Internship Report

On

Credit Risk Management Practices in Mutual Trust Bank Limited

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Course Name: Internship

Course No: BUS 699

Prepared For:

Saif Hossain

Senior Lecturer

BRAC Business School

BRAC University

Prepared By:

Umme Wara

ID No: 13164130

MBA Program

Spring 2013 Batch

BRAC Business School

BRAC University

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Letter of Transmittal

August 31, 2015

Saif Hossain

Senior Lecturer

BBA Program

BRAC Business School

BRAC University

Sub: Submission of Internship Report

Dear Sir,

It is a great privilege for me to be directed under your pleasing supervision and to submit the internship report on "Credit Risk Management Practices in Mutual Trust Bank Limited" as a part of the 12-week MBA Internship Program.

I have followed descriptive method to analyze the Credit Risk Management Practices in Mutual Trust Bank Limited. The report has enriched my practical knowledge along with theoretical concept.

I would like to acknowledge the assistance of the Mutual Trust Bank Limited, Agrabad branch, Chittagong and particularly my organizational supervisor, Myful Akther and the Credit Department in writing this report.

I would appreciate if you are pleased with my 12-week contribution for preparing this report.

Thank you.

Sincerely,

Umme Wara

ID#13164130

MBA Program

BRAC Business School

BRAC University

Acknowledgement

At first, I would like to convey my gratitude to the Almighty Allah for providing me enormous blessings to accomplish the report within right time.

Then I would like to appreciate my academic supervisor, Saif Hossain whose continuous assistance, feedback and inspiration throughout the 12-week internship period help me prepare the final report.

I would like to thank all the officials and staffs of Mutual Trust Bank Limited, Agrabad Branch, Chittagong for their huge cooperation and inspiration. I would like to state the significant names below:

Mohammed Ishaque - Executive Vice President and Manager

Jainul Abedin - Senior Assistant Vice President and Deputy Manager

Myful Akther - Junior Assistant Vice President, General Banking Department

Mohammad Jamshed Alam- Junior Assistant Vice President, Credit Department

Mohammad Anamul Islam- Junior Assistant Vice President, Credit Department

Md. Salim Khan- First Assistant Vice President, Foreign Exchange Department

Mohammad Anisur Rahman- Junior Assistant Vice President, Foreign Exchange Department

Asif Ryhan- Junior Assistant Vice President, Clearing Department

Md. Mizanul Hoque - Officer, General Banking Department

Md. Mosaddekul Islam- Officer, General Banking Department

Md. Arafat Hassan – Assistant Officer, Clearing Department

The opportunity of getting the better corporate environment with their broad support and inspiration has strengthened my positive attitude toward work and has helped to reveal the key skills.

I also would like to thank my family for their support to gain the job accomplishment.

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Executive Summary

The topic of my internship report is “Credit Risk Management Practices in Mutual Trust Bank Limited”. The justification of my report writing on this topic is that credit risk management has attained the latest highlighted feature in the banking field. The arena of credit risk has gained extensive attention in recent years due to the increased competition and the challenges of the present financial crisis. The main objective of my report is to have a complete knowledge on the activities performed in Credit Risk Management of Mutual Trust Bank Limited. In this report, I have put some specific objectives and methodology to reach the main objective. Specific objectives are to learn the most recent risk regulation for banks which is linked with credit risk management, to understand various dimensions of risk involved in different credit transactions, to suggest scopes of improvement in credit risk management of Mutual Trust Bank Limited. To get the answers of my objectives, I have considered credit risk grading, risk area analysis under qualitative and quantitative approach for credit risk assessment, credit approval process, administration and recovery process and also gone through several newspapers and MTB Annual Report 2014 for required information. This report contains some limitation because of information security concern and my interest to have coverage in General Banking, Clearing, Foreign Exchange and Credit Department within the 12-week internship period.

Bangladesh Bank has formulated Credit Risk Guideline to supervise the process of Credit Risk Management. As a scheduled local bank in Bangladesh, Mutual Trust Bank Limited (MTB) complies with that policy and it has the entire infrastructure in place and activities are performed accordingly. It has adopted a well-structured Credit Risk Management Policy approved by the Board. MTB is currently following BASEL II as bank regulation to measure and mitigate credit risk. Credit Risk Grading is used to assess the borrower’s risk on the basis of scorecard and score sheet. After completing of this grading, credit proposal is processed and submitted for approval. Then credit is administered and monitored to check whether the purpose of credit is being met or it is misused. So to check the risk regularly and to improve credit risk management practices in Mutual Trust Bank Limited, the role of audit, importance of training system and partnership with financial institution for this training have been suggested. Total emphasis on this particular area is given as it is believed that the credit risk management process of a bank is a good indicator of the quality of the bank's loan portfolio.

Organization Part: Mutual Trust Bank Limited

I. Introduction:

Mutual Trust Bank Limited aspires to be the most admired financial institution in the country, recognized as a dynamic, innovative and client focused company. It offers an array of products and services in the search for excellence and to create an impressive economic value. The bank has established the highest level of ethical standards in order to achieve MTB3V. The Company (Bank) operates through its Head Office at Dhaka and 103 branches. The bank's current network includes 89 branches, 14 SME/Agri branches, two booths at Hazrat Shahjalal International Airport, Dhaka and three fully-owned subsidiary companies – MTB Securities Ltd. (MTBSL), MTB Capital Limited (MTBCL) and MTB Exchange (UK) Ltd. The bank has no overseas branch as of December 2014. The Company carries out international business through a Global Network of over four hundred Foreign Correspondent Banks. The principal activities of the bank are to provide all kinds of commercial banking and related services such as accepting deposits, lending loans to customers, trade and services, treasury functions, cash management, securities and custody services, remittance services etc.

II. History:

Mutual Trust Bank Limited (MTB) was incorporated in Bangladesh in 1999 as a Banking Company under the Companies Act, 1994. The bank provides all types of commercial banking services which are within the stipulations laid down by the Bank Companies Act, 1991 as amended in 2013. The Company was also issued Certificate for Commencement of Business on the same day and was granted license on October 05, 1999 by Bangladesh Bank under the Banking Companies Act 1991 and started its banking operation on October 24, 1999. The shares of the bank are listed with the Dhaka and Chittagong Stock Exchanges, a publicly quoted company. Authorized Capital of the bank is about BDT 10 billion.

Registered Name of the Company:	Mutual Trust Bank Limited
Company Registration No:	c38707(665)/99 on September 29, 1999
Bangladesh Bank Permission No:	BRPD (P)744(78)/99-3081 on October 5, 1999
Registered Office:	MTB Centre, 26 Gulshan Avenue,
	Plot 5, Block SE(D), Gulshan 1, Dhaka 1212
SWIFT CODE:	MTBL BD DH
Corporate Website:	www.mutualtrustbank.com

III. Products/Service Offerings:

1. **Retail Products and Services:** MTB has 16 retail deposit products and 4 retail lending products.

Deposit Products: It has designed its wide array of deposit products with the motto: "Every individual has different needs". With the understanding of that, MTB has launched some savings products with special features:

i. **Regular Savings Account:** An easy-to-operate savings account that allows issuing cheques, drawing Demand Drafts and withdrawing cash. Balances can be checked up being at home or office through Internet Banking and SMS banking.

ii. **Current Account:** A Current account is ideal for carrying out day-to-day business transactions. With the MTB Regular Current Account, a customer can access his or her account anytime, anywhere, pay using payable at par cheques or deposit cheque at any MTB bank branch.

iii. **Fixed Account:** For long-term investments and to earn higher interests on savings, Fixed Deposit is offered.

Two types of services are provided:

- Automatic renewals: Upon maturity, deposit will be automatically renewed for the same tenor at the prevailing interest rate unless the customer instructs otherwise.
- Overdraft facility: Fixed Deposit can be used as collateral to apply for an overdraft facility at a competitive rate.

iv. **Brick By Brick:** MTB Brick By Brick is a monthly deposit scheme in which any one can deposit on a monthly basis and at the end of the period he or she will get a handsome amount.

v. **MTB Senior**: It has been designed for those senior citizens aged 60 and above. Services include: Lifetime free Debit Card, free internet banking, attractive discount on locker charge, free cheque books, online banking facility across MTB branches and access to largest ATM network etc.

vi. **MTB Ruby:** It's an exclusive savings account for women packed with special benefits for women customers offering higher interest rate, no debit card fee for 1st year and free Internet Banking

vii. **MTB Kotipati:** MTB offers a product named "MTB Kotipati" to turn one into a Kotipati after a certain span of time depending on his or her capacity to deposit monthly. Features include: attractive return on deposit, any Bangladeshi citizen can operate the account singly or jointly, the customer may avail loan up to 90% of the deposited amount, more than one account can be opened by the same depositor, option of depositing installment through standing instruction or at any MTB branch within 20th of every month.

viii. **MTB Junior**: It is offered to the youth of society aged below 18 years. This product aims at facilitating services for school children with free debit card, free all account maintenance fees etc.

ix. **MTB Graduate**: It is a contemporary savings account, for who are 18 years and above, offering attractive interest rate, free debit card, free internet banking, no account maintenance fee.

x. **MTB Inspire:** It provides a range of enhanced services, while letting its customers enjoy unique benefits of getting return on their deposit monthly instead of traditional half yearly. With extra access and convenience of banking, they can enjoy free Debit Card, free internet banking and the full convenience of a savings account and access savings anytime.

xi. **Monthly Benefit Plan:** This plan offers to generate monthly income out of deposit. It has been designed to help and assist conscious savers from all strata of the society.

xii. **MTB Double Saver:** MTB Double Saver is a fixed deposit scheme where the deposit doubles in 7 (seven) years.

xiii. **MTB Millionaire Plan:** It is a monthly deposit scheme which will make a client millionaire after a certain period. Any person/persons, government and non-government organization can open this account singly or jointly.

Loan Products:

i. **MTB Personal Loan:** It is one-stop-solution for all financial needs to fulfill any of desires.

ii. **MTB Auto Loan:** It is available for financing both new and reconditioned cars.

iii. **MTB Home Loan:** 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 one's specific need.

iv. **MTB Professional Loan**: It is a multi-purpose cash loan which is collateral free, with fixed monthly installment. Any Bangladeshi in the following professions, self employed or salaried professionals: Doctors or medical professionals, Engineers, Architects and Chartered Accountants.

Card Products:

i. **Credit Card:**

Features and Benefits

- Worldwide acceptance: Accepted at over 23 million Merchant Establishments around the world, including 110,000 Merchant Establishments in India.
- Revolving credit facility: Pay a minimum amount, which is 5% of your total bill amount or any higher amount whichever is convenient and carry forward the balance to a better financial month.
- Free Supplementary card: One can share these wonderful features with his or her loved ones too - MTB offers the facility of an add-on card for spouse, children or parents.
- Interest free credit facility: Avail of up to 45 days of interest free period from the date of purchase.

ii. **Debit Card:**

Features and Benefits

- **Banking cum Shopping Card:** MTB Visa Debit card can be used as an ATM card at any VISA ATM across the world, as well as for making purchases at merchant locations.
- **More Safety, More convenience:** MTB Visa Debit card is extremely versatile and simple to use. Just Swipe & Sign to make a purchase, the way one does with a credit card. It allows one the convenience of paying for his or her purchases directly from his or her bank account, without having to carry any cash.
- **Itemized Billing:** MTB Visa debit card allows one to track his or her purchases on a regular basis. The details of the purchases made on card, along with the date, merchant name and amount are mentioned in his or her bank statement.

iii. **FlexiPay:** No Enrollment Fee is to make. Large purchase can be made and payment is in easy installments. No further credit approval or documents required.

2. **MTB Wholesale Banking service**: It is a blend of the Corporate, Off-Shore Banking, and Syndication & Structured Finance, that focuses on offering a wide range of services to large corporates, multinationals and institutional clients. The spectrum of wholesale deposit products are: Current Deposit Account, Short Term Deposit Account, Savings Bank Account, Fixed Deposit Account.

Wholesale banking products are highlighted below:

i. **Term Finance:** MTB provides loans that have specified repayment schedule and a floating interest rate with tenure more than one year but less than ten years. Term loans are offered for the following broader purposes: Project Finance**,** Finance for Importing Capital Machinery, Lease Finance, House Building Finance.

ii. **Working Capital Finance:** MTB takes special care in financing to meet its customers' running capital requirements by offering the following products: Secured Over Draft (SOD), Cash Credit (Hypo.),Cash Against Document, Short Term Loan, Inland Bill Purchase (IBP), Foreign Bill Purchase (FBP) etc.

iii. **Trade Finance:** MTB's trade finance service is a unity of funded and non-funded facilities.

Export finance facilities include: Back to Back L/C opening, Export Bill Discounting (FDBP and IDBP), Secured Over Draft (SOD-general/export bill).

Import finance facilities include: Loan Against Trust Receipt (LTR), Term Loan (TR).

Non-funded trade finance facilities: L/C Opening (Sight & Deferred), L/C Advising, L/C Transfer, Bank Guarantee, Secured Over Draft (SOD) in the form of SOD (general/export bill) and SOD (Others-work order, FDR, land, etc.), Bank Guarantee in the form of Performance guarantee, Advance Payment guarantee, and Bidbond. Inland Bill Purchase (IBP) includes mainly government security bills and bonds. Foreign Bill Purchase (FBP) includes foreign drafts.

iv. **Syndications & Structured Finance:** MTB is active in the Syndication market with professional team having finest expertise and wide market network for enabling its corporate clients to access large loans through cost efficient structures. Projects include: Infrastructure Financing e.g. Power, Telecom, Hotels**,** Aircraft Financing, Manufacturing Project Financing e.g. Steel, Cement, Glass, Petrochemical, Agro-based Project Financing, Micro Financing.

v. **MTB Offshore Banking:** MTB Offshore Banking services specially tailored for 100% foreign owned company, joint venture and locally owned company in Export Processing Zones (EPZ).

3. **SME Banking Products:** SMEs have different types of credit needs. MTB understands their needs and have designed a number of loan products to meet the needs. Such as MTB Bhaggobati, MTB Krishi, MTB Mousumi, MTB Revolving Loan, MTB Small Business Loan, MTB Digoon, MTB Green Energy Loan, MTB Gunabati.

4. **NRB Banking Products:** MTB offers an array of deposit products in local currency for the NRBs who are residing abroad and want to save their hard-earned money to utilize in future and facilitate their family maintenance. Such as: NRB Savings A/C, NRB Deposit Pension Scheme (DPS), NRB Fixed Deposit (NRB FDR).

MTB has been providing a vast area of services to its valuable customers. Those are as follows:

- Online Banking Services
- Tele Banking Services
- SMS Banking
- Internet Banking
- SWIFT service
- Pay Order
- Locker Service

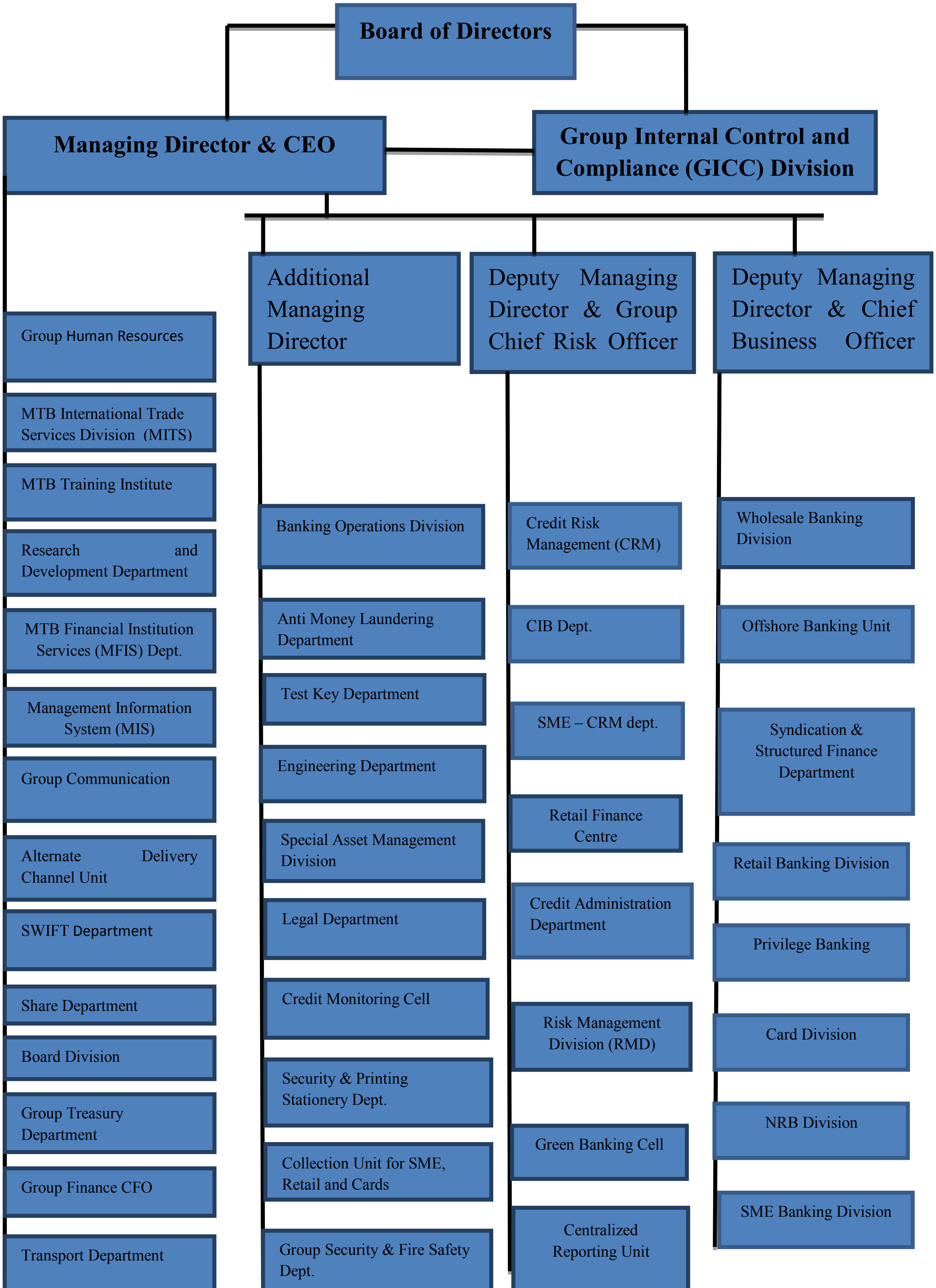
IV. Visions for the Future:

Mutual Trust Bank's vision is based on a philosophy known as MTB3V.

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

MTB is one of the most visionary banks in the banking industry in the country. It is continuously striving to achieve its “MTB3V” Vision. To be a truly world class bank, MTB is preparing its platform for digitalized bankingservices. To attain the digitalization of banking, MTB has already started its journey by taking initiatives to enhance internet banking services nationwide.

v. MTB Group Organogram:



Job Part

I was assigned to Mutual Trust Bank Limited, Agrabad Branch to accomplish MBA Internship Program. This program started from June 02, 2015 and continued for about 12-week. I have attempted to get as much exposure as possible to General Banking, Clearing, Foreign Exchange and Credit Department within the assigned period.

I have learnt that banking transactions are executed through three separate ways:

1. Cash
2. Transfer
3. Clearing

Now I am going to indicate the tasks I was introduced to:

1. **General Banking Department**: It is the frontline of overall banking operations.
   - Preparing Account Opening Form
   - Collecting necessary papers from customers to be account holder
   - Preparation of TP (Transaction Profile), KYC (Know Your Customer) and FATCA (Foreign Account Tax Compliance Act)
   - Cheque Book Issue
   - Pay Order
   - Encashment
   - Debit Card issue
   - Letter issuance to Debit Card Holder
   - Transfer
   - Providing Statement to Account holder

2. **Clearing Department:** In this department, other than MTB cheque, all cheques are dealt with.
   - Inward clearing
   - Outward clearing
   - Cheque receiving
   - Cheque processing through BACH
   - Return Cheque Management
   - Recognition of High Value and Regular Value
   - Endorsement

3. **Foreign Exchange Department:**
    - Remittance - online and offline reporting to Bangladesh Bank about inward remittance.

4. **Credit Department:**
    - Preparation of CIB inquiry form
    - SOD proposal
    - Charge document preparation

Throughout this period, I have observed corporate etiquette, requisites of account opening for individual/ Partnership Business / Company, usage of Flora software to provide online service, BACH processing, their patience of handling customers and multitasking abilities.

While experiencing to corporate world, some suggestions have come to my mind which would assist to get the work done so easily.

- In case of account opening, FATCA, KYC, sometimes TP and Account opening form papers are gathered to write in hand and then again same information is typed in Flora system for online record. These can be done online only and then print these out for hard copy record. In this way, time consumption can be done.
- While one account holder has several accounts and single Customer ID as well, so it should be like attaching only the required items online for different accounts and then add it up to the printed previous document, not to write all those information again.
- MTB should modify and update its banking software Flora for doing banking daily task in a row.
- MTB should approach to TV Media to let customers know easily about MTB's products, services and human resources.

Project Part

- ## Summary:

Mutual Trust Bank (MTB) faces a varied and extensive sort of risks in its regular business operation, and alongside it handles risks wisely to ensure optimum return on asset and equity. The banks involve in credit risk and when such risk is concentrated in a single borrower or a group of related borrowers, the risk of default loans by such large borrowers weakens the capability of the banks. Credit risk is the risk due to a borrower’s inability to meet its financial obligations to the lender. The Basel committee is guiding the world's banking sector regarding risks issue. Like central banks of other countries, Bangladesh is following various BASEL pacts viz. BASEL-I, BASEL-II, BASEL-III and other core risk guidelines implemented by Bangladesh Bank. Currently, MTB is a BASEL II compliant bank. The objective of credit risk management is to exploit a bank’s risk adjusted rate of return by maintaining credit risk exposure within acceptable considerations. Credit launch and approvals are done in a separated manner. In Mutual Trust Bank, a thorough credit risk assessment is conducted before the sanction of any credit facilities. While assessing a credit proposal, total importance is given on repayment potential of loans. In Qualitative approach, 5 Cs are used to assess the prospective borrower’s risk whereas financial data are used in assessing client’s risk in Quantitative approach. Then several steps are followed in order to analyze the prospective client’s risk. Credit Risk Grading is done with having score card and score sheet for measuring credit risk to help the sanctioning authority in taking decisions. Several risk areas are considered for analyzing a credit proposal like borrower analysis, industrial analysis, account conduct etc. Then credit proposal is approved by issuing a written “Sanction Advice” by the Bank. Then credit is administered and monitored which allows effective management of the loans in a balanced manner. Credit Classification and Provisioning are done to improve recovery position. However, bank must manage the credit risk exposure in-built in the entire portfolio as well as the risk in individual credit or transactions. Training on credit risk management will enable greater lending for small and medium enterprises through ensuring sound practices and sustainable performance. The effective management of credit risk is a critical part of a wide-ranging approach to risk management and crucial to the long term success of any banking organization.

- ## Description of the project:

i. Objective of the project:

Broad Objective

- To have a complete understanding on the activities performed in Credit Risk Management of Mutual Trust Bank Limited.

Specific Objectives

- To learn the most recent risk regulations for banks associated with credit risk.
- To understand various dimensions of risk involved in different credit transactions.
- To explore credit management activities specially credit policy, credit risk assessment, credit risk grading, credit approval process, classification method, credit monitoring and credit recovery of Mutual Trust Bank Limited.
- To identify and suggest scopes of improvement in credit risk management of Mutual Trust Bank Limited.
- To get an insight of a particular area to answer every possible question related to my first professional experience for the upcoming job interviews.

ii. Methodology:

- To learn the most recent risk regulations for banks associated with credit risk, MTB's annual report and newspapers studied.
- To understand various dimensions of risk involved in different credittransactions, credit risk grading is considered.
- To explore credit management activities performed in Mutual Trust Bank Limited, required information and data, published in Annual Report 2014 of Mutual Trust Bank Limited, are obtained.
- To identify and suggest scopes of improvement in credit management of Mutual Trust Bank Limited, several newspapers are studied.

iii. Limitations:

- This report only contains the details of those functions to which I was introduced and well informed.
- It is really hard to get all the relevant information as sharing of confidential information has been confined for the security purpose of the bank.
- To get as much exposure as possible, I have put effort to work under General Banking, Clearing, Foreign Exchange and Credit department within the assigned period.

• Findings of the Project Report: Credit Risk Management Practices in Mutual Trust Bank Limited

I. MTB Risk Management Practices as per BASEL norms:

As a BASEL compliant bank, MTB follows global finest practice in risk management as per BASEL norms, which makes it more capital risk sensitive and risk resilient. As per Bangladesh Bank's Guidelines, banks in the country need to maintain capital at 10.00 percent of its risk-weighted assets (RWA). Under the BASEL II Guidelines, bank's capital has two components, Tier-I and Tier-II. Tier-I capital should be minimum 5 percent of the total capital. Tier-I includes the paid-up capital, share premium, statutory reserve and retained earnings, and Tier-II includes general provision on unclassified loans and advances, revaluation reserves, unsecured subordinated debt and exchange equalization account.

MTB's total capital registered an increase by BDT 586.48 million and stood at BDT 8712.40 million in 2014. Tier-I capital grew by BDT 961.56 million, and was recorded at BDT 6247.92 million in 2014. Total capital is now equivalent to 10.72 percent of the banks' total risk weighted assets.

MTB's capital structure is governed by 'Guidelines on Risk Based Capital Adequacy (RBCA) for Banks' issued by Bangladesh Bank (BB). RBCA guidelines encompass the risk management framework of the bank by the followings-

BASEL II		
Pillar – I (Minimum Capital Requirement, MCR)	Pillar –II (Supervisory Review Process, SRP)	Pillar-III (Market Disclosures)
Credit Risk	Residual Risk	Qualitative Information
Market Risk	Concentration Risk	Quantitative Information
Operational Risk	Liquidity Risk	
	Reputational Risk	
	Strategic Risk	
	Settlement Risk	
	Evaluation of Core Risk Management	
	Environmental and Climate Change Risk	
	Other Material Risk	

Source: MTB Annual Report 2014, P- 128

i. In compliance with the Pillar I Guidelines under BASEL norms, MTB computes regulatory capital for credit risk, market risk and operational risk. Bank has adopted Standardized Approach under credit risk, Basic Indicator Approach under operational risk and Standardized Approach under market risk to compute regulatory capital. External credit ratings from External Credit Assessment Institutions (ECAIS) are used for risk weighting of corporate and SME exposures as required under BASEL II.

ii. To adhere to Pillar II norms (SRP), MTB has evolved Board approved policy on the Internal Capital Adequacy Assessment Process (ICAAP), which covers identification and measurement of risk other than Pillar I risk (i.e. Credit Risk, Market Risk and Operational Risk). SRP is intended not only to ensure that banks have adequate capital to support all the risks viz. residual risk, liquidity risk, credit concentration risk, reputation risk, strategic risk, settlement risk, evaluation of seven core risk areas, environmental risk and other material risks in their business, but also to assist banks to develop and to use better risk management techniques in monitoring and managing those risks. Under SRP, MTB computes additional capital which is finally determined by SRP and SREP (Supervisory Review Evaluation Process) dialogue.

iii. To meet the Pillar III requirements of BASEL II, MTB has adhered to disclosure norms as specified in the guidelines of BB.

II. Credit Risk Management:

Credit risk, emerged as a significant risk management issue during the 1990s, covers all risks related to a borrower not fulfilling his obligations on time. It is the risk due to a borrower’s inability to meet its financial obligations to the lender. It is generally made up of transaction risk or default risk and portfolio risk.

Credit risk management is the practice of dropping those losses by considering the adequacy of both a bank’s capital and loan loss reserves at a certain time – a method that has long been a test for financial institutions.

Credit risk is structured through segmental exposure limits to various industries and sectors, prudential exposure and substantial exposure ceiling and risk mitigation by obtaining collateral and guarantees. The bank has put in place a well-structured Credit Risk Management Policy accordingly approved by the Board. The excellence of internal control system is also scrutinized and in-house proficiency has been built up to confront all the aspects of credit risk.

III. Instruments and Tools used in Credit Risk Management:

The instruments and tools through which MTB manages credit risk are as follows:

- Exposure Ceilings
- Review/Renewal

- Risk Rating Model
- Risk Based Scientific Pricing
- Portfolio Management
- Credit Audit/Loan Review Mechanism

iv. Credit Policies and Principles:

MTB's credit activities are conducted in a compliant approach under strict judicious and coherent credit policies and principles in conformity with Credit Risk Management of Bangladesh Bank. Credit launch and approvals are done in an isolated manner. Each sanction is done through a very rigorous evaluation process, which ensures quality of assets and minimizes losses expected to move from potential bad loans. In order to make credit operations cautious, quality and worthwhile, a firm credit policy must take place:

- Incorporating credit to the clients having clean CIB report
- Upholding rational loan deposit ratio
- Avoiding directed and name lending
- Lending retaining highest ethical standard
- Extending credit in the areas where risks are considerably understood and can be managed
- Conducting lending operations complying with norms and regulations

v. Credit Risk Assessment:

Risk assessment or analysis is all about understanding and evaluating the risk associated with lending the money. In Mutual Trust Bank, a thorough credit risk assessment is conducted preceding the sanction of any credit facilities. While assessing a credit proposal, total importance is given on repayment potential of loans out of funds generated from borrower's business (cash flow) rather than realization potential of underlying securities. Thereafter, it will be done annually for all types of credit facilities i.e. Demand Loan, Continuous/Revolving Loan and Term Loan.

Two types of approaches are followed to assess credit risk:

- Qualitative approach;
- Quantitative approach.

Qualitative approach:

In this approach, five C's are used to assess the prospective borrower's risk:

1. Character: It indicates the willingness of the prospective borrower to meet bank's obligation upon maturity. In that case the bank assesses the following quality of the borrower.

- Moral & mental qualities of integrity,
- Fairness,
- Responsibility,
- Trustworthiness,

2. Capacity: In this regard, the bank assesses the potential borrower's ability to repay the debt when it falls due. The bank also assesses the competence of that borrower to utilize the loan effectively and profitably.

3. Capital: It is the indicative of borrower's financial resources. In this regard the bank examines the borrower's net worth that governs the amount of credit that would be made to the borrower.

4. Collateral: It represents the asset that is backed by the loan. In this regard the Bank examines the sufficiency and adequacy of the sale proceeds of the collateral to satisfy the full loan obligation.

5. Condition: It implies the economic and business conditions that affect the borrower's ability to earn and repay the debt.

Quantitative approach:

In this approach financial data are used in assessing client's risk.

In that concern, the Bank follows the following steps in order to analyze and assess the prospective client's risk:

i. Collecting loan information of the applicant
ii. Collecting business information for which loan is sought
iii. Collecting the primary risk related information
iv. Assembling all credit information together
v. Analyzing sensitive risky credit information
vi. Analyzing refined and very essential risk information
vii. Making decision on the basis of loan analysis
viii. Design the appropriate loan structure according to the positive decision

vi. Credit Risk Grading:

One of the strategies employed in managing credit risk is Credit Grading of borrower accounts. Credit Risk Grading is a vibrant process for measuring credit risk to help the sanctioning authority in taking decisions. This framework is essential to avoid the limitations associated with a simplistic and broad classification of loans into "good" or a "bad" category. It also helps a bank to understand various dimensions of underlying risk involved in different credit transactions.

All credit proposals whether new or renewal must be supported by Credit Risk Grading. It will encompass the following things:

1. Risk Grading Scorecard and
2. Risk Grading Sheet.

No proposal will be processed until Risk Grading is completed, submitted for approval and the result is shown in proposal. It is the responsibility of the originating officer to ensure that analysis has been carried out with authentic and reliable information.

1. Risk Grading Scorecard:

Credit scoring models also form part of the framework used by banks or lending institutions to grant credit to clients. As per instruction of Bangladesh Bank, Risk Grading Score Card has been developed for all exposures of MTB (irrespective of amount) other than those covered under Consumer and Small Enterprise Financing Prudential Guidelines and also under the Short-Term Agricultural and Micro-Credit. The Score Card will be updated if required. The score of the risk grading scorecard will be weighted one. There are 5 (five) broad head rating components and separate parameters have been set to measure borrower's position against each component.

Score Cards are tools to determine a borrower's aggregate score based on assessment of quantitative and qualitative factors. Score Cards shall records the assigned rating through a combination of the aggregate score as well as exercise of judgment. Judgment plays an important role in the scoring of qualitative factors as well as recommendations made to change the risk rating in case of disagreement.

Lending Risk Analysis (LRA) is one of the managerial and operational tools that is used to assess the credit worthiness of the borrower. Lending Risk Analysis involves assessing the likelihood of repayment of loans to the Bank based on analysis of certain risk factors.

A snapshot of Principal Risk components and corresponding Parameters and weight assigned to each Component is as follows:

Sl. No.	Criteria	Weight (%)	Parameter	Score
A	**Financial Risk**	**50**		
1.	***Leverage*** *(Total Liabilities/ Tangible Net Worth)* *All calculations should be based on annual financial statements of the borrower (audited preferred)*	***15***	*Less than 0.25*	*15*
			0.26 to 0.35	*14*
			0.36 to 0.50	*13*
			0.51 to 0.75	*12*
			0.76 to 1.25	*11*
			1.26 to 2.00	*10*
			2.01 to 2.50	*8*
			2.51 to 2.75	*7*
			More than 2.75	*0*
2.	***Liquidity*** *(Current Assets/ Current Liabilities)*	***15***	*Greater than 2.74*	*15*
			2.50 to 2.74	*14*
			2.00 to 2.49	*13*
			1.50 to 1.99	*12*
			1.10 to 1.49	*11*
			0.90 to 1.09	*10*
			0.80 to 0.89	*8*
			0.70 to0.79	*7*
			Less than 0.70	*0*
3.	***Profitability*** *(Operating Profit/Sales) X 100*	***15***	*Greater than 25%*	*15*
			20% to 24%	*14*
			15% to 19%	*13*
			10% to 14%	*12*
			7% to 9%	*10*
			4% to 6%	*9*
			1% to 3%	*7*
			Less than 1%	*0*
4.	***Coverage*** *(Earnings before interest & tax / Interest on debt)*	***5***	*More than 2.00*	*5*
			1.51 > 2.00	*4*
			1.25 > 1.50	*3*
			1.00> 1.24	*2*

			>1.00	*0*
B.	**Business / Industry Risk**	**18**		
1.	***Size of Business (in BDT crore)*** *The size of the borrower's business measured by the most recent year's total sales (preferably audited).*		*>60.00*	*5*
			30.00 to 59.99	*4*
			10.00 to 29.99	*3*
			5.00 to 9.99	*2*
			2.50 to 4.99	*1*
			<2.50	*0*
2.	***Age of Business*** *The number of years the borrower engaged in the primary line of business*		*>10 years*	*3*
			5<10 years	*2*
			2 to 5 years	*1*
			<2 years	*0*
3.	***Business Outlook*** *Critical assessment of medium term prospects of industry, market share and economic factors*		*Favorable*	*3*
			Stable	*2*
			Slightly Uncertain	*1*
			Cause for Concern	*0*
4.	***Industry Growth***		*Strong (10%+)*	*3*
			Good (5% < 10%)	*2*
			Moderate (1% to 5%)	*1*
			No Growth (<1%)	*0*
5.	***Market Competition***		*Dominant Player*	*2*
			Moderately Competitive	*1*
			Highly Competitive	*0*
6.	***Entry/Exit Barriers***		*Difficult*	*2*
			Average	*1*
			Easy	*0*
C.	**Management Risk**	**12**		
1.	***Experience*** *Quality of management based on total no. of years of experience of the senior management of the industry*		*More than 10 years in the related line of business*	*5*
			5-10 years in the related line of business	*3*
			1-5 years in the related line of business	*2*
			No Experience	*0*

2.	***Second Line/ Succession***		*Ready Succession*	*4*
			Succession within 1-2years	*3*
			Succession within 2-3 years	*2*
			Succession in question	*0*
3.	***Team Work***		*Very Good*	*3*
			Moderate	*2*
			Poor	*1*
			Regular Conflict	*0*
D.	**Security Risk**	**10**		
1.	***Security Coverage*** *(Primary)*		*Fully pledged facilities/ substantially cash covered/Reg. Mortgage for HBL*	*4*
			Registered Hypothecation (1st Charge/1st Paripassu Charge)	*3*
			2nd charge/ Inferior charge	*2*
			Simple hypothecation/ Negative lien on assets	*1*
			No security	*0*
2.	***Collateral Coverage*** *(Property Location)*		*Registered mortgage on municipal corporation/ Prime area property*	*4*
			Registered mortgage on Pourashava/ Semi-Urban area property	*3*
			Equitable mortgage or No property but plant and machinery as collateral	*2*
			Negative lien on collateral	*1*
			No collateral	*0*
3.	***Support*** *(Guarantee)*		*Personal guarantee with high net worth or Strong corporate guarantee*	*2*
			Personal guarantees or Corporate guarantee with	*1*

			average financial strength	
			No support/ guarantee	*0*
E.	**Relationship Risk**	**10**		
1.	***Account Conduct***		*More than 3 years Accounts with faultless record*	*5*
			Less than 3 years Accounts with faultless record	*4*
			Accounts having satisfactory dealings with some late payments	*2*
			Frequent past dues and irregular dealings in account	*0*
2.	***Utilization of Limit*** *(actual/projection)*		*>60%*	*2*
			40%-60%	*1*
			<40%	*0*
3.	***Compliance of Covenants/ Conditions***		*Full Compliance*	*2*
			Some Non-Compliance	*1*
			No Compliance	*0*
4.	***Personal Deposits***		*Personal accounts of the key business sponsors/principals are maintained in the bank, with significant deposits*	*1*
			No depository relationship	*0*

Source: MTB Manuals

The Relationship Officer of the Branch will prepare the Risk Grading Scorecard in case of new proposal, renewal or enhancement of existing facility, any deterioration in the borrower's business position, any breach of contract by the borrower or as and when he/she feel it necessary. In addition, aggregate weighted score of the customer is to be affixed in the relevant field of the Credit Assessment Sheet.

2. Risk Grading Sheet:

After preparing of Risk Grading Scorecard, concerned Relationship Officer will assign risk grade to the customer within the following definition of Credit Risk Grading:

Risk Grade	Numeric Grade	Definition
Superior – (Low Risk)	**1**	Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentations are in place.
Good – (Satisfactory Risk)	**2**	The repayment capacity of the borrower is strong. The borrower has excellent liquidity and low leverage. The company demonstrates consistently strong earnings and cash flow. Borrower has well established market and very good management skill. All security documentation should be in place. Aggregate Score of 85 or greater based on the Risk Grade Scorecard.
Acceptable – (Fair Risk)	**3**	These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. Borrowers have adequate liquidity, cash flow & earnings. Credit is normally be secured by acceptable collateral (1st charge over stocks / debtors / equipment / property). Acceptable management. Acceptable parent/sister company guarantee. An Aggregate Score of 75-84 based on the Risk Grade Scorecard.
Marginal - Watch list	**4**	Grade 4 assets warrant 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. Borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. Weaker business credit & early warning signals of emerging business credit detected. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.
Special Mention	**5**	Grade 5 assets have potential weaknesses due to conditions affecting borrower, industry or economic condition and deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30-60 days, or if a significant petition or

		claim is lodged against the borrower. Full repayment of facilities is still expected and interest can still be taken into profits. An Aggregate Score of 55-64 based on the Risk Grade Scorecard.
Substandard	**6**	Financial condition is weak and capacity or inclination to repay is in doubt. These weaknesses may jeopardize the full settlement of loans. Loans should be downgraded to 6 following Bangladesh Bank criteria of classification. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.
Doubtful (non-performing)	**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. An Aggregate Score of 35-44 based on the Risk Grade Scorecard
Bad/loss	8	Assets graded 8 are long outstanding with no progress in obtaining repayment or in the later stages of wind up/liquidation. The prospect of recovery is poor and legal options have been pursued. The 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 credit and it is basically worthless asset even though partial recovery may be affected in future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of less than 35 based on the Risk Grade Scorecard

The credit Risk Rating system is useful in analyzing credit proposal, new or renewal for regular limits or specific transactions, if the basic information of a borrower to determine the degree of each factor is:

- Readily available
- Current
- Dependable
- The factors are assessed judiciously and objectively

Therefore, factors are to be evaluated and weighted very carefully, on the basis of most up-to date and reliable information and complete objectivity must be ensured to assign the correct rating.
If Credit Risk Grading Form is approved by Credit Risk Management Division, the rating is to be considered final.

vii. Credit Assessment Policy as per Bangladesh Bank:

According to Bangladesh Bank, a comprehensive credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the relationship manager/account officer ("RM"), and is approved by Credit Risk Management (CRM). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the bank's Lending Guidelines and should conduct due diligence on new borrowers, principals, and guarantors. It is essential that RMs know their customers and conduct due diligence on new borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. All banks should have established Know Your Customer (KYC) and Money Laundering guidelines which should be adhered to at all times.

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

- Amount and type of loan(s) proposed.
- Purpose of loans.
- Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangement

In addition, the following risk areas should be considered for analyzing a credit proposal:

1. <u>Borrower Analysis.</u>

The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or intergroup transactions should be addressed, and risks mitigated.

2. <u>Industry Analysis.</u>

The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.

3. <u>Supplier/Buyer Analysis.</u>

Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

4. <u>Historical Financial Analysis.</u>

An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's Balance Sheet. Specifically, Cash Flow, Leverage and Profitability must be analyzed.

5. Projected Financial Performance.

Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.

6. Account Conduct.

For existing borrowers, the historic performance in meeting repayment obligations (trade payments, Cheques, interest and principal payments, etc) should be assessed.

7. Adherence to Lending Guidelines.

Credit Applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of Credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank's Lending Guidelines.

8. Mitigating Factors.

Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

9. Loan Structure.

The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.

10. Security.

A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.

11. Name Lending.

Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

viii. **Credit Approval Process:**

Credit approval process starts with receiving given completed credit application from the customer and ends with issuance of a written “Sanction Advice” by the Bank.

The basic steps followed by the Bank are highlighted diagrammatically as under:

Step-1: Receiving application from the customer along with required papers and documents.

Step-2: Scrutinizing the Credit Application Form and other documents in order to make a preliminary assessment on creditworthiness of the potential borrower.

Step-3: Visiting the customer’s business premise and try to acquire proper understanding about relevant information the business position, business expertise and reputation of the borrower, purpose of credit, actual credit requirement, sources of repayment, etc.

Step-4: Sending the Pre-sanction Inspection Report to the Corporate Division of Head Office and assessing the credit proposal and contacting with the concerned Relationship Manager or directly to the customer for any query by Head of Corporate Division or assigned Executive.

Step-5: Sending the “CIB Inquiry Form” to Bangladesh Bank by Credit Administration Department of Head Office on receipt of the request letter from the Branch.

Step-6: Originating a formal Credit Proposal in prescribed format on basis of clean CIB Report and sending it to the Corporate Banking Division, Head Office and a copy to the Credit Risk Review Department of Credit Risk Management Division after signing by the Relationship Manager.

Step-7: Placing the proposal along with Head of Corporate Banking Division’s recommendation before the Credit Committee by Corporate Banking Division in order to report the observation of Head of Credit Risk Review Department of CRMD in writing/verbally before the Credit Committee.

Step-8: Analyzing the proposal by the Credit Committee and Preparing required Memo on the weakness/risk factors by Corporate Banking Division and incorporating the suggestion/observation of the Credit Risk Review Department as well as Credit Committee for approval of the appropriate authority.

Step-9: Reviewing, scrutinizing and analyzing the Memo in line with the business plan, risk acceptance criteria of the bank and general credit norms by respective Credit Officer.

Step-10: Summarizing observations with reasons by the Credit Officer after evaluating the credit information, facility structure and risk factors.

Step-11: Forwarding the final Memo to the Head of Credit for his consent.

Step-12: Approving the proposal by the appropriate approval authority on the basis of recommendation of Credit Risk Management Division.

Step-13: Sending the copy of approval Memo/Note sheet to the Credit Risk Management Division by Corporate Banking Division.

Step-14: Issuing Sanction Advice to the originating Branch along with a Documentation Check List by Credit Risk Review Department of CRMD

Step-15: Giving the Sanction Letter to the customer following Credit Risk Review Department of CRM sanction advice to be issued under dual signatures from the originating Branch

ix. Credit Administration:

MTB's credit disbursement functions and administration are strictly handled by Credit Administration Department (CAD), which ensures the following:

- Documented credit approvals are obtained.
- Legally enforceable security documents are prepared.
- Limit creation and loan documentation check list (LDCL) are obtained.
- All standard charge documents are executed.
- Loan classification and provisioning are done as per norms.
- Credit disbursement approvals are promptly given.

x. Credit Monitoring:

MTB Credit Monitoring Department (CMD) monitors the asset (loan) portfolio of the bank. MTB's credit monitoring system provides an early indication/alert about the deterioration of loans that allows effective management of the loans in a rational manner to prevent them from turning into Non-performing loans (NPL). Statements on early alert accounts, delinquent and specially mentioned accounts are generated timely and necessary actions are taken by the CMD. MTB's credit monitoring tools are effective enough to keep the overdue and SMA loans well below the industry average. Once the loan is disbursed, risk remains and continues until the borrowing is fully repaid and the loan should be continuously watched over. These include keeping track of borrower's compliance with credit terms, identifying early signs of irregularity and monitoring timely repayments.

Monitoring of accounts is the prime responsibility of RM team of Corporate Banking Division. Steps involved in monitoring process are as follows:

- Past due principal or interest payments, past due trade bills, account excesses, and breach of loan covenants;
- Loan terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow-up.
- Timely corrective action is taken to address findings of any internal, external or regulator inspection/audit.
- All borrower relationships/loan facilities are reviewed and approved through the submission of a Credit Application at least annually.

XI. Credit Classification and Provisioning:

The major objectives of Credit classification and provisioning are as follows:

- To introduce transparency in the operation of the bank.
- To assess the capital adequacy of the bank and tom prevent further erosion and for infusion of additional capital by the bank owners.
- To strengthen credit discipline and to infuse public confidence in the financial system.
- To improve recovery position and to transfer necessary amount from the income as interest suspense.
- To build up reserve over the years to cushion the shortfall arising from unforeseen losses at any subsequent period.
- To consolidate and provide necessary data, which will help the concerned authority of the bank as well as the government and Bangladesh Bank in formulating necessary policies.

Loan Classification:

Credit portfolio mainly contains loans and advances which are prepared by the bank to its customers or borrowers. All the loans and advances are grouped into four categories for the purpose of classification, which are:

I. Continuous Loan
II. Demand Loan
III. Fixed Term Loan
IV. Short-Term Agricultural and Micro-Credit

Continuous and Demand Loans are classified as:

- **Sub-standard –** If past due for 3 months or more, but less than 6 months;
- **Doubtful -** If past due for 6 months or more, but less than 9 months;
- **Bad/Loss -** If past due for 9 months or more.

Fixed Term Loans amounting up to 10 lacs are classified as:

- **Sub-standard –** If the defaulted installment is equal to or more than the amount of installment (s) due to within 3 months;
- **Doubtful -** If the defaulted installment is equal to or more than the amount of installment (s) due to within 6 months;
- **Bad/Loss –** If the defaulted installment is equal to or more than the amount of installment (s) due to within 9 months.

Short-Term Agricultural and Micro-Credit are classified as:

- **Sub-standard –** If the irregular status continues after a period of 12 months;
- **Doubtful -** If the irregular status continues after a period of 36 months;

Bad/Loss - If the irregular status continues after a period of 60 months.

A continuous credit, demand loan or term loan which remains overdue for a period of 60 days or more is classified as a "Special Mention Account (SMA)".

Rate of Provision:

The percentage of provision on loans and advances are given below:

Particulars		**Short Term Agricultural Credit**	**Consumer Financing**			**SMEF**	**Loans to BHs/SDs**	**All other credit**
			Other than HF, LP	**HF**	**LP**			
Unclassified	Standard	2.5%	5%	2%	2%	0.25%	2%	1%
	SMA	-	5%	2%	2%	0.25%	2%	1%
Classified	SS	5%	20%	20%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	50%	50%
	B/L	100%	100%	100%	100%	100%	100%	100%

Sources: MTB Annual Report, P- 212

The Bank maintains provision at the above rate on the balance to be ascertained by deducting the amount of Interest suspense and the value of eligible securities from the outstanding balance of the classified loan. General provision at the rate of one percent is also maintained against unclassified loan.

XII. Credit Recovery:

It is to be mentioned here that in MTB a separate cell named as Special Asset Management is performing to monitor the problem accounts closely as identified and the affairs of large accounts. The Special Asset Management (SAM) of CRM directly manages accounts with sustained deterioration. The Banks may wish to transfer EXIT accounts graded 4-5 to the SAM for efficient exit based on recommendation of CRM and Corporate Banking.

- **Recommendation:**

- While senior management and the board are ultimately liable for a credit management programme, internal audit can be a crucial player in helping address credit risk.
- Training programme will assist bankers recognize various and multifaceted business risks they face because of increasing deregulation, an ever-changing financial picture and globalization of their activities. It will also offer bankers a strong base on international best practices in credit risk management.
- Understanding risks is necessary to generate a strong and defensible risk-management platform and it would be a preference to ensure a partner in delivering the skills training.
- Fragile corporate governance lets the dominant equity holders to manipulate credit access, credit appraisal and internal control process to their own benefit. So MTB should be aware of it while keeping its corporate governance strong enough to handle any difficulties.
- A number of state-owned and private commercial banks are challenged with huge loan defaults as a result of falsified practices by some officials of a few commercial banks (both public and private) in involvement with some ill-motivated unscrupulous clients. So to keep the constant goodwill of the bank in future, it must develop proper credit management systems to avoid risks and to provide credit to the private sector.
- MTB can moderate credit risk by raising credit standards to reject risky loans, obtaining adequate collateral and guarantee, ensuring compliance with loan agreement, transferring credit risk by giving standardized loans, transferring risk of changing interest rates by hedging in financial futures, by using swaps, by creating synthetic loans through a hedge and interest rate futures to convert a floating rate loan into a fixed rate loan and making loans to a range of firms whose returns are not perfectly correlated.
- Credit rating reports from the professional credit rating agencies of the borrowers are important tools to judge the credit-worthiness of borrowers. Mutual Trust Bank Limited needs to strictly follow the terms and conditions of the loan agreement with the borrowers.
- More research and innovative ideas should be made to minimize credit risk extent.

- ## Conclusion:

Analysts and economists have identified the vulnerable and risky areas of a banking institution which are - credit risk management, market risk management, investment risk management, operational risk management, liquidity risk management, internal and external fraud management and defective IT systems. Among these, credit risk management lies at the heart of commercial banking. Credit risk is one of the main risks of banking industries, especially commercial banks, which will affect the banks' ability of sustainable operation. Commercial banks undertake credit risk when they act as intermediaries of funds. Risk management assumes prominence considering the economic crises in Europe, the US and the UK which have hit the governments, banks, creditors and more importantly, the people of the country whose lives are badly battered by unemployment, inflation leading to public turmoil. All these indicate poor control and regulatory measures of the central banks of the respective countries. Greece, Portugal and Italy are some examples of poor risk management compliance and control. The global financial crisis – and the credit crunch that followed – place credit risk management into the regulatory spotlight. Some large size scam has already taken place; so credit risk management tools and techniques of the banking sector needs to be stiffened more and revisited precisely so that our banking sector can remain safe in the time ahead. Consequently, regulators began to call for more transparency. They need to know that a bank has in-depth information of customers and their associated credit risk. Risk management strategy protectively identifies, measures, mitigates and monitors risk that arises at the transaction level as well as at the portfolio level to ensure optimum utilization of capital. MTB has been successful in promoting significant amount to deposits by launching new and innovative products in the marketplace. MTB aims at delivering superior shareholder value by achieving an appropriate trade-off between risks and return. The policies and procedures established for this purpose are continuously reviewed to benefit from a blend of local and international practices. It has standardized credit approval processes along with managing credit risk through a robust process that enables the bank to proactively manage its loan portfolio in order to minimize losses, and earn an acceptable level of return for shareholders. Over the years, MTB has been maintaining a lower NPL than that of the industry which reflects the effectiveness of MTB’s risk management system. Moreover, better credit risk management also presents a chance to prominently advance overall performance and secure a competitive advantage.

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