

CREDIT RISK IN BANK AND HOW TO MITIGATE THE RISKS OF

BANK ASIA LIMITED

BY

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An Internship Report presented in partial fulfillment of the requirements for the Degree

Bachelor of Business Administration (BBA)

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Letter of transmittal

February 28, 2013

Mr. Saif Hossain
Lecturer
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Subject: Submission of Internship Report

Dear Sir,

Please find herewith my internship report titled “**Credit Risk in bank and how to mitigate the risks of Bank Asia Limited**”. I have prepared this report as part of my internship program. The internship project has given me the opportunity to explore one of the most important aspects of financial institution- Credit Risk Management and expand my knowledge thereby.

I tried my best to gather relevant information for preparing a complete report. Without the sincere co- operation and proper guidance of you, it is not possible for me to prepare the report. For this act of kindness I am grateful to you. This report is not free from mistakes due to some limitations. I hope you accept it with gracious consideration.

Sincerely Yours,

Rushdi Md. Raihanul Islam

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Acknowledgement

At first, I am extremely grateful to Al-Mighty Allah, the Sustainer of the Universe, who has provided me with all kind of opportunities to complete the internship program.

Individual efforts alone can never contribute in totality to a successful completion of any venture. I would fail in my duty if I did not state my gratitude and appreciate to the following individuals who have made valuable contribution toward this report.

I am very grateful to **Ms. Humaira Azam**, Deputy Managing Director & Chief Risk Officer of Bank Asia Limited for kindly accepting me to work in this Bank as an intern for which I get this opportunity to learn about Credit Risk Management & its related problems as much as I could. I would like to thank for her constant support, proper guidance and valuable insight into dynamics of credit risk management. She is truly an idol for me.

I am also very grateful to **Mr. Tahmidur Rashid**, Vice President, CRM Department, **Mr. Safiqul Islam**, Banking Officer, **Ms. Fatima tuj jahara**, Banking Officer, for their supporting role and all other employees of Bank Asia Limited, Corporate Office for their sincere cooperation, careful supervision and unparalleled encouragement.

Finally, I want to give my special thanks to the Academic supervisor **Mr. Saif Hossain (Lecturer, BRAC Business School, BRAC University)** for his support and enormous help throughout this Internship program, especially his guidelines throughout the period of preparing the report.



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Executive Summary

Risk is the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any point of time. In the banking sector, risks can be broadly categorized as Credit Risk, Operational Risk, Market Risk and Other Risks. Credit risk is the possibility that a borrower or counter party will fail to meet agreed obligations. Globally, more than 50% of total risk elements in banks and financial institutions are credit risk alone. Thus managing credit risk for efficient management of banks has gradually become the most crucial task.

The banking system which constitutes the core of the financial sector of any country plays a critical role in transmitting monetary policy impulses to the entire economic system. Banking is a business built on risk. Yet, it is essential to manage and minimize that risk. The paper will discuss some critical issues involved in managing those risks with special focus on the credit risk management of Bank Asia Ltd.

The first section of this paper consists of an “Introductory” part of this report, which has been developed for the proper execution of the entire report and also a brief description about the host organization of my internship, Bank Asia Ltd, has been given. The second part consists of the “Duties and responsibilities performed during the Internship”. The third section includes the “Project Work”. The project work is divided into 3 segments-summary of the work, credit risk grading and credit risk management of Bank Asia Ltd.

To sum up the report, there are few findings & suggestions and ending up with the conclusion.



1.0) *The Organization*

1.1) Introduction

Bank Asia began its journey on the 27th of November 1999 with the inauguration of the bank's Corporate Office at the Rang's Bhaban. The awe-inspiring public response has enabled the Bank to keep up the plan of expanding its network. The opening of the Principal Office was the big leap forward and successively the opening of Gulshan and Chittagong Branch expanded the horizon of Bank Asia to bring its services to the valued clients more effectively.

1.2) History

Bank Asia began its journey on the 27th of November 1999 with the inauguration of the bank's Corporate Office at the Rang's Bhaban. Bank Asia has been launched by a group of successful entrepreneurs with recognized standing in the society. The management of the Bank consists of a team led by senior bankers with decades of experience in national and international markets. The senior management team is ably supported by a group of professionals many of whom have exposure in the international market.

It set milestone by acquiring the business operations of the Bank of Nova Scotia in Dhaka, first in the banking history of Bangladesh. It again repeated the performance by acquiring the Bangladesh operations of Muslim Commercial Bank Ltd. (MCB), a Pakistani bank. In the year 2003 the Bank again came to the limelight with oversubscription of the Initial Public Offering of the shares of the Bank, which was a record (55 times) in our capital market's history and its shares commands respectable premium.

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

Bank Asia conducts all types of commercial banking activities. The core business of the bank comprises of import, export, working capital finance and corporate finance. The bank is also



rendering personal credit, services related to local and foreign remittances. The “Personal Credit” scheme of the bank, which is designed to help the fixed income group in raising standard of living is competitively priced and has been widely appreciated by the customers. The bank’s strategy is to gradually cover the total arena of banking. The objectives of Bank Asia are to provide high quality service to its customers, to participate in the growth and expansion of our national economy, to set high standards of integrity, to bring total satisfaction to our clients, shareholders and employees, and to become the most sought after bank in the country, rendering technology driven innovative services by the dedicated team of professionals.

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

1.3) Origin of the report

As a part of the internship program, the internship supervisor Mr. Saif Hossain and organizational supervisor Ms. Humaira Azam, Deputy Managing Director & Chief Risk Officer has approved the project proposal. In this connection, this report has been designed to analyze the current credit risk management of Bank Asia and making possible proposals to make credit risk management process more effective. From this point of view it justifies the subject matter of the report.

1.4) Objective

The main objective of Bank Asia is to maximize profit as well as social benefits. Bank Asia actively participates in the sustainable growth and expansion of our national economy and social development by providing credit to viable sectors efficiently delivered and competitively period.



1.5) Corporate Milestones

01. Certificate of Incorporation	28/09/1999
02. Certificate of Commencement of Business	28/09/1999
03. Banking License	06/10/1999
04. First Branch License	31/10/1999
05. Inauguration of Bank	27/11/1999
06. Only Bangladeshi bank to acquire operations of 02 foreign banks namely: Bank of Nova Scotia, Canada and Muslim Commercial Bank of Pakistan	2001 (Bank of Nova Scotia, Canada) 2002 (Muslim Commercial Bank of Pakistan)
07. Date of IPO subscription	23-24/09/2003
08. IPO oversubscribed by:	56 times
09. Date of First Share Trading in Bourse	08/01/2004
10. Number of Shareholders and Shares (at the end of 2009)	10,868 (shareholders) 21,448,125 shares
11. Date of First Subscription with CDBL	20/12/2005
12. Date of First Script-less Trading	30/01/2006
13. Commenced Operation of Off-Shore Banking	28/01/2008
14. Commenced Operation of Islami Banking	24/12/2008
15. Member, Dhaka Stock Exchange (DSE)	
16. Commenced Operation of Capital Market Division	5/08/2009
17. Number of Promoters	22
18. Number of Directors	14



19. Number of Branches	80
20. Number of SME Service Centres	10
21. Number of Agricultural/SME Branch	4
22. Number of Brokerage Branches	5
23. Number of Islamic Banking Wing	5
24. Number of ATM booths	Own - 48, Shared-240 (Q-cash), Cash Link (125+)
25. Number of KIOSK	3
26. Number of employee till December, 2010	1240
27. Number of foreign correspondents (in 2010)	655
28. Beneficiaries from Corporate Social Responsibility (CSR) Programs	Cataract Operation - 885 H.S. Scholarship - 215 Comp. Learning Centres (25) - 3000+ Students
29. Deposits (as of 31/12/2010)	Tk.8,900.00 crore
30. Advance (as of 31/12/2010)	Tk.7,900.00 crore
31. Export (as of 31/12/2010)	Tk.5,842.00 crore
32. Import (as of 31/12/2010)	Tk.11,140.00 crore
33. Remittance (as of 31/12/2010)	Tk.1,854.00 crore through 1236 pay-out location
34. Total assets (at the end of 2009)	Tk.68,663.20 mln
35. Credit Rating Status	AA2 - Long Term ST-1 - Short Term
36. Income tax to Government (in 2009)	959.008 mln or 31.69%



37. Statutory Reserve (in 2009)	457.238 mln or 15.11%
38. Retained for investment and future growth (in 2009)	155.795 mln or 5.15%

1.6) Mission

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

1.7) Vision

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

1.8) Credit Product and services

The range of services includes import/export finance, project financing short-term credit including working capital, retail banking, corresponding banking and treasury services. Each of these areas may involve credit exposure to a client or to a third party, providing both revenues as well as risks.

However, Bank Asia offers the following credit products.



Name	Purpose
Overdraft (OD)	Working capital finance.
Secured overdraft (SOD)	General purpose.
Cash Credit-Hypothecation	Finance against inventory.
Term loan (industrial)	Finance against capital machinery.
Term loan (others)	Real estate/syndicated finance, etc.
Transport loan	Finance against commercial vehicle.
Demand loan (DL)	Created under force situation or financing for payment of duties/taxes.
House Building Loan (HBL)	Financing construction/purchasing of building/flat.
Staff House Building Loan (SHBL)	Financing construction/purchasing of building/flat.
Staff Car Loan	Financing for purchasing of a Car for own use by an employee of the Bank.
Staff Loan against PF	Loan allowed to Bank’s employees against their respective Provident Fund.
Loan against Trust Receipt (LTR)	To finance import L/Cs.
Pre-shipment/Packing Credit (PC)	To finance export L/Cs-pre-shipment finance.
Loan against Cash incentives	Financing receivables reimbursement against cash assistance from Bangladesh Bank.
Payment against Document (PAD)	Advance against sight L/C.
LDBP	To purchase document against sight L/C.
FDBP	To purchase/discount/negotiate export documents against sight export L/C.



Credit for poverty Alleviation- Micro Credit	To finance crop production, farming, fishing, livestock, etc. under Micro Credit Scheme.
Credit Card	Financing retail borrowers under Credit Card Scheme.
Margin Facility	To provide loans to the clients of our Capital Market Division.
Letter of Credit (sight)	For import/procurement of goods/services.
Letter of Credit (deferred)	For import/procurement of capital machinery, raw material/services.
Back to Back L/C	Financing import/procurement of raw materials and accessories against export L/C.
Bank guarantee	For submission of tender/to offer as security against work order/supply order for gas or electricity connection/release goods from customs/ receipt of advance payment against delivery of goods without or against partial payments by client, etc.

The Bank has established **Consumer Finance** Centre. It has added the following asset products.

Name	Purpose
House Finance	For construction of a new house or extension of existing house or purchase of a flat.
Auto Loan	For purchase of a car personal use only.
Consumer Durable Loan	For purchase household articles such as Television, Refrigerator, Air conditioner, Washing machine, Personal computers, Furniture, etc.
Loan for Professional	For purchase of items to support professional needs e.g. X-ray machine, Dental chair, Ultra sonogram machine, etc.
Unsecured Personal Loan	For miscellaneous purposes such as marriage



	in the family, advance rental payment, emergency medical expenses, purchase of motor bike or any other legal expenses, etc.
Senior Citizen Support	For meeting up miscellaneous personal/family financial requirements.
Consumer Credit under Corporate Agreement	Facilities are offered under Corporate Agreement.

Bank Asia has come forward to extend its services towards Small & Medium Enterprises (SME).

Name	Purpose
Shubidha	Finance for trading concern without collaterals.
Sristi	Finance for manufacturing concern without collaterals.
Shofol	Finance for service sector without collaterals.
Shondhi	Finance for trading concern with collaterals.
Shombridhi	Finance for manufacturing concern with collaterals.
Sheba	Finance for service sector with collaterals.
Shomadhan	Working capital finance in the form of Overdraft with collaterals.
Utshob	Seasonal or festival short term loan.
Subarno	For financing to women entrepreneur(s).

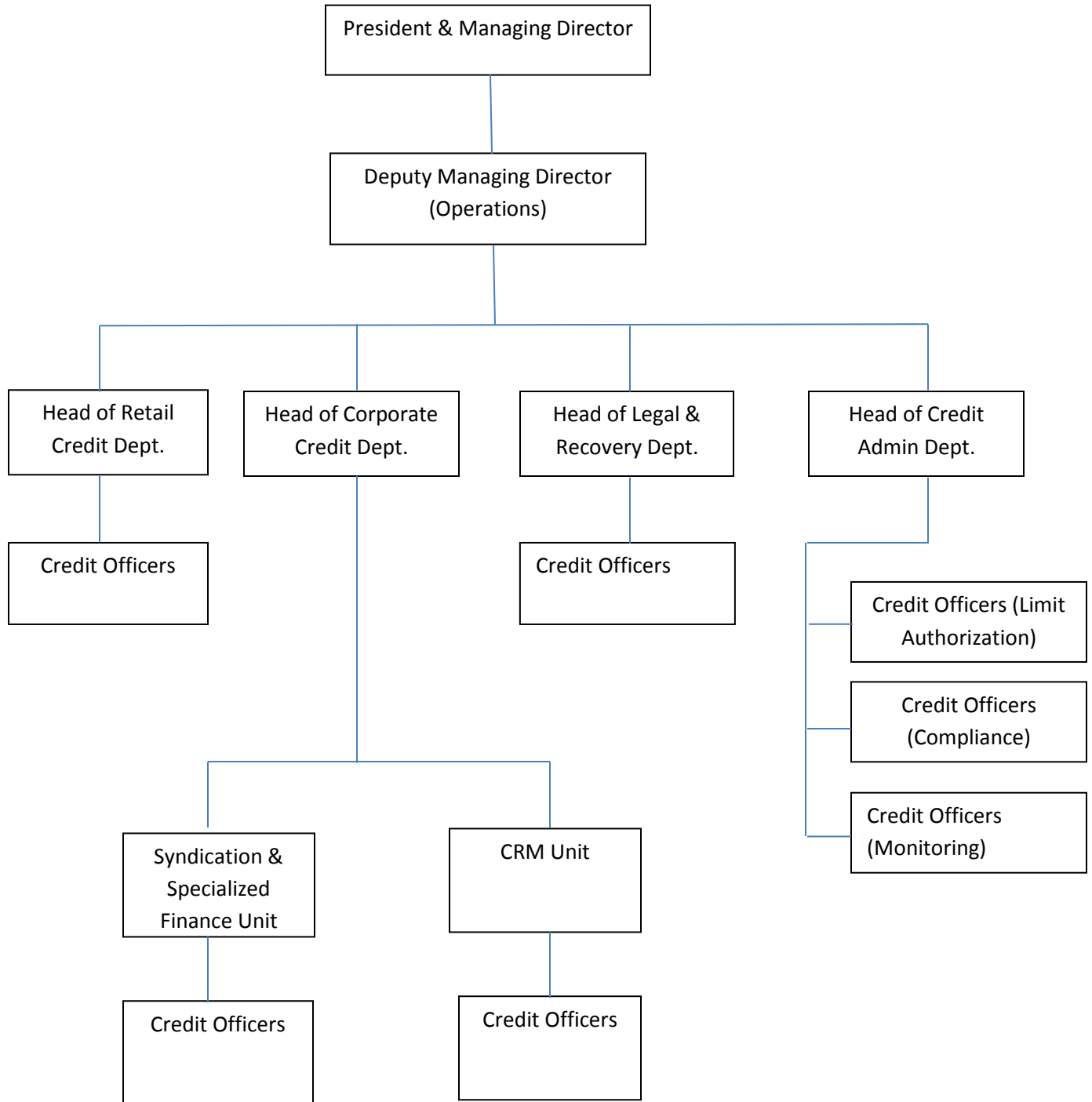
Bank Asia operates **Islamic Banking** in two windows of two Branches designated for the purpose in complying with the rules of Islamic Shariah. The Modus Operandi of these two windows is totally different from other conventional branches. The major lending products of the Bank under Islamic Banking System are as follows:



Name	Purpose
Bai Murabaha Muajjal (Local)	For working capital finance.
Bai Murabaha Muajjal (Post import)	To finance against imported commodities
Quard against MTDR	General purpose
Hire Purchase under Shirkatul Meilk (Local)	Finance against capital machinery and other fixed assets such as house building, car, etc.
Hire Purchase under Shirkatul Meilk (Post import)	To finance against imported capital items.
Documentary Bills for Collection	To collect documentary bills under export L/Cs.
Quard against Accepted Bills	To finance against accepted documentary bills under export L/Cs.
Musharakah	To finance a business under joint ownership.



1.9) Organogram of Credit Department of Corporate Office





2.0) Description of duties and requirements of job

2.1) Types of duties and responsibilities performed during Internship

Being a part of credit risk management department of Bank Asia Ltd and working under Ms. Humaira Azam, DMD & CRO, there are plenty of duties and responsibilities that are needed to be performed. Among all other duties and responsibilities, working on review performance branch report of all the 15 branches mentored by Ms. Humaira Azam was one of my major duties. Other duties were lettering bank circulation, follow-up letters to banks, clients and working on non-performing loan, loan classification, etc.

2.2) In-depth analysis of duties and responsibilities performed during Internship

The branch performance report consists of deposits, loans & advance, profit, import & export, loan classification, etc. of the month. I have elaborately discussed classification of loan under “Project Work”. My job was to make the performance sheet by gathering all the necessary information collected from the Finance & Accounts Department, CAD (Credit Administration Department), Legal & Recovery Department, etc. and provide essential remark and recommendation for 15 branches which is then checked by Ms. Humaira Azam, cluster mentor of the branches. The branch performance report reflects the overall accomplishment of the bank and also shows in which particulars the bank is lacking behind. This is where managers of the branches get to know their branch position in every month and can take necessary actions to overcome future problems.

Other duties like bank circulation which is done through a general format for informing all the branches regarding any defaulter which has been classified as bad & loss, so that the branches would be aware not to provide any kind of loan facility in future.

Follow-up letters is given to clients of the specific branch whose account is not regularizing, so that they pay the desired amount to the bank and regularize their account.



3. Project Work

3.1) Summary

I have tried to portray most of the information regarding credit risk of Bank Asia and few recommendation of mitigating the risks. I have broadly discussed Credit Risk Grading (CRG), steps to compute CRG, Non-performing loan and classification, Credit assessment, etc.

3.2) Description of the project

3.2.1) Objective of the project

- The primary objective in this research paper is to fulfill the partial requirement in the Bachelor of Business Administration (BBA) degree.
- Besides fulfilling the degree requirement, this internship report intends to cover a comprehensive analysis of banking activities of Bank Asia.
- The report is aimed at studying and understanding the various products offered by the Bank to its clients as well as the several activities carried out to achieve the departmental objectives.

3.2.2) Methodology

Certain methods and techniques were utilized to collect data for this report. Both primary and secondary sources were chosen as effective means of collecting data relevant for this report.

Primary data were collected based on observation and interpretation. Data sources are scheduled survey, informal discussion with professionals.

On the other hand, secondary data sources are annual report, manuals of Bank Asia Ltd. and different publications of Bangladesh Bank.



3.2.3) Limitations

Though I have given utmost effort to prepare this report but I may have some incompleteness due to some of the limitations I encountered while completing it, which are mentioned below:

- Some essential data could not be gathered because of confidentiality concerns.
- Only 3 months' time is not enough to complete such a study in a lucid manner.
- The whole report was prepared at the Corporate Office, DMD's Secretariat Department of Bank Asia at Paltan and so it doesn't focus the true picture of the Credit Risk Assessment scenario of the whole banking sector in the country.

3.3) Main body of the project report

3.3.1) Credit Policy Statement

The credit policy is a statement of basic principles that govern the extension of credit. It provides a framework within which to conduct the Bank's business and also enables the Bank to have a long-term business plan.

3.3.2) Regulatory compliance

Bank Asia complies with all applicable Bangladesh Bank's rules and regulation

3.3.3) Client Base

Bank Asia's client base consists of individual, corporate, institutional and private clients to help them realize their short-term business goals and long-term aspirations.



3.3.4) General Policy Guidelines

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

- I) Bank Asia makes loan only to eligible and reputable clients who are involved in legitimate business activities and whose income and wealth are derived from legitimate sources.
- II) Bank Asia encourages lending to socially desirable, nationally important and financially viable sectors and will not lend for unproductive purposes or socially undesired projects.
- III) At all times a policy of “Know your customer” must be foremost in the credit application processing.
- IV) Bank Asia extends credit in its discretion, only to qualified borrowers where the amount and intended purpose or use of proceeds are clear and legitimate and where the amount and use of funds is reasonable in the context of what is known about the particular client and the intended use or purpose.
- V) Bank Asia requires that borrowers have a source of repayment established at the inception of the credit, and that any exception must be specifically addresses in the approval of credit. There should be identified, wherever possible, a secondary source of repayment. As with any funds received, any and all repayment sources must be legitimate and consistent with what is known and documented about the client. Borrowers must provide, and the credit approval package must contain, sufficient information on the borrower, business & industry to approve the extension of credit. Satisfactory security and collateral is required as appropriate.
- VI) Bank Asia does not normally extend any credit facility against pledge of goods/merchandise.



3.3.5) Exclusion list

Bank Asia will not finance activity involving:

- I) Production or activities involving forced labor or child labor.
- II) Tobacco production and/or trade for local consumption.
- III) Production of or trade in any product or activity deemed illegal under Bangladesh legislation or regulations or international conventions and agreements.
- IV) Production or trade in weapons and ammunitions.
- V) Trade in wildlife or wildlife products.

3.3.6) Credit Assessment

A thorough credit and risk assessment must be conducted prior to granting any loan/advance. The required information of the client has to be collected to enable a comprehensive assessment of the true risk profile of the client. The results of this assessment have to be presented in Bank Asia’s prescribed credit proposal format. Depending upon the type, amount and term of credit exposures as well as client’s background, the nature and scope of appraisal is determined and carried out and documented in the credit proposal.

After conducting in-depth analysis, the amount and type of facility is to be determined and approved based on actual requirement of each corporate client.

Any information furnished or analysis made with an intention to influence the decision making process shall be liable to proper disciplinary action and the responsibility in this respect shall be fixed up and appropriate disciplinary action shall be taken against the delinquent officer/executive.

The credit proposal which is under the business discretionary power of the management to be disposed-off within maximum 10 (ten) working days from the date of receiving of a complete proposal. In case of credit proposal which requires Board’s approval to be disposed-off within 30 (thirty) working days from the date of receiving of proposal.



Credit proposal to be initiated by the Branch for renewal with enhancement shall reach the appropriate authority 02 (two) months before the expiry date.

The concerned Deputy Managing Director of Head of Credit/SME/Consumer Credit/Credit Card reviews on a monthly basis the summary of all new proposals approved renewed, enhanced and a list of proposals declined.

3.3.7) Proper staffing

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

4.0) Credit Risk Grading of Bank Asia Ltd : A Theoretical Analysis

4.1) Monitoring of Credit

The control of credit operations falls into two parts:

- I) Monitoring and review of all accounts.
- II) Monitoring of delinquent accounts.

Relationship Management Unit at Branch level monitors all existing loans on day-to-day basis and takes remedial measures as and when any deterioration occurs. Credit Administration Department at Corporate Office level ensures proper approvals and documentation are in place prior to disbursement of loan facilities.

In case of delinquent accounts, Bangladesh Bank's "Procedures of loan classification and provisioning" are complied with strictly by Bank Asia. Legal & Recovery Department at



Corporate Office is responsible for coordinating and administering the Action Plan for recovering the non-performing loans.

Relationship Management Department at Branch level visits the business premises of the client periodically preferably on quarterly basis, and Call Report is to be prepared and documented properly. Credit Risk Management Department at Corporate office visits the important Client's premises at least once a year.

4.2) Credit Risk Grading

Bangladesh Bank has developed an Integrated Credit Risk Grading Manual with a view to introducing a Risk Grading System for the Banking industry and with the aim to fully implement a Risk Grading System.

Credit risk grading is an important tool for credit risk management as it helps the Banks & Financial Institutions to understand various dimensions of risk involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a Bank or a Branch. The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage.

At the pre-sanction stage, credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the loan price, what should be the extent of exposure, what should be the appropriate credit facility, what are the various facilities and what are the various risk mitigation tools to put a cap on the risk level.

At the post-sanction stage, the bank can decide about the depth of the review or renewal, frequency of review, periodicity of the grading and other precautions to be taken.

4.3) Definition of Credit Risk Grading (CRG)

- The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure.



- A Credit Risk Grading deploys a number/alphabet/symbol as a primary summary indicator of risks associated with a credit exposure.
- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

4.4) Function of Credit Risk Grading

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

4.5) Use of Credit Risk Grading

- The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of individual obligor, credit portfolio of a unit, line of business, by the branch or by the Bank as a whole.
- As evident, the CRG outputs would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to pricing (credit-spread) and specific features of the credit facility. These would largely constitute obligor level analysis.
- Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of a Bank. It is also relevant for portfolio level analysis.



4.6) Number & Short name of grades used in the CRG

The 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	ACCPT	3
Marginal/Watch list	MG/WL	4
Special Mention	SM	5
Substandard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

4.7) 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.



- Credit facilities fully covered by the guarantee of a top tier local Bank.
- Aggregate Score of 85 or greater based on the Risk Grade Score Sheet.

Acceptable-(ACCPT)-3:

- These borrowers are not as strong as GOOD Grade borrowers, but still demonstrate consistent earnings, cash flow and have a good track record.
- Borrowers have adequate liquidity, cash flow and earnings.
- Credit in this grade would normally be secured by acceptable collateral (1st charge over inventory/receivables/equipment/property).
- Acceptable management.
- Acceptable parent/sister company guarantee.
- Aggregate Score of 75-84 based on the Risk Grade Score Sheet.

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

- This grade warrants greater attention due to conditions affecting the borrower, the industry or the economic environment.
- These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings.
- Weaker business credit & early warning signals of emerging business credit detected.
- The borrower incurs a loss.
- Loan repayment routinely falls past due.
- Account conduct is poor, or other untoward factors are present.
- Credit requires attention.
- Aggregate Score of 65-74 based on the Risk Grade Score Sheet.



Special Mention-(SM)-5:

- This grade has potential weakness that deserves management’s close attention. If left uncorrected, these weaknesses may be result in a deterioration of the repayment prospects of the borrower.
- 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 dues 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. The continuance of the loan as a bankable asset is not warranted and the anticipated loss should have been provided for.
- This classification reflects that it is not practical or desirable to defer writing off this basically valueless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. Legal procedures/sui initiated.
- Bangladesh Bank criteria for bad & loss credit shall apply.
- An Aggregate Score of less than 35 based on the Risk Grade Score Sheet.

4.8) How to compute Credit Risk Grading

The following step-wise activities outline the detail process for arriving at credit risk grading.

Step-1: Identify all the Principal Risk Components

Credit risk for counterparty arises from an aggregation of the following:

- Financial Risk.
- Business/industry Risk.
- Management Risk.
- Security Risk.
- Relationship Risk.

Each of the above-mentioned key risk areas requires evaluating and aggregating to arrive at an overall risk grading measure.

a) Evaluation of Financial Risk:

Risk that counter parties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. analyses of leverage, liquidity, profitability & interest coverage



ratios. To conclude, this capitalizes on the risk of high leverage, poor liquidity, low profitability & insufficient cash flow.

b) Evaluation of Business/Industry Risk:

Risk that adverse industry situation or unfavorable business condition will impact borrowers' capacity to meet obligation. The evaluation of this category of risk looks at parameters such as business outlook, size of business, industry growth, market competition & barriers to entry/exit. To conclude, this capitalizes on the risk of failure due to low market share & poor industry growth.

c) Evaluation of Management Risk:

Risk that counter parties may default as a result of poor managerial ability including experience of the management, its succession plans and teamwork.

d) 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.

e) Evaluation of Relationship Risk:

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



Step-2: Allocate weightages 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-3: Establish the Key Parameters

Principal Risk Components	Key Parameters
Financial Risk	Leverage, Liquidity, Profitability & Coverage ratio.
Business/industry Risk	Size of Business, Age of Business, Business Outlook, Industry Growth, Competition & Barriers to Business.
Management Risk	Experience, Succession & Team Work.
Security Risk	Security Coverage, Collateral Coverage and Support.
Relationship Risk	Account Conduct, Utilization of Limit, Compliance of Covenants/conditions & Personal Deposit.



Step-4: Assign weightages 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-5: Input data to arrive at the score on the key parameters

After the risk identification & weightage assignment process, the next steps will be to input actual parameter in the score to arrive at the scores corresponding to the actual parameter.

This manual also provides a well-programmed MS Excel based credit risk-scoring sheet to arrive at a total score on each borrower. The excel program requires inputting data accurately in particular cells for input and will automatically calculate the risk grade for a particular borrower based on the total score obtained.

Step-6: Arrive at the Credit Risk Grading based on total score

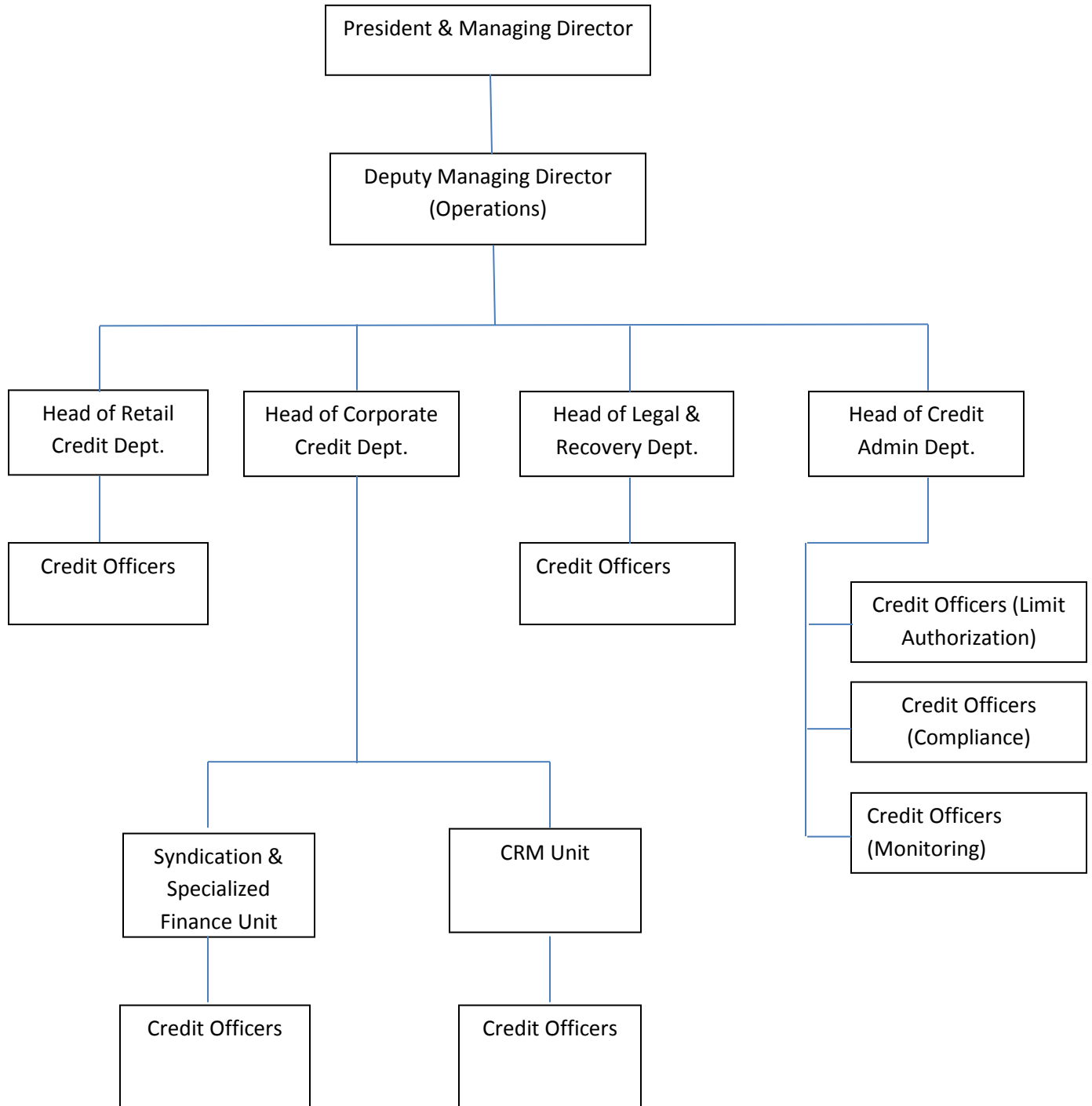
The following is the proposed Credit Risk Grade matrix based on the total score obtained by an obligor.

Number	Risk Grading	Short Name	Score
1	Superior	SUP	<ul style="list-style-type: none"> ▪ 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	Substandard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & Loss	BL	<35



5.0) Credit Risk Management of Bank Asia Ltd : A Theoretical Analysis

5.1) Organogram of Credit Department of Corporate Office





5.2) Key Responsibilities

5.2.1) Credit Risk Management Department:

- Review and analysis of credit proposals, sent by the branches, and ensuring that all the elements of the credit application, analysis, statement, reports are obtained and in order.
- Assessing the Credit Risk Grading (CRG) in order to determine whether to lend or not to lend, what should be the extent of exposure including credit structure as well as identifying the various credit risk mitigating factors.
- Oversight of the Bank’s asset quality
- To provide advice/assistance regarding all credit matters to Relationship Management.
- Transfer the down-graded loan filed to Legal & recovery.
- To ensure the credit officers/executives have adequate experience and/or training in order to carry out job duties effectively.
- Oversight of the Bank’s credit policies, procedures and controls relating to all credit risks.

5.2.2) Credit Administration Department:

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



- Timely corrective action is taken to address findings of any internal, external or regulatory inspection/audit.
- Ensure accurate & timely submission of returns of Corporate Office and Bangladesh Bank.

5.2.3) Legal & Recovery Department:

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

5.3) Credit Administration

The Credit Administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of loan facilities. For this reason, it is essential that the functions of Credit Administration be strictly segregated from the CRM Unit at Corporate Office or RM Unit at Branch level, in order to avoid the possibility of controls being compromised or issues not being highlighted at the appropriate level.

5.4) Disbursement

- Security documents are prepared in accordance with approval terms and are legally enforceable. Standard loan facility documentation that has been reviewed by legal



counsel should be used. Exceptions should be referred to legal counsel for advice and authorization for the same should be obtained from CRM unit.

- Disbursement under loan facilities are only be made when all security documentation is in place. And updated clean CIB report must be obtained before any disbursement of facility favoring the borrower.
- All formalities regarding large loans and loans to Directors and related organizations should be guide by Bangladesh Bank circulars & related section of Banking Companies Act.

5.5) Early Alert Process

An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention by management.

If the 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 worse within the next twelve months.

Early identification, prompt reporting and proactive management of Early Alert Accounts are prime credit responsibilities of all Relation Managers and must be undertaken on a continuous basis. An early alert report should be completed by the RM and sent to the approving authority in CRM for any account that is showing signs of deterioration within seven days of identification of weakness. The Risk Grade should be updated as soon as possible and no delay should be made in referring problem accounts to the CRM Unit 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 swift action to protect the Bank’s interests.

Moreover, regular contact with customers will enhance the likelihood of developing strategies mutually acceptable to both the customer and the bank.



The grading of the account highlighted as Early Alert Accounts shall have the following risks symptoms:

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

If any loan is:

- Past due/overdue for 60 days and above.
- Frequent drop in security value or shortfall in drawing power exists.

b) Special Mention Account (SMA-5)

If any loan is:

- Past due/overdue for 90 days and above.
- A significant petition or claim is lodged against the borrower.

An account may be reclassified as a Regular Account from Early Alert Account status when the symptom or symptoms causing the Early Alert classification have been 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.

5.6) Credit Recovery

The Legal & Recovery Department should directly manage accounts with sustained deterioration [a Risk Rating of Sub-Standard (6) or worse]. CRM will transfer EXIT accounts graded Sub-Standard (6)-Bad & Loss (8) to the Legal & Recovery Department for efficient exit.

The management of Non-performing loans (NPL) must be a dynamic process and the associated strategy together with the adequacy of provisions must be regularly reviewed. A process should be established to share the lessons learned from the experience of credit losses in order to update the lending guidelines.



5.7) Non-performing Loan Account Management

All Non-performing loans should be assigned to an Account Manager with the Legal & Recovery Department, who is responsible for coordinating and administering the action plan/recovery of the account and should serve as the primary customer contact after the account is downgraded to Sub-Standard. Whilst some assistance from Relationship Management may be sought, it is essential that the autonomy of the Legal & Recovery Department be maintained to ensure that appropriate recovery strategies are implemented.

5.8) Account Transfer Procedures

Within 7 days of an account being downgraded to Sub-Standard (grade-6), a **Request for Action** (RFA) with a checklist for file handover should be completed by CRM Unit and forwarded to Legal & Recovery Department for acknowledgement. The account should be assigned to an Account Manager within the Legal & Recovery Department, who should review all documentation, meet the customer and prepare a **Classified Loan Review Report** (CLR) within 15 days of the transfer. The CLR should be approved by the President & Managing Director and copied to the concerned Branch where the loan was originally disbursed and the CRM Unit. This initial CLR should highlight any documentation issues, loan structuring weaknesses, proposed workout strategy and should seek approval for any loan loss provisions that are necessary.

Legal & Recovery Department should ensure that the following are 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 authority within CRM.
- CIB reporting is updated according to Bangladesh Bank guidelines and the borrower's Risk Grade is changed as appropriate.
- Loan Loss provision are taken strictly following the guidelines of Bangladesh.



- Loans are only rescheduled as per prescribed format in conjunction with the Loan Rescheduling guidelines of Bangladesh Bank. Any rescheduling should be based on projected future cash flows and should be strictly monitored.
- Prompt legal action is taken as per Money Loan Court Act 2003, if the borrower is not cooperative.

5.9) Non-performing Loan Monitoring

On a quarterly basis, a Classified Loan Review Report (CLR) should be prepared by the Legal & Recovery Department Account Manager to update the status of the action/recovery plan, to review and assess the adequacy of provisions, and to modify the bank’s strategy as appropriate. The President & Managing Director of the Bank should approve the CLR for Non-performing Loans.

5.10) Non-performing Loan Provisioning and Write-Off

The guidelines furnished by Bangladesh Bank for CIB reporting, provisioning and write-off of bad and doubtful debts, and suspension of interest should be followed in all cases. The approval to take provisions or release of provisions/upgrade of an account should be restricted to the President & Managing Director of the Bank based on recommendation from the Legal & Recovery Department of Corporate Office.

The Legal & Recovery Department should determine the “Force Sale Value” for Accounts grade 6 or worse. Force Sale Value is generally the amount that is expected to be realized through the liquidation of collateral held as security. Any shortfall of the Force Sale Value compared to total loan outstanding should be fully provided for once the account is downgraded to grade 6.



5.11) Categories of Loans and Advances:

All loans and advances will be grouped into four (4) categories for the purpose of classification, namely- (a) Continuous Loan (b) Demand Loan (c) Fixed Term Loan and (d) Short-term Agricultural & Micro- Credit.

- a) **Continuous Loan:** The loan accounts in which transactions may be made within certain limit and have an expiry date for full adjustment will be treated as Continuous Loan. Examples are: Cash Credit, Overdraft, etc.
- b) **Demand Loan:** The loans that become repayable on demand by the bank will be treated as Demand Loan. If any contingent or any other liabilities are turned to forced loan (i.e. without any prior approval as regular loan) those too will be treated as Demand Loan. Such as: Forced Loan against Imported Merchandise, Payment against Document, Foreign Bill Purchased, and Inland Bill Purchased, etc.
- c) **Fixed Term Loan:** The loans, which are repayable within a specific time period under a specific repayment schedule, will be treated as Fixed Term Loan.
- d) **Short-term Agricultural & Micro-Credit:** Short-term Agricultural Credit will include the short-term credits as listed under the Annual Credit Program issued by the agricultural Credit and Financial Inclusion Department (ACFID) of Bangladesh Bank. Credits in the agricultural sector repayable within 12 (twelve) months will also be included herein. Short-term Micro-Credit will include any micro-credits not exceeding an amount determined by the ACFID of Bangladesh Bank from time to time and repayable within 12 (twelve) months, be those termed in any names such as Non-agricultural credit, Self-reliant Credit, Weaver's Credit or Bank's individual project credit.



5.12) Basis for Loan Classification:

a) Objective Criteria:

1) Past Due/Over Due:

- (i) Any Continuous Loan if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date.
- (ii) Any Demand Loan if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date.
- (iii) In case of any installments or part installments of a Fixed Term Loan is not repaid within the fixed expiry date, the amount of unpaid installments will be treated as past due/overdue from the following day of the expiry date.
- (iv) The short-term Agricultural and Micro-Credit if not repaid within the fixed expiry date for repayment will be considered past due/overdue after six months of the expiry date.

2) All unclassified loans other than Special Mention Account (SMA) will be treated as Standard.

3) A Continuous loan, Demand loan or a Term loan which will remain overdue for a period of 02 (two) months or more, will be put into the “Special Mention Account (SMA)”. This will help banks to look at accounts with potential problems in a focused manner and it will capture early warning signals for accounts showing first sign of weakness. Loans in the “Special Mention Account (SMA)” will have to be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

4) Loans except Short-term Agricultural & Micro-Credit in the “Special Mention Account” and “Sub-Standard” will not be treated as defaulted loan.

5) Any Continuous Loan will be classified as:



- i) “Sub-standard” if it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months.
 - ii) “Doubtful” if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months.
 - iii) “Bad/Loss” if it is past due/overdue for 09 (nine) months or beyond.
- 6) Any Demand Loan will be classified as:
- i) “Sub-standard” if it remains past due/overdue for 03 (three) months or beyond but not over 06 (six) months from the date of expiry or claim by the bank or from the date of creation of forced loan.
 - ii) “Doubtful” if it remains past due/overdue for 06 (six) months or beyond but not over 09 (nine) months from the date of expiry or claim by the bank or from the date of creation or forced loan.
 - iii) “Bad/loss” if it remains past due/overdue for 09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation or forced loan.
- 7) In case of any installments or part of installment of a Fixed Term Loan is not repaid within the due date, the amount of unpaid installments will be termed as ‘past due or overdue installment’. In case of Fixed Term Loans:
- i) If the amount of past due installment is equal to or more than the amount of installments due within 03 (three) months, the entire loan will be classified as “Sub-Standard”.
 - ii) If the amount of past due installment is equal to or more than the amount of installments due within 06 (six) months, the entire loan will be classified as “Doubtful”.
 - iii) If the amount of past due installment is equal to or more than the amount of installments due within 09 (nine) months, the entire loan will be classified as “Bad/Loss”.
- 8) The Short-term Agricultural and Micro-Credit will be considered irregular if not repaid within due date as stipulated in the loan agreement. If the said irregular status



continues, the credit will be classified as “Sub-standard” after a period of 12 months, as “Doubtful” after a period of 36 months and as “Bad/Loss” after a period of 60 months from the stipulated due date as per the loan agreement.

5.13) Qualitative Judgement:

If any uncertainty or doubt arises in respect of recovery of any Continuous Loan, Demand Loan or Fixed Term Loan, the same will have to be classified on the basis of qualitative judgement be it classifiable or not on the basis of objective criteria. If any situational changes occur in the stipulations in terms of which the loan was extended or if the capital of the borrower is impaired due to adverse conditions or if the value of the collateral decreases or if the recovery of the loan becomes uncertain due to any other unfavorable situation, the loan will have to be classified on the basis of qualitative judgement.

Despite the probability of any loan being affected due to the reasons stated above or for any other reasons, if there is any hope for change of the existing condition by resorting to proper steps, the loan, on the basis of qualitative judgement, will be classified as 'Sub-standard '. But even after resorting to proper steps, there exists no certainty of total recovery of the loan, it will be classified as ' Doubtful ' and even after exerting the all-out efforts, there exists no chance of recovery, it will be classified as ' Bad/Loss ' on the basis of qualitative judgement.

For incorporating qualitative judgment, banks must focus on the likelihood that the borrower will repay all amounts due in a timely manner, using their own judgment and the following assessment factors:

1) Special Mention Account

- i) Assets must be classified no higher than Special Mention if any of the following deficiencies of bank management is present: the loan was not made in compliance with the bank’s internal policies; failure to maintain adequate and enforceable documentation; or poor control over collateral.



- ii) Assets must be classified no higher than Special Mention if any of the following deficiencies of the obligor is present: occasional overdrawn within the past year, below-average or declining profitability; barely acceptable liquidity; problems in strategic planning.

2) **Sub-standard**

- i) Assets must be classified no higher than Sub-standard if any of the following deficiencies of the obligor is present: recurrent overdrawn, low account turnover, competitive difficulties, location in a volatile industry with an acute drop in demand; very low profitability that is also declining; inadequate liquidity; cash flow less than repayment of principal and interest; weak management; doubts about integrity of management; conflict in corporate governance; unjustifiable lack of external audit; pending litigation of a significant nature.
- ii) Assets must be classified no higher than Sub-standard if the primary sources of repayment are insufficient to service the debt and the bank must look to secondary sources of repayment, including collateral.
- iii) Assets must be classified no higher than Sub-standard if the banking organization has acquired the asset without the types of adequate documentation of the obligor’s net worth, profitability, liquidity, and cash flow that are required in the banking organization’s lending policy, or there are doubts about the validity of that documentation.

3) **Doubtful**

Assets must be classified no higher than Doubtful if any of the following deficiencies of the obligor is present: permanent overdrawn; location in an industry with poor aggregate earnings or loss of markets; serious competitive problems; failure of key products; operational losses; illiquidity, including the necessity to sell assets to meet operating expenses; cash flow less than required interest payments; very poor management; non-cooperative or hostile management;



serious doubts of the integrity of management; doubts about true ownership; complete absence of faith in financial statements.

4) **Bad/Loss**

Assets must be classified no higher than Bad/Loss if any of the following deficiencies of the obligor are present: the obligor seeks new loans to finance operational losses; location in an industry that is disappearing; location in the bottom quartile of its industry in terms of profitability; technological obsolescence; very high losses; asset sales at a loss to meet operational expenses; cash flow less than production costs; no repayment source except liquidation; presence of money laundering, fraud, embezzlement, or other criminal activity; no further support by owners.

5.14) **Accounting of the Interest of Classified Loans:**

If any loan or advance is classified as 'Sub-standard' and 'Doubtful', interest accrued on such loan will be credited to Interest Suspense Account, instead of crediting the same to Income Account. In case of rescheduled loans the unrealized interest, if any, will be credited to Interest Suspense Account, instead of crediting the same to Income Account.

As soon as any loan or advance is classified as 'Bad/Loss', charging of interest in the same account will cease. In case of filing a law-suit for recovery of such loan, interest for the period till filing of the suit can be charged in the loan account in order to file the same for the amount of principal plus interest. But interest thus charged in the loan account has to be preserved in the 'Interest Suspense' account. If any interest is charged on any 'Bad/Loss' account for any other special reason, the same will be preserved in the 'Interest Suspense' account. If classified loan or part of it is recovered i.e., real deposit is effected in the loan account, first the interest charged and accrued but not charged is to be recovered from the said deposit and the principal to be adjusted afterwards.



5.15) Maintenance of Provision:

- a) **General Provision:** Banks will be required to maintain General Provision in the following way :
- 1) @ 0.25% against all unclassified loans of Small and Medium Enterprise (SME) as defined by the SME & Special Programs Department of Bangladesh Bank from time to time and @ 1% against all unclassified loans (other than loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock dealers etc., Special Mention Account as well as SME Financing).
 - 2) @ 5% on the unclassified amount for Consumer Financing whereas it has to be maintained @ 2% on the unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up business under Consumer Financing Scheme.
 - 3) @ 2% on the unclassified amount for Loans to Brokerage House, Merchant Banks, Stock dealers, etc.
 - 4) @ 5% on the outstanding amount of loans kept in the 'Special Mention Account'.
 - 5) @1% on the off-balance sheet exposures. (Provision will be on the total exposure and amount of cash margin or value of eligible collateral will not be deducted while computing off-balance sheet exposure).
- b) **Specific Provision:** Banks will maintain provision at the following rates in respect of classified Continuous, Demand and Fixed Term Loans:
- 1) Sub-standard : 20%
 - 2) Doubtful : 50%
 - 3) Bad/Loss : 100%
- c) **Provision for Short-term Agricultural and Micro-Credits:**
- 1) All credits except 'Bad/Loss' (i.e. 'Doubtful', 'Sub-standard', irregular and regular credit accounts) : 5%
 - 2) 'Bad/Loss' : 100%



6.0) Findings & Suggestions

6.1) Findings:

- Bank follows the overall credit assessment and risk grading process according to Bangladesh Bank maximum time.
- Loans and the advances are vital to finance the projects. An appropriate credit distribution system and monitoring will ultimately lead to the profit maximizing of banks. It is evident from that the size of Bank Asia loans and advances are increasing over the years. It indicates more earning for the bank. It shows a positive growth rate.
- Bank Asia Ltd. has a positive growth rate in Net profit.

6.2) Suggestions:

- The Bank can organize more training program and workshop to make the employees more efficient in their sector.
- The Bank has to go through back ground investigation of all parties
- All the loan documentations have to done appropriately.
- All the document verifications have to done before loan sanction.
- The Bank has to construct a long term strong investment policy.
- The Loan and Advance section has to make strong and the employees have to be devoted to the Bank.



Conclusion

It drives without saying that credit policy cannot be isolated from the broader monetary policy of the country. Like any other segment of the economic policy, credit is very important for any financial institution as it generates profit and gear up economic activities of the country. In other words, credit is business and it is input in the production process of the country. Since credit has an inherent risk, therefore proper utilization of the loans are essential to meet the requirements of the borrower.

The credit management system of Bank Asia Ltd. is more or less effective as recovery position of classified loan is high and classified loan has been decreasing gradually during the year. They always trying to improve their credit policy for minimizing loss and maximizing profit and various measures are undertaken to develop the credit management system.

Overall, Bank Asia Ltd. fairs very highly in the eyes of the clients. The bank has a tight credit risk management unit and proper actions and helpful guidelines are always there to retain the bank to develop. This means that Bank Asia Ltd. is well — placed to further increase their presence in the credit market and thus increase their profits in the future.



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