

INTERNSHIP REPORT

BRAC UNIVERSITY

An Internship Report On

FUNCTIONS OF CREDIT RISK MANAGEMENT DEPARTMENT

Of

Prime Bank Limited

“TO WHOM IT MAY CONCERN”

It is my pleasure to certify that, the following student have completed Internship program at **Prime Bank Limited (PBL)** in **Credit Risk Management Department**, Head Office Dhaka successfully with excellent performance under my supervision from June to August, 2012.

Mostakim Billah Shawon

ID no. 08164021

MBA Program

BRAC Business School

BRAC University

I wish him every success in his life.

Mohd. Jamil Hossain

Senior Vice-President

Credit Risk Management Department

Prime Bank Limited,

Head Office, Dhaka.

**FUNCTIONS OF CREDIT RISK
MANAGEMENT DEPARTMENT
*OF PRIME BANK LIMITED***

Prepared For:

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Date: 13-09-2012

September 13, 2012

Mohammad Rezaur Razzak
Assistant Professor
BRAC Business Administration
BRAC University

Subject: Submission of Internship Report on “Functions of Credit Risk Management Department of Prime Bank Limited”.

Dear Madam:

This is my pleasure to present my Internship Report on “Functions of Credit Risk Management Department of Prime Bank Ltd” that you have asked me to prepare as an internship report.

The report shows an analysis and overview of the subject. In preparing the report I tried to gather information which was most complete and relevant.

I have great hope that the report will meet your expectation and aid you in getting a clearer idea about the subject. I will take immense pleasure in providing you with any queries you have regarding the study.

I gained some valuable knowledge and experience while working on this report and I glad to have the opportunity to prepare this report for you.

Sincerely Yours’

Mostakim Billah Shawon

ID: 08164021

MBA Program

BRAC Business School

Declaration

I, Mostakim Billah Shawon, a student of MBA program, Major in Finance from BRAC University, Dhaka do hereby declare that the Report on “Functions of Credit Risk Management Department of Prime Bank Limited” has not been submitted by me before for any degree, diploma, title or recognition before.

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Mostakim Billah Shawon

ID: 08164021

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Preface

It is my pleasure to submit my report titled “Functions of Credit Risk Management Department of Prime Bank Limited” While preparing this report I have tried to gather as much information as possible and together all the information pertaining the report to enhance it. I believe that it was a captivating experience in the banking sector and it has enriched both my knowledge and experience.

This report is not free from limitations. There might have problems regarding lacks and limitations in some aspects.

Regards,

Mostakim Billah Shawon

ID: 08164021

MBA Program

BRAC Business School

Acknowledgement

First of all, I would like to express my deep gratitude to the almighty Allah for fruitfully preparing this internship report.

I express my sincere gratitude and thanks to my program supervisor Mr. Mohammad Rezaur Razzak, Assistant Professor, BRAC Business School, BRAC University, for his brilliant and excellence guidance and assistance to complete this report.

On the other hand, I am really thankful from my deep heart to Mr. Mohd. Jamil Hossain Senior Vice-President, in-charge CRM and Mr. Tofail Ahmed, Senior Asst. Vice-President and many special thanks to my colleague of Credit Risk Management Department of Prime Bank Limited for helping me to prepare this report and solving my problems with a smiling face.

Table of CONTENTS

<i>Topics / Areas</i>	<i>Page</i>
EXECUTIVE SUMMARY	X
INTRODUCTION	1
OVERVIEW OF THE COMPANY	6
LITERATURE REVIEW	12
CREDIT RISK MANAGEMENT PROCESS	18
DATA ANALYSIS & FINDINGS	31
RECOMMENDATION	54
CONCLUSION	56
BIBLIOGRAPHY	58

EXECUTIVE SUMMERY

This is an internship report based on the internship program took place in Prime Bank Limited. The main objective of this report is to present the functions of Credit Risk Management Department of this Bank.

In this report things that I have performed in the bank are briefly explained along with the special assignment that I have done as per the instruction of my supervisor in the bank. The report is on the “Functions of Credit Risk Management Department” of Prime Bank Ltd Head Office where the bank is situated.

Banks provide important capital in the form of loan and advances which are subject to non repayment which is termed as credit risk, the chance that a loan will not be repaid timely. Hence the main concern of the banks is credit risk and its management as credit or loans and advances are the main source of income for them.

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

Risk is inherent in all types of business. However, for Banks and financial institutions credit risk is considered to be the toughest one. Though Banks and Financial Institutions have been facing difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio management or lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank’s counterparty.

Credit risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with the agreed terms and conditions. Credit risk emanates from a bank’s on and off balance sheet dealings with an individual, corporate, bank, financial institution or a sovereign. Credit risk may take the following forms:

- In the case of direct lending: principal and/or interest may not be repaid;
- In the case of guarantees or letters of credit: funds may not be forthcoming from the constituents upon crystallization of the liability;
- In the case of treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases;
- In the case of security trading business: funds/securities settlement may not be effected;
- In the case of cross border exposure: the availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the sovereign.

The Credit Risk Management Department shall perform the following duties:

- a) Assess risks inherent in the credit proposal sent by Corporate Division and also evaluate proposed facility pricing based on risks, security, structuring and terms and conditions to suit the business condition and to protect Bank's interest.
- b) Compliance to the existing rules and regulations of the Bank and all regulatory authorities and laws of the country and to advise the Corporate Division for rectification, if required.
- c) Advise the Corporate Division about changes, if required, in the structure and terms and conditions of the proposed facility.
- d) Process credit proposal for approval of the competent authority.
- e) Issue sanctions advice for credit facilities or decline.
- f) Maintain Limit Sanction Register.
- g) Review the performance of the customer on Off-site Basis and prescribe appropriate remedial measures, if required until the loan account becomes a "Special Mention" one.
- h) Review/revise risk grading of the customer from time to time based on the "Early Alert Report" and Downgrade Proposal submitted by Corporate Division.
- i) Handover loan to the Recovery Department as and when it is degraded to Special Mention

Major Functions of CRM department are as follows

- a) To update Bank's Credit Policy/Lending Guideline, procedures and control mechanisms related with all credit risks arising from corporate/commercial banking and retail banking etc.
- b) To approve/decline credit proposal received from Corporate Division (presently from Branches) within delegated authority and to recommend to the higher authority if it is beyond delegation.
- c) To provide advice/assistance regarding all credit matters to Corporate Division/Branches.
- d) Periodical review of different types of credits, maintain effective follow-up and supervision and take all possible measures in time to save from classification.

With a view to improving the quality and soundness of loan portfolio, credit risk management methods were updated in 2005. The Bank is now applying a new system of credit risk assessment and lending procedures by striking separation of responsibilities between risk assessments and lending decisions and monitoring functions. The Bank monitors its exposure to particular sectors of economy on an ongoing basis. The Bank has undertaken the changes in policy of credit risk management, credit risk administration and credit monitoring and recovery in line with the guidelines of Bangladesh Bank, formulated in the last year.

Credit Appraisal system of this bank is pretty efficient. From the beginning of the process of credit appraisal system the credit committee is sufficiently committed and caring. After received loan application from the client, in-depth study of various related documents & gathering of information from different banks and other sources are performed. The loan proposal that is prepared by the credit officer and submitted to the higher authority for approval is the most important part of credit appraisal system because based on this proposal the granting of credit decision is made. Credit collection process of PBL is also strict and satisfactory.

Chapter 01

Introduction

1.1 Background of the study

Bank is the most important financial institution in the economy. It plays vital role in the economy by providing means of payment and in mobilizing resources. The economic development of a country depends on the development of banking sector to a great extent. The dependence of banking sector in modern economy is increasing day by day because this sector ultimately contributes to run the wheel of development in a more dynamic way. Today's modern banks are not only provides traditional banking, rather banks are expanding the menu of financial services, banks are making the untouchable service touchable for their customers. The changing and expanding role of banking has made the banking business more complex and competitive. For survival and growth of this business demands creativity, specialization and knowledge and adoption of new technology are used. But technology, creativity, specialization all these cannot support a bank to survive unless the services are marketed in the right track. For this banks need experts who will able to run the business even in against the wind.

Banks provide important capital in the form of loan and advances which are subject to non repayment which is termed as credit risk, the chance that a loan will not be repaid timely. Hence the main concern of the banks is credit risk and its management as credit or loans and advances are the main source of income for them.

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

1.2 Origin of the Report

Therefore, like any other "Business School", an opportunity is also offered by BRAC University (BRAC Business School) for its potential business graduates to get three months (twelve weeks) practical experience, which is known is as "*Internship Program*" that is taken when the student is at the leg of the MBA Degree. For the competition of this internship program, the author of the study was placed in a bank namely, "**Prime Bank Limited.**" Internship Program brings a student closer to the real life situation and thereby helps to launch a career with some prior experience. BRAC University has goals to produces world-class graduates within the local environment with knowledge and skill to provide leadership in enterprise, public service, and welfare of our society. Internship of Commerce Faculty is a step towards fulfilling this commitment by given the students an opportunity to get ready for the real world before they entire into their practical life.

This report entitled "**Functions of Credit Risk Management Department of Prime Bank Ltd.**" originated from the partial fulfillment of the internship program. For the internship program, each

student is attached with an organization. My internship was at the “Prime Bank Limited, Head Office in Credit Division.

1.3 Objective of the Study

There had been some objectives set forward in doing this report so that it can be determined what task I have to perform in the bank. The objective of the report can be divided into two parts-

➤ **Broad Objective:**

- To identify the process of Credit Risk Management in a commercial bank.

➤ **Specific Objective:**

- To have better orientation on credit and credit risk management activities specially credit policy and practices, credit appraisal, credit-processing steps, credit management, financing in various sector and recovery, loan classification method and practices of Prime Bank Limited (PBL).
- To analyze the Risk Index and Probability of Book Insolvency of PBL.
- To analyze the factors influencing Risk Index and Probability of Book Insolvency of PBL.
- To get an overall idea about the performance of PBL.
- To identify and suggest scopes of improvement in credit risk management of PBL.
- To fulfill the requirement of the internship program under MBA program.

1.4 Scope of the Study

The study would focus on the following areas of Prime Bank Limited.

- Credit Risk Management process.
- The loan operations
- Preferred Organization structures and responsibilities of Credit Risk management.
- The analyses of some factors related to the credit risk.

Each of the above areas would be critically analyzed in order to determine the efficiency of PBL’s Credit appraisal and Management system.

1.5 Methodology of the Study

A) Sources of data:

There are two sources of data have been used and most of the data are collected from the secondary sources. The sources are-

1. Primary Sources:

- a. Interviewing the bank officials of Credit Risk Management division and
- b. Official records and observing practical works.

2. Secondary Sources:

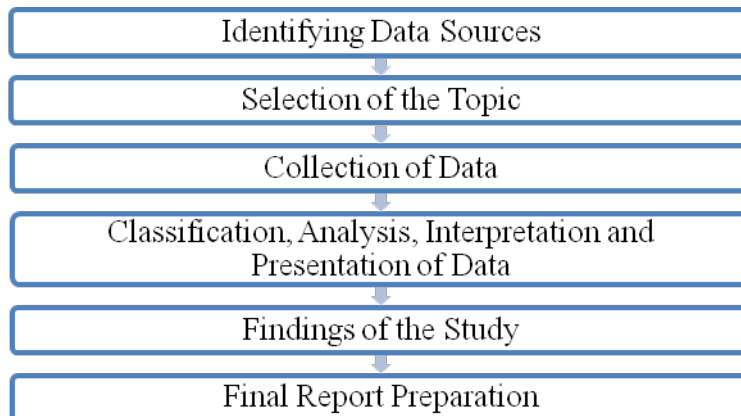
- a. Annual reports of PBL Published Booklets/Manuals of the Bank,
- b. Website of the Bank, Bangladesh Bank, BIBM, CPD, Ministry of Finance etc.
- c. Various published documents like- Bangladesh Bank’s Monthly Economic Trend, Statistical Yearbook of BBS, Bangladesh Bank Annual Report etc.

B) Data analysis techniques:

This report is an analytical one. Different statistical tools are used in analysis and presentation of data throughout the report. The over all analysis techniques are-

- To find out the relationship among different variables with NPL, GDP, CPI Inflation and Exchange Rate Multiple Regression Analysis is conducted in case of credit risk analysis.
- Ratio calculation to analyze Credit risk scenario.
- Find significant relationship with the Probability of Book Value Insolvency with Risk Index and CAP through Multiple Regression Analysis.
- Microsoft Excel is used in calculating and constructing of graphs
- SPSS Statistical software is used to analyze correlation and multiple regression analysis.
- Tables and Line Graphs are used in presenting data.

This overall process of the study is as follows:



1.6 Rationale of the Study

Credit risk is one of the most vital risks for any commercial bank. Credit risk arises from non performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-commitment contracted manner. The credit risk of a bank is also effect the book value of a bank. The more credit of a particular is in risk, the more probability of a bank to be insolvent. Therefore, the status of depositor in the bank is at risk and probability of incurring loss from their deposited value. That’s why; I am interested to prepare the report on the basis of Credit Risk Management Practices of the Commercial Banks in Bangladesh.

1.7 Limitations of the Study

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

- A period of Eight week was not sufficient to collect and understand the insights of the overall credit risk management practices of the bank.
- As an intern of prime Bank limited I have to work in different departments of the branch & during the period of internship I worked in credit department only for four weeks.

Recent data and information on different activities of PBL was unavailable.

CHAPTER TWO

OVERVIEW OF THE COMPANY

2.1 About Prime Bank

Our strategic priority is to have sustained growth, broaden and improved range of products and services.



In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs conceived an idea of floating a commercial bank with different outlook. For them, it was competence, excellence and consistent delivery of reliable service with superior value products. Accordingly, Prime Bank was created and commencement of business started on 17th April 1995. The sponsors are reputed personalities in the field of trade and commerce and their stake ranges from shipping to textile and finance to energy etc.

As a fully licensed commercial bank, Prime Bank is being managed by a highly professional and dedicated team with long experience in banking. They constantly focus on understanding and anticipating customer needs. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition.

Prime Bank has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMELS rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation.

Prime Bank offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software.

Prime Bank, since its beginning has attached more importance in technology integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, our strategy is to serve the customers through capacity building across multi-delivery channels. Our past performance gives an indication of our strength. We are better placed and poised to take our customers through fast changing times and enable them compete more effectively in the market they operate.

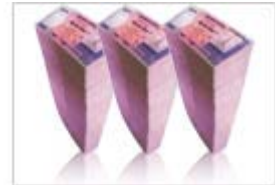
2.2 Our Vision

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



2.3 Our Mission

To build Prime Bank Limited into an efficient, market-driven, customer focused institution with good corporate governance structure. Continuous improvement of our business policies, procedure and efficiency through integration of technology at all levels.



2.4 Corporate Philosophy

For our Customers

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

For our Employees

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

For our Shareholders

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

For our Community

- By assuming our role as a socially responsible corporate citizen in a tangible manner By adhering closely to national policies and objectives thereby contributing towards the progress of the nation.
- By upholding ethical values and best practices.
- Constantly seeking to improve performance by aligning our goals with stakeholders expectations because we value them.

Our Efforts are Focused

On delivery of quality services in all areas of banking activities with the aim to add increased value to shareholders investment and offer highest possible benefits to our customers.

2.5 Corporate Milestones

	05.02.1995	Memorandum and Articles of Association signed by the sponsors
	12.02.1995	Incorporation of the company
	12.02.1995	Certificate of commencement of Business
1995	20.02.1995	License issued by Bangladesh Bank
	08.04.1995	License issued for opening the first branch, Motijheel
	17.04.1995	Formal launching of the Bank
	17.04.1995	Commencement of Business from Motijheel Branch
	18.12.1995	Commencement of Islamic Banking Business from IBB, Dilkusha
	29.08.1999	Initial Public offering - Publication of Prospectus
1999	09.09.1999	Initial Public offering - Subscription Opened
	22.09.1999	Initial Public offering - Subscription closed
	15.11.1999	Listed with Chittagong Stock Exchange Limited
	27.03.2000	Listed with Dhaka Stock Exchange Limited
2000	29.03.2000	Trading of Shares in Dhaka Stock Exchange Limited
	29.03.2000	Trading of Shares in Chittagong Stock Exchange Limited
2001	29.03.2001	Registered Merchant Banker with SEC

2005	17.04.2005	Completion of 10 years of service
2006	08.07.2006	Introduction of Prime Exchange Co. Pte. Ltd. (Subsidiary of Prime Bank Limited)
2007	15.03.2007	Opening of First Off-shore Banking Unit at DEPZ , Savar, Dhaka
	01.04.2007	Introducing of Temonus as Core Banking Software T24
2008	11.03.2008	Launching of ATM
2009	01.08.2009	Launching of Internet Banking
	02.08.2010	Introducing of PBL Exchange UK Limited - London Branch
2010	03.08.2010	Introducing of PBL Exchange UK Limited - Birmingham Branch
	04.08.2010	Introducing of PBL Exchange UK Limited - Oldham Branch
2011	22.02.2011	Introduction of Prime Exchange Co. Pte. Ltd. (Jurong East Branch)
2012	15.05.2012	Introduction of Internet Banking

2.6 Corporate Profile

Core Business

PBL focuses on a wide range of financial products and services which include commercial banking through both conventional and Islamic mode, Merchant and Investment Banking, SME & Retail banking, Credit Card and Off-shore Banking. It plays Leading Role in Syndicated Financing. It has expertise in Corporate credit and Trade Finance and made extensive market penetration with continuous growth in Corporate, Commercial and Trade Finance sectors. It has fully owned exchange houses at Singapore and UK focusing on remittance inflow to Bangladesh.

Corporate Ranking

PBL ranked 8th in Dhaka Stock Exchange (DSE) by market capitalization and stood at Tk.54,572 million as at the end of 2010. It has been ranked as 3rd company by DSE-20 Index. Balance Sheet Size of around Tk 306 billion equivalent to USD 4.4 billion. With wide customer base PBL established itself as the Market Leader among the conventional private commercial banks for deposit and advances.

2.7 Network

PBL has a large and well distributed network of branches in Bangladesh. It has 94 branches and 14 SME branches covering strategic financial centers. It has 3 Off-shore banking units at different EPZs in Bangladesh. It has fully owned exchange houses at Singapore and UK facilitating inward remittance to Bangladesh. It has active presence in Capital Market through Prime Bank Investment Limited.

2.8 Efficient Capital And Strong Asset Quality

PBL has a strong capital base and capital adequacy stands at 11.69 percent of the risk weighted assets against the regulatory

CHAPTER THREE

LITERATURE REVIEW

3.1 History of Banking

Banking in the modern sense of the word can be traced to medieval and early Renaissance Italy, to the rich cities in the north like Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. Perhaps the most famous Italian bank was the Medici bank, set up by Giovanni Medici in 1397. The earliest known state deposit bank, Banco di San Giorgio (Bank of St. George), was founded in 1407 at Genoa, Italy.

The word bank was borrowed in Middle English from Middle French banque, from Old Italian banca, from Old High German banc, bank "bench, counter". Benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transactions atop desks covered by green tablecloths.

3.2 Bank

The definition of a bank varies from country to country. See the relevant country page (below) for more information. Under English common law, a banker is defined as a person who carries on the business of banking, which is specified as: Conducting current accounts for his customers

Paying cheques drawn on him, and

Collecting cheques for his customers.

Banco de Venezuela in Coro.

In most common law jurisdictions there is a Bills of Exchange Act that codifies the law in relation to negotiable instruments, including cheques, and this Act contains a statutory definition of the term banker: banker includes a body of persons, whether incorporated or not, who carry on the business of banking' (Section 2, Interpretation). Although this definition seems circular, it is actually functional, because it ensures that the legal basis for bank transactions such as cheques does not depend on how the bank is organised or regulated.

The business of banking is in many English common law countries not defined by statute but by common law, the definition above. In other English common law jurisdictions there are statutory definitions of the business of banking or banking business. When looking at these definitions it is important to keep in mind that they are defining the business of banking for the purposes of the legislation, and not necessarily in general. In particular, most of the definitions are from legislation that has the purposes of entry regulating and supervising banks rather than regulating the actual business of banking. However, in many cases the statutory definition closely mirrors the common law one. Examples of statutory definitions:

"banking business" means the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and includes such other business as the Authority may prescribe for the purposes of this Act; (Banking Act (Singapore), Section 2, Interpretation).

"Banking business" means the business of either or both of the following:

receiving from the general public money on current, deposit, savings or other similar account repayable on demand or within less than [3 months] ... or with a period of call or notice of less than that period;

Paying or collecting cheques drawn by or paid in by customers

Since the advent of EFTPOS (Electronic Funds Transfer at Point Of Sale), direct credit, direct debit and internet banking, the cheque has lost its primacy in most banking systems as a payment instrument. This has led legal theorists to suggest that the cheque based definition should be broadened to include financial institutions that conduct current accounts for customers and enable customers to pay and be paid by third parties, even if they do not pay and collect cheques.

3.3 Different Types of Bank

Banks' activities can be divided into retail banking, dealing directly with individuals and small businesses; business banking, providing services to mid-market business; corporate banking, directed at large business entities; private banking, providing wealth management services to high net worth individuals and families; and investment banking, relating to activities on the financial markets. Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profit organizations.

There are different types of bank. Some important types of bank are –

Commercial bank refers to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses. It can be public or private.

Central bank is normally government-owned and charged with quasi-regulatory responsibilities, such as supervising commercial banks, or controlling the cash interest rate. They generally provide liquidity to the banking system and act as the lender of last resort in event of a crisis.

Islamic bank adhere to the concepts of Islamic law. This form of banking revolves around several well-established principles based on Islamic canons. All banking activities must avoid interest, a concept that is forbidden in Islam. Instead, the bank earns profit (markup) and fees on the financing facilities that it extends to customers.

3.4 Bankers

Any person carrying on the business of banking is a banker. Generally a banker is a person, who operates banking activities.

Some definitions of banker are given below.

- 1). A banker includes a person or corporation or company acting as banker.
- 2). A banker is a dealers in debts his own and other people.

Finally, we may say that bank means a person transacting the business of accepting, for the purpose of lending and investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise.

3.5 Customers

Generally, customers are the people who deal with Bank. A customer is a person who has some sort of accounts either savings or current or some similar relations with a Bank.

Some definitions of Customer are given below:

- 1). To be a customer, one should regularly maintain banking practice.
- 2). Customer is a person who has a Bank Account, for whom bank is agreed to collect any commodities and even any bank that open and account in another bank, also be treated as a customer.

- Uniform Commercial Board.

- 3). Customer refers to that person or institution who maintains savings or current account with the Bank.

From the above discussion, we may say that,

A customer is a person or institution, who

- Have an account in the bank.
- Operate transaction with the bank.
- Maintain a relation with the bank as its client.

3.6 Functions of Bank

- General banking
- Retail banking
- Corporate banking
- Islamic banking
- SME/Agri banking
- NRB banking
- Special banking
- Work as an government agent

The main focus of the report is corporate banking-general credit unit so the following are about corporate banking of Prime banking.

3.7 Corporate Banking- Credit Risk Management

Credit risk is considered to be the most significant one among all the risks a bank is exposed to. On the other hand, quality of credit/asset is the key determinant of the Bank's financial health. Therefore, proper and efficient management of credit risk is the prime concern of the management to ensure that asset quality can be maintained at optimum level. Moreover, regulators are also highly concerned about the credit risks banks are undertaking in its day to day business. In its effort to establish credit discipline in the banking system, Bangladesh Bank made the first regulatory move through introduction of the Lending Risk Analysis (LRA) in 1993. Since then, Banks used to conduct LRA for all lending exposures in excess of Tk10 Million. Meanwhile, banking sector has experienced enormous changes. Credit culture has been shifting towards a more professional and standardized Credit Risk Management approach and LRA framework has been criticized for its baseness to some qualitative criteria. As credit risk grading system is a dynamic process and should be changed in line with business complexities, a more effective credit risk grading process was the industry demand. Meanwhile, in 2003, Bangladesh Bank made the Core Risk Management Guidelines (CRMG) mandatory for implementation which includes a separate credit risk rating framework. However, it seemed to be very quantitative and suggested to introduce grading both unclassified and classified accounts. But it was not detailed enough for implementation and did not tell anything about the fate of LRA. Bangladesh Bank felt it necessary to integrate the above two models and keeping the limitations of LRA in mind, it has amended Lending Risk Analysis Manual and developed a new risk rating framework named "Credit Risk Grading Manual".

The Credit Risk Grading Manual (CRGM) has been made mandatory replacement of the LRA and applicable for all exposures (irrespective of amount) other than those covered under Consumer and Small Enterprises Financing Prudential Guidelines and also under the Short-Term Agricultural and Micro - Credit. However, Bangladesh Bank has made it a minimum requirement for credit risk grading and given the option to the commercial banks to adopt and adapt more sophisticated framework considering its size and complexities of business. As such, considering the business complexities Prime Bank is currently involved in, we have modified the Credit Risk Grading framework and developed our own Credit Risk Grading Manual in line with the CRGM of Bangladesh Bank. This Credit Risk Grading Manual will be subject to changes which will be done as and when warranted.

Products and Services

- Short-Term Finance
- Long-Term Finance

- Real Estate Finance
- Import Finance/Trade Finance
- Work Order Financing/Construction Business

Export Finance Unit

→Project Loan

→Working capital

PC/Overdraft/ECC

Back to Back L/C

L/C & LTR

Cash Credit (Hypothecation)

Structured Finance Unit

→Project Finance

→Acquisition Finance

→Securitization

→Advisory

→Investment Procedure

Lease Finance Unit

Chapter 04

Credit Risk Management Process of PBL

4.0 Overview

Risk is inherent in all types of business. However, for Banks and financial institutions credit risk is considered to be the toughest one. Though Banks and Financial Institutions have been facing difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio management or lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparty.

Credit risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with the agreed terms and conditions. In other words, it is the loss associated with degradation in the credit quality of the borrowers or counterparties. In a Bank's portfolio, losses stem from outright default due to the inability or unwillingness of the customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio value arising from actual or perceived deterioration in credit quality. Credit risk emanates from a bank's on and off balance sheet dealings with an individual, corporate, bank, financial institution or a sovereign. Credit risk may take the following forms:

- In the case of direct lending: principal and/or interest may not be repaid;
- In the case of guarantees or letters of credit: funds may not be forthcoming from the constituents upon crystallization of the liability;
- In the case of treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases;
- In the case of security trading business: funds/securities settlement may not be effected;
- In the case of cross border exposure: the availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the sovereign.

4.1 Credit Risk Management (CRM) Department

The Credit Risk Management Department shall perform the following duties:

- a) Assess risks inherent in the credit proposal sent by Corporate Division and also evaluate proposed facility pricing based on risks, security, structuring and terms and conditions to suit the business condition and to protect Bank's interest.
- b) Compliance to the existing rules and regulations of the Bank and all regulatory authorities and laws of the country and to advise the Corporate Division for rectification, if required.
- c) Advise the Corporate Division about changes, if required, in the structure and terms and conditions of the proposed facility.
- d) Process credit proposal for approval of the competent authority.
- e) Issue sanctions advice for credit facilities or decline.
- f) Maintain Limit Sanction Register.

- g) Review the performance of the customer on Off-site Basis and prescribe appropriate remedial measures, if required until the loan account becomes a “Special Mention” one.
- h) Review/revise risk grading of the customer from time to time based on the “Early Alert Report” and Downgrade Proposal submitted by Corporate Division.
- i) Handover loan to the Recovery Department as and when it is degraded to Special Mention or below.

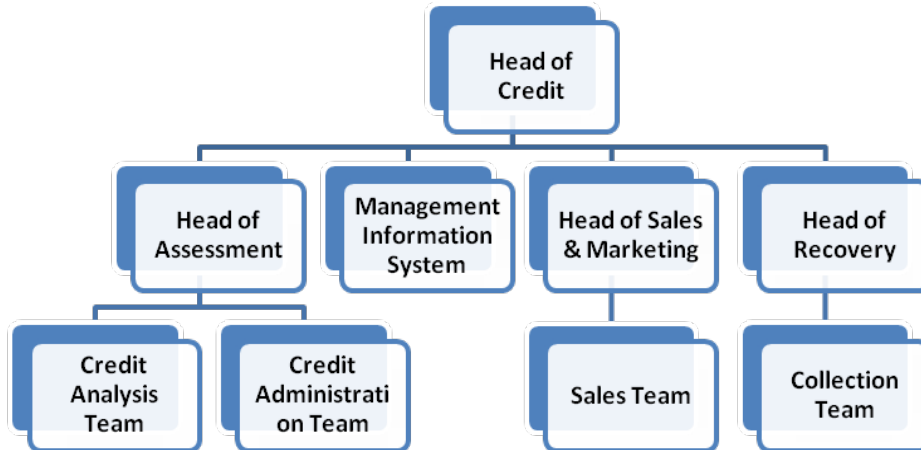


Fig. 5.1 Organization Structure of Credit Risk Management Dpt.

4.1.1 Major Functions of CRM

- a) To update Bank’s Credit Policy/Lending Guideline, procedures and control mechanisms related with all credit risks arising from corporate/commercial banking and retail banking etc.
- b) To approve/decline credit proposal received from Corporate Division (presently from Branches) within delegated authority and to recommend to the higher authority if it is beyond delegation.
- c) To provide advice/assistance regarding all credit matters to Corporate Division/Branches.
- d) Periodical review of different types of credits, maintain effective follow-up and supervision and take all possible measures in time to save from classification.

4.1.2 Duties and Responsibilities of CRM:

- a) Examine/review credit proposals (new/renewal) sent by corporate division/branches to:
 - ❑ Process for approval
 - ❑ Placing credit proposals in the Head Office Credit Committee.
 - ❑ Decline credit proposals if they do not meet criteria.
 - ❑ Recommendation credit proposal to Additional Managing Director/Managing Director/EC/ Board for their approval
 - ❑ Prepare facility sanction letter and send copies to:
 - Corporate division/Branches
 - Credit Administration Division

- b) Review on a periodical basis in the light of:
 - Structuring
 - Adequacy of security
 - Pricing and profitability
 - Financial analysis &
 - Form and content
 - Performance
 - Turnover
 - Repayment

- c) Revise and ratify borrower's risk grade developed by Corporate Division/branches.
- d) Review delegated credit approval authorities on an annual basis
- e) Review approval procedures of Retail Credit from time to time
- f) Review and update bank's credit manual and credit operating procedures on an annual basis.
- g) Conduct industry analysis and detect risk involved with each industry.
- h) Formulate strategy to minimize risk of lending to specific industry.
- i) Guide and educate officers of all Departments of Credit Division and Corporate Division/branches.

4.2. Credit Risk Review and Monitoring Process

The credit review and monitoring process of PBL mainly based on the risk grading and its review. The overall process is discussed here.

4.2.1 Credit Risk Grading

While providing credit facility to a customer, Bank undertakes many risks among which credit risk is considered to be the most important one. As such, an in-depth study should be conducted on the borrower's creditworthiness which will help the bank to identify all possible risks underlying in a particular credit transaction. A formal evaluation of borrower's financial health and ability to repay debt obligation is called credit rating which helps the Bank to grade the concerned customer. As such, it is also called credit risk grading. And, risk identified through credit rating/risk grading is quantified for better understanding and taking appropriate mitigating technique. Besides, it helps the Bank to charge commensurate risk premium on a particular credit facility. Therefore, it is important to accurately measure the risks in a transaction and rate/grade the facility accordingly.

To assess the borrower's creditworthiness, an in-depth study should be conducted that will help the bank to identify all possible risks underlying in a particular credit transaction.

BASIC FRAMEWORK:

Bangladesh Bank made it mandatory for the Banks to conduct a “Credit Risk Grading (CRG)” in the prescribed format before sanction of a loan.

In the said Guideline, Bangladesh Bank provided a sample Risk Grading Model and advised Banks to design their own model in line with that one.

PRIME BANK’S RISK GRADING FRAMEWORK: All credit proposals must be supported by a comprehensive risk analysis. It will encompass the following three things:

- Credit Risk Grading (CRG)
- Risk Grading Scorecard
- Risk Grading.
- No proposal can be put up for approval unless there has been a complete written analysis.

NUMBER AND SHORT NAME OF GRADES USED IN THE CRG

The proposed CRG scale consists of 8 categories with Short names and Numbers are provided as follows:

GRADING	SHORT NAME	NUMBER
Superior	SUP	1
Good	GD	2
Acceptable	ACCP	3
Marginal/Watch list	MG/WL	4
Special Mention	SM	5
Sub standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

CREDIT RISK GRADING DEFINITIONS

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

Superior - (SUP) - 1

Credit facilities, which are fully secured i.e. fully cash covered.

Credit facilities fully covered by government guarantee.

Credit facilities fully covered by the guarantee of a top tier international Bank.

Good - (GD) - 2

Strong repayment capacity of the borrower
The borrower has excellent liquidity and low leverage.
The company demonstrates consistently strong earnings and cash flow.
Borrower has well established, strong market share.
Very good management skill & expertise.
All security documentation should be in place.
Aggregate Score of 85 or greater based on the Risk Grade Score Sheet

Marginal/Watch list - (MG/WL) - 4

This grade warrants greater attention due to conditions affecting the borrower.
These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings.
The borrower incurs a loss
Loan repayments routinely fall past due
Aggregate Score of 65-74 based on the Risk Grade Score Sheet

Special Mention - (SM) - 5

This grade has potential weaknesses that deserve management's close attention.
Severe management problems exist.
Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage),
An Aggregate Score of 55-64 based on the Risk Grade Score Sheet.

Substandard - (SS) – 6

Financial condition is weak and capacity or inclination to repay is in doubt.
These weaknesses jeopardize the full settlement of loans.
Bangladesh Bank criteria for sub-standard credit shall apply.
An Aggregate Score of 45-54 based on the Risk Grade Score Sheet.

Doubtful - (DF) – 7

Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.
However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Bad & Loss.
Bangladesh Bank criteria for doubtful credit shall apply.
An Aggregate Score of 35-44 based on the Risk Grade Score Sheet.

Bad & Loss - (BL) - 8

Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/liquidation.

Prospect of recovery is poor and legal options have been pursued.

Proceeds expected from the liquidation or realization of security may be awaited, and the anticipated loss should have been provided for.

Evaluation of Management Risk:

Risk that counterparties may default as a result of poor managerial ability including experience of the management, its succession plan and team work.

Evaluation of Security Risk:

Risk that the bank might be exposed due to poor quality or strength of the security in case of default. This may entail strength of security & collateral, location of collateral and support.

Evaluation of Relationship Risk:

These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

Step II Allocate weight ages to Principal Risk Components

According to the importance of risk profile, the following weightages are proposed for corresponding principal risks.

Principal Risk Components:	Weight:
Financial Risk	50%
Business/Industry Risk	18%
Management Risk	12%
Security Risk	10%
Relationship Risk	10%

Step IV Assign weight ages to each of the key parameters.

Principal Risk Components:	Key Parameters:	Weight:
Financial Risk		50%
	Leverage	15%
	Liquidity	15%
	Profitability	15%
	Coverage	5%
Business/Industry Risk		18%
	Size of Business	5%
	Age of Business	3%
	Business Outlook	3%
	Industry growth	3%
	Market Competition	2%
	Entry/Exit Barriers	2%
Management Risk		12%
	Experience	5%
	Succession	4%
	Team Work	3%
Security Risk		10%
	Security coverage	4%
	Collateral coverage	4%
	Support	2%
Relationship Risk		10%
	Account conduct	5%
	Utilization of limit	2%
	Compliance of covenants	
	/condition	2%
	Personal deposit	1%

Step VI Arrive at the Credit Risk Grading based on total score obtained

The following is the proposed Credit Risk Grade matrix based on the total score obtained by an obligor.

Number	Risk Grading	Short Name	Score
1	Superior	SUP	100% cash covered Government guarantee International Bank guarantees
2	Good	GD	85+
3	Acceptable	ACCPT	75-84
4	Marginal/Watch list	MG/WL	65-74
5	Special Mention	SM	55-64
6	Sub-standard	SS	45-54
7	Doubtful	DF	45-54
8	Bad & Loss	BL	<35

CREDIT RISK GRADING PROCESS

Credit Risk Grading should be completed by a Bank for all exposures (irrespective of amount) other than those covered under Consumer and Small Enterprises Financing Prudential Guidelines and also under The Short-Term Agricultural and Micro - Credit.

For Superior Risk Grading (SUP-1) the score sheet is not applicable. This will be guided by the criterion mentioned for superior grade account i.e. 100% cash covered, covered by government & bank guarantee.

Credit risk grading matrix would be useful in analyzing credit proposal, new or renewal for regular limits or specific transactions, if basic information on a borrowing client to determine the degree of each factor is a) readily available, b) current, c) dependable, and d) parameters/risk factors are assessed judiciously and objectively. The Relationship Manager as per Data Collection Checklist as shown in Appendix-A should collect required information.

Relationship manager should ensure to correctly fill up the Limit Utilization Form as shown in Appendix-B in order to arrive at a realistic earning status for the borrower.

Risk factors are to be evaluated and weighted very carefully, on the basis of most up-to-date and reliable data and complete objectivity must be ensured to assign the correct grading. Actual parameter should be inputted in the Credit Risk Grading Score Sheet as shown in Appendix–C.

Credit risk grading exercise should be originated by Relationship Manager and should be an on-going and continuous process. Relationship Manager shall complete the Credit Risk Grading Score Sheet and shall arrive at a risk grading in consultation with a Senior Relationship Manager and document it as per Credit Risk Grading Form as shown in Appendix-D, which shall then be concurred by the Credit Officer in consultation with a Senior Credit Officer.

All credit proposals whether new, renewal or specific facility should consist of a) Data Collection Checklist, b) Limit Utilization Form c) Credit Risk Grading Score Sheet, and d) Credit Risk Grading Form.

The credit officers then would pass the approved Credit Risk Grading Form to Credit Administration Department and Corporate Banking/Line of Business/Recovery Unit for updating their MIS/record.

The appropriate approving authority through the same Credit Risk Grading Form shall approve any subsequent change/revision i.e. upgrade or downgrade in credit risk grade.

4.3 Credit Monitoring Process

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

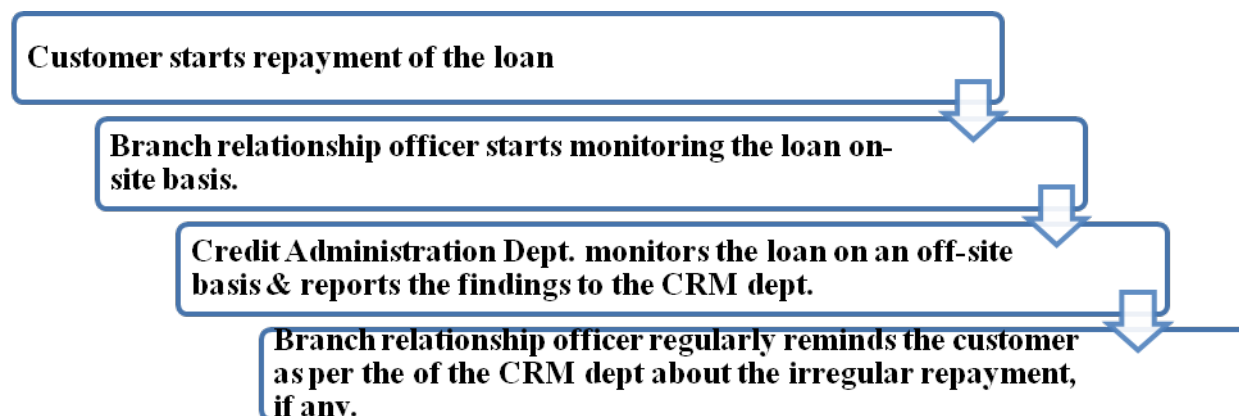


Fig. 5.2 Credit Monitoring Process

Step-1: The customer starts repayment of the loan. Simultaneously, Branch relationship officer starts monitoring the loan on on-site basis. If he/she finds any deviation to the terms and conditions of the sanction or borrowers financial health, he/she prepares an Early Alert Report and sends it to the Corporate Banking Division, Head Office.

Step-2: Simultaneously, Credit Administration Department monitors the loan on an off-site basis and reports its findings to the Credit Risk Management Department. On the other hand, Corporate Banking Division informs the Credit Risk Management Department about the customer’s position on the basis of Early Alert Report received from Relationship Officer. It may propose revising the

customer's risk grading. Credit Risk Management Department ultimately decides on the customer and directs Corporate Banking Division to take necessary action.

Step-3: The Relationship Officer regularly reminds the customer as per decision of the Credit Risk Management Department about the irregular repayment, if any and/or breach of contract through letter and/or phone call and/or visit in person.

4.4 Early Alert Reporting

An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention of the management. If such weaknesses are left uncorrected, they may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date with a likely prospect of being downgraded to Grade 5 or worse (Impaired status), within the next twelve months.

Therefore, early identification, prompt reporting and proactive management of Early Alert Accounts are prime responsibilities of all Relationship Managers/Officers and the whole process must be a continuous one. An Early Alert Report is completed by the RM and sent to the approving authority in CRM for any account that is showing signs of deterioration within seven days from the identification of weaknesses. The Risk Grade is updated as soon as possible and no delay is taken in referring problem accounts to the CRM department for assistance in recovery.

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 quick action to protect the Bank's interest. The symptoms of early alert are by no means exhaustive and hence, if there are other concerns, such as a breach of loan covenants or adverse market rumors that warrant additional caution, an Early Alert report should be raised.

Moreover, regular contact with customers enhances the likelihood of developing strategies mutually acceptable to both the customer and the Bank. Representation from the Bank in such discussions includes the local legal adviser when appropriate.

An account is reclassified as a Regular Account from Early Alert Account status when the symptom, or symptoms, causing the Early Alert classification is regularized or no longer exist. The concurrence of the CRM approval authority is required for conversion from Early Alert Account status to Regular Account status.

Relationship Manager ensures that call/ inspection are regularly made on the Clients and outcome of such visits/inspections are well documented.

Call reports is analyzed to ensure that the affairs of the business of the borrower is being run on expected line and there is no material change in the status of the borrower.

4.5 Recovery Process

The recovery department is responsible for the recovery of the loan. The Recovery Department of Credit Division manages accounts with sustained deterioration (a Risk Grade of Sub-Standard (6) or worse). Sometimes, as per recommendation of the Credit Risk Management Department and Corporate Banking Division the Management decides to transfer some **EXIT** accounts graded 4-5 to the RU for efficient exit. Whenever an account is handed over from Corporate Banking Division/Relationship Management to RU, a Handover/Downgrade Checklist is prepared. Down grading process is done immediately and is not postponed until the annual review process.

The RU's primary functions are to:

- Determine Account Action Plan/Recovery Strategy
- Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- Regular review of grade 6 or worse accounts.
- Management of classified loans and special mention accounts.
- Waiting off B/L loan accounts and related works with the approval of the Board.

The recovery of problem loans is a dynamic process, and the associated strategy together with the adequacy of provisions is regularly reviewed.

4.6 NPL Account Management

All NPLs is assigned to Account Manager(s) within the Recovery Department, who is responsible for coordinating and administering the action plan/recovery of the account, and serves as the primary customer contact after the account is downgraded to substandard. The Recovery Department soughs assistance from Corporate Banking/Relationship Management if required to ensure that appropriate recovery strategies are in force.

4.7 Account Transfer Procedure

Within 7 days of an account being downgraded to substandard (grade 6), a Request for Action (RFA) and a handover/Downgrade Checklist is prepared by the RM and forwarded to Recovery Department for acknowledgment. The account is assigned to an account manager within the Recovery Department, who will review all documentation, meet the customer, and prepare a Classified Loan Review Report (CLR) within 15 days of the transfer. The CLR is approved by the Head of Credit, and copied to the Head of Corporate Banking and to the Branch/office where the loan proposal was originated. This initial CLR highlights any documentation issues, loan structuring weaknesses, proposed workout strategy, and should seek approval for any loan loss provisions that are necessary.

Recovery Departments ensures that the following is carried out when an account is classified as Sub Standard or worse:

- Facilities are withdrawn or repayment is demanded as appropriate. Any drawings or advances should be restricted, and only approved after careful scrutiny and approval from appropriate executives within CRM.
- CL report is updated according to Bangladesh Bank guidelines and the borrower's Risk Grade is changed as appropriate.
- Loan loss provisions are taken based on Forced Sale Value (FSV) of the underlying collaterals.
- Loans are rescheduled in conjunction with the Loan Rescheduling Guidelines of Bangladesh Bank which are in force. Any rescheduling should be based on projected cash flow and should be strictly monitored.
- Prompt legal action is taken if the borrower is non-cooperative.

4.8 Non-Performing Loan (NPL) Monitoring

On a quarterly basis, a Classified Loan Review (CLR) is prepared by the Recovery Department Account Manager to update the status of the action/recovery plan, review and assess the adequacy of provisions, and modify the bank's strategy as appropriate. The Head of Credit approves the CLR for NPLs up to 15% of the banks capital, while MD's approval is required for NPLs in excess of 15%. The CLR's for NPLs above 25% of capital is approved by the MD/CEO, with a copy presented before the Board of Directors.

4.9 NPL Provisioning and Write-off

The guidelines established by Bangladesh Bank for CIB reporting, provisioning and write off of bad and doubtful debts, and suspension of interest is followed in all cases. These requirements are the minimum and Bank will maintain more than minimum required provision and follow stringent write off policy. Regardless of the length of time a loan is past due, provision will be raised against the actual and expected losses at the time they are estimated. The approval to take provisions, write offs, or release of provisions/upgrade of an account is restricted to the Head of Credit and/or the MD based on recommendation from the Recovery Department. The Request for Action (RFA) or CLR a reporting format is used to recommend provisions, write-offs or release/upgrades.

The RU Account Manager determines the Forced Sale Value (FSV) for accounts graded 6 or worse. Forced Sale Value is generally the amount that is expected to be realized through the liquidation of collateral held as security or through the available operating cash flows of the business, net of any realization costs. Provision is maintained for any shortfall in the Forced Sale Value to cover total loan outstanding once an account is downgraded to grade 7. Where the customer is not cooperative, no value is assigned to the operating cash flow in determining Forced Sale Value. Forced Sale Value and provisioning levels is updated as and when new information is obtained, but as a minimum, it is done on a quarterly basis in the CLR.

Chapter 6

Data Analysis and Findings

6.0 Overview

Credit planning implies efficient utilization of scarce (loanable fund) to generate earning for the bank. Constituents of credit planning are: forecasting of loanable fund likely to be available in a particular period of time and allocation of the same amongst alternative avenues in a prudent way. Credit planning has got a serious importance because –

Loanable fund comes out of deposit mobilized from the people. So safety of people's money should be ensured carefully. Unplanned lending may create harm in two ways; firstly, excess lending may create liquidity crisis for the bank. Secondly, too much conservative lending may make the loanable fund idle. Idle but cost bearing fund again incurs operating cost for the bank. Excess liquidity led by unplanned inadequate lending push the profitability to decline. Planned credit helps to maintain conformity with the national priority. Unplanned credit may upset the total economic stability from macro point of view either by making inflation or deflation.

6.1.0 Lending Sectors

As initiated by Bangladesh Bank vide BCD Circular No. 33 dated 16-11-89 different kinds of lending were subdivided into 11 categories w.e.f. 01-01-90 which was subsequently reduced to 9 vide BCD Circular No. 23 dated 09-10-93 and again to 7 prime sectors vide BCD Circular No.8 dated 25.04.94.

Loan and advances have primarily been divided into two major groups:

a) Fixed term loan: These are the loans made by the Bank with fixed repayment schedules. Fixed term loans are categorized into three based upon its tenure which is defined as follows:

Short term : Upto 12 months

Medium term : More than 12 and upto 36 months

Long Term : More than 36 months

b) Continuing Loans: These are the loans having no fixed repayment schedule, but have an expiry date at which it is renewable on satisfactory performance of the customer.

Furthermore all categories of loans are accommodated under the 7 prime sectors which are as under:

6.1.1 Agriculture:

Credit facilities to the customers of doing agro business falls under this category. It is divided into two major sub-sectors:

a) Loans to primary producers: This sub-sector of agricultural financing refers to the credit facilities allowed to production units engaged in farming, fishing, forestry or livestock.

Loans to processors or traders of agricultural products are not to be categorized as agricultural loans. Loans to tea gardens for production are treated as agricultural loan, but loans to tea gardens for export will be treated as "Export Credit". Similarly medium and long-term loans to

tea gardens are categorized as industrial term lending.

- b) Loans to input dealers/distributors: It refers to the financing allowed to input dealers and (or) distributors in the agricultural sectors.

Loan to Agriculture sector may include short, medium and long term loans as well as continuous credits. As a product, it may fall under Loan (Gen)/Hire-Purchase/Lease Finance/Cash Credit/Overdraft etc.

6.1.2 Term Loan to Large & Medium Scale Industry:

This category of advances accommodate the medium and long term financing for capital formation of new Industries or for BMRE of the existing units who are engaged in manufacturing of goods and services.

Term loan to tea gardens may also be included in this category depending on the nature and size.

As the financing under this category have fixed repayment schedule it may fall under the heads Loan (Gen)/Hire-Purchase/Lease Financing etc.

6.1.3 Term Loans to Small & Cottage Industries:

These are the medium and long term loans allowed to small & cottage manufacturing industries [Small industry is presently defined as those establishments whose total investment in fixed capital such as land, building, machinery and equipment (excluding taxes and duties) does not exceed TK 30 million and investment in machinery and equipment (excluding taxes and duties) does not exceed TK 10 million. Cottage industries also fall within this definition].

No short term or continuous credits will be included in this category. Medium & Long term loans to weaver are also included in this category. Like the Large & Medium Scale Industry it is also allowed in the form of Loan (Gen)/Hire Purchase/Lease Financing etc.

6.1.4 Working Capital:

Loans allowed to the manufacturing units to meet their working capital requirements, irrespective of their size - big, medium or small, fall under this category.

These are usually continuous credits and as such fall under the head "Cash Credit"

6.1.5 Export Credit:

Credit facilities allowed to facilitate export of all items against Letter of Credit and/or confirmed export orders fall under this category. It is accommodated under the heads "Export Cash Credit (ECC)", Packing Credit (PC), Foreign Documentary Bill Purchased (FDBP), Inland Documentary Bill Purchased etc.

6.1.6 Commercial Lending:

Short term Loans and continuous credits allowed for commercial purposes other than exports fall under this category. It includes import financing for local trade, service establishment etc. No medium and long term loans are accommodated here. This category of advance is allowed in the form of (i) Loan against Imported Merchandise (LIM), (ii) Loan against Trust Receipt (LTR), (iii) Payment Against Documents (PAD), (iv) Secured Overdraft (SOD), (v) Cash Credit etc. for commercial purposes.

6.1.7 Others:

Any loan that does not fall in any of the above categories is considered under the category "Others". It includes loan to (i) transport equipments, (ii) construction works including housing (commercial/residential), (iii) work order finance, (iv) personal loans, etc.

6.2.0 Loan Products of PBL

Depending on the various nature of financing, all the credit facilities have been brought under two major groups: (a) Funded Credit and (b) Non-funded Credit. Under non-funded credit, there are basically two major products namely Letter of Credit and Letter of Guarantee.

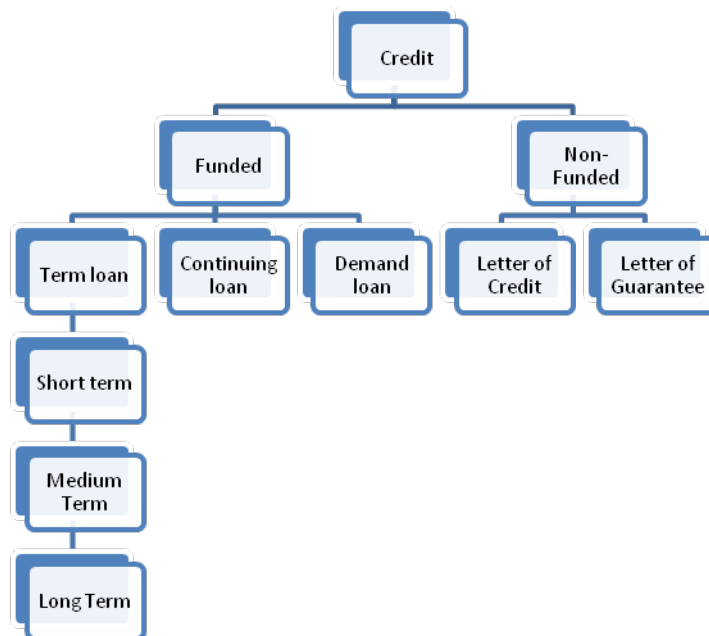


Fig.4.1Types of loan Products

6.2.1 Funded Credit Products

Under Funded Credit, there are the following products:

Loan (General):

Short, Medium & Long term loans allowed to individual/firm/industries for a specific purpose but for a definite period and generally repayable by installments fall under this type. These are mainly allowed to accommodate financing under the categories (I) Large & Medium Scale Industry and (ii) Small & Cottage Industry. Very often term loans for (I) Agriculture & (ii) Others are also included here.

Housing Loan (Commercial):

Loans allowed to individual/enterprises for construction of house for commercial purpose only fall under this type. The amount is repayable by monthly/quarterly installments within a specified period.

Home Loan:

Loans allowed to individuals for purchase of apartment or construction of house for residential purpose fall under this type. The amount is repayable by monthly installments within a specified period.

House Building Loan (Staff):

Loans allowed to our Bank employees for purchase of apartment/construction of house shall be known as House Building Loan (Staff) or HBL (Staff).

Other Loans to Staff:

Loans allowed to employees other than House Building Loan are grouped under Staff Loan (Gen).

Cash Credit (Hypo):

Advances allowed to individual/firm for trading as well as wholesale purpose or to industries to meet up the working capital requirements against hypothecation of goods as primary security fall under this type of lending. It is a continuous credit. It is allowed under the categories (I) "Commercial Lending" when the customer is other than an industry and (ii) "Working Capital" when the customer is an industry.

Cash Credit (Pledge):

Financial accommodations to individual/firms for trading as well as for whole-sale or to industries as working capital against pledge of goods as primary security fall under this type of advance. It is a continuous credit and like Cash Credit (Hypo) allowed under the categories (i) "Commercial Lending" and (ii) Working Capital".

Hire Purchase

Hire Purchase is a type of installment credit under which the customer agrees to take the goods on hire at a stated rental, which is inclusive of the repayment of Principal as well as interest for

adjustment of the loan within a specified period.

Lease Financing:

Lease Financing is one of the most convenient sources of acquiring capital machinery and equipment whereby a customer is given the opportunity to have an exclusive right to use an asset usually for an agreed period of time against payment of rental. It is a term financing repayable by lease rental.

Consumer Credit Scheme (CCS)

It is a special credit scheme of the Bank to finance purchase of consumer durable by the fixed income group to raise their standard of living. The loans are allowed on soft terms against personal guarantee and deposit of specified percentage of equity by the customers. The loan is repayable by monthly installments within a fixed period.

Secured Overdraft (Financial Obligation):

SOD (Financial Obligation) is allowed to individuals/firms against financial obligations (FDR, MBDR, Scheme Deposits of our Bank or similar products of other banks). This is a continuous loan having usual maturity period of 1 (one) year and renewable for further periods at maturity.

Secured Overdraft (General):

SOD (General) is allowed to individuals/firms for miscellaneous purpose. This is a continuous loan having usual maturity period of 1 (one) year and renewable for further periods at maturity.

Secured Overdraft (Work Order):

Advances allowed against assignment of work order for execution of contractual works falls under this type. This advance is generally allowed for a definite period and specific purpose. It falls under the category "Others".

Secured Overdraft (Export):

Advance allowed for purchasing foreign currency for payment of Back to Back L/C liability where the exports do not materialize before due the date of import payment. This is an advance for temporary period and categorized "Export Finance".

Payment against Documents:

Payment made by the Bank against lodgment of shipping documents of goods imported through L/C falls under this type. It is an interim advance connected with import and is generally liquidated against payments usually made by the customer for retirement of the documents towards release of imported consignment from the customs authority. It may fall under anyone of the category "Agriculture/Export Finance/Commercial Lending/Others".

Loan Against Import:

This is funded credit facility allowed for retirement of shipping documents and release of goods imported through L/C taking effective control over the goods by pledge in godowns under Bank's lock & key. This is a temporary advance connected with import which is known as post-import finance and falls under the category "Commercial Lending".

Loan Against Trust Receipt:

Advance allowed for retirement of shipping documents and release of goods imported through LC falls under this type. The goods are handed over to the importer on trust with the arrangement that sale proceeds will be deposited to liquidate the loan account within the stipulated time. This is a temporary advance connected with import and known as post-import finance and falls under the category "Commercial Lending".

Inland Bills Purchased:

Payment made through purchase of inland bills/cheques denominated in local currency to meet urgent requirement of the customer of other than Export Sector falls under this type. This temporary advance is adjustable from the proceeds of bills/cheques purchased and sent for collection. It may fall under any of the categories.

Export Cash Credit (ECC):

Funded credit facility allowed to a customer for export of goods falls under this type and is categorized as "Export Cash Credit". The advances must be liquidated out of export proceeds within 180 days.

Packing Credit (P.C.):

Advance allowed to a customer against bills under BTB L/C and/or firm contract for processing/packing of goods to be exported falls under this type and is categorized as "Packing Credit". Packing Credit must be adjusted from proceeds of the relevant exports within 180 days. It falls under the category "Export Credit".

Foreign Documentary Bills Purchased:

Payment made to a customer through purchase/negotiation of a Foreign Documentary bill falls under this type. This temporary advance is adjusted from the proceeds of the shipping/export documents. It falls under the category "Export Credit".

Inland Documentary Bills Purchased:

Payment made against documents representing sell of goods to Local export oriented industries which are deemed as exports and denominated in Foreign Currency falls under this type. This temporary liability is adjustable from proceeds of the Bill.

Foreign Bills Purchased:

Payment made to a customer through Purchase or Foreign Currency Cheques/Drafts falls under this type. This temporary advance is adjustable from the proceeds of the cheque/draft.

6.2.2 Non-funded credit products

Under non-funded credit products there are-

Letter of Credit

- Letter of Credit-Sight
- Letter of Credit-Deferred
- Back to Back L/C

Letter of Guarantee

- Advanced Payment Guarantee
- Bid Bond
- Performance Bond
- Payment Bond
- Custom Guarantee
- Retention Money Guarantee
- Shipping Guarantee
- Guarantee-Others

6.2.3 Islamic Banking investment products

- Bai-Murabaha
- Bai-Salam
- Quard-e-Hasana
- Bai-Muajjal
- Izarah
- HPSM (Hire Purchase Under Shirkatul Melk)
- Musharaka
- Term Investment-Retail:
 - ✓ Doctors Investment Scheme
 - ✓ Travel Investment
 - ✓ Car Investment
 - ✓ Investment Against Salary
 - ✓ CNG Conversion Investment
 - ✓ Education Investment
 - ✓ Hospitalization Investment
 - ✓ Swapna Neer (Home Investment)

- ✓ Any Purpose Investment
- ✓ Household Durable Investment

6.3.0 Product Parameters

There are some parameters of the loan products which can be termed as characteristics. They are as follows:

6.3.1 Maximum Size:

Maximum size of any funded credit facility to a single customer shall at best be 15% of the total capital of the Bank provided that Single Customer Exposure Limit and other relevant rules as set in different chapters of this policy are complied with. And maximum size of any non-funded credit facility shall at best be 35% of total capital and 50% of the total capital of the Bank for the non-export sector customers and export sector customers respectively provided that Single Customer Exposure Limit and other relevant rules as set in different chapters of this policy are complied with.

However, size of any credit limit in each case shall be fixed after proper assessment of genuine credit requirement of the customer within the maximum allowable limit.

6.3.2 Maximum Tenor:

Maximum tenor for any continuous loan shall be 1 (one) year which is renewable at maturity or within the validity period upon satisfactory performance of the customer. And period of any term loan shall be fixed on case to case basis considering repayment capacity, projected cash flow etc.

6.3.3 Security:

Bank will try to have as much security coverage as possible against each and every credit facility sanctioned to the customers. Security requirement will be determined on case to case basis based on customer's business strength, level of risk bank is undertaking. However, Bank will always prefer to have security equivalent to 1.25 times of the total funded limit except for the following products: SOD (FO), SOD (WO), SOD (EM), SOD (EDF), SOD (CI), FDBP, IDBP, Bid Bond. Security may be in the following forms:

- i) Bank deposit
- ii) Gold / gold ornaments
- iii) Government Bond / Sanchayapatra
- iv) Guarantee given by Government or Bangladesh Bank
- v) Bank Guarantee
- vi) Pledgeable goods
- vii) Land and Building
- viii) Share
- ix) Stock

- x) Machinery and Equipment
- xi) Charge on the fixed and floating asset
- xii) Paripassu Charge on fixed and floating assets
- xiii) Corporate Guarantee of another company backed by Board Resolution.
- xiv) Personal Guarantee
- xv) Bill or Receivables
- xvi) Ownership of vehicles / assets
- xvii) Life Insurance Policy.
- xviii) Post Dated Cheque
- xix) Trust Receipt
- xx) Others as deemed acceptable by the approving authority

6.3.4 General Covenants:

While sanctioning credit facility, Bank will set some covenants. Some of the covenants will be general and others will be specific to a particular credit facility and/or customer. General covenants may be as follows:

- i) Ownership structure of the borrower shall not be changed without prior approval of the Bank.
- ii) Current Ratio as mentioned in the credit application/sanction term shall be maintained.
- iii) The customer shall not borrow from any other source without prior approval of the Bank.
- iv) The customer shall not go for expansion without consent of the Bank.
- v) The customer shall not withdraw profit/declare dividend without consent of the Bank.
- vi) The customer shall submit financial statements within 30 days after yearend.
- vii) Other covenants as set by the sanctioning authority.

6.4 General Credit Principles

Product and Services: The Bank shall sell suitable credit products and services in the market. For this purpose, Bank will design new product from time to time, reengineer the existing ones to keep the same competitive in the market. While designing new products and/or reengineering the existing ones Bank will always emphasize on customers' demand. And product innovation and/or reengineering shall be a continuous process.

Loan-Deposit Ratio: Loans and advances shall normally be financed from customers deposit and sometimes from capital fund of the Bank. However, it will be ensured that Loan-Deposit Ratio should not exceed 90% at any particular point of time. Usually loans and advances shall not be extended out of temporary fund or borrowing from money market.

Credit Quality: Credit facilities shall be allowed in a manner so that credit expansion goes on ensuring optimum asset quality i.e. Bank's standard of excellence shall not be compromised. Credit facilities will be extended to customers who will complement such standards.

Compliance: All credit extension must comply with the requirements of Bank's Memorandum and Articles of Association, Banking Companies Act, 1991 as amended from time to time, Bangladesh Bank's instruction circulars, guidelines and other applicable laws, rules and regulations, Bank's Credit Risk Management Policy, Credit Operational Manual and all relevant circulars in force. The officer originating a credit proposal shall specifically declare that it complies with all above mentioned rules, regulations, policy etc.

Deviation: Any deviation from the internal policy of the Bank must be justified and well documented. Specially, all credit assessment form shall invariably include the deviations from the policy, if any. However, no external regulations shall be compromised.

Return: Credit operation of the Bank should contribute at optimum level within the defined risk limitation. In other words, credit facilities should be extended in such a manner that each deal becomes a profitable one so that Bank can achieve growth target and superior return on capital. Besides, Credit extension shall focus on the development and enhancement of customer's relationship and shall be measured on the basis of the total yield for each relationship with a customer.

Repayment Capacity: Credit facilities will be extended to those customer who can make best use of them thus helping maximize our profit as well as economic growth of the country. To ensure achievement of this objective we will base our lending decision mainly on the borrower's ability to repay.

Diversification: The portfolio shall always be well diversified with respect to sector, industry, geographical region, maturity, size, economic purpose etc. Concentration of credit shall be carefully avoided to minimize risk.

Proper staffing: Proper credit assessment is complex and requires high level of numerical as well as analytical ability of the concerned officer. To ensure effective understanding of the concept and thus to make the overall credit port-folio of the Bank healthy, proper staffing shall be made through placement of qualified officials having appropriate background, right aptitude, formal training in credit risk management, familiarization with Bank's credit culture and required experience as well.

Name Lending: The Bank shall carefully avoid name lending. Credit facility shall be allowed absolutely on business consideration after conducting due diligence. No credit facility shall be allowed simply considering the name and fame of the key person or corporate image of the borrowing company. In all cases, viability of business, credit requirement, security offered, cash follow and risk level will be professionally analyzed.

Single Customer Exposure Limit: Prime Bank will always comply with the prevailing banking regulation regarding Single Customer Exposure Limit set by Bangladesh Bank from time to time. As

per prevailing regulation, Bank will take maximum exposure (outstanding at point of time) on a single customer (Individual, Enterprise, Company, Corporate, Organization, Group) for the amount not exceeding 35% of Bank's total capital subject to the condition that the maximum outstanding against funded facilities does not exceed 15% of the total capital. However, for single customer of the export sector maximum exposure limit shall be 50% of the total capital subject to the condition total funded facility shall not exceed 15% of the total Capital of the Bank at any point of time.

Large Loan: Credit facility to a single customer (Individual, Enterprise, Company, Corporate, Organization, Group) shall be treated as Large Loan if total outstanding amount against the limit at a particular point of time equals or exceeds 10% of the total capital of the Bank. Prime Bank's total Large Loan Portfolio exposure shall not exceed 56% of the total outstanding loans and advances at any point of time.

Security: Security taken against credit facilities shall be properly valued and effected in accordance with the laws of the country. An appropriate margin of security will be taken to reflect such factors as the disposal costs or potential price movements of the underlying assets.

6.5.0 Pricing Loan Products

The process followed by the PBL as guided by the BB regarding the pricing of the loan products are discussed below:

6.5.1 Loan Pricing

Credit facilities to the customer are the prime source of the Bank's income. More specifically, interest from loans accounts the lion share of the total revenue of the Bank. On the other hand, financial market of our country is apparently very competitive due to participation of 49 (forty nine) banks in our small financial market. As such, pricing is very crucial for business growth of the Bank. Prime Bank Limited has been fixing/re-fixing price of different credit facilities from time to time considering changes in the market condition.

6.5.2 Basis of Pricing

Price of all credit facilities will be fixed based on the level of risk and type of security offered. Rate of interest will be the reflection of risk inherent in a particular transaction i.e. the higher the risk, the higher the rate of interest. Therefore, loan pricing will be directly correlated with the risk grade of the customer.

6.5.3 Types of Rate

Usually, Bank will charge fixed interest rate which will be subject to changes by the Management. In this respect, all loan contracts will contain a provision to the effect that rate of interest is subject to changes by the Management. And, interest rate will be revised as and when a significant fluctuation

occurs in the cost of fund of the Bank due to volatility of interest rate in the market. The Bank will charge floating interest only in SOD (EDF). In all other cases, fixed interest rate will be applied.

For fixed interest rate, the Board of Directors will fix a Band for a particular Sector/Industry/Product. Customers will be allowed a fixed rate within that band. Any deviation from the approved interest rate band will be mentioned in the Credit Assessment Form with proper justification. The Managing Director may sanction a credit facility at a rate within the Band. However, other executives will exercise their delegated authority to sanction credit facility at the highest rate of the approved Band.

6.5.4 Revision of Rates

The Management of the Bank will continuously monitor interest rate situation in the market and discuss the same in the Asset Liability Management Committee (ALCO) meeting at least once in a month. As per decision of the Asset Liability Management Committee (ALCO), the Management of the Bank may approach the Board of Directors to revise rate of interest, commission, charges etc.

6.6 Loan Approval Process

Like every other banks the PBL follows the loan approval process. This process is consists of some steps which describes the ways in which the loan or credit asked from the bank is approved. The process is discussed in the following paragraphs.

Step-1: A potential customer collects prescribed Credit Application Form from the Relationship Officer of Branch/Regional Corporate Banking Department/Corporate Banking Division, Head Office/Web address of the Bank. Later, he/she submits the filled in Credit Application Form along with necessary papers and documents.

Step-2: The Relationship Officer scrutinizes the Credit Application Form and other documents submitted by the customer and make a preliminary assessment on creditworthiness of the potential borrower. He/she collects further information from the customer if it is felt necessary. And, if he/she finds the proposal not bankable, he/she sends a refusal letter to the customer immediately. On the other hand, if he/she finds it acceptable, he/she forwards the application to the concerned Relationship Manager.

Step-3: The Relationship Manager, singly or jointly with Relationship Officer, visit the customer's business premise and try to acquire proper understanding about the business position, actual credit requirement, repayment capacity etc. Besides, he/she negotiates with the customer about the structure of the proposed credit facility. Apart from this he/she assesses the value of the security to be offered and prepares Valuation Report. Finally, the Relationship Manager summarizes all these information in the Pre-sanction Inspection Report/Call Report/Visit Report in the Bank's prescribed format in which he/she recommends for some specific credit facility for the customer.

Step-4: The Relationship Manager sends the Pre-sanction Inspection Report to the Corporate Banking Division, Head Office or to the Regional Corporate Banking Department, if any. The Head of Corporate Banking Division/Regional Corporate Banking Department assesses the credit proposal.

He/she might contact with the Relationship Manager or directly to the customer for any query. Finally, if he/she decides to refuse the proposal or to proceed further with the proposal and communicates his /her decision to the Relationship Manager.

Step-5: If the Head of Corporate Banking Division/Regional Corporate Banking Department refuses, the Relationship Manager sends a refusal letter to the customer. If he/she is positive, the Relationship Officer collects duly filled in CIB Inquiry Form from the customer and submits it to the Credit Information Bureau of Bangladesh Bank for latest CIB Report through Credit Administration Department, Head Office. Everything may stop here if CIB report shows that the customer has classified liability in its name and/or in the name of its sister concern(s). In that case, the customer is regretted accordingly.

Step-6: Meanwhile, the Relationship Officer rates the customer as per Risk Grading System of the Bank. Finally, the Relationship Manager originates a formal Credit Proposal in which the Head of Corporate Banking Division affixes his/her recommendation regarding the proposal.

Step-7: The Head of Corporate Banking Division, Head Office then forwards the proposal to the Credit Risk Management Department, Credit Division along with necessary papers. The concerned Credit Officer conducts in-depth Credit Analysis (Due Diligence) and affixes his/her comments/observations/findings.

Step-8: The Credit Officer places the proposal along with his/her comments/observations/findings before the Head of Credit/Head Office Credit Committee. The Head of Credit may contact with the Head of Corporate Banking for his/her queries. He/she may also express his/her reservation on a particular issue/risk and ask the Head of Corporate Banking to clarify his/her position and/or risk minimization technique(s). Finally, he might decline the proposal. And, if he/she is fully satisfied he/she may approve the facility if it is within his/her delegated authority. If it is beyond his/her delegated authority, he /she would recommend the proposal to the Managing Director.

Step-9: The Managing Director may decline the proposal if he/she is not satisfied about the proposal. If he/she is satisfied and if it is within his/her delegated power, he/she approves the proposal. If the proposal exceeds his/her delegated authority, he/she recommends it to the Executive Committee of the Board of Directors, which has the supreme authority to sanction any loan.

Step-10: If the facility is approved (whoever is the approval authority), the Credit Risk Management Department of Credit Division issues sanction letter to the Corporate Banking Division/Branch along with a Documentation Check List which clearly spells out what are the documentation formalities required to be completed before disbursement. A copy is sent to Credit Administration Department, Credit Division.

Step-11: The Corporate Banking Division/Branch then issues sanction letter to the customer in line with the letter of Credit Risk Management Department and requests the customer to complete documentation formalities.

6.7 General Covenants:

While sanctioning credit facility, Bank will set some covenants. Some of the covenants will be general and others will be specific to a particular credit facility and/or customer. General covenants may be as follows:

- i) Ownership structure of the borrower shall not be changed without prior approval of the Bank.
- ii) Current Ratio as mentioned in the credit application/sanction term shall be maintained.
- iii) The customer shall not borrow from any other source without prior approval of the Bank.
- iv) The customer shall not go for expansion without consent of the Bank.
- v) The customer shall not withdraw profit/declare dividend without consent of the Bank.
- vi) The customer shall submit financial statements within 30 days after yearend.
- vii) Other covenants as set by the sanctioning authority.

6.8 Checklist

- 1. The person has to be an account holder of the bank.
- 2. Client's formal request in their Letterhead.
- 3. Valid Import Registration Certificate (IRC).
- 4. Membership certificate from Chamber of Commerce or similar institution.
- 5. Indent/Proforma Invoice:
Indent: An indent stating the description of the goods including quantity, unit price, etc. given by the Supplier/Exporter or given by the Indenter.
Proforma Invoice: Proforma Invoice states the description of the goods including quantity, unit price, etc. given by the Supplier/Exporter.
- 6. Insurance cover note and money receipt along with payment advise.
- 7. Duly filled in bank's application and agreement form (CF-7 Form)
- 8. Duly filled in LCA Form.
- 9. Duly filled in IMP Form.
- 10. Duly filled in related charges documents.
- 11. TIN (Tax identification no.).
- 12. VAT (Value Added Tax certificate).

13. NOC from lien bank regarding overdue bill of entry.
14. Valid Indent Registration Certificate copy along with Bangladesh bank permission
15. CIB report (Credit Information Bureau)
16. Importer's address (mentioned in IRC) must be verified.
17. Letter of Trust Receipt

6.9.0 Credit Approval Authority

Each and every bank, as per the requirements of BB, must delegate authority of approving loans of certain limit. The authority clearly indicates who can approve the loan and up to what amount and who will be responsible for the approval of the loan. The detail of the practices of the PBL is discussed here.

6.9.1 Delegation of Approval Authority:

Credit approval authority to the proper body and/or executive is a precondition for ensuring smooth and transparent credit operation in the Bank. Since inception, credit approval authority has been delegated to different tiers of both the Board of Directors and the Management. Authorities who enjoy delegation of business power i.e credit approval authority are as follows:

1. The Board of Directors
2. The Executive Committee of the Board
3. The Managing Director
4. Executives working as head of Branches.

Credit approval authority was delegated to the Managing Director and Head of Branches upto certain amount under some terms and conditions. The Board of Directors in its 2nd meeting held on March 21, 1995 initially approved the delegation of business power for different tiers of the Management. Subsequently, it was revised/amended several times. Later, the Board of Directors in its 190th meeting held on 18.12.2003 approved amendment of Delegation of Business Power while awarding approval for implementation of “Guidelines on Credit Risk Management” circulated by Bangladesh Bank vide BRPD Circular No. 17 dated October 07, 2003. However, the Board of Directors in its 197th meeting held on 15.02.2004 has been pleased to accord specific approval to the revised delegation of Credit Approval Authority, which was prepared in line with the guideline of Bangladesh Bank and approved by the Board in its 190th meeting held on 18.12.2003. Lastly, it was amended by the Board of Directors in its 223rd meeting held on 28.10.2004.

6.9.2 Process of delegating approval authority

All credit approval authority will be delegated with the proper approval of the Board of Directors. Henceforth, the Board of Directors will review and amend/revise delegation of credit approval authority of different tiers of both the Board of Directors and the Management which will be treated as the maximum indicative limit. However, specific credit approval authority will be delegated in writing by the Board of Directors and the Managing Director, as the case may be, as per the indicative maximum limit to different body/executives. In this process, the Board of Directors will first delegate authority to the Executive Committee of the Board and the Managing Director. Furthermore, it will fix the maximum indicative limits for different tiers of the Management based on which the Managing Director will delegate authority in writing to the Deputy Managing Director looking after credit portfolio, Executives working at Credit Risk Management Unit, Head Office and Head of Branches considering knowledge, experience and credit judgment of the concerned executive. An Executive shall not be delegated credit approval authority only on the basis of his/her position. In other words an executive will not automatically get lending authority by virtue of his/her functional title/designation. And, credit approval authority delegated to an executive will not automatically be transferred to his/her replacement.

6.9.3 Credit Approval Authority

Credit approval authority may be delegated to the following body/Executive:

1. The Board of Directors
2. The Executive Committee of the Board
3. Different tier of the Management

The Board of Directors

The Board of Directors will have the authority to sanction any loan for the amount not exceeding the regulatory limit the Bank can provide to a single customer. Besides, all proposals for waiver of interest, commission, charges etc and principal must be approved by the Board of Directors. Any proposal for reduction of rate of interest by more than one percent from minimum level of approved interest rate band must be approved by the Board.

The Executive Committee of the Board

The Executive Committee of the Board of Directors may sanction any loan for the amount not exceeding the regulatory limit the Bank can provide to a single customer. However, it will not have the authority to approve any proposal for waiver of interest, commission, charges etc and principal must be approved by the Board of Directors. Any proposal for reduction of rate of interest by one percent or less from the minimum level of approved interest rate band may be approved by the Executive Committee of the Board. Any proposal beyond the delegated authority of the Managing Director will be placed before the Executive Committee of the Board for approval.

The Management

Different tier of the Management may be delegated credit approval authority to ensure timely disposal of the credit proposals at root level. In the Management, the following executives may be delegated credit approval authority:

1. The Managing Director
2. The Deputy Managing Director supervising Credit Division
3. Executives working at Credit Risk Management Unit, Credit Division
4. Executives working as Head of Branches

The above executives would have the authority to sanction both composite limit comprising of more than one product and a single product limit aimed at facilitating both continuous and one-off basis transactions.

6.9.4 Composite Limit

Credit Limit to a single customer comprising of more than one facility/product will be treated as a Composite Limit. Different tier of the Management may be delegated authority to sanction a composite credit limit to a customer which the respective executive will exercise after complying with all preconditions set in different chapters of this policy document and in the relevant circulars in force. Specially, any executive having delegated authority to sanction a composite limit will exercise this provided that the subject composite limit is covered by collateral security having forced sale value which is at least 1.25 times of the total funded limit. However, the executives having approval authority may sanction following facilities without taking collateral security within their authority: SOD (FO), SOD (WO), SOD (EM), SOD (EDF), SOD (CI), FDBP, IDBP, Bid Bond and the Managing Director may sanction following facilities without taking collateral security within his authority: SOD (FO), SOD (WO), SOD (EM), SOD (EDF), SOD (CI), FDBP, IDBP, LIM, LTR and all non-funded facilities. Different tiers of the Management may be delegated the following authority for approving composite credit limit:

Fig. in Lac Tk

Sl. No.	Designation	Authority to be delegated		Maximum Total
		Funded	Non-funded	
1.	Managing Director	250.00	300.00	300.00
2.	Deputy Managing Director	200.00	250.00	250.00
3.	Senior Executive Vice President	150.00	200.00	200.00
4.	Executive Vice President	100.00	150.00	150.00

5.	Senior Vice President	75.00	100.00	100.00
6.	Vice President	50.00	80.00	80.00
7.	Senior Assistant Vice President	40.00	60.00	60.00
8.	Assistant Vice President	25.00	50.00	50.00

6.10 SWOT Analysis

SWOT Analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. SWOT is an acronym for the internal strength and weakness of a firm and the environmental Opportunity and Threat facing that firm. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. The technique is credited by *Albert Humphrey*.

So if we consider Prime Bank as a business firm and analyze its strengths, weaknesses, opportunities and threat the scenario will be as follows:

6.10.1 Strengths of Prime Bank Limited:

- A powerful strategy supported by good corporate governance to increase shareholders value by being efficient, professional transparent and accountable to society and environment.
- PBL has strong brand image as it has won the prestigious ICAB award for being the best bank in Bangladesh and “A” graded bank according to the CAMEL rating.
- Products and services are as diversified as the market segment demands and the customer group range from individuals, big corporate clients, NGOs to Non residents.
- PBL has strong capital position.
- The asset and liability committee (ALCO) of the bank maintains a satisfactory trade-off between liquidity and profitability.
- The bank is able to achieve higher growth of loans and deposit than the industry rate.
- Prime bank limited has strong balance sheet with favorable ROE and ROA.
- Low non-performing assets or classified loans of the bank signify strengths in credit customer selection.
- The bank has covered all the global locations of homebound remittance.
- The bank has now a network of 89 branches throughout the country.
- The quality of asset is one of the strong areas of operation of PBL.
- Many of the branches of PBL are under CBS T24. This is helping to minimize the errors.
- PBL has well diversified asset portfolio to retail, SME and capital market.

- PBL has a good credit rating of AA which is rated by Credit Rating and Information Services Limited (CRISL).

6.10.2 Weaknesses of Prime Bank Limited:

- All of the branches of PBL are still not under the CBS T24. This lacking is creating operating inefficiency such as human error, fraud and forgeries.
- The junior level management of PBL is not as efficient as the mid and top level management. This may be because of the lack of proper training to the junior and training officer.
- Risk management of lending portfolio often require stress testing which are based on sophisticated mathematics tools and cannot solely be dependent on existing MIS. The level of technology in banking industry is yet acquiring that sophistication.
- the employees of the branches which are under T24 are facing some sort of problem to cope up with the new software that is why it is taking more time to serve a customer.
- The ATM booths owned by the PBL are not sufficient in comparison to the other banks.
- PBL has lack of manpower to serve the growing customer demand.

6.10.3 Opportunities of Prime Bank Limited:

- ✓ PBL took a strategic shift towards developing and expanding the SME financing which has received considerable attention of policy makers.
- ✓ Implementation of world class CBS T24 in number of branches will reduce fraud and forgeries and other operating risks arising from human error.
- ✓ this bank has establish remittance arrangement with 24 leading exchange companies and banks including the global money transfer agency Western Union in 2007.
- ✓ The bank introduced direct selling service recruiting highly trained and customer focused professionals.
- ✓ Finance Act of 2007-08 has withdrawn the withholding tax on purchases by credit card and it is expected that credit card business will expand rapidly in near future.

6.10.4 Threats of Prime Bank Limited:

- Changes in general economic condition resulting from calamities and political disturbance.
- The bank is now facing increasing interest sensitive customer who are demanding higher rate of return.
- Changes in government policy -
 - Increase in tax, VAT on banking services,

- increase in corporate tax rate,
 - Increase in CRR and SLR of the banks,
 - Withdrawal of incentives given to some thrust sectors which may make the project slow moving,
 - Directive to reduce the lending rates to finance essential items,
 - Increase in provisioning requirement would reduce the ROA and ROE,
 - Reducing the margin ratio for investment accounts.
- Volatility in interest rate.
 - Introduction of compliance issues raised by the international forums which is likely to affect the export growth.
 - The rising price of oil and other importable items have exerted pressure on dollar which has squeezed the exchange and fee earning of the bank.
 - To compete with other banks for lucrative one is great threat for the bank.

6.11 Findings

During my internship period I have some findings related with Credit appraisal & credit management system of Prime Bank Limited. The findings are shown in parts of credit appraisal, credit recovery and credit default.

6.11.1 Findings on Credit appraisal

- PBL uses project appraisal technique comprising technical, market, financial, economic, and management & organization analysis.
- Project appraisal technique is good enough itself, but the problems lie with personnel involves in appraisal process
- The main problems can be summarized in the following way:
 - One of the problems with project appraisal is inadequate and inaccurate data.
 - Sponsors always tend to overstate their future cash flow, revenue and income and understate the risk with capturing market and expenses.
 - Market don't remain same over the years especially over the time gap between loan sanction and loan recovery.
 - Lengthy procedure and long time involved in the appraisal of project
 - Sometimes, there is pressure groups' involvement in sanctioning loan.
 - Many viable projects do not get sanctioned loan due to absence of bribe and pressure from political and other pressure group.
 - The personnel involve in project appraisal are either not quite expert in their respective field or corrupt.

- Physical verification is not rigorously done for every project that is why the project appraisal techniques do to bring any outstanding results.
- Sometimes, the amount of loan sanction is more than that is required by the project because of over invoicing from the part of sponsors.

6.11.2 Findings about the Credit Recovery

- Usually PBL inform the borrowers before 7 days of the scheduled date of payment about his/her next upcoming installment due.
- Visiting to the borrowers premises is hardly done before the loan is defaulted.
- The recovery department cannot coerce or make bound to repay the loan because of pressure from political and other higher management.
- Sometimes sponsors do like to linger the repayment time to have the replacement facilities.
- The recovery amount has been increasing for last 5 years, and the variance between recovery targets.

6.11.3 Findings about Credit Defaults

- The causes of the loan defaults are:
 - Willing defaults
 - Government policy, sometimes, causes a firm to stop business operation or due to changes in the government policy a firm may incur loss.
 - Due to market changes firms may not get buyers to sell production resulting in a no sale, no cash, and no repayment.
 - Technological change may also lead a firm to incur losses because of obsolete technology can not compete with modern technology resulting in less cash generation.
 - Sometimes, project is not implemented because the shortages of fund from the part of borrower.
 - Lack of financial commitment from the part of borrower the result is the failure of mobilization of equity. They divert their equity in other purposes after getting the loan amount
- Default amount shows a down-ward trend during 5 years
- Law department functions very slowly and follow a difficult bureaucratic process.
- After enactment of the, the legal action has got speed and the number law suits have increased.
- Most of the cases settled outside the court.
- There are some problems of taking over the company, like maintenance of the property and selling the property.
- It takes time to settle a suit, because the borrower has right to writ against the verdict.

6.11.4 Analytical Findings

- ✓ Throughout credit analysis of Prime Bank Limited some mentionable results are found-

Internship Report on Prime Bank Limited

- ✓ Bank is doing well in its credit operation. The amount of interest earning shows the success.
- ✓ The bank's Net Interest Margin is in the decreasing trend.
- ✓ ROI is very as compared with NBL, though Prime bank limited invested more amount than NBL.
- ✓ PBL has good credit ratings. That is a plus point for it.
- ✓ Strong financial condition helps the bank to be a market leader.
- ✓ From regression analysis it has shown that loan amount of the bank is inversely related with Interest rate.
- ✓ PBL is mainly focusing on Industrial credit beside other type of credit.

Chapter 7

Recommendation

7. Recommendations

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

- ❖ In credit management, it is conventional that proposals of credit facilities must be supported by a complete analysis of the proposed credit. More importance should be given on refund of loans out of funds generated by the borrower from their business activities (cash flow) instead of realization of money by disposing of the securities held against the advance, which is very much uncertain in present context of Bangladesh, where a number of creditors are willful defaulters.
- ❖ For commercial lending, most of the time clients are unable to submit audited financial statements. The reason is no legal bounding to prepare audited financial statements for all commercial organization. So the credit officer has to face difficulties about the reliability of financial statements submitted. So there should be some flexibility for proprietorship concerns.
- ❖ Credit officer measures the risk associated with the credit facility. He should not be liberal in this respect; he should strictly follow the credit evaluation principle setup by the bank. It should improve in file management system to faster the dealings with the client's proposal.
- ❖ On the basis of that Return on Equity (ROE) model, risk and return of the bank is analyzed. Prime Bank has a good return in the following years from its operation. But Bank should be careful in its riskiness. It should improve its liquid assets to reduce the liquidity risk. It should also try to increase its reserve.
- ❖ Prime Bank's approving credit is sometimes very conservative. Through it classified loans can be minimized but the credit committee should be more liberal to faster the growth of its credit operation.

Chapter 8

Conclusion

8.0 Conclusion

Despite the fact that 2011 was a year of many challenges, the Bank managed that quite successfully. The year was concluded with a steady growth and the market share was retained in all areas of operations. Bank's management is confident about its ability to sustain its earning capacity and maintenance of asset quality in the coming years.

With a view to improving the quality and soundness of loan portfolio, credit risk management methods were updated in 2005. The Bank is now applying a new system of credit risk assessment and lending procedures by striking separation of responsibilities between risk assessments and lending decisions and monitoring functions. The Bank monitors its exposure to particular sectors of economy on an ongoing basis. The Bank has undertaken the changes in policy of credit risk management, credit risk administration and credit monitoring and recovery in line with the guidelines of Bangladesh Bank, formulated in the last year.

Credit Appraisal system of this bank is pretty efficient. From the beginning of the process of credit appraisal system the credit committee is sufficiently committed and caring. After received loan application from the client, in-depth study of various related documents & gathering of information from different banks and other sources are performed. The loan proposal that is prepared by the credit officer and submitted to the higher authority for approval is the most important part of credit appraisal system because based on this proposal the granting of credit decision is made. Credit collection process of PBL is also strict and satisfactory.

Prime Bank is a second generation Bank. Though the bank is a new one, it made a good profit in the years following its opening in 1995. The bank is better in respect of other contemporary banks like Bank Asia & Mercantile Bank & currently on the leading position of Camel Rating. Prime Bank had made an impressive profit of Tk.2784 million on 2009. The Credit management system of PBL is quite satisfactory with a low default rate. It was only about 0.82% of total loans and advances. In the field of credit recovery PBL is just performing superb. This performance is made possible by the competency and excellence of Credit Management Team of the bank.

Bibliography

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