

## 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.