

## INTERNSHIP REPORT ON

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**Analysis of Credit Department, Different Activities in Risk  
Management Division & Last Four Years Financial Performance  
(2009-2012) of Bank Asia Limited**

**Submitted To**

Ms. Tasneema Afrin  
Lecturer, BRAC Business School  
BRAC University

**Prepared By**

Md. Masudul Bari  
Old ID: 09304072  
New ID: 5889111826  
Summer-2013



BRAC Business School  
BRAC University  
Course ID: BUS400  
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## Letter of Transmittal

6<sup>th</sup> October, 2013

Ms. Tasneema Afrin

Lecturer

BRAC Business School

BRAC University

66, Mohakhali C/A

Dhaka-1212

### **Subject: Submission of Internship Report**

Dear Madam,

It is a great pleasure for me to submit the report on “Credit Department, Risk Management Division activities and last four years performance of Bank Asia Limited.” I am submitting this report as part of my internship in Bank Asia Limited. In writing this report, I have followed your instructions for report writing so as to present my views and understanding in the easiest way. However, I am very much happy for submitting the report to you at a right time.

The purpose of the report is based on my working experience in Bank Asia Limited and how the Risk Management Division and Credit Department operates at Bank Asia.

I will be glad if you kindly accept this report.

Thanking you

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Md. Masudul Bari

Old ID- 09304072

New ID- 5889111826

## Acknowledgement

First of all, I would like to express my deep gratitude to Almighty Allah for preparing this Internship Report.

I would like to thank **Md. Arfan Ali** Deputy Managing Director (DMD) for giving me the permission to do the internship at Corporate Branch of Bank Asia Limited. I also like to thank to my boss **Mohammad Rashidul Kabir Rajib**, Head of Risk Management Division for giving me the guidance through out the internship period and giving me the knowledge about his department as much as possible.

This Internship Report has been prepared as the part of BBA program under BRAC Business School Department of BRAC University. I would also like to thank Tasneema Afrin Madam for giving us her precious time and sincere guidance by pointing out the flows of my Internship Report and by providing me the right direction.

Last but not the least thanks goes to my parents for bearing the tension, frustration and all the hard work along with me through the entire BBA program.

## **Executive Summary**

This report aims toward providing an overview on Credit Department, Risk Management & Performance Analysis of Bank ASIA Ltd. While preparing this report it has been tried to reveal the insights of the Credit Department, Risk Management & Performance Analysis of the bank a few recommendations and suggestions were also prescribed based on the observation and findings.

The Bank Asia Ltd. is a private commercial bank which is operated by the Banking Companies Act 1991. It was established in 1999 with a view to providing financial assistance including all kinds of banking facilities to accelerate the pace of development to small industry of Bangladesh.

As a broad policy objective in respect of small industry financing the Bank undertakes the following tasks: extends financial assistance to small industries in private sector, financial assistance to micro-enterprises and collaborates with other institution engaged in financing and developing such enterprises.

The aim of this paper is to analyze Credit Department, Risk Management & Performance Analysis of Bank Asia Ltd. to make it more competitive in the banking industry with a view to how to counter the ensuing challenges in the industry as a consequence of changing global business nature and technological development. For this purpose, business philosophy, mission, objectives, activities and current strategies of Bank Asia Limited are analyzed at the initial stage. Finally, identifying the shortcomings of strategies Bank Asia is currently applying an attempt has been made to recommend the strategic options for Bank Asia to become more competitive in the banking industry.

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# **Chapter 1**

# **INTRODUCTION**

## **1.1 Origin of the Report**

Internship program is the most important period for a BBA student. The duration of internship program is 3 months, which carries a best learning process to know about the organization and cope up the environment in such a way like professional employees. The experience that got by an intern during the internship period will make them more smart and professional in their future job sector. I was started my internship at Bank Asia, Corporate Office, Paltan Branch from 8<sup>th</sup> May, 2013 and ended in 6<sup>th</sup> August, 2013. The internship report focuses on Risk Management Division and its activities of Bank Asia Limited.

## **1.2 Objective of the Report**

The objective of the study as follows:

### **i) Broad Objective**

The broad objective of the report is to know about the risk management division and what are the activities basically done by this department.

### **ii) Specific Objective**

- ✓ To develop knowledge about Risk Management Division of Bank Asia.
- ✓ To get knowledge about what are the models basically use by Risk Management Division while assessing different risks that arise in Bank Asia.
- ✓ To give some recommendations regarding the risk management division.

## **1.3 Scope of the Report**

This report has covered mainly the risk management division of Bank Asia Limited. In addition, the models that the risk management division uses for assessing different risks while arise those risks in Bank Asia. Finally, I tried to give some recommendations regarding the Credit Department & Risk management division in Bank Asia.

## 1.4 Methodology

During the internship period there is an excellent opportunity to have a clear idea about the risk management division & Credit Department and its functions in Bank Asia. How the risk management division operates and what are the risks mainly assessing by the department we can understand by collecting data from both primary and secondary sources.

- ✓ The primary sources are as follows face to face conversation with my boss.
- ✓ The secondary sources of data and information are:
  - a) Website of Bank Asia Ltd ( [www.bankasia-bd.com](http://www.bankasia-bd.com))
  - b) Annual Report of Bank Asia
  - c) Bangladesh Bank Circular ([www.bangladesh-bank.org](http://www.bangladesh-bank.org))

## 1.5 Limitations

There are certain limitations that I faced while doing this report as follows:

- ✓ From my point of view three months time period is too much short for preparing this report. But as far I got the information from Bank Asia, I tried to present it in the report.
- ✓ The organization maintains some confidentiality while giving information regarding their department. So I am trying to focus the limited factors and leaving out some other relevant factors.
- ✓ Due to rush banking hour it's quite difficult for me to collect the information from the respective person. So I am providing all those information that I got from my boss.

# **Chapter 2**

# **ORGANIZATION**

# **OVERVIEW**

## 2.1 Introduction

Bank Asia has been launched by a group of successful entrepreneurs with recognized standing in the society. The management of the Bank consists of a team led by senior bankers with decades of experience in national and international markets. The senior management team is ably supported by a group of professionals many of whom have exposure in the international market.

It set milestone by acquiring the business operations of the Bank of Nova Scotia in Dhaka, first in the banking history of Bangladesh. It again repeated the performance by acquiring the Bangladesh operations of Muslim Commercial Bank Ltd. (MCB), a Pakistani bank.

In the year 2003 the Bank again came to the limelight with oversubscription of the Initial Public Offering of the shares of the Bank, which was a record (55 times) in our capital market's history and its shares commands respectable premium.

The asset and liability growth has been remarkable. Bank Asia has been actively participating in the local money market as well as foreign currency market without exposing the Bank to vulnerable positions. The Bank's investment in Treasury Bills and other securities went up noticeably opening up opportunities for enhancing income in the context of a regime of gradual interest rate decline.

Bank Asia Limited started its service with a vision to serve people with modern and innovative banking products and services at affordable charge. Being parallel to the cutting edge technology the Bank is offering online banking with added delivery channels like ATM, Tele-banking, SMS and Net Banking. And as part of the bank's commitment to provide all modern and value added banking service in keeping with the very best standard in a globalize world.

## 2.2 History

Bank Asia started its journey on November 27, 1999 with an aim to be fully customer focused through rendering technology driven innovative products and services. The Bank obtained Certificate of Incorporation and Certificate of Commencement of Business on September 28, 1999 and banking license on October 06, 1999. Subsequently the Bank was listed with Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) on January 06, 2004. Since inception Bank Asia is working efficiently and achieving a strong prominent position in banking sector. By this time Bank Asia has consolidated its strength manifold through extending its business rapidly while ensuring sustainable growth. Bank Asia started its most cherished Islamic banking operation in 2008 for providing strict Shariah based products. It established its 1st subsidiary company named “Bank Asia Securities Limited” on March 16, 2011 and another subsidiary company “BA Exchange Company (UK) Limited” in United Kingdom in the same year. Now the Bank is rendering services through its 86 Branches, 5 Islamic Windows, 6 SME Service Centers, 1 Off-shore Banking Unit, and 2 Subsidiary companies.

## 2.3 Vision

Bank Asia’s vision is to have a poverty free Bangladesh in course of a generation in the new millennium, reflecting the national dream. Our vision is to build a society where human dignity and human rights receive the highest consideration along with reduction of poverty.

## 2.4 Mission

- ✓ To assist in bringing high quality service to our customers and to participate in the growth and expansion of our national economy.
- ✓ To set high standards of integrity and bring total satisfaction to our clients, shareholders and employees.
- ✓ To become the most sought after Bank in the country, rendering technology driven innovative services by our dedicated team of professionals.

## 2.5 Core Values

- ✓ Place customer interest and satisfaction as first priority and provide customized banking products and services.
- ✓ Value addition to the stakeholders through attaining excellence in banking operation.
- ✓ Maintain high ethical standard and transparency in dealings.
- ✓ Be a compliant institution through adhering to all regulatory requirements.
- ✓ Contribute significantly for the betterment of society.
- ✓ Ensure higher degree of motivation and dignified working environment for our human capital and respect optimal work-life balance.
- ✓ Committed to protect the environment and go green.

## 2.6 Corporate Objectives

Bank Asia's objectives are reflected in the following areas:

- ✓ Highly personalized service.
- ✓ Customer-driven focus.
- ✓ Total commitment to quality.
- ✓ Contribution in the economy.
- ✓ Quality of human resources.
- ✓ Commitment to its clients at each level.

## 2.7 Slogan of Bank Asia Limited

For a better tomorrow does not have to confined with the limited service rather enhanced existing service and brought up new services in order to their existing and potential clients for made the life more easier.

## 2.8 Product/Service Offerings

### i) Business Banking

- ✓ Overdraft
- ✓ Secured Overdraft
- ✓ Secured OD (Earnest Money)
- ✓ Working capital finance
- ✓ Loan against Trust Receipt
- ✓ Loan against Cash Incentives
- ✓ Bill discounting
- ✓ Loan Syndication and structured Finance
- ✓ Packing Credit
- ✓ Demand Loan
- ✓ Demand Loan (work order)
- ✓ Time Loan
- ✓ Transport Loan
- ✓ House Building Loan
- ✓ Term loan
- ✓ Lease Finance
- ✓ Letter of Guarantee
- ✓ Letter of Credit
- ✓ Back to back Letter of Credit

### ii) Small and Medium Enterprise (SME)

#### a) Term Loan

- ✓ Subidha -Unsecured Trading
- ✓ Sondhi -Secured Trading
- ✓ Sristi – Unsecured Manufacturing
- ✓ Shombridhi- Secured Manufacturing
- ✓ Shofol – Unsecured Service
- ✓ Sheba- Secured Service



**b) Over Draft**

- ✓ Somadhan – Secured

**c) Special Products**

- ✓ Utshob- Seasonal Business
- ✓ Subarno- Women Entrepreneur

**iii) Consumer Finance**

- ✓ Auto Loan
- ✓ Consumer Durable Loan
- ✓ Unsecured Personal Loan
- ✓ House Finance
- ✓ Loan for Professionals
- ✓ Senior Citizen Support

**iv) Credit Card**

- ✓ MasterCard Local Credit Card
- ✓ VISA Dual Currency Credit Card
- ✓ VISA Local Credit Card
- ✓ VISA Butterfly Credit Card
- ✓ VISA Mini Credit Card
- ✓ VISA International Card against RFCD, RQ A/C
- ✓ Virtual Card
- ✓ SME Credit Card
- ✓ NBFi Card Cheque
- ✓ International Prepaid Hajj Card

## **v) Treasury**

### **a) Money Market**

- ✓ Overnight Call
- ✓ Repo and Reverse Repo
- ✓ Swap
- ✓ Sale and Purchase of Treasury Bill & Bond
- ✓ Term Placement
- ✓ Term Borrowing

### **b) Foreign Exchange Market**

- ✓ Spot
- ✓ Forward
- ✓ Interbank Buy / Sale

## **vi) Deposit Accounts**

- ✓ Saving Account
- ✓ Current Account
- ✓ Short Notice Deposit
- ✓ Fixed Term Deposit
- ✓ Foreign Currency Account
- ✓ Deposit Pension Scheme
- ✓ Monthly Benefit Scheme
- ✓ Double Benefit Scheme
- ✓ Triple Benefit Scheme
- ✓ Bank Asia Sanchoy Plus

## **vii) Islamic Banking**

### **a) Deposit Products**

- ✓ Al-Wadiah Current Account (AWCA)
- ✓ Mudaraba Savings Account (MSA)
- ✓ Mudaraba Special Notice Deposit Account (MSNDA)
- ✓ Mudaraba Term Deposit Account (MTDA) of different
- ✓ Tenure
- ✓ Mudaraba Hajj Savings Scheme (MHSS)
- ✓ Mudaraba Deposit Pension Scheme (MDPS)
- ✓ Mudaraba Monthly Profit Paying Deposit Scheme (MMPPDS)
- ✓ Smart Junior Saver (SJS)

### **b) Investment Products**

- ✓ Bai Murabaha Muajjal
- ✓ Hire Purchase Shirkatul Melk (HPSM)
- ✓ Musharaka
- ✓ Quard against Accepted Bills

## **viii) Service Products**

- ✓ ATM Services
- ✓ Remittance Service
- ✓ Locker Service
- ✓ Online Banking
- ✓ Internet Banking
- ✓ Phone Banking
- ✓ Mobile Banking
- ✓ Remote Banking (EBEK)
- ✓ SWIFT
- ✓ Centralized Trade Services
- ✓ Student File
- ✓ Travellers' Cheque

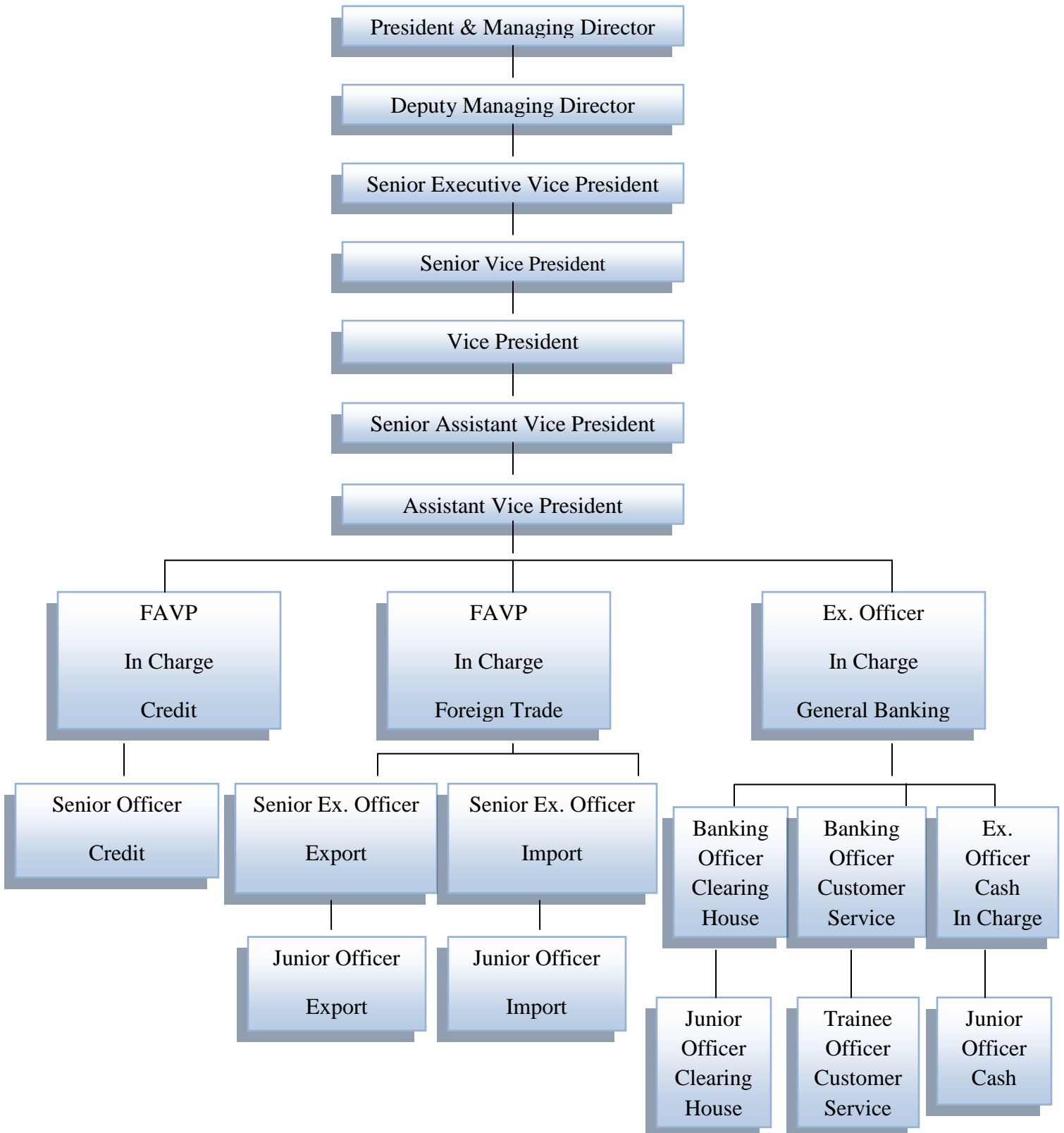
### **ix) Off-shore Banking Unit (OBU) Products**

- ✓ On-shore Bill Discounting through OBU
- ✓ Bill Discounting
- ✓ Capital Finance
- ✓ Working Capital Finance
- ✓ Trade Finance
- ✓ On-shore Export Bill Discounting

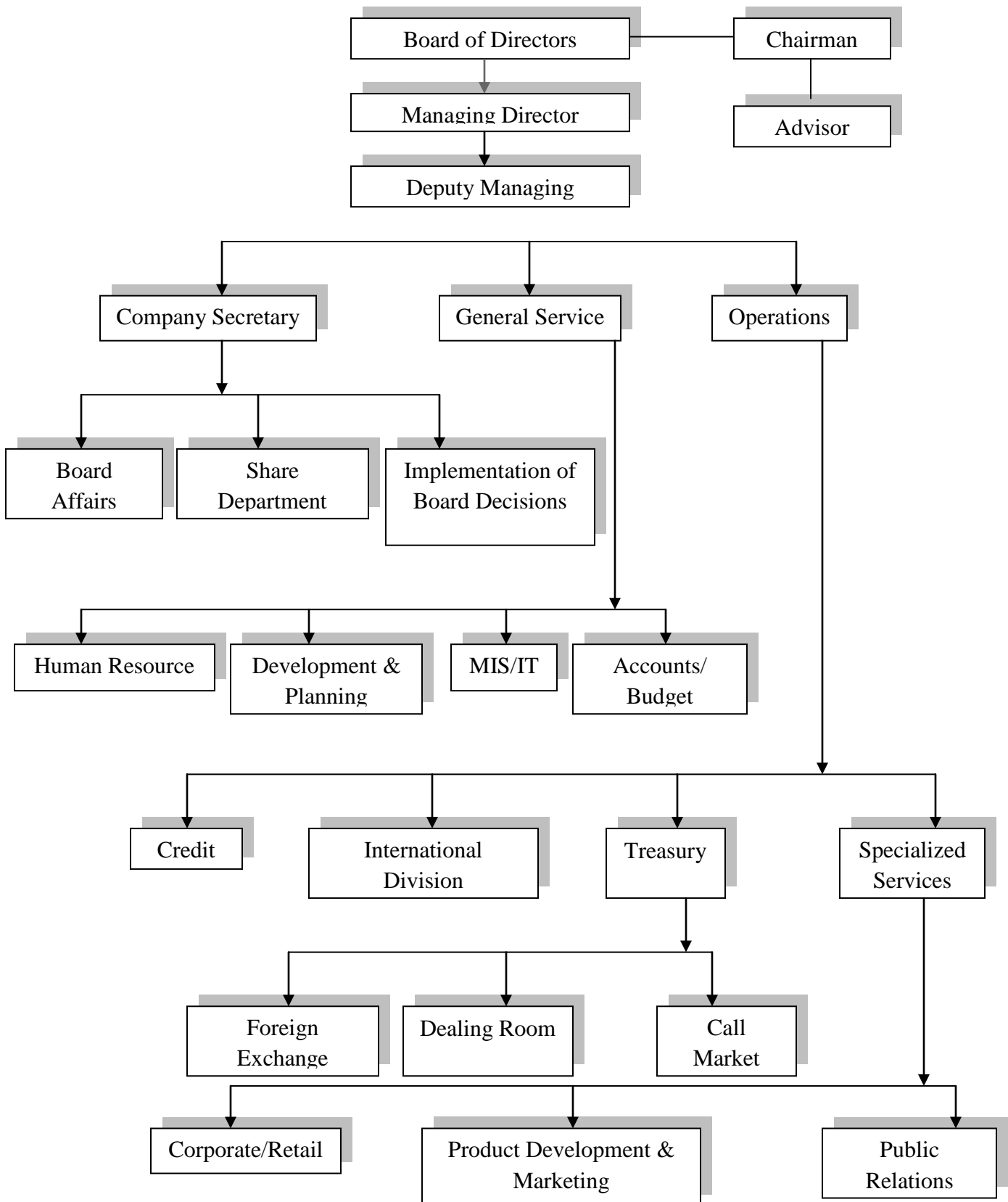
### **x) Capital Market Operation**

- ✓ Brokerage Operation
- ✓ Margin Loan

## 2.9 Overall Organogram of Bank Asia Ltd



## 2.10 Structure of the Corporate Office



## 2.11 Corporate Information

Certificate of Incorporation	28/09/1999
Certificate of Commencement of Business	28/09/1999
Banking License Received	06/10/1999
First Branch License Received	31/10/1999
Inauguration of Bank	27/11/1999
Date of IPO Subscription	23-24/09/2003
Letter of Intent Received	24/02/1999
Number of Promoters	22
Number of Directors	14
Number of Branches	73
Number of SME Service Centers	10
Number of Agricultural/SME Branch	4
Number of Brokerage Branches	5
Number of Islamic Banking Wing	5
Number of ATM Booths	Own: 48, Shared: 240
Number of Employee Till December, 2012	1485
Number of Foreign Correspondents Till December, 2012	776
Deposits as 31/12/2012	110,061.78 million
Advance as 31/12/2012	92,328.82 million
Import as 31/12/2012	106,746.15 million
Export as 31/12/2012	66,478.34 million
Remittance as 31/12/2012	32,110.10 million
Total Assets at the end of 2012	140,361.37 million
Credit Rating Status	AA2- Long Term ST-1- Short Term
Number of Shareholders at the end of 2012	17,161
Commenced Operation of Off-Shore Banking	28/01/2008
Commenced Operation of Islamic Banking	24/12/2008
Commenced Operation of Capital Market Division	05/08/2009

# **Chapter 3**

## **JOB PART**



I started my internship program at Bank Asia Limited, Corporate Office from 8th May of 2013 and it ended up at 6th August of 2013. Through out this time I have got the opportunity to work with different department of Bank Asia Limited.

### 3.1 Nature of the Job

I was started my internship under risk management division. When the division appointed me that time they took a project, which is called “Sector and Sub Sector Marking.” This is the initial stage of the project. Here first of all, I wrote the sector code on the portfolio files and also input in the database. The sector code basically provide by Bangladesh Bank which is need to follow mandatory. There had a reason to put the sector code on the portfolios. The main reason is to identify the business nature of a particular portfolio. Every business sector has its own code. So when the bank see the code than it become easy to identify that portfolio and can easily understand that the portfolio belongs from which sector? As we know that there are various business sectors in Bangladesh. So Bangladesh Bank formed a code of different sectors and on the basis of that I had to input the sector code of different portfolios of Bank Asia Limited. Throughout my internship period I checked the portfolios of four departments of Bank Asia Limited. The four departments were-

<b>Department Name</b>	
	<ol style="list-style-type: none"><li>1. Credit Risk Management Department (CRM)</li><li>2. Small and Medium Enterprise Department (SME)</li><li>3. Customer and Client Origination Department (CACO)</li><li>4. Consumer and Credit Department (CCD)</li></ol>

### 3.2 Specific Responsibilities

- ✓ I did work in various departments of Bank Asia Limited, Corporate Office. Under the Risk Management Division my main responsibilities were to review the available portfolios files of different departments in Bank Asia Limited. All the branches of Bank Asia Limited portfolios were available in the corporate office. I checked all the portfolios and marked the sector code on the portfolios and also put that sector code in the computer.

- ✓ In addition, everyday I checked the Bangladesh Bank circular. My supervisor told me to check the website regularly and if there any new circular published than I had to report it on the next day.
- ✓ Before starting the banking hour everyday I read **Financial Express** newspaper and if there had any news published regarding the bank related than I also report it to my boss.
- ✓ Summarize the bank related circular which was published by Bangladesh Bank and prepared slides on the basis of that summary. After that my boss took that slides from me and presented it towards the board meeting.

### 3.3 Different Aspects of Job Performance

I think that to do internship at Bank Asia Limited is a great opportunity for me because I worked in four departments and to see the portfolios of different branches of Bank Asia Limited. I worked under Risk Management Division and that's why I got easily access in different departments and the employees also helped me all the time. Interns are not allowed to see the portfolio documents without the permission of the employees. But I got that accessibility to review the files and see all the confidential documents. When I entered as an intern than my boss gave a full brief about the project and gave a fixed time to sort out all the portfolios of different departments. I reviewed the files of four departments and finally, I completed my job within the time and my accuracy was making pleased my boss **Mohammad Rashidul Kabir Rajib**, Head of Risk Management Division.

### 3.4 Critical Observation and Recommendation

Working at Bank Asia Limited, Corporate Office was a great experience for me. I have learnt many things through out my internship period. From my little knowledge what I have observed and some recommendations are as follows:

- ✓ Work environment is very friendly and employees are ready to help all the time.
- ✓ At Risk Management Division there have huge work pressure and manpower is also low. So the division can increase their workforce and share the work together.
- ✓ A good chain of command is always followed.
- ✓ To increase the rate of Work they need faster computer with user friendly operating system.

# **Chapter-4**

# **PROJECT PART**

## 4.1 Introduction

Bank Asia is one of the recognized private commercial bank in Bangladesh within a short period of time after its operations began it has created an image in the banking sector in spite of existing numerous rivals. From the beginning till now Bank Asia is strongly committed to provide a better quality service to the customer and at a time the authority is providing an excellent facility to the employees. Here at Bank Asia I started my internship from the 8<sup>th</sup> of May. This is the first time I am working in a professional environment, and I didn't find it difficult to adjust. Through this internship program I have got to learn a lot in the banking sector, about the professional life, etc. The Bank contains three departments at a time.

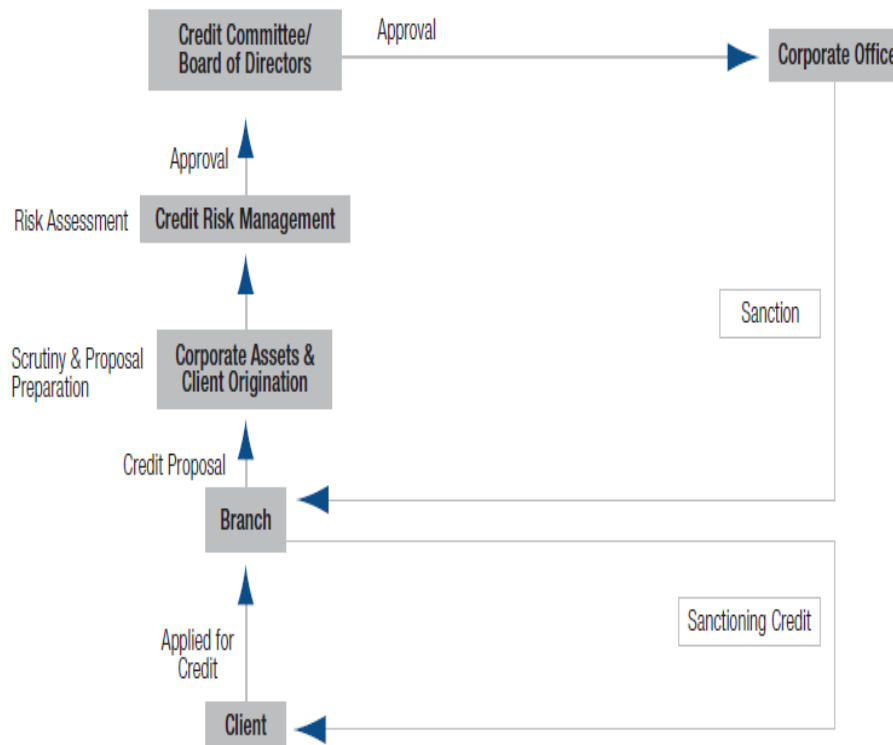
- ✓ General banking
- ✓ Credit department
- ✓ Foreign exchange

## 4.2 Credit Department

Bank's basic work is to create a channel through depositing money from the surplus unit and provide funding to borrowers with productive investment opportunities. Thus the necessity of credit and loan department in bank occurs. Credit is the most important department of a bank. The money mobilized from ultimate surplus units are allocated through this department to the ultimate deficit unit (borrower). The success of this department keeps a great influence over the profit of a bank. Failure of this department may lead the bank to huge losses or even to bankruptcy.

The Bank implemented the system of credit risk assessment and lending procedures by stricter separation of responsibilities between risk assessment, lending decisions and monitoring functions to improve the quality and soundness of loan portfolio. The Bank recorded an 11.48% growth in advances with a total loans and advances portfolio of BDT 92,329 million at the end of December 2012 compared to BDT 82,820 million at the end of December 2011.

## Credit Approval System of Bank Asia



### 4.3 Responsibilities of Credit Risk Management Department

- ✓ Review and analysis of credit proposals, sent by the branches and ensuring that all the elements of the credit application, analysis, statement, reports are obtained and in order.
- ✓ Assessing the Credit Risk Grading (CRG) in order to determine whether to lend or not to lend.
- ✓ Preparation of credit proposal using the prescribed format for placing the same before the Credit Committee of the Board/Board of Directors for approval and communicate the decision to the concerned branches.
- ✓ To provide advice/assistance regarding all credit matters to Relationship Management.
- ✓ To ensure that credit officers/executives have adequate experience and/or training in order to carry out job duties effectively.

- ✓ Oversight of the Bank's credit policies, procedures and control relating to all credit risks.

#### **4.4 Credit Administration Department**

- ✓ To ensure that all security documentation complies with the terms of approval and is enforceable.
- ✓ To monitor insurance coverage with a view to ensure appropriate coverage is in place over assets pledged as collateral, and is properly assigned to the bank.
- ✓ To control loan disbursement only after all terms and condition of the approval have been met, and all security documentation is in place.
- ✓ To monitor borrower's compliance with covenants and agreed terms and conditions, and general monitoring of account conduct/performance.
- ✓ Past due principal or interest payments, past due trade bills, account excesses and breach of loan covenants and covenants breaches or exceptions are referred to CRM Department and the concerned branch for timely follow-up.
- ✓ Ensure accurate & timely submission of returns of Corporate Office and Bangladesh Bank.

#### **4.5 Legal & Recovery Department**

- ✓ Directly manage all Substandard, Doubtful & Bad and Loss accounts to maximize recovery.
- ✓ Determine Account Action Plan/Recovery Strategy.
- ✓ Pursue all options to maximize recovery.
- ✓ Ensure that adequate and timely loan provisions are made based on actual and expected losses.
- ✓ Maintain liaison with the Bank's lawyers and follow up the suit for filed cases regularly for early settlement towards recovery of Bank's dues.
- ✓ Reviews of Grade 6 or worse accounts on regular basis.

## 4.6 General Policy Guidelines

The following general policy guidelines govern the implementation of the business strategy of Bank Asia with respect to credit risk:

1. Bank Asia makes loan only to eligible and reputable clients who are involved in legitimate business activities and whose income and wealth are derived from legitimate sources.
2. Bank Asia encourages lending to society desirable, nationally, important and financially viable sectors and will not lend for unproductive purposes or socially undesired projects.
3. At all times a policy of “know your customer” must be foremost in the credit application processing.
4. Bank Asia extends credit in its discretion, only to qualified borrowers where the amount and intended purpose or use of proceeds are clear and legitimate and where the amount and use of funds is reasonable in the context of what is known about the particular client and the intended use or purpose.
5. Bank Asia requires that borrowers have a source of repayment established at the inception of the credit, and that any exception must be specifically addressed in the approval of credit. There should be identified, whenever possible, a secondary source of repayment. As with any funds received, any and all repayment sources must be legitimate and consistent with what is known and documented about client. Borrowers must provide, and the credit approval package must contain, sufficient information on the borrower, business, & industry to approve the extension of credit. Satisfactory security and collateral is required as appropriate.
6. Bank Asia discourages clients with relatively low or no funds of their own i.e. highly leveraged clients, as clients with a relatively high ratio of borrowed to own funds tend to face liquidity problems, with adverse repercussions on their ability to service their obligations.

## **4.7 General Procedure for Loans and Advances**

Bank Asia limited follows the general procedure for giving loans and advances as the guideline given by Bangladesh Bank. The general lending procedure is given below:

### **i) First Information Sheet (FIS)**

First information sheet (FIS) is the prescribed form provided by the respective branch that contains basic information of the borrower. It contains following particulars.

1. Name of the concern with its factory location, office address and telephone number.
2. Name of the main sponsors with their educational qualification
3. Business experience of the sponsors, details of past and present business, its achievement and failures, name of all the concerns wherein the sponsors have involvement.
4. Income tax registration no. With the amount of tax paid for the last three years.
5. Details of unencumbered assets (movable & immovable) personally owned by the sponsors.
6. Details of liabilities with other banks and financial institutions including securities held there against.
7. Purpose of loan sought from Bank Asia Limited.
8. Estimated cost of the project & means of finance.

### **ii) Application for Credit Line**

After receiving the first information sheet from the borrower Bank official verifies all the information carefully. He also checks the account maintains by the borrower with the Bank. If the official become satisfied then he gives application to the bank prescribe format supplied by the bank called Credit for request limit.



### iii) Credit Sanction & Appraisal Process

Borrowers Credit Worthiness Analysis by Bank Asia Limited following 6 “C”s:

The question that must be dealt with before any other whether or not the customer can service the loan that is pay out the loan when due with a comfortable margin of error. This usually involves a detailed study of six aspects of the loan application: character, capacity, cash, collateral, conditions and control. All must be satisfied for the loan to be a good one from the lender’s (Bank Asia Limited) point of view.

1. **Character:** The loan officer must be convinced that the customer has a well defined purpose for requesting credit and a serious intention to pay. Responsibility, truthfulness, clean past record, true purpose and honest intention to repay the loan make up what a loan officer calls character.
2. **Capacity:** The customer requesting credit must have the authority to request such and the legal standing to sign a binding loan agreement.
3. **Cash:** The borrower should have the ability to generate enough cash flow to repay the loan. This cash flow can be generated from sales or income from the sales or income, from the sale of liquidation of assets or funds raised through debt or equity securities.
4. **Collateral:** The borrower must possess adequate net worth or enough quality assets to provide adequate support for the loan. The value of the collateral security must cover the loan exposure.
5. **Conditions:** The recent trend of borrower’s line of work or industry must be taken into considerations by the lender.
6. **Control:** The lender should be careful about whether changes in law regulation could adversely affect the borrower and whether loan request meets the Bank’s and regulatory authority’s standards for loan quality.

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

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

#### **v) Making Credit Proposal (CP)**

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

#### **vi) Credit Assessment**

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

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

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

In addition, the following risk areas are analyzed:

- ✓ Borrower analysis
- ✓ Industry analysis
- ✓ Supplier/ Buyer analysis
- ✓ Historical financial analysis
- ✓ Projected financial performance
- ✓ Account conduct
- ✓ Loan structure
- ✓ Security

## **vii) Risk Grading**

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

## **viii) Project Appraisal**

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

1. To justify the soundness of an investment
2. To ensure repayment of bank finance
3. To achieve organizational goals
4. To recommend if the project is not designed properly

## **ix) Head Office Approval**

The respective officer of Head Office appraises the project by preparing a summary named “Top Sheet” or “Executive Summary”. Then he sends it to the Head Office Credit Committee (HOCC) for the approval of the loan. The Head Office Credit Committee (HOCC) considers the proposal and takes decision whether to approve the loan or not. If the loan is approved by the HOCC, the HO sends the approval to the concerned branch with some conditions. These are like.

1. All other terms and conditions, as per policy and practice of the bank for such advance to safeguard the banker’s interest shall also be applicable for this sanction also.
2. Branch shall not exceed the sanctioned limit.
3. Required charge documents with duly stamped should be obtained.
4. Drawing shall be allowed only after completion of mortgage formalities and other security arrangement.

## **x) Sanction Letter**

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

## **xi) Documentation of Loans and Advances**

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

## **xii) Disbursement**

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

## **xiii) Follow-up**

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

- ✓ Constant supervision
- ✓ Working capital assessment
- ✓ Stock report analysis.

## **xiv) Loan classifications**

### **Classifications Scale**

1. **Unclassified:** Repayment is regular
2. **Substandard:** Repayment is irregular or stopped but has reasonable prospect of improvement.
3. **Doubtful Debt:** Unlikely to be repaid but special collection efforts may result in partial recovery.
4. **Bad/loss:** Very little chance of recovery

## **xv) Credit Monitoring**

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

To minimize credit losses, monitoring procedures and systems should be in places that provide an early indication of the deteriorating financial health of a borrower. At a minimum, systems

should be in place to report the following exceptions to relevant executives in CRM and RM team:

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

All borrower relationships/loan facilities are reviewed and approved through the submission of a Credit Application at least annually. Two possible solutions to minimize the credit loss:

#### **a) Early Alert Process**

Despite a prudent credit approval process, loans may still become troubled. Therefore, it is essential that early identification and prompt reporting of deteriorating credit signs be done to ensure swift action to protect the Bank's interest.

#### **b) Credit Recovery**

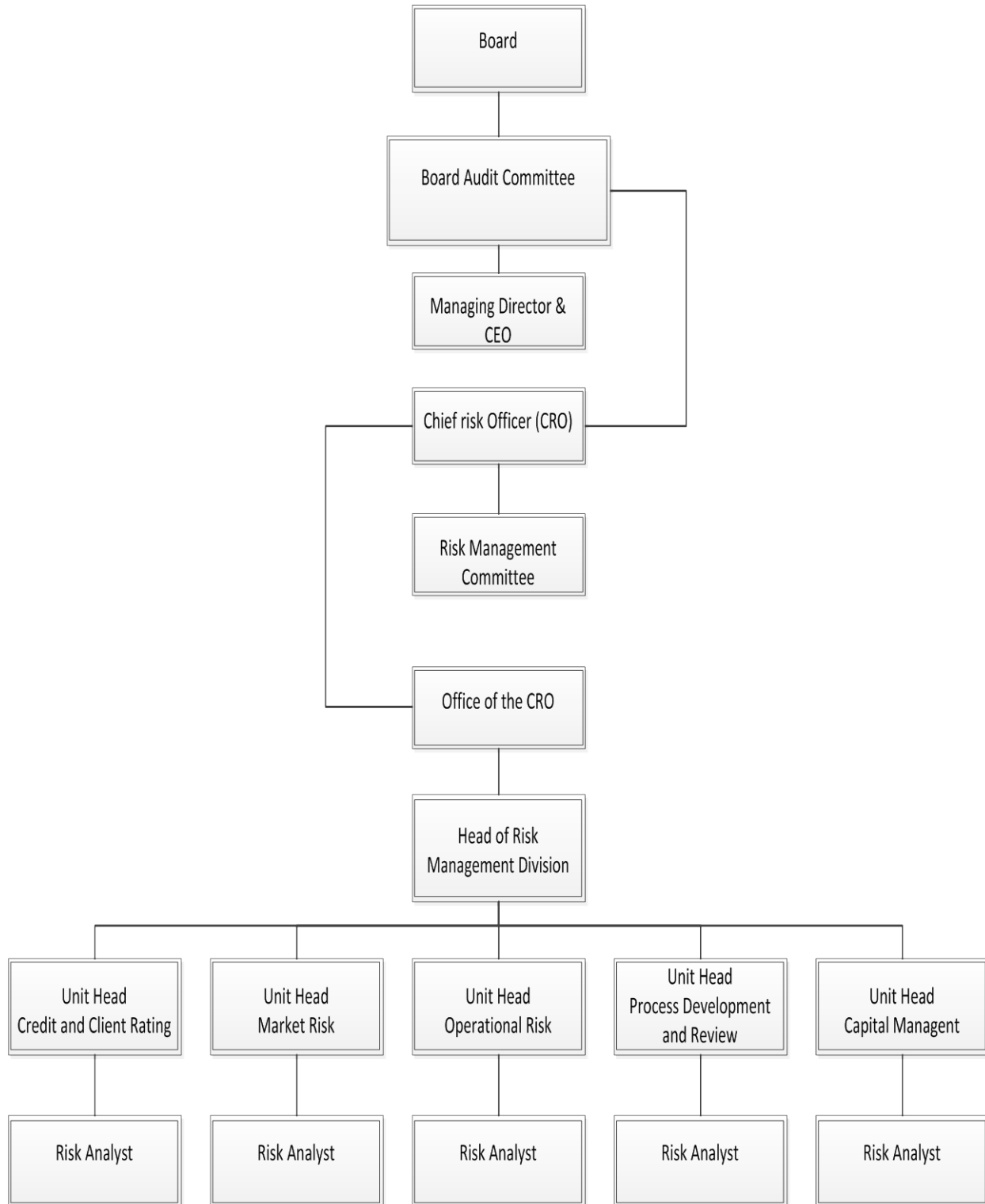
Commercial Banks sanction loan to different categories of borrowers for various purposes. Before sanctioning of loans and advances (short term loan, long term loan) bank appraises a loan proposal and analyze information relating to the borrower and purpose of the loan to determine viability of the loan proposal. If the proposal is found viable and safe for lending, loan is sanctioned and disbursed.

At the time of sanctioning loan, along with all other terms and conditions repayment period and installment is fixed. Recovery of loan starts just after the maturity of grace period. But more exhaustive appraisal of the loan proposal in the pre-sanction stage is not the guarantee to recover the loan money with interest unless a built in system of supervision & follow up is applied and proper treatment is given as and when problem arises.

## **4.8 Risk Management Division**

Risk Management Division is one of the core & sensitive division of any bank. The core responsibilities of risk management division includes analysis of relevant aspects of the bank to identify possible risk, assessment of level of severity of identified risk, recommend and ensure implementation of control mechanism and reporting of risk status to board of directors, senior management & respective risk committees. The captioned division is also responsible ensured that capital is allocated adequately based on the actual/ presumed risk exposure. I think risk management is important for every bank and also the process or techniques of mitigation of those risks are also necessary. In this report I will try to focus on the main risks associated with every sectors or division in Bank Asia and also the risk management models, formulas of those models, interpretation of those formulas in excel sheets and also many more things which I have learned from this division. For these purposes I have choose this topic for my internship report.

## 4.9 Structure of the Risk Management Division





## 4.10 Activities of RMD

### 1. Stress Testing

‘A simulation technique used on asset and liability portfolios to determine their reactions to different financial situations. Stress tests are also used to gauge how certain stressors will affect a company or industry. They are usually computer-generated simulation models that test hypothetical scenarios. This is also known as a "stress test".

Investopedia explains ‘Stress testing is a useful method for determining how a portfolio will fare during a period of financial crisis. The Monte Carlo simulation is one of the most widely used methods of stress testing. A stress test is also used to evaluate the strength of institutions. For example, the Treasury Department could run stress tests on banks to determine their financial condition. Banks often run these tests on themselves. Changing factors could include interest rates, lending requirements or unemployment.

#### i) Reasons of Stress Testing

**Stress testing** (sometimes called **torture testing**) is a form of deliberately intense or thorough testing used to determine the stability of a given system or entity. It involves testing beyond normal operational capacity, often to a breaking point, in order to observe the results. Reasons can include:

- ✓ To determine breaking points or safe usage limits
- ✓ To determine modes of failure (how exactly a system fails)
- ✓ To test stable operation of a part or system outside standard usage

#### ii) Methods of Stress Testing

The following methods can be employed for measuring the impact of the above factors in an SRP context:

- a) Simple sensitivity tests determine the short-term sensitivity to a single risk factor,

b) Scenario analyses involve risk parameters (with low but positive probability)

### iii) Risk Factors of Stress Testing

Following different risk factors can be identified and used for the stress testing

- a) Interest rate,
- b) Forced sale value of collateral,
- c) Non-performing loans (NPLs),
- d) Share prices,
- e) Foreign exchange rate and
- f) Liquidity

### iv) Hypothetical Scenarios of Stress Testing

- a) **Minor level shocks:** These represent small shocks to the risk factors. The level for different risk factors can, however, vary.
- b) **Moderate level shocks:** It envisages medium level of shocks and the level is defined in each risk factor separately.
- c) **Major level shocks:** It involves big shocks to all the risk factors and is also defined separately for each risk factor.

## 4.11 Basic Risks of Bank Asia Ltd

There are some crucial risks associated with Bank Asia. According to the “First pillar” of “Basel-1” the “Core Risks” of the bank are –

- ✓ Credit Risk.
- ✓ Operational Risk.
- ✓ Market Risk.

There is also a practice of Basel-2 implication of “Bank Asia’ according to the guideline of “Bangladesh Bank” which is called “The Supervisory Review Process (SRP)”. According to the second pillar of Basel 2 the main risk of “Bank Asia” are-

- ✓ Systematic Risk.
- ✓ Concentration Risk.
- ✓ Strategic Risk.
- ✓ Reputational Risk.
- ✓ Pension Risk.
- ✓ Reputational Risk.
- ✓ Liquidity Risk.
- ✓ Legal Risk.

Basically I have worked here for particular risks associated with Bank Asia. For Pillar 1, I worked in Bank Asia for Credit Risk Management, Market Risk Management, & Operational Risk. & For Pillar 2 mainly I worked for implementation of concentration risk. The main area of risks in which I have worked & learn many things regarding risk management is as follows:

## **4.12 Credit Risk**

At the very beginning of joining this bank at first I have to work in “Credit Risk Management Division” There I have learned a lot of things regarding Credit Risk Management. How they give loan to the customer. Basically I was there for sector code allocation of CRM files. And there I have to look after more than 1000 files along with the help of another three interns from different universities. So I must have to know about the procedure of CRM’s regarding giving the loan and the process of avers the risks. The approval process of loan in credit risk management division shows in the credit department.

## 4.13 Market & Liquidity Risk

### i) Definition of 'Value at Risk

VaR A statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame. Value at risk is used by risk managers in order to measure and control the level of risk which the firm undertakes. The risk manager's job is to ensure that risks are not taken beyond the level at which the firm can absorb the losses of a probable worst outcome.

Investopedia explains 'Value at Risk - VaR' Value at Risk is measured in three variables: the amount of potential loss, the probability of that amount of loss, and the time frame. For example, a financial firm may determine that it has a 5% one month value at risk of \$100 million. This means that there is a 5% chance that the firm could lose more than \$100 million in any given month.

### ii) The Calculation of VAR Requires a Number of Inputs

- ✓ Market value of the position
- ✓ Daily volatility of the currencies
- ✓ Holding period
- ✓ Level of confidence

#### a) Market Value of Position

The market value of position, expressed in US Dollars, is the base Point from which expected losses are calculated. In other words, adding or Subtracting (depending on whether the position is long or short) the VAR on a position to the market value will give the worst probable market value of the position.

## **b) Daily Volatility**

Foreign Exchange volatility is calculated from the daily movements in the foreign exchange rate over a specified historic time period. A key assumption in the calculation of historic volatility is that recent events play a more significant role in determining likely rate movements in the future than events, say that took place a year ago. As a result, recent rate movements are usually given higher weight age in the calculation of volatility. An Alternative method commonly used in the market is to limit the historic period used to calculate volatility, and not apply any weighting. A third method is to use implied volatility i.e. the actual volatility traded in the Market.

## **c) Holding Period**

The holding period for VAR refers to the liquidity of the position i.e. how long it will take to liquidate the position in terms of number of trading days. The majority of positions (regardless of size) in freely floating currencies should be able to be liquidated within a twenty-four hour period.

## **d) Level of Confidence**

The level of confidence selected determines the probability and Frequency that there will be a rate movement in excess of the predicted (i.e. VAR) amount.

Market volatility is quoted to one standard deviation, thereby inferring that once in every five trading days the calculated worst probable loss will be exceeded. At two standard deviations, this raised to one in every forty trading days. At three standard deviations this is increased to once in every two hundred days.

### iii) Calculation Foreign Exchange VAR

#### Gross VAR

Gross VAR is calculated as follows, using the inputs discussed above:

Gross VAR = Market value of the position \* Daily Volatility \* Level of confidence \* Holding Period.

### 4.14 Concentration Risk

I have learned here about the concentration risk of Bank Asia Ltd. Typically the Bank is using HHI Index to evaluate the concentration risk. But recently Bangladesh Bank Introduce or want to implement that every bank must have to use another three indexes to evaluate the concentration risk. This risk is very essential for banks regarding their concentration about the sectors in which they are investing more. So Bank Asia must have to follow these three indexes as per the rule of Bangladesh Bank.

Concentration risk arises when any bank invests its most or all of the assets to single or few individuals or entities or sectors or instruments. That means when any bank fails to diversify its loan and investment portfolios, concentration risk emerges. Downturn in concentrated activities and/or areas may cause huge losses to a bank relative to its capital and can threaten the bank's health or ability to maintain its core operations. In the context of Pillar-2, concentration risk can be of following two types:

- ✓ **Credit Concentration Risk:** When the credit portfolio of a bank is concentrated within a few individuals or entities or sectors, credit concentration risk arises.
- ✓ **Market Concentration Risk:** When the investment portfolio of a bank is concentrated within a few instruments or any instrument of few companies or any instrument of few sectors, market concentration risk arises.

## **i) Evaluation of Concentration Risk According to New Indexes**

### **a) Assessment of Credit Concentration Risk**

To assess the credit concentration risk, following aspects of bank's loan portfolio will be considered:

1. Sector wise exposure,
2. Group wise exposure
3. Single borrower wise exposure
4. Top borrower wise exposure (Top 10-50 borrowers will be counted)

### **b) Assessment of Market Concentration Risk**

To assess the market concentration risk, following aspects of a bank's investment portfolio will be evaluated:

1. Instrument (financial securities) wise investment
2. Sector
3. Currency wise investment of foreign exchange portfolio

As there is no unanimously agreed tools to measure the concentration risk, following indicators will be applied on the above stated aspects (except top borrower wise exposure) for having comparative picture:

- Herfindahl Hirschman Index (HHI)
- Simpson's Equitability Index (SEI)
- Shannon's Index (SI)
- Gini Coefficients (GC)

## 4.15 Indicators for Assessing Concentration Risk

### 1. Herfindahl Hirschman Index (HHI)

The Herfindahl–Hirschman Index is named after economists Orris C. Herfindahl and Albert O. Hirschman. The formula for quantifying HHI is as follows:

$$HHI = \sum_i^n s_i^2$$

$s_i$  = Share (%) of each element across the total cluster.

#### 1.1. Measurement:

- a.  $HHI \leq 0.01$  indicates homogeneous concentration,
- b.  $HHI > 0.01$  to  $\leq 0.1$  indicates satisfactory concentration,
- c.  $HHI > 0.1$  to  $\leq 0.18$  indicates moderate concentration,
- d.  $HHI > 0.18$  indicates high concentration

### Measurement

- $HHI \leq 0.01$  indicates homogeneous concentration,
- $HHI > 0.01$  to  $\leq 0.1$  indicates satisfactory concentration,
- $HHI > 0.1$  to  $\leq 0.18$  indicates moderate concentration,
- $HHI > 0.18$  indicates high concentration.

### 2. Simpson's Equitability Index (SEI)

Simpson's Equitability Index (SEI) is a simple mathematical measure that characterizes diversity of elements within a defined cluster. It is also termed as Simpson's Diversity Index. The formula to calculate SEI is as follows:

$$SEI = \frac{D}{S} \quad \text{Where, } D = \frac{1}{\sum_i^s p_i^2}$$



Where, Given that,

D = Diversity of elements across the cluster,

p = Proportion of the elements across the cluster,

S = Number of elements within the cluster,

### Measurement

- SEI = 1 indicates equitable concentration,
- SEI > 0.70 to < 1 indicates satisfactory concentration,
- SEI > 0.30 to < 0.70 indicates moderate concentration,
- SEI > 0 to < 0.30 indicates high concentration

### 3. Shannon's Index

Shannon's Index (SI) is another popular diversity index which is also known as Shannon's diversity index, the Shannon-Wiener index, the Shannon-Weaver index and the Shannon entropy. SI applies natural logarithm to assess the diversity of the elements within a defined cluster. The formula to calculate SI is as follows:

$$SI = \frac{H}{\text{Log}S} \quad \text{Where,} \quad H = -\sum_i^s p_i^2 \text{Log} p_i$$

Given that,

H = Diversity of elements across the cluster,

p = Proportion of the elements across the cluster,

S = Number of elements within the cluster,

## Measurement

- SI = 1 indicates equitable concentration,
- SI > 0.60 to < 1 indicates satisfactory concentration,
- SI > 0.20 to < 0.60 indicates moderate concentration,
- SI > 0 to < 0.20 indicates high concentration.

## Limitations

I am trying but unable to find out limitations & problems associated with Shannon's Index. It is needed more time & also the analysis.

## 4. Gini Coefficient (GC)

The Gini coefficient (also known as the Gini index or Gini ratio) is a measure of statistical dispersion can be used to measure the concentration among the portfolios of a bank. GC measures the inequality among values of a data cluster. A GC of zero expresses perfect equality, where all values are the same and a GC of one (100 on the percentile scale) expresses maximal inequality among values. The formula to calculate GC is as follows:

$$G = \frac{2 \sum_{i=1}^n i y_i}{n \sum_{i=1}^n y_i} - \frac{n+1}{n}$$

Given that,

G = Gini Coefficient,

i = Element serial,

y = Value of element,

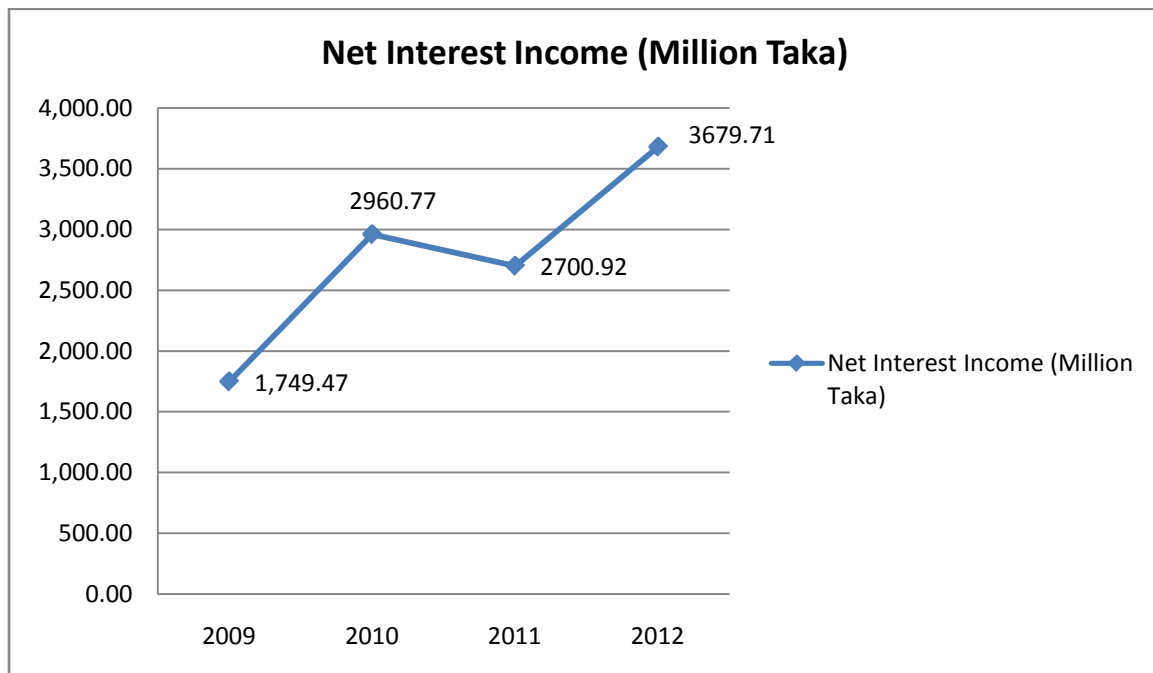
n = Total number of element

## 4.16 Last Four Years (2009-2012) Financial Performance of Bank Asia Limited

### Net Interest Income

Million Taka

	Years			
	2009	2010	2011	2012
Total Interest Income	6,247.49	8,381.35	10,903.58	13,296.06
Total Interest Expense	4,498.02	5,420.58	8,202.66	9,616.35
<b>Net Interest Income = Total Interest Income - Total Interest Expense</b>	<b>1,749.47</b>	<b>2960.77</b>	<b>2700.92</b>	<b>3679.71</b>



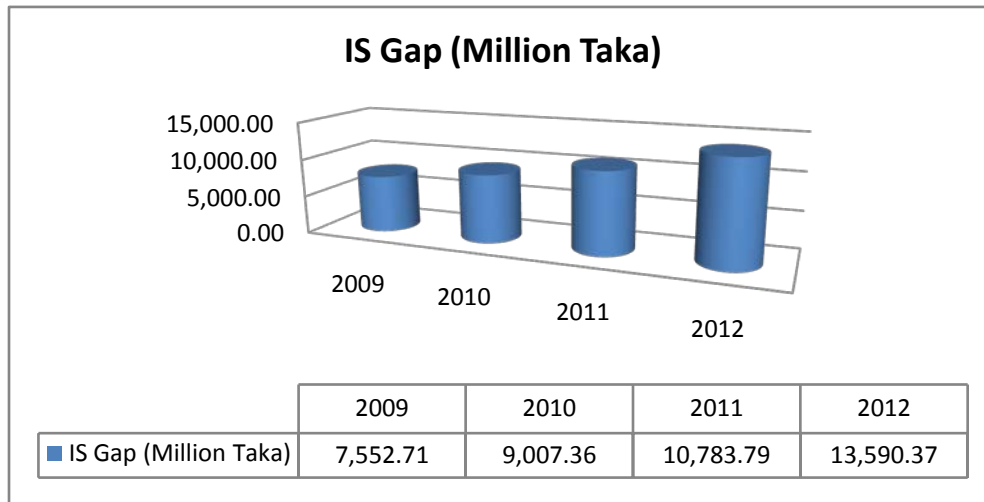
From 2009-2010 the net interest income was increasing and after that in 2011 it was decreasing and in 2012 again it was increasing. Net interest income mainly generates by providing loan &

security to the customer. The condition of net interest income of Bank Asia Limited is in a good position and there have positive trend up to 2012.

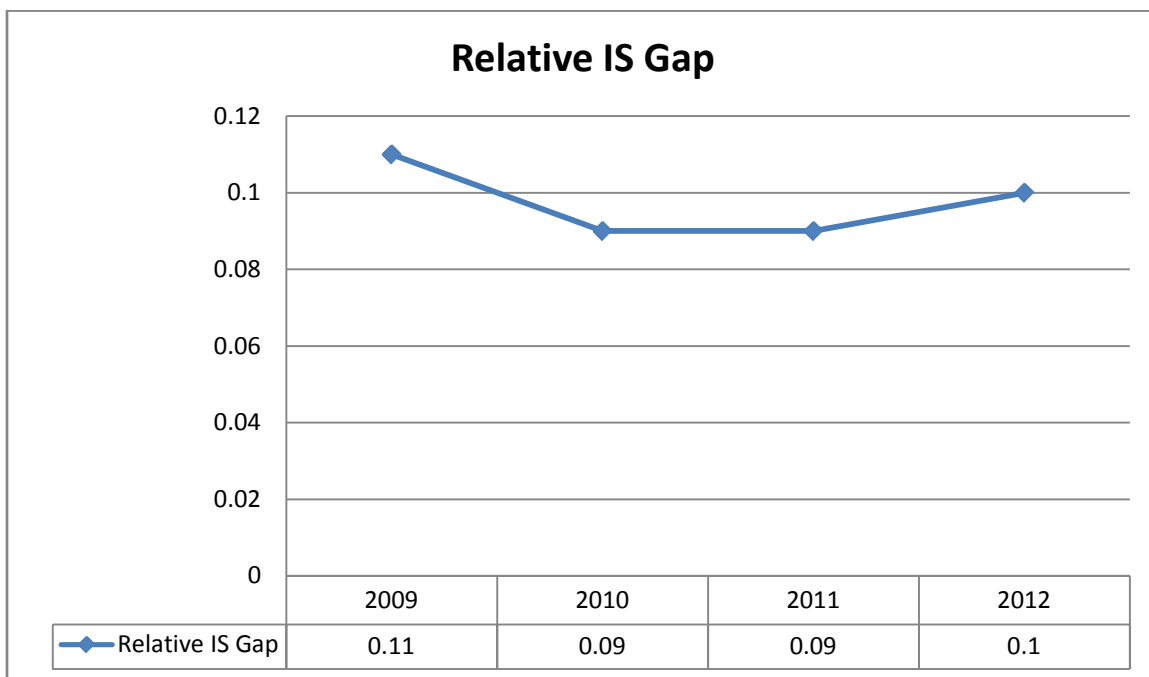
## Interest Sensitive (IS) Gap & Relative Interest Sensitive (IS) Gap

Million Taka

	Years			
	2009	2010	2011	2012
<b>IS Assets</b>				
Balance with Bangladesh Bank	3,286.54	5,112.25	6,052.21	5,430.71
Balance with Other Banks and Institutions	1,346.43	1,080.21	1,732.94	3,710.89
Money at Call and Short Notice	-	-	-	220
Loans and Advances	50,267.92	79,504.23	83,343.07	93,410.43
Investment	9,663.09	12,075.70	16,103.63	25,268.88
<b>Total IS Assets</b>	<b>64,563.98</b>	<b>97,772.39</b>	<b>107,231.85</b>	<b>128,040.91</b>
<b>IS Liabilities</b>				
Non Depository Borrowings	2,178.45	5,163.77	1,226.74	4,275.01
Deposits	54,832.82	83,601.26	95,221.32	110,175.53
<b>Total IS Liabilities</b>	<b>57,011.27</b>	<b>88,765.03</b>	<b>96,448.06</b>	<b>114,450.54</b>
<b>IS Gap = Total IS Assets - Total IS Liabilities</b>	<b>7,552.71</b>	<b>9,007.36</b>	<b>10,783.79</b>	<b>13,590.37</b>
<b>Bank Size (Total Assets)</b>	<b>68,663.19</b>	<b>105,198.05</b>	<b>118,020.50</b>	<b>141,235.37</b>
<b>Relative IS Gap = IS Gap / Bank Size</b>	0.11	0.09	0.09	0.10



Here interest sensitive gap is increasing from 2009 and it continued up to 2012. That's why it is called asset sensitive gap which is positive. Assets are more than liability which is good for Bank Asia Limited.

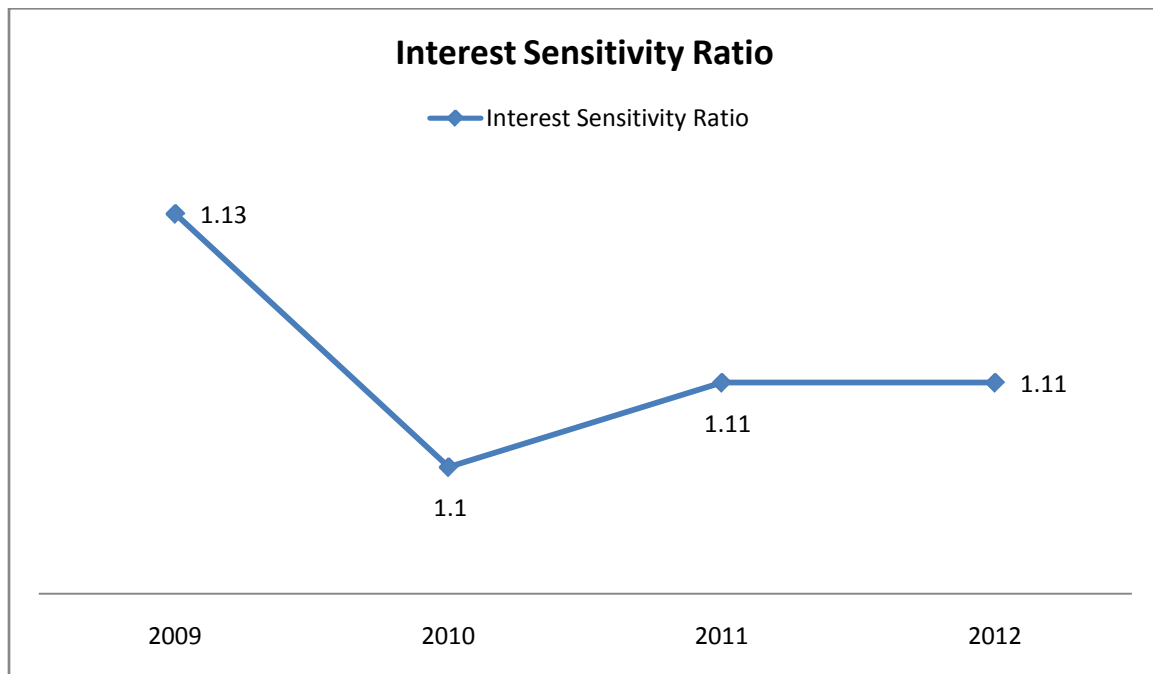


Here from the chart we can see that Relative IS Gap is moving from 0.11 to 0.10 (2009-2012) which represented a mix trend. Because in 2009 the Relative IS Gap was 0.11 and after that it was decreased from 0.11 to 0.09 and it remained constant for two years and finally in 2012 it was increased from 0.09 to 0.10.

## Interest Sensitivity Ratio

Million Taka

	Years			
	2009	2010	2011	2012
Total IS Assets	64,563.98	97,772.39	107,231.85	128,040.91
Total IS Liabilities	57,011.27	88,765.03	96,448.06	114,450.54
<b>Interest Sensitivity Ratio = Total IS Assets / Total IS Liabilities</b>	<b>1.13</b>	<b>1.10</b>	<b>1.11</b>	<b>1.11</b>

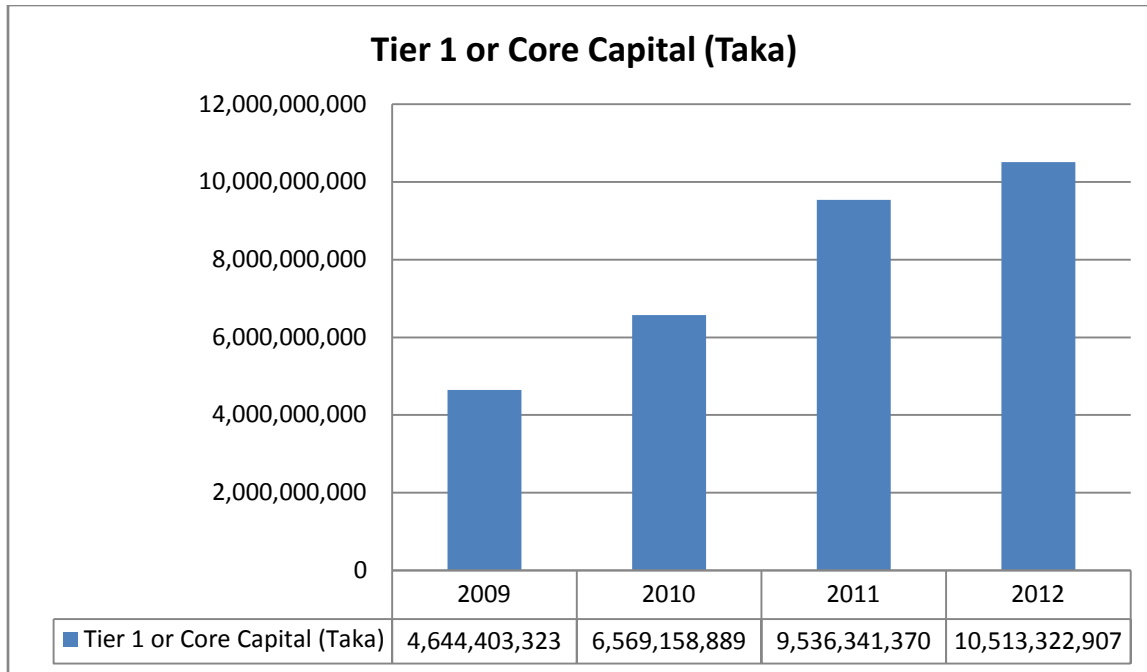


Here the Interest Sensitivity Ratio is more than 1 which is positive and it's good for the bank. But the trend is a mixed position. From 2009 the ratio fluctuated from 1.13 to 1.10 (2010). In the next year 2011, the ratio increased and turned into 1.11 and remained constant again in 2012. So we can say that the ratio is going positive but it also fluctuated every year.

## Tier 1 or Core Capital

Taka

	Years			
	2009	2010	2011	2012
Paid Up Capital	2,144,812,500	3,002,737,500	5,254,790,600	6,305,748,720
Statutory Reserve	1,557,013,281	2,272,917,429	2,959,358,772	3,503,958,171
Retained Earnings	942,577,212	1,293,503,630	1,322,181,668	703,603,495
Share Premium	330	330	330	330
Non-Controlling (Minority) Interest	-	-	10,000	12,191
<b>Total Core Capital</b>	<b>4,644,403,323</b>	<b>6,569,158,889</b>	<b>9,536,341,370</b>	<b>10,513,322,907</b>



Tier 1 capital or Core Capital is the main capital for a bank to run the daily banking activities. So the bank needs to reserve more capital to run their operation smoothly. From the chart we can see that every year Bank Asia Limited increase their capital portion which is good for them. From 2009-2012 we can see that the trend is going in positive way.

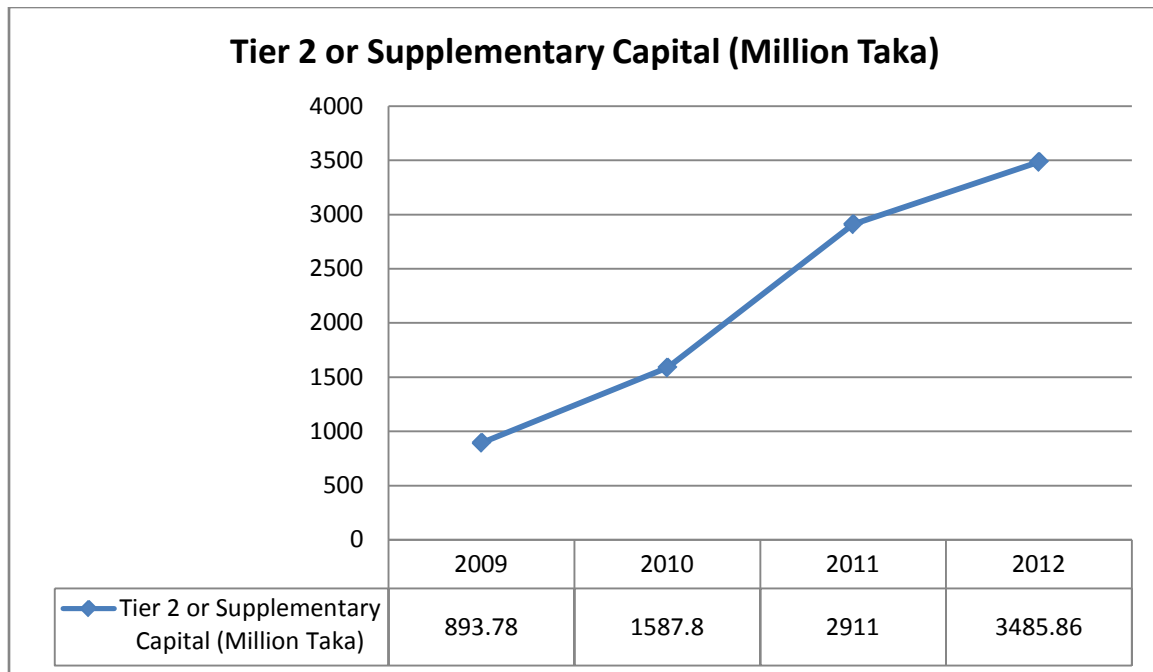


## Tier 2 or Supplementary Capital

Million Taka

	Years			
	2009	2010	2011	2012
General Provision Maintained Against Unclassified Loan/Investments	626.66	924.37	974.02	989.20
General Provision On Off-Balance Sheet Exposure	248.19	413.95	461.59	592.16
Exchange Equalization Reserve	3.34	-	-	-
Revaluation Reverse Of HTM Securities (Up to 50% of the Revaluation Reserves)	15.59	-	-	-
Revaluation Reverse Of Government Securities	-	241.31	1,467.22	1,296.34
Subordinated Non Convertable Zero Coupon Bond	-	-	-	599.99
Other Reserve	-	8.17	8.17	8.17
<b>Total Supplementary Capital</b>	<b>893.78</b>	<b>1,587.8</b>	<b>2,911</b>	<b>3,485.86</b>

Tier 2 Capital or Supplementary Capital is another capital portion of a bank. Every banks need to keep this capital mandatory. If there have shortage in the core capital portion than this supplementary capital can be use as a back up. As we can see that the risk was arises in the banking sector so that the banks need to keep extra capital to run their operation smoothly. From 2009-2012 scenarios we can see that the portion of Tier 2 Capital was increased and it's a positive trend which was good for Bank Asia Limited.

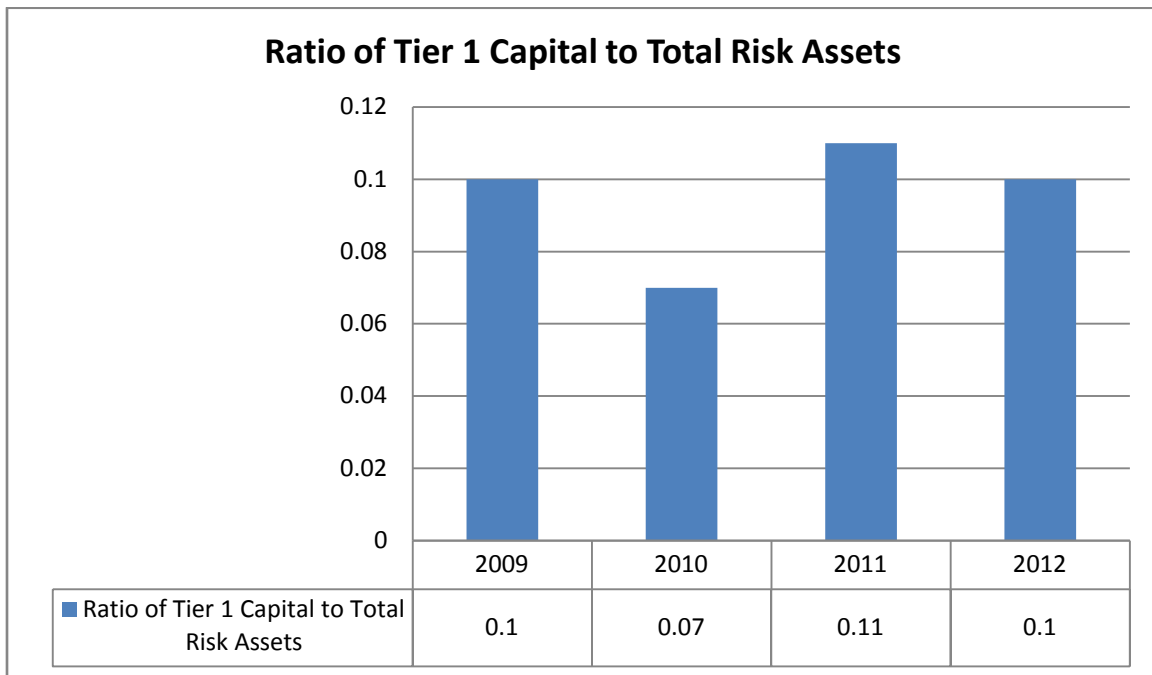


### Ratio of Tier 1 Capital to Total Risk Assets

Taka

	Years			
	2009	2010	2011	2012
Tier 1 or Core Capital	4,644,403,323	6,569,158,889	9,536,341,370	10,513,322,907
Total Risk Weighted Assets	45,150,284,000	100,545,900,000	83,664,200,000	107,678,900,000
<b>Ratio of Tier 1 Capital to Total Risk Assets = Tier 1 or Core Capital / Total Risk Weighted Assets</b>	<b>0.10</b>	<b>0.07</b>	<b>0.11</b>	<b>0.10</b>

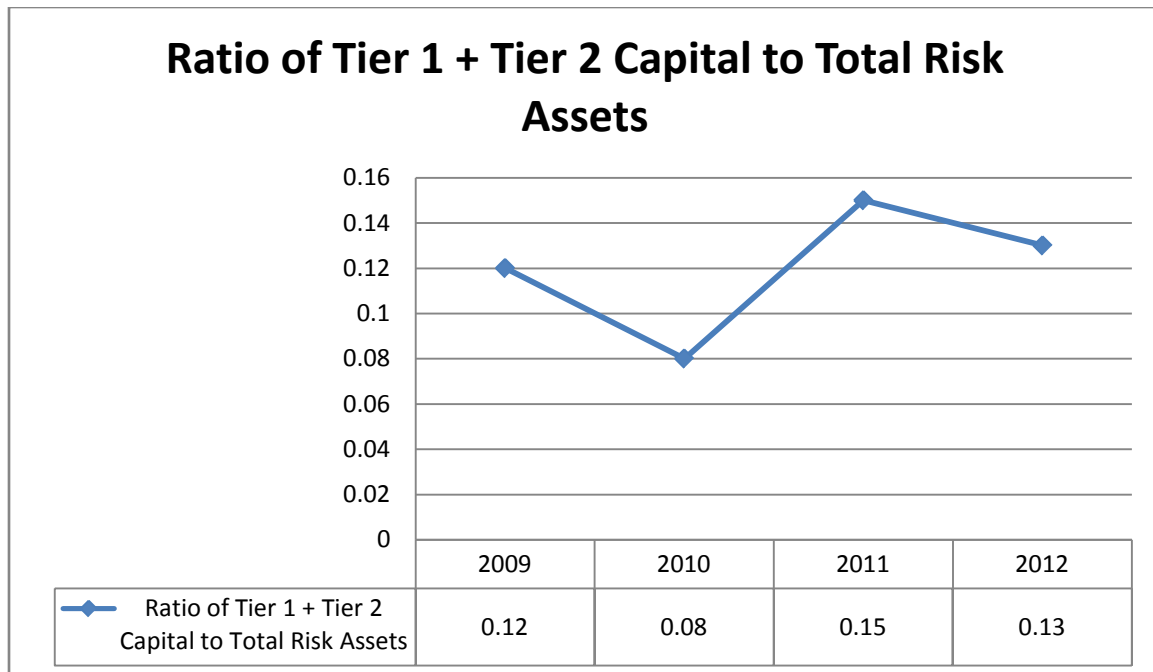
Ratio of Tier 1 Capital should be at least 4% to be standard and from the chart we can see that the capital reserved more than 4% which was very good for Bank Asia Limited.



## Ratio of Tier 1 + Tier 2 Capital to Total Risk Assets

Taka

	Years			
	2009	2010	2011	2012
Tier 1 or Core Capital	4,644,403,323	6,569,158,889	9,536,341,370	10,513,322,907
Tier 2 or Supplementary Capital	893,774,820	1,587,802,271	2,910,993,157	3,485,858,486
Total Capital (Tier 1 or Core Capital + Tier 2 or Supplementary Capital)	5,538,178,143	8,156,961,160	12,447,334,527	13,999,181,393
Total Risk Weighted Assets	45,150,284,000	100,545,900,000	83,664,200,000	107,678,900,000
<b>Ratio of Tier 1 + Tier 2 Capital to Total Risk Assets = Total Capital / Total Risk Weighted Assets</b>	<b>0.12</b>	<b>0.08</b>	<b>0.15</b>	<b>0.13</b>

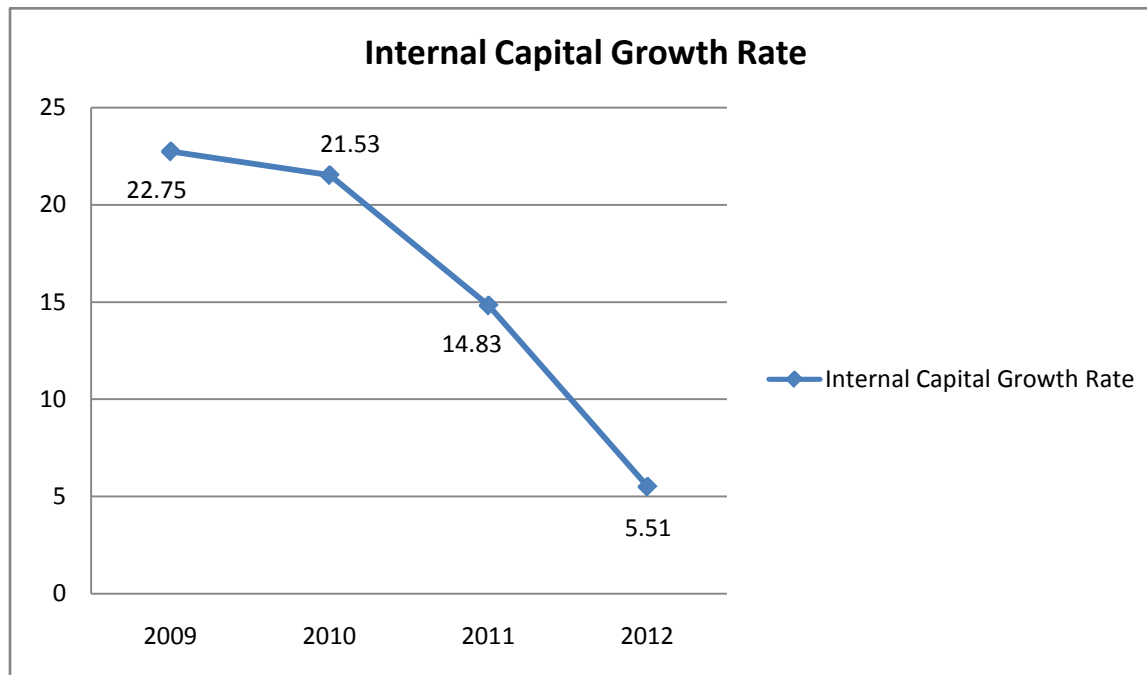


Tier 1 + Tier 2 Capital to Total Risk Weighted Assets ratio should not be more than 8%. But from the scenario we can see that Bank Asia has more than 8% portion. In 2010 they had achieved the standard but rest of the three years (2009, 2011 & 2012) the ratio gone beyond the standard. So Bank Asia needs to be more capitalized in order to achieve standard.

## Internal Capital Growth Rate (ICGR)

Million Taka

	Years			
	2009	2010	2011	2012
Return on Equity (ROE)	32.03	32.12	19.61	7.11
Retained Earnings	942.58	1,293.50	1,449.22	703.60
Net Profit After Tax	1,327.18	1,929.58	1,916.21	908
<b>Internal Capital Growth Rate = (Retained Earnings / Net Profit After Tax) * ROE</b>	<b>22.75</b>	<b>21.53</b>	<b>14.83</b>	<b>5.51</b>

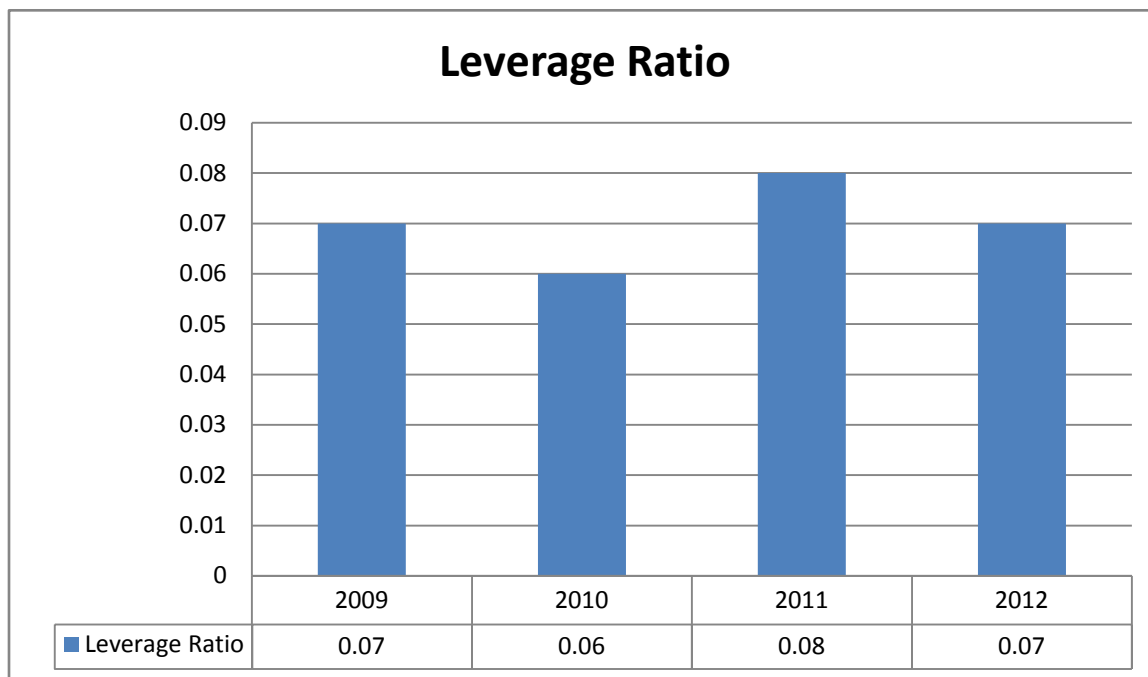


From last four years (2009-2012) Internal Capital Growth Rate (ICGR) was decreasing. So Bank Asia needs to keep less retained earnings and pay high amount of dividend to its shareholders.

## Leverage Ratio

Taka

	Years			
	2009	2010	2011	2012
Tier 1 or Core Capital	4,644,403,323	6,569,158,889	9,536,341,370	10,513,322,907
Total Asset	68,663,199,976	105,198,050,148	118,020,504,822	141,235,371,839
<b>Leverage Ratio = Tier 1 or Core Capital / Total Asset</b>	<b>0.07</b>	<b>0.06</b>	<b>0.08</b>	<b>0.07</b>

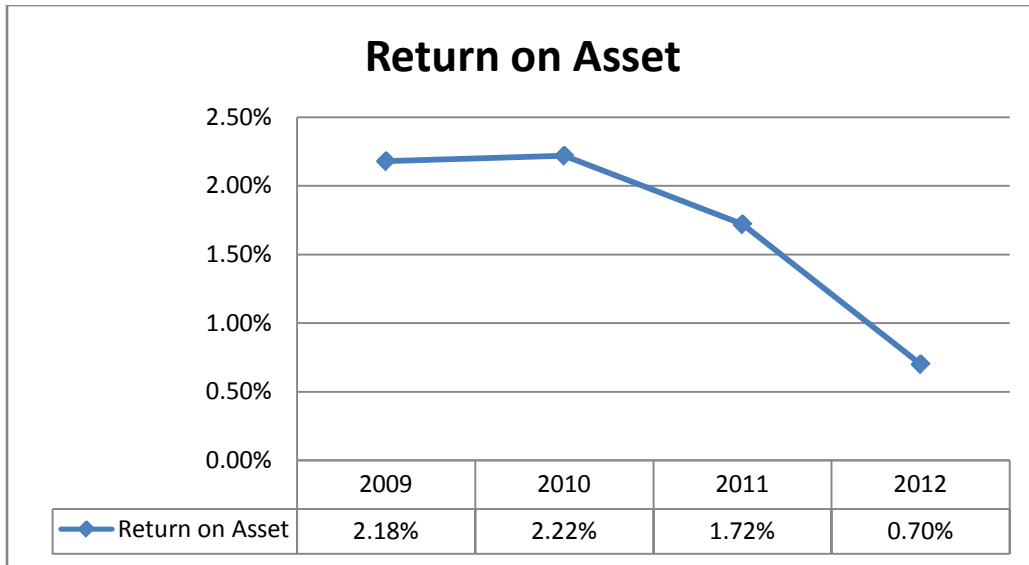


Here we can see that the leverage ratio was fluctuating between 7% and 8% in the last four years. For leverage ratio the standard point is more than 5% and here the ratio that we can see more than 5%. So we can say that Bank Asia is adequately capitalized.

## Return on Asset (ROA)

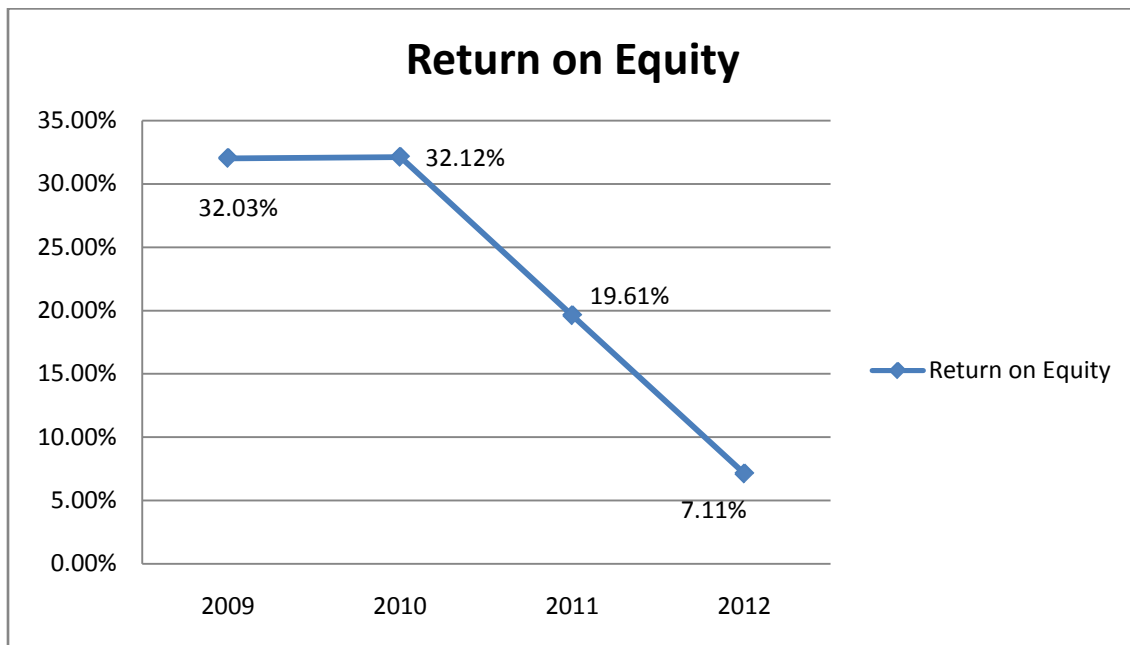
	Years			
	2009	2010	2011	2012
Return on Asset (ROA)	2.18%	2.22%	1.72%	0.70%

Return on Asset basically measures that how much profit a bank can generate by utilize their assets. Here the more utilization of assets can create more profit which will be better for a bank. Here in this scenario we can see that Bank Asia is utilizing their assets proper way in 2009-2010. After that in 2011 and 2012 it is decreasing. After in 2010 to till 2012 they are unable to generate higher profits because of not utilizing their assets in a proper way.



## Return on Equity (ROE)

	Years			
	2009	2010	2011	2012
Return on Equity (ROE)	32.03%	32.12%	19.61%	7.11%



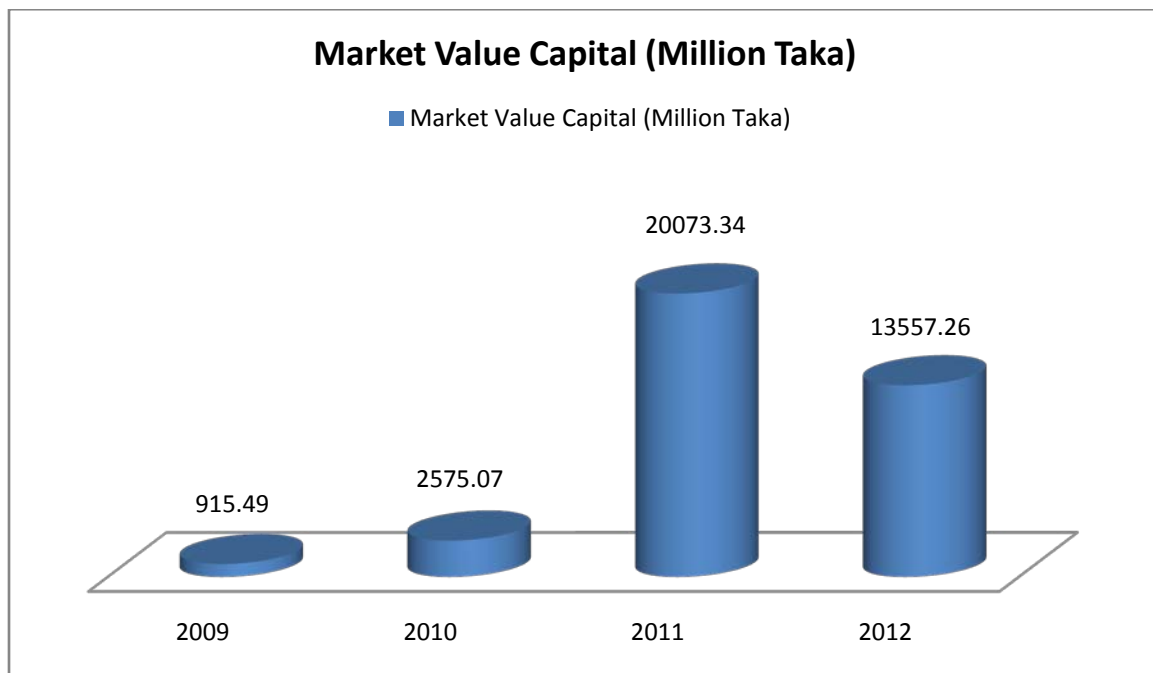


ROE measures the profitability that a company generates with the money that shareholder invested. Here tax management efficiency is good from 2009-2010. But after that it started decreasing.

## Market Value Capital

Million Taka

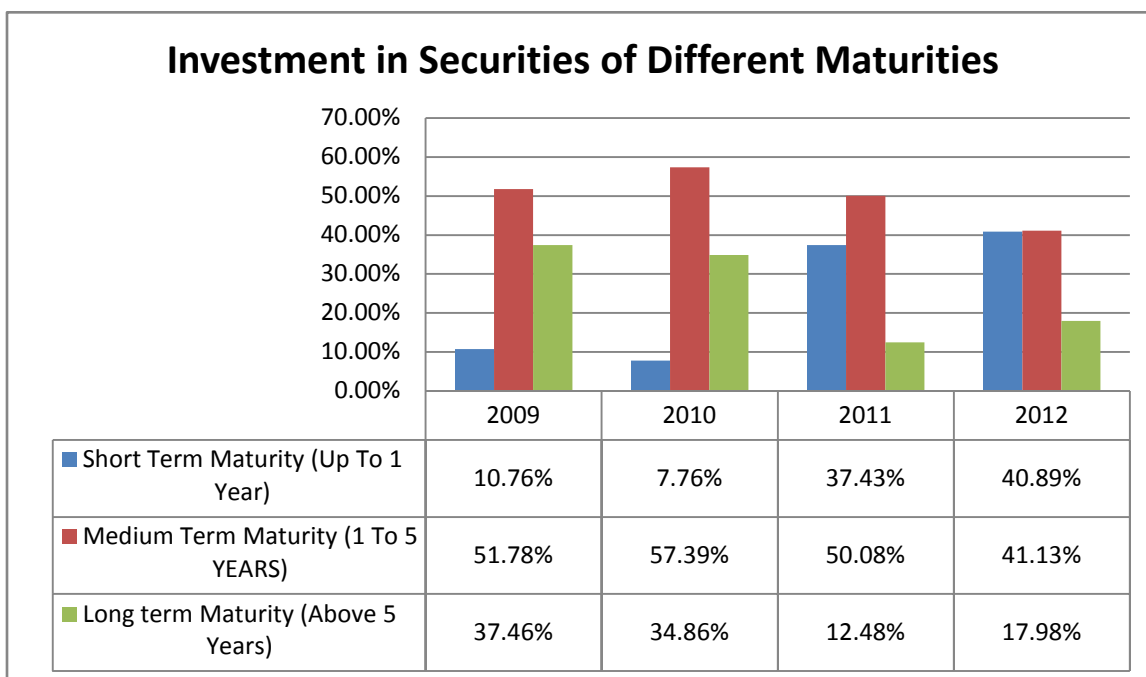
	Years			
	2009	2010	2011	2012
No. of Shares Outstanding	21.45	30.03	525.48	630.57
Market Price Per Share	42.68	85.75	38.2	21.50
<b>Market Value Capital = No. of Shares Outstanding * Market Price Per Share</b>	<b>915.49</b>	<b>2,575.07</b>	<b>20,073.34</b>	<b>13,557.26</b>



## Investment Maturity Strategy & % Wise Investment in Different Securities of Different Maturities

Taka

Investment in Securities	Years			
	2009	2010	2011	2012
<b>Short Term Maturity (Up To 1 Year)</b>				
On Demand	1,617,800	371,700,647	3,121,448,528	5,321,186,236
1 to 3 Months	297,299,224	165,300,000	2,296,756,080	2,390,920,628
3 to 12 Months (1 year)	740,873,621	399,500,000	731,951,734	2,557,965,589
<b>Total</b>	<b>1,039,790,645</b>	<b>936,500,647</b>	<b>6,150,156,342</b>	<b>10,270,072,453</b>
<b>Medium Term Maturity (1 To 5 YEARS)</b>				
1 to 5 years	5,003,206,642	6,929,724,900	8,229,164,544	10,328,857,704
<b>Total</b>	<b>5,003,206,642</b>	<b>6,929,724,900</b>	<b>8,229,164,544</b>	<b>10,328,857,704</b>
<b>Long term Maturity (Above 5 Years)</b>				
Over 5 years	3,620,100,251	4,209,475,385	2,051,211,381	4,515,974,357
<b>Total</b>	<b>3,620,100,251</b>	<b>4,209,475,385</b>	<b>2,051,211,381</b>	<b>4,515,974,357</b>
<b>Total Volume Of Investment</b>	<b>9,663,097,538</b>	<b>12,075,700,932</b>	<b>16,430,532,267</b>	<b>25,114,904,514</b>
<b>% Wise Investment in Different Securities of Different Maturities</b>				
<b>Short Term Maturity (Up To 1 Year)</b>	10.76%	7.76%	37.43%	40.89%
<b>Medium Term Maturity (1 To 5 YEARS)</b>	51.78%	57.39%	50.08%	41.13%
<b>Long term Maturity (Above 5 Years)</b>	37.46%	34.86%	12.48%	17.98%
<b>Total Volume Of Investment (%)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



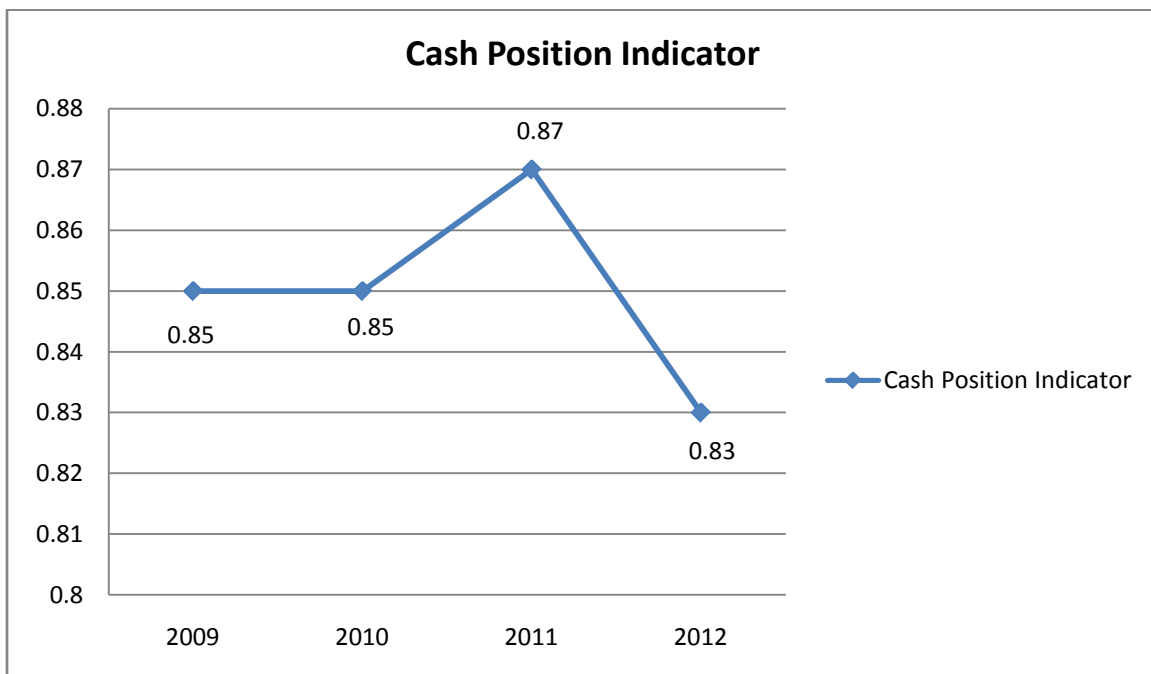
Bank Asia has so far invested maximum of their assets on the Medium term securities all throughout the 4 consecutive years, while investing on the loan, lease and securities of the other companies. The bank is seeking more liquidity to invest in the medium term securities. The trend moreover shows that the value of investments (Tk.) so, far has fluctuated for securities of all different maturities. It can also be seen that the Investment over the short term (up to 1 year) securities (On demand to 1 year) has decreased (10.76% to 7.76%) at 2010 and then again increased from 2011 and increasing continually till then. Whereas the investment over the medium term securities (1 to 5 years of maturity) has increased sharply at 2010 (increase from 51.78% to 57.39%) and till then it was decreasing in 2011-2012. Investment over the longer term securities on the other hand has decreased rapidly at 2011 but again increased in 2012 at 17.98% (Very slowly). It is also clear that the bank has so far maintained back end load strategy and almost kept excess of 40% of their investment to the longer term securities than of securities of other maturities, thus remained concerned with profitability.

## Cash Position Indicator

Taka

	Years			
	2009	2010	2011	2012
<b>Cash</b>	3,760,368,749	5,878,497,950	7,027,684,197	6,595,671,727
<b>Long Term Deposit</b>	54,832,818,230	83,601,263,368	95,221,320,067	110,175,528,580
<b>Total Asset</b>	68,663,199,976	105,198,050,148	118,020,504,822	141,235,371,839
<b>Cash Position Indicator = (Cash + Long Term Deposit) / Total Asset</b>	0.85	0.85	0.87	0.83

From 2009-2010 the cash position is in constant position. After that in 2011 it became increasing and in 2012 again it fluctuated and went in a decreasing position. So the situation of cash positioning indicator is not so good. So the cash and deposit needs to increase.

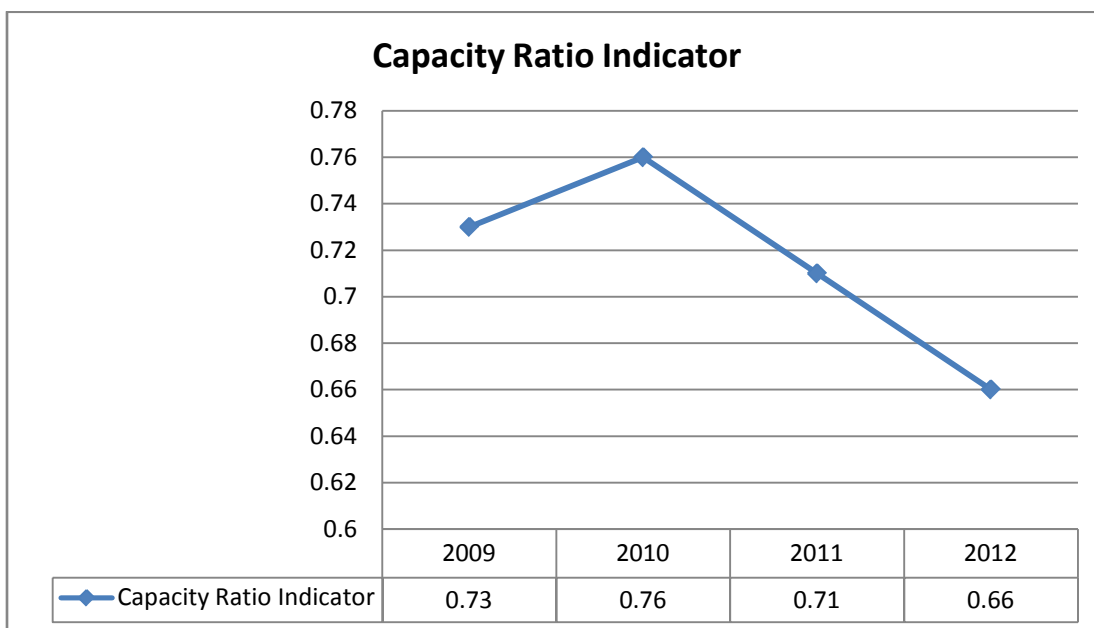


## Capacity Ratio Indicator

Taka

	Years			
	2009	2010	2011	2012
<b>Total Asset</b>	68,663,199,976	105,198,050,148	118,020,504,822	141,235,371,839
<b>Total Loan of Lease</b>	50,267,917,439	79,504,232,613	83,343,069,145	93,410,427,870
<b>Capacity Ratio Indicator = Total Loan of Lease / Total Asset</b>	0.73	0.76	0.71	0.66

Capacity ratio was increasing from 2009 to 2010. Suddenly after 2010 it turned into decreasing position. It indicates that the assets are more than the total loan & lease. So we can see that Bank Asia is in a good position to keep their assets more than to give loan & lease.

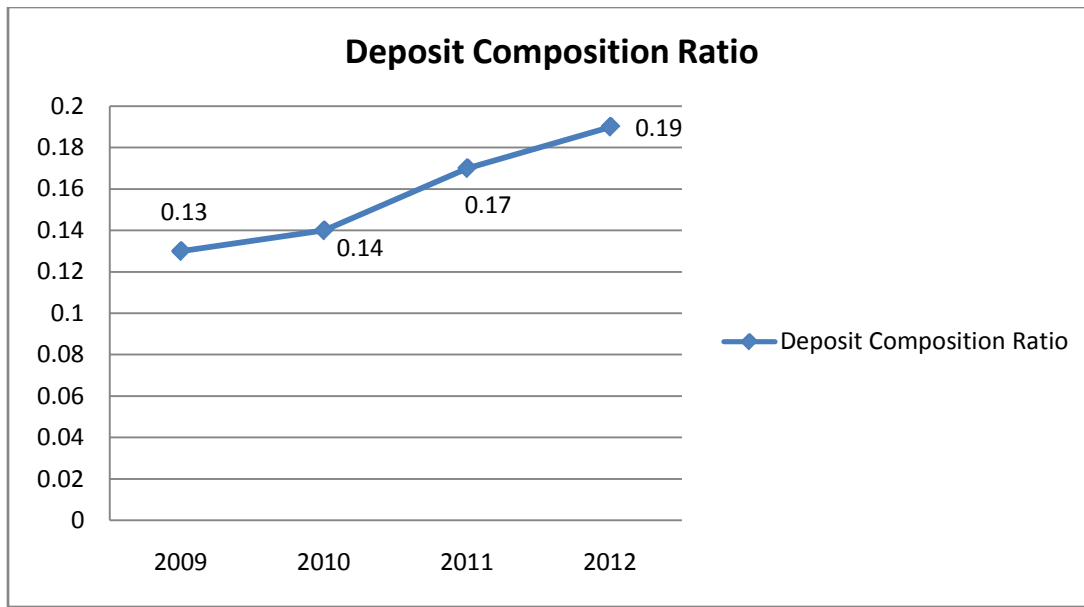


## Deposit Composition Ratio

Taka

	Years			
	2009	2010	2011	2012
<b>Time Deposit</b>	48,338,838,415	73,165,445,861	81,191,594,565	92,539,894,647
<b>Demand Deposit</b>	6,493,979,815	10,435,817,507	13,939,504,045	17,521,880,736
<b>Deposit Composition Ratio = Demand Deposit / Time Deposit</b>	0.13	0.14	0.17	0.19

Here we can see that current or demand deposit is always less than time or fixed deposit which is positive image for Bank Asia Limited. So the bank should keep increasing liabilities.

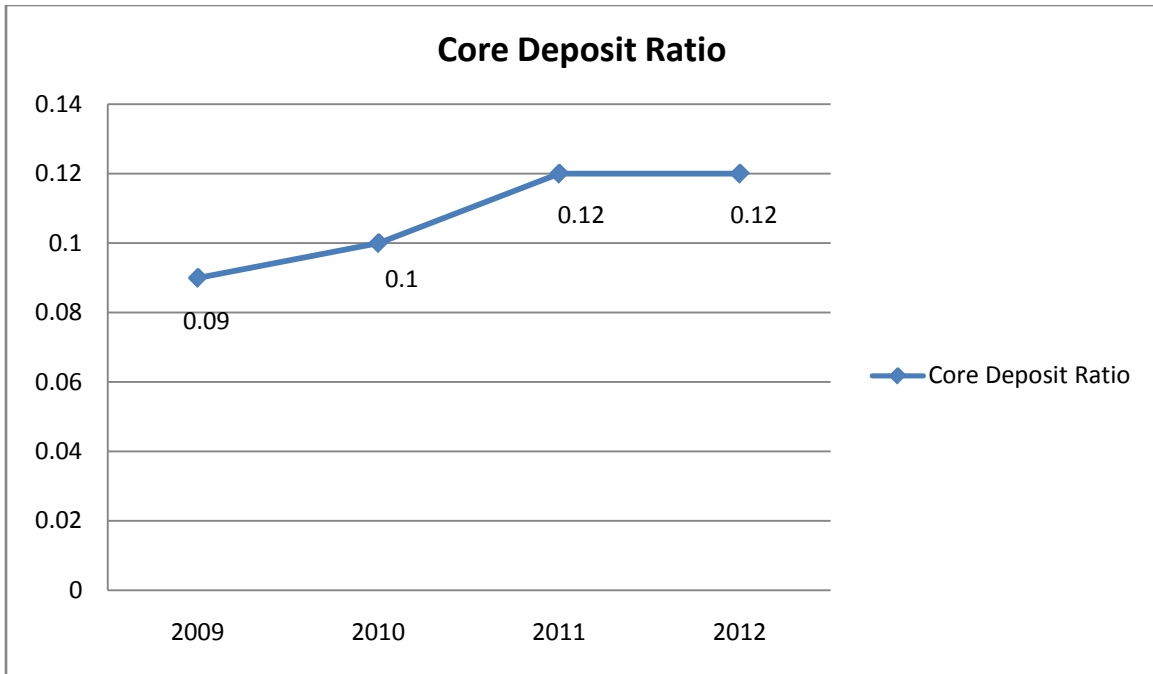


## Core Deposit Ratio

Taka

	Years			
	2009	2010	2011	2012
<b>Total Asset</b>	68,663,199,976	105,198,050,148	118,020,504,822	141,235,371,839
<b>Demand Deposit</b>	6,493,979,815	10,435,817,507	13,939,504,045	17,521,880,736
<b>Core Deposit Ratio= Demand Deposit / Total Asset</b>	0.09	0.10	0.12	0.12

The core deposit ratio was increasing from 2009-2011 and it remained constant in 2012 which was good for Bank Asia Limited. It would be better for Bank Asia if this trend continues for next couple of years.





# **Chapter-5**

## **CONCLUSION & RECOMMENDATION**

## 5.1 Conclusion

Banking sector in Bangladesh is very much competitive. Along with local banks there are many foreign banks are also operating in Bangladesh. The banking sector seems to be operating satisfactorily with the orientation of an increasing number of banks into the economy. Apart for mobilizing untapped resources, the banks are also creating deposit in the economy. Depending on the value of money multiplier, the advance of one bank generally opens up the prospect of creating additional deposit basis in subsequent generations of bank with the intermediation of funds. I have seen that the major problem in the banking sector can be briefly summarized as directed loans & it is ended up with a large volume on classified loans due to extension of loans without proper security and without following proper banking norms, reflecting largely the reform measures and consequent improvement in the operation of the bank as a whole, classified loans came down to 32 percent recently. Moreover it is obvious that private sector banks are involved with the more resilient portion of the economy. Bank Asia Ltd. is one of the leading banks in Bangladesh. Risk management division is one of the core divisions in Bank Asia. This division is responsible for identifying the possible risk and also assessment the level of severity of identified risk. This division is trying to averse the mentioned risks by keeping proper documents & also works on some different terms that the other banks are not doing these things recently & rapidly. Risk Management division in Bank Asia is trying to go to a benchmark level with compare with the other banks in Bangladesh & within three months It is obvious that it should reach its desired point or goal.

## 5.2 Recommendation

Risk management division is one of the core sections of any bank & it is the sensitive division of any bank. The Risk Management Division of Bank Asia is going to be level with the competitive banks in Bangladesh within 3 months. There are some short suggestions from my perception to improve the risk management division, financial performance and for the credit department-

- ✓ Risk management division has limited manpower. For that reason the head of risk management division always remain busy. So they need to recruit new employees for operating their division in effective way.
- ✓ It must implement some rules & regulation regarding the sector code allocation of clients & also provide some short term training in all branches regarding the placement of sector code in the client files.
- ✓ As we seen percentage of non performing loan is increasing year by year that means their current strategy regarding recovery of loan is not working appropriately. To exist in the market successfully they have to minimize the non performing loan amount that's why they should take effective steps regarding this.
- ✓ Bank Asia has small amount of loan portion for women entrepreneur (2%). So the bank needs to provide more loans to the women entrepreneurs which can contribute in our GDP.
- ✓ For any credit disbursement Bank Asia investigates for the purpose of taking the credit which takes more than 15 days. It can create the clients more dissatisfaction. So they need to minimize the days and do all the necessary process within a short period of time.
- ✓ Bank Asia had invested maximum their money in short and medium term securities than the long term securities. So they need to emphasize more to invest in the long term securities which can make higher profit for the bank in the future.

# **Chapter 6**

# **REFERENCES**

## **6. References**

### **Annual Reports**

Bank Asia Limited, Annual report 2009-2012

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1. <http://www.bangladeshbank.org.bd>
2. <http://www.wikipedia.org>
3. [www.bankasia-bd.com](http://www.bankasia-bd.com)

# **Chapter 7**

# **APPENDIX**

## 7. Appendix

### Abbreviations

1. MCB= Muslim Commercial Bank
2. DSE= Dhaka Stock Exchange
3. CSE= Chittagong Stock Exchange
4. SME= Small and Medium Enterprise
5. AWCA = Al-Wadiah Current Account
6. MSA= Mudaraba Savings Account
7. MSNDA= Mudaraba Special Notice Deposit Account
8. MTDA= Mudaraba Term Deposit Account
9. MHSS= Mudaraba Hajj Savings Scheme
10. MDPS= Mudaraba Deposit Pension Scheme
11. MMPPDS= Mudaraba Monthly Profit Paying Deposit Schem
12. SJS= Smart Junior Saver
13. HPSM= Hire Purchase Shirkatul Melk
14. CRM= Credit Risk Management
15. CACO= Customer and Client Origination
16. CCD= Consumer and Credit Department
17. CRG= Credit Risk Grading
18. FIS= First Information Sheet
19. CIB= Credit Information Bureau
20. CP= Credit Proposal
21. BCC= Branch Credit Committee
22. RM= Relationship Manager
23. HOCC= Head Office Credit Committee
24. HO= Head Office
25. CRO= Chief Risk Officer
26. NPL= Non Performing Loan
27. SRP= Supervisory Review Process

- 28. VAR= Value at Risk
- 29. HHI= Herfindahl Hirschman Index
- 30. SEI= Simpson's Equitability Index
- 31. SI= Shannon's Index
- 32. GC= Gini Coefficients
- 33. IS= Interest Sensitive
- 34. ICGR= Internal Capital Growth Rate
- 35. ROE= Return on Equity
- 36. ROA= Return on Asset