accounts department.

Rating department usually denotes to a symbol or on a relative judgment of something on a scale. So, the entire term ‘**Credit rating**’ can be defined as a judgment or an opinion on the quality of a credit, whether the creditor or the borrower is financially capable to meet the obligations. Typically, a credit rating tells a lender or investor the chance of the subject being able to pay back a loan. Credit ratings are utilized by financial specialists, guarantors, speculation banks, agent merchants, and governments. For financial specialists, credit rating agencies increment the scope of speculation options and give free, simple to-utilize estimations of relative credit hazard; this for the most part expands the proficiency of the market, bringing down expenses for the two borrowers and loan specialists. Since Bangladesh has numerous organizations, for example, corporate, banks, NBFIs so evaluating is must to see the credit value of these organizations. Now it’s a growing sector in Bangladesh.

1.1 Origin of the Report:

Here, I am assigned to complete this internship report-writing project as the requirement of our Master of Business Administration program at BRAC University which will be submitted to our respectable Instructor Dr. Salehuddin Ahmed BRAC University, to gather knowledge and experience.

For completing internship project, I have gone to The Bangladesh Rating Agency Limited (BDRAL) to take the real-life experience of activities from 02 May, 2019 to 02 August, 2019 fulfill my internship.

1.2 Objectives of Report:

- To know about the credit rating methodology and process thoroughly.
- To know about the current market situation of credit rating companies like BDRAL and their customer services as well.
- To analyze and identify the qualitative factors which are considered at the time of credit rating.
- To know about the regulations of the sector.
- To find out some problems of credit rating process.
- To make some recommendations to overcome.

1.3 Scope of the Report:

Any academic course of the study has a great value when it has practical application in real life. Thus, we require appropriate use of our insight to get some advantage from our hypothetical information in our functional life. Building a solid base of useful information is conceivable through working some place essentially. At the point when hypothetical learning is acquired from a course of study, it is just the most of the way of the topic. Entry level position suggests the full use of the techniques and strategies by gaining information of the topic this can be productively connected in our everyday life.

1.4 Methodology of the Report:

The sort of techniques utilized as a part of this report is primarily of an illustrative sort. Both essential and optional information investigation were chosen as the fundamental research strategy.

1.4.1 Primary Data Collection

The primary data has been collected from

- Interviewing with the 10 key persons of each company like Australia Bangladesh Solar Power Ltd.; Gulf Oil Bangladesh Limited and Freeam Trading Company Ltd.
- Interviewing with 25 officers and staffs of BDRAL; Going through files, books study provided by the officers concerned
- Discussing practical knowledge of officials of different financial institutions

1.4.2 Secondary Data Collection:

- 1 Research Papers on Credit Rating Methodology.
- 2 Web sites used of The Bangladesh Rating Agency Ltd.

1.5 Limitations:

I have gone through some problems while preparing this report such as:

- Unavailability of Data: Some portion of data was unavailable in the web sites and printed information was also hard to collect.
- Inaccuracy of data: It was difficult for me to find out the reliable source of data among all the sources.

However, I strongly believe that I have tried to overcome my problems and completed this report at my best.

CHAPTER: 2

WHAT IS CREDIT RATING?

2.1 Literature Review

The history of credit rating in Bangladesh is still at its early stage. There is an absence of any empirical study on the role, function and impact of the credit rating agencies. Even no rating agency conducted any market analysis to ascertain the market impact. However, there have been several studies conducted on this subject in the developed countries and in the efficient financial markets. These researches have studied both qualitative and quantitative the correlation between a change in a rating and the effect on the financial market. In terms of the BRPD it was made mandatory for the banks to have themselves, credit rated to raise capital from capital market through IPO. The issue has been reviewed further and with a view to safeguard the interest of the prospective investors, depositors and creditors and the bank management as a whole for their overall performances in each relevant area including core risks of the bank.

The credit rating will be an ongoing process i.e. credit rating should be updated on a continuous basis from year to year, within six months from the date of close of each financial year. The rating report completed in all respects be submitted to Bangladesh Bank and made public within a period of one month of the notification of rating by the credit rating agency. Banks will disclose their credit rating prominently in their published annual & half-yearly financial statements.

In recent times, there are eight CRA in Bangladesh who are not only rating only Banks but also rating FIs, NBFIs, Corporate and SMEs with the approval of Bangladesh Bank in a promise to maintain the BASEL II framework.

As per BASEL Accord, it should be mentioned that the first BASEL Accord (BASEL I) by BASEL Committee was implemented in 2006, BASEL II was implemented in 2009. Shortcomings in BASEL I and BASEL II, BB is going to introduce BASEL III from 2014 and fully implemented on 2020. Basel II Operational risk, Credit Risk and Market risk all are including the Credit Rating analysis methods this way the Credit Rating plays an important role to implement the Basel framework in our industry.

The only Credit Rating Agency for Small and Medium Enterprises (SMEs) licensed by Bangladesh Securities and Exchange Commission (BSEC) and approved by Bangladesh Bank. The Bangladesh Rating Agency Limited (BDRAL), a subsidiary of Dun & Bradstreet South Asia Middle East Ltd., is the pioneer in rating the SME sectors in Bangladesh. The

only Credit Rating Agency for Small and Medium Enterprises (SMEs) licensed by Bangladesh Securities and Exchange Commission (BSEC) and approved by Bangladesh Bank. BDRAL Rating is a comprehensive assessment of the enterprise taking into consideration the overall financial and non financial performance of the subject company vis à vis the other peers in the industry in the same line of business and size criteria.

2.2 Definition of Credit Rating:

Credit rating is an analysis of the credit risks associated with a financial instrument or a financial entity. It is a rating given to a particular entity based on the credentials and the extent to which the financial statements of the entity are sound, in terms of borrowing and lending that has been done in the past.

A score or grade that a company or organization gives to a possible borrower and that indicates how likely the borrower is to repay a loan. Credit ratings are based on how much money, property, and debt a borrower has and on how well the borrower has paid past debts

Usually, is in the form of a detailed report based on the financial history of borrowing or lending and credit worthiness of the entity or the person obtained from the statements of its assets and liabilities with an aim to determine their ability to meet the debt obligations. It helps in assessment of the solvency of the particular entity. These ratings based on detailed analysis are published by various credit rating agencies like Standard & Poor's, Moody's Investors Service, and ICRA, to name a few. So, this report mainly focuses on the credit rating industry of Bangladesh under which all the existing credit rating agencies are operating currently. The main Financial Service Industries of Bangladesh are below;

- ❖ Banks
- ❖ Nonbank financial institutions (NBFI)
- ❖ Credit Rating Agencies
- ❖ Credit-card companies
- ❖ Insurance companies
- ❖ Accountancy companies
- ❖ Consumer-finance companies



Credit Rating Industry

- ❖ Stock brokerages
- ❖ Investment funds
- ❖ Credit unions Individual managers and
- ❖ Some government-sponsored enterprises

Table 2.1- The Financial Service Industries of Bangladesh

Hence, it can be concluded that the credit rating agencies are operating under the financial service industry of Bangladesh specifically in the “Credit Rating Industry”.

2.2.1 Credit Rating Types:

a) International Ratings:

Issuer Credit Ratings (for governments, financial institutions and corporate): these summarize an entity's overall creditworthiness and its ability and willingness to meet its financial obligations as they come due. Ratings assigned to an entity are comparable across international borders. Sectors and the types of ratings that may be assigned are given below.

- Sovereigns and Local Government
- Long- and short-term local currency ratings
- Long- and short-term foreign currency ratings
- Banks and other Financial Institutions
- Long- and short-term local currency ratings
- Long- and short-term foreign currency ratings

Corporate

- Long- and short-term local currency ratings
- Long- and short-term foreign currency ratings

Issue Credit Ratings (for bonds, Sukuk and other financial obligations): these are an opinion of an entity's ability and willingness to honor its financial obligations with respect to a specific bond or other debt instrument. The ratings assigned to the debt issues of financial institutions and corporate can be either short-term or long-term, depending on the tenor of the

financial obligation. A short-term rating is assigned to debt instruments with an original maturity of up to one year.

b) Insurer Financial Strength Ratings

Insurer Financial Strength Ratings (IFSRs) provide a forward-looking opinion of an insurer's capacity and willingness to pay its valid insurance contract obligations when they become due. An IFSR is not specific for any particular policy or product, nor does it address non policy obligations. IFSRs are generally long-term local currency ratings but CI Ratings may also assign IFSRs to short-term and foreign currency contractual obligations where appropriate.

c) National Ratings:

National Ratings measure the creditworthiness of issuers or issues relative to all other issuers or issues within the same country, and unlike CI's other ratings are not intended to be comparable across countries. National Ratings are used in countries whose sovereign credit ratings are some way below 'AAA' on CI's international ratings scales, and where there is sufficient demand from capital market participants for such ratings. National Ratings enable the ratings of obligors in a given country to be distributed across a full rating scale (from 'AAA' to 'D'), thereby allowing greater credit differentiation than may be possible under internationally comparable rating scales.

2.2.2 Profile of Top Three Credit Rating Agencies:

Moody's Investors Service, Standard & Poor's and Fitch Group are considered as Big Three credit rating agencies.

Moody's Investors Service:

John Moody and Company first published "Moody's Manual" in 1900. The manual published basic statistics and general information about stocks and bonds of various industries. From 1903 until the stock market crash of 1907, "Moody's Manual" was a national publication. By the 1970s, Moody's began rating commercial paper and bank deposits, becoming the full-scale rating agency that it is today.

Standard & Poor's:

Henry Varnum Poor first published the "History of Railroads and Canals in the United States" in 1860, the forerunner of securities analysis and reporting to be developed over the next century. Standard Statistics merged with Poor's Publishing in 1941 to form Standard and Poor's Corporation, which was acquired by The McGraw-Hill Companies, Inc. in 1966. Standard and Poor's has become best known by indexes such as the S&P 500.

Fitch Ratings:

John Knowles Fitch founded the Fitch Publishing Company in 1913. Fitch published financial statistics for use in the investment industry via "The Fitch Stock and Bond Manual" and "The Fitch Bond Book." In 1924, Fitch introduced the AAA through D rating system that has become the basis for ratings throughout the industry. With plans to become a full-service global rating agency, in the late 1990s Fitch merged with IBCA of London, subsidiary of Fialac, S.A., a French holding company. Beginning in 2004, Fitch began to develop operating subsidiaries specializing in enterprise risk management, data services and finance industry training with the acquisition of Canadian company, Algorithmic, and the creation of Fitch Solutions and Fitch Training.¹

2.3 Associations of Credit Rating Agencies:

2.3.1 International Organization of Securities Commissions (IOSCO):

The International Organization of Securities Commissions (IOSCO) is the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. IOSCO develops implements and promotes adherence to internationally recognized standards for securities regulation. It works intensively with the G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.

The IOSCO Objectives and Principles of Securities Regulation have been endorsed by both the G20 and the FSB as the relevant standards in this area. They form the basis for the evaluation of the securities sector for the Financial Sector Assessment Programs (FSAPs) of the International Monetary Fund (IMF) and the World Bank.

By providing high quality technical assistance, education and training, and research to its

¹ <http://dspace.bracu.ac.bd/xmlui/bitstream/handle/10361/4525/11304060.pdf?sequence=1&isAllowed=y>

members and other regulators, IOSCO seeks to build sound global capital markets and a robust global regulatory framework.

2.3.2 Association of Credit Rating Agencies in Asia (ACRAA):

ACRAA was organized on 14 September 2001 at the Asian Development Bank headquarters, Metro Manila, by 15 Asian credit rating agencies from 10 countries, a pioneering event to bring domestic credit rating agencies in a regional cooperative effort. As of September 2016, membership has increased to 30 members from 14 countries.

2.4 The Importance of Credit Rating Agencies

Credit rating agencies provide investors and debtors with important information regarding the creditworthiness of an individual, corporation, agency or even a sovereign government. The credit rating agencies help measure the quantitative and qualitative risks of these entities and allow investors to make wiser decisions by benefiting from the skills of professional risk assessment carried out by these agencies.

- Development of Financial Markets
- Credit Rating Agencies Help Regulate Financial Markets
- Estimation of Risk Premiums
- Enhanced Transparency in the Credit Markets
- Standardization of the Evaluation Process

2.5 Role of Credit Rating in Basel implementation

Basel II:

The implementation of Basel started from Basel II through Credit Rating. Credit Rating main practice based of Basel II up to the current time.

Basel II is an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations. The Basel accords are a series of recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (BSBS). In June 2004 initially published, amend international that controlled how much capital banks need to hold guard against the financial and operational risks banks face. Basel uses three pillars those are follows and implementations based on

those pillars.²

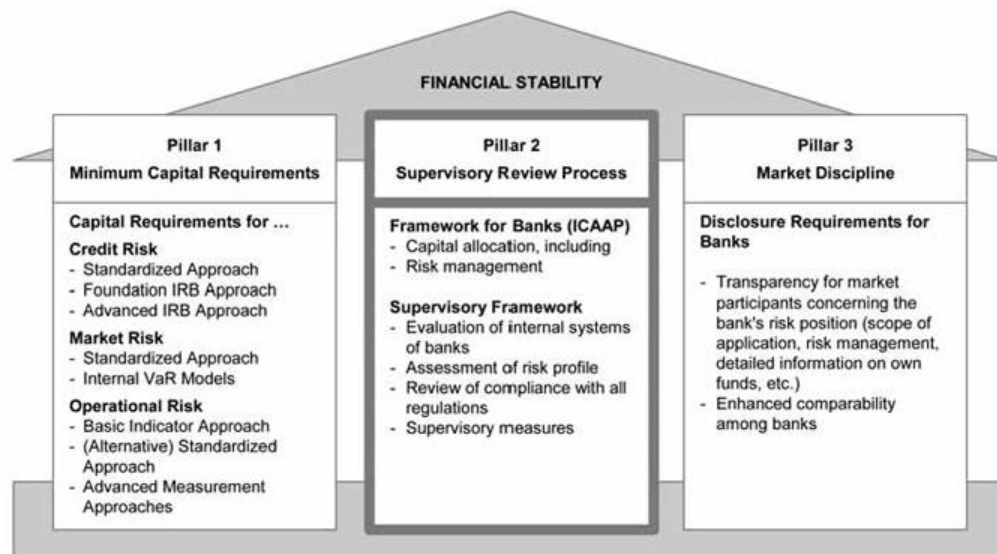


Figure 2.1- Pillars

Pillar 1# Minimum Capital Requirements:

Pillar I provides details of how banks must calculate their minimum capital requirements. It suggests various approaches for calculating capital for credit, market, and operational risk.

Credit Risk: Credit risk is the potential that a bank borrower or counterparty fails to meet its obligation in accordance with agreed term. The credit risk component can be calculated in three different ways of varying degree of sophistication, namely standardized approach, Foundation IRB, Advanced IRB and General IB2 Restriction. IRB stands for "Internal Rating-Based Approach". Credit Risk analysis is the prime concern and factor of Credit Rating by analyzing the borrower financial report and credit payment behavior like banker's feedback and collateral.

Market Risk: Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The market risk positions subject to this requirement are:

- The risks pertaining to interest rate related instruments and equities in the trading book;
- Foreign exchange risk and commodities risk throughout the bank (both in the banking

² Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel II)

and in the trading book).

Market risk is another factor of credit rating analysis. This factor measured by following the borrower's industry related risk like future of the business, performance of the industry, players of the industry and market share of that particular borrower's company.

Operational Risk: Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk¹, but excludes strategic and reputational risk. There are three different approaches – basic indicator approach or BIA, standardized approach or TSA, and the internal measurement approach (an advanced form of which is the advanced measurement approach or AMA).

Operational Risk is also a factor to analysis the borrower's business for giving them credit rating. The Credit rating analysis analyst must have recognized and analysis the operational risk of that particular borrower's company. To analysis the operational risk the credit rating analyst analyzing the operational efficiency, capacity, suppliers and buyers list through this process credit rating also implemented Basel.

Pillar 2# Supervisory Review Process

The key principle of the supervisory review process (SRP) is that “banks have a process for assessing overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital at an adequate level”. Banks should have an exclusive body (called SRP team) where risk management unit is an integral part, and a process document (called Internal Capital Adequacy Assessment Process-ICAAP) for assessing their overall risk profile, and a strategy for maintaining adequate capital. Adequate capital means enough capital to compensate all the risks in their business, and to develop and practice better risk management techniques in monitoring and managing their risks.

The Pillar II concerns the supervisory approach to bank capital management. The objective here is to ensure that banks follow rigorous procedures, measure their risk exposures correctly, and have enough capital to cover their risks.

- Evaluate risk assessment
- Ensure soundness and integrity of bank' internal process to assess the adequacy of capital

- Ensure maintenance of minimum capital – with PCA for shortfall
- Prescribe differential capital, where necessary, i.e., where the internal processes are slack.

The capital requirements under Basel II do not include liquidity risk, interest rate risk of banking book, strategic risk, and business risk. These risks would fall under “Supervisory Review Process”. If supervisors feel that the capital held by a bank is not sufficient, they could require the bank to reduce its risk or increase its capital or both.

Pillar 3# Market Discipline:

Pillar III introduces requirements for banks to disclose their risk information to the financial markets, in the hope that investors will be better able to exert discipline on bank behavior.

- Enhance Disclosure
- Core disclosures and supplementary disclosures
- Timely – semiannual

Credit Rating is for Bank risk analysis and understanding the borrower’s business progress so that Bank can take decision about their investment perfectly and save their clients as well Government and nation. In this process, Bank has to disclose their risk information to the credit rating agencies so that credit rating analyst can analysis their risk or borrower accurately.

The significant features of Basel II are:

- Significantly, more risk sensitive capital requirements and takes into account operational risk of banks apart from credit and market risks. It also provides for risk treatment based on securitization.
- Great use of assessment of risk provided by banks’ internal systems as inputs to capital calculations.
- Provides a range of options for determining the capital requirements for credit risk and operational risk to allow banks and national regulators to select the approaches that are most suitable for them.

- Capital requirement under the new accord is the minimum. It has a provision for supplementary capital that can be adopted by national regulators.

Basel III

Basel I and Basel II, which focus primarily on the level of bank loss reserves that banks are required to hold, Basel III focuses primarily on the risk of a run on the bank, requiring differing levels of reserves for different forms of bank deposits and other borrowings.

It is widely felt that the shortcoming in Basel II norms is what led to the global financial crisis of 2008. That is because Basel II did not have any explicit regulation on the debt that banks could take on their books, and focused more on individual financial institutions, while ignoring systemic risk. To ensure that banks don't take on excessive debt, and that they don't rely too much on short term funds, Basel III norms were proposed in 2010.

The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.

Minimum Capital Requirement:

Basel III implements the tighter capital requirement than Basel I & Basel II. The original Basel III rule from 2010 required banks to fund themselves with 4.5% of common equity (up from 2% in Basel II) of risk-weighted assets (RWAs). Since 2015, a minimum Common Equity Tier 1 (CET1) ratio of 4.5% must be maintained at all times by the bank. This ratio is calculated as follows:

The minimum Tier 1 capital increases from 4% in Basel II to 6%,^[3] applicable in 2015, over RWAs. This 6% is composed of 4.5% of CET1, plus an extra 1.5% of Additional Tier 1 (AT1). Furthermore, Basel III introduced two additional capital buffers:

- A mandatory "capital conservation buffer", equivalent to 2.5% of risk-weighted assets. Considering the 4.5% CET1 capital ratio required, banks have to hold a total of 7% CET1 capital, from 2019 onwards.
- A "discretionary counter-cyclical buffer", allowing national regulators to require up to an additional 2.5% of capital during periods of high credit growth. The level of this

country is continuing its economic growth with a single credit rating company. Hence, we can conclude that, Credit rating industry in Bangladesh currently is at the “Maturity stage” of an industry life cycle model which is shown in the Figure 2.2 below

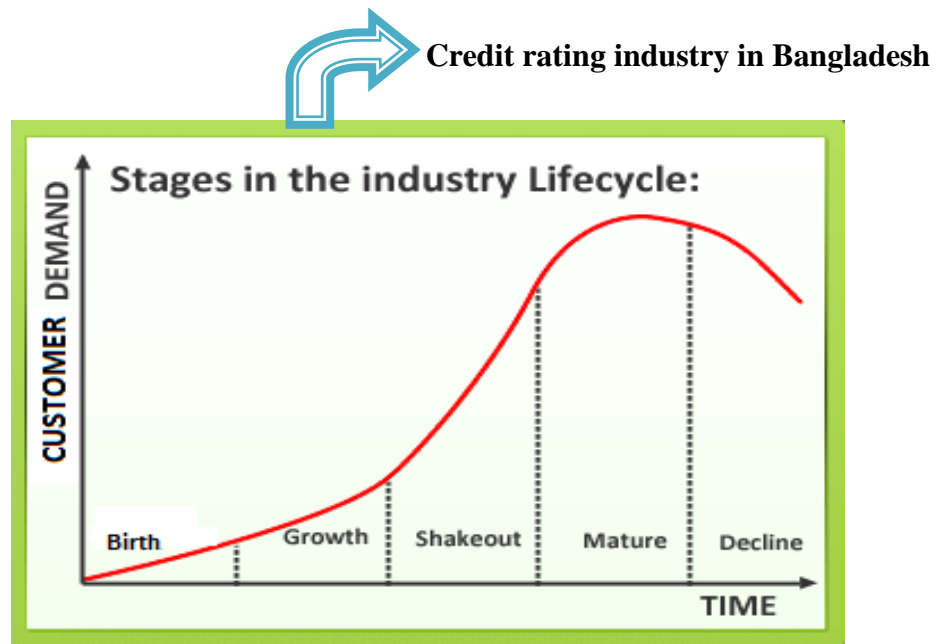


Figure 2.2- The Industry Life Cycle Stages

2.8 Credit Rating Industry of Bangladesh

Bangladesh Securities and Exchange Commission & Bangladesh Bank has regulatory authorities recognize the following eight local credit rating agencies:

2.8.1 Credit Rating Industry Players: There are eight Credit Rating Industry players in Bangladesh the play a vital role in our Rating Industry.⁴

Name of Company	Date of Issuance of Registration Certificate
Credit Rating Information and Services Limited (CRISL)	21 August, 2002
Credit Rating Agency of Bangladesh (CRAB)	24 October, 2004
National Credit Ratings Ltd.	22 June, 2010
Emerging Credit Rating Ltd (ECRL)	22 June, 2010
ARGUS Credit Rating Services Ltd.	21 July, 2011
WASO Credit Rating Company (BD) Limited	15 February, 2012
Alpha Credit Rating Limited	20 February, 2012
The Bangladesh Rating Agency Limited (BDRAL)	7 March, 2012

Table 2.2- Credit Rating Companies

⁴ http://www.wikinvest.com/concept/Credit_Ratings_Agencies

CHAPTER: 3

OVERVIEW REPORT OF THE BANGLADESH RATING AGENCY LIMITED (BDRAL)

3.1 Overview of BDRAL at a glance

Particulars	Details
Name of the Company	The Bangladesh Rating Agency Limited (BDRAL)
Constitution	Private Limited Company
Date of Incorporation	7 th March, 2012
Industrial Group	Service Industry
Area of Services	Credit Rating, Grading, Publications, Training, Research & Survey
Chairman	Mr. Rajesh Mirchandani
Chief Executive Officer	Mr. Sayed Javed Ahmad
Number of Employees	65 (As of June 2019)
Number of Clients	~ 6100 SME clients over the country
Office Address	47 Kawran Bazaar, Latif Tower (12th Floor), Dhaka-1215, Bangladesh
Website	www.bdral.com

Table 3.1- Overview of BDRAL⁵

3.2 Mission & Vision of BDRAL

To contribute in the development of SMEs, the backbone of the economy, through implementation of global standards of credit rating and to evaluate the national SMEs to mitigate the perceived high credit risk by structuring the SME sector and thus bridging the gap between the financiers and the SME.

3.3 Objectives of BDRAL

- ❖ To perform the credit rating of various debt instruments as Commercial papers, Bonds and Debentures, Islamic bonds, Preference shares, Equity instruments, Rights issue, Mutual fund units etc.
- ❖ To perform grading of various institutions as banks, non banking financial institutions, insurance companies, corporations, non-corporations, societies, trusts or individuals or their clients for purposes requested clients or required by authorities.
- ❖ To accumulate, process and offer information services in broad areas for the use of organization and clients at different levels.

⁵ www.bdral.com/

- ❖ To provide consultancy and advisory services in broad areas to their clients at different levels.
- ❖ To act as trustees of any debentures, bonds, securities, commercial papers or any other obligations and to exercise the powers of executor, administrator, receiver, treasurer, custodian in respect of such debts and securities.

3.4 Ethical Code of Conduct

Individuals involved with the credit rating process shall agree to and abide by the following:

- ❖ BDRAL shall not have Analysts who are directly involved in the rating process initiate, or participate in, discussions regarding fees or payments with any entity they rate.
- ❖ No Rating Committee member shall participate in or otherwise influence the determination of a rating in a rating committee for any particular issue.
- ❖ Employees will be prohibited from soliciting money, gifts or favors from anyone with whom BDRAL does business and shall also be prohibited from accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.
- ❖ Subject to applicable law, any Analyst who is involved in any personal relationship that creates the potential for any real or apparent conflict of interest shall disclose such relationship to the appropriate manager or compliance officer of BDRAL.

3.5 Business Code of Conduct

- ❖ BDRAL and its employees shall comply with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.
- ❖ BDRAL and its employees shall deal fairly and honestly with its clients, and other market participants.
- ❖ BDRAL and its employees shall not, either implicitly or explicitly, give any assurance or guarantee of any particular rating prior to a rating assessment.
- ❖ BDRAL shall abide by the provisions of the BDRAL Code of Conduct and with the applicable laws and regulations.
- ❖ The Code of Conduct shall be distributed to BDRAL employees upon commencement of employment and annually thereafter. The Code requires employees to comply with applicable laws and regulations; deal fairly and honestly with clients and adhere to high standards of integrity.

3.6 Trend of Rating in BDRAL

In a broader perspective, BDRAL has the trend only one type of rating. This is Small & Medium Enterprise (SME) Rating. It is a short term rating (All loans/facilities with original maturity within one year).

SME (Small & Medium Enterprise) Rating:

While Rating SMEs (Small & Medium Enterprises), BDRAL evaluates factors such as the candidate SME's management, ownership, organization structure, key human resources, business environment, relationships with trade partners, financial strength, operational efficiency and capabilities, and other non-financial parameters that may have an impact on its creditworthiness. These ratings are entity-specific, and not specific to debt issuances. The SME rating has its own unique features unlike the large corporate. CRAB SME rating would not only provide credit assessments, but also educate the SME sector entrepreneurs to enhance their entrepreneurship and managerial skills. The rating scales and risk weights of BDRAL's SME ratings are shown in Figure 3.1 below;

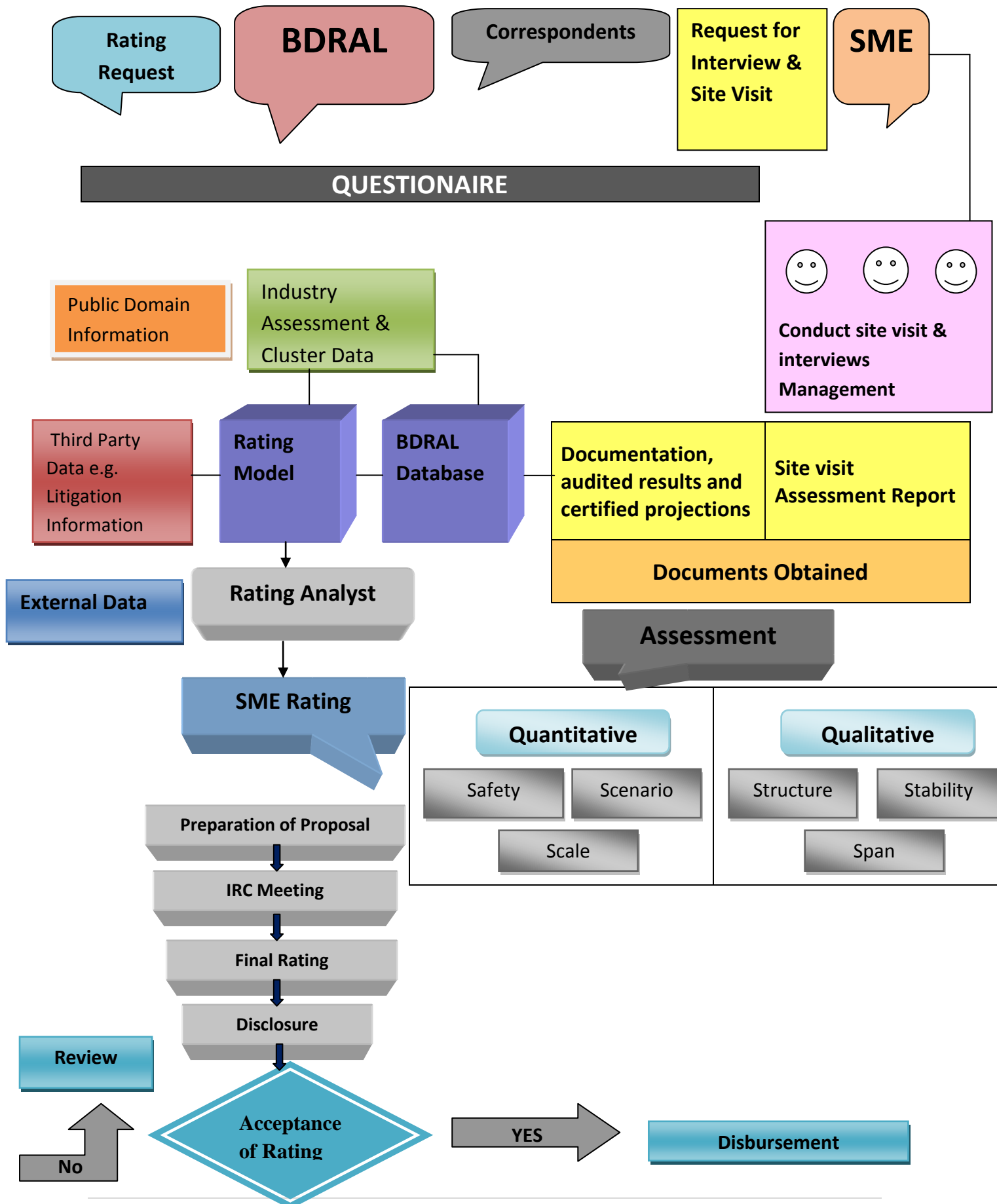
Bangladesh Bank SME Rating Grade	BDRAL Grade	Score	Risk Weight
SME 1	SE-1/ME 1	90+	20%
SME 2	SE-2/ME 2	80-89	40%
SME 3	SE-3/ME 3	70-79	60%
SME 4	SE-4/ME 4	60-69	80%
SME 5	SE-5/ME 5	50-59	120%
SME 6	SE-6/ME 6	<50	150%
	SE-7/ME 7		
	SE-8/ME 8		

Table 3.2- BDRAL rating scales for SME (Small & Medium Enterprise)

Rating Outlook	
BDRAL Rating Outlook assesses the potential direction of the institutions Rating over the intermediate term (typically over a one year period). The Rating Outlook may either be:	
POSITIVE	Which indicates that a rating may be raised.
NEGATIVE	Which indicates that a rating may be lowered
STABLE	Which indicates that a rating is likely to remain unchanged.
DEVELOPING	Which indicates that a rating may be raised. Lowered or remain unchanged.

Table 3.3- Rating Outlook

3.7 Rating Process of BDRAL



Credit Rating Process of BDRAL:

Rating Request: Ratings in BDRAL are usually started on formal request from the prospective Issuer. The contract obtained on a 300 Taka non-judicial Stamp Paper before commencement of a Rating assignment; which spells out the terms and conditions of the engagement of credit rating agency.

Team: The Rating team usually comprises with two members. The composition of the team is based on the expertise and skills required for evaluating the business of the Issuer. The team is usually led by the lead analyst with adequate knowledge of the relevant instrument to be Rated.

Role of the Lead Analyst: The lead analyst shall arrange to finalize the Rating report and send the same to the Rating Committee members. The lead analyst shall arrange to make a presentation before the Rating Committee. The lead analyst will make sure that all the relevant and material issues that may have an impact on the credit quality of the issuer (including, but not limited to those which are related to the program being Rated) are presented before the Rating Committee for discussion. The lead analyst will ensure communication of the Rating decision to the Issuer and initiate all the necessary actions consequent to the reaction of the issuer depending on the circumstances.

Information Requirements: Issuers are provided with a list of information requirements and broad framework for discussions. These requirements are derived from the experience of the Issuers business and broadly conform to all the aspects, which have a bearing on the rating.

Management Meetings and plant visits: Rating involves assessment of number of qualitative factors with a view to estimate the future earnings prospects of the Issuer. This requires intensive interactions with the Issuers' management specifically with a view to understanding the business plans, future competitive position and funding policies, etc.

Meeting with the Issuers: This would be a very important meeting (usually, the last meeting) when the Rating team would discuss all the critical issues / findings that may impact the Rating decision with the Issuer.

Internal Review Committee Meeting: Once the Analysts team prepares the draft report, it is placed before the Internal Review Committee Meeting. The committee comprise of senior

analysts. The committee reviews the draft rating report and analysis made by the analysts. Committee also reviews the due diligence, documents, meetings, site visits etc.

Rating Committee Meeting: The authority for assigning Ratings is vested in the Rating Committee of BDRAL. The analyst team sends the Rating reports in advance to the Rating Committee members. The Rating team makes a presentation about the Issuers business and the management to the Rating Committee at the meeting. All the key issues are identified and discussed at length during the meetings and all relevant issues, which influence the Rating, are considered. The differences if any arise during the discussion are taken note of. Finally, a Rating is assigned either by a consensus or by majority votes.

Surveillance: It is obligatory on the part of BDRAL to monitor Accepted Ratings (including the Ratings treated as Deemed Acceptance) over the tenure of the Rated instrument or till any amount is outstanding under the program(s) Rated. The Issuer is bound by the agreement to provide information to BDRAL to facilitate such monitoring. In case the Issuer do not co-operate by way of providing information, etc. for the purpose of surveillance, BDRAL may on its own carry out the surveillance on best efforts basis based on the available information and possible interactions after giving the Issuer adequate notice requesting him to co-operate. The Ratings are generally reviewed every year, unless the circumstances of the case warrant an earlier review due to changes in circumstances or major developments that were not anticipated / factored in the Rating decision. However, the Issuer would not have any option of not accepting the Rating.

3.8 Credit Rating Methodology of BDRAL

BDRAL rating framework considers a number of financial and non-financial parameters of the enterprise and regulations and industry specific dynamics. BDRAL believes that the industry in which an SME operates has a direct bearing on the overall performance of the SME and therefore rates SMEs based on the industry benchmarks. BDRAL Rating is a comprehensive assessment of the enterprise taking into considerations the overall financial and non-financial performance of the SMEs and other peers in the industry in the same line of business and size criteria.

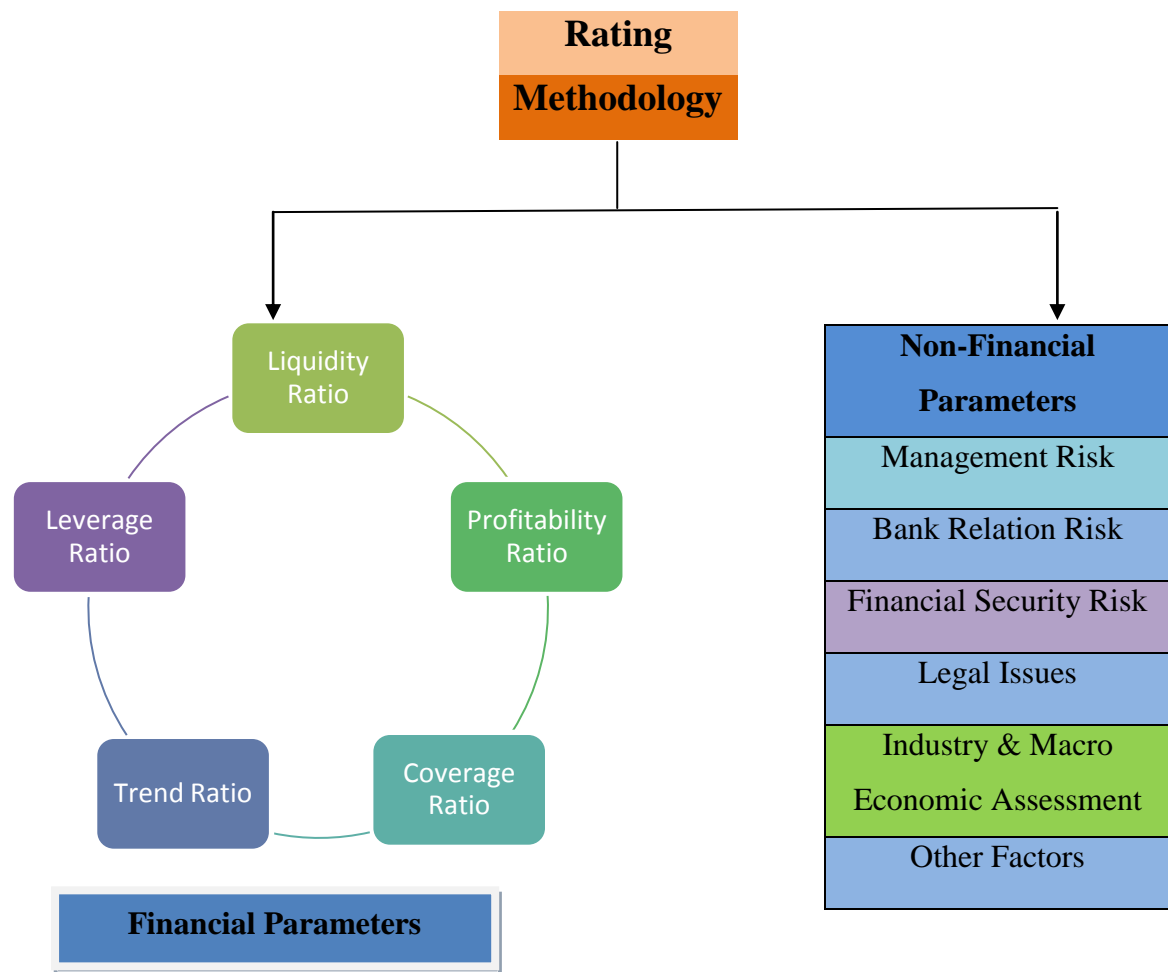


Figure 3.2- Rating Methodology

- An Exhaustive list of qualitative and quantitative factors considered for rating
- Each financial parameter is benchmarked within its industry-size peer group

4.3 Transition Matrix

Rating transition matrix provides the information about the possibility that a company in a given rating category moves to another category in one year. BDRAL's transition matrix analyses of the clients rated month of July 2017 to June 2019 are given below. Transition matrix analysis is done to see the percentage of changes in credit rating of each rating category.

2017-18							
2016-17	SME	SE/ME1	SE/ME2	SE/ME3	SE/ME4	SE/ME5	SE/ME6
	SE/ME1	0%	0%	0%	0%	0%	0%
	SE/ME2	0%	50%	17%	0%	0%	0%
	SE/ME3	0%	0.08%	46.35%	2.36%	0%	0%
	SE/ME4	0%	0%	23%	19%	0%	0%
	SE/ME5	0%	0%	0%	0%	0%	0%
	SE/ME6	0%	0%	0%	0%	0%	0%

2018-19							
2017-18	SME	SE/ME1	SE/ME2	SE/ME3	SE/ME4	SE/ME5	SE/ME6
	SE/ME1	0%	0%	0%	0%	0%	0%
	SE/ME2	0%	62.50%	0%	0%	0%	0%
	SE/ME3	0%	1%	47%	1%	0%	0%
	SE/ME4	0%	1%	26%	21%	0%	0%
	SE/ME5	0%	0%	0%	0%	0%	0%
	SE/ME6	0%	0%	0%	0%	0%	0%

Table 4.3- Transition Matrix

Note:

- Every row represents to the rating of previous year.
- Every column represents to the rating after one year.

For 2017-18 transition matrixes, it can be inferred that out of all the SE/ME 2 rated companies at the beginning of the year 50% have remained in same category, 17% have been downgraded to SE/ME 3 category and none have been upgraded. 33% cases did not come as surveillance. In SE/ME 3 rated companies at the beginning of the year, 46.35% have remained in the same category; 2.36% have been downgraded to SE/ME 4 category and 0.08% have been upgraded to SE/ME 2 category; and 51.20% cases did not come as surveillance. Finally, SE/ME 4 rated companies at the beginning of the year, 19% have been remained in the same category, 23% have been upgraded to SE/ME 3 category and none have been downgraded to SE/ME 5; and 58% cases did not come as surveillance. For 2018-2019, out of all the SE/ME 2 rated companies at the beginning of the year, 62.50% have remained in same category and 37.50% cases did not come as surveillance. At the beginning of the year, among SE/ME 3 rated companies 47% have remain in the same category, 1% have been downgraded to SE/ME4 category; and 1% have been upgraded to SE/ME 2 category; and 51% cases did not come as surveillance. SE/ME 4 rated companies at the beginning of the year, 21% have remained in the same category, 26% have been upgraded to SE/ME 3 category, 1% has been upgraded to SE/ME 2 category and none have been downgraded to SE/ME 5; and 52% case did not come as surveillance. Similar interpretation can be done for the other rating category as well.

4.4 Survey Analysis

After doing the survey on fifty respondents regarding credit rating of different clients, internal employees of BDRAL, financial institutions. All the data were put in excel and the results come from each question are discussed below with the help of different charts.

1. Investment decision taken on the basis of credit rating

- Yes
- No

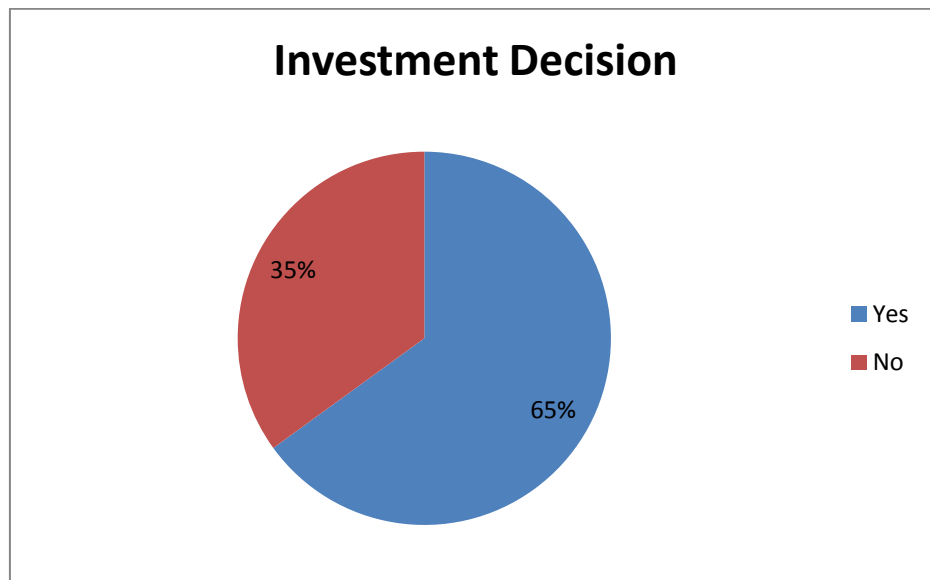


Figure 4.1- Investment Decision on the basis of Credit Rating

The result shows that 65% of the respondents agree that investment decision is based on the credit rating report. As per the rules of Bangladesh Bank external body should rate the individual enterprise before issuing loan. On the other hand 35% of respondents think that credit rating is not only thing to issue a loan, sometimes bankers have to look over the other factors also.

2. Do you think that the number of Credit Rating Agencies established in Bangladesh is enough?

▪ Yes

▪ No

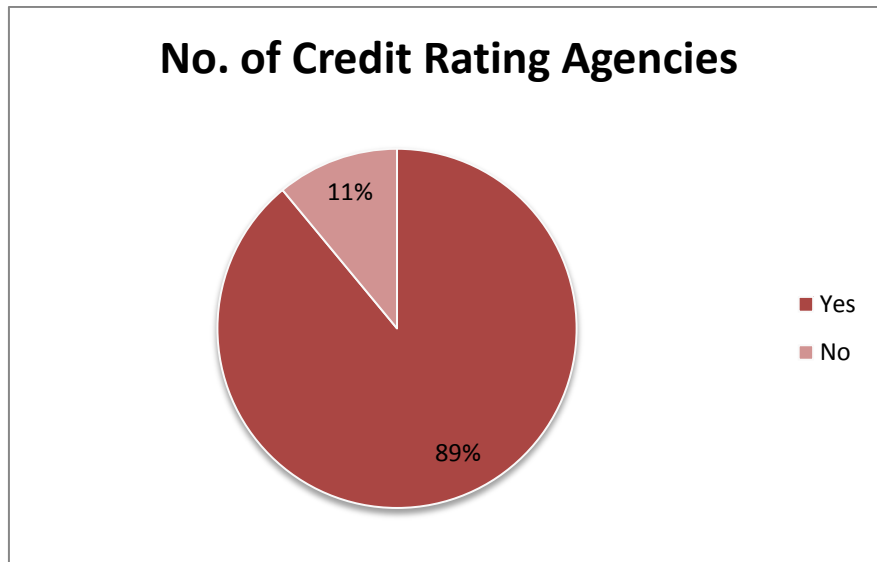


Figure 4.2- Number of Credit Rating Agencies

Here we can show that 89% respondents felt that in Bangladesh we have enough rating agencies, on the basis of our economy we have highest number of agencies all around the world. Only a few respondents (11%) felt differently.

3. Are you satisfied with the ratings given by the agency?

- Highly Satisfied
- Satisfied
- Dissatisfied
- Highly Dissatisfied



Figure 4.3- Satisfaction Level of Respondents

According to the question 58% respondents are satisfied with that credit rating decisions which gives by the rating agency (BDRAL) whereas 17% respondents are highly satisfied with the result most of them are individual small clients. But few respondents are highly dissatisfied and dissatisfied with the final rating decisions, respectively 22% & 2%. Some of them do not want to accept their own business condition which is huge parameter to rate their business.

4. Your knowledge about Credit rating

- Simply a grading system
- It shows the exact financial position of the company
- An indicator of credit risk
- Just a marketing strategy of the issuing company

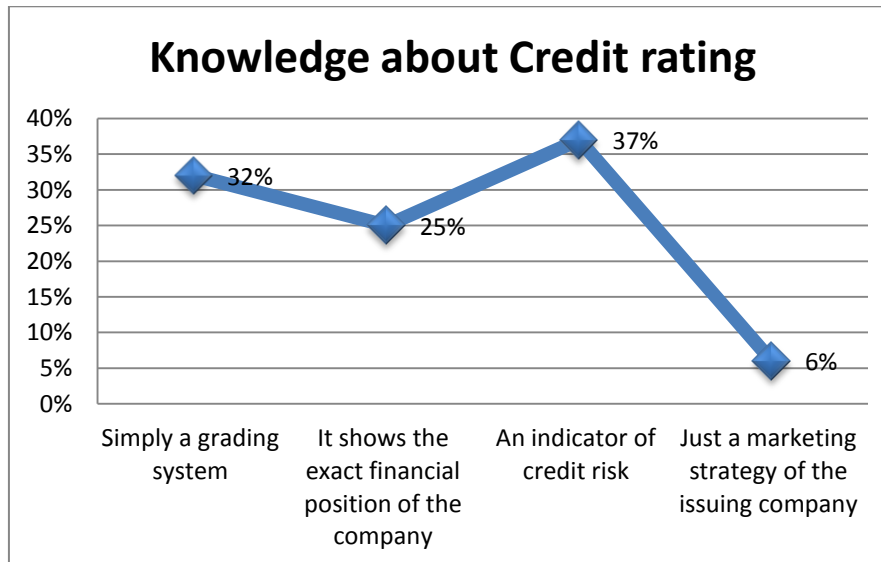


Figure 4.4- Knowledge about Credit rating

Most of the respondents (37%) felt that credit rating is the indicator of credit risk by using this they can effectively analyze the credit risk associated with investment. Mostly bankers are very much agreeing with this. Along with this 32% respondents are understand this concept as a simple grading system to rate their enterprises. Small enterprise's owners are not that much aware of the importance of credit rating. BDRAL only deals with the SME clients so only 6% respondents felt this is a marketing strategy.

5. The purpose of credit rating

- To measure credit risk
- Assisting investments
- Getting advice on enterprise development and identification of risk
- Assurance about safety

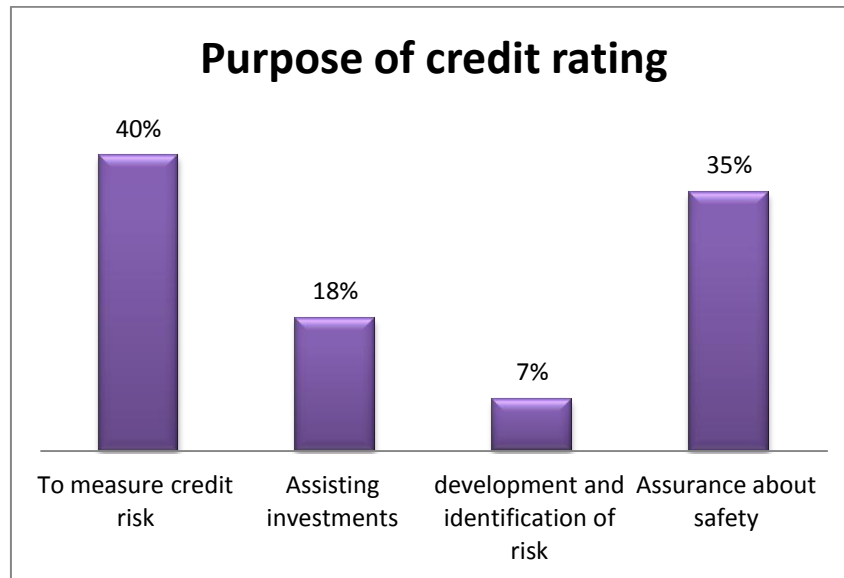


Figure 4.5- Purpose of credit rating

In this bar chart we show that 40% respondents are felt that the main purpose of credit rating is to measure the credit risk. Here most of the bank's main operation is to invest more to the clients as much as possible so automatically the concept of credit risk comes. Most of the bankers take the credit rating decisions on the base of their investment. Alongside with this 35% respondents are taking it as an assurance of their safety. Whereas only 6% of the respondents felt that it can be also used as an advice for the development of the enterprises.

CHAPTER: 5

FINDINGS, RECOMMENDATION & CONCLUSIONS

5.1 Findings

The Bangladesh Rating Agency Limited is maintaining high level of confidentiality regarding the information of their company and their client's company as well.

Analyst of BDRAL conducts details analysis and make sure the analysis is accurate by the senior analysts before Rating Committee Meeting (RCM). The final Credit Rating Grade comes from 'adjunct rating committee members' by understanding the analysis of that company.

Client's information is not always available for the analysis. Some client does not keep record all the information regarding their company. In this case, client's Bank records all information on behalf of client like annual report.

The 1st and most troublesome barrier to investment in As Bangladesh is political instability. At a similar time, native investors can choose investment of their cash abroad.

Corruption is the second biggest barrier of investment in Bangladesh. Recent corruption cases like Hall-Mark, Destiny, etc. have damaged confidence for investment in the country.

As I am finance major, I see the practice of my theoretical finance knowledge. It is best place for finance major student to work with this Credit Rating Agency.

5.2 Recommendations

As the demand of credit rating services is increasing day by day, The Bangladesh Rating Agency Limited (BDRAL) should enhance their existing rating services for SME (Small and medium Enterprise) rating department. I want to give some other recommendations for BDRAL and the SME department where I am working.

At first, more services should be introduced in The Bangladesh Rating Agency Limited to flourish. More services (like corporate, financial organizations, bond market, mutual fund etc.) will increase in Bangladesh the more demanding, wealthy and attractive credit rating agencies would become. Mass people should be educated about credit rating services through seminars, by including it in the educational studies. General people should be educated more about the credit ratings of the SME (Small and medium Enterprise) and its effectiveness through seminars, advertisements etc. which will ultimately increase the profitability of all departments. BDRAL should emphasize more on the advertising or promotional activities so that general people can know more about it and recognize it properly.

More detail information should be tried to find out about the clients or companies so that the assessment before rating can be made more accurately. In case of individual client rating, they should collect more details about them before rating to ensure more authenticity.

Mass people should be educated about credit rating services through seminars, by including it in the educational studies.

Since the source of income of BDRAL is from the client whom they rate, there might be a chance to be biased to the client or company to get more money from them. There should be some strict laws for each and every department of BDRAL in order to reduce the biasness of credit rating for SME department.

5.3 Conclusions

The Bangladesh Rating Term limited is the late comer in this industry so the popularity is not popular for many years. However, there is different Credit Rating Agencies in Bangladesh. In this world, credit rating agency is very much important to both investors and borrower. From the credit rating agency's report, they can understand about the company progress. This is a brief analysis on rating procedure of The Bangladesh Rating Agency Limited (BRDAL) and credit rating methods. The main purpose of this analysis is to understand the current credit rating procedure of BDRAL. This report also includes a detail idea about credit rating, its different rating company and The Bangladesh Rating Agency Limited (BDRAL). It is really a great experience of working with financial analysts of BDRAL. My major duties and responsibilities were collecting information, assisting financial analysts, learning corporate culture, learning rating process, analyzing financial statements, preparing draft and final credit rating reports etc. It is a good blend of theoretical and practical knowledge. It works as an ice breaking before they step into their working life. Therefore, I can say that I really had the best orientation in my corporate life. I have also identified BDRAL's potential opportunities as well as upcoming challenges in the future and suggested them some strategies as well as recommendations so that they can improve their credit rating performances in future.

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APPENDIX

Dear Sir/Madam,

The following questionnaire is arranged to serve my internship program. I would be appreciative if you could spare a few minutes to complete this Questionnaire.

Organization Name: _____

Designation: _____

1. Investment decision taken on the basis of credit rating
 - Yes
 - No
2. Do you think that the number of Credit Rating Agencies established in Bangladesh is enough?
 - Yes
 - No
3. Are you satisfied with the ratings given by the agency?
 - Highly Satisfied
 - Satisfied
 - Dissatisfied
 - Highly Dissatisfied
4. Your knowledge about Credit rating
 - Simply a grading system
 - It shows the exact financial position of the company
 - An indicator of credit risk
 - Just a marketing strategy of the issuing company
5. The purpose of credit rating
 - To measure credit risk
 - Assisting investments
 - Getting advice on enterprise development and identification of risk
 - Assurance about safety