

Report On
Credit Evaluation Processes on The Premier Bank Limited

By
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18304078

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

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BRAC Business School
BRAC University
September, 2022

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/We have acknowledged all main sources of help.

Student's Full Name & Signature:

Rubaiyat Nayeem Hasan
18304078

Supervisor's Full Name & Signature:

Md. Shamim Ahmed
Lecturer, BRAC Business School
BRAC University

Letter of Transmittal

Md. Shamim Ahmed
Lecturer,
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Internship report submission.

Dear Sir,

I am very pleased to present my internship report on the "Credit Evaluation Processes on The Premier Bank Limited". I am truly honored that you approved this topic for my report. It is a time of great honor and pleasure for me to complete my internship at country's one of the first generation bank 'The Premier Bank Limited' at the same time under the supervision of yours. In order to write a effective internship report with the help of your direction, I focused all my attention on successfully completing the internship.

I am so grateful and I appreciate your wise counsel, direction, and directions very much. I tried to do my best to create this report. However, if inaccuracies occur, I am at your disposal for the praise and criticism of the report.

I therefore pray and hope you would be kind enough to accept my internship report.

Sincerely yours,

Rubaiyat Nayeem Hasan
18304078
BRAC Business School
BRAC University
Date: September 25, 2022

Non-Disclosure Agreement

I would like to inform you that the report titled "Credit Evaluation Processes on The Premier Bank Limited" is created as part of the internship requirements. Internship reporting is a mandatory requirement for the BBA program. In addition, the report was prepared under the supervision of Mr. Shamim Ahmed, Lecturer, BRAC Business School, BRAC University.

This report is my treasure and has been or is being submitted for a degree, diploma or recognition elsewhere. To the best of my knowledge, I have not intentionally infringed copyright.

Rubaiyat Nayeem Hasan

ID - 18304078

BRAC Business School

BRAC University

Date: September 25, 2022.

Acknowledgement

At the very beginning I am truly thankful to Almighty Allah for giving me the opportunity to complete the internship report on time. . I am pleased to have enough patience while completing this report and my gratitude to those who have helped, encouraged, guided and supported me throughout my internship program.

At the very beginning I would like to thankful to my academic supervisor Mr. Shamim Ahmed, Lecturer, BRAC Business School, BRAC University. His clear guidance and comments made everything much easier for me. He helped me a lot to keep my pace to complete the report on time. He tried as much as possible to keep my report flawless.

Then, I show gratitude to my co-supervisor Ms. Tania Akter, Senior Lecturer at BRAC Business School, BRAC University. She cheered me up by sharing her professional experience and responsibility.

Lastly I am grateful to Mohammad Ferdousuzzaman (Junior Assistant Vice President) and Mahabub Munshi (Senior Officer) who supported me throughout to my internship program. Their instructions not only taught me about workplace culture but also their continuous support helped me to work fluently. Their motivation was my inspiration on the workplace. Finally, I show my gratitude to all the personnel of The Premier Bank Limited, Mohakhali Branch who assisted me to have a wonderful experience during my internship program.

Executive Summary

As an important part of economy, commercial bank plays a vital role to create Capital and Liquidity in our business market. Commercial Bank is a type of Financial institution at the same time it is an intermediary of business. The Premier Bank Limited is one of the leading bank in Bangladesh. I worked on this report with the credit evaluation part of The Premier Bank Limited. We all know that credit risk is the vital risk for any commercial bank. Credit risk arise from the inability or the un-willingness from the borrower to perform pre-committed manner about lending facilities. As credit is one of the key function of any bank, the credit risk management of The Premier Bank Limited minimize the risk and maximize the return adjusted rate by assuming and maintaining credit exposure over time. The Credit Risk Management (CRM) division is responsible to uphold the bank's risk/return portfolio at the same time to recover bank's negative portfolio report. There are several teams of the bank who work from the beginning of credit proposal to the credit approval process. After analyzing the risk of credit in different criteria with the help of qualitative and quantitative factors bank take decision of the credit approval. In this report I tried to portray what the various steps taken by The Premier Bank Limited to approve any kind of credit facilities. The report is divided by three parts. The first part represents a short description of the organization, their vision and mission, organizational structure and separated department for separated functions. Second part portrays my purpose behind this internship report, on-site job responsibilities and how my activities helped to the organization. Finally, I focuses on the last part about the evaluation processes I taught from my workplace while evaluation any credit facilities. Although, The Premier Bank Limited has a very successful ratio to recover their credit but still they should work on some areas to keep the pace among from the leading banks of Bangladesh.

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List of Acronyms

ODI	One day International
T20	Twenty Twenty
IPL	Indian Premier League
CPL	Caribbean premier League
BPL	Bangladesh Premier League
MR	Runs scored by Home team
OR	Runs scored by the opponent team
MRN	Home Team Run Rate
ORN	Opponent Team Run Rate
Batord	Batting Order
MW	Home Team Wicket
OW	Opponent Team Wicket
MAE	Mean Absolute Error
RMSE	Root Mean Squared Error
LBW	Leg Before Wicket
NBA	National Basketball Association
CSK	Chennai Super Kings

Chapter 1

[Overview of Internship]

1. Student Information

Name: Rubaiyat Nayeem Hasan

Student ID: 18304078

Program: Bachelor of Business Administration

Major: Finance, Insurance and Banking.

Minor: Accounting.

2. Internship Information:

1.2.1 Company Information

Duration: 3 months

Organization name: The Premier Bank Limited

Department: Investment (known as credit, as my branch was Islami Banking Branch so I worked with investment.)

Office Address: 99 Bir Uttam AK Khandakar Road, Dhaka-1212

Head Office Address: Iqbal Center, 42 Kemal Ataturk Avenue, Dhaka-1213

1.2.2 Internship Organization Supervisor's Information

Name of the on-site Supervisor: Mohammad Ferdousuzzaman

Designation of the on-site Supervisor: Junior Assistant Vice President

1.2.3 Job Scope

1.2.3.1 Job Description

The Premier Bank Limited provided me an internship opportunity on their Credit Division. At the very first month I worked on the General Banking section to know basics of banking. While I was at General Banking section I have learned how to use 'BankUltimus' which is the central banking software of The Premier Bank Limited. All kind of banking management can be done through this software. Later I worked with RTGS payment method, BEFTN payment method and how 'Pay Order' works. Which documentation are needed to open a bank account and are those documents were valid or not, also a part of my General Banking section's work. From the second month I started working on the 'Investment Division'. As my Branch was Islami Banking Branch, Credit is defined as Investment in this branch. In this section at first I have learned about the definition of credit, how credit policies of The Premier Bank Limited work. A basic credit policy is given by The Bangladesh Bank, each bank has their own credit policy based on that central policy planning. In the credit section I used to work with different kind of proposal making, renewal of proposal and helped to make ICRRS. I am truly glad that I got an opportunity to work with this kind of sensitive information. Office timing was 10 to 4 later it turned into 9 to 3. I am pleased to have the opportunity and gain some experience in the field which will help me near future as I wanted to join any reputed bank after my graduation.

1.2.3.2 Job Responsibilities

1. Financial Report analysis of various companies.
2. Credit rating check from CIB and report them to in charge of investment department.
3. Analyzing Financial Data for CSR.
4. Look after dispatch note register of credit section.
4. L/C related document receiving.
5. Collection of documents that are required for ICRRS.
6. Analyzing value of government bond, lien sales contract deposit against the loan, minimum and maximum market value of gold, land value pledge with the bank.

3. Internship Outcomes

1.3.1 Student's contribution to the organization

I started my internship in General Banking section. There are three fields in this segment, they are Account Opening, Remittance and Billing, Clearing and Dispatch. At the very beginning I helped my seniors to fill-up account opening form, later I put those data into 'BankUltimus' software with a unique customer ID. I also helped fellow colleague to maintain the register of Dispatch. Sometimes I went on the Clearing and Remittance section to know how it works. From the second month I joined on the Credit department. In this section I used to make portfolio which used to go for approval to the head office of The Premier Bank Limited. Based on those portfolio various companies used to get loans on different segment. My fellow seniors helped me a lot to work with this critical part. There is a specific format given by the Head Office to make proposal. Based on those data there is a dedicated sheet of ICRRS, where inputting data is needed to compare the borrowers risk rating.

1.3.2 Benefits to the student

The internship program has given me a whole new experience in the field of specialization. There was a lot to learn about the work environment and the collaboration between employees. Throughout this internship program I understood that practical application of academic knowledge is not always possible, some situations call for a practical response. As per the branch manager's permission they provided me an account of 'BankUltimus' (under the supervision of Junior Officer Mehedi) to open bank account and give entry to maintain remittance completion of it. After 1 month of my internship program they give me some special opportunities to access credit rating that helped me prepare investment portfolio. On the credit section I learned the operation of loan processing.

1.3.3 Difficulties

- No scope to use Wi-Fi. LAN connection does not have access on every website.
- High work pressure as I was the only intern of that branch also 2 officer were transferred from General Banking section.
- I faced severe transportation issue as I have to go from Uttara to Mohakhali.

1.3.4 Recommendations

- They should provide ID card to their interns.
- Assigned supervisor did not get enough time to look after intern's performance due to heavy office work. They should provide more time to their interns.

Chapter 2

[Company overview]

1. Introduction: The Premier Bank Limited was incorporated as a banking company under the Companies Act 1994 in Bangladesh on 10 June 1999. Bangladesh Bank, the Central Bank of Bangladesh, was granted a banking license on 17 June 1999 under the Banking Companies Act. 1991. In 2007, it was registered as a limited company in Dhaka Stock Exchange and Chittagong Stock Exchange. It is the first bank in Bangladesh to launch Visa Debit and Credit Card services at the same time they are operating basic banking and Islami banking. They strongly believe that strong diversification across business units, geographies and products contributes to our strategic advantage. The main objective of the bank is to adopt with modern technologies and serves their customers with utmost care and adoptative dealing with stakeholders for better growth and sustainability.

2. Organization's Mission and Vision:

2.1 Organization's Mission:

1. To be the most caring and customer friendly provider of financial services, creating opportunities for more people in more places.
2. To ensure stability and sound growth whilst enhancing the value of shareholders investments.
3. To aggressively adopt technology at all levels of operations to improve efficiency and reduce cost per transaction.

4. To ensure a high level of transparency and ethical standards in all business transacted by the Bank.
5. To provide congenial atmosphere which will attract competent work force who will be proud and eager to work for the Bank.
6. To be socially responsible and strive to uplift the quality of life by making effective contribution to national development.

2.2 Organization's Vision:

1. The Bank has clear vision towards its ultimate destiny – to be the best amongst the top financial institutions.

3. Strategies and Priorities of the organization:

3.1 Strategies: All of their banking activities are motivated and driven by the ultimate goal of achieving long-term goals. They give priorities from top to bottom to ensure their customer and stakeholder's benefits. They focus on short term day to day short term activities to achieve that. The Premier Bank Limited not only focuses on the traditional banking for their profit maximization, at the same time they contributed on various social works to uphold the growth of GDP.

3.2 Priorities: Their main priority is to provide top notch services in the banking sector of Bangladesh. They are working to gain the reputation 'Bank by Choice' from their customers. The bank always try to maintain ROA and ROE at maximum profit margin. Their recent ROA is not less than 2% and ROE is not less than 50% of their net income basis. They always try to ensure BASEL 2 and 3 points with the change on their managerial

operations. CAMEL ratings are the basis of banking industry standards and Premier Bank Limited does not compromise.

4. Corporate Information

Registered name of the company: The Premier Bank Limited

Registered Office: Iqbal Centre (4th floor), 42 Kemal Ataturk Avenue, Banani, Dhaka- 1213.

Incorporation Certificate: C-37922 (2222)/99, dated june 10, 1999

Commencement of Business Certificate: Ref no. 16370, dated june 10, 1999

Bangladesh Bank Approval Certificate: BRPD (P) 744 (72)/99-1638, dated june 17, 1999

Vat Registration: 5101027082, dated july 31, 2000

TIN Certificate: 140-201-0820, LTU, Dhaka, dated October 17, 2000

Auditors: Mahfel Huq & Co.

Legal Advisor: M/S Rokanuddin Mahmud & Associate.

Un-audited Financial Statement for the First Quarter (Q1), 2022

Sl. No.	Comparative Statement				
	Particulars	Consolidated Position		Solo Position	
		March 2022	March 2021	March 2022	March 2021
1.	Net Asset Value (NAV) (In Crore Taka)	2,307.44	2,097.90	2,288.54	2,082.72
2.	Net Asset Value Per Share (NAVPS)	22.12	20.11	21.94	19.97
3.	Earnings Per Share (EPS)	0.65	0.56	0.64	0.56
4.	Net Operating Cash Flow Per Share (NOCFPS)	1.13	-14.74	1.12	-14.60

Figure 1

**Amount in Taka where applicable

5. Managerial Structure:

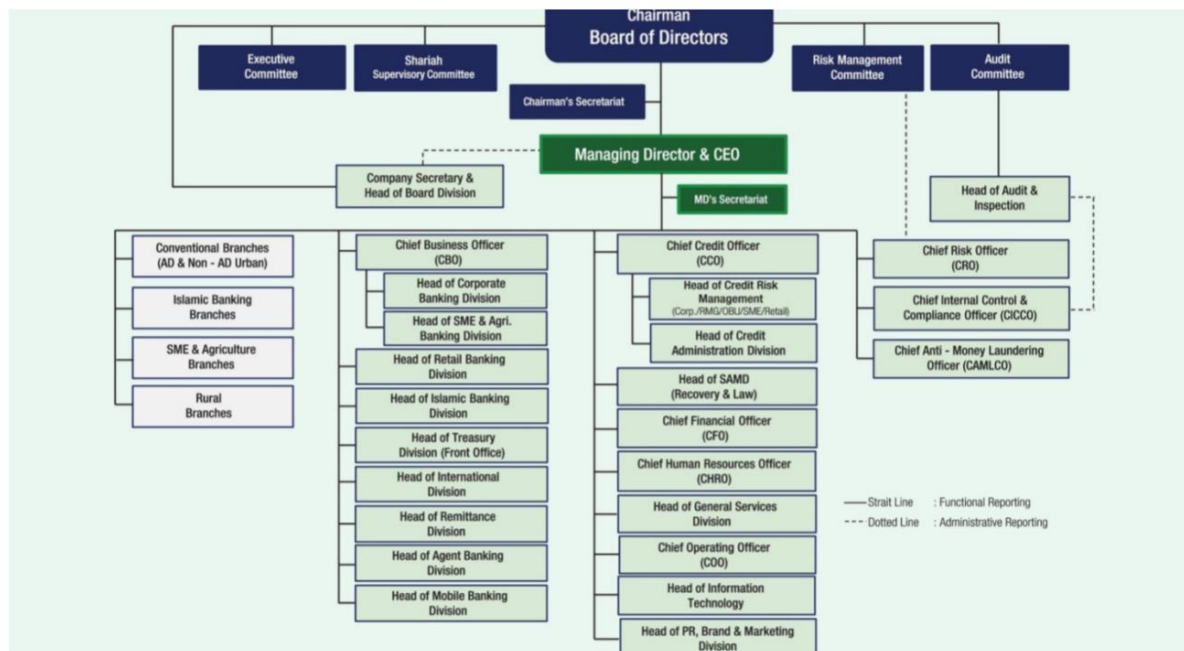


Figure 2

Source: <https://premierbankltd.com/pbl/category/about-us/committee/>

The Premier Bank Limited has secured prestigious status in the banking sector for its top to down management practices and they evaluate their employees based on their performance and the employee has the opportunity to take part in any democratic right of discussion before choosing what's the best outcome for his/her banking career. In The Premier Bank Limited there are 23 different functional division that work under the supervision of 7 Deputy Managing Directors. To keep banking processes fluently The Deputy Managing Directors working like a communication bridge with The Managing Director and other 23 functional divisions. On the other hand, there are several banking committee which are strictly monitoring banking system. Board of Directors at the same time other different Committee Members took part on policy making decisions based on the operational report performed by core employees of the bank.

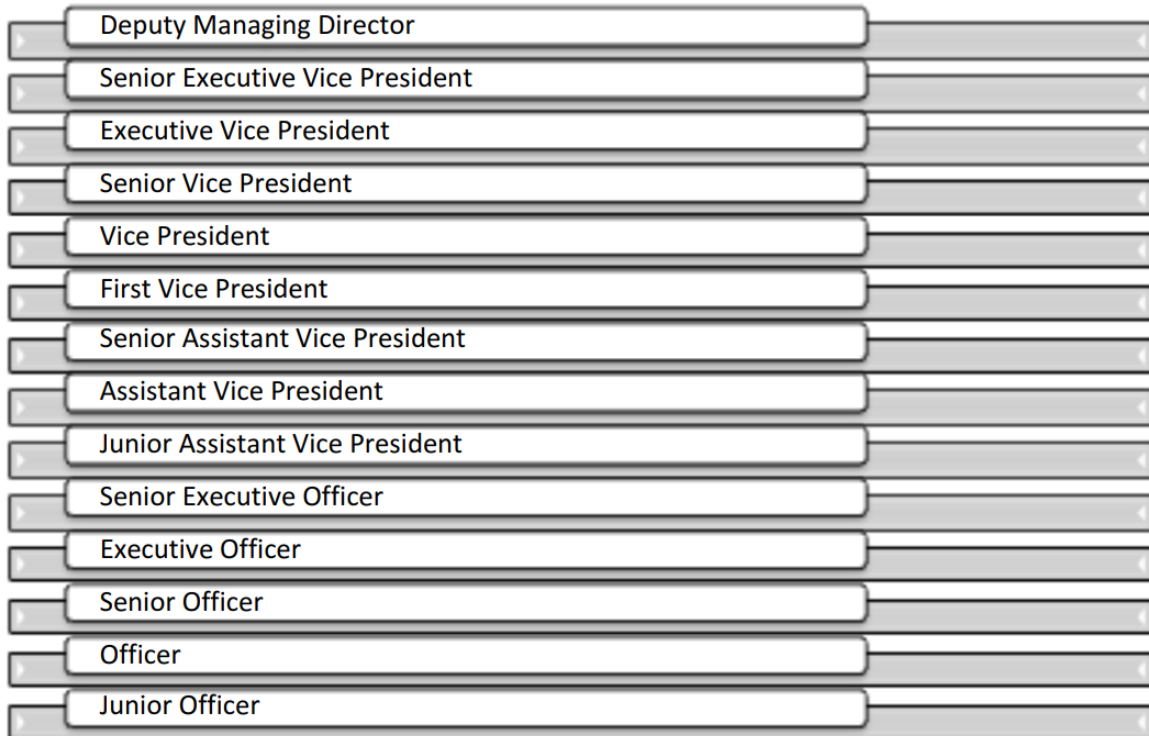


Figure 3

Probationary period for the Junior Officer (general) is 1 year and Junior Officer (cash) is 6 months. As we know that bank used to work with the most liquid asset 'Cash', for that reason they always need to redesign their systematic managerial system in an updated and participative manner to avoid unsystematic risk in a proper way.

6. Human Resource Planning:

HR department of The Premier Bank Limited amortizes HR expenses over the employment life an employee without capitalizing them. HR account information are concerned by HR account. These are:

- Particular cost for every employee of the bank.

- Service life of an employee and their productivity.
- Strategic goals of employees in long run and their gaining.
- Embarked their employees on their respective job and it's obligation and indebtedness.
- The Bank evaluate and reward their employees based on 'Performance Driven' culture to inspire their employees and to get result from them more effectively.
- They protect their employee by labor law and human rights law.
- Ensure healthy and safe workplace.
- Ensure equal opportunities for all employees.

6.1 Pay Structure, Benefits and Compensation for Employees:

Premier Bank has employed a statistical performance culture that motivates and rewards its employees for better career growth. Every employee used to pay on a monthly basis with the combination of their basic salary. Bank provide some additional benefits and discount to their employees. They provide fringe benefit scheme, House rent and Conveyance allowance, Medical allowance, Entertainment allowance. They also provide House maintenance allowance, Utilities allowance, Car maintenance allowance, Leave fare assistance etc. Premier Bank provides severance pay or personal allowance to its employees. The minimum notice period for changing jobs is 3 months, 1 month for contractual employees. Premier Bank offers equal opportunities to employers regardless of location, type or gender. Existing talent hunting program is one of the core structure of the bank. Since 2015, Premier Bank has implemented certain SMART KPIs. The bank take decision about distributing KPI based on their employee's productivity, facts and figures of annual performance. By focusing on the facts and identify areas for personal improvement. As private initiatives grow, operational details become increasingly difficult to keep as closer as possible. KPI results can become reality again.

Employees can plan to ensure they are accountable for year-round deliveries and live up to expectations. It focuses on an objective evaluation of year-end results.

5.2 Learning and Development Program for Employees:

The development of knowledge and skills are uninterrupted procedure to keep the employees updated with the modern and developed banking sector, banks continuously organize training and seminars for employees and managers to improve their professional efficiency. As a gradual process of learning in human resource development, PBL always attaches great importance to employee training. The bank is equipped with a Learning and Talent Development Center (LTDC) with all neoteric educational materials and textbooks. LTDC also conduct AML and CFT training which is very useful for new recruiters, existing employees, agent employees.

Chapter 3

[Project Part: Credit Evaluation Processes]

1. Introduction: Students of BBS (BRAC Business School) are required to complete an ‘Internship Program’ in any organization to earn their BBA degree. ‘BUS400’ is a four credit course that lasted for three months or twelve weeks where the student get an opportunity to complete their internship. The primary objective of this course is to provide practical learning and work experience as a professional to perform on various practical tasks. I was assigned for the topic ‘Credit Evaluation Processes’ by The Premier Bank Limited to complete my internship report. I started my internship program at 27th June and ended on 27th September. The bank paid a fixed honorarium on a monthly wage basis.

2. Objective: Main purpose and objective of this report is to provide an intense overview how The Premier Bank Limited evaluated their credit processes while approve credit facilities to their customer. How the loan sanction system works and detailed credit operations of different credit facilities provided by the bank.

2.1 Specific Objective:

- Credit Investigation
- Preparation of Credit Proposal
- Credit Appraisal
- Credit Risk Grading
- Credit Approval Processes

- Administrative way of Credit Evaluation
- Credit Review, Monitoring process and Recovery retention

2.2 Origin of the report: As a part of individual report writing my assigned topic is ‘Credit Evaluation Processes on The Premier Bank Limited’ to acquire some practical knowledge of the bank’s credit section at the same time gather some practical knowledge of overall banking sector. I was given the opportunity with my senior colleagues to make credit proposal and their evaluations.

3. Methodology

3.1 Primary Sources:

- Discussion with credit in-charge and other officers from credit department
- Self-observation

3.2 Secondary Sources:

- Annual reports
- Proposal making
- Company Websites

4. Evaluation Processes:

As per The Bank Companies Act (BCA), 1991, the banking company cannot grant any loans or advances against any kind of security owned by them, against guarantee of any of its directors, family members of directors, firm where the very own family members of the directors are as like a director, business partner or the owner of any kind of public limited company which is wielded by any director owned the banking company and holds such share by which he is empowered to vote for 20% or more of the shareholding of the company. Regarding loans to directors, Managing Director of every banking company must need to submit their return in a formal way of the month before ending the month, by expositioning all details of loans and advances offered by the bank to the companies of private sector as well as public sector or any organization's director acted as director; at the same time loans and advances of public company granted by the bank or any director of it's acted like leading agent or bondsman. The resignation of any Director of any debtor company shall not be effective without the consent of the Board Directors of the lending banking company or financial organization and no such Director shall transfer or sell his share. Every banking company or financial institution must need to do the needful from time to time, send list of defaulted borrowers to the Bangladesh Bank. The Bangladesh Bank shall send the list received to all banking companies or financial institutions of the country. No banking company or financial institution shall provide any credit facility to any defaulted borrower. Though anything contained in any other law in force for the time being, the lending banking company or, the financial institution, as the case may be, shall file suit against the defaulted borrower according to law in force.

4.1 Credit: ‘Credit’ is a bridge act like a confidence in between the lender and the borrower depending to repay the debt as per the commitment based on the caliber and willingness of the borrower. There must have a strong pre-committed schedule to repay as per borrower’s ability and willingness.

If we think it deeply borrower’s interest to repay the debt on time is one of the key factor to earn trust from the lender. To investigate the true fact of the borrower, there must be some official examination by the officials. The entire process of collecting information, data and evidence (if applicable) are subjected to investigation by officials. The Premier Bank Limited provides two kind of credit based on the organization’s financial stability. They are (a) Funded credit and (b) Non-Funded Credit.

5 Funded Credit Facilities:

- OD (FO): Individuals/Firms are allowed to take overdraft against their financial obligations for example: DPS, FDR, Wage earners Bond, ICB Unit Certificate, Treasury Bond, & FDRs provided by other banks etc. This type of credit facility usually known as continuous credit facility and general mature period for it is 1 year. They can renew it as well for the time being but not beyond the expiry date as per instruction given at the very beginning of the commitment. This type of credit facility falls under ‘others’ lending category.
- OD (Work Order): When the individuals/organization need to pay for their contractual work/supply order, for payment they use work order/supply order. This type of lending facility also has a certain period of time for

maturity and they can use it for specific purpose only. This type of credit facility defines under the ‘Commercial Lending’.

- OD (Others): It allows to individuals/firms for miscellaneous purpose. Usually OD against share & securities, Insurance policy fall under this type. This type of credit facility is also known as ‘continuous loan’ and has a certain tenure age; usually one year but it can be renewable by the time being before it’s maturity date. As like the OD (FO) it also falls under the credit facility of ‘Others’.
- Cash Credit (Hypo): For retails or wholesale business or for the industries must meet a few criteria prerequisite by the bank for working capital requirement in opposition to the primary security of hypothecation of inventories is fall under this type of credit facility. This type of credit facility usually known as ‘Commercial Lending’ and ‘Working Capital’. Usually it has not any certain time period for its maturity.
- Cash Credit (Pledge): When a firm/organization need of full financial accommodation for retail or wholesale business or the industries working capital against the inventory of pledge take effective control as a security of bank. This type of credit facility is also continuous credit facility and there are two different segment. One is ‘Commercial Lending’ another on is ‘Working Capital’.
- PAD: When the bank pays through L/C for the imported goods against the lodgment of shipping documents it is called PAD. It works like an intermediary in between import and the payment of liquidate asset provide by the customer. Documentations are needed to release of imported goods

from the customs authority. This type of credit facility can be define as "Agriculture/Working Capital/Commercial Lending/Others" any of them.

- LIM: This type of funded credit opportunities is provided for issuance of accompanying documents and payment of letters of credit through banks for imported goods. Deposit of balances are controlled by the bank under it's guarantor. This is recognized as advance payment method by which both bank and customer can make an advance connection with import and this type of credit facility is also acquainted as 'post-import financing' by bank. 'Commercial lending/Working Capital' falls under the LIM credit facility.
- LTR: This type of lending facility is works like an advance allowance of accompanying documents to get deliverance of imported goods using L/C facility provided by the bank. By the trust and commitment bank handed over the goods to the importer. This is also a temporary method of prepayment and known as 'post-import financing' by bank. This type of credit facility falls under "Commercial Lending/Working Capital".
- OD (Export)/Packing Credit (P.C.): When the customer is allowed in advance to get the facility of L/C for export purpose or the organization packaging contract of their goods for being exported, this type of credit facility falls under this. There is adjusted term of 180 days to be adjusted OD (Export)/Packing Credit. For export and packing this credit facility is very popular to sustain a business also work as back to back L/C. This type of credit facility known as "Export Credit".
- IBP: When the inland bills are used as a payment method through purchase to meet urgent requirement of the customer is known as IBP. This is a

temporary to proceeds of purchased bills and sent for collection. This type of credit facility falls under 'Any' type of credit facilities.

- **FBP:** When the payment done by the customer through purchase/negotiation of foreign bills are known as FBP credit facility. This is also a temporary advance adjustment for the shipping/export docs to be proceeds. It's category is "Export Credit".
- **Lease Financing:** This is the usable and convenient credit facility to purchase machinery and capital equipment when the customer has the full opportunity to get exclusive right to use an asset for the contracted period of time to repayment of the rentals. This is also known as repayable financing. Various kinds of lease financing are:
 - * Heavy equipment for construction and structural development.
 - * Elevators/Lift related equipment.
 - * Air Conditioner and it's related machineries.
 - * Luxurious Bus, Car, Minibus and various taxicab and pickup.
 - * Medical and Health Equipment.
 - * Power related items like generator, Tech related items like computed and any other items those are considered suitable by The Premier Bank Limited.
- **Syndicate Financing:** Joint financing where two or more bank provide loans for the same customer in opposition for a accepted security of the borrowers. This is an opportunity of independent evaluation credit risk. Active participation to provide syndicate financing is one of the core investment sector of The Premier Bank Limited.

- TL to Enterprise: Short, Medium & Long term loans are allowed for the Enterprise who will repay the debt in a definite period and by installment. Term loans for companies are mostly allowed according to financial categories. These are:
 - * Medium & Large Scale based Industry and
 - * Cottage & Small based Industry. Lease Financing, Syndicate financing, NBF1 Financing will not fall under this type. It may fall under the Lending categories of TL to Large & Medium scale industry /TL to Small & Cottage industries.
- Housing Loan (General): Loans allowed for individuals in the purpose of purchasing flats/houses and for commercial loans for any amount to enterprise for construction of commercial building/purchase of apartment or space recognized as Housing Loan (General).
- House Building Loan (Staff): This type of credit facility is only applicable for The Premier Bank's employees in the manner of purchasing flats/houses are considered as Staff House Building Loan.
- Demand Loan: Payment made to meet the obligations of the bank for settlement under back to back LC's/deferred LC's under forced circumstances by special arrangement. This is an advance for temporary period.
- Consumer Financing: Financing allowed under the purview of Consumer financing & Lending guidelines for consumer to meet their personal, family or household needs in a form of loan. The objects are related to a consumer loan is Consumer Durables Loan, personal Loan, Auto Loan, Credit Card etc. The amount is repayable by monthly installments within a specified period.

- Agriculture Financing: Production units directly involved in fishing, cultivation, farming, forestry are considered as agricultural credit facility.

6 Non Funded Credit Facilities:

- LC/ILC: This is one of the non-funded credit facility which allowed to the importer through letter of credit. The contingencies are therefore fundamental converted to PAD or can be adjusted by cash/TL/LIM etc/ Usually the expiry date for this credit facility is one year.
- BTB L/C: BTB L/C known as Back to Back L/C facility which required to facilitate pre-shipment financing. The liability of this credit facility usually converted to ABP and can be adjusted in from of export procedure. Usage validity of this credit facility can go upto 180 days but usually tenure age is 120 days.
- ABP: This type of non-funded credit facility used for payment or settlement in a conversion of BTB L/C where liability also adjust from export procedure. Expiry date of ABP is maximum 180 days.
- BG: BG is one of the Non-Funded credit facility that requires to be contractual obligations through the organization performance, advance payment, bid bond of bank guarantee. The liability can be reversed to original bank guarantor.

6.1 Credit Investigation: Credit investigation an assiduous process of examining and assessing credit proposal and other information given by the organization, in requirement of the Bank. This process verified in different dimension to collect information and evidence (if needed) that helps the banking authority to take decision regarding the credit facility. As like other banks The Premier Bank Limited also has their unique credit appraisal process that helps the CRM board to select quality borrower. Before elect the borrower bank usually go through the 7 term of their applicants. They are -

- **Character:** To invest lenders prefer their money in companies impeccable credit history. Bank's dedicated credit officer should look at borrower's indivisibility, how lender's honesty act, retention willingness and intention to repay borrowed money, how the commitments are being maintained etc.
- **Capacity:** The ability to repay the loan is the most important criterion used to assess the creditworthiness of the borrower. To assess borrower's capacity, the lender will consider various factors such as identity of customer and guarantor, legal structure of the organization, Board of Directors, their operational behavior, produced item and targeted customers and suppliers of raw materials for a business borrower, business ability, experience and tenure of business, technical knowledge, maturity etc.
- **Capital:** Business risk, Business equity, debt retention, earning capacity, ability to pay more, pay per person, accounts payable turnover and inventory, etc. are the financial strength to cover.

- **Condition:** The general economic environment refers to the condition of the borrower's industrial business and economy as a whole that affect the borrower's ability to repay the debt. Borrower's activity, industrial growth, economic strength, regulatory environment, working environment of the industry etc. relates to similar company and compared to similar industry.
- **Collateral:** Additional collateral such as property title, it's quality, type, where it is located, title, lien and restrictions, insurance coverage, guarantees, foreclosure value, etc. establish considered to borrower's ability.
- **Cash Flow:** The loan given will ultimately be repaid from the cash flow of the business. Cash generating ability is an important determinant for assessing the borrower's repayment ability. So appraising the future cash flow of the borrower is crucial.
- **Common Sense:** Credit Officer should apply his/her common sense to assess the borrower's overall condition.

Credit investigation followed by two steps from The Premier Bank Limited

- Information collection
- Assessing of collected information

7 Information for Credit Investigation

The list includes:

- Personal Interview
- Loan application

- Financial Statements
- Site visit and observation
- CIB report
- Confidential information and report submitted to other banks
- Registration records
- CIB information
- Public report and press conference regarding the borrower's past pruchae, sales and pending cases (if available).
- Tax Authority

7.1 Assessing Collected Information

Credit assessment helps the bank's credit section to elect right type of proposal selection and quality borrower. When the bank authority has all the information, they try to assess those information in different dimension. Whenever a customer approaches with request for a credit facility, the branch's Relationship Management will go through the loan application submitted by the client and collect the required information, papers and documents, review the merit and prepare a fully documented credit proposal for approval of the same from appropriate authority. The credit section must apply maximum prudence to assess the collected information, which will eventually help the management to take the right decision regarding the selection of the borrower. Following steps may be undertaken for making informed credit decision.

Step -1: Preliminary Screening

Applicants age, experience, business, year of existence, key persons of operation,

position in industry, ownership of the business is the first step to look after. Existing customers, any reference, applicant's other business / sister concerns etc. Purpose & type of request, relevance of the facility, facility amount, justification of the specific amount, tenor, whether logical in terms of nature of the facility and asset conversion cycle of client's business, source & modes of repayment should be also justified. Reason to borrow, startup capital or working capital or short term sales growth or long term sales growth or increase in working capital or import from abroad or execution a job, fixed asset replacement, expansion of fixed asset or BMRE of existing project or unprofitable or marginally profitable operations whether is it or not.

Step-2: Business Prospect of the Borrower

- Customer's past performance with existing facilities (if any).
- Customer's business growth & future prospect.
- Customer's capability and presence of 2nd line (successor).
- Opportunity of new business through sister concern.
- Other business support (e.g. deposit mobilization).
- Scope of non-funded business / other services.
- Customer's equity contribution.
- Total group exposure within regulatory ceiling.

Step-3: Industry and Business Risk analysis

Study Industry Risks issues: Cost Structure, Tied up period, Cyclic aspect, stock

turnover, receivable turnover etc., Concentration on some specific customer / supplier, Dependence, Vulnerability to substitutes, Competitors' entry/exit barrier, Regulatory issues (Govt. Policies like child labor, health hazard, Taxes, Duties, Environment, Judiciary, Bangladesh Bank regulations), Analyze Business Risks issues: Business size, cycle, maturity, diversification, market spread, Product specialty, bargaining power, availability, consistency, vulnerability to technology, presence of alternatives, Position of competitors in the same business/industry, Labor relations, experience, successor, Ownership structure, Members of board, track record of meeting goals, integrity, market reputation etc.

Step-4: Financial Statement Analysis

- Operating efficiency through various Ratio analysis.
- Marketability of the customer's products or services through Ratio Analysis.
- Measuring the adequacy of the Earnings through Ratio Analysis.
- Liquidity indicators through Ratio Analysis Profitability indicators through Ratio Analysis.
- Financial Leverage through Ratio Analysis.

Step-5: Cash Flow Analysis

- To analyze operating, investing and financing activities of the client's business.
- Trend of increase or decrease in sales compared to previous years.
- Changes in debtors and cause thereof.
- Trend of increase or decrease in sales, COGS compared to previous years.
- Changes in Stock volume and cause thereof.
- Changes in creditors and cause thereof.

- Trend of increase or decrease in operating costs.

Step-6: Projections

- Projected Profit and Loss account from the investment.
- Projected Balance Sheet.
- Sensitivity Analysis: Best Case/worst Case scenario.
- Common size Analysis.
- Analysis with the peers in the same industry.

Step-7: Identification of Risk and Mitigation thereof

At the time of screening of customer's application, the credit officer will definitely identify some risks/weakness associated with the requested credit. It's the credit officer's job to find out probable mitigation factors for the risks or to suggest corrective measures of the weaknesses. Credit analyst among others must focus on Management risk, Industry / Market risk, Business risk, Financial risk, Facility risk and collateral risk.

Step-8: Summary and Recommendation

Summarize the Major Risks identified, Magnitude of the Risks and the Risk Mitigation options. Whether the level of identified risks are acceptable to the bank management. Whether there is available strategy for dealing with such risks in the future the credit section will justify.

Step-9: Loan Structuring

Type of credit facility (short term or long term / continuous or deal basis) as will be appropriate for the customer. Mode of disbursement of the Loan should be in terms of customer's drawing requirement for proper utilization. Loan pricing to be considered with the associated Risks/ Risk Mitigations, competition in the industry, Regulators guide line etc. Mode of repayment of the loan shall be in terms of asset conversion cycle (may be continuous basis or in lump sum or in equal installments.)

Loan support security Primary, Collateral, Guarantee, Undertaking Supplementary Agreement must be adequate (with some exception) to cover the proposed exposure. Loan documentation and compliance of covenants must be duly executed (with stamping, registration as applicable) and retained at Bank's custody.

If all the steps are followed properly with due diligence, the credit section will be able to prepare a standard credit memorandum at the branch level which will facilitate head office analysts and approving authority to sanction the appropriate credit to the customers avoiding unnecessary queries and correspondences. It will help to deliver credit in time and effective manner which will ultimately be helpful to the bank to manage credit risk successfully, maintain a sound portfolio and to ensure a sustainable growth of the bank.

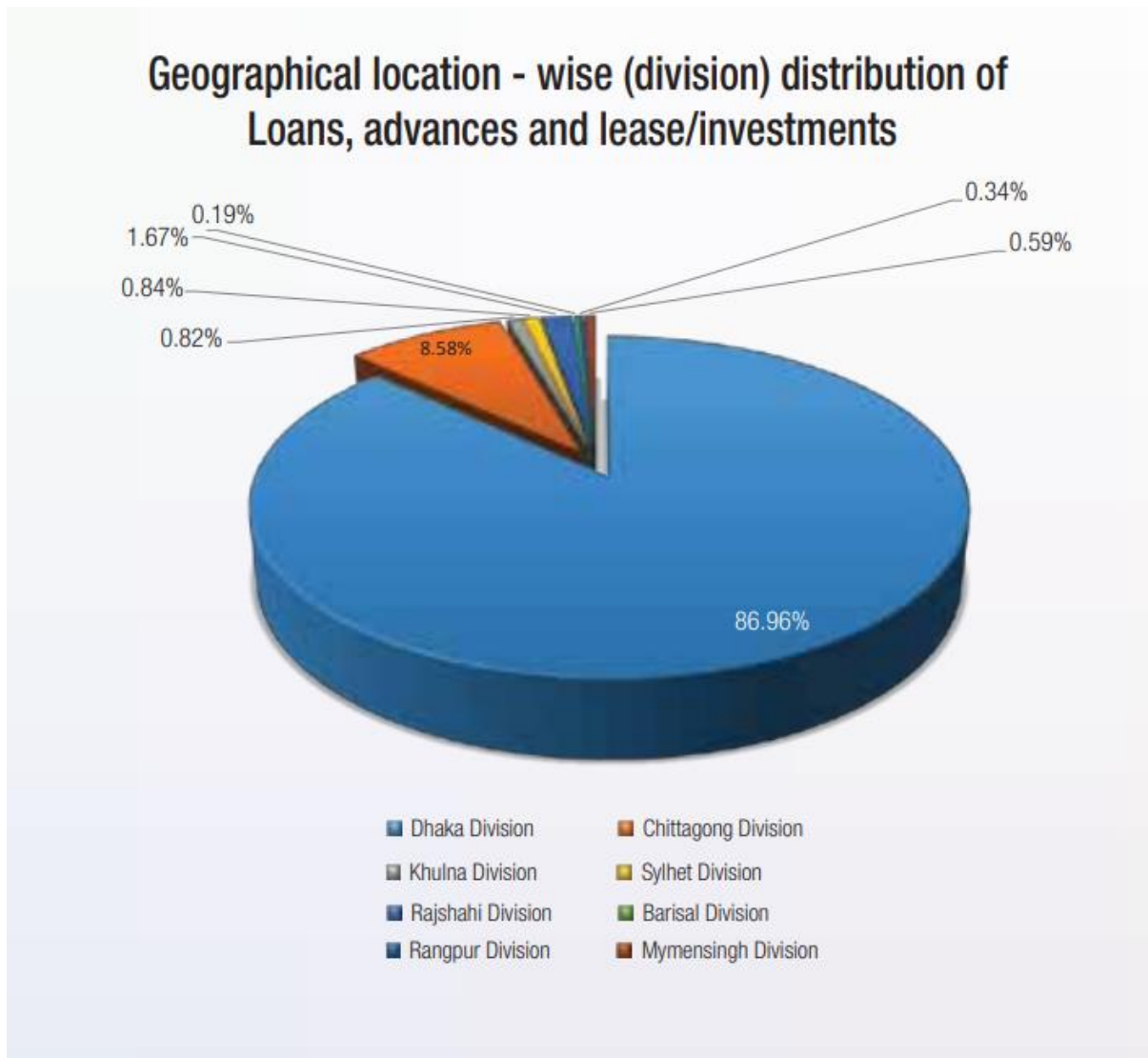


Figure: 7

8. Preparation of Credit Proposal

The Bank's return on investment achieve on one of their key factor depends on the quality of loan proposal. This may differentiate between accepting or rejecting the loan application. An effective credit proposal should be prepared in such a way that it replaces a credit request submitted by the financial institution. The credit proposal portrays a good understanding of the organization's business and satisfactory credit risk. The structure should contain purpose of the credit background of the business, details of the existing and proposed facilities and securities. Ownership structure, management, overview of the business/project, financial

analysis, debt service/repayment/security and summary & recommendations are the key requirements for most of the credit application. Depending on the situation there might need appropriate changes in credit proposal to address the specific business. The main purpose to specify identical points must be well briefed and well-argued with critical financial assessment of business. Items must be included on the credit proposal:

Serial number	Items to be included on the credit proposal	Description
01	Purpose of request	State the purpose of request, nature of facility, proposed limit, expiry and pricing.
02	Applicant's existing and proposed exposure	State the existing limit, outstanding, proposed limit, expiry date.
03	Break of outstanding liabilities	State the amount, disbursement date, expiry date etc.
04	Total group exposure	State the existing limit, outstanding, proposed limit, expiry date of sister concerns (if available)
05	Security summary	Land property, Cash collateral, Margin considering.
06	Account turnover/Account profitability	<ul style="list-style-type: none"> - State the repayment/adjustment followed by regular activities. - Account turnover status - Reason for overdue

07	Company/Management/Group Affiliation/Corporate Structure	Share holdings/Management structure of obligor
08	Brief of the Company/Management	<ul style="list-style-type: none"> - Year of establishment - Legal status of Obligor - Number of years of business in present address - Ownership of business/factory/showroom - Description of machineries - Number of shops/sales centre, Go-down, Address of each, Space/Size of each. - Experience of the key management.
09	Business/Industry analysis	<ul style="list-style-type: none"> - Brief description of company's line of business/product/market position - How others in the same business are doing - Pricing/Marketing/Special advantages etc. - Source of raw materials/trading items.

		<ul style="list-style-type: none"> - Major customers and areas. - Major competitors. - Receivables ageing. - Summarized period of stock/accounts receivable/accounts payable.
10	Financial performance	<ul style="list-style-type: none"> - Attach financial spread sheet of obligor for the last three years. - State whether audited/management certified and the name of the audit firm. - Sales and Profitability. - Asset conversion cycle, Cash flow position/Working capital assestment. - Equity/investment, Liquidity, Leverage.
11	Bank report/CIB report	Collect and attach CIB report from Bangladesh Bank.

12	Statues of the accounts/limits with other banks	State name of the bank and branch, name of the account, limit, outstanding, status of the account.
13	Other business interest of the obligor	State name of the company, nature of business, equity of interest, sales, net profit, net worth.
14	Justification of Limits	<ul style="list-style-type: none"> - Reason of new facility/enhancement. - Calculation of required facility. - Capacity utilization. - Changes in scope of business. - Changes in market demand. - Storage facility. - Changes in price of ingredients. - Business relationship. - Security coverage.
15	Critical risk and Mitigation factors	State the critical risks of this business and provide mitigation factors.
16	Regulatory compliance	<ul style="list-style-type: none"> - Does the client have clean CIB report? - Does the application fall within single obligor limit?

		<ul style="list-style-type: none"> - Does the application fall within large loan limit? - Does the client have NOC from relevant regulatory body?
17	Details of Credit Facilities proposed for approval	Details of credit facilities proposed with purpose, security, collateral, support and repayment sources.
18	Security/Collateral analysis	<ul style="list-style-type: none"> - State the security, collateral and support obtained for the credit proposal. - Need to mention the value of security as per latest financial statement.
19	Security/Collateral summary	Description of the security and collateral
20	Branch comments/recommendations	<p>Concluding comments from the branch's perspective of the transaction/facilities, credit quality and the business attractiveness:</p> <ul style="list-style-type: none"> - Financial strength - Earnings (actual and projected, account turnover and volume) - Satisfactory track record

		<ul style="list-style-type: none"> - Security/Collateral perspectives. - Business strength.
21	Final Recommendation	Address the type of facility, limit, purpose, pricing, expiry etc.
22	Issues/ Expectations and it's reflection/completion of loan documentation	<ul style="list-style-type: none"> - If there are any legal/charge document is yet to execute by the borrower. - Any required paper, clearance certificate. NOC/ license, approved plan by any recognized organization. - Bangladesh Bank auditors comment.

Table 1

8.1 Credit Appraisal: The bank elect right type of borrower based on few selection processes before appraising any credit facilities. The credit department is responsible for exercising expertise in management, structural, merchant, technological, socioeconomic and geographical purposes. In addition, an evaluation process goes through the bank to know the creditworthiness and credit risk rating of the debtor. Overall, the review includes credit proposal and purpose, business analysis of the debtor, industrial environment analysis, raw material supplier analysis and their targeted customer, financial history analysis of previous credit facilities, pre stated financial performance, and more. The client's collateral for the proposed loan must also be taken into account when deciding to grant credit. The bank grade the borrower by completing Internal Credit Risk Rating (ICRR). While the borrower applies for a big credit facility, bank take help from the External Credit Assessment Institute (ECA) to verify Basel-II-oriented credit ratings. The assessment is mainly made on the basis of information gathered from the borrower. In addition, CIB's market reports, account research, financial statements, online and personal interviews are also used as a source of information for decision making. In the case of corporate credits where the debtor is a group of companies, bank that perform loan measurement on a contracted or based of groups are referred to as "obligors". On the other hand, when the bank wants to issue syndicate loan, in addition to the lead bank, all participating banks also solely rely on their internal review, analysis and investigation of the denomination of the syndicated loan based on their unique and identical credit risk rating management. Based on the assessment, the credit department proposes a dossier to submit to the competent authority for approval, clearly stating the amount and type of loan to be lent, loan purpose, loan structure, security device etc.

9 Credit Risk Rating

Credit risk rating is a process based on a few scheduled terminologies that identifies credit risk for a certain level of credit risk. This type of risk ratings use an identical numerical number, alphabet or indication as the primary succinct indication of the risk affiliated with credit risk. Specifically, a credit score is an alphanumeric or alphanumeric symbol that indicates the risk in the lending relationship that the bank perceives. The bank evaluates the loan based on certain characteristics related to the borrower and the loan itself. An expressly operated credit risk rating system promotes the indemnity and credit recovery percentages of bank that contributes to making informed decisions. The appraisal system measures and provide an assumption of credit risk and distinguishes between individual credits and groups of credits based on the level of risk they present. This helps to take decision of the bank administration committee and auditors to monitor and if needed to make necessary changes and tendency in the level of risk. To manage credit risk and to optimize maximum profitability this process helps to do necessity by the bank authority or relevant committee. The risk rating matrix will allow uniform standards to be applied to credits to ensure a common standard approach to assessing the quality of individual debtors, the entity's credit portfolio or line of business. As evident, ICRR consequences refer to individual loan selection where the borrower or specific exposure/object is evaluated. Other decisions relate to specific aspects of pricing (loan extension) and additional credit availability. Ultimately it is considered as embedded of a debtor credit level analysis. Credit risk ratings will also align with monitoring and tracking, internal MIS, and a review of the bank's overall risk profile. It is also relevant for analysis at the portfolio level. Premier Bank Limited has an internal credit risk rating system. The method of credit risk measurement must identify the borrower's credit risk profile to ensure the managerial structure and evaluate the accountability, analogical risk measurement that are involved with credit risk. To weigh the bank's asset quality and essential rating measurement that robust processes of the bank's credit

risk rating. All facilities must be assigned a risk rating. When a risk deterioration is observed, the risk rating assigned to the borrower and the borrower's facilities should be revised immediately. The borrower's risk rating supposed to be clearly shown on the credit proposal. The Premier Bank Limited evaluates credit risk rating in two segments. One is Quantitative Factor another one is Qualitative Factor. Quantitative factor contains Capital adequacy, Asset quality, Earning quality, Liquidity and Capacity of external fund mobilization, Size of the bank and market presence. On the other hand, Qualitative factor contains Managerial part of the organization, Regulatory environment and Compliance, Risk management, Sensitivity to market risk, Ownership and Corporate governance, Accounting quality, Franchise value. Quantitative factor contains 60 points and Qualitative factor contains 40 points based on various questions by the Internal Credit Risk Management board of The Premier Bank Limited.

Number	Grading	Short	Score
1	Superior	SUP	Fully cash secured, secured by Government/International Bank Guarantee
2	Good	GD	85+
3	Acceptable	ACCPT	75-84
4	Marginal/Watchlist	MG/WL	65-74
5	Special Mention	SM	55-64
6	Substandard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & Loss	BL	<35

Figure 4

Source: Credit policy of The Premier Bank Limited.

9.1 Credit Approval

The sanctioning sanctions of branches in the month must be transferred to the Credit Department / Credit Risk Management Department, Head Office to consider the proposals as

well as the authority of the approval agency. Copies of appraisal sheets and sanctioning notices must be enclosed with the forms. The Internal Compliance and Control Department / Credit Risk Management Department, Head Office must review at least 10% of these approvals to assess the qualifications of the approval officer, policy compliance credit and quality improvements. To maintain a bank`s overall credit risk exposure within parameters set by management, the importance of a sound risk management structure is unparalleled. It is important that the organizational structure facilitates effective management supervision and proper implementation of the credit risk management and control process. One of the most important aspects of the risk management philosophy is to ensure that the people who accept or accept risks on behalf of the organization are not those who measure, monitor and evaluate risk. To ensure smooth and transparent credit operations, segregation of duties of credit-related activities, such as credit marketing, processing, approval, filing, disbursement, etc., should be independent of each other. Each branch has a branch credit committee consisting of the following members:

- Manager/HOB - Chairman.
- Deputy Manager - Member.
- In-Charge Credit Department - Member Secretary.

The branch manager is responsible for preparing credit applications with the help of credit officers of the branch. Credit applications must be submitted for approval by the branch management committee/RM team and forwarded to the approval team in the CRM and approved by individual executives. Alternatively, management may establish regional credit centers within the approval pool to handle routine approvals. The recommending or approving leader is responsible and accountable for his recommendations or approvals. The following diagram illustrates the approval process:

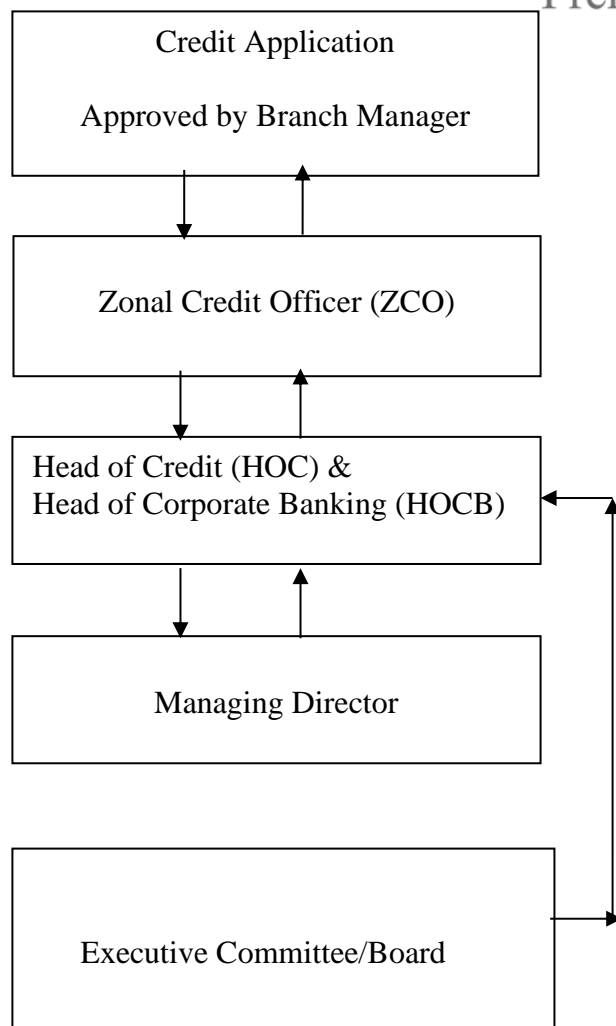


Figure 5

1. Initially, the request is forwarded to the head office for approval/rejection.
2. Then based on the decision (approved/rejected) according to the authority delegated by the recommended department. Sum up of a monthly call ZCO approvals is sent to Head of Credit at the same time Head of Corporate Banking to inform the any sanctions that were approved in the previous month on district offices. HOC must monitor 10% of Zonal Credit Officer's authorizations to ensure compliance with credit guidelines and bank policies.
3. ZCO assists and forwards to the Head of Corporate Banking (HOCB) or authorization for approval, and to the Chief Credit Officer (HOC) for further approval or recommendation.

4. The HOC notifies the decision according to the authority assigned to the ZCO.
5. HOC & HO CB support and transition to the General Director.
6. The Executive Director advises on appropriate decisions with the authority delegated to the HOC and HO CB.
7. The Managing Director submits the proposal to the EC / Board of Directors
8. EC/Board notifies of HOC & HO CB decision.

9.2 Credit Administration

The Credit Board ensures that the proper documents and approvals are made prior to disbursing any loan. Credit Administration procedures shall ensure the following. 9.2.1

9.2.1 Disbursement:

- Confidential documents supposed to be prepared with terms and consent and also legally binding in accordance. All approved credit reviewed by legal counsel and standard credit line documents. Exceptional cases directed to legal counsel with the monetarization of appropriate CRM staff based on the guideline.
- Disbursement by means of a loan can only be made when there are sufficient security documents. All procedures related to large loans and director loans will be guided by the Circular of the Bank of Bangladesh and the relevant section of

the Banking Enterprises Act. All credit approval conditions have been met. Disbursement checklist and documentation should be followed.

9.2.2 Custodial Duties:

- Loan disbursement and the preparation and storage of security documents should be centralized in regional credit centers.
- Appropriate insurance is maintained and timely renewed for the mortgaged property.
- Security documents are kept under strict control, preferably in a locked, fireproof warehouse.

9.2.3 Compliance Requirements:

- All returns requested by Bank of Bangladesh are sent in the correct format in a timely manner.
- Bangladesh Bank circulars/regulations are centrally kept and communicated to all relevant departments to ensure compliance.
- All third party service providers (valuators, attorneys, insurance companies, accountants, etc.) are approved and their operations are evaluated annually. Banks refer to the Bangladesh Bank Circular describing acceptable external audit firms.

9.3 Credit review, monitoring and recovery.

- To reduce loan losses, monitoring and systems are used that indicate an early deterioration of the borrower's financial condition. At a minimum, systems

should be in place to notify the appropriate CRM and RM team leaders of such exceptions:

- Past due principal or interest payments, past due commercial papers, account balances and breach of loan covenants;
- Terms and Conditions of Loan supposed to be monitored, financial activities from the borrower need to be collected on a regular basis, any exceptional activities need to be referred to the Credit Risk Management authority and Regional Manager for timely follow-up.
- Timely corrective actions are taken to address the findings of any internal, external or regulatory review/audit.

The computer system must be able to provide the above information for the head office as well as the local review. In the absence of an automated system, the manual process must be able to generate accurate exception reports. Exceptions are tracked and corrective action taken promptly before accounts deteriorate further. Refer to the early warning procedure as follows:

Early Alert Report

Borrower/Group:		Current Date:	
Branch:		Last Review Date:	
Total Limits:		Strategy: Hold / Reduce	
Total <u>Outstandings</u>:		/ Restructure / Exit	
Existing Risk Grade: _____		Proposed Risk Grade: _____	
Facility Details:			
<i>Limit</i>	<i>Purpose</i>	<i><u>Outstandings</u></i>	<i>Security</i>
Is Security Complete? Y / N		Externally Checked? Y / N	
<u>Details of any Deficiencies:</u>			
<u>Symptoms Requiring Early Alert Reporting:</u>			
_____ Industry Concerns		_____ Cash Flow Weakness	
_____ Ownership/management concerns		_____ Poor Account Conduct	
_____ Balance Sheet Weaknesses		_____ Expired limits/ pending docs.	
<u>Provide Details of Symptoms Indicated above:</u>			

Figure 6

Source: Sample copy of Bank’s Internal.

An early alert account is an account with potential risks or weaknesses of a material nature that should be monitored, monitored or brought to the attention of management. If these weaknesses are not corrected; they may result in the Bank's ability to repay its debts or its creditor position. Early identification, prompt notification, and proactive management of early warning accounts are the primary credit responsibility of all relationship managers and should be done on an ongoing basis. RM completed an earlier early warning report and sent it to the CRM approval authority for any accounts showing signs of deterioration within

seven days of identifying the vulnerability. Risk scores should be updated as soon as possible and without delay to refer problem accounts to CRM for remedial assistance. Despite a careful credit approval process, loans can still become a problem. Therefore, early identification and timely reporting of signs of credit deterioration is essential to ensure prompt action to protect the Bank's interests. Early warning symptoms are by no means exhaustive and therefore if there are other concerns, such as breach of loan agreements or adverse market rumors that warrant extra caution, they should be taken into account. issue an early warning report. In addition, The Premier Bank Limited maintains regular communication with its clients to increase its ability to develop mutually acceptable strategies for both the client and the Bank. The Bank's representation in these discussions should include local legal counsel, where applicable.

In conclusion, we can say that as one of the leading bank of Bangladesh, The Premier Bank Limited is sensitive enough before approval of any credit facilities and they can provide credit facility upto 85% of their deposit. In my point of view as recommendations the bank must need to increase their deposit and also they need to minimize poor earnings. Credit Management must focus on the trend of business and liquidity problems.

Chapter 4

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