Report On
“A Comparative Study on Credit Risk Management System of Prime Bank Limited”

By

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An internship report submitted to the BRAC Business School in partial fulfillment of the requirements for the degree of Master of Business Administration

BRAC Business School
BRAC University
December, 2019

Declaration

It is hereby declared that

1. The internship report submitted is my/our 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/We have acknowledged all main sources of help.

Student's Full Name & Signature:

Sumaiya Hoque
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Supervisor's Full Name & Signature:

Dr. Salehuddin Ahmed
Former Governor of Bangladesh Bank and Professor
BRAC Business School
BRAC University

Letter of Transmittal

Dr. Salehuddin Ahmed

Former Governor of Bangladesh Bank and Professor

BRAC Business School

BRAC University

66 Mohakhali, Dhaka-1212

Subject: “A Comparative Study on Credit Risk Management System of Prime Bank Limited”

Dear Sir,

This is my pleasure to display my entry level position provide details regarding' Credit Risk Management System of Prime Bank Ltd', which I was appointed by your direction. I have attempted my best to finish the report with the essential data and recommended proposition in a significant compact and comprehensive manner as possible.

I trust that the report will meet the desires.

Sincerely yours,

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Sumaiya Hoque

ID-17364030

BRAC Business School

BRAC University

December 15, 2019

Acknowledgement

I would like to express my special gratitude to my academic supervisor Dr. Salehuddin Ahmed, Former Governor of Bangladesh Bank and Professor of BRAC Business School, BRAC University for his able guidance and support in successful completion of my project.

I would also like to extend my gratitude to my organizational supervisor Mr. Muhammad Anisur Rahman Bhuyan, SAVP, CRM Division, Prime Bank Limited and to all my colleagues who have positively supported and provided all their practical knowledge and facilities that I needed to complete this project.

Executive Summary

Prime bank limited is the emerging commercial bank in Bangladesh. Within a short period of time PBL has managed to establish itself as a strong performer in the financial market. It is rapidly expanding and enjoying a high growth rate. Its loan portfolio is increasing every year. For this reason, efficient management of credit risk management is crucial for continuous success of PBL. All commercial banks operating in Bangladesh are strictly regulated by Bangladesh Bank. It has provided a guideline for credit risk management. All banks try to comply with that guideline. Prime Bank Ltd. is no exception of this practice. PBL has segregated the credit related activities. Marketing, preparation of credit proposal, other documentation, credit disbursement, credit monitoring etc. are done at branch level. Credit administration and credit risk management related works are done at head office. In this report I have used primary and secondary sources to provide the detail of credit risk management process and did some research on how the existing employees working in CRM division feels about the importance of credit risk management policy and system for a Banks's positive growth and success in the market. I have also tried to provide some recommendations based on my findings and on overall report that could be beneficial for further development of the CRM division. In addition, Prime Bank has already made significant progress within a very short period of its existence. The bank has been graded as a top-class bank in the country through internationally accepted CAMELS rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation.

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List of Acronyms

RB	Retail Banking
BB	Bangladesh Bank
CFL	Consumer Finance Loan
APR	Annual Percentage Rate
SOCB	State Owned Commercial Bank
PCB	Private Commercial Bank
FCB	Foreign Commercial Bank
PPG	Product Program Guide Line
MIS	Management Information System
PDD	Product Development Document
CPV	Contract Point Verification
DPD	Day Past Due
DSE	Direct Sales Executive
CCCU	Consumer Credit & Collections Unit
IGPA	Irrevocable General Power of Attorney
CCS	Consumer Credit Scheme
CIB	Credit information Bureau
FID	First Installment Due
NPL	Non-Performing Loan
IB	Islamic Bank
SB	Specialized Bank
HBL	House Building Loan

Chapter 1

1.1. Origin of the Report:

As a Partial requirement for the Master of Business Administration Degree of BRAC University, I was required to submit a project paper or to complete an Internship in suitable business organization. I have been working as an Officer in Prime Bank Limited, Consumer Credit Risk Management Department under Credit Risk Management Division for a period of four years and continuing. After discussion and getting consent, I started to work on the topic titled "Credit Risk Management System of Prime Bank Limited". The report was assigned by the honorable academic supervisor Dr. Salehuddin Ahmed, Former Governor of Bangladesh Bank, and Professor, BRAC Business School of BRAC University. I was authorized to make a report on the "Credit Risk Management System of Prime Bank Limited". I tried my level best to produce a quality report by gathering both academic and practical knowledge and I believe this will help me in shaping my career in a very positive way.

1.2. Background of the Study:

Bank is the most important financial institution in the economy. It plays vital role in the economy by providing means of payment and in mobilizing resources. The economic development of a country depends on the development of banking sector to a great extent. The dependence of banking sector in modern economy is increasing day by day because this sector ultimately contributes to run the wheel of development in a more dynamic way. Today's modern banks are not only providing traditional banking, rather banks are expanding the menu of financial services, banks are making the untouchable service touchable for their customers. The changing and expanding role of banking has made the banking business more complex and competitive. For survival and growth of this business demands creativity, specialization and knowledge and adoption of new technology are used. But technology, creativity, specialization all these cannot support a bank to survive unless the services are marketed in the right track. For this bank need experts who will able to run the business even in against the wind. Banks provide important capital in the form of loan and advances which are subject to nonrepayment which is termed as credit risk, the chance that a loan will not be repaid timely. Hence the main concern of the banks is credit risk and its management as credit or loans and advances are the main source of income for them.

Prime Bank Limited is one of the leading banks in this sector which arranges corporate and retail credit. This Bank is very much concerned with the credit risk and its management and has a credit risk management department. The success of the banks is hidden in the proper management of the all the sorts of risk related to the banking business. Hence credit risk and its management has become a vital part of the bank. This report will give us an overall idea about the credit risk and its management as practiced by the Prime Bank Limited. Bangladesh Bank undertook a project to review the global best practices in the banking sector and examines the possibility of introducing these in the banking industry of Bangladesh.

1.3. Objective of the Study:

Primary Objective

The Primary objective of this report is to acquire the MBA Degree by getting practical knowledge as it is a partial requirement.

Secondary Objectives

- To evaluate the criteria of credit, sound credit, credit risk grading, credit risk assessment and controlling procedures over the credit.
- To have better orientation on “Consumer Credit Risk Management” activities of Prime Bank Limited, especially on various Credits and loan services offered by the bank.
- To find out the consumer credit appraisal and credit management system, practiced by Prime Bank Limited.
- To identify the problems and challenges associated with Credit Risk Management of Prime Bank Limited.

1.4. Methodology:

Methodology is generally a guideline system for solving a problem with specific component such as phases, task, methods, techniques and tools. It is the systematic study of methods that are applied within a discipline. It also refers how to organize data from various sources to complete a successful study. Explanatory research has been conducted for gathering better information that will give a better understanding on credit department. Both primary and secondary data collection procedure have been used in the report.

Methods of Collecting Data:

The techniques of collecting primary data are not same as the techniques of collecting secondary data. The different methods and tools of collecting primary data and secondary data used in this report are described as follows:

Primary sources of data:

- Collection of data by questionnaire survey with research questions
- Informal interview with Credit Analysts of CRM Department
- Informal discussion with various process and system related issues with higher official
- Direct observation of the officers that how they meet various customer requirements
- Gathering practical knowledge by directly working for the department

Secondary sources of data:

- Internal and External Circulars issued by the Prime Bank Limited & Bangladesh Bank
- Consumer Financing Policy and PPG
- Credit Risk Management Guideline of Bangladesh Bank
- Annual reports of Prime Bank Limited
- Website of Prime Bank Limited and Bangladesh Bank
- Other Published Internship Reports

1.5. Scope of the study:

This report mainly focuses on Prime Bank's credit risk management system, risk grading system, risk assessment techniques. This report also consists of observations and study on Prime Bank from various aspects. It emphasizes the sequential activities involved in credit approval process; assessment techniques used by Prime Bank for credit analysis. It also analyses the importance of credit risk management process and whether the bank is following the basic requirements and performance of CRM Division. Finally, I have presented some findings to further strengthen its credit risk management.

1.6. Limitations of the study:

Though I tried my level best to produce a comprehensive and well-organized report on the Credit Risk Management of Prime Bank Ltd., some limitations are presented there:

- Prime Bank Ltd. maintains strict confidentiality about provide their financial information; therefore, it was quite difficult to obtain all the necessary data that was required to complete the report.
- Many operations relating to the credit extension run simultaneously by different credit officials and it is difficult to capture the sequence of any particular credit proposal.
- Major part of this report is based on the face to face interviews, which consists of view and opinion of those people. In some cases, some of them were not able to provide concrete facts or figures. In these cases, as well some assumptions had to be made.
- The allocated time of the study was limited for which within this short period, I could not study properly about whole procedures of credit controlling department in details.
- A structured filing procedure is often neglected which also poses difficulty in understanding the sequential procedure.
- Borrowers are not allowed to interact with this department so it is difficult and even impossible to connect with borrowers for gathering information.
- The bank officials though helpful in every respect do not have much time to explain the internal procedure.

Chapter 2

2.1 History of Prime Bank Ltd.

In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs conceived an idea of floating a commercial bank with different outlook. For them, it was competence, excellence and consistent delivery of reliable service with superior value products. Accordingly, Prime Bank was created and commencement of business started on 17th April 1995. The sponsors are reputed personalities in the field of trade and commerce and their stake ranges from shipping to textile and finance to energy etc. As a fully licensed commercial bank, Prime Bank is being managed by a highly professional and dedicated team with long experience in banking. They constantly focus on understanding and anticipating customer needs. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition. Prime Bank has already made significant progress within a very short period of its existence. The bank has been graded as a top-class bank in the country through internationally accepted CAMELS rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation. Prime Bank offers all kinds of Commercial Corporate and Personal

Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software. Prime Bank, since its beginning has attached more importance in technology integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, our strategy is to serve the customers through capacity building across multi-delivery channels. Our past performance gives an indication of our strength. We are better placed and poised to take our customers through fast changing times and enable them compete more effectively in the market they operate. Keeping the network within a reasonable limit, t heir strategy is to serve the customers through capacity building across multi-delivery channels. Their past performance gives an indication of their strength.

2.2 Prime Bank Ltd. at a glance

Type	Private
Industry	Non-Government
Founded	Dhaka, Bangladesh (1995)
Head office	Adamjee Court Annex Building-2, 119-120, Motijheel C/A Dhaka-1000, Bangladesh
Board of Directors	Azam J Chowdhury (Chairman) Mafiz Amed Bhuiyan (Vice Chairman) Imran Khan (Vice Chairman)
Management	Rahel Ahmed (Managing Director and CEO)
Audit Committee	Md. Shamsuddin Ahmed (Ph.D.)
Executive Committee	Md. Shirajul Islam Mollah (Chairman)
Slogan	A Bank with A Difference

Number of Branches	Dhaka: 60 Branches Chittagong: 28 Branches Rajshahi: 11 Branches Sylhet: 18 Branches Khulna: 6 Branches Barishal: 1 Branches Rangpur: 4 Branches
Subsidiaries	Prime Exchange Co. Pte Ltd. PBL Exchange (UK) Limited Prime Bank Investment Limited PBL Finance (Hong Kong) Limited Prime Bank Securities Limited Prime Bank Foundation

Table 1: Prime Bank at a glance

2.3 Vision of Prime Bank Limited

Every Company has their own vision. By fixing vision, they can set their future growth. Prime Bank Ltd. has its own vision to be leader in the banking industry. The Vision of Prime Bank is-

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

2.4 Mission of prime Bank Limited

The efforts of Prime bank Limited are focused on delivery of quality service in all areas of banking activities with the aim to add to increased value to shareholders investment and offer highest possible benefits to the customers. The mission of PBL is- "To build Prime Bank Limited into an efficient, market-driven, customer focused institution with good corporate governance structure. Continuous improvement of our business policies, procedure and efficiency through integration of technology at all levels."

2.5 Objectives of Prime Bank Limited

To have a strong customer focus & to build a relationship based on integrity superior services & mutual benefit. To work as a team to serve the best interest of the group. To work for continuous business innovations & improvements. To value & respect people & make decisions based on merits. To provide recognition & rewards on performance. To have sustained growth, improved & wide spectrum of products & service.

2.6 Corporate Philosophy

For Their Customers

To provide the most courteous and efficient service in every aspect of its business. To be innovative in the development of new banking products and services.

For Their Employees

- By promoting their well-being through attractive remuneration and fringe benefits.
- By promoting good staff morale through proper staff training and development, and provision of opportunities for career development.

For Their Shareholders

- By forging ahead and consolidating its position as a stable and progressive financial institution.
- By generating profits and fair return on their investment.

For their Community

- By assuming our role as a socially responsible corporate citizen in a tangible manner. By adhering closely to national policies and objectives thereby contributing towards the progress of the nation.
- By upholding ethical values and best practices.
- Constantly seeking to improve performance by aligning our goals with Stakeholders expectations because we value them.
- Their Efforts are focused on delivery of quality services in all areas of banking activities with the aim to add increased value to shareholders investment and offer highest possible benefits to our customers.

2.7 Core Values of Prime Bank Limited

DELIVER – They deliver high standards for our customers, clients and shareholders. PBL share a passion for serving the financial needs of people, companies and institutional investors.
COMMITMENT -They are fully committed to achieving success for their customers, their teams and themselves through compliance of regulatory guidelines.
TRUST - PBL have trust in our team. They work together to deliver the full capabilities of their Bank to all of their constituents. They strive to be consistent and straightforward in their interactions.
SUCCEED -They know we succeed only when customers, communities and environment succeed. They do business in an open, direct and sustainable way.

2.11 Group Corporate Structure

Prime Bank Limited is dedicated to provide best services by offering innovative products to the society where it operates. PBL also provides services in local geographic areas and demographics segment. PBL can often best define market segments based on product benefits when it offers multiple products. In segmenting the market, the potential customers are divided into several sections with similar needs. From the very beginning, PBL is offering attractive financial products and services considering the concurrent needs of customers. PBL has also expanded its services beyond the border with a view to providing banking services globally. The Organogram of its whole companies are given below:

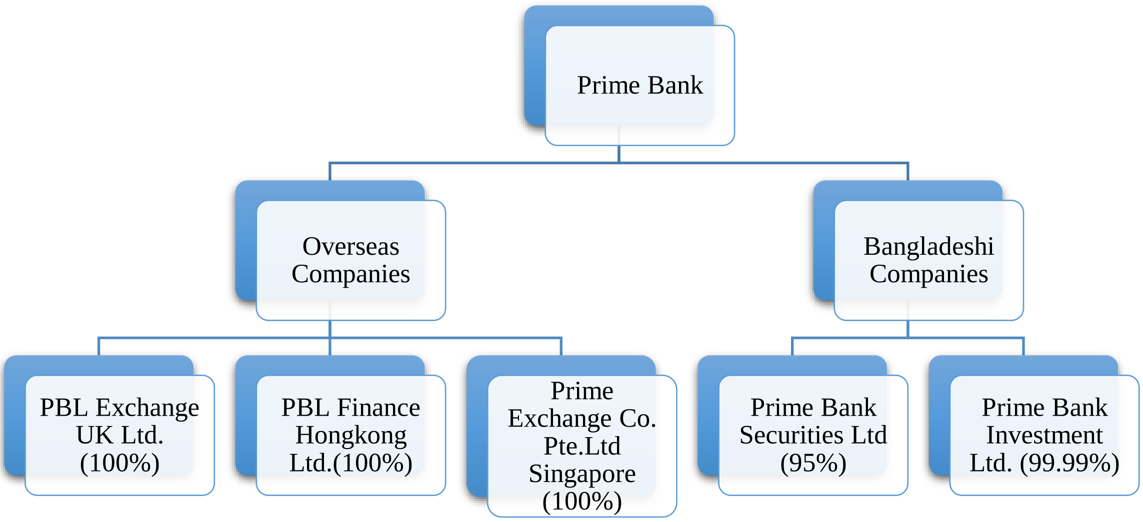
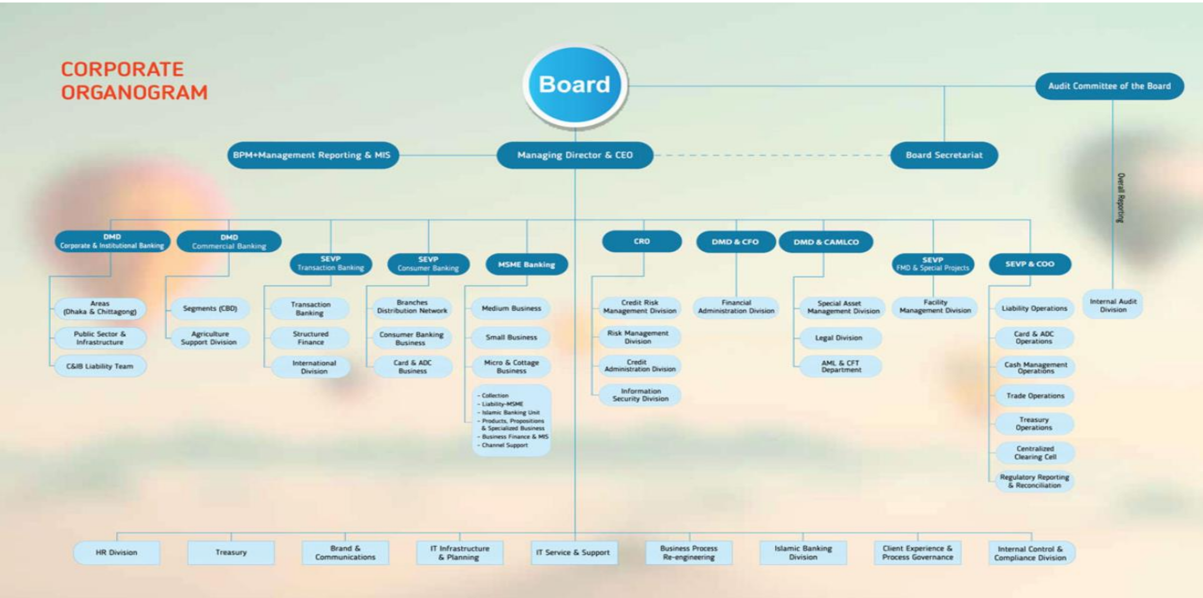


Figure 1 Group Corporate Structure

2.12 Functional Structure

Highly skilled professionals having long experience in banking are managing Prime Bank Ltd. They constantly focus in understanding & anticipating customer needs & operate according to it to survive in the changing market condition. Now we would look in to each of the four basic management activities Planning, Organizing, Controlling and Leading that the bank practices, in order to stay on top of its competitors. The overall planning approach in Prime Bank is top-down. Management of Prime Bank Ltd. can be categorized in to two broader teams, one is the Top Management team and other one is the mid-level management team. The Top-Management team usually comprises of the Board of Director's where the Bank's Chairman heads the meetings. Long terms goals are usually been discussed in these high-profile meetings, where the bank owners decide everything. The Department Based Approach is similar to that of the branch-based approach, where each department operates as a separate unit but sometimes collaborates in order operates more efficiently or to solve a common problem. Such departs are also treated as a separates entity but are much more specialized in on particular area of business unlike a branch, which has to be involved a multiple task.



2.12.1 Division

- General service Division
- Credit Division
- International Division
- Treasury Division
- Computer Division

- Marketing Division
- Human Resource Division
- Credit card Division
- Research & Development
- Committees & Group Division
- Credit Risk Management Division
- Agricultural Support Division
- Anti-Money Laundering Division
- Information Technology Division
- Internal Control and Compliance Division

2.14 Products and Services

Prime Bank offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Islamic Banking, Agricultural Banking, SME Banking and Retail Banking.

2.15 SWOT Analysis of Prime Bank Limited

SWOT analysis enables an organization to have a comprehensive insight about its current position in the industry compared to the competitors. It provides the organization a scope to improve strategically its position in the market. Here, the internal strengths and weaknesses of Prime Bank Limited as well as the external opportunities and threats are discussed.

Strengths:

- Good Customer Service.
- Strong brand among local banks
- Transparent structure, high degree of flexibility and fast decisions
- Conventional and sustainable business policy
- Advance risk management and pricing systems
- Rigorous regulatory adherence
- Excellent job environment
- World class banking software

- Highly qualified and experienced employees
- Strong position in CAMEL rating.
- Maintaining a Strong Capital Base. By the end of December 2016, the capital adequacy ratio was 11.50%. The bank has now increased its authorized capital to 4000 million for its expansion program.
- Growing its Liquidity Position. In 2016, total Cash and bank balance was BDT 21,098 million compared to BDT 19,419 million in December 2015.

Weakness:

- Lack of specific Training for specific jobs.
- PBL is still lagging behind in upgrading their T24 and R16 Software System.
- Not efficient in marketing activities
- Less ATM booths all over the country
- Higher liquidity
- Dependency on interest income from loan and advance as a key source of income
- Pay order processing is not satisfactory.
- Employees are burdened with extra workloads and works late hours.

Opportunity:

- Faster Branch Expanding within the country and outside the country.
- Prime Bank Training Institute (PBTI) is supporting the bank by offering in house training courses, workshops and seminars.
- Increasing remuneration for employees.
- Online Modern Facilities to its customer.
- Unique culture and competitive positioning in the market continue to attract top talent.
- Building new client relationships.
- Growing economy.
- Several new initiatives introduced to increase the product portfolio and enhance cross-selling.

Threats:

- Rival banks easily copy the products offering of PBL. Thus, the Level of Competition rises and creates threats for Prime Bank Limited.
- Prime bank Limited is lagging behind in this department and still mostly dependent on Manual Working System rather than technology. Advancement of technology is posing great threat for Prime bank Limited.
- Upcoming private local banks.
- Client losses from aggressive competitor actions
- Liquidity surplus and downgrade of investment opportunities driving banking sector participants towards unhealthy price wars to grab the best customers
- The increase in regulatory demand placing greater pressure on employees and increasing the cost of compliance
- Scarce skills representing challenges for new appointments and potential loss of key employee to peers.

Chapter 3:

3.1 Credit:

The word credit is derived from the Latin word "credo" which means "I believe" and is usually defined as the ability to buy with a promise to pay. It consists of actual transfer and delivery of goods and services in exchange for a promise to pay in future. It is simply the opposite of debt. Diversification of banking service has accelerated the use of credit in the expansion of business operation. It is a fundamental precept of banking everywhere that advances are made to customers in reliance on his promise to pay rather than the security held by the banker. "A thorough adjustment of the volume of credit to the volume of business is called credit control". (T.T.Shethi, 2001)

3.2 Credit Risk Management Guideline by Bangladesh Bank:

As a result of the global financial crisis, international standard-setting bodies and National authorities are reviewing and revising their expectations as to how banks identify, measure, monitor, and control their credit risk. These Guidelines have been prepared with these international standards in mind, most notably Principles 17, 18, 19, and 20 of the Core

Principles for Effective Banking Supervision, issued in 2012 by the Basel Committee on Banking Supervision. The Board of Directors and senior executive officers of each bank are strongly advised to familiarize themselves with these Principles and apply them throughout their credit risk management activities.

3.2.1 Indicators of high Credit risk or poor credit risk management By Bangladesh Bank: Just as credit risk can be estimated for an individual loan, so too can the bank as a whole be said to have varying degrees of credit risk. These assessment factors are mostly qualitative in nature, so they cannot be ignored, and Bangladesh Bank will consider these lapses as evidence of mismanagement requiring corrective action. Indicators of high credit risk (not an exhaustive list):

- The level of loans is high relative to total assets and equity capital.
- Loan growth rates significantly exceed national trends and the trends of similar banks
- Growth was not planned or exceeds planned levels, and stretches management and staff expertise
- The bank is highly dependent on interest and fees from loans and advances
- Loan yields are high and reflect an imbalance between risk and return
- The bank has one or more large concentrations. Concentrations have exceeded internal limits
- Existing and/or new extensions of credit reflect liberal judgment and risk-selection standards.
- Practices have resulted in a large number of exceptions to the credit policy
- The bank has a large volume and/or number of classified loans
- Even among standard and special mention account loans, the portfolios are skewed toward lower internal ratings
- Classified loans are skewed toward the less favorable categories (doubtful and bad/loss)
- Collateral requirements are liberal, or if conservative, there are substantial deviations from requirements
- Collateral valuations are not always obtained, frequently unsupported, and/or reflect inadequate protection.

- Loan documentation exceptions are frequent, and exceptions are outstanding for long periods of time.
- The bank liberally reschedules and/or restructures loans in a manner that raises
- substantial concern about the accuracy or transparency of reported problem loan numbers
- Quarterly loan losses, as a percentage of the total loan portfolio, are high and/or routinely exceed established provisions.

Indicators of poor credit risk management (not an exhaustive list):

- Credit culture is absent or materially flawed
- Strategic and/or business plans encourage taking on liberal levels of risk.
- Anxiety for income dominates planning activities
- The bank engages in new loan products or initiatives without conducting sufficient due diligence testing
- Loan management and personnel may not possess sufficient expertise and/or experience
- Responsibilities and accountabilities in the origination, administration, or problem loan management processes are unclear
- The bank may not identify concentrated exposures, and/or identifies them but takes little or no actions to limit, reduce, or mitigate risk
- Concentration limits, if any, are exceeded or raised frequently
- Compensation structure is skewed toward volume of loans originated, rather than quality.
- There is little evidence of accountability for loan quality in the origination and/or administration function
- Staffing levels throughout the origination and/or administration function are low
- Credit policies are deficient in one or more ways and require significant improvement in one or more areas. They may not be sufficiently clear or are too general to adequately communicate portfolio objectives, risk tolerance, and loan judgment and risk selection standards
- Skills throughout the origination and/or administration function are low.

- The bank approves significant policy exceptions, but does not report them individually or in the aggregate and/or does not analyze their effect on portfolio quality. Policy exceptions do not receive appropriate approval.
- Credit analysis is deficient. Analysis is superficial and key risks are overlooked.
- The bank's risk ratings (including the classification system) frequently deviate from BB's risk ratings or classifications
- The graduating of internal risk ratings in the standard and special mention categories is insufficient to stratify risk for early warning or other purposes, such as loan pricing or capital allocation

3.2.2 Role of Credit Risk Management Committee According to Bangladesh Banks Guideline: Each bank, depending upon its size, should constitute a credit risk management committee (CRMC), at least comprising of head of credit risk management Department and or credit department, head of recovery, head of RMD and treasury. The head of credit department/CRMD shall act as a member secretary of CRMC. This committee shall report to Board's risk committee and Board who shall be empowered to oversee credit risk taking activities and overall credit risk management function. The CRMC should be mainly responsible for:

a) Implementation of the credit risk policy/strategy approved by the board.

b) Monitoring credit risk on a bank-wide basis and ensure compliance with limits approved by the board.

c) Makings recommendations to the board, for its approval, clear policies on standards for presentation of credit proposals, financial covenants, rating standards and benchmarks.

d) Deciding delegation of credit approving powers, prudential limits on large credit exposures, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans, provisioning, regulatory/legal compliance, etc.

3.2.3 Disbursement Guideline by Bangladesh Bank: The credit administration should ensure that the credit application has proper approval before entering facility limits into computer systems. Disbursement should be affected only after execution of charge documents and completion of covenants and creating charge on primary securities and collaterals (an indicative documentation checklist is given in Annexure 1). In case of exceptions, necessary approval should be obtained from competent authorities. In no case should any of the loan proceeds be disbursed before all necessary approvals have been granted. In disbursing the loan, it is imperative that the borrower understand and acknowledge the purpose of the loan. It is also imperative for the bank to design and implement checks, such as the submission of invoices, to ensure that the proceeds are spent on the designated purpose and for no other purpose, and for the borrower to understand and comply with these checks.

3.3 Credit Risk Management of Prime Bank Limited

3.3.1 Credit Risk: Credit risk is a risk where the borrower may not be able or willing to repay the debt he or she owes to the Bank, or to honor other contractual commitments. Credit risk is risk due to uncertainty in a counterparty's (also called an obligor's or credit's) ability to meet its obligations. “The risk that a firm’s customer and parties to which it has lent money will fail to make promised payments is known as credit risk”. (Harrington,1999). There are many types of counterparties—from individuals to sovereign governments—and many different types of obligations—from auto loans to derivatives transactions—credit risk takes many forms. Despite continual development and improvement of the Bank's credit risk management system, running a commercial bank inevitably entails exposure to a certain level of credit risk. In approving each loan application, the bank considers the purpose of the loan, assesses the repayment ability from the applicants operating cash flows, business feasibility, capability of management and collateral.

3.3.2 Role of Credit Risk Management Division of Prime Bank Limited: In Prime Bank, CRM Division is playing among others the following major activities in light with the mission of the Bank specifically for continuous improvement of business policies, procedures:

- Formulating and/or up-grading different policies, process flow, credit related circulars, guiding the business teams for addressing the risk aspects, etc.
- Assessing risks inherent in the credit proposal with due diligence i.e. identification of credit risk, way out of risk mitigation, assessment of credit requirement, credit structuring, evaluate proposed facility pricing and re-pricing.
- Monitoring of credit portfolio through review to ensure sound asset quality.
- Complying with internal (Bank’s own Credit Policy /Lending Guidelines, circulars) & regulatory authorities.

- Identifying problematic borrowers through periodical review e.g. Early Alert Review of different types of credits, maintain effective follow-up and supervision and take all possible measures in time to save from classification in light of: structuring, cash flow generating prospect by the business entity itself, adequacy of security, pricing and profitability, financial analysis, performance, turnover, repayment history of the customer.
- Guiding/ Assisting Business wings regarding both the business issues as well as the compliance issues.
- Guiding Business Teams for formulating/ reviewing different Product Program Guidelines (PPG)
- To pursue Business Teams for obtaining credit rating of borrower by the External Credit Rating Institutions
- (ECAIs) to get relief in capital cushion as well as to ensure sound credit portfolio in exchange of the scope to award less pricing benefit to the superior borrowers
- Participating in the Business Process Re-engineering in different functional areas to improve efficiency and bring in required structural change.

During 2018, CRM Division has emphasized on following areas:

- Implemented the ‘Delegation of Business Power (DBP)’ approved by the Board of Directors with a view to centralizing the credit approval process to have better control and monitoring of the credit portfolio.
- Implemented the End to End credit approval process and guided the Business Teams to adopt the process.
- Introduced MIS wing under CRM Division for portfolio review and to meet managerial data requirement for onward decision making.
- Guided the Business Teams for addressing the risk aspects while formulating/ reviewing of various PPGs to bring product diversification in the credit portfolio.
- CRM ensured Bank wide E&S awareness through case sharing, instruction mails and by arranging training to equip the Credit Analysts of the Bank for E&S Risk

- Management area. Besides, in 2016, all the Officials of CRM Division accorded online certification from International Finance Corporation (IFC) through their online training module on 02 issues:
- Managing Environmental & Social Performance
- Sustainability Training & E-Learning Program (STEP)
- Risk Appetite Statement (RAS) was formulated to allocate sector wise internal limit along with corresponding risk tolerance ceiling duly approved by the competent authority.
- CRM Division has adopted new organogram in line with the centralized corporate account management process to ensure better credit assessment, due diligence, smooth decision making, efficient account management, compliance as well.
- Formulated Bank's Environmental and Social Risk Management Policy Statement-2018.
- Streamlined Early Alert Reporting process.
- Taken initiatives to identify good borrowers to recognize their contribution for strengthening asset quality.
- Designed Key Performance Indicators (KPI) for CRM Personnel
- Reviewed MSME and Consumer PPGs
- Contributed in (a) MSME Collection strategy and (b)Consumer Collection strategy
- Reviewed the credit proposal formats
- Last but not the least, in terms of ensuring compliance, as a Division CRM has satisfactorily complied with the Bangladesh Banks audit findings and related guidelines in 2016 like previous years which will have direct impact on CAMELS rating as usual hopefully.

3.3.3 Management of Credit Risk in PBL: Credit risk is most simply defined as the potential that a Bank's borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a Bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. That is why a risk-based asset review framework has also been put in place wherein the frequency of asset review would be higher for high exposure cases and/or poor credit rating.

The credit risk is managed by the Credit Approval & Assessment unit, which is completely segregated from sales. The following elements contribute to the management of credit risks: The risks associated with the products are managed in the following manners:

- Loans will be given only after proper verification of customer's static data and after proper assessment & confirmation of income related documents, which will objectively ascertain customer's repayment capacity.
- Proposals will be assessed by independent Credit Unit completely separated
- Every loan will be secured by hypothecation over the asset financed, and customer's authority taken for re-possession of the asset in case of loan loss. For Car Loan, the vehicle will be registered in bank's name, which will give the bank the legal right of re-possession when required.
- The loan approval system is parameter driven which will substantially eliminate the subjective part of the assessment procedure.
- There will be dedicated 'collection' force that will ensure timely monitoring of loan repayment and its follow up.
- The Credit & Collection activities will be managed centrally and loan approval authorities will be controlled centrally where the branch managers or sales people will have no involvement.

Contact Point Verification

Contact Point Verification is done for all applicants except for the High Net worth (HNW) individuals or customers having account relationship with banks. The external CPV includes residence, office and telephone verifications (format of CPV report attached in Annexure IV). All verifications are done to seek/verify/confirm the declared/undeclared information of the applicant.

Sound practices that the Bank is trying to ensure are -

- Establishing an appropriate credit risk environment
- Operating under a sound credit granting process
- Maintaining an appropriate credit administration measurement and monitoring process
- Ensuring adequate controls over credit risk

The following sets of principles are used for the sustainable risk management culture:

- Balancing Risk and Return: Risk is taken considering the interest of Bank's stakeholders, in line with Bank's strategy and within its risk appetite.
- Responsibility: All employees ensure that risk-taking is disciplined and focused.
- Accountability: Risk is taken only by delegated authorities and where there is appropriate infrastructure and resources. PBL maintains a clear and transparent process for all risk-taking decisions.
- Anticipation: PBL seeks to anticipate future risks and ensures awareness of all known risks.
- Competitive advantage: The bank seeks to achieve competitive advantage through efficient and effective risk management and control. The credit risk management policy of PBL operates under the following broad principles:

Credit risk is one of the major risks faced by the Bank. This can be described as potential loss arising from the failure of a counter party to perform according to contractual arrangement with the Bank. The failure may arise due to unwillingness of the counter party or decline in economic condition etc. Hence the Bank's risk management has been designed to address all these issues. A thorough credit risk assessment is done before extending loan. The Credit Risk Assessment includes borrower risk analysis, industry risk analysis, historical financial analysis, projected financial performance, the conduct of the account, and security of proposed loan. The assessment originates from relationship manager/account officer and approved by Credit Review Committee at Head Office. The Credit Committee under delegated authority approves the credit proposals. Executive Committee of the Board approves the proposals beyond the authority limit of the Management. The Board of Directors reviews the proposals approved by the Executive Committee. In determining Single borrower/Large Loan limit, the instructions of Bangladesh Bank are strictly followed. Segregation of duties has been established for Credit Approval, Relationship Management and Credit Administration. Internal audit is conducted on periodical interval to ensure compliance of Bank's and Regulatory Polices. Loans are classified as per Bangladesh Bank's guidelines. Mortgage documents shall be properly vetted by the Bank's Legal Counsel. He/she will also certify that proper documentation, borrower's legal standing and enforcement of securities are in place. Finally, Lawyer's Satisfaction Certificate shall have to be obtained regarding documentation where there are securities / collaterals other than Personal Guarantee and Financial Obligation.

A) Establishing an appropriate Credit Risk environment: The Board of Directors is responsible for approving and reviewing the credit risk strategies and policies of the bank periodically. The strategy reflects Bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit loss. Senior management is responsible for implementing the credit risk strategy approved by the Board and for developing standard policies and procedures for identifying, measuring, monitoring and controlling any type of risk associated with the strategy. Such policies and procedures address credit risk of the Bank's activities and at both the individual credit and portfolio level. PBL ensures that the risks inherent in products and activities which are apparently new to the bank are subject to adequate procedures and controls before being introduced or undertaken, and approved in advance by the Board of Directors or its appropriate committee. In order to streamline risk control features in a more effective manner, PBL has put in place Standard Operating Procedure (SOP) in line with internationally accepted best practices. Moreover, the Bank has centralized its corporate credit to ensure better management of corporate borrowers. Besides, Credit Risk Management Division also set different limits in regards to sector concentration, area concentration, Off-Balance Sheet Exposure etc.

B) Operating under a sound credit granting process: PBL follows sound, well defined credit-granting criteria. These criteria include a thorough assessment of the borrower or the counterparty, as well as the purpose and structure of the credit, and its source of repayment.

- Credit facilities are allowed in a manner so that asset growth can be maintained ensuring optimum asset quality and without compromising the Bank's standard of excellence.
- PBL carefully avoids name lending. Credit facility is being granted on business consideration with absolute due diligence.
- Risks inherent in a credit proposal are being identified and appropriate mitigating steps are taken accordingly.
- Collateral offered against a credit facility is properly valued and verified by the concerned Relationship Officer or Relationship Manager periodically. In addition, the same collateral is valued and verified by an enlisted surveyor of the bank which is now applicable for all customers irrespective of any amount.

- Risk grading of the accounts is being done as per the Bangladesh Bank's guidelines. Any credit approval/ sanction is subject to the banking regulations in force or imposed by the regulatory body from time to time and subject to changes of the Bank's policy. Data collection check list and limit utilization format are prepared for regular assessment. Internal Audit & Inspection Division independently reviews the risk assessment at the time of conducting internal audit.
- PBL also performs borrower rating to assess its borrowers for ensuring sound asset quality.
- The bank has established overall credit limit at every level for groups of legally connected borrowers including individual borrowers and counterparties that aggregate in comparable and meaningful manner for different types of exposures, both in the banking & trading book and on & off-balance sheet.

PBL always complies with the prevailing banking regulations regarding Single Borrower Exposure Limit set by the Bangladesh Bank from time to time. Credit facilities to a single customer (Individual, Enterprise, Company, Corporate, Organization, and Group) are being treated as Large Loan if total limit amount exceeds 10 percent of the total capital of the Bank. As per BRPD Master Circular no. 05 dated April 09, 2005 on Single Borrower Exposure Limit, PBL has always maintained the percentage ceiling of Large Loan Portfolio exposure. The bank has a clearly-established process in place for approving new credits as well as the extension of existing credits. A thorough credit risk assessment is done before granting loans. The Credit Risk Assessment includes borrower risk analysis, industry risk analysis, historical financial analysis, projected financial performance, conduct of account, and security against the proposed loan. The assessment originates from relationship manager/ account officer and is reviewed by Head Office Credit Review Committee. The Credit analyst or executive duly delegated by proper authority approves the credit proposals. Executive Committee of the Board approves the proposals beyond the delegated authority limit of the Management. The Board of Directors also reviews the proposals approved by the Executive Committee. All credit extensions are made on an arm's length basis. In particular, credits to related companies and individuals are monitored with particular care and other appropriate steps are taken to control or mitigate the risks of connected lending. Credit granting process at PBL operates within the defined risk limit so that the bank can achieve its growth target and superior return on capital.

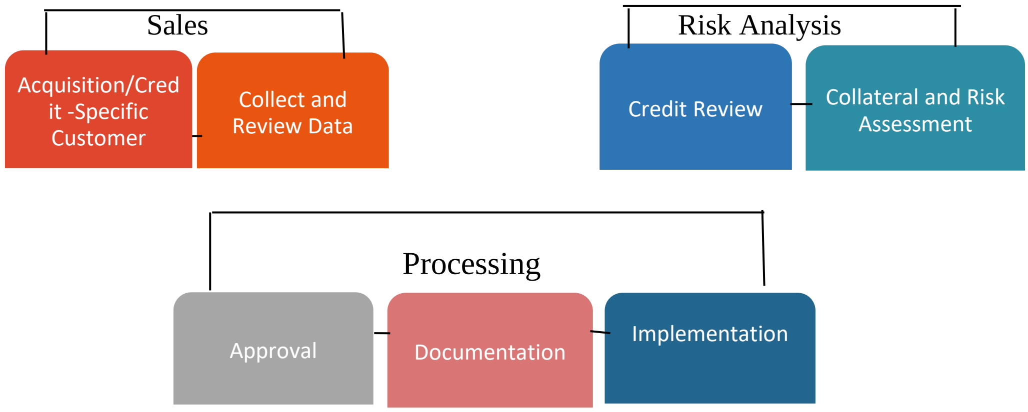


Figure 3 Credit approval process in PBL sub-divided into a larger number of individual process steps

C. Maintaining an appropriate credit administration measurement and monitoring process: PBL segregated the total credit process into Relationship Management/Marketing, Credit Approval/Risk Management, Credit Administration to improve the knowledge levels and expertise in each department and to impose controls over the disbursement of authorized loan facilities and obtain an objective and independent judgment of credit proposals. Credit Administration Division completes security documentation after getting approval from Credit Risk Management Division and ensures adherence to approved terms and other requirements before limit creation and disbursement. To minimize credit losses, monitoring procedures and systems are placed which provides an early indication of the deteriorating financial health of a borrower. Early Alert system is an example of such monitoring procedures. An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention of the management. If such weaknesses are left uncorrected, they may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date with a likelihood of being downgraded. An Early Alert Report is completed by the Relationship Manager and sent to the approving authority in Credit Risk Management. Division for any account that is showing signs of deterioration. The Risk Grade is also changed and referred to Credit Risk Management Division for assistance in recovery.
The bank has also put a system in place for monitoring the condition of individual credits including determining the adequacy of provisions and reserves. The guidelines established by the Bangladesh Bank for Credit Information Bureau (CIB) reporting, provisioning and write-off of bad and doubtful debts and suspension of interest are followed meticulously in all cases. Provision is maintained for any shortfall in the Forced Sale Value (FSV) to cover total loan outstanding once an account is classified. PBL also has information systems and analytical techniques that enable the management to measure the credit risk inherent in all on and off-

balance sheet activities. At present total limit loading and disbursement procedure of the Bank is fully centralized within Credit Administration Division (CAD) and various MIS reports for monitoring purpose e.g. overdue report, EOL report, disbursement report etc. can be generated from this end as well. All credit approvals are given complying with the requirements of Bank's Memorandum and Articles of Association, the Bank Company Act-1991(amended up to 2013), as amended from time to time, the Bangladesh Bank's circulars, guidelines and other applicable laws, rules and regulations, Bank's Credit Risk Management Policy, Credit Operational Manual and all relevant circulars that are currently in force. Any deviations from the internal policy of the bank are well documented and subject to approval from competent authority/Board of Directors. The portfolio is well diversified with respect to sector and industry. Concentration of credit is carefully avoided to minimize risk.

D. Ensuring adequate controls over credit risk:

PBL has established a system of independent, ongoing credit review and the results of such reviews are communicated directly to the Board of Directors and senior management. PBL ensures that the credit-granting function is being properly managed and that credit exposures are within levels, consistent with prudential standards and internal limits. The bank has established and enforced internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management. Prime Bank Limited has taken initiative to introduce Risk Based Pricing Model and the model has already been developed which is currently under scrutiny of senior management. After getting vetting by RMC and subsequently approved by the Board of Directors, the Risk Based Pricing Model will be in place for pricing corporate loans. Benefits of Risk Based Pricing are:

- Enhance shareholders value by ensuring that credit risk associated with the transaction is appropriately measured and priced
- Enable the Bank to know well ahead of time, what kind of price will satisfy its risk/return preferences
- Enhance the achievement of credit portfolio goals and objectives.
- PBL also has a system in place for managing problem credits and various other workout situations. All NPLs are assigned to Account Manager(s) within the Recovery Division, who is responsible for coordinating and administering the action plan / recovery of the

account and serve as the primary customer contact after the account is downgraded to doubtful.

3.4 Credit Risk Grading System of Prime Bank Limited

A formal evaluation of borrower's financial health and ability to repay debt obligation is called Credit Risk Grading. It helps the Bank to grade the concerned customer. In 1993, Bangladesh Bank made the first regulatory move through the introduction of the Lending Risk Analysis (LRA). "Credit risk grading is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure" (R A Howlader, 2001). Credit Risk Grading is a dynamic process and various models are followed in different countries and different organizations for measuring credit risk. A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure. The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure.

3.4.1 Function of Credit Risk Grading

- Credit risk grading systems promote bank safety and soundness by facilitating informed decision-making.
- Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose.
- Grading systems allows bank management and examiners to monitor changes and trends in risk levels.
- Grading systems also allows bank management to manage risk to optimize returns.

3.4.2 Use of Credit Risk Grading

- The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of an individual obligor and the credit portfolio as a whole.
- The CRG outputs would be relevant for credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to pricing (credit spread) and specific features of the credit facility.

- Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile. It is also relevant for portfolio level analysis.

3.4.3 Number and Short Name of Grades Used in the CRG: The proposed CRG scale for the banks consists of 8 categories with Short names and Numbers are provided as follows:

Grading	Short Names	Number
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watch list	MG/WL	4
Special Mention	SM	5
Sub-Standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

Table 3 Number and Name of grades used in CRG

3.4.4 CRG Definition: A clear definition of the different categories of Credit Risk Grading is given as follows:

- Sup-1: Fully Cash covered, Govt. /Int. Bank Guarantee -Strongest Bank & Excellent Financials.
- GD-2: Strong Repayment Capacity & Very Good Financials-Fully Covered by Top-tier local bank guarantee.
- Accpt-3: Not like GD-2, but Good Track Record and -Consistent Earnings
- MG/WL-4: Average Bank - Greater attention required – Above Average Risk.
- SM-5: Potential Weaknesses – Close attention required – Weak Financial Strength.
- SS-6: Very Weak Financial Strength.
- DF-7: Seriously Deficient.
- BL-8: No progress in repayment/ on the verge of wind-up.

3.4.6 How to compute Credit Risk Grading of a Bank: The following step-wise activities outline the detail process for arriving at credit risk grading:

- Step I: Identify all the Principal Risk Components
- Step II: Allocate weightages to Principal Risk Components

- Step III: Establish the Key Parameters
- Step IV: Assign weightages to each of the key parameters.
- Step V: Input data to arrive at the score on the key parameters.
- Step VI: Arrive at the Credit Risk Grading based on total score obtained.

3.4.6 Principle Risk Components

Figure 4 Risk Components

3.4.6.1 Details of Principle Risk Components

<u>Financial Risk:</u> Risk that counterparties will fail to meet obligation due to financial distress.
<u>Business/Industry Risk:</u> Risk that adverse industry situation or unfavorable business condition will impact borrowers' capacity to meet obligation.
<u>Management Risk:</u> Risk that counterparties may default as a result of poor managerial ability including experience of the management, its succession plan and team work.
<u>Security Risk:</u> Risk that the bank might be exposed due to poor quality or strength of the security in case of default.
<u>Relationship Risk:</u> These risk areas cover evaluation of limits utilization, account performance, conditions/ covenants compliance by the borrower and deposit relationship.

3.4.6.2 Weights of Principle Risk Components

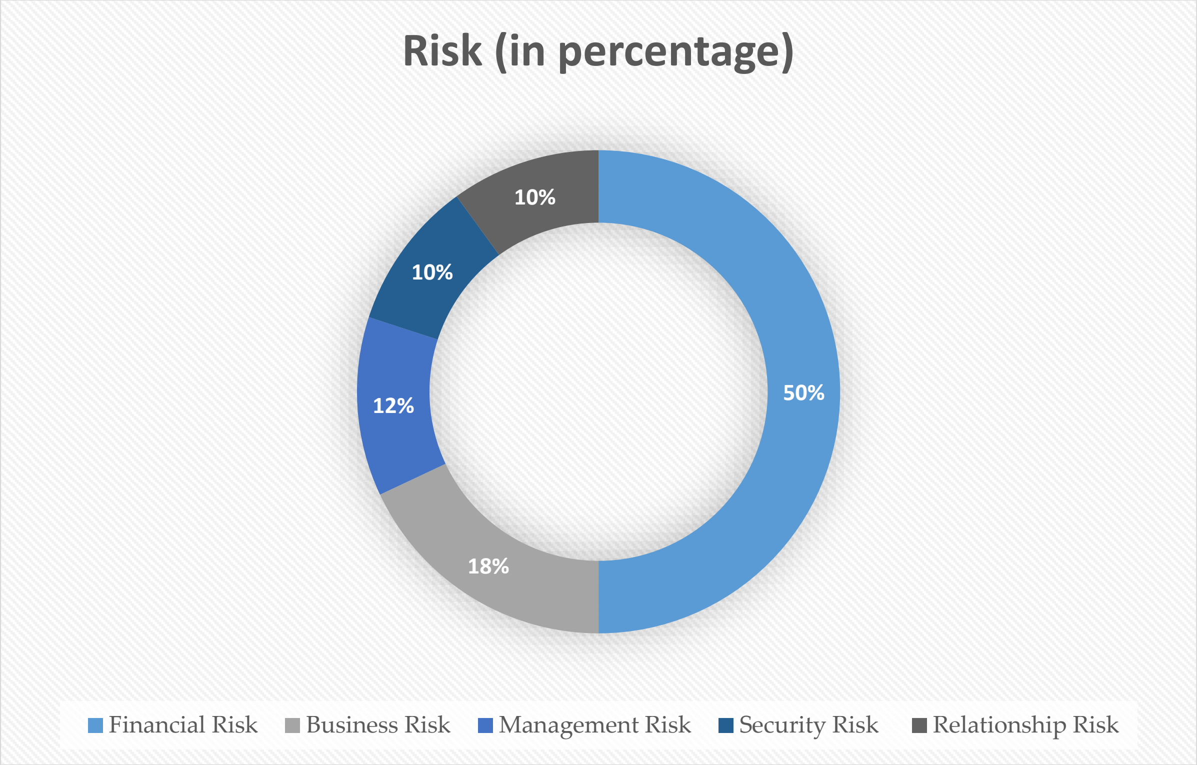


Figure 5 Weights of Risk Components

3.4.7 Lending Risk Analysis (LRA)

Lending Risk Analysis (LRA) will be conducted for the credit facilities of Taka 50 lac or above in the prescribed form. The lending risk analysis tool concentrates on analysis of both the business risk and security risk. The important part of this analysis is the assessment of risk of failure to repay which deals with the overall lending risk composed of the business risks and security risks i.e.:

- Suppliers risk
- Sales risk
- Performance risk
- Resilience risk
- Management Competence Risk
- Management Integrity Risk
- Security Cover Risk
- Security Control Risk

The overall matrix provides four kinds of lending risk for decision makers -

a) Good, b) Acceptable, c) Marginal, d) Poor

Prime Bank will not approve any credit facility having overall risk at “Marginal” or “Poor” level without proper justification except for renewal of existing facilities under compelling circumstances.

3.4.8 Credit Risk Grading Card

Score	Respective Grade	Short Name	Numeric Grade
Fully Cash covered, Secured by Government/International Bank Guarantee	Superior	SUP	1
85 +	Good	GD	2
75 – 84	Acceptable	ACCPT	3
65 – 74	Marginal/ Watch List	MG/ WL	4
55 – 64	Special Mention	SM	5
45 – 54	Substandard	SS	6
35 – 44	Doubtful	DF	7
Less than 35	Bad / Loss	BL	8

Table 4 Credit Risk Grading Score Card

3.4.9 Early Warning Signals (EWS)

Early Warning Signals (EWS) indicate risks or potential weaknesses of an exposure requiring monitoring, supervision, or close attention by management. The grading of the account highlighted as Early Warning Signals (EWS) accounts shall have the following risk symptoms:

a) Marginal/Watch list (MG/WL - 4): if -

Any loan is past due/overdue for 60 days and above but less than 90 days. Frequent drop in security value or shortfall in drawing power exists if credit facilities are based entirely on cash covered or near cash covered basis.

b) Special Mention (SM - 5): if -

Any loan is past due/overdue for 90 days and above but less than 180 days. Major document deficiency prevails. A significant petition or claim is lodged against the obligor (i.e. a Bank).

3.4.10 Credit Risk Grading Review

Number	Grading	Review Frequency (at least)
1	Superior	Annually
2	Good	Annually
3	Acceptable	Annually
4	Marginal/ Watch list	Half Yearly
5	Special Mention	Quarterly
6	Sub-standard	Quarterly
7	Doubtful	Quarterly
8	Bad Loss	Quarterly

Table 5 Credit Risk Grading Review

3.4.11 Downgrading

The Relationship Officer of particular customer shall continuously monitor the customer and bear the responsibility of rating/grading surveillance. If any deterioration in risk, whatever may be the reason, is noted or adverse information is received, the Relationship Officer will propose change(s) in the risk grading of the customer and prepare Early Alert Report and forward the same to the Credit Risk Management Unit, Credit Division for approval. Changes in the risk grade will be in effect only when it is approved by the Credit Risk Management Unit, Credit Division. Once a credit facility/customer is downgraded to a lower grade, it will not be postponed until the next annual review process. In case of downgrading, credit facility to the customer may be immediately changed/restructured, if possible.

3.4.12 Asset Migration

Risk Grading Model will be used for assessing / measuring risk in the credit exposure taken on a particular customer. It is the key measurement of Bank's asset quality. Therefore, all facilities will be assigned a risk grade. And, asset portfolio of the Bank will be reviewed quarterly. At each quarter end, Credit Risk Management Unit, Credit Division will report summarizing the migration of the assets with respect to risk grade and place before the management for review. The Management will ensure non-concentration of assets in lower grades.

3.4.13 External Rating

At least top twenty-five clients/obligors of the Bank may preferably be rated by an outside credit rating agency.

3.4.14 System Review

Proper application of the Risk Grading Scorecard and Risk Grading Model in Credit operation is reviewed at least once in a year. And, if change is required, it is done at the year-end. Furthermore, accuracy and consistency of the concerned officers/executives is reviewed annually.

3.4.15 Credit Monitoring Process

Credit monitoring process starts immediately after disbursement of the facility. Steps involved in monitoring process are as follows:

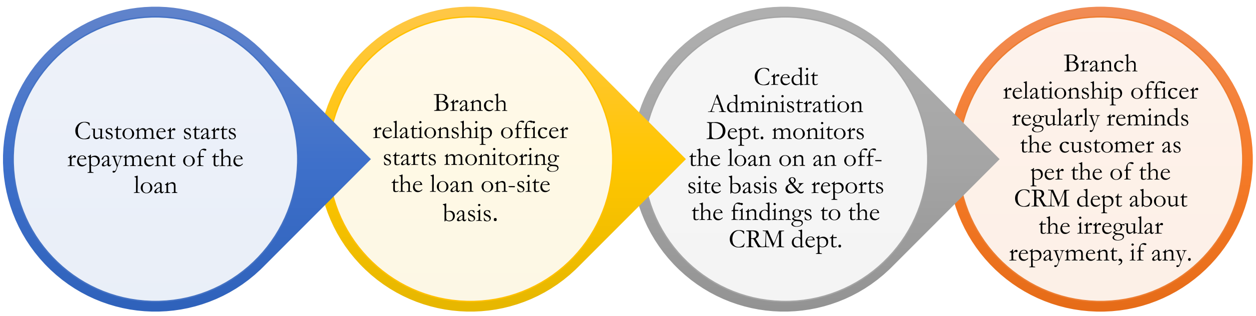


Figure 6 Credit Monitoring Process

3.4.16 Recovery: The Risk Grade is changed and referred to CRM department for assistance in recovery. The Recovery Department (RD) of Credit Division manages accounts with sustained deterioration. The RD's primary functions are:

- Determine Account Action Plan / Recovery Strategy;
- Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate;

- Ensure adequate and timely loan loss provisions are made based on actual and expected losses;
- Regular review of non-performing accounts;
- Management of classified loans and special mention accounts;
- Writing off B/L loan accounts and related works with the approval of the Board.
- The recovery of problem loans is a dynamic process, and the associated strategy together with the adequacy of provisions is regularly reviewed. A process is established to share the lessons learned from the experience of credit losses in order to update the lending guidelines.

3.5 Credit Risk Assessment Process of Prime Bank Limited

The primary factor determining the quality of the Bank's credit portfolio is the ability of each borrower to honor, on timely basis, all credit commitments made to the Bank. Therefore, a thorough credit risk assessment shall be conducted prior to the sanction of any credit facilities. While assessing a credit proposal more emphasis shall be given on repayment potential of loans out of funds generated from borrower's business (cash flow) instead of realization potential of underlying securities. Credit risk assessment process in the Bank shall be governed by the following main principles:

Assessment Frequency: A comprehensive Credit Assessment (Due Diligence) shall be conducted before sanction of any loan. Thereafter, it will be done annually for all types of credit facilities i.e. Demand Loan, Continuous Loan and Term Loan.

Assessment Documentation: The result of the Credit Assessment shall have to be presented in the Credit Assessment Form. Initially, it will be originated by the Relationship Officer of the Branch and reassessed in Corporate Banking Division and finally in Credit Risk Management Unit of Credit Division. All evidences of credit assessment have to be filed properly in the respective Credit File.

KYC Policy: Bank's KYC policy applicable for depositors shall also be applicable for borrowing customers. In addition, before sanctioning any credit facility the concerned relationship officer must physically visit the business premises of the customer, talk with important personalities of the locality, collect information on the borrower from his/her existing banker, if any and summarize all this information in the Pre-sanction Inspection Report. To ensure safety of the lending we have to assess the creditworthiness of the prospective borrower. "Eleven Cs" of lending are traditionally considered to determine creditworthiness of a loan applicant. These are the basic parameters for assessing the creditworthiness of a borrower, which also required to go in details for various types of borrower and also possess different weightage considering situations. The 11 C's are- 1) Character of Borrower (C1) 2) Capability (C2) 3) Capital (C3) 4) Conditions (C4) 5) Collateral (C5) 6) Complacency (C6) 7) Carelessness (C7) 8) Communication (C8) 9) Contingencies (C9) 10) Competition (C10) 11) Last C. Co-operation (C11).

Filling up Credit Assessment Form: Credit Assessment Form must be filled in with accurate information in full.

Repayment Source: Repayment source of the borrower is to be validated in the Credit Assessment Form by cash flow and other financial analyses. For such analyses, at least three years financials are to be reviewed. Loan amount and tenor must be commensurate with the repayment capacity of the borrower.

Credit Requirement: The relationship officer will apply prudence to find out actual credit requirement of the borrower and place his/her findings in the Credit Assessment Form.

Assessment of Working Capital: Every business organization essentially possesses assets that are used to carry out required activities for which the business is undertaken. A business concern requires two types of capital i.e. Fixed Capital and Working Capital. Fixed of the assets is used to support long term operation of the business while others are sued to carry out day to day operations. Current assets in excess of the short term or current liabilities of the business are usually known as Working Capital of the business. In fact, a substantial portion of a typical commercial bank's credit portfolio consists of Working Capital Finance extended to a wide variety of business firms or individuals.

The rest of the principles of risk assessment are-

Liability of the customer & the Group (if any) with other Banks: (as per declaration of the customer/CIB), Financials at a glance i.e. Sales/Revenue, Net profit, Total asset, Total Liabilities, Tangible Net worth; Assessment of Credit need/Working Capital (Mode wise), Risk Assessment i.e. Risk factors and their mitigation, Details terms and conditions of proposed credit facilities, Financial information and cash flow with ratio analysis, Details of the Business of the Customer includes background of the company and products deal with, Details of Management's key person and successor's skill and their experience, Details of Group position (details of sister / allied concerns), Sales forecast for the next year, Marketing prospect of the business, Price Verification (For import and project financing/ procurement of machinery/equipment/ vehicles), For Contractor (work-order) financing, Compliance issue for RMG Finance and Textile sector (Information & performance), Environmental Due-Diligence, Performance of the customer/allied concerns with our Bank and with other Banks/NBFIs (Both deposit and loan accounts highlighting turnover & repayment behavior), Comparative position of business parameters and performance of the facilities, Calculation of Effective Rate of Return (ERR), Income earned from the customer for 03 years.

3.5.1 Flow Chart of Processing on Loan Proposal:

Branch officials are marketing the customers, prepare the proposals and forward the proposals with all relevant papers/documents to DMD (CBO) Head Office. Soft copy of the proposals is also forwarded to relationship officers at Head Office through email.

↓

After receiving the proposal marketed by DMD(CBO), relationship officers at Head Office examine the proposal thoroughly and forward a copy of the proposal with relevant papers to CRM Department for their observation of the proposal

↓

After receiving the proposal by CRM department, they provide their observations, view within 3 working days in general to corporate banking Division asking for mitigation of different observations and risk factors.

↓

Relationship officer at corporate banking Division, Head office forward the observations of the CRM department with corporate Divisions (if any) to the Branch

↓

After getting reply from the branch on the observations, Relationship officers at Head Office provide the same to CRM department as their requirement

↓

Proposals are presented by relationship officers of corporate banking division with mitigations of all observations of CRM Department before Head office credit committee (HOCRC) chaired by the Chairman of the credit commitment & other members of the credit committee (DMD –CBO, DMD-Recovery & COO, Head of CRM, Head of corporate Banking Division)

↓

After full discussion, decisions are taken on the proposal either declining the proposal or recommending the proposal to the respective approval authority (DMD-Credit, MD, EC, Board)

↓

Office Notes/memo are prepared and signed by both the official of corporate Division and CRM Department with recommendation for approval of respective authority

↓

After approval, CRM Department prepares the sanction letter with documentation checklist & forward the same to Branch

↓

Branch then complete the documentation formalities & seeks Disbursement Authority (DA) permission to Credit administration Department (CAD) for creation of limit in T24 system.

↓

After creation of limit in T24 system, disbursement of the loan to the account of respective customer.

Figure 7 Processing on Loan Proposal

Chapter 4:

Financial Overview:

Prime Bank has been consistently maintaining its financial performance over the last five years in terms of business volume and profitability. At the end of 2014 total assets of the Bank was BDT 269,218 million whereas at the end of 2018 it stood at BDT 293,901 million recording a growth of more than 9 percent. Below table shows the comparative financial information of the bank of last five years.

(BDT in million

Balance sheet	2018	2017	2016	2015	2014
Paid-up capital	11,323	10,293	10,293	10,293	10,293
Shareholders' equity	26,181	24,708	25,285	26,415	24,461
Deposits	197,518	199,014	197,934	194,825	204,838
Loans and advances	205,810	198,323	170,212	151,865	147,367
Total assets	**293,901**	**281,275**	**272,224**	**267,322**	**269,218**

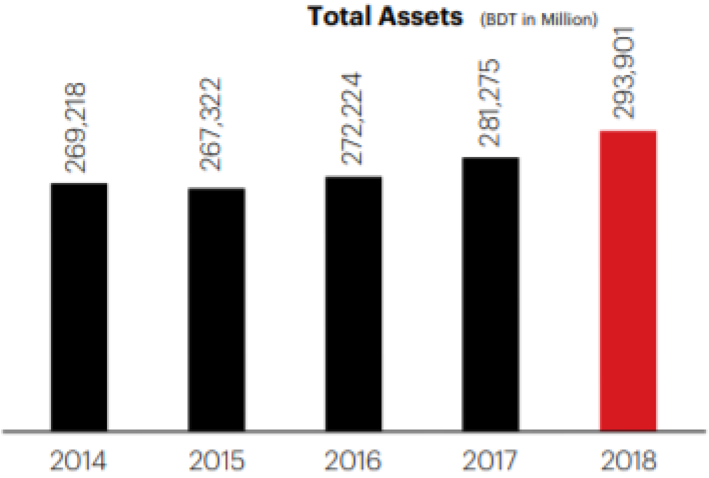
In line with the changes in business dynamics and also having the Bank's transformation ongoing during the period, profitability varied in last five years. Net profit of the bank went up to BDT 2,188 million at the end of 2018 as opposed to BDT 1,059 million of previous year. The key reason of that significant rise in Net Profit has been the increase of net interest income and decrease of requirement of provisions for loans and advances.

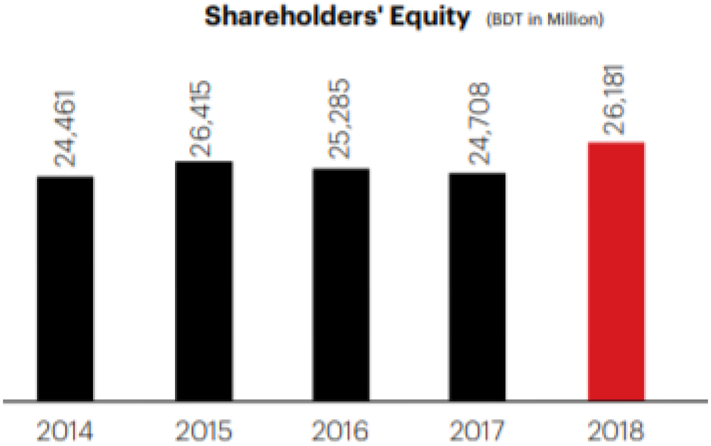
(BDT in million)

Operating performance	2018	2017	2016	2015	2014
Net interest income	7,650	4,894	3,313	1,294	2,872
Operating revenue	12,899	12,148	12,023	12,073	11,906
Operating expenses	7,180	6,775	6,266	6,166	5,750
Operating profit	5,719	5,373	5,757	5,906	6,157
Provision for loans and assets	1,782	3,564	3,412	3,154	2,877
Profit before tax	3,938	1,809	2,345	2,752	3,280
Tax expense	1,750	750	150	613	887
Profit after tax	2,188	1,059	2,195	2,139	2,393

Key ratios (%)	2018	2017	2016	2015	2014
Cost of deposit	4.72	4.46	4.94	6.64	7.36
Yield on advance	8.51	7.42	8.45	10.20	12.09
Return on assets (ROA)	0.76	0.38	0.81	0.80	0.91
Return on equity (ROE)	8.60	4.24	8.49	8.41	10.08
Earnings per share (Taka)	1.93	0.94	1.94	1.89	2.11
Dividend (C=cash; B=bonus)	12.50 C	7 C & 10 B	16 C	15 C	15 C
Non-performing loans ratio	6.16	5.45	5.96	7.82	7.61
Capital to risk weighted asset ratio (CRAR)	17.04	14.01	12.45	12.74	12.71

Prime Bank is maintaining its performance consistently in last five years in term of business volume and profitability. In last five years bank's total assets recorded 9.17 percent growth and stood at BDT 293,901 million at the end of 2018, which was BDT 269,218 million at the end of 2014. During last five-year loans and advances grew by 39.66 percent whereas deposits decreased by 3.57 percent. Below table shows the comparative business highlights of the bank in last five years.





Risk Based Capital Framework Risk Based Capital Adequacy Framework (Revised Regulatory Capital Framework for banks in line with Basel III) has been implemented in Bangladesh from beginning of 2015 through BRPD Circular No- 18 dated December 21, 2014. Bank was in Basel II regime in 2014 maintaining its capital level above the minimum requirement, estimating the additional capital requirement to find out level of Adequate Capital against all types of risks under Pillar II and providing adequate disclosure as per pillar III (market discipline) of Basel II guideline. From very beginning of implementation of Basel III in Bangladesh, Prime Bank has been continuing to calculate minimum capital requirement (MCR) considering credit risk, market risk and operational risk considering the Capital Conservation Buffer @ 0.625 percent. The summary of pillar I (Minimum Capital Requirement) on solo basis of Prime Bank is as under:

(BDT in Million)

Particulars	2018	2017
Tier I Capital	24,335	23,048
Tier II Capital	13,924	9,203
Total Regulatory Capital	38,259	32,251
Risk Weighted Assets	224,516	230,211
Capital to Risk Weighted Asset Ratio (CRAR) (%)	17.04	14.01

Credit Rating Bangladesh Bank vide BRPD Circular No.06 dated July 05, 2006 has made it mandatory for the Bank's to have themselves credit rated. Accordingly, Credit Rating of Prime Bank Limited was done by two rating agencies, namely Credit Rating Information and Services Ltd (CRISL) & Credit Rating Agency of Bangladesh Ltd (CRAB) based on audited Financial Statements as on December 31, 2017. The rating report is summarized as under;

Particulars	CRISL	CRAB
Long Term Rating	AA	AA2
Short Term Rating	ST-2	ST-2
Date of Rating	28 June 2018	27 June 2018
Validity Date	30 June 2019	30 June 2019
Based on Financial Statement	December 31, 2017	

Chapter 5:

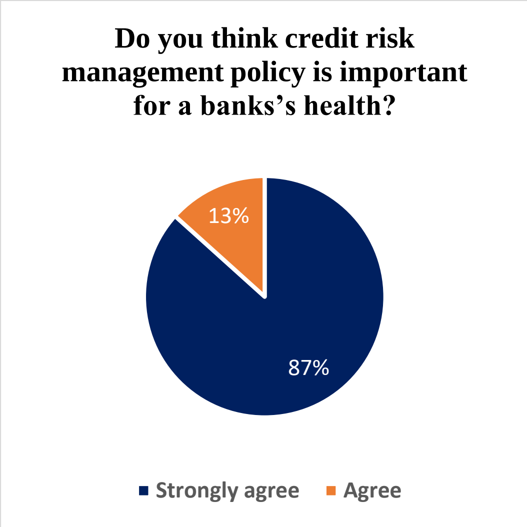
Findings and analysis:

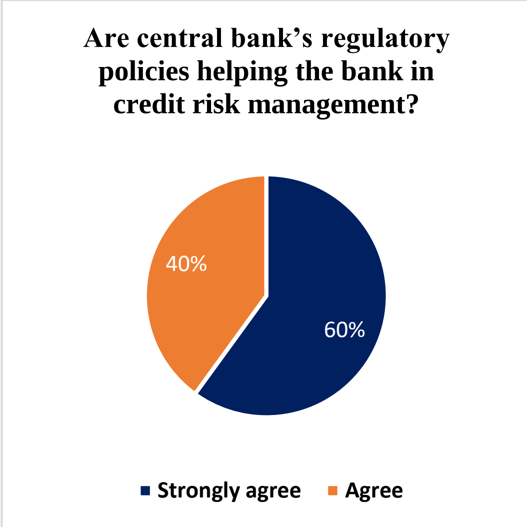
During my internship period I have some findings related with Credit appraisal & Credit management system of Prime Bank Limited. The findings are shown below -

- PBL uses credit appraisal technique comprising technical, market, financial, economic, and management & organization analysis.
- Credit appraisal technique is good enough itself, but the problems lie with personnel involves in appraisal process.
- One of the problems with credit appraisal is inadequate and inaccurate data.
- Market don't remain same over the years especially over the time gap between loan sanction and loan recovery.
- It is a lengthy procedure and takes long time to appraise a project.
- Sometimes, pressure groups involve in sanctioning loan.

- The personnel involve in project appraisal are either not quite expert in their respective field.
- Physical verification is not rigorously done for every project that is why the project appraisal techniques do not bring any outstanding results.
- Usually PBL inform the borrowers before 7 days of the scheduled date of payment about his/her next upcoming installment due.
- Visiting to the borrower's premises is hardly done before the loan is defaulted.
- The recovery department cannot coerce or make bound to repay the loan because of pressure from political and other higher management.
- Prime Bank's approving credit is sometimes very conservative.
- Sometimes personnel of Credit Administration Division of Prime Bank Limited acts as irresponsible in loan disbursement. They take much time in sending required documents for the customers and their interest rate reduction.
- Prime Bank Limited do not have enough credit risk analyst.

A survey was conducted to measure and analyze the overall credit risk policy and system related issues. To suggest and relate with the above findings, survey was conducted with a sample size of 15 people. In my research out of 15 people 20% were female respondents and 80% was male respondents. According to age group 53% people are of (26-35) years and 47% people are from (36-45) years of age. The frequency of income shows that 13% people are of (30000-40000) BDT salary income, 13% people are from (40000-50000) BDT, 20% people are from (50000-60000) BDT and 54% people are from (60000 and above) BDT salary range. According to the service length 20% respondents are of 3-5 years of service length and rest 80% are of 5 years and above service length in bank. Below are the survey outcomes:



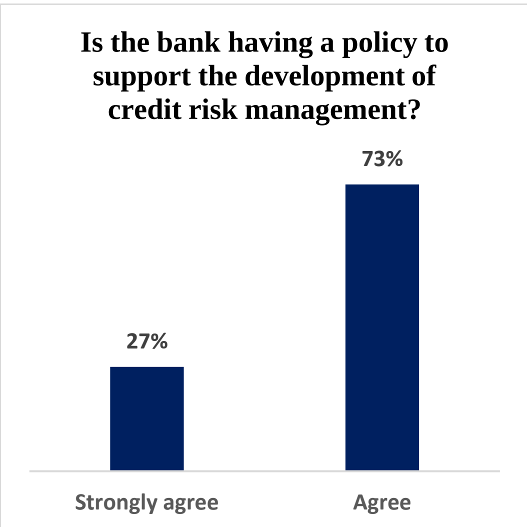


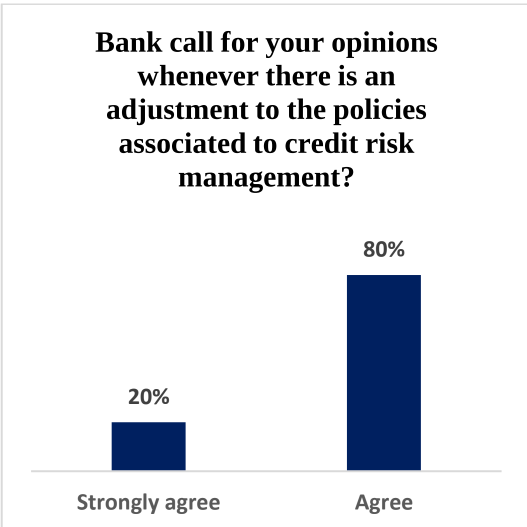
1. Do you think credit risk management policy is important for a bank's health?

The first question was asked to the respondents to indicate their opinion on credit risk management policy is important for a Bank's health positively. The results show that most of the respondents agree (13%) and (87%) strongly agree that credit risk management is really important for Bank's health by taking care of the probable risk properly.

2. Are central bank's regulatory policies helping the bank in credit risk management?

The second question asked the respondents to indicate their expectations of the central bank regulatory policy helps the bank in credit risk management. The results show that most of the respondents agree (40%) and (60%) strongly agree that the central bank regulatory policy helps the bank in credit risk management.



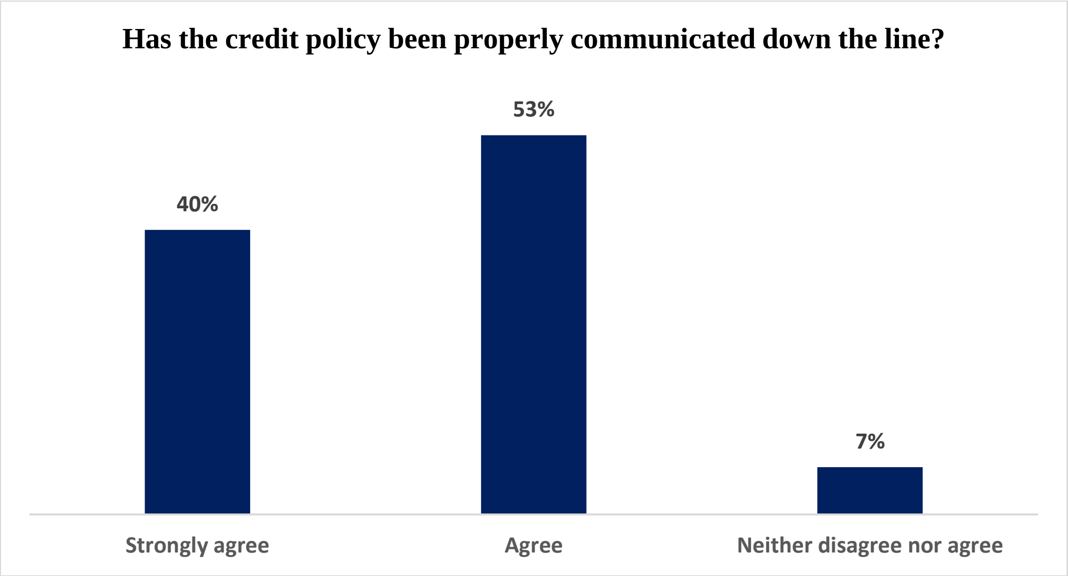


3. Is the bank having a policy to support the development of credit risk management?

The results showing that 73% people agree that the bank is having a policy to support the development of CRM and 27% people strongly agree that the bank is having a policy that is having a policy to support the development of CRM.

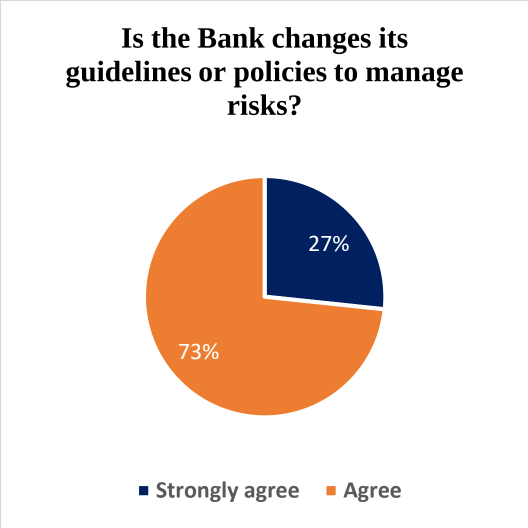
4. Bank call for your opinions whenever there is an adjustment to the policies associated to credit risk management?

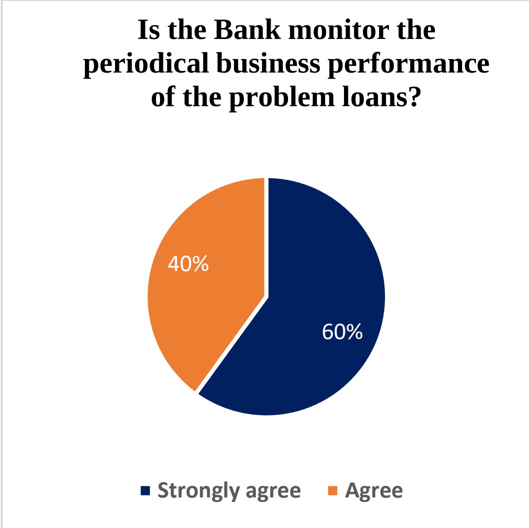
The respondents replied that 80% of them agreed that the bank call for their opinion whenever there is an adjustment to the policies associated to CRM and 20% of them strongly agree that bank call for their opinion whenever there is an adjustment to the policies associated to CRM.



5. Has the credit policy been properly communicated down the line?

The above table is showing that only 7% people neither disagree nor agree, 53% people agrees and 40% people strongly agrees that credit policy has been properly communicated down the line. The majority is agreeing positively in this case.





6. Is the Bank changes its guidelines or policies to manage risks?

From the above response chart, it is clear that 73% respondents agree that bank changes its guideline or policies to manage risks and 27% of them strongly agree that bank changes its guidelines or policies to manage risks.

7. Is the Bank monitor the periodical business performance of the problem loans?

The last question was equally important for me to asked to the respondents and the result shows that 60% people strongly agree and 40% of them agree that the bank is monitoring the periodical business performance of the problem loans.

Recommendation:

Prime bank Limited has an efficient & excellent credit risk management team and performing with great expertise and care. There are some limitations that can be overcome by some measures to make the performance outstanding. There are some suggestions for prime banks credit management team from my observation.

- PBL has to pay attention in retail banking so that the customer can have easy access to the retail products and the bank provides its services to the door step of their existing and potential customers.
- There should be some flexibility for proprietorship concerns.
- Credit officer should strictly follow the credit evaluation principle setup by the bank. It should improve in file management system to faster the dealings with the client's proposal.

- Bank should be careful in its riskiness. It should improve its liquid assets to reduce the liquidity risk. It should also try to increase its reserve.
- Bank may reduce the SWIFT charge without disrupting the facilities.
- They should employ experts in analyzing credit risk.
- Credit committee should be more liberal to faster the growth of its credit operation.
- Bangladesh Bank should create a data storage cell for industry/business data so that while credit risk grading bankers can access those data. It should adopt a credit grading system all facilities should be assigned a risk grade.
- Approval authority should be delegated to individual executives rather than Executive Committee/ Board to ensure accountability. This system will not only ensure accountability of individual executives but also expedite the approval process.

Conclusion:

Researchers support the fact that economic and financial development of a country are highly correlated to the development of its banking and financial system. The more developed and efficient the banking sector of a country is, the more developed is the business industry sectors will be. With a view to improving the quality and soundness of loan portfolio, credit risk management methods were updated in 2014. The Bank monitors its exposure to particular sectors of economy on an ongoing basis. The Bank has undertaken the changes in policy of credit risk management, credit risk administration and credit monitoring and recovery in line with the guidelines of Bangladesh Bank, formulated in the last year. Credit Appraisal system of this bank is pretty efficient. The loan proposal that is prepared by the credit officer and submitted to the higher authority for approval is the most important part of credit appraisal system because based on this proposal the granting of credit decision is made. Credit collection process of PBL is also strict and satisfactory. We hope that PBL will lead by example by continuing its efficient lending policy in keeping the bank’s financial performance indicators at above industrial average and contribute to country’s economic development-thus attaining a middle-income status in the world.

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Appendix:

Questionnaire:

Dear Respondent, I am a graduate student of BRAC Business School of BRAC University, conducting a survey on “A Comparative Study on Credit Risk Management System of Prime Bank Limited” for a partial requirement of the degree completion. Kindly noted that this is an academic study and the findings will remain confined within academic interests. No part of this study will be disclosed. Your kind cooperation will be highly appreciated. Please read the questions carefully and just put a tick (√) in the respective box and kindly give. This survey will be conducted through Google Forms.

Name: ...………………………

Sex: Male ☐ Female ☐

Age (Years): 26-35☐ 36-45 ☐ 46 and above ☐

Income:

BDT 30000 - BDT 40000 ☐

BDT 40000 - BDT 50000 ☐

BDT 50000 – BDT 60000 ☐

BDT 60000 and Above ☐

Service length in Bank: Less than 3 years ☐ 3-5 Years ☐ 5 years and above ☐

1= Strongly Disagree 2= Disagree 3= neither Disagree nor Agree 4= Agree 5= Strongly Agree

1	Do you think credit risk management policy is important for a bank’s health?	1	2	3	4	5
2	Are central bank’s regulatory policies helping the bank in credit risk management?	1	2	3	4	5
3	Is the bank having a policy to support the development of credit risk management?	1	2	3	4	5
4	Bank call for your opinions whenever there is an adjustment to the policies associated to credit risk management?	1	2	3	4	5
5	Has the credit policy been properly communicated down the line?	1	2	3	4	5
6	Is the Bank changes its guidelines or policies to manage risks?	1	2	3	4	5
7	Is the Bank monitor the periodical business performance of the problem loans?	1	2	3	4	5