



An Internship Report on
Credit Management Policy of Mutual Trust Bank
Limited

September 20, 2014

An Internship Report on

“Credit Management Policy of Mutual Trust Bank Limited”



মিউচুয়াল ট্রাস্ট ব্যাংক লিমিটেড
Mutual Trust Bank Ltd.

Course: Internship (BUS400)

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Date of Submission: September 20, 2014

Letter of Transmittal

September 20, 2014

Tanvir Ahmed

Assistant Professor

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Subject: Submission of a report on “**Credit Management Policy of Mutual Trust Bank Limited**”

Dear Sir,

I am presenting a report on “**Credit Management Policy of Mutual Trust Bank Limited**”. In this report I have included various methodologies to explain the current scenario of credit management policies in Bangladesh. In making the study, I had to take help from the various sources of Internet, resources from Mutual Trust Bank Limited and class lectures of our course teacher. I am grateful to them for extending generous help.

I acknowledge the contribution of my course teacher heartily. I have tried to use my academic knowledge in real life to the best possible way.

I am pleased to be granted this vital opportunity and grateful for your versatile assistance. I hope that my work will please you. I will be available in the presentation for further explanations.

Sincerely,

Hasina Shiuly

ID: 09304116

Batch: Summer‘09

Executive Summary

Completion a BBA program requires an internship report and this report was originated for this cause. Based on my three months internship experience in Mutual Trust Bank this report was prepared.

This is an orientation report that contains the real life day to day working experience of different tasks in Credit Department of Mutual Trust Bank Limited, Mohammadpur Branch. Mutual Trust Bank Ltd, (MTB) is a pioneer and leading private bank in Bangladesh. To serve the nation Mutual Trust bank performs some activities for their clients like: general banking, loan and advance, capital market operation etc. Bank collects deposit from public and provide it's to other business or individual as loan. Bank pays interest to deposit holder and take interest from borrowers. Mutual Trust bank measure all risk components before sanctioning a loan. When all the formalities completed then respective officer disburse the loan. After disburse the loan it is duty of bank to recover the disbursed loan. This report is based on actual information and working procedure practiced in MTB. The overall credit management of MTB has analysed to give a clean idea about the policy of MTB and implementation of that policy by various mechanism and process. The objective of this study is to analyse the credit policy, rules and regulation of credit management and evaluation of the product performance in order to identify the major problems regarding the credit management.

The first section of this report consists of an introductory part of this report, which has been developed for the proper execution of the entire report. In the second part, a brief description about the host organization of my internship, Mutual Trust Bank Limited, has been given. In the third part of this report consist of the theoretical aspects. In part four consists of some information about credit, its usefulness and credit management policy of Mutual Trust Bank. The remaining part consist the analysis, findings, recommendations and conclusion.

To prepare this report both primary and secondary sources of data have been used. Mutual Trust Bank credit policy is quite lengthy. In year 2013 the non-performing loan is 2.28% which is less than other banks. Banks credit deposit ratio is increasing from previous year. That means bank can invest properly and utilize more funds to maximize their profit. Capital adequacy ratio is in good position that indicates bank has enough capital and efficiency to serve their banking service. Disbursement of loan and advances are increasing year by year. On the basis of findings

it can be recommended for betterment that their loan sanctioning procedure should be less time consuming and monitoring should be stricter.

From my part, I would like to suggest, Mutual Trust Bank should strictly follow the principles of sound lending and they should make strong their credit monitoring department. Among the most important of these are honesty, reliability, thoroughness and willingness to always be open to new ideas and new ways of meeting customer needs.

Acknowledgements

First of all I offer my grateful thanks to the Almighty, without whose blessings this report wouldn't have been possible. Then I would like to thanks some specific person who helped me a lot to prepare this report.

Secondly I would like to thank my course instructor Mr Tanvir Ahmed, for giving me the opportunity to prepare my report on Credit Management System of MTB bank.

I have learned many things while I was preparing this report and I think it will help me in my future workplace. So I would like to thanks him for giving me instructions in preparing this report.

And finally this report would not have been possible without the help of my supervisor and my senior colleague .I would like to thank Mr Mohammad Ali Relationship Manager of MTB bank for his support during the time of my internship. At the end I would like to thank my senior colleagues MilyIslam ,Sifath Khan, RunaNasreen, Nowreen Islam for helping me throughout my entire internship period.

Declaration

This internship report on “**Credit Management Policy of Mutual Trust Bank Limited**” is a presentation of my original research work. Wherever contributions of others are involved, every effort is made to indicate this clearly, with due reference to the literature, and acknowledgement of collaborative research and discussions. The work was done under the guidance of Professor Tanvir Ahmed, at the BRAC University, Dhaka.

Hasina Shiuly

ID: 09304116

Batch: Summer‘09

In my capacity as supervisor of the candidate’s thesis, I certify that the above statements are true to the best of my knowledge.

Tanvir Ahmed

Assistant Professor

Department of BBA

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Date: September 20, 2014

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Chapter 1

Introduction

Banking sector is one of the fastest growing sector in Bangladesh like the whole world. Therefore understanding the policies of banks and financial institutions has become a mandatory issues for everyone and especially for business graduate.

This internship report was prepared to fulfil the Bachelor of Business Administration (BBA) degree and to evaluate my knowledge regarding credit policy . As a part of the internship program I had to work in Mohammadpur Branch of Mutual Trust Bank (MTB). Therefore I have prepared the whole report on the credit management policy of Mutual Trust Bank Limited.

The report will be divided in five chapters completed with references and appendix. The chapters will be introduction, profile of MTB, literature review, analysis and findings and conclusion.

1.1 Credit Risk Management: Bangladesh Scenario

Credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. Central to this is a comprehensive IT system, which should have the ability to capture all key customer data, risk management and transaction information including trade & Forex. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and dis-intermediation, it is essential that banks have robust credit risk management policies and procedures that are sensitive and responsive to these changes.

Bangladesh Bank provides directional guidelines to the banking sector that improves the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the on-going improvement of the banking sector in Bangladesh.

1.2 Objectives of the report

The report will try –

- To know the lending procedure of Mutual Trust Bank Limited.

- To evaluate the actual position in classified Loan and provisions maintained by MTB.
- To know the terms and conditions of credit management of Mutual Trust Bank Limited.
- To analyse the work process and monitoring system of credit department.
- To appraise the actual recovery position of MTB.
- To identify problems and recommend solution in credit management of Mutual Trust Bank Ltd.

1.3 Methodology

Methodology implies more than simply the methods used to collect data. It is often necessary to include a consideration of the concepts and theories which underlie the methods(Kumar, 2005). For instance, if one intends to highlight a specific feature of a sociological theory or test an algorithm for some aspect of information retrieval, or test the validity of a particular system, s/he have to show that s/he understand the underlying concepts of the methodology. This reports mainly works with secondary data source due to lack of availability of primary data source.

1.3.1. Research Type:

This is an analytical research work, which tries to provide a brief on the “Credit Management” of Mutual Trust Bank.

1.3.2. Sources of Data

To prepare this report all the necessary information collected from secondary sources of data. Being an analytical report there was little to no option for collection primary data.

Secondary sources of data are of two kinds-

Internal: Annual Reports of Mutual Trust Bank, Other published documents of the bank, Mutual Trust Banks Website.

External: Books, Articles, Journals, Newspaper, Web browsing.

Beside the secondary sources of data, practical deskwork and observation techniques are also used as primary sources of data to prepare this report. Though meagre in amount it has still helped the writer a lot on the progress of this work.

1.3.3 Data Analysis and Reporting

Quantitative analysis (Trend analysis, Cross sectional analysis, Ratio analysis) has been used to collect the data and to analyse the gathered data and different types of computer software's are used for reporting the gathered information from the analysis, such as- Microsoft Word, Microsoft and Microsoft Excel 2013.

1.4 Scope of the study

1.4.1. Subject scope

The study is focused on the credit policy management of Mutual Trust bank Limited.

1.4.2. Geographical scope

The study was conducted at Mutual Trust Bank, Mohammadpur Branch, 80/C Asad Avenue, Dhaka-1207.

1.5 Scope of the Report

As the writer was assigned to the Mutual Trust Bank Ltd, Mohammadpur Branch, there was enough scope of the study. The report covers the topic "Credit Management of Mutual Trust Bank Ltd." To conduct a study on Credit Management of Mutual Trust Bank, I have gathered valuable information from MTB, Mohammadpur Branch and I have also got some information from website of Mutual Trust Bank.

Despite this topic there are many sectors for working and analysis, like:

- An overview of Mutual Trust Bank Limited
- Financial performance of MTB
- Credit management scenario of MTB
- Comparison with other Banks.

1.6 Significance

This internship report is an important partial requirement of four years BBA graduation program. This is because knowledge and learning become perfect when it is associated with theory and practice. By this internship program students can establish contacts and networking. Contacts may help to get a job in practical life. That is, student can train and prepare themselves for the job market. A poor country like Bangladesh has an overwhelming number of unemployed

educated graduates. As they have no internship experience they have not been able to gain normal professional experience of establish networking system, which is important in getting a job. Therefore, it is obvious that the significance of internship is clearly justified as the crucial requirement of four years BBA graduation.

1.7 Limitations

Although the writer got all the facilities from the branch and the employees but there lies also some limitations otherwise of which the report could have been much better. Three months is not enough to know about commercial banking operation though the writer received maximum assistance from the every individual of the MTB Mohammadpur Branch. But according to the time it is been tried to make the utmost use of time to prepare a valuable report. The report is likely to have following limitations:

- a) The Operating Process is a theoretical suggestion. Only a practical application of this may justify its effectiveness that could not be done due to time limitation.
- b) Lack of comprehension of the respondents was the major problem that created many confusions regarding verification of conceptual question.
- c) Confidentiality of data was another important barrier that was faced during the conduct of this study. Every organization has their own secrecy that is not revealed to others. While collecting data on MTBL, personnel did not disclose enough information for the sake of confidentiality of the organization.

However, omitting this, the report will help us understand the credit departments of the bank.

Chapter 2

Company Profile

2.1 Mutual Trust Bank Limited: At a Glance

Name of the company	Mutual Trust Bank Limited
Legal form	A public limited company incorporated in Bangladesh on September 29, 1999 under the Companies Act 1994 by shares for carrying out all kinds of Banking activities with authorized capital of BDT 200 million divided into 2000000 ordinary shares of BDT 100 each.
Date of Commencement	October 05, 1999.
Registered Office	MTB Centre, 26 Gulshan Avenue Plot- 5, Block SE (D), Gulshan-1, Dhaka-1212.
Telephone	880(2) 882 6966, 882 2429
Telefax	880 (2) 882 4303
SWIFT Code	MTBL BD DH
E-mail	info@mutualtrustbank.com.bd
Web Page	www.mutualtrustbank.com
Auditors	HodaVasiChowdhury& co. Chartered Accountants BTMC Bhaban
Tax Consultant	MalekSiddiquiWali BSRS Bhaban (13 th floor) 12 Karwan Bazar C/a, Dhaka 1215, Bangladesh
Managing Director	Mr.AnisA.Khan
Company Secretary	Mr.Quamrul Islam Chowdhury
Number of Branches	67
SME center	5
MTB Securities limited	14

2.2 Background Profile of MTB

The Mutual Trust Bank was incorporated as a public limited company on September 29, 1999 under the Companies Act 1994. The Bank started its commercial operation on October 05, 1999 with an authorized capital of BDT 200 Million divided into 2,000,000 ordinary shares of BDT 100 each(Mutualtrustbank.com, 2014). Aiming at offering commercial banking service to the customers' door around the country, Mutual Trust Bank Limited establishes 67 branches up-to this year. This organization achieved customers' confidence immediately after its establishment in domestic and international markets.

Mutual Trust Bank is one of the few banks permitted by the Bangladesh bank in the early 90s; the other banks permitted earlier were Dutch-Bangla Bank, Al-ArafahIslami Bank, Prime Bank, Dhaka Bank, Eastern Bank, ONE Bank. These banks are known as the second generation banks and fortunate to remain immune from the bad loan culture. The emergence of Mutual Trust Bank Limited at the junction of liberation of global economic activities, after the URUGUAY ROUND has been an important event in the financial sector of Bangladesh(Bankinfobd.com, 2014).

Mutual Trust Bank Limited has been licensed by the Government of Bangladesh as a Scheduled Bank in the private sector in pursuance of the policy of liberalization of banking and financial services and facilities in Bangladesh. In view of the above, the Bank within a period of 15 years of its operation achieved a remarkable success and met up capital adequacy requirement of Bangladesh bank.

2.3 Company Mission & Vision

Mutual Trust Bank's vision is based on a philosophy known as MTB3V. They envision MTB to be(Mutualtrustbank.com, 2014):

- One of the Best Performing Banks in Bangladesh
- The Bank of Choice
- Truly World-class Bank

Their mission is to be the most admired financial institution in the country, recognized as a dynamic, innovative and client focused company that offers an array of products and services in the search for excellence and to create an impressive economic value.

2.7 Strategic Objectives

- To maintain a discreet credit policy.
- To enhance versatility and diversification through the penetration of new market segments, thereby fulfilling unmet needs.
- To ensure inflow of funds at combination of least possible cost.
- To improve administrative and organizational structures in order to prepare the platform for best practices of corporate governance.
- To practice stronger IT- driven initiatives that will meet the challenges and requirements of the bank and its clientele.
- To provide extensive career opportunities through competitive pay and a flexible environment.
- To extend financial assistance to the citizenry, living at dispersed locations by expanding the network of branches.
- To enrich the banking sector with improved awareness on Corporate Social Responsibility.

2.8 Management Hierarchy

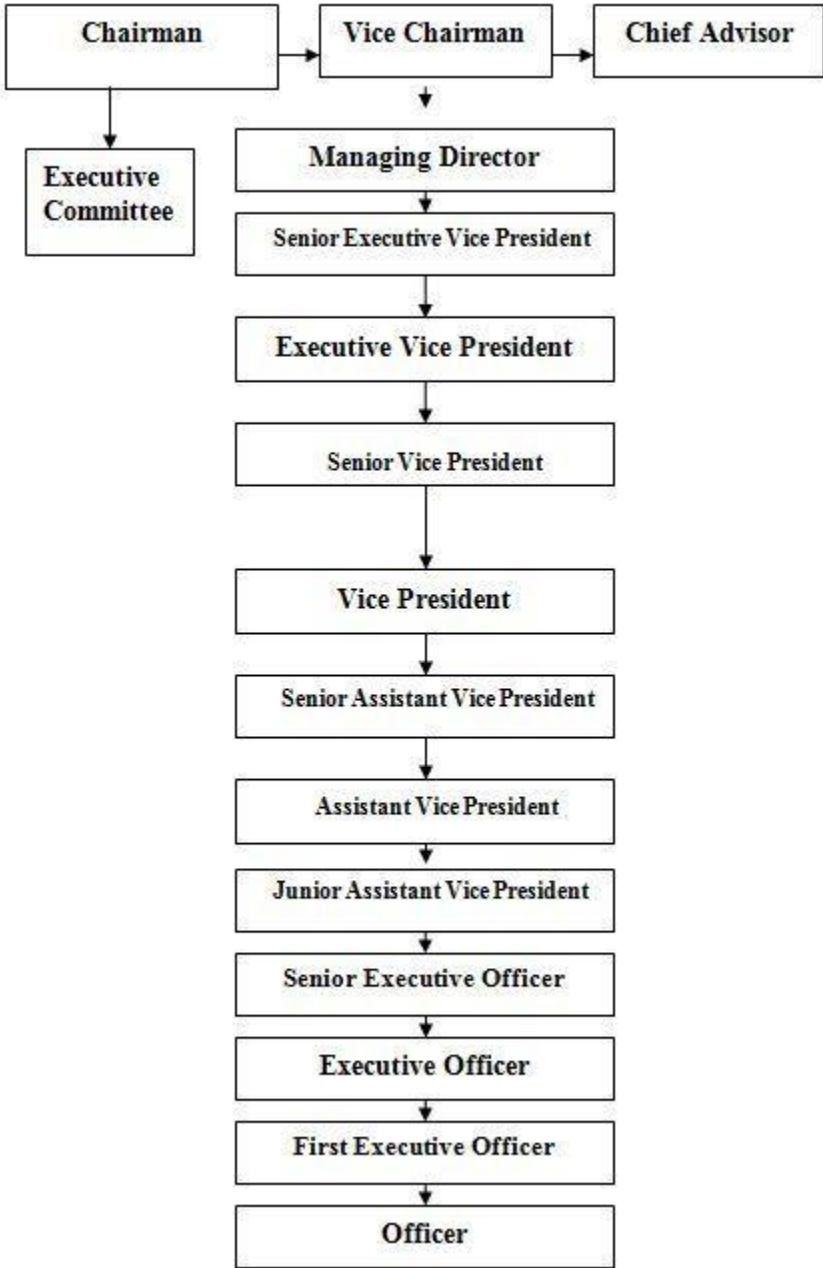


Figure 1: Management Hierarchy of MTB

2.10 Capital Structure

The capital structure of Mutual Trust Bank Ltd. is quite strong. At present, Authorized Capital of the company is BDT 10.00 Billion (BDT 1000.00 crore) divided into 100,000,000 ordinary shares of BDT 100 each.

Table 1: Authorized & paid up Capital (2010-13)

Year	Authorized Capital	Paid up Capital
2010	3800	1496.88
2011	3800	1766.32
2012	10,000	2119.58
2013	10,000	2543.50

(Mutual Trust Bank, 2010-13)

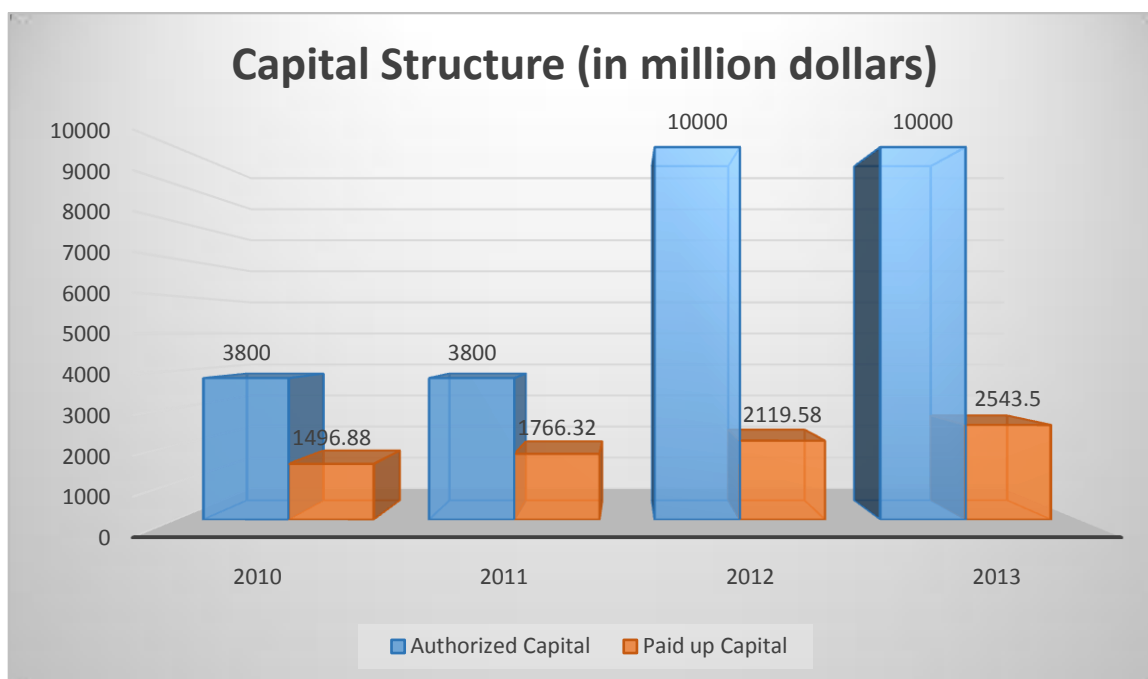


Figure 2: Authorized & paid up capital

From the graph it is seen that in 2010 the authorized capital was 3800 million and paid up capital was 1496.88 million. The authorized capital and paid up capital both are increased year by year. In 2013 its authorized capital increased by 10000 million and paid up capital also increased by 2543.50 million.

2.11 Products and Services provided by Mutual Trust Bank Limited

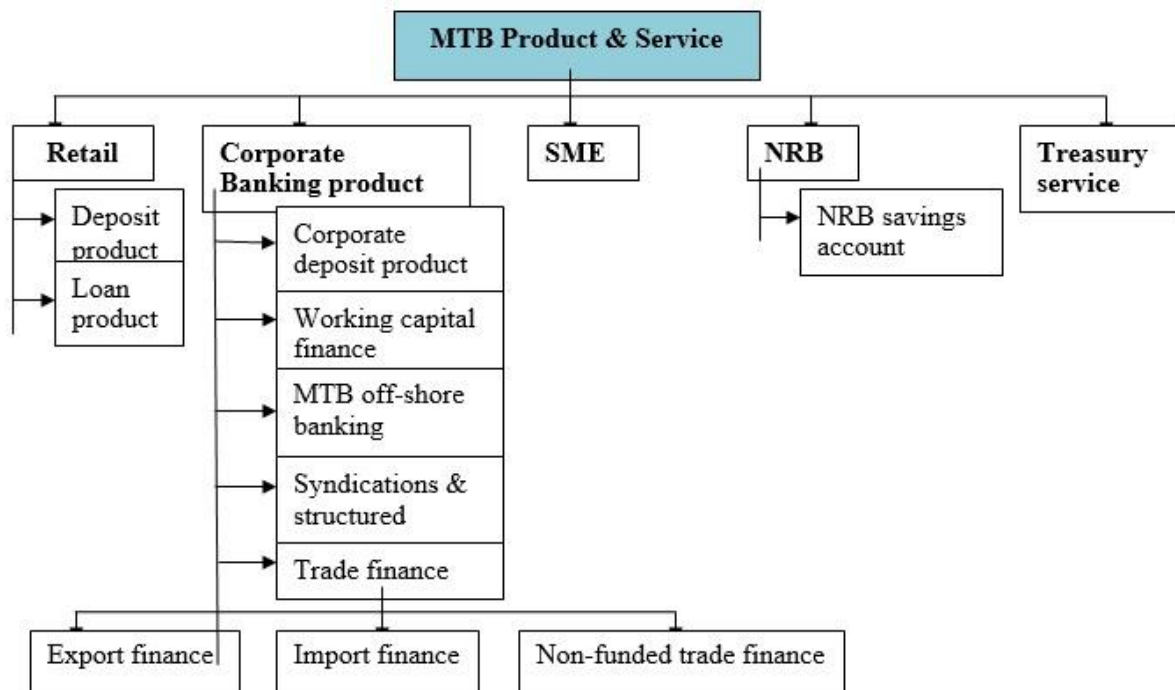


Figure 3: Products and Services of Mutual Trust Bank Limited

2.12 Departments of Mohmmadpur Branch

2.12.1 General Banking (GB) Department:

Some of the day-to-day activities of this department are the following.

- i. Account Opening
- ii. Receiving Cheques for Clearing, Transport, and Dispatch
- iii. Issuance of Cheque
- iv. Issuance of PO (Pay Order), DD (Demand Draft), etc.
- v. Fund Transfer
- vi. Closing and Transfer of Accounts
- vii. Maintaining the Locker of the Bank
- viii. Outward Clearing of IBC and OBC
- ix. Opening and Maintaining of FDR and other Scheme Deposits

- x. Utility bill, Rent of building and work of accounts department was done by GB because they don't have any separate accounts department
- xi. Maintaining On-line Voucher

2.12.2 Cash Department:

This department is responsible for cash payment and receipt. The employees in this department are also liable for computer posting, passing cheques, and accuracy of posting, balancing on-line accounts, etc.

2.12.3 Credit Department:

This department is responsible for the following jobs:

- Preparing CIB Statements
- Preparing Credit Proposal and Statement
- Prepare the application form to provide loan
- Administration of Retail Credit

2.12.4 Foreign Exchange Department

- Verification of L/C application
- L/ C opening.
- Advising L/C
- Sanction the application
- Export trade financing
- Remittance

2.12.5 Marketing and Customer Care Department

Searching for new customer, answer the inquiry about the product to the customer. They also look whether customer all documents are given or not ofMohmmadpurBranch

2.12.6 General Banking (GB) Department:

Some of the day-to-day activities of this department are the following.

Account Opening

- Issuance of Cheque
- Receiving Cheques for Clearing, Transport, and Dispatch

- Issuance of PO (Pay Order), DD (Demand Draft), etc.
- Opening and Maintaining of FDR and other Scheme Deposits
- Fund Transfer
- Closing and Transfer of Accounts
- Maintaining the Locker of the Bank
- Outward Clearing of IBC and OBC
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This department is responsible for cash payment and receipt. The employees in this department are also liable for computer posting, passing cheques, and accuracy of posting, balancing on-line accounts, etc.

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- Prepare the application form to provide loan
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- Preparing Credit Proposal and Statement
- Administration of Retail Credit

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- L/ C opening.
- Verification of L/C application
- Sanction the application
- Advising L/C
- Export trade financing
- Remittance

2.12.10 Marketing and Customer Care Department

Searching for new customer, answer the inquiry about the product to the customer. They also look whether customer all documents are given or not.

2.14 Credit Rating Report

Mutual Trust Bank Ltd was rated by Credit Rating Agency of Bangladesh (CRAB) on the basis of financial audited Statement, as on 31Dec 2013. The Summary of rating is presented below:

Table 2: CRAB Rating (2012-13)

Status	2012	2013
Long Term	AA ⁻	A1
Short Term	ST-2	ST-2

Commercial banks rated A1 in the long term are adjudged to be to be strong banks, characterized by good financials, healthy and sustainable franchises and a first rate operating environment. This level of rating indicates strong capacity for timely payment of financial commitments with low likeliness of being adversely affected by foreseeable events.

Commercial banks rated ST-2 in the short term are considered to have strong capacity for timely repayment. Banks rated in this category are characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.

2.15 Financial details summary of MTB (2010-13)

Items	2013	2012	2011	2010
Authorized Capital	10000	10,000.00	3,800.00	3,800.00
Paid up Capital	2543	2,119.58	1,766.32	1496.88
Shareholders' Equity	4719	4,378.81	3,684.51	2,483.09
Total capital	6695	6,225.56	3,969.33	2,888.33
Total Assets	65,683	58,246.03	52,774.77	38,964.97
Total Deposits	53778	45,846.31	42,354.07	33,820.41
Total Loan & Advances	44,506	39,676.12	33,883.92	28,529.35
Total Investment	20,149	9,216.33	9,537.97	5,606.49
Export	26,596	16,842.85	19,676.38	19,463.24
Import	36,945	27,652.80	29,720.99	30,381.62
Total contingent Liabilities	15857	15,498.87	10,061.04	11,467.71
Operating Income	1488	3,398.65	2,544.02	1,839.57

Operating Expenditure	848	1,396.93	917.10	644.49
Profit before provision & tax	303	2,001.72	1,626.92	1,195.09
Profit after provision & tax	404	988.36	820.61	305.03
Total provision maintained	1483	1,283.15	1,139.82	1,236.07
Earning asset	66,665	51,184.77	46,075.04	33,944.60
Price earnings ratio	20.84	15.18	10.64	22.23
Number of Branches	76	68	44	36
Number of Employees	1291	1,050	841	739

Table 3: Financial details summary of MTB (2010-13)

Chapter 3

Literature Review

3.1 Credit

The word credit comes from the Latin word “Credo” meaning “I believe”. It is a lender’s trust in a person’s or firms or company’s ability or potential ability and intention to repay. Credit is a contractual agreement, in which a borrower receives something of value now, with the agreement to repay the lender at some date in the future(Kothari, 2013). One of the basic functions of the bank is deposit extraction and credit extension. Managing credit operations is the crying need for any bank.

The objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loans and advances and their efficient management.

3.2 Factors Considered for Credit

- Time
- Operating Expense
- Risk
- Interest Rate
- Legal Considerations
- Finance Charge
- Inflation

3.3 Significance of Credit

- Business cycle can run well only by the help of lending system
- It helps to create employment opportunities
- Credit plays a vital role in national economy in the following ways-

- It provides working capital for industrialization
- Credit controls almost all kinds of production activities of the country
- It brings social equity
- Cash generation occurs for its successful performance
- Economic stabilization
- Raise standard of living.

3.4 Credit Management

Credit management is a dynamic field where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund. Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default. The overall success in credit management depends on the banks credit policy, portfolio of credit, monitoring, supervision and follow-up of the loan and advance. Therefore, while analysing the credit management of MTB, it is required to analyse its credit policy, credit procedure and quality of credit portfolio.

3.5 Credit Policy of MTB

One of the most important ways, a bank can make sure that its loans meet organizational and regulatory standards and they are profitable. It is important to establish a loan policy. Such a policy gives loan management a specific guideline in making individual loans decisions and in shaping the bank's overall loan portfolio. In Mutual Trust Bank Limited there is perhaps a credit policy but there is no credit written policy.

3.6 Principles of Credit

In the feature, credit principles include the general guidelines of providing credit by branch manager or credit officer. In Mutual Trust Bank Limited they follow the following guideline while giving loan and advance to the client(Edwards, 2004).

- All credit extensions must comply with the requirement of Bank Company Act and the Central bank.
- Not to extend credit to the persons/entities not supported by CIB report.
- To maintain judicious ratio between loan and deposit.To allow credit in a manner which in no way compromises with banks standard of excellence.

- Extension of credit normally from customer's deposits and not out of short term funds or borrowing from other banks.
- To optimize risk and reward.
- To ensure ethical standard in all credit activities.
- To extend credit in the areas, risk of which can be sufficiently understood and managed.
- To extend credit facility upon adequate pre investment analyses and repayment capacity of the clients.
- To avoid excessive credit concentration through rational diversification of credit.
- To avoid name lending.
- To allow credit on business consideration after ascertaining viability, credit requirement, quality of advance, security offered, cash flows and level of risks.

3.7 Principles of Sound Lending

It should be clearly understood that the criteria/principles are not inflexible laws & are given as guidelines for protecting credit. In a practical competitive world, risks are defined, accepted and credit is often granted even though a proposal does not strictly with some of the criteria described below.

The basic lending criteria can be considered as eight main headings, as follows:

- 1) Principle of Safety
- 2) Principle of Liquidity
- 3) Principle of Purpose
- 4) Character and ability of the borrower
- 5) Principle of Security
- 6) Principle of profitability
- 7) Source of repayment
- 8) Principle of National Interest

Each of the headings will now be discussed further in the following paragraph:

- **Principle of Safety**

The first lending Principle of sound lending is safety. The very existence of a bank depends upon the safety of its advances. So utmost care should be exercised to ensure that the funds go to the right type of borrower, are utilized in such a way that they remain safe and the repayment comes in the normal course.

- **Principle of Liquidity**

Liquidity means the availability of Bank funds on short notice. The liquidity of an advance means its repayment on demand on due date or after a short notice. Therefore, the banks must have to maintain sufficient liquidity to repay its depositors and trade-off between the liquidity and profitability is a must.

- **Principle of Purpose**

The bank should not lend money for any purposes for which a borrower may be free from all risks but if the funds borrower are employed for unproductive. Purpose like marriage ceremony, pleasure trip etc. or speculative activities, the repayment in the normal course will become uncertain. Banks therefore discourage advances from boarding stocks and refuse advances for speculative activities.

- **Character and ability of the borrower:**

The primary responsibility of the leading banker is “know your customer and his business”. While considering the character and ability of a borrower, the following point must be kept in mind.

- Do you know your customer already?
- Was he respectively introduced?
- If he was previously customer of another bank, why has he come to United Commercial Bank Ltd. Try to see previous bank statement?
- Have you made the account opening inquiries required by the bank?
- What are the business and its ownership?
- What is the customer’s background and financial track record?
- Customer’s honesty & integrity and personal stability?
- How has the customer managed his financial circumstances in the past?

The branch manager should have the answer of the above queries and should be to judge his ability to use the credit facilities to his advantage. Advance should be granted only to those borrowers in whom the branch manager has full confidence.

- **Principle of Security**

The security offered by a borrower for an advance is insurance to the banker. It serves as the safety value for an unforeseen emergency. The security accepted by a banker to cover a bank advance must be adequate, readily marketable, easy to handle and free from any encumbrance.

- **Principle of Profitability**

The working funds of a bank are collected mainly by means of deposit from the public and interest has to be paid on those deposits. Banks have also to meet their establishment charges and other expenses. Interest earned by a bank on its advance is the main source of its income (Bucci, 2011). The difference between the interest received on advances and the interest paid on deposits constitute a major portion of the banker's income. The bank will not enter into a transaction unless a fair return from it is assured.

- **Source of Repayment**

After the branch manager has ensured that the credit will be a profitable propositioning for the bank, he should then turn his attention to the cash flow situation of the borrower. The bank's credit can be classified into three main categories, as follows:

- A very short-term advance will be liquidated by funds received in the very near future, such as advances against foreign or local bills or bridge functioning where evidence of credit sanction from another financial institution is available.
- Provision for current assets; this type facility is needed for trading and /or manufacturing activities.
- Long term loans, generally over 5 years; example of such facilities as investment in plant and machinery, a farm or a shop, generally, a long term is repaid out profits generated by the business.

- **Principle of National Interest**

The development of banking has reached a stage where a banker is required to identify his business with national policies. Banking Industry has significant role to play in the economic development of a country. So, the savings of the people which are mobilized by banks must be distributed to those sectors which require development in the country's Planning Program.

3.8 Global Credit Portfolio Limit of MTB

The features which deals with how much total deposits would be used as lending the proportion of long term lending, customer exposure, country exposure, proportion of unsecured facility etc. the most notable ones are:

The aggregate of all cash facility will not be more than the 80% of the customers' deposit and Long term loan must not exceed 20% of the total loan portfolio. Facilities are not allowed for a period of more than 5 (Five) years. Credit facilities to any one customer group shall not normally exceed 15% of the capital fund or TK. 100 cores.

3.9 Type of Credit Activities:

Credit may be classified with reference to elements of time, nature of financing and provision base.

3.9.1 Classification on the basis of time

On the basis of elements of time, bank credit classified as:

Continuous loan:

These are the advances having no fixed repayment schedule but have a date at which it is renewable on satisfactory performance of the clients. Continuous loan mainly includes "Cash credit both hypothecation and pledge" and "Overdraft".

Demand loan:

In opening letter of credit (L/C), the clients have to provide the full L/C amount in foreign exchange to the bank. To purchase this foreign exchange, bank extends demand loan to the clients at stipulated margin. However, as soon as the L/C documents arrive, the bank requests the clients to adjust their loan and to retire the L/C documents. Demand loans mainly include "Payment against Documents," "Loan against imported merchandise (LIM)" and "Letter of Trust Receipt"(Laurin and Majnoni, 2003).

Term loan:

These are the advances made by the bank with a fixed repayment schedule. Terms loans mainly include "Consumer credit scheme", "Lease finance", "Hire purchase", and "Staff loan". The term loans are defined as follows:

- Short term loan: Up to 12 months.
- Medium term loan: More than 12 months & up to 36 months
- Long term loan: More than 36 months.

Table 4: Classification on characteristics of financing of Mutual Trust Bank Limited

Funded	Non-funded
Overdraft	Letter of Credit
Loan	Bank Guarantee
Consumer Credit	---
LTR	---
PAD	---
Cash Credit (Pledge & Hypo)	---
Staff Loan	---
Term Loan	---

Short Term Agricultural Loan and Micro Credit

These loans are short term credits enlisted by Agricultural Credit division of Bangladesh Bank in its 'annual loan program'. Loans disbursed in agricultural sector for a period not more than 12 months are also included in this category. Short term micro credits are the credits not exceeding BDT 25,000/- (taka twenty five thousand) only and repayable within twelve months.

3.9.2 Application Based Categories of Loan

Based on the purpose of the loan, loans are classified as follows:

Corporate Loan

Any loan exceeding 1,00,00,000 BDT and issued for business and trade purposes is defined as corporate loan. Such loans mainly serve the purpose of initials for the establishment of industry or large scale factory.

SME (Small & Medium Enterprise) Loans

This type of loan is disbursed for business purposes but the amount loaned does not exceed 1, 00, 00,000 BDT. The amount loaned here serves the purpose of potential (partial) working capital for small and medium business ventures.

Retail Loan

Retail loans are given for personal usage rather than for business purposes. It includes auto loan, personal loan, vacation loan, and home loan

❖ MTB Personal Loan (Consumer Credit Scheme)

MTB Personal Loan is simple, convenient and quick.

Features:

- ✓ Loan amounts from Tk. 50,000 to Tk. 10,00,000
- ✓ Flexible repayment option of 12 – 60 months
- ✓ No hidden charges
- ✓ Competitive interest rate
- ✓ Easy documentation and quick processing
- ✓ Option for early settlement

Eligibility:

Age minimum 21 and maximum 60 years at loan maturity.

Experience:

Salaried person: 1 year with 6 months permanent employment status

Self-employed: 1 year of practice in the profession

Businessperson: 2 years of involvement in the same nature of business

Minimum monthly income:

- ✓ Salaried executive Tk. 15,000
- ✓ Self-employed Tk. 30,000
- ✓ Businessperson/Land lord/Land lady Tk. 40,000

Loan Balance transfer or Take over:

Customers enjoying EMI based personal loan with other banks may enjoy the facility of Loan Balance Transfer.

Eligibility:

- ✓ Minimum 6 loan EMI repayment with existing bank
- ✓ Minimum takeover loan amount is Tk. 200,000 and maximum Tk. 9,50,000

Benefits of Takeover Plan:

- ✓ No processing fee for loan takeover or balance transfer
- ✓ Interest rate will be 1% less than ongoing rate
- ✓ Approved loan amount may be higher than the takeover loan amount'

❖ MTB Auto Loan

MTB offers lucrative interest rates that would pleasantly surprise the customer. MTB Auto Loans are built for utmost speed and competence. MTB Auto Loan is available for financing both new and reconditioned cars.

Features:

- ✓ Loan amounts from Tk. 3,00,000 to Tk. 20,00,000
- ✓ Flexible repayment of 12 – 60 months
- ✓ No hidden charges
- ✓ Competitive interest rate
- ✓ Easy documentation and quick processing
- ✓ Option for early settlement

Eligibility:

- ✓ Age: minimum 21 and maximum 60 years at the end of loan maturity
- ✓ Experience: Salaried executive total – 2 years
- ✓ Business person/self-employed – 2 year
- ✓ Monthly income: Minimum Tk. 30,000

❖ **MTB Home Loan**

Planning to own a home is one of life's most rewarding challenges. Whether it is purchasing a new house or a new apartment, MTB has a wide range of home loan options that can be customized to your specific need. An experienced, dedicated team of experts and a complete loan package is in place, to meet all your housing finance needs. MTB Home Loan helps the client to fulfil their dreams.

Features:

- ✓ Loan for residential apartment/house purchase
- ✓ Loan amounts from BDT 5,00,000 to BDT 1,00,00,000
- ✓ Loan tenor from 3 to 25 years
- ✓ Loan amount up to 80% of the property value
- ✓ Aggregation of co-applicant's income
- ✓ Competitive interest rates
- ✓ Quick and simple processing and approval time
- ✓ Loan for apartment under construction
- ✓ Partial or early settlement options available

Eligibility:

- ✓ Any financially able person
- ✓ Age: minimum 21 and maximum 65 years at loan maturity
- ✓ For 100% cash covered loan: Age- minimum 18 and maximum 70 years at loan maturity
- ✓ Minimum Income Range:
- ✓ Salaried person Tk. 25,000
- ✓ Self-employed Tk. 30,000
- ✓ Businessperson/Land lord/Land lady Tk. 40,000

Experience

- ✓ Salaried person : 3 years
- ✓ Self-employed : 3 years

- ✓ Businessperson : 3 years

Loan Takeover Plan:

An exclusive offer for other bank’s credit worthy customers who can transfer their Home Loan outstanding to MTB with both preferential interest rate and waiver of processing fees.

Eligibility:

- ✓ Minimum 12 months loan EMI repayment history with existing bank
- ✓ Property location and other eligibility criteria of general loan are applicable

Benefits of Takeover Plan:

- ✓ 1% reduced rate from regular interest rate
- ✓ Additional loan amount facility over takeover amount
- ✓ No processing fee for takeover loan amount
- ✓ No processing fee for additional loan amount

Required documents:

- ✓ Loan application
- ✓ Applicant’s National ID/Driving License/Passport copy
- ✓ Photographs of applicants (studio photo)
- ✓ Salary certificate for salaried person
- ✓ Trade license for businessperson
- ✓ Personal and business account statement for last one year
- ✓ Applicant’s TIN certificate
- ✓ Copies of all existing loans’ sanction letter and repayment history for last one year
- ✓ Rental deed for rental income and ownership deed of rented property
- ✓ Apartment allotment letter/Deed of agreement/property ownership deed
- ✓ Other all property related documents’ copy.

3.10 Rates of Interest and Lending

Table 5: Rates of Interest & Landing

SL	Categories	Rates
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Number		
1	Agriculture	12.50% (Highest) *
2	Term loan to large, medium, small & cottage industries	13.00% (Highest)**
3	Working Capital <ul style="list-style-type: none"> • Large and Medium Scale • Small Scale 	<ul style="list-style-type: none"> • 15.50% (Mid-Rate) • 15.50% (Mid-Rate)
4	Export Finance (PC, ECC)	7.00% (Highest)**
5	Commercial Lending	16.00% (Mid-Rate)
6	Import Finance <ul style="list-style-type: none"> • General • Essential Goods (rice, wheat, edible oil, lentils, chickpeas, onion, date and sugar) 	<ul style="list-style-type: none"> • 15.50% (Mid-Rate) • 12.00% (Highest)**
7	Housing Loan <ul style="list-style-type: none"> • Commercial • Residential 	<ul style="list-style-type: none"> • 16.00% (Mid-Rate) • 14.00% (Mid-Rate)
8	Consumer Credit	18.00% (Mid-Rate)
9	Lease Finance	16.50% (Mid-Rate)
10	Loan to Non-Banking Financial Institutions	15.50% (Mid-Rate)
11	Loan/SOD against FDR of MTB	3.00% above FDR interest rate
12	SOD against FDR of other Banks	16.50% (Mid-Rate)
13	Loan/SOD against other Special Deposit Products of MTB	3.00% above Deposit Product interest rate

14	Auto Loan	16.50% (Mid-Rate)
15	Small Business Loan under SME	16.50% (Mid-Rate)
16	Others	16.50% (Mid-Rate)

3.11 Different Securities for Different Types of Advances

Securities offered to the bank by the borrowers are of different types. Each security has its own suitability. Some of the examples of the securities obtained by the banks while allowing advance are shown below against the types of advances-

Table 6: Different Securities for Different Advances

Types of advances	Securities
House building loan	Primary securities: mortgage of the land or any property
Transport loan	Primary securities: joint registration and comprehensive insurance policy. Two valuable guarantors. Collateral securities: mortgage of land or any property. Any type financial obligation.
Auto loan	Primary securities: joint registration and comprehensive insurance policy. Two valuable guarantors and post-dated cheques.
Any purpose loan	Primary securities: two valuable guarantors and post-dated cheques.
Payments against documents(PAD)	Pledge or hypothecation of stock-in trade, goods, produce and merchandise, machineries, land or building on which machineries are installed.
Loan against imported merchandise	Pledge of imported merchandise
Loan against trust receipt	Trust receipt in lieu of import document
Local bills purchased	Bill itself
Foreign bill purchased	Shipping documents for exports
Overdraft	Primary securities: hypothecation of book depth

	Collateral securities: mortgage of landed property and IPA.
Secured overdraft	Primary securities: Lien on any types of financial obligation.
Cash credit	Primary securities: Hypothecation of stock of goods in trade duly insured produce merchandise. Collateral securities: Mortgage of land and building, any financial obligation.

3.12 Methods of Charging Securities

The following modes of charging securities are applied in the Mutual Trust Bank Limited.

- **Lien**

A lien is right of banker to hold the debtor's property until the debt is discharged. Bank generally retains the assets in his own custody but sometimes these goods are in the hands of third party with lien marked.gives banker the right to retain the property not the right to sell. Permission from the appropriate court is necessary.

- **Pledge**

Pledge is also like lien but here bank enjoys more right. Bank can sell the property without the intervention of any court, in case of default on loan, But for such selling proper notice must be given to the debtor. To create pledge, physical transfer of goods to the bank is must.

- **Hypothecation**

In this charge creation method physically the goods remained in the hand of debtor. But documents of title of goods are handed over to the banker. Since the goods are in the hand of the borrower, bank inspects the goods regularly to judge its quality and quantity for the maximum safety of loan.

- **Mortgage**

Mortgage is transfer of interest in specific immovable property. Mortgage is created on the immovable property like land, building, plant etc. Another method called equitable mortgage is

also used in bank for creation of charge. Here mere deposit of title to goods is sufficient for creation of charge.

- **Trust Receipt**

Generally goods imported or bought by bank's financial assistance are held by bank as security. Bank may release this lien / pledge these goods against trust receipt. This means that the borrower holds goods in trust of the bank; trust receipt arrangement is needed when the borrower is going to sell these goods or process it further but borrower has no sufficient fund to pay off the bank loan

- **Advance against Work-Order**

Advances can be made to a client to perform work order. The following points are to be taken into consideration. The client's management capability, equity strength, nature of scheduled work and feasibility study should be judiciously made to arrive at logical decision.

- **Advance against Approved Shares**

Credit facilities to extend against shares will be called "Investment Scheme against Shares". Advance may be allowed against shares of companies listed with the Stock Exchange Ltd.

- **Advance against Fixed Deposit Receipts**

Advance against Fixed Deposit Receipt will be subject to credit Restrictions imposed from time to time by Head Office / Bangladesh Bank. Mutual Trust Bank Limited usually sanctions credit limit up to 80% of the FDR value. Scrutinize the Fixed Deposit Receipts with regard to the following points.

- a) The Fixed Deposit Receipt is not in the name of minor.
- b) It is discharged by the depositor on revenue stamp of adequate value & his signature is verified.
- c) Creation of liability on Fixed Deposit issued in joint names by any one of the depositors is regular.

d) If the Deposit Receipt is offered as a security for allowing advances, a letter of lien shall be obtained from the depositors, on the appropriate form.

e) If the Deposit Receipt has been issued by the branch-allowing advance, lien against that specific Deposit Receipt to be marked in the fixed Deposit Register of the branch.

3.13 The 9C's of Bad and Good Loan in Credit Management

The Branch manager of MTB try to judge the possible client based on some criteria. These criteria are called the C's of good and bad loans(Saunders and Allen, 2002). These C's are described below:

3.13.1 Character

The outcome of analysing the character is to have overall idea about the integrity, experience, and business sense of the borrower. Two variables; Interaction/interview, and Market Research are used to analyse the character of the borrower.

3.13.2 Capital

For identifying the capital invested in the business can be disclosed using the following indicators:

- ✓ Financial Statements
- ✓ Receivable, Payable, statements to practically assess the business positions. Net worth through financial statements or from declaration of Assets & Liability statement.

3.13.3 Capacity (Competence)

Capability of the borrower in running the business is highly emphasized in the time of selecting a good borrower. As the management of the business is the sole authority to run the business that is use the fund efficiently, effectively and profitably. The indicators help to identify the capacity of the borrower.

3.13.4 Collateral

Make sure that there is a "second way out" of a credit, but do not allow that to drive the credit decision.

3.13.5 Cash Flow

Cash flow is the vital factor that is used to identify whether the borrower will have enough cash to repay the loan or advance. Cash keeps the liquidity to ensure repayment. The relationship manager tries to identify the annual cash flow from the submitted statements.

3.13.6 Conditions

Understanding the business and economic conditions can and will change after the loan is made.

3.13.7 Complacency

Do not rely on past history to continue. Stay alert to what can go wrong in any loan.

3.13.8 Communication

Share credit objectives and credit decision making both vertically and laterally within the bank.

3.13.9 Credit Query:

The loans and advance department gets a form filled up by the party seeking a lot of information.

3.14 Different Categories of Risks Associated with CM

LRA divides the credit risk into two categories, namely

- 1) **Business Risk:** It refers to the risk that the business fails to generate sufficient cash flow to repay the loan. Business risk is subdivided into two categories- Industry Risk and Company Risk.

[1] **Industry Risk:** Due to some external reasons a business may fail and the risk, which arrives from external reasons of the business, is called industry risk. It has two components- Supply Risk and Sales Risk.

a) **Supply Risk:** It indicates that the business suffers from external disruption to the supply of inputs. Components of supply risk are as raw material, Labour, power, machinery, equipment, factory premises etc.

b) **Sales Risk:** This refers to the risk that the business suffers from external disruption of sales. Sales risk is determined by analysing production or marketing system, industry situation, Government policy, and competitor profile and companies strategies (Gregory, 2010).

[2] **Company Risk:** This refers to the risk that the company fails for internal reasons. Company risk is subdivided into Company Position Risk and Management Risk.

- a) **Company Position Risk:** Within an industry each and every company holds a position. This position is very competitive. Due to the weakness in the company's position in the industry, a company is the risk for failure. That means, company position risk is the risk of failure due to weakness in the company's position in the industry. It is subdivided into performance risk and resilience risk.
- b) **Management Risk:** The management risk refers to the risk that the company fails due to management not exploiting effectively the company's position. Management risk is subdivided into Management Competence Risk and Integrity Risk.
 - i. **Management Competence Risk:** This refers to the risk that falls because the management is incompetent. The competence of management depends upon their ability to manage the company's business efficiently and effectively. Management team work is determined by analysing management structure and its strength and weakness.
 - ii. **Management Integrity Risk:** This refers to the risk that the company fails to repay the loan amount due to lack of management integrity. Management integrity is a combination of honesty and dependability.

3.14.1 General procedure of sanctioning loan

The following procedure is applicable for giving advance to the customer. These are:

- i. Party's application
- ii. Filling form-A
- iii. Collecting CIB report from Bangladesh Bank
- iv. Processing loan proposal
- v. Project appraisal
- vi. Head office approval
- vii. Sanction letter
- viii. Documentation
- ix. Disbursement

A. Party's application

At first borrower had to submit an application to the respective branch for loan, where he/she has to clearly specify the reason for loan(Reed, 2004). After receiving the application form the borrower Bank officer verifies all the information carefully. He also checks the account maintains by the borrower with the Bank. If the official becomes satisfied then he gives form-A (prescribed application form of Bank) to the prospective borrower.

B. Filling Form -A

After satisfying with party's application the applicant need to fill Form-A. It is the prescribed form provides by the respective branch that contains information of the borrower.

C. Collecting CIB Report from Bangladesh Bank

After receiving the application for advance, Mutual Trust Bank sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Credit Information Bureau) report.

D. Processing loan Proposal

After receiving CIB report from Bangladesh Bank, then respective branch prepare an Investment proposal, which contains terms and conditions of Investment for approval of Head Office. Documents those are necessary for sending Investment proposal are:

Necessary Documents

While advancing money, banks create a lot of documents, which are required to be signed by the borrowers before the disbursement of the loan. Of them some are technically called charge documents. Necessary steps and documents:

1. Loan application form duly signed by the customer.
2. Acceptance of the term and conditions of sanction advice.
3. Trade license.
4. In Case Of Partnership Firm, copy of registered partnership deed duly certified as true copy or a partnership deed on non-judicial stamp of taka-150 denomination duly notarized.
5. Demand promissory notes.
6. Letter of hypothecation of stocks and goods.
7. Letter of hypothecation of books debts and receivable.

8. Letter of hypothecation of plant and machinery.
9. Personal letter of guarantee.
10. Required Doc's for Retail (Individual) Loan
 - a) Photograph- 2 Copies
 - b) Passport/National ID/Driving License
 - c) Visiting card/company ID
 - d) Tin
 - e) Trade license (For Businessman)
 - f) LOI (For service holder)
 - g) Utility Bill (electricity/WASA/Gas)
 - h) Bank statement- last 6 months
 - i) Quotation (For Auto or HHD)
 - j) Partnership Deed (for partnership firm)
 - k) Company memorandum
 - l) Rental/Lease/Title Deed
 - m) Certificate of professional degree
 - n) Guarantor
 - o) Spouse- photo with signature, Attested by applicant
 - p) Eligible photo with signature, Attested by the applicant, Visiting card, TIN
 - q) Sanction letter with Related Bank Statement (If Enjoying Any Loan) .
11. Required Doc's for SME
 - a) Total stock
 - b) Total sale for 1 year
 - c) Guarantor
 - d) Photograph
 - e) Visiting card
 - f) TIN
 - g) Trade license

3.16 Credit Risk Grading (CRG) 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 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, 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. Usually there includes six steps for CRG. These are:

- I. Identify all the Principal Risk Components
- II. Allocate weights to Principal Risk Components
- III. Identify the Key Parameters
- IV. Assign weight to each of the key parameters
- V. Input data to arrive at the score on the key parameters.
- VI. Arrive at the Credit Risk Grading based on total score obtained.

1. Identify all the principal risk components

At the first step all the principal risk such as financial risk, business risk, management risk, security risk and relationship risk are identified. These principal risks cover all possible uncertainty that may occur

2. Allocate weight to principal risk components

In this step, weight is distributed to the risk components. Risk factors have to be evaluated and weighted on the basis of updated & reliable data and complete objectivity.

Table 7: Weight to Principal Components

Financial risk	50%
Business risk	18%
Management risk	12%
Security risk	10%
Relationship risk	10%

3. Identifying the key parameters of principal risk

In this step, key parameters of principal risk are identified. The parameters are shown on table below:

Table 8: Key parameters of principal risk

Risk components	Key parameters
Financial risk	Leverage, liquidity, profitability, & coverage ratio
Business risk	Size & age of business, business outlook, industry growth, competition & barriers to business
Management risk	Experience, Succession & team work
Security risk	Security coverage, collateral coverage & support
Relationship risk	Account conduct, utilization of limit, compliance of covenants & personal deposit

4. Assigning weight to key parameters

After identifying key parameters, weight is given to each parameter of principal risk components. In this case, high weight is given to the risky parameters.

5. Input data to arrive at score

Finally, data is put on Excel based CRG matrix for getting the score.

Table 9: Data input for score

Number	Grading	Short	Score
1	Superior	SUP	Fully cash secured, secured by govt. guarantee/international bank guarantee
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

6. Arrive at the Credit Risk Grading based on total score obtained:

At last bank select a grade for the borrower.

CRG System Review

CRG system should be reviewed by the respective loan officer regularly. Frequencies of review of CRG are mentioned below:

Table 10: Arriving at the Credit Risk Grading

Risk grading	Frequency (at least)
Superior	Annually
Good	Annually
Acceptable	Annually
Marginal/Watch list	Half yearly
Special Mention	Quarterly
Substandard	Quarterly
Doubtful	Quarterly
Bad/Loss	Quarterly

E. Project Appraisal

It is the pre-investment analysis. Project appraisal in the Banking sector is important for the following reasons:

- ✓ To achieve organizational goals,
- ✓ To recommend if the project is not designed properly.
- ✓ To justify the soundness of an investment,
- ✓ To ensure repayment of Bank finance,

F. Head Office Approval

When Head office receive appraisal from the branch then, Head Office again appraises the project. If it seems to be a viable one, the HO sends it to the Board of Directors for the approval of the Investment. The Board of Directors (BOD) considers the proposal and takes decision whether to approve the Investment or not. If the BOD approves the investment, the HO sends the approval to the concerned branch(Reed, 2011).

G. Sanction Letter

When a Branch Manager writes a letter to accepting all terms and conditions of loan, it is called loan sanction. The conditions which are included in the loan sanctions these are given bellow:

- i. Limit.
- ii. Primary Securities.
- iii. Collateral Securities.
- iv. The Rate of Interest
- v. Expiry date.
- vi. Repayment.
- vii. Documentation.
- viii. Others Condition.

H. Documentation

If the borrower accepts the sanction letter, the Documentation starts. The most common documents used by the Mutual Trust Bank for sanctioning different kinds of Investment are:

- Joint Promissory Note,
- Letter of Arrangement,
- Letter of Disbursement,
- Letter of Instalment,
- Letter of Continuity,
- Trust Receipt,
- Counter Guarantee,
- Stock Report,
- Letter of Lien,
- Status Report,
- Letter of Hypothecation,
- Letter of Guarantee
- Documents Relating to Mortgage.

I. Disbursement

After sanction and completion of all formalities the respective officer disburses the loan. The officer writes cheque and provides it to the borrower. For this borrower has to open an account through which he/she can withdraw the money.

Strategies for Recovery: Recovery of loan can be made in the following three methods:

- ✓ Persuasive
- ✓ Voluntarily
- ✓ Legally

3.16 Status of Loans

Unclassified

These are the loans with which the bank satisfied about repayment. No doubt exists up till now about their recovery.

Classified

These are the loans which the bank finds overdue after the due date. The bank applies its predefined policy and procedures, after a loan becomes classified.

- **Special Mention Account**

When a loan instalment is first missed by the borrower, the loan account is classified as a Special Mention Account (SMA). The tenure of SMA varies with the category of loans.

- **Sub-Standard**

If a loan is not repaid or reschedule within the SMA period, it becomes sub-standard loan. From this stage the loan is treated as defaulted. Interest is treated the same way as in SMA.

- **Doubtful**

If a loan is not repaid or reschedule within the sub-standard period, it becomes a doubtful loan. Interest will be treated as before in this stage.

- **Bad & Loss**

If a loan is not repaid or reschedule within the doubtful stage, it is termed as bad & loss. Serious doubts exist as to the recovery of such loans.

3.16.1 Criteria for Loan Classification

Table 11: Criteria for Loan Classification

Loan	Continuous Loan	Demand Loan	Fixed term loan		Short Term Agricultural And Micro Credit Loan
			Term loan for within 5 years	Term loan for more than 5 years	
Special Mention Account	Irregular for 3 to 6 months	Irregular for 3 to 6 months	Irregular for 3 to 6 months	Irregular for 3 to 12 months	Irregular for 3 to 12 months
Sub-Standard	Irregular for 6 to 9 months	Irregular for 6 to 9 months	Irregular for 6 to 12 months	Irregular for 12 to 18 months	Irregular for 12 to 36 months
Doubtful	Irregular for 9 to 12 months	Irregular for 9 to 12 months	Irregular for 12 to 18 months	Irregular for 18 to 24 months	Irregular for 36 to 60 months
Bad & Loss	Irregular for more than 12 months	Irregular for more than 12 months	Irregular for more than 18 months	Irregular for more than 24 months	Irregular for more than 60 months

3.17 Provisioning

Provisioning is maintained at branch levels. This is followed in order apply the Matching Principle and Expense & loss Recognition Principle that suggest the recording of a probable loss account to be adjusted in the period it operates and is assumed to occur. For every provisioning, each branch debits Income Accountant credits Provision against loans to better match expense with revenue and show the effects by reducing income for any given period.

3.17.1 Rate of Provision

Provision will be provided against all types of loans including short term agricultural and micro credit at the following rates:

Table 12: Rate of Provision

Classification Criteria	Rates of Provision
General Provision on unclassified loans & advances	1%
General Provision on unclassified small enterprise financing	2%
General Provision on unclassified loans for housing finance & on loans for professional	2%
General provision on unclassified consumer financing other than housing finance & loans for professionals	5%
General provision on special mentioned account	5%
Specific provision on substandard loans & advance	20%
Specific provision on doubtful loans & advances	50%
Specific provision on bad/loss loans & advances	100%

CHAPTER 4

Analysis, Discussion and Findings

Analysis is the most crucial part of a report. Quantitative analysis has been done in this report. This analysis will give an idea about the credit performance of Mutual Trust Bank Limited.

Included quantities analysis will be: Time Series Analysis, Ratio Analysis, and Comparative Analysis.

4.1 Performance of Loan & Cash Credits Overdraft of 2012 compared with 2013

Table 13: Performance of Loan & Cash Credits Overdraft Comparison (2012-13)

Particulars	Year 2012 (Tk.)	Year 2013 (Tk.)
Loans	21,474,615,109	47,005,479,862
Cash credit	6,876,360,000	6,876,360,000
Overdraft	7,184,950,000	7,184,950,000
Loan against merchandise	23,376,991	2,679,670,000
Packing credit	192,150,005	295,348,211
Loan against trust receipts	8,316,923,710	3,217,959,571
Agriculture credit	3,269,130	5,458,859
Payments against document	921,045,616	857,841,094
Consumers loan scheme	3,605,897,222	2,565,715,355
Lease finance	2,478,568,846	2,327,900,765
Margin finance	94,176,739	72,728,571
Others	879,890,792	512,936,176
Total	53,493,427,697	52,984,978,424

Findings: Here cash credit, loan against trust receipt, payment against document, consumer loan scheme, lease finance, margin finance, was increasing by comparing with previous year. Others are decreased.

Total amount of Loan increased by Tk.508, 449,270 from the year of 2012.

4.2 Performance of Industrial Advances of 2012 comparison with 2013

Table 14: Performance of Industrial Advances of 2012 comparison with 2013

Industrial Advance	Year 2012(Tk.)	Year 2013 (Tk.)
Agriculture	624,070,000	196,626,172
Jute	123,660,000	211,251,398
Textile	2,187,837,300	7,149,501,367
Readymade garments	1,151,827,530	2,940,333,338
Steel & engineering	1,113,845,534	1,289,525,661
Ship Scraping	1,006,293,623	1,398,133,630
Edible oil	278,239,311	1,112,775,209
Cements	1,121,854,920	298,899,527
Food and allied products	428,304,808	2,214,317,263
Paper & packaging	1,114,037,232	389,259,415
Construction	590,644,172	585,406,796
Energy & power	1,196,202,973	784,487,041
Transport& communication	450,457,375	1,246,386,822
Pharmaceutical	798,551,282	510,991,943
Service industry	2,169,987,754	875,401,589
others	19,215,951,079	2,846,534,430
Total	33,571,764,893	24,049,831,601

Findings: According to this chart, all the sectors of industrial advances were increasing compare to previous year except paper and packaging, construction. In industrial sector specially textile, jute, readymade garments are playing a major role in our national economy. So by increasing advance in this sector, Mutual Trust Bank Limited performs well in productive unit in our country which can help to increase the total GDP.

Total industrial advances increased by Tk. 9,521,933,290 from the year of 2012.

4.3 Sector wise Loan & Advances:

A wide range of business industries and sectors constitutes the Bank's advance portfolio. Major sectors where the Bank extended credit include steel & engineering, readymade garments, textile, ship breaking, edible oil, sugar, housing & construction, pharmaceuticals, chemicals, electronic & automobiles, energy & power, service industries, trade finance, personal or consumer credit, leasing etc. The Bank continued to support Small and Medium Enterprises (SME) and expended credit facilities to them through its SME Cell. Sectoral allocation of advances reveals a well-diversified portfolio of the Bank with balance exposure in different sectors.

Table 15: Sector wise Loan & Advances

SL No	Items	2013	2012	2011	2010	2009
	Local currency advances					
1	Term Loan	10,267.97	9,369.57	6,072.42	3,660.65	1,069.57
2	SME Financing	2,646.76	549.99	301.47	59.23	294.18
3	Consumer Financing	1,378.09	1,197.71	668.40	142.59	104.48
4	House Building Loan	1,103.81	861.53	805.40	604.08	114.89
5	Trust Receipts	6,127.68	6,156.53	7,610.92	6,465.68	772.97
6	Cash Credit	5,758.85	5,427.70	4,656.65	3,749.20	687.64
7	Secured Overdraft	4,774.98	5,906.17	3,624.78	2,946.37	718.50
8	Lease Finance	196.00	254.55	257.25	251.07	36.45
11	Others Loans & Advances	1,742.83	1,735.82	1,496.81	1,962.69	349.55
	Sub-total	38,404.45	33,849.88	28,521.44	22,682.06	4148.23
	Foreign Currency Advances	1271.67	34.04	7.90	1.17	
	Total	39,676.12	33,883.92	28,529.34	22,683.23	

From the table, Mutual Trust Banks high concentration is in term loan which was increasing year by year. In the year 2009 it was only 1,069.57million which was increased by 10,267.97 million in 2013. In trust receipt it has been seen that the amount was decreasing. Although trust receipt was high in 2011 at 7,610.92 million but it decreasing at 6,127.68 million in year 2013. In the sector of cash credit the total amount was increasing year by year. In 2010 cash credit was 3,749.20million which increased at 4,656.65 million in year 2011 and it stood at 5,758.85 million in year 2013. The amount of secured overdraft was fluctuating from year 2009 to 2013. Secured

overdraft was high in 2012 at 5,906.17 million and low in year 2011 at 2,946.37 million. In SME financing, Mutual Trust Bank utilized huge amount in year 2013 at 2,646.76 million where it was 549.99 million in 2012, 301.47 million in 2011 and 59.23 million in 2010. Consumer financing was also increasing year by year. Consumer finance was only 15.45 million in 2010 where it was 1,378.09 million in year 2013. House building loan was also increasing year by year. Bill purchased and discounted amount were fluctuating. It was low in year 2013 at 1777.65 million and high in year 2011 at 3027.34 million. Loan to MTB securities Ltd was 2,656.83 million in year 2013 and it was not perform in previous years.

4.4 Time Series Analysis

4.4.1 Investment:

The total investment of the bank was growing year by year. In the year 2013, the total investment was 3956.53 million. It became 9216.33 million in the year of 2013.

Table 16: Yearly Investment (2011-13)

Year	Investment
2011	9537.97
2012	9216.33
2013	20148.71

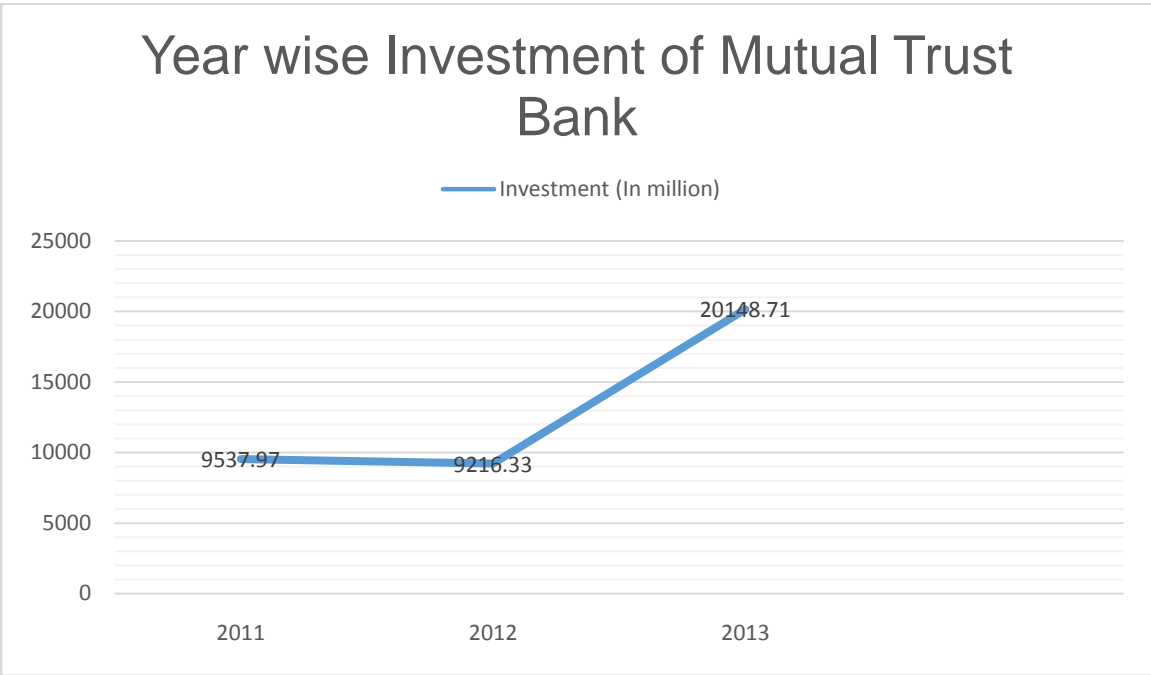


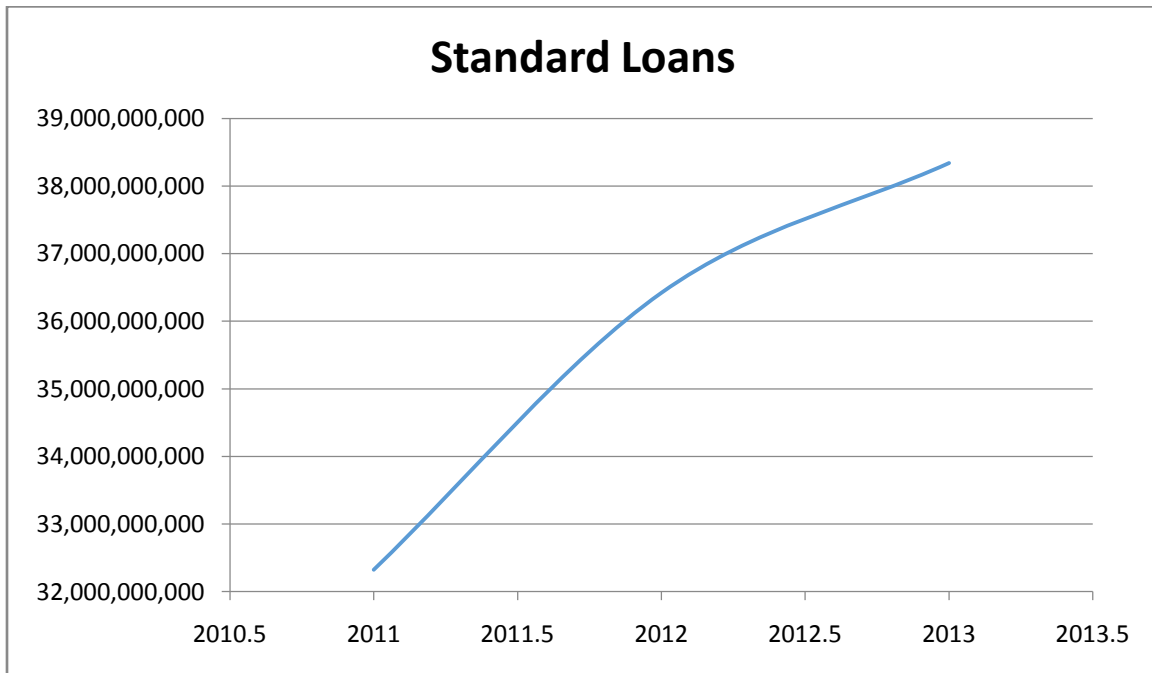
Figure 4: Year wise Investment of Mutual Trust Bank

From the graphical representation it has been seen that, the total investment portfolio of the bank stood at 20148.71 million in June, 2013 as compared to previous years. Investment was 9216.33 million in year 2012 where it was 9537.97 million in 2011. The investment portfolio includes treasury bills, treasury bonds, zero coupon bonds, shares of different companies, bonds, prize bonds etc.

4.4.2 Classification of loan and advances

Table 17: Classification of loan and advances

Loan status	Amount(2013)	Amount(2012)	Amount(2011)
Standard Loan	38,340,765,580	36,420,829,690	32,324,154,705
Special Mention Account	560,334,000	405,660,000	607,007,000
Sub Standard	72,354,000	63,464,000	62,223,000
Doubtful	27,453,000	22,302,000	47,259,000
Bad or loss	923,453,000	818,203,000	843,280,000



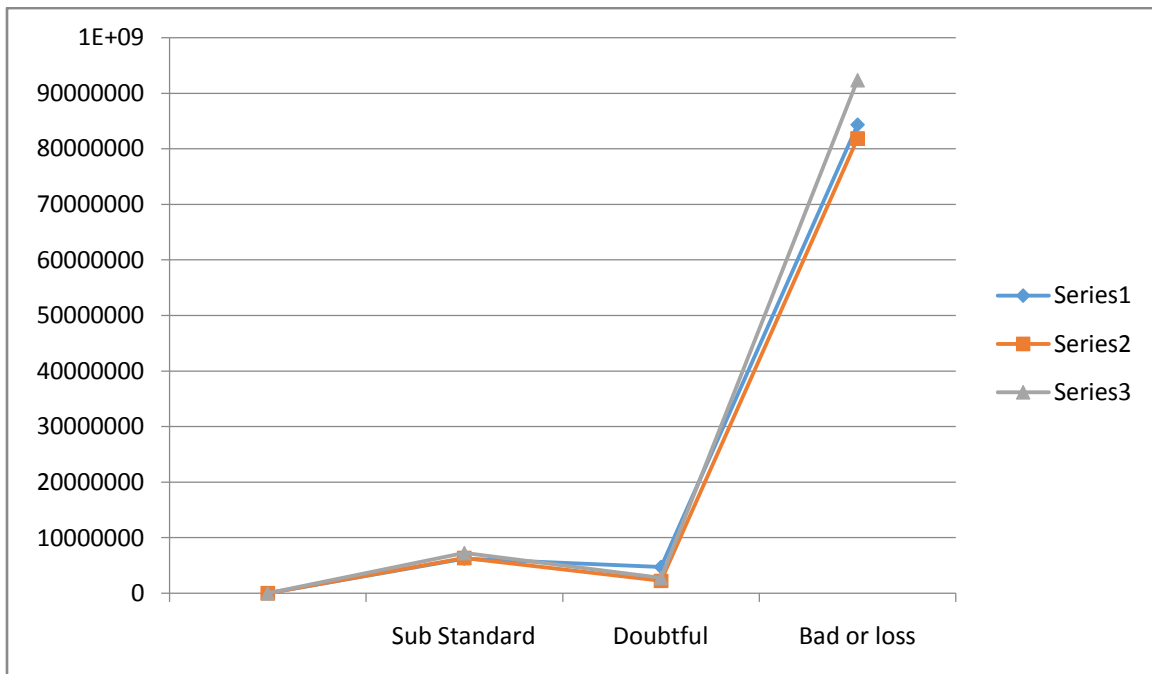


Figure 5: Classification of loan and advances of Mutual Trust Bank

From the graph it has been seen that the amount of standard loan as unclassified loan was increasing year by year. In 2013 classification loan amount in standard level was tk38,340,765,580 and in 2012 it stood at tk. 36,420,829,690. Special mention account were fluctuating from year 2011 to year 2013. The amount of special mention account were high in year 2012 at tk36,420,829,690. The amount of bad and loss also decreasing compared to previous year but the amount was very high in year 2011 at tk843,280,000. The doubtful loan amount was decreasing from previous years and this amount was also very high in year 2011 at tk47,259,000 where it decreased at tk27,453,000 in the year 2013. The total amount of classified loan and advance was also decreasing which represent a better performance for Mutual Trust Bank.

4.4.3 Interest income on loan and advances:

Table 18: Interest income on loan and advances

Year	Interest income (amount in million)
2010	5020.37

2011	6699.72
2012	7061.26
2013	6097.52

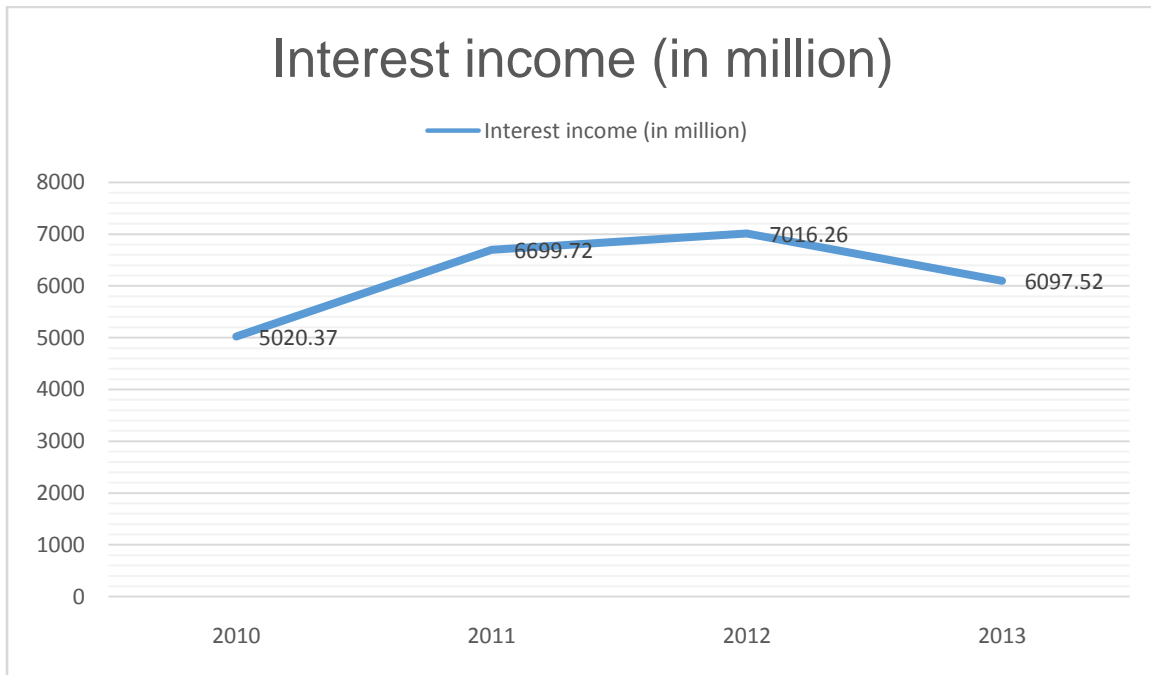


Figure 6: Interest income on loan and advances of Mutual Trust Bank

From the graph it has been seen that the interest income from loan and advances of Mutual Trust Bank limited was increasing year by year. A banks large portion of profit comes from its interest income so Mutual Trust Bank became more profitable from its interest income. In the year 2011 the interest income was 6699.72 million where it increased at 7016.26 million in year 2012 and it stood at 6097.52 million in year 2013.

4.4.4 Geographical location wise loans and advances:

In year 2012-2013,

Urban

Table 19: Urban Rural Loans & Captions

Region	Loan and advance 2013	Loan and Advance 2012
---------------	----------------------------------	----------------------------------

Dhaka	27,518,196,144	24,030,350,650
Chittagong	8271,761,920	6,956,670,354
Pallabi	1,241,862,602	320,400,597
Sylhet	416,599,276	588,650,453
Khulna	-	226,340,381
Rangpur	134,898,813	-
Barisal	-	-

Rural

Table 20: Rural Loans & Advances

Region	Loan and Advance 2013	Loan and Advance 2012
Dhaka	1,290,635,665	1,076,710,385
Chittagong	762,490,942	587,200,541
Pallabi	-	-
Sylhet	-	-
Khulna	-	-
Rangpur	-	-
Barisal	39,676,121	97,600,344

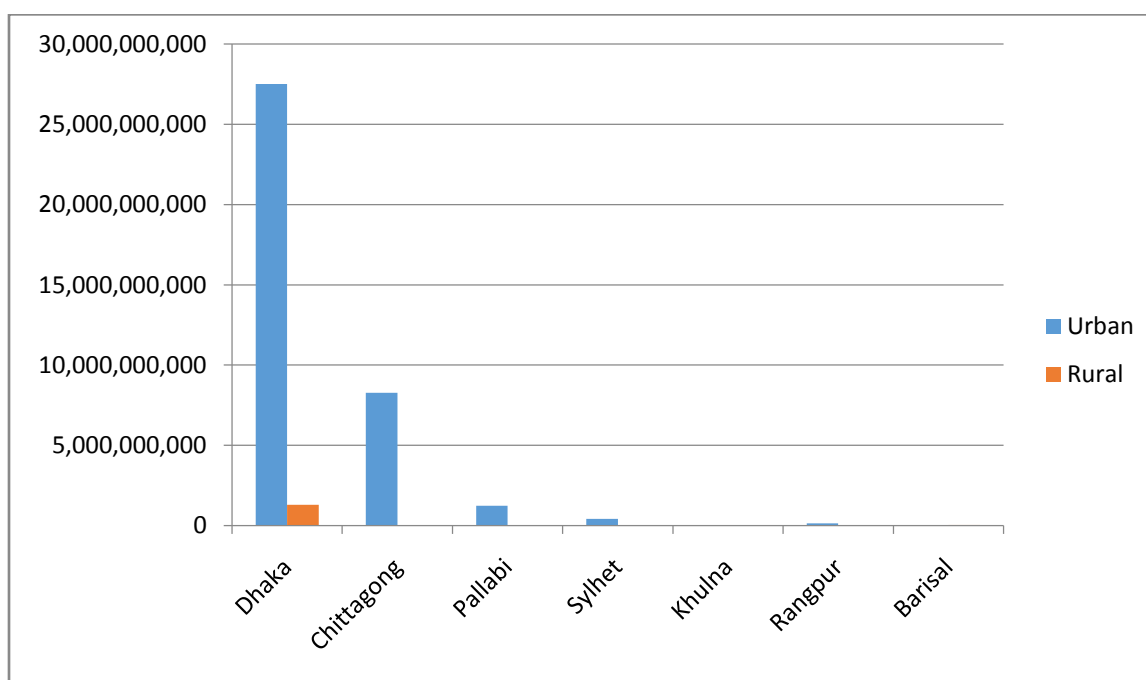


Figure 7: Geographical location wise loan and advances of Mutual Trust Bank (For Urban)

From the graph it has been seen that Mutual Trust bank provides most of the portion of loan and advances in urban area, whereas they provide a little portion in rural area. As we seen before that this bank provide more loan and advances in other industries than agricultural industries. Because of this their contribution to urban area is more than rural area. But it also increased its loan and advances in rural area from previous year.

4.4.5 Deposit Analysis

Table 21: Deposit Analysis (in million)

Year	Deposit
2010	33,820
2011	42,354
2012	45,846
2013	50,002

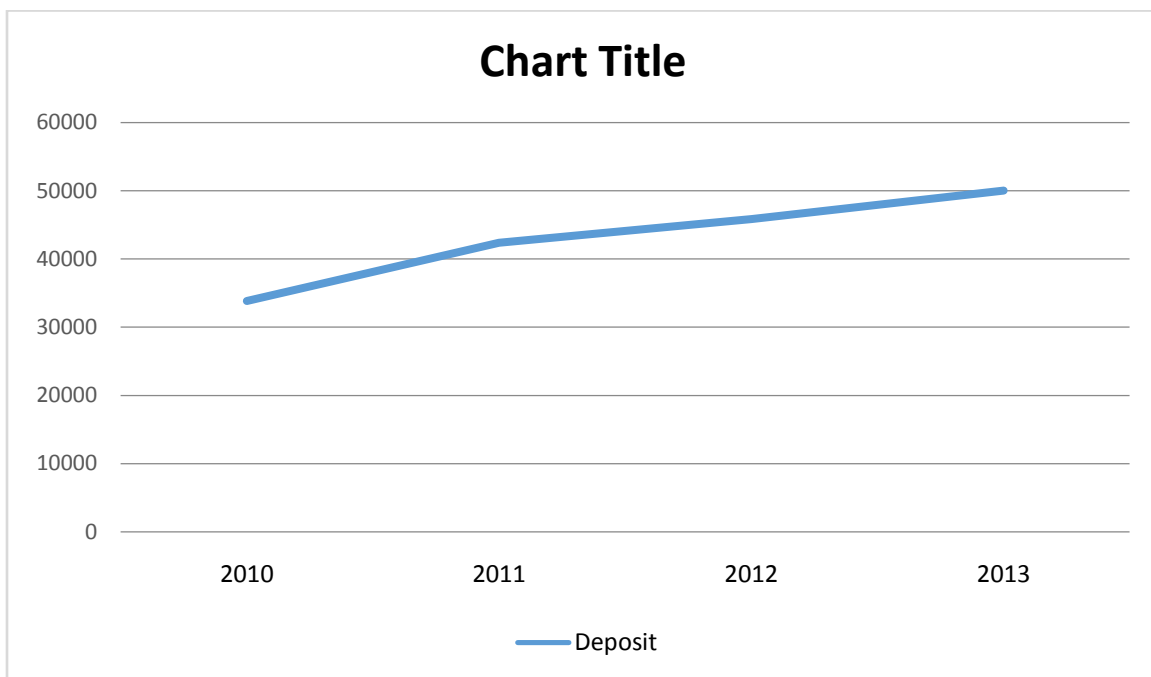


Figure 8: Year wise deposit of Mutual Trust Bank

4.4.6 Total Classified Loan and Recovery Rate of Year 2011 to 2013 Tk.In Million

(Amount in million)

Table 22: Total Classified Loan and Recovery Rate of Year 2010 to 2013

Year	Total Loan	Total Classified Loan	Rate of Classified Loan	Recovery Rate of Classified Loan
2010	28,529.35	1403.64	4.92%	66.25%
2011	33,883.92	952.14	2.81%	76.54%
2012	39,676.12	904.61	2.28%	82.15%
2013	43,547.45	1032	3.43%	87.52%

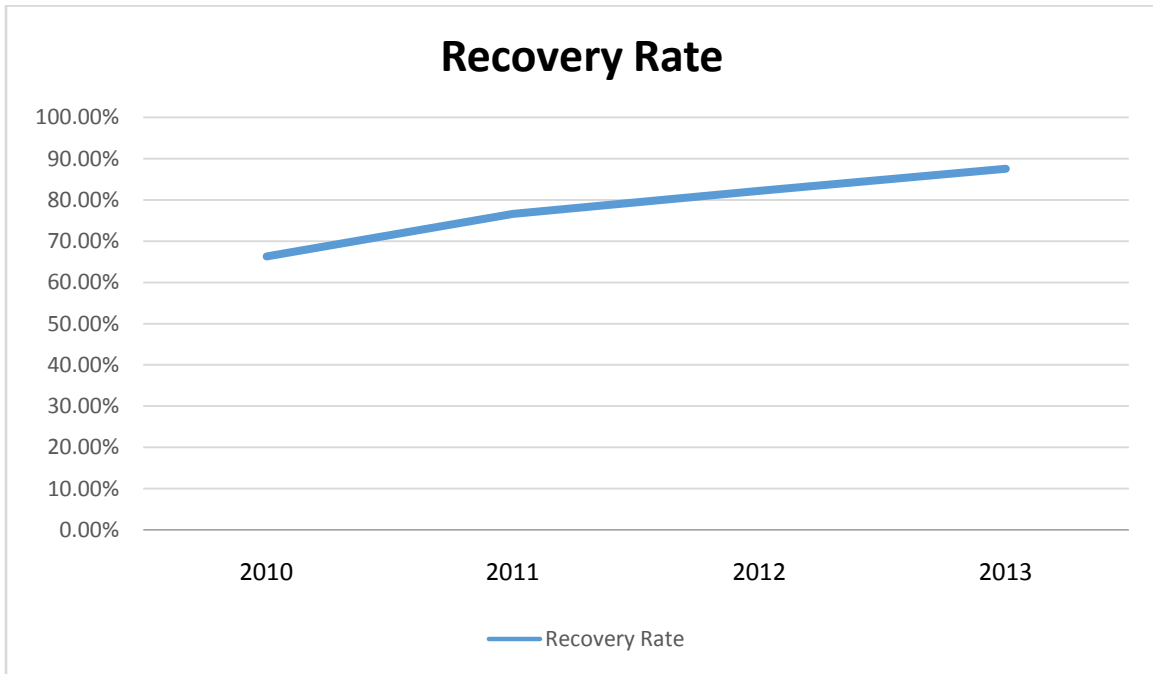


Figure 9: Recovery Rate of Classified Loans

From the graph it has been seen that in 2010 the recovery rate of Mutual Trust Bank from classified loan was 66.25%, 76.54% in 2011, and 82.15% in 2012 & 87.20% IN 2013. In year 2011 the bank couldn't achieve a satisfactory level because a large portion of loan became default. Overall performance was good because it could increase its recovery rate from classified loan

4.4.7 Non Performing Loan Analysis

Table 23: Non Performing Loan Analysis

Year	Non-Performing Loan
2010	3.54%

2011	2.81%
2012	2.28%
2013	3.43%

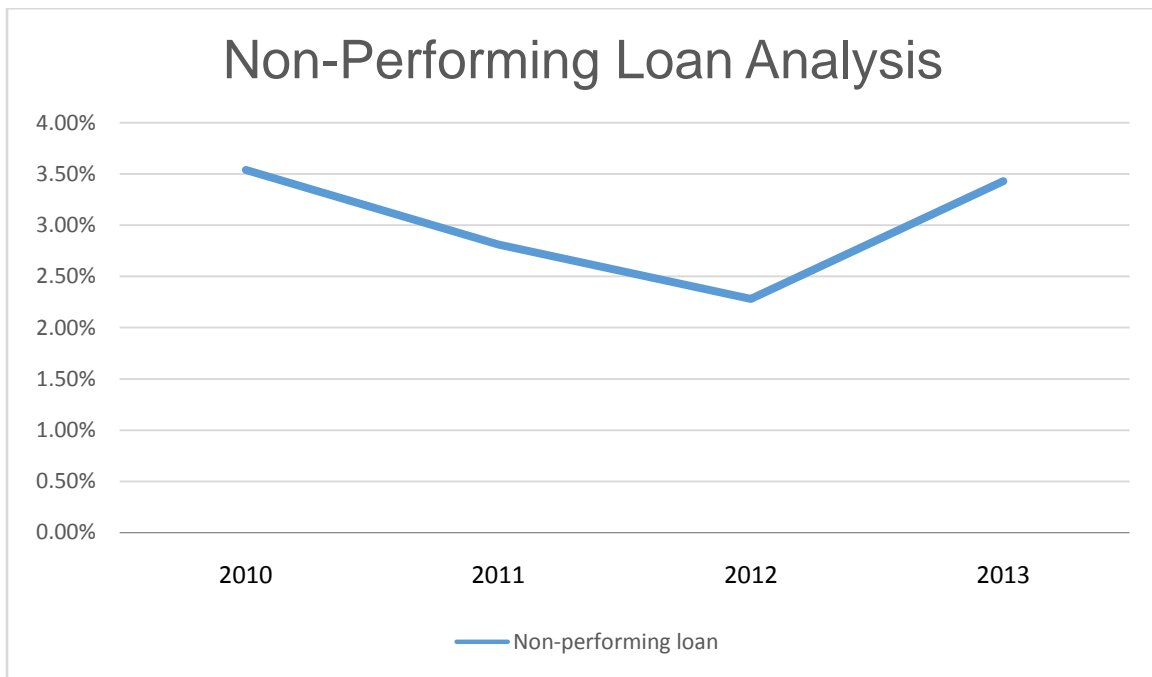


Figure 10: Non-performing loan analysis

From the graph, non-performing loan of Mutual Trust Bank was decreasing every year. In 2012 non-performing loan was 2.28% and in 2013 it increased at 3.43%. But in 2011 Mutual Trust Bank couldn't perform well as its non-performing loan percentage was high at 3.54% compared to year 2012 at 2.28% because a huge amount of classified loan was became bad and loss.

4.5 Ratio Analysis

Ratio analysis involves methods of calculating and interpreting financial ratios to analyze and monitor the firm's performance. The basic inputs to ratio analysis are the firm's income statement and balance sheet.

4.5.1 Debt ratio

Debt ratio= Total Liabilities/ Total assets

Table 24: Yearly debt ratio analysis

Year	Total Liability (Million)	Total Asset (Million)	Debt Ratio
2010	36,481,879,425	38,964,974,123	93.6%
2011	49,090,256,956	52,774,766,068	93%
2012	52,312,051,318	56,457,442,436	92.65%
2013	71,516,395,979	4,814,970,2100	93.53%

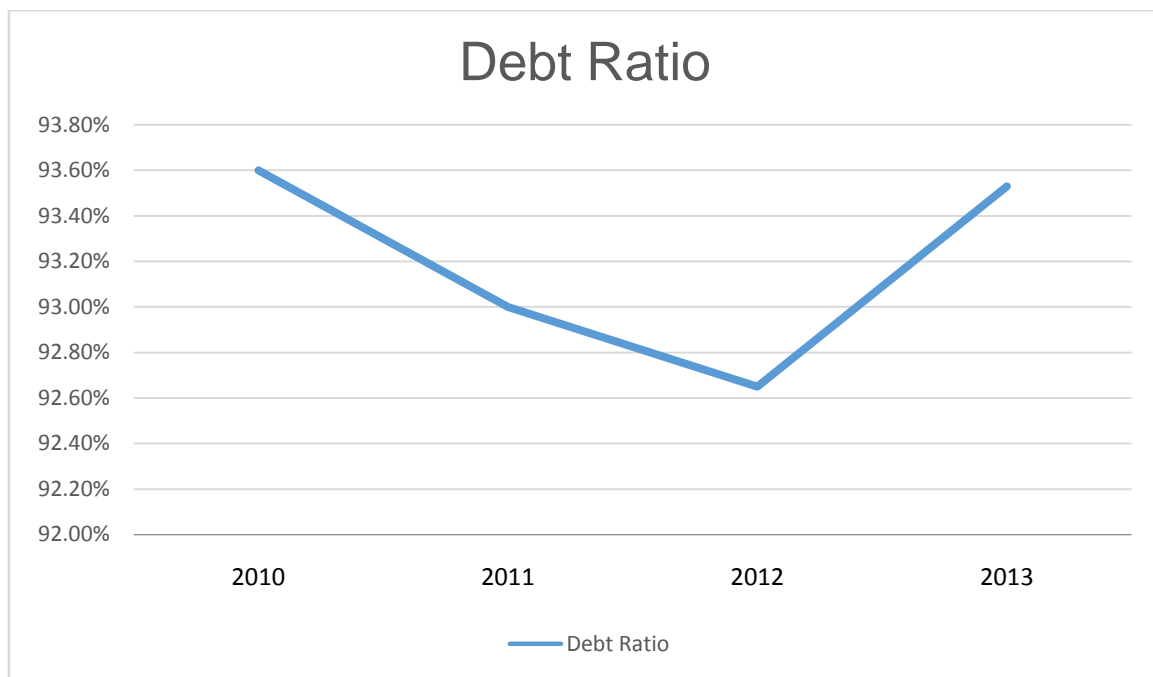


Figure 11: Debt Ratio (2010-13)

Interpretation: Debt ratio indicates the proportion of debt or leverage in total capital structure. The higher this ratio the greater the amount of other people’s money being used to generate profits. In the above graph in year 2010 the ratio was 93.60%, in year 2011 it decreased at 93% and year 2012 it was 92.65%.In 2013 the debt ratio was 93.53%.

4.5.2 Capital Adequacy Ratio

Capital Adequacy Ratio= Total capital/ Risk

Table 25:Capital Adequacy Ratio

Year	C.A Ratio
2010	10.39%
2011	9.20%
2012	11.49%
2013	12.10%

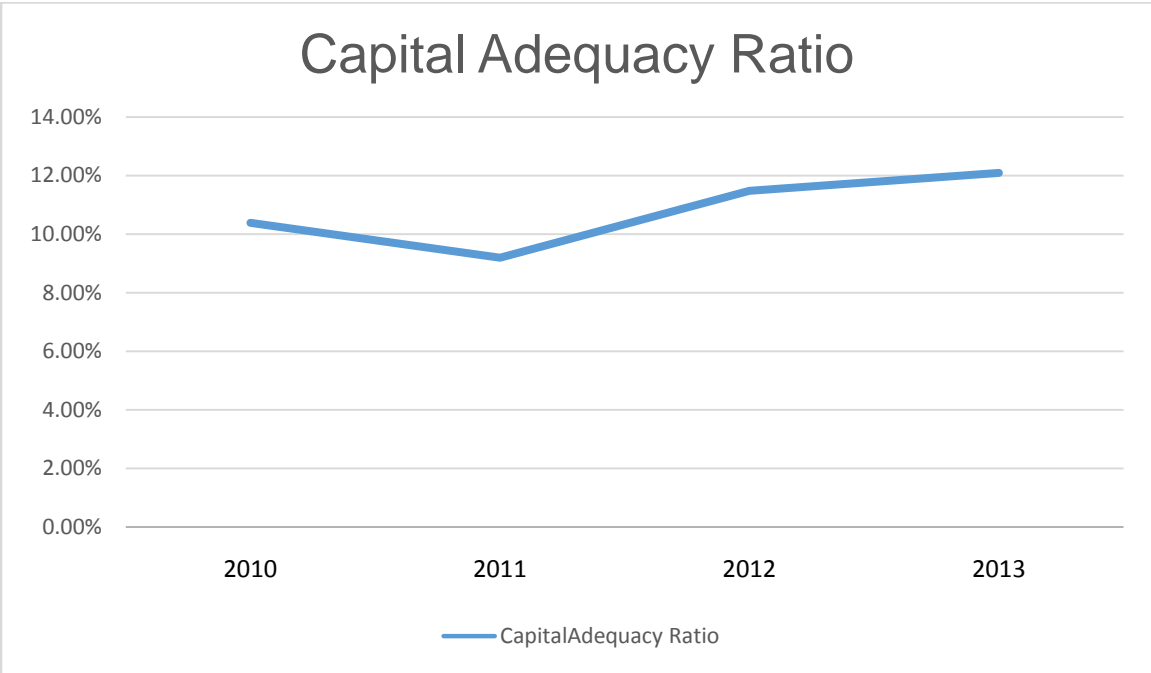


Figure 12: Capital Adequacy Ratio

Interpretation: Capital adequacy ratio determines the capacity of the bank in terms of meeting the liabilities and other risk such as credit risk, operational risk etc. Generally 8% is acceptable line for this ratio, in that sense bank is good enough, because in every year this ratio is more than standard line and this is good sign for the bank. The year 2010, capital adequacy ratio was 10.19%.The percentage decreased at 9.20% in year 2011 but the bank could increase this ratio at 12.10% in year 2013.

4.5.3 Credit/ deposit Ratio

Credit/ deposit ratio= Credit/ Deposit

Table 26: Credit/ deposit Ratio

Year	Credit/deposit Ratio
2010	84.36%
2011	80.00%
2012	86.54%
2013	89.30%

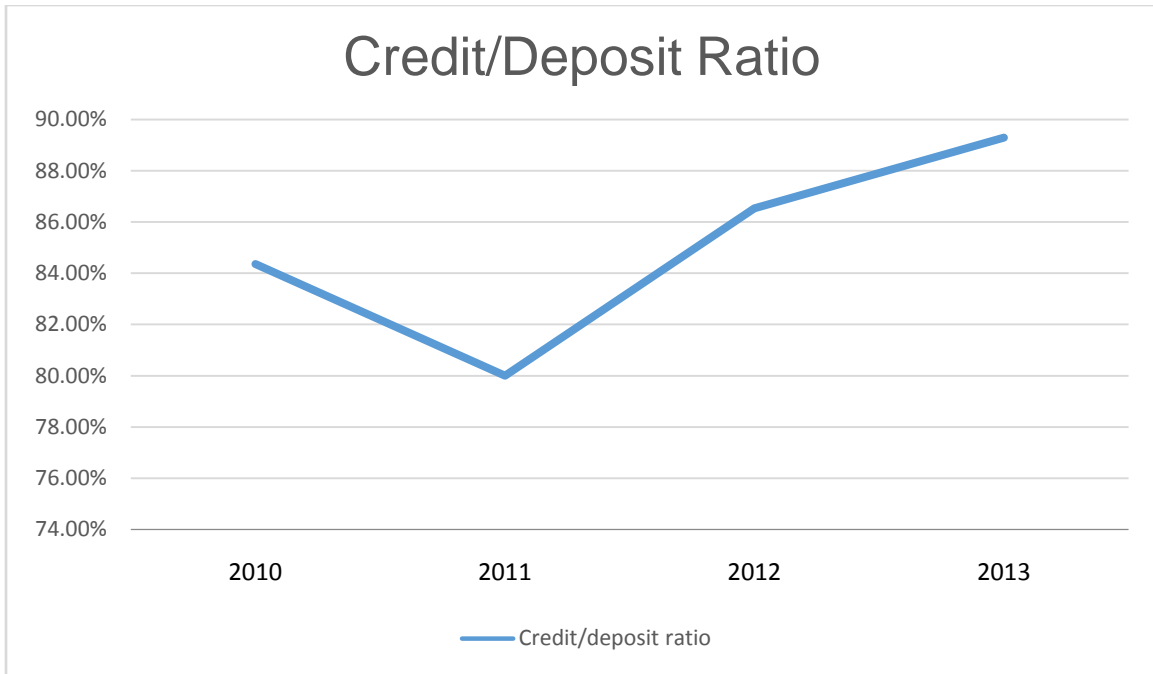


Figure 13: Credit/Deposit Ratio

Interpretation: Credit deposit ratio measures the portion of deposit used for credit. The more the ratio the more the bank is using its deposit as its credit. In the year 2010, Mutual Trust Banks credit deposit ratio was 84.36.55%. In year 2011 this ratio became 80.00%. The credit deposit ratio increased at 86.54% in 2012 & year 2013 it was 89.30%. So it has been seen that Mutual Trust Bank increased to use its deposits as its credit.

4.5.4 Investment/Deposit Ratio

Investment/Deposit Ratio= Total Investment/ Total Deposit

Table 27: Investment/Deposit Ratio

Year	Investment/Deposit ratio
2010	16.58%
2011	22.52%
2012	20.10%
2013	24.40%

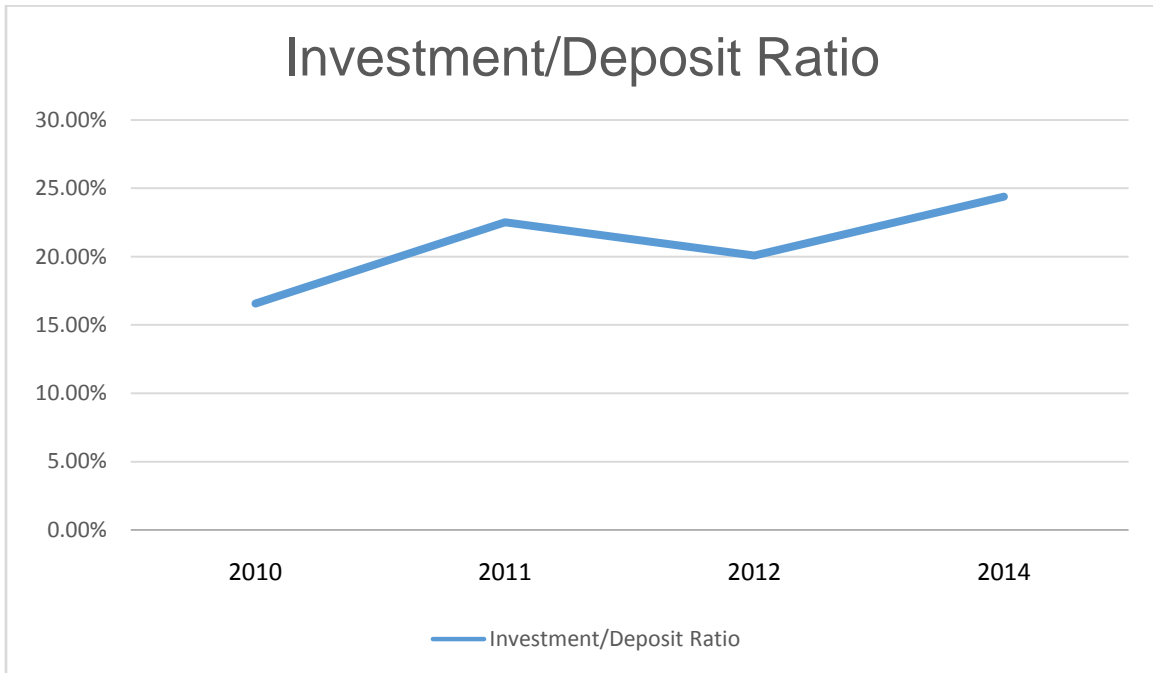


Figure 14: Investment/Deposit Ratio

Interpretation: Investment deposit ratio measures the portion of deposit used for investment. The more the ratio the more the bank is using its deposit as its investment. From the above graph it is seen that The Investment deposit ratio of Mutual Trust Bank was increasing year by year this is a good sign for the bank. But it faced a fall when the ratio became 20.10% in 2012. But in 2013 this ratio showed an upward trend by being 24.40%.

CHAPTER 5

Findings, Conclusion & Recommendations

5.1 Summary of Findings

- The total investment of the bank is growing year by year. And from the current trend it can be expected that this growth rate will continue in future.

- The standard loan and advances of mutual Trust Bank is increasing year by year. And it carries positive sign for Mutual Trust Bank. It also induces trust ability among its stakeholders.
- The interest income from loan and advances of Mutual Trust Bank limited is increasing year by year. This means the bank's net profit will increase further and it can expand more widely.
- From the last two years analysis it has been seen that Mutual Trust bank was providing more credit facilities in urban areas than rural areas which encourages governments to be more sympathetic their causes.
- Total Deposit is increasing which represent the positive sign for the bank as deposits are increasing than the bank can use more proportion of deposit for loans and advances.
- The recovery rate of Mutual Trust Bank has increased year by year which means number of bad debts has decreased.
- Day by day non-performing loan of Mutual Trust Bank has been decreasing.
- Debt ratio of Mutual Trust Bank has been decreasing year by year.
- Capital adequacy ratio was above the standard line which is crucial for any bank.
- Higher rate of interest plays a great role in credit management. Some times the rate is so high that the return from the investment is not so adequate enough to repay the loan. And hence default occurs.
- Mutual Trust Bank is providing loan to those who are experienced enough in their respective field. But this practice is discouraging small entrepreneurs and startups.
- Mutual Trust Bank has no written lending guideline which includes Industry and Business Segment Focus, Types of loan facilities, Single Borrower and group limit, Lending caps, Discouraged Business Types, Loan Facility Parameters.

5.2 Conclusion

Proper financial system of country can contribute towards the development of the country's economy. In our country banks are leading in the financial system. Again private commercial banks, which are much better than state owned bank, are playing significant as well as imperative role and the development of our country. Certainly MTB is mobilizing all of its resources on this same track to achieve maximum possible contribution to the nation.

Despite stiff competition among banks operating in Bangladesh both foreign and local, MTB has achieved satisfactory progress in areas of its operations and earned an impressive operating income over the previous years. The bank hopes to achieve a satisfactory level of progress in all areas of its operations including target of profitability.

In achieving the aforesaid objectives of the bank, credit operation is of paramount importance as the greatest share of total revenue of the bank is generated from it, maximum risk is centered in it and even the very existence of bank depends on prudent management of its credit portfolio.

The writer would like to suggest, a bank requires some special personal traits that not every bank possesses. Among the most important of these are honesty, reliability, thoroughness and willingness to always be open to new ideas and new ways of meeting customer needs.

Today is not like yesterday and tomorrow will be different from today. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that Mutual Trust bank limited has a robust credit risk management policies and procedures that are sensitive to these changes.

5.3 Recommendation

- Mutual Trust bank was focusing urban areas to provide credit facilities. Still they are ignoring rural areas. But they can earn from agro sector so Mutual Trust Bank should provide more credit facilities in rural areas.
- Proper and effective monitoring system should be developed in order to minimize the amount of non-performing loan.
- Capital adequacy is important for a financial institution. Mutual Trust bank capital adequacy ratio was in better position and they should maintain it.
- The bank should strictly follow ‘The Principle of Sound Lending’. The bank should not sanction loan to the customer without all necessary documents.
- As we have seen that the bank was providing a large portion in unproductive sector, which is not a good sign for our economy. So the bank should pay more concentration on productive sectors like industrial loan instead of unproductive sector as car loan.

- As recovery rate from classified loan was in satisfactory level but still 18% of loan goes default. So Mutual Trust Bank should have to increase more of its recovery rate of classified loan.
- Mutual Trust Bank should strictly follow the Bangladesh Bank guideline for credit deposit ratio as its credit deposit ratio was quite higher than Bangladesh Bank guideline.
- The bank should increase more of its investment to deposit ratio as it decreased in year 2010. It should increase in order to generate more profit.
- Mutual Trust Bank should maintain a satisfactory level of interest rate for managing the credit to minimize the rate of default.
- Mutual Trust Bank should maintain a written guideline for credit management. If all documents are available than it will help to analyze their client.

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