

2016

“Credit Management Procedure – A
Study on Dhaka Bank Limited, Foreign Exchange
Branch, Dhaka”

DHAKABANK
L I M I T E D





Internship Report

On

**“Credit Management Procedure – A
Study on Dhaka Bank Limited, Foreign
Exchange Branch, Dhaka”**

Submitted To:

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Date of Submission

23 February 2016

Letter of Transmittal

19th February, 2016

Mr. ArifGhani

Lecturer

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Subject: Submission of Internship Report.

Dear Sir,

With due respect, I would like to inform you that, it is a great pleasure for me to submit the Internship report on “Credit Management Procedure – A Study on Dhaka Bank Limited, Foreign Exchange Branch, Dhaka.” as a requirement for the completion of MBA program. I have tried to make the report a comprehensive one within the given 4 months of time. I earnestly thank you for your guidance during the preparation of this report. Any sort of suggestion regarding the report will be greatly acknowledged and I will be gratified if our report serves its purpose.

I therefore, request you to accept this report and give me proper suggestion to work in my professional life and I pray and hope that the mistakes, the report may have will be kindly excused.

Yours faithfully,

.....

Nur- Un- Naher

ID: 13164013

BRAC Business School

BRAC University

Acknowledgement

I must first take this opportunity to thank them. Shujaur Rahman, Manager, Dhaka Bank Limited, Foreign Exchange Branch for giving me his whole-hearted advice, guidance & Co-operation.

I am very much grateful to the honorable members of Dhaka Bank Limited, Foreign Exchange Branch, especially Sk. Sohail Khurshid, Operation Manager and Ms. Sowkat Ara, Credit In charge, to facilitate me to work in individual departments, teaching me, providing me all kind of information, giving me an overall idea about the banking system as well as credit management of Dhaka Bank Limited. which enrich our academic as well practical knowledge and aptitude. I have the pleasure to submit this Their cordial co-operation & guidance helped me prepare the report on “Credit approval, monitoring and performance: A study on Foreign Exchange Branch of Dhaka Bank Limited” for your kind evaluation.

I also express special gratitude to Ms. Shamshad Begum, Head of Human Resource Department and Principal of DBTI for designing such a beautiful rotation plan with scope to work in each and every department of a Branch and providing us the opportunity to acquire an overall idea about the banking system. I thank you for your innovative ideas and strenuous effectual implementation.

I have tried with my best in order to serve every objective of this report and tried to prepare the report accurately. However, there might be some mistakes or limitations due to my limited aptitude and time constraint. In this regard, I seek your kind consideration as I am in the process of learning.

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Executive Summary

Dhaka Bank Limited (DBL) was incorporated as a Public Limited Company on April 06, 1995 under the Company Act 1994 and started its Commercial Operation on June 05, 1995 as Private Commercial Bank. The Bank started its journey with an Authorized Capital of Tk.1000.00 Million and Paid up Capital of Tk.100.00 Million. Today it is one of the most renowned Private Commercial Banks having multiple branches in the major cities of the Country.

Dhaka Bank Limited (DBL) has started its Business with all the features of a Corporate Bank and the Products of both Corporate and Retail Banking System; to facilitate the all types of loan facilities and to provide the Foreign Trade to their honorable client. DBL is always trying to improve their Banking System in every sector, but in today's Competitive Business World, Banks need to offer additional concentration to the Clients' requirements in order to stay at the top. Therefore, besides dealing with the general attributes of Different Products, they have been trying to put more emphasis on the Customer Benefits and other Customer related Facilities..

The topic of the report is "Credit Management Procedure: A study on Dhaka Bank Limited, Foreign Exchange Branch". The main purpose of the report becomes very clear from the topic of the report. The report discusses about the different credit facilities, approval process, monitoring and performance.

At the end a very qualified and dedicated group of officers and staffs are working in the Credit Division of Dhaka Bank Limited, Foreign Exchange Branch and are always trying to provide the best service to the clients. They always monitor the credit in different sectors and their position. Their credit approval and monitoring process and its performance improved very rapidly and still trying their best to improve more and more.

So, within a very short period they earned the respect and acceptance from the customers and now it is one of the leading private Commercial Bank of the Country.

CHAPTER 1: INTRODUCTION

1.1 Introduction

The needs of commercial banks in the country are more important than the nationalized banks in many ways. Primarily, commercial banks are the one of the major source of funds in the economy of Bangladesh. By borrowing money from the locals and lending the same to the locals as loans and advances, they perform an important function. People and Govt. itself are very much dependent on the effective and efficient services provided by the banks in the financial markets of the country. Commercial banks act as financial intermediaries by performing the functions of mobilizing the funds and utilizing them in the proper way. These banks make reasonable amount of profit after meeting the cost of fund. In Bangladesh, one common problem is the fact that the cost of fund is very high in the country because of the high transaction and ledger costs and limitation in the structure. Sources of fund are also very limited. Competition is intense for funds in the country. Combining all these issues, financial environment is tough to operate in the Bangladesh; moreover the stringent rules, regulations, and market control by the Govt. make things worse. Moreover banks are profit-earning concern, as the collect deposit at the lowest possible cost; provide loans and advances at high cost.

1.2 Origin of the Report

As an intern I have to submit a report on the area on interest before completion of my internship period. The report writing consists of analysis, findings and achievements with in the internship period. This report titled **“Credit approval, documentation and performance: A study on Foreign Exchange Branch of Dhaka Bank Limited, Bangladesh”**

1.3 Purpose

The purpose of this study is to define and analyze Dhaka Bank Limited's different Credit Facilities, its approval, monitoring and recovery process.

1.4 Objectives of the Study

Objectives of the study is described below :

Primary Objectives:

- To familiarize with the DBL, its operation and activities, management style and attempt to realized the gap between the theoretical knowledge with the real business world.
- To understand the process and documentation behind every loan facility. .

Secondary Objectives:

- To identify the credit approval, their securities and monitoring process of Dhaka Bank Limited.
- To identify the different sectors that have or had been provided the different credit facilities and also to identify sectors got the highest and lowest credit facility and the reasons behind that.
- To identify the classification and recovery process credits facilities.

1.5 Sources of Information

All the information incorporated in this report have been collected from primary sources as well as secondary sources.

Primary Sources

1. In hand Practice.
2. Personal Experience
3. Interview with the credit officers of DBL.

Secondary Sources

1. Dhaka Bank Limited Annual Reports 2009 – 10.
2. Brochures of DBL

3. Credit Manual of DBL
4. BIBM reports
5. Other necessary books, magazines, business out lets and materials.
6. Loan files of the client.

1.6 Methodology

Basically this report is divided into six parts- Types of credit facilities, Credit Assessment, Credit Approval and documentation, default credit and recovery, Branch performance and Recommendation. For first four parts I have to go through several files, manuals and listen to the employees to figure out the reason becoming classified loan. For Branch performance I have to go through Credit Statements.

1.7 Limitation

- Load at the work place was the main barrier to prepare this report.
- The officers of DBL have been very helpful but very busy with their works. They don't have enough time to provide, as they very busy with their assigned works. So, in some cases, observation was needed.
- Due to lack of experience, there may have been faults in the report though maximum efforts have been given to avoid any kind of mistake.
- Lack of secondary information was another major problem that was faced during the study.

CHAPTER 2: COMPANY PROFILE

2.1 Company Profile

DHAKA BANK LIMITED was integrated as a civic partial Corporation on 6th April 1995 under the business act. 1994 and ongoing it's money-making action on June 05, 1995 as a isolated sector bank. The bank started its drive with an authorized investment of Tk. 1,000.00 million and paid up investment of Tk. 100.00 million.

To smooth the daily clientele requirements, DHAKA BANK LTD. has ongoing its business with all the features of a corporate bank and the products of both corporate and retail banking system. Among all of its products Credit is one of the most important financial-tool in modern banking sector. Though DHAKA BANK is always trying to improve their services in this field, but in today's competitive business world, banks need to offer additional concentration to the clients' requirement in order stay at the top.

The assets of a bank hang on its administration team. The Manager in Dhaka Bank is proud to have a team of extremely inspired, knowledgeable and skilled executives who have been paying significantly in the sustained growth of the bank. The management is ably supported and assisted by well-motivated and experienced officers to run the day to day affairs of the bank smoothly. The bank is proud to have a dedicated band of people to whom the commitment to provide Excellence in banking is imbued in the way of their life.

2.2 Objectives of Dhaka Bank Limited

Dhaka Bank aims to continuously update and develop its product line and range of services to cater to the needs of retail and corporate customers. To achieve this goal, efforts have been directed in three main areas:

- ◆ Design and introduction of new products and services
- ◆ Shaping and developing the system to face new challenges and emerging need of the Market
- ◆ Full implementation and utilization of the Bank's excellence program which aims to Provide service to customers.

While strengthening risk management and improving asset quality is the main focus of the bank, it is also aware of its responsibility to the society.

2.3 Functions of Dhaka Bank Limited

The Dhaka Bank performs all types of functions of a modern commercial bank which is generally includes:

- 1) Mobilization of savings of the people and safe keeping of all types of deposit account.
- 2) Making advances especially for productive activities and generally for the other commercial and socio-economic needs.
- 3) Providing banking services to common people through the undertakes of branches.
- 4) Handling of export and import trade and foreign remittances and with special support to export activities.
- 5) Introduce modern Banking services in the country.
- 6) Discounting and purchasing bills.
- 7) Providing various information, guidance and suggestions for promotion of trade and industry keeping in view of the overall economic development of the country.
- 8) Industrial finance for both capital machinery and working capital.
- 9) Finance relating to constructions of both commercial and residential.
- 10) Finance under small business of self employed clients.
- 11) Finance of farming and non farming activities to rural people including purchase of agricultural equipments.

CHAPTER 3: CREDIT FACILITIES IN DBL

3.1 Credit Management in Dhaka Bank Limited: Overview

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. In other words, credit is the ability to command goods or services of another in return for

promise to pay such goods or services at some specified time in the future. 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. Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default. Actually the credit portfolio is not only constituted the bank's asset structure but also a vital factor of the bank's success. 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 analyzing the credit management of DBL, it is required to analyze its credit policy, credit procedure and quality of credit portfolio.

3.2 Credit Policy of Dhaka Bank Limited:

One of the most important ways, a bank can make sure that its loans meet organizational and regulatory standards and they are profitable is 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 Dhaka Bank Limited there is perhaps a credit policy but there is no credit written policy.

3.3 Credit Principles:

DBL follows the following credit principles, which always guide their corporate behavior and support the banking decisions.

- (i) Think first for the bank
- (ii) Behave ethically in all credit activities
- (iii) See where the bank's money is going to be spent
- (iv) Lend when the client has the capacity and ability to repay
- (v) Assess the client's character for integrity and willingness to repay
- (vi) Extend credit if we understand and manage risk

- (vii) Ensure independent credit participation in the approval process
- (viii) Be proactive in identifying, managing and communicating credit risk
- (ix) Be diligent in ensuring credit exposures and activities comply with Bangladesh Bank
- (x) Plan for the possibility of default
- (xi) Optimize risk and reward
- (xii) Build and maintain a diversified asset portfolio
- (xiii) The purpose of credit should contain the basis of it's repayment
- (xiv) Although it is harder than evaluating financial statements, assessing a company's management quality is vital
- (xv) Collateral security is not a substitute for repayment
- (xvi) If the credit is to be guaranteed, be sure that the Guarantor's interest is served as well as the borrowers.

3.4 Loan Products :

The Dhaka Bank Limited targets to reach the whole customer group through 3 sections of loans and advances. These are

- i. Retail Loan**
- ii. Corporate Loan**
- iii. SME**

Their aim is to achieve targeted profit Achievement through satisfaction of Their customer group.

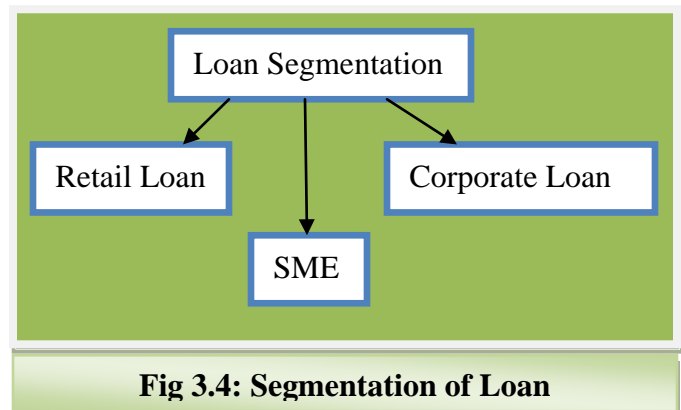


Fig 3.4: Segmentation of Loan

3.5 Retail Loan :

Targeted for small to medium income people. There are 5 types of retail Loan. These Are described below:

3.5.1 Personal Loan

As part of establishing a Retail Banking franchise of Dhaka Bank Limited, the bank has successfully launched Personal Loan. The product is a term financing facility to individuals to aid them in their purchases of consumer durables or services. The facility becomes affordable to the clients as the repayment is done through fixed installments commonly known as EMI (equated monthly installment) across the facility period. Depending on the size and purpose of the loan, the number of installments varies from 12 to 60 months.

Target Market –

- a. Salaried individuals
- b. Professionals

Restrictions and client eligibility-

1. Loans are restricted to Bangladeshi nationals falling in the age between minimum 21 years and the maximum age 57.
2. Minimum Gross Family Monthly Income should be BDT 15,000.00.

Loan amount limits under the program	Type of Loan	Minimum loan amount	Maximum loan amount
	Personal	BDT 25,000.00	BDT 10,00,000.00

3.5.2 Car Loan

Car Loan is a term financing facility to individuals to aid them in their pursuit of has a car of their dream. The facility becomes affordable to the clients as the repayment is done through fixed installments commonly known as EMI (equal monthly installment) across the facility period. Depending on the size and purpose of the loan, the number of installments varies from 12 to 60 months. In case of brand new cars the loan tenure will be maximum 72 months.

Targeted Market -

- a. Salaried individuals
- b. Professionals

Restrictions and client eligibility-

1. Loans are restricted to Bangladeshi nationals falling in the age between minimum 21 years to maximum 57 years.
2. Minimum Gross Family Monthly Income should be BDT 50,000.00.
3. Recondition cars should not be older than 6 years.

Loan amount limits under the program	Type of Loan	Minimum loan amount	Maximum loan amount
	Car	5,00,000.00	Tk 20,00,000.00

3.5.3 Vacation Loan

Like the Car Loan, Vacation Loan of Dhaka Bank Limited is a term financing facility to individuals to aid them in their pursuit of spending a vacation in the country or abroad. The facility becomes affordable to the clients as the repayment is done through fixed installment s

commonly known as EMI (equal monthly installment) across the facility period. Depending on the size and purpose of the loan, the number of installments varies from 12 to 48 months.

Targeted Market -

- a. Salaried employees
- b. Professionals
- c. Businessmen

Restrictions and client eligibility-

1. Loans are restricted to Bangladeshi nationals falling in the age category between minimum age 21 years to maximum age 57 years
2. Minimum Gross Family Monthly Income should be BDT 10,000.00.

Loan amount limits under the program	Type of Loan	Minimum loan amount	Maximum loan amount
	Vacation	BDT 25,000.00	BDT 5,00,000.00

3.5.4 Home Loan

The product is a term financing facility to individuals to aid them in their purchases of apartment or house or construction of house. The facility will become affordable to the clients as the repayment is done through fixed installment as commonly known as EMI (equal monthly installment) across the facility period. **Depending on the size of the loan, the maximum period of the loan would be 180 months (15 years).**

Targeted Market

Targeted Market -

- Salaried employees
- Professionals
- Businessmen

Restrictions and client eligibility-

1. Loans are restricted to Bangladeshi nationals falling in the age category between minimum age 21 years to maximum age 65 years
2. Minimum Gross Family Monthly Income should be BDT 40,000.00.
3. Registered Mortgage of the House/Apartment should be taken as security

Loan amount limits under the program	Type of Loan	Minimum loan amount	Maximum loan amount
	Home Loan	BDT 5,00,000.00	BDT 75,00,000.00

3.5.5 Any Purpose Loan

This loan is granted for serving any purpose of the client. Depending on the size and purpose of the loan, the number of installments varies from 12 to 48 months.

Targeted Market -

- Salaried employees
- Professionals
- Businessmen

Restrictions and client eligibility-

1. Loans are restricted to Bangladeshi nationals falling in the age category between minimum age 21 years to maximum age 57 years
2. Minimum Gross Family Monthly Income should be BDT 10,000.00.

Loan amount limits under the program	Type of Loan	Minimum loan amount	Maximum loan amount
	Any Purpose Loan	BDT 25,000.00	BDT 5,00,000.00

3.6 SME:

Facilities under SME Unit - SME Credit

Dhaka Bank Limited has come forward to extend its services towards Small and Medium Enterprises sector with a new product Group with an objective of supporting and developing the entrepreneurial potential of Bangladesh. This is one of the steps towards the fulfillment of the commitment to contribute to every segment of the economy of Bangladesh.

Target Customer

- Micro Enterprise
- Small Enterprise

Products:

	Purpose	Period
Overdraft	Working Capital	One Year
Term Credit	Fixed Asset	One year to three years

Ceiling:

Product	Minimum	Maximum
Micro Enterprise	Tk 1,00,000.00	Tk 3,00,000.00
Small Enterprise	Tk 2,00,000.00	Tk 50,00,000.00

Dhaka Bank has a firm commitment to contribute to every segment of the economy and SME Finance is just one of the steps towards fulfillment of this commitment.

Purpose-

To Finance:

- a. Working Capital
- b. Business Improvements
- c. Procurement of Capital Machines
- d. Trade Finance
- e. Work Order Finance
- f. Construction

Problems Faced -

The single largest problem of the lower end of the SME sector is that they are unable to fully understand their needs. Even if these needs are understood, they are seldom met with the right product mix.

Small business owners are unable to provide banks with required information of the right type and quality. This has created a gap between the borrower and the banks and has served to limit the outreach of SME financial products.

In order to overcome this obstacle, Dhaka Bank SME Unit provides comprehensive support to prospective clients in evaluating their business and preparing the required documents in acceptable formats.

Types of Loan -

Product	Cash Credit
Eligibility	All SME businesses where the Key personnel have 2 years experience in the line of business. Satisfactory credit report
Method of Appraisal	The clients’ business experience, expertise, business volumes and monthly cash flow are used in the assessment process.
Margins (indicative)	The quality of receivables would be of importance in fixing margins up to which working capital is made available.
Tenor	Maximum 12 months (renewable)
Pricing	Risk based pricing strategy, in line with the market rates.
Security	Primary:

	<ul style="list-style-type: none"> • Charge on the inventory and receivables. • Charge on other current assets • Personal guarantee of proprietor /partners/ directors. • Charge on fixed assets. <p>Secondary:</p> <ul style="list-style-type: none"> • Collateral security on a case-to-case basis.
Interest	Fixed Rate, typically for 12 months.
Review	Facility terms and pricing are both reviewed at least annually
Processing fee	Processing fee of 1% is generally charged on small loans. Actual fee charged is determined on a case-to-case basis.

Table 01: Types of Loan-Cash Credit

Product	Overdraft
Eligibility	<p>All SME businesses where the Key personnel have 2 years experience in the line of business.</p> <p>Satisfactory credit report</p>
Method of Appraisal	The clients business experience, expertise, business volumes and monthly cash flow are used in the assessment process.
Margins (indicative)	The quality of receivables would be of importance in fixing margins up to which working capital is made available.
Tenor	Maximum 12 months (renewable)
Pricing	Risk based pricing strategy, in line with the market rates.
Security	<p>Primary:</p> <ul style="list-style-type: none"> • Charge on the inventory and receivables. • Charge on other current assets • Personal guarantee of proprietor /partners/ directors. • Charge on fixed assets. <p>Secondary:</p> <ul style="list-style-type: none"> • Collateral security on a case-to-case basis.
Interest	Fixed Rate, typically for 12 months.

Review	Facility terms and pricing are both reviewed at least annually
Processing fee	Processing fee of 1% is generally charged on small loans. Actual fee charged is determined on a case-to-case basis.

Table 02: Types of Loan-Overdraft

Products Offered-

Continuous Credit:

- a. General Overdraft
- b. Overdraft for Working Capital requirements
- c. Secured Overdraft (SOD)
- d. Overdraft (Pledge)

Work Order Finance:

- a. Overdraft (Work Order)
- b. Payment Order (PO) Finance for contesting Tenders
- c. Bank Guarantees (BG)

Term Loan:

For Expansion of Business / Working Capital / Capital Machinery Procurement / Commercial Space / Development / Construction of Building etc.

- a. Short Term Loan – up to 1 year
- b. Medium Term Loan – up to 3 years
- c. Long Term Loan – over 3 years

Seasonal / Festival Loans up to one year

- a. Short Time Overdraft Limit
- b. Time Loan (One shot payment)

Lease Finance:

- a. Capital Machineries Procurement
- b. Commercial Vehicle (Non Public Transport)

Trade Finance:

- a. Letter of Credit (LC) Limit
- b. Loan Against Trust Receipt (LTR)
- c. Loan against Imported Merchandise (LIM)
- d. Payment Against Documents (PAD)

3.7 Corporate Loan :

Targeted towards high income corporate clients.

Provide a tailored solution to the Corporate Clients. Dhaka Bank recognizes that Corporate Customers' needs vary from one to another and a customized solution is critical for the success of their business.

Dhaka Bank offers a full range of tailored advisory, financing and operational services to its corporate client groups combining trade, treasury, investment and transactional banking activities in one package.

Dhaka Bank Limited provides Credit Facilities to Corporate Clients-

- Project Finance
- Term Loan
- Import or Export Deal
- Working Capital Requirement
- Bank Guarantee

Dhaka Bank's exposure in Corporate Banking:

Sl.	Sector	DBL's Exposure (2009) (BDT in Crore)
1	Agricultural	30
2	Chemical	130
3	Electronics and Automobile	9
4	Energy and Power	58
5	Engineering and Metal including Ship Breaking	394
6	Food and Allied	350
7	Housing and Construction	692

8	Pharmaceuticals	56
9	Service	158
10	Textile and Garment	973
11	Transport and Communication	191
11	Others	2,249
Total		5,291

Table 03: Exposure of Corporate Loan

3.8 Other Types of Loan:

Some Other Type of Loans Practiced in Dhaka Bank Limited is described below :

3.8.1 Syndication Loan

There has been a surge in the number of syndication deals closed in the last few years. 2004 was an exceptionally good year for syndicated deals for the local commercial banks also for the foreign banks. The total number of syndications in 2004 exceeded 10 totaling over Tk. 10 billion. This rise in the number of syndications can be primarily attributed to the prudential lending guidelines of the Bangladesh Bank. A commercial bank may provide funded facilities up to a maximum of 25% of its equity. Due to this reason, projects with sizeable costs need to approach more than one bank for their debt requirements and therefore the demand for syndications exist. Credit risk diversification has led many international companies to introduce credit derivatives that are actively being traded. Securitization of assets is one such credit risk derivative that allows financial institutions to diversify their portfolios.

At Dhaka Bank Limited, the Syndications and Structured Finance unit was setup on October 30, 2004. This unit successfully closed two syndicated deals in the first and second quarters of 2004. The Syndications and Structured Finance team as a business unit soon followed up by closing another deal totaling Tk 2.10 billion for a large local corporate. The year (2004) being the first full year of operation for the team ended on a high note as we were able to close three syndicated deals as the Lead Bank, two deals as the Co-Arranger and several other deals as a participant.

3.8.2 Shopno Jatra-Student Loan

Shopno Jatra Student Services of Dhaka Bank Limited is destined to provide a One Stop solution for abroad going students. Understanding the need of the students, this service has been tailored to provide a same day banking solution for all the banking needs of an abroad going student at the lowest charge in the market.

Shopno Jatra Student Service offered Products—

1. Transfer of Student Application Charges to the foreign educational institute
2. Opening/ Processing of Student File
3. Issuance of Foreign Currency for Tuition Fees and Living Expenses
4. Issuance of Student International VISA Card
5. Secured Student Loan against cash margin

Required Documents to open student file –

- Valid Offer letter / I-20
- Valid Passport.
- Valid Offer letter with Course Duration and Refund policy.
All Original certificates.
- Refund policy in case of FTT (SWIFT) with Banking Details like Swift code, Account Name, Account Number, Bank Name.
- 3 Copies of passport size photographs of student and 2 copies of Nominee.
- National ID card or Passport of the Nominee.
- Account Name must be in favor of the institution for FTT(SWIFT)

3.8.3 Credit Card Services

Dhaka Bank Visa Dual Currency Credit offers a convenient and flexible way to pay for purchases at home and abroad and on the web.

Target Market:

- a) Salaried Individuals
- b) Professionals

Restrictions and client eligibility-

1. Loans are restricted to Bangladeshi nationals falling in the age category between minimum age 21 years to maximum age 55 years
2. Minimum Gross Family Monthly Income should be BDT 25,000.00.

Loan amount limits under the program	Type of Loan	Minimum loan amount	Maximum loan amount
	Credit Card	BDT 10,000.00	BDT 5,00,000.00

Other Features:

1. Supplementary Cards.
2. Cash Advance facility up to 50% of Card limit
3. E-Commerce Facility for use on over the Internet
4. Usable at all Merchants and ATMs that display the “VISA” logo
5. Credit Facility absolutely free for as many as 45 days
6. Quick Replacement of Lost/Stolen Card
7. Convenient Card Bill Payment options
8. Special promotions and discount offers exclusively for Cardholders
9. Card Dues Notification through SMS
10. Auto renewal before expiry

Card Annual / Renewal Fees:

Card Type	Basic Card	Supplementary Card
Classic Local	BDT 1,000/-	BDT 500/-
Gold Local	BDT 2000/-	BDT 1000/-
Classic Dual	BDT 2000/-	BDT 1000/-
Gold Dual	BDT 3000/-	BDT 1500/-

Table 04: Credit Card Fees

Dhaka Bank VISA Credit Card-Benefits

- Substitute of Cash- Zero Cash Handling ensures Security
- Wide Range of Local and International Products (Classic, Gold)
- Hassle Free Documentation
- No Joining or Processing Fee
- Flexible Credit Limit Enhancement Based on Usage and Regular Payment
- Flexible Payment through Cash, Cheque or Dhaka Bank account debit
- Auto Debit Payment facilities for DBL account holders
- Auto Renewal of card before expiry date

- Competitive Fees and Charges
- Supplementary Cards for dear ones
- Separate Limits for Supplementary Cards
- Cash Advance facility upto 50% of Credit Limit
- Dedicated Sales Team and Customer Service Desk at your service
- International Card against RFCD account and ERQ
- International Card- Accepted Worldwide for Purchase

3.9 Categories of Credit Financing:

Depending upon the nature of financing in respect of purpose, security as well as repayment terms, credit / credit facilities in DBL have been put under the following broad categories:

3.9.1 Overdrafts

These are the credits where a limit is set in client's account with an expiry period usually not Exceeding one year. In this type of facility client is at liberty to deposit and withdraw money within the validity of limit subject to drawing power of the account, where applicable.

Overdraft limit : Limit is the amount up to which the client is at liberty to operate the account for any number of times up to the validity period.

Drawing Power (DP) : When an advance is made in consideration of tangible assets such as stocks in trade, financial obligations etc. usually a cushion is retained as margin in respect of the assets valued at lower of cost or market. The drawing power represents extent of client's drawing rights to be applied subject to limit set in the account. To arrive at the drawing power the margin is deducted from the value of assets under consideration.

If it is found at a subsequent calculation that client's DP fell short of the amount already withdrawn, necessary arrangements shall immediately be made either to bring down the outstanding within DP or to raise the DP by furnishing additional acceptable assets as security.

Sub-division of Overdraft Account :

Overdraft is subdivided into following categories which is described below :

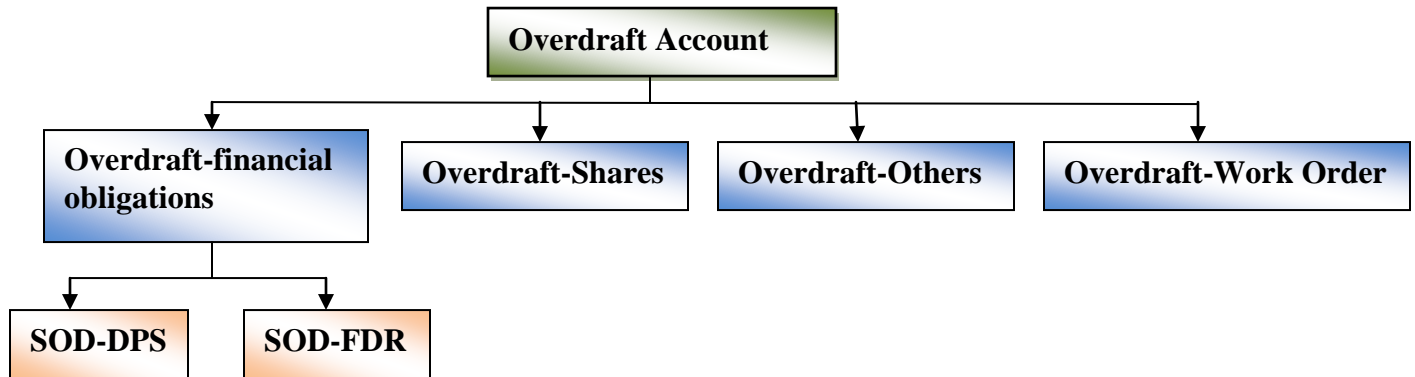


Fig 3.9: Classification of Overdraft

3.9.1.1 Overdrafts-financial obligations : These are the overdraft facilities secured by financial obligations such as FDR, DPS, Wage Earner’s Development Bond, Deposits held in client’s account, etc. In this type of facility often a margin is set depending upon banker-customer relationship, subject to terms of lending authority of the approving authority. 10% to 20% margin on the present value of financial obligation is regarded as ideal. Spread of interest rate over 3.00% is desirable.

SOD(DPS): Overdraft facility extended against credit balance of Deposit Pension Scheme (DPS) is term as SOD-DPS. Up to maximum 90% of the DPS value is approved as overdraft limit

SOD(FDR): Overdraft facility extended against credit balance of Fixed Deposit (FDR) is term as SOD-FDR. Up to maximum 90% of the FDR value is approved as overdraft limit.

These two types of Overdraft facilities is most common among individual borrower.

Advances against life insurance policies: In case of advances against life insurance policies, the standing of the issuing company shall be taken into consideration and be satisfied with.

3.9.1.2 Overdraft-Shares : This category is a variation of overdrafts against financial obligations. These are the overdrafts secured by shares and debentures of publicly traded companies listed with both or either of DSE(Dhaka Stock Exchange) and CSE(Chitogong Stock Exchange). No advance shall be made against shares and debentures issued by DBL. The security is valued at lower of cost or 6 (six) months average of market.

However, in this type of advances the standing of the company as well as the track record in declaring dividend etc. shall be of important consideration. Only shares without any trading restriction shall be accepted. Margin may be determined as per banker - customer relationship and the same shall not be lower than 20% of the estimated value of the security.

3.9.1.3 Overdraft-Others: These facilities are usually extended to meet client's various financial requirements of continuous nature and granted against personal guarantee, charge on assets of the company etc. Stock in trade, inventory or plant and machineries may also secure these facilities but usually no margin is fixed on those and as such drawing power always equals the limit of the facility.

3.9.1.4 Overdraft -Work Order : This credit facility is same as Overdraft-others but granted against particular work order. It means that the Bank will ensure on behalf of the company that it would perform the task properly which has been given by another company/institution. On contrary of the company not doing the work, the bank will repay the money back to company that has been given the work order. In providing finance to execute work order (s) following points should be considered:

- i) The work order must be issued by Government Authority, Semi-Government, Autonomous bodies, reputed Multinational companies as well as reputed local private organizations.
- ii) Past experience and list of works since completed are evaluated to assess capacity of the client

- iii) Original work order is retained by the Branch and confirmation from the Department / Organization concerned as regards genuineness of work order is obtained
- iv) borrower’s management experience, ability, structural facilities etc. in respect of nature of the work should be taken into account
- v) all the terms and conditions of work order as well as details of work schedule should be carefully examined to evaluate the merit of the proposal
- vi) the provision of running bills should be carefully noted and be taken into consideration in setting repayment terms of the facility
- vii) Obtaining of collateral security is of particular importance in this type of advance
- viii) In case of work order for construction work finance may be made up to 30% to 35% of work order value.
- ix) Progress of work is monitored and bills receivables are ascertained from time to time.

3.9.2 Cash

These are also the facilities where, like overdrafts, a limit is set in the account not exceeding one year. This type of facility is again sub-divided into following categories :

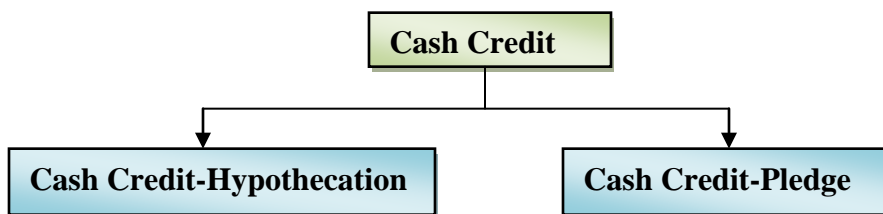


Fig 3.9.2 : Types of Cash Credit

3.9.2.1 Cash Credit - Hypothecation: In this category primary security consists of stocks in trade, inventories etc., possession of which remains with the borrower rather a charge upon those is created in bank’s favor. The stock is valued at lower of cost or market and on the valuation of the stock a margin is set on the basis of which DP is determined. However such

stock should not preferably consist of perishable items and the same is subject to bank's inspection as and when required.

Condition : The borrower has an absolute title to the goods and not already encumbered.

In this category of advance usually suitable collateral security is obtained.

The margin is to be set as per banker - customer relationship but 50% margin on the value of the hypothecated stock is regarded as ideal. Monthly stock report is to be obtained from the client and an authorized officer of the credit department must periodically inspect the stock.

3.9.2.2 Cash Credit-Pledge: In this category *primary security also consists of stocks / inventories but held by the bank instead of the borrower..* In case of borrower's non-repayment bank retains the right to adjust the account through selling of the pledged goods after giving proper notice to the borrower to that effect. The excess sale proceeds, if any, over the adjustment of liability with interest is deposited to the client's account. Requirement of collateral security covering the facility fully or partially depends on the banker - customer relationship.

The goods are valued at lower of cost or market and margin may be determined as per banker-customer relationship, however it should not be lower than 20% of the estimated value of the pledged goods.

3.9.3 Demand Loan :

These are the credits with fixed repayment terms repayable within one year. The essential difference of this type of credit from Overdrafts or Cash Credit facilities is that this type of facility does not permit the mutuality of operation in the account i.e. the amount once deposited /adjusted is not available for further withdrawal and reduce permanently borrower's liability to that extent.

3.9.4 Term Loan

These are the credits sanctioned for repayment in period more than one year. This type of credit is again subdivided as follows in consideration of sector of finance:

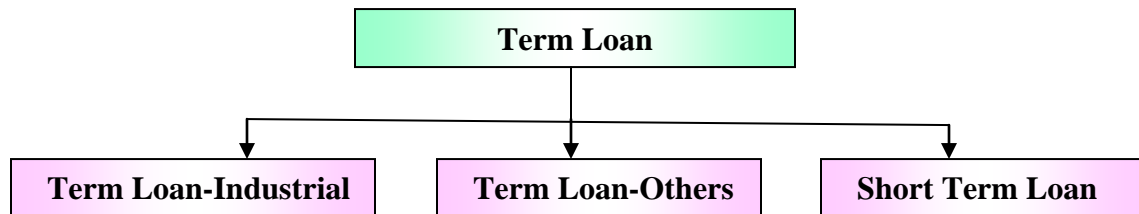


Fig 3.9.4 : Types of Term

3.9.4.1 Term Loan- Industrial: These are the term credits awarded to the industrial concerns. This facility is usually provided to set up a new industrial project or to modernize and restructure an existing one. Since the time frame of this type of lending do not correspond to the duration of bank's prime source of funding, generally bank predetermines the optimum extent of global exposure in this sector.

An array of considerations are involved in this type of financing, some of those are:

- (i) Government policies such as fiscal, monetary, industrial, import, export etc.
- (ii) Borrower's standing
- (iii) Borrower's past track record in the proposed line of operation as well as in other Business activities, if any
- (iv) The suitability of the project under consideration in broader perspective.
- (v) Seasonal fluctuations and business cycle.

Financing this type of activities demands a far sight to visualize and quantify a distant future especially up to the period covering the repayment of financing. Since the concerns shall

project the business through different financial statements, an expertise to analyze different financial statements is a must on the part of the appraiser of the project.

Moratorium Period: It is the particular time that is accorded to the client to establish its business with the loan it has taken from the Bank. No repayment, only interest is calculated every month. After the moratorium period the total interest is summed up with the repayment amount of every month.

3.9.4.2 Term Loan– Others : These are the term credits made to other than industrial concerns. In this case also, a through analysis of the requested facility is required.

3.9.4.3 Short Term Loan : Term Credit extended for short period usually up to 1(one) year is termed as Short Term Loan (STL). This type of credit may or may not have specific repayment schedule. However, STL with repayment schedule is preferable.

3.9.5 House Building

It is the credits made out to finance borrower's house building requirements for both commercial and non-commercial purposes. In this case also bank usually have predetermined optimum exposure level which shall always be kept in mind in considering financing under this category. Besides borrower's standing is thoroughly checked and only fairly cleared clients are entertained.

House building finance for commercial purposes shall ideally be liquidated, within the time frame of repayment, through the income to be generated from the project. Entire scope covering location, nature of the property whether freehold or lease hold (if lease hold, conditions of lease as well as confirmation of up to date payment of installment etc. shall be considered), estimated cost vis-à-vis borrower's stake, suitability of building's proposed use,

duly passed plan / clearance from the competent authority etc. are the considerations, in this respect. These types of credits are again sub-divided into three categories in respect of the borrower's identity:

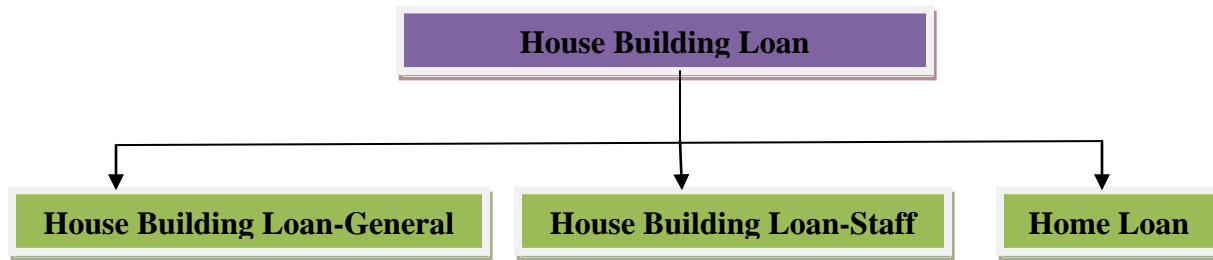


Fig 3.9.5: Types of House Building

3.9.5.1 House building loan-General: These are the house building credit made to companies.

3.9.5.2 House building loan- Staff: These are the house building credit made out to the employee of DBL

3.9.5.3 Home Loan: These are the House Building Credit made to individuals under Personal Banking Division.

3.9.6 Transportation

This type of credit is made to facilitate purchase of transport of all types such as: road transports, watercrafts, aircrafts etc. However, commonly financed transports are road transports. Only brand-new and 100% reconditioned transports are eligible for financing. In case of importation of the vehicle total landed cost is to be calculated and retirement arrangements shall be determined beforehand. This category of finance may be of short term or long term depending upon the nature of particular advance.

Transport credit is also sub-categorized, as below, in respect of financing

3.9.6.1 Transport Loan-General: These are the transport credits made to other than an employee of the DBL for commercial purposes. Land Transport credit made (for personal purpose) to other than an employee of DBL falls within the purview of ‘Car Loan’ under Personal Banking. The water and aircraft credit is usually granted for commercial purpose and no such credit for personal use purpose shall be allowed unless bank is highly satisfied about the resourcefulness of the borrower and usually it is secured collaterally by securities representing high marketability and non-vulnerability in terms of forced sale value.

3.9.6.2 Transport Loan- Staff: These are the transport credit made out to the employees of DBL. The transport loan awarded to other than DBL employees usually attract suitable collateral security.

3.9.7 Consumer Credit:

This type of facility is extended to finance purchase of consumer durables, usually at a certain margin. In this sector also bank usually have a set level of warranted global exposure. Financing of land transport for personal use, under this category shall attract the considerations of transport finance stated above excluding the commercial elements.

Officials of government, semi-government, autonomous, semi-autonomous, reputed multinational corporations, locally reputed private organizations, banks and other financial institutions etc. are eligible to avail the facilities under the scheme. However in extending credit, the approving authority should exercise the discretion very creatively so as to assure proper monitoring and repayment. The standing of the organization the official belongs to, be of great importance in extending credit under the scheme. The articles under this type of facility are not booked as asset of the bank. This is again sub –divided as below :

- i) Consumer credit – general : These are the consumer credit facility extended to other than an employee of DBL.
- ii) Consumer credit – staff : These are the consumer credit facility extended to the employee of DBL.

These type of finance are made to acquire the assets selected by the borrower (lessee) for hiring of the same at a certain agreed terms and conditions with the bank (lessor). In this case bank retains ownership of the assets and borrower possesses and uses the same on payment of rental as per contract. In this case no down payment is required and usually purchase option is not permitted.

3.9.8 Lease Finance:

These type of finance are made to acquire the assets selected by the borrower (lessee) for hiring of the same at a certain agreed terms and conditions with the bank (lessor). Bank retains ownership of the assets and borrower possesses and uses the same on payment of rental as per contract. In this case no down payment is required and purchase option is not permitted. The articles under this type of facility are booked as asset of the Bank.

3.9.9 Syndicated Loan:

These are the credits usually involving huge amount of credit and as such to reduce a particular bank's stake. A number of banks /financial institutions participate in such credit, known as credit syndication. The bank primarily approached /arranging the credit is known as the lead or managing bank.

3.9.10 Foreign Bills Purchased

This type of finance made out to purchase foreign clean bills such as foreign currency draft, cheque etc. The facility is generally allowed to a very well known client with good standing. Usually commission and other charges are realized on FBP and no interest is charged.

3.9.11 Inland Bills Purchased (IBP):

This type of finance is used to purchase/discount local clean bills such as local currency drafts, trade bills etc. This type of facility is generally allowed to a very well known client with good standing. The prime concern in this type of advance is client's integrity and

resourcefulness. Unless the bank is satisfied that the borrower will liquidate the liabilities with interest from his own resources in the event of dishonor of the bill, the facility should not be awarded.

3.9.12 Import Finance

DBL also undertakes import finance both in the form of pre-import and post –import finance. Since in pre-import finance bank’s fund is not involved it is not included in the total credits and advances position of the bank and conversely as bank’s fund is involved in post-import finance, the same is included in the overall credits and advances position of the bank. These two categories of import finances include the followings:

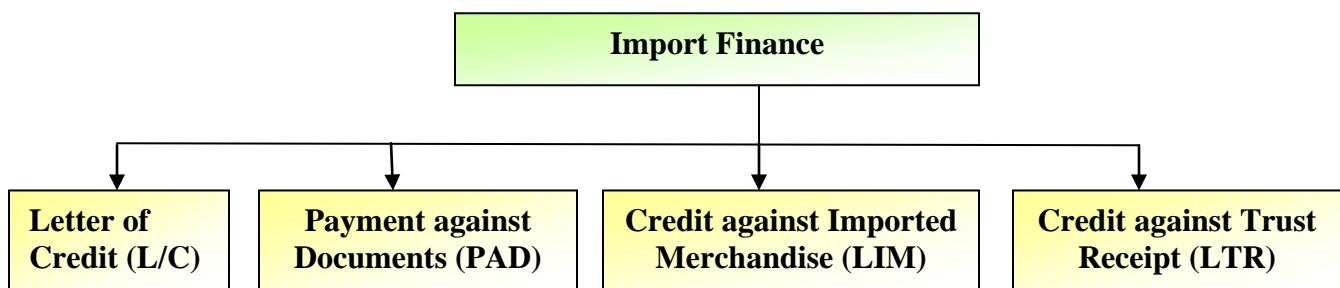


Fig 3.9.12: Types of Import Finance

i. 3.9.12.1 Letter of Credit : This is a pre-import finance which is made in the form of commitment on behalf of the client to pay an agreed sum of money to the beneficiary of the L/C upon fulfillment of terms and conditions of the credit. Thus at this stage bank does not directly assume any liability, as such the same is termed as contingent liability. For this type of facility credit worthiness of both the importer and supplier, estimation of total landed cost as well as selling price of the merchandise, ready marketability of the merchandise etc. are of great importance. In granting this type of facility it shall be invariably decided whether the client will require any post import finance.

For L/Cs usually bank retains margin in respect of value of the credit and the same is fixed depending on the banker - customer relationship as well as the nature of item. Usually 100% margin is retained in case of importation of perishable items.

ii. 3.9.12.2 Payment against Documents (PAD): PAD is a post-import finance to settle the properly drawn import bills received by the bank in case adequate fund is not available in client's account. This is a demand credit for interim period and liquidates by retiring import bills by the client. The bank shall immediately serve a notice upon the client mentioning arrival of documents with a request to arrange retirement of the same immediately.

iii. 3.9.12.3 Credit against Imported Merchandise (LIM) : This is another type of post import finance awarded to retire import bill directly or under PAD as the case may be. Bank usually retains margin on the total landed cost of the merchandise, extent of which depends upon banker-customer relationship. In this case imported merchandise remains in possession of the bank. The operation on this type of facilities usually corresponds with the facilities under 'cash credit – pledge'.

In case of forced LIM branch should be satisfied that the forced sale value of the merchandise covers the bank liabilities with interest, if not possibilities are to be checked to recover the liabilities through sale of the documents. The clearance of the goods shall be arranged through bank's approved C and F agent.

iv. 3.9.12.4 Credit against Trust Receipt (LTR): This is also a post import finance facility awarded to retire import) bill directly or under PAD as the case may be. Bank may or may not realize margin on the total landed cost, depending upon banker – customer relationship. In this category of finance possession of the goods remains with the borrower and the borrower executes 'Letter of Trust Receipt' in acknowledgement of debt and its repayment along with interest within agreed period of time. In this type of advance, proceeds of every sale must be deposited with the bank irrespective of validity of the facility. Since goods are held in trust, any misappropriation of the same will entail the borrower to be liable for initiating 'criminal' charge against him.

3.9.13 Export Finance

Like import trade, DBL advances in export trade at both pre and post shipment stages. In this type of advance, standing of both opener and beneficiary of export L/C as well as standing of the L/C issuing bank etc. are of important consideration. The terms of export L/C are examined very carefully so as to ascertain the terms of the finance.

The pre-shipment facilities are usually required to finance the costs to execute export orders, such as: procuring and processing of raw materials, packaging and transportation, payment of various fees and charges including insurance premium etc. While post-shipment facilities are directed to finance exporter's various requirements which are required to be settled immediately on the back drop that usually, settlement of export proceeds takes some time to complete. The facilities under both the categories are described below:

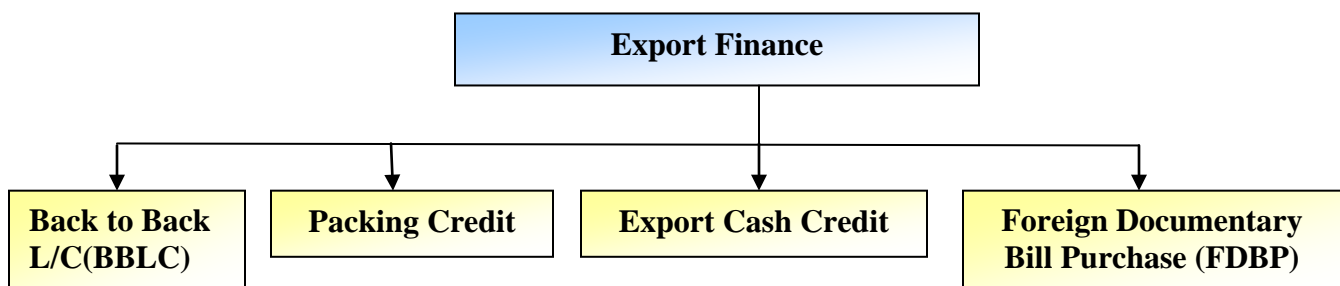


Fig 3.9.13 : Types of Export Finance

3.9.13.1 Back to Back L/C : BB L/C is a type of pre shipment finance by way of opening L/C in favor of a local or foreign supplier for purchase of raw materials or the finished merchandise, as the case may be, to execute export order. This type of L/C is only opened on the strength of an export order received by way of an L/C. Cash margin and collateral security is determined depending upon banker –customer relationship.

Since for opening BB L/C, no fund of the bank is immediately involved, the same is not included in the total credits and advances position of the bank. This type of credit is usually opened on identical terms of the export L/C or firm contract except expiry, prices and

invoices. The bills under BB L/C are retired from the export proceeds of the relevant exports usually within 180 days from the date of credit. In awarding this type of facility particular care shall be taken to see that there remains adequate time to process the raw materials/intermediary or finished products imported under BB L/C to execute the export order.

3.9.13.2 Packing Credit : To execute export orders under L/C or firm contract the bank awards packing credit facility to meet client's working capital requirement. In this case also bank may or may not retain collateral security depending upon banker-customer relationship. The facility is to be adjusted, usually, within 60 to 120 days from the date of disbursement from the relevant export proceeds.

3.9.13.3 Export Cash Credit These are the facilities awarded to the noted export oriented concerns with good standing which usually have different export orders round the year. Because of the continuous overwhelming nature of export orders it is often preferred to set an export cash credit against hypothecation of stocks, plant and machineries etc. or against pledge of stocks. In this category usually collateral security is obtained. The facilities are availed like the facilities under cash credit-hypothecation /pledge.

3.9.13.4 FDBP: FDBP-Foreign Documentary Bill Purchased is a post shipment finance allowed to the customer through the purchase/negotiation of foreign documentary bills adjustable from the relevant export proceeds. Bills that are drawn as per the L/C terms accompanied by all the required documents is taken into consideration. No discrepant bill is purchased.

3.9.14 Inland Documentary Bills Purchased (IDBP) :

It is accommodated both for export and local trade. The payments made by negotiation / purchase of documentary bills against sale of goods to local export oriented industries which are deemed as exports and which are denominated in local or foreign currency are included in this category. Besides local documentary bills purchased in respect of sale to a local purchaser is also included in this category of financing. Bills that are drawn as per the L/C

terms accompanied by all the required documents is taken into consideration. No discrepant bill is purchased.

3.9.15 Bank Guarantee

Bank Guarantee is one sort of non funded facility. Bank Guarantee is an irrevocable obligation of a bank to pay a pre-agreed amount of money to a third party on behalf of a customer of a bank. A contract of guarantee is thus secondary contract, the principal contract being between the beneficiary who gets the guarantee from the Bank to be paid by the Guarantor the Bank if the contract is invalidated and the applicant on whose behalf the guarantee is given who wanted to seek themselves to which guarantor is not a part. If the promise or liability in the principal contract is not fulfilled or discharged, only then the liability of guarantor or surety arises.

Generally, guarantee obtained by the Bank from the debtors are continuing guarantees and the guarantees given by the bank at the request of the customers are specific guarantees. The major kinds of guarantees normally issued by the scheduled banks in our country are described below:-

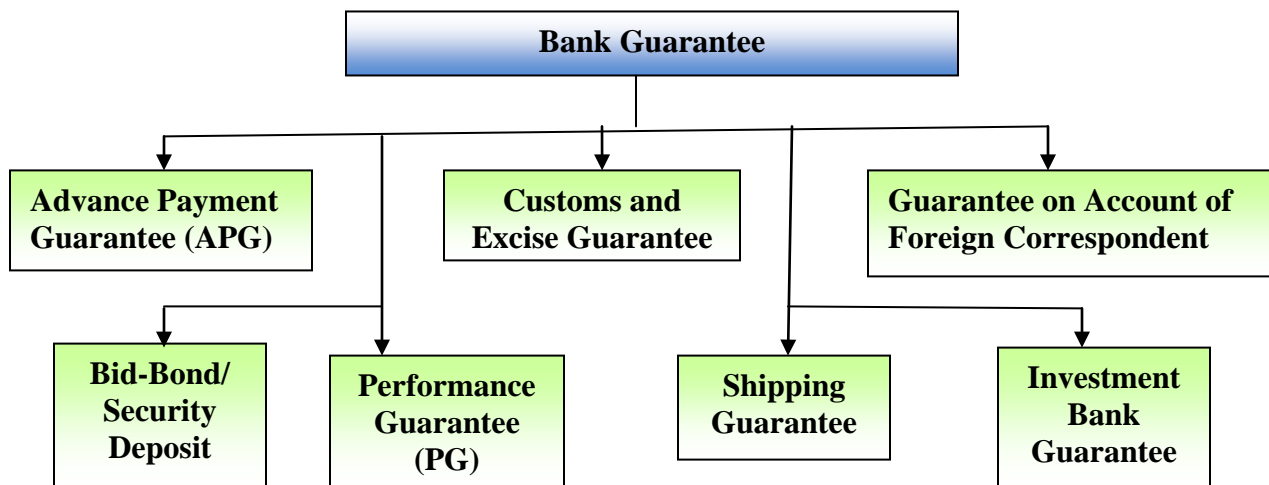


Fig 3.9.15 : Major Types of Bank Guarantee

i) **Bid-Bond/Security deposit**: This is also called tender or bid guarantee and is generally sought for 2% to 5% of the contract amount. In case of default of the tender at whose request the guarantee is extended the beneficiary may en-cash the same.

ii) **Performance Guarantee (PG)**:

Guarantees, which are extended in consideration of specific performance of contract, are called performance guarantee. Performance guarantees are given to Government or Corporation on behalf of contractors undertaking to make payment of penalty in the event of non-fulfillment of their performance of contract or supplying goods as per contract. Apart from this, performance guarantees may also be sought by contractors and local suppliers which needs approval from Head Office. Performance guarantee requires high cash margin in addition to collateral security with Power of Attorney to collect bills.

iii) **Advance Payment Guarantee (APG)**:

This type of guarantee carries more risk than P.G. as cash is drawn in advance under the bank guarantee. Therefore before issuing such guarantee, besides obtaining undertaking from the customer for monthly report of progress of work against which APG is issued, Managers / Credit In-charge must monitor the progress of work with release of amount under APG to the customer.

If it is apprehended that customer is diverting the money and not using same in work it is meant for, it must be brought to notice at Head office with client's explanation. Further drawing shall be stopped. It may be mentioned that total amount of APG must be received direct by the bank and credited to customers account and withdrawal should be watched and regulated on the basis at understanding to be reached with the customer should make such provision so that Manager may called for the specific purpose of withdrawal of amount of APG.

iv) **Shipping Guarantee:**

This is issued in case of non-receipt of originals shipping documents while the ship has arrived and the goods have been incurring demurrage or the original shipping documents have been lost after retirement from bank. These guarantees are limited to the bill amount but not exceeding the letter of credit value and for period till receipt of original bill of lading. The guarantee is signed by the importer in favor of shipping company and countersigned by the banker. Full guarantee value must be retained as margin for issue of such guarantee.

Alternatively, the goods may be cleared by the bank and kept in bank's custody. As soon as the original shipping documents are received these shall be sent to clearing agents to facilitate return of original guarantee. In the alternative way, custom authority's confirmation regarding cancellation shall be obtained.

v) **Customs and Excise Guarantee:**

This Guarantee is issued in favor of customs authority on account of customs duties/ excise duties on imported machinery/ export commodities on behalf of clients. Margin as well as cash security covering the risk shall be retained with counter-guarantee.

vi) **Investment Bank Guarantee:**

This guarantee is required by BSB, BSRS and BSIC etc. from the consortium banks in order to sanction capital credit for setting up industries. Under this guarantee the consortium banks undertake to finance local currency for completion of the project and on that stipulation, the foreign exchange component is sanctioned by BSB etc. Banks involved in consortium finance issue such guarantees. Branch should avoid handling these types of guarantees.

vii) **Guarantee on Account of Foreign Correspondent:**

This type of guarantee is required to be issued at the request and on behalf of clients of foreign correspondents in favor of beneficiaries in Bangladesh in the form of Bid/Earnest Money Guarantee or Performance Bonds. Foreign Banks counter-guarantee is held for issuing such guarantee. The Authorized Dealer Branches will handle this guarantee only.

Besides above, issuance of local guarantees against counter-guarantees of foreign banks and also to issue similar guarantee favoring the client abroad prior approval from Head Office should be obtained including completion of all formalities required under exchange control regulation.

- i) The customer, on whose behalf the guarantee will be executed.
- ii) The guarantee should be relate to normal business of the customer.
- iii) Clauses of Guarantee must be precise and clean
- iv) The Guarantee must be for a certain fixed amount and the period of its validity must be limited and fixed.
- v) The customer is to execute a duly stamped counter guarantee or counter indemnity to the bank providing inter alia that he / she will indemnify the bank against all consequences and authorizes the Bank to charge all payments to his account.
- vi) As soon as the guarantee period is over, the signed guarantee bond should be called back duly cancelled by the beneficiary.

3. 10 Classification of Credit on the basis of Financing :

Classification of Credit on basis of financing provided by Dhaka Bank Limited is listed below :

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

Table 05 : Classification of Credit on basis of Financing

3. 11 Classification of Credit on the basis of Time :

On the basis of elements of time, bank credit may be classified into three heads, viz.

i. Continuous loans:

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".

ii. 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. No specific repayment date is fixed. 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(LTR)".

iii. Term loans:

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 and up to 36 months
- Long term loan: More than 36 month

However, in determining Single Borrower Exposure Limit the following points shall be considered :

- (a) a public limited company which has 50% or more public shareholdings, shall not be considered as an enterprise / organization of any group.
- (b) in the cases of credit facilities provided against government guarantees, the aforementioned restrictions shall not be applicable
- (c) In the case of credits backed by cash and cashable securities (e.g. FDR), the actual lending facilities shall be determined by deducting the amount of such securities from the outstanding balances of the credits.

Appropriate care should be taken to calculate the limits and facilities proposed should not cross the above limit.

3. 12 Lending Caps or limits and parameters:

It is essential to monitor credit portfolio on an ongoing basis, managing the overall risk by limiting exposure in specific areas / sectors. The aim of the general credit policies is to restrict the extent of losses incurred while at the same time ensuring that DBL has a financial return equating to the risk level assumed in its credit portfolio.

Bank will fix Lending caps or limits in every year for ensuring that the bank's credits are adequately diversified and concentration on a particular industry or a borrower or a location could be avoided. We must alert to, and may restrict, from time-to-time, any concentration by industry or product type, or any other definition that may be seen to create an undesirable concentration of risk.

Table: Credit facility Parameters

Facility	Tenor
Working Capital	Generally up 01 year
Work Order Finance	On the basis of validity of work order
Short Term Credit	Maximum 01 year
Medium Term Credit	01 year to 05 year
Long Term Credit	05 year to 10 year
House Building Credit	Maximum 15 years
Power Sector Credit	Maximum 15 years
Staff Credit	As per Banks Staff related Credit Policy

Table 06 : Credit Policy Parameters

3. 13 General terms and conditions of credit facilities:

There are some general terms and conditions that have to be followed in every credit facility obtained by the client-

- i. All the goods/machineries that are pledged should be insured by the client.
- ii. Satisfactory credit report of the beneficiary to be obtained before opening of LC(s).
- iii. Exchange Rate fluctuations to be borne by the client
- iv. Any material or adverse change in business condition will cause the amount due to the Bank immediately repayable
- v. The Bank reserves the right to alter/modify the terms and/or even call back the advance if the account is not conducted satisfactorily as per terms of sanction.
- vi. Ownership structure of the borrower cannot be changed without prior approval of the Bank.
- vii. The client cannot borrow from any other source without prior approval of the bank.
- viii. The client cannot withdraw profit /declare dividend without consent of the bank.

- ix. The borrower will undertake to employ necessary number of professional management resources in each of the functional areas like plant operation, marketing, finance and accounts, procurement etc. to the satisfaction of the Bank to ensure smooth operation.
- x. The borrower will undertake to maintain a current ratio(current asset/current liability) of greater than **1.00**

CHAPTER 4: CREDIT ASSESSMENT

A thorough credit and risk assessment should be conducted prior to granting of credits, and at least annually thereafter for all facilities. Thus appraising a credit is the most challenging job for credit personnel. His / her intension is to define and minimize potential risks associated with a credit so as to secure return of money together with the appropriate charges for use of the money. Although nobody can cent percent guarantee the future of a credit as because business may be subject to the effects beyond the control of either of banker or of borrower, experience shows that in properly appraised credits banker is likely to lose only a tiny proportion of what he lends.

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

4.1 Credit Policy of DBL

The credit apprising personnel watch over the prevailing credit policy of DBL remains in force. The officials go by the spirit of the credit policy set by the bank through ‘Credit Risk Management Policy’, Head Office letters and circulars as well as through the deliberations of top management of the bank from time to time.

4.2 Diversification of portfolio

Branches exercise vigilance to avoid concentration of portfolio in a particular sector of the economy or nature of business viz. import, export, trading etc. However, some branches are

located in areas that are earmarked for a particular activity and in such an area optimal diversification may not be possible. If so care shall be taken to diversify within the particular line of business in respect of nature of operation such as producer, importer, wholesaler, retailer etc.

4.3 Familiarity with the borrower:

Credit personnel have to have a through knowledge about the past and present of the borrower. If the borrower is a non-human legal entity, the familiarity should be with the past and present of the controlling persons. Usually there are one or two key persons in an organization irrespective of their position as Chief Executive Officer of the company and proper care shall be exercised in gathering and dissemination of information about such persons. This aspect calls for credit appraising official's rapport with the society in the command area, as usually informal ways also have to be used for this job to be done.

4.4 Integrity:

A basic consideration in extending credit is the integrity of the borrower. Integrity of the borrower can be termed as necessary factor for the selection of borrower. Unless branch is fully satisfied about the integrity of the client, no credit facility shall be extended.

Consideration of human element in borrower's notion towards repayment of bank debt as well as past track record with the bank may throw an insight into the integrity of the existing client. For a new client utmost care shall be taken to assess integrity of the borrowers usually through face to face interview, track record with other banks /financial institutions, if any, establishing his background and ability. It is kept in mind that although integrity itself not guarantees repayment of a loan, the honest intention of the borrower to repay the credit is of primary importance.

4.5 Competence:

Competence of the borrower has to be properly analyzed. Competence of a client may be reflected in his ability to furnish the required information as well as in attending the requested assistance.

Besides the bank must know the borrower / management well enough, that the borrower / management fully understands the problems its business / company faces, and that it is taking the appropriate actions to improve and / or restore its credit worthiness.

4.6 Purpose:

The bank must know exactly what for the money will be utilized. It shall be ascertained at the outset that the intended purpose is a legal one as per existing government policy. Besides, it shall also be ascertained that the selected sector of activity is expected to be sufficiently remunerative to bear the cost of bank finance as well as provides adequate return to cover borrower's expected margin as well. Branches should not entertain financing in a purely speculative purpose.

4.7 Credit Investigation:

Borrower's track record in respect of credit history shall be obtained. This consist of both formal and informal sources. Information through informal sources particularly helps to ascertain the credit utilization pattern of the borrower. Formal sources such as obtaining status report through CIB and bank checking depicts client's present credit position. In a relevant case, it is taken care that the borrower's present level of aggregate credit arrangement with all the financing institutions works out properly.

4.8 Optimum level of credit worthiness:

Borrower's optimum level of credit worthiness is very crucial factor in making a decision on a lending proposal. Especially in case of big borrowers this factor shall be carefully evaluated

and all the credit facilities extended to the client by all financing institutions shall be taken into account. The branch accepts no proposal exceeding the optimum level of credit worthiness of the borrower at a particular point of time.

4.9 Extent of facility :

The extent of facility requested shall be evaluated properly. The purpose, business type as well as optimum level of operation in respect of sector wise absorption capacity, management capability of business etc. are to be considered to determine an optimum extent of the facility.

4.10 Borrower's stake :

For appraising a credit, borrower's stake is ascertained in real terms. The nature of stake such as cash, fixed asset (in case of project finance) etc. shall also be taken into consideration.

4.11 Sources and terms of repayment :

Usually it is ensured that the proposed lending is a self liquidating one i.e. the finance in its own accord generate sufficient funds to repay the borrowing within a reasonable period of time. If the lending is not self liquidating, alternative sources shall be carefully checked in respect of its suitability. Generally third party source shall be avoided.

4.12 Repayment period:

Repayment period is another aspect to be looked carefully. In evaluating this aspect following two factors, among others, shall be considered:

i) That the bank essentially deal in short term fund and as such if the repayment period extends beyond one year the same shall be evaluated, inter alia, in terms of branch's vis-à-vis bank's already undertaken stakes in financing with such repayment schedule.

ii) Branch should be aware in respect of changing economic and political effects on such lending, particularly covering the repayment period.

4.13 Financial Statement Analysis:

For corporate clients, analysis of financial statement is a required. Among the various techniques of analyzing financial statement credit officials shall at least concentrate on some of the commonly used techniques.

4.14 Profitability:

Other considerations being good, profitability of the proposal shall be the prime concern of the appraising officer as because the essential purpose of lending is to maximize profit.

4.15 Net Spread:

Working out of spread and net spread are of very importance so as to provide the bank shareholders' with an adequate return on their capital as well as to grow the business.

Spread is the difference between proposed rate of interest on lending and average cost of fund. In case of net spread, with the cost of fund overhead of the branch is added to ascertain branch's net profit from the deal.

4.16 Security:

Due to wide spread prevalence of default culture and conversely absence of a healthy practice in repayment of debt, tangible collateral securities is usually insisted. The basic consideration in evaluation of security would be: the easiest to realize, the best. However regarding security the points to consider are type, value, ownership and reliability.

Usually third party immovable property as security shall be avoided. The situation further aggravates if the third party security is not associated with any other security of the borrower in case of other than corporate concerns.

In analyzing security, valuation of it occupies a center place. Branch should consider ‘forced sale value’ of the security offered.

4.17 Risk Assessment :

In credit there are different kinds of Risk Assessment. These are

- i) Business Risk ii) Financial Risk
- iii) Management Risk iv) Security Risk

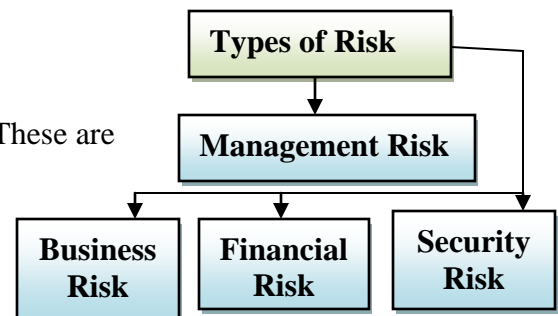


Fig 4.17: Types of Risk

A credit officer always has to work efficiently to minimize the risk before and after providing the credit facilities.

Although measuring exact extent of credit risk is rarely possible, proper investigation and careful analysis help a credit appraiser in indicating whether the risk is small or great to undertake. In apprising credit the following risk needs to be analyzed.

4.17.1 Business Risk : In ascertaining business risk the credit appraiser’s purpose is to identify the nature and extent of risk in respect of likelihood of the business that the same fails to generate sufficient return to repay the credit as per arrangement. If any business carries a substantial risk that it will fail to generate adequate return, the same shall not be entertained for financing.

4.17.2 Financial Risk : Resourcefulness of a firm / company takes account of liquidity position of its business as well as that of its owner’s or major shareholders’, as the case may be, level of liability in respect of equity, its ability to reduce costs (if need be) as well as effective connections on the part of the owners / management with the relevant segment of the society so as to benefit in case of adverse situation. Highly resourceful business shows its ability to withstand any adverse change in business as well as economic conditions under which it operates and such companies are usually welcome for financing.

4.17.3 Management Risk : Through management risk, appraiser’s purpose is to evaluate management’s competence and it’s integrity. It identifies the persons who are actually calling the shots and their integrity as well as ability to guide / make decisions to carry the business.

Management integrity and competence is one of the necessary aspects for the success of a business. Again management integrity fills the necessary condition and competence of them acts as sufficient conditions in assessing management risk.

4.17.4 Security Risk : As already said, unlike developed economies, for different reasons a greater part of our lending is usually secured by collateral security. However, for primary security to be at bank’s control (such as goods/properties under pledge, LIM etc.), the security risk is also to be assessed.

CHAPTER 5: CREDIT SANCTION, SECURITY AND DOCUMENTATION

Of all the functions of a modern bank lending is the most important. About 80% of the revenue of the commercial banks comes from interest and discount, “ that is to say, income derived from credits and advances including bills discount and bills purchase. Credits and advances comprise a large portion of bank’s total assets and form the backbone of the bank’s structure.

5.1 Procedures of Sanctioning Credit :

The sanction of a credit facility includes the following steps that is described below-

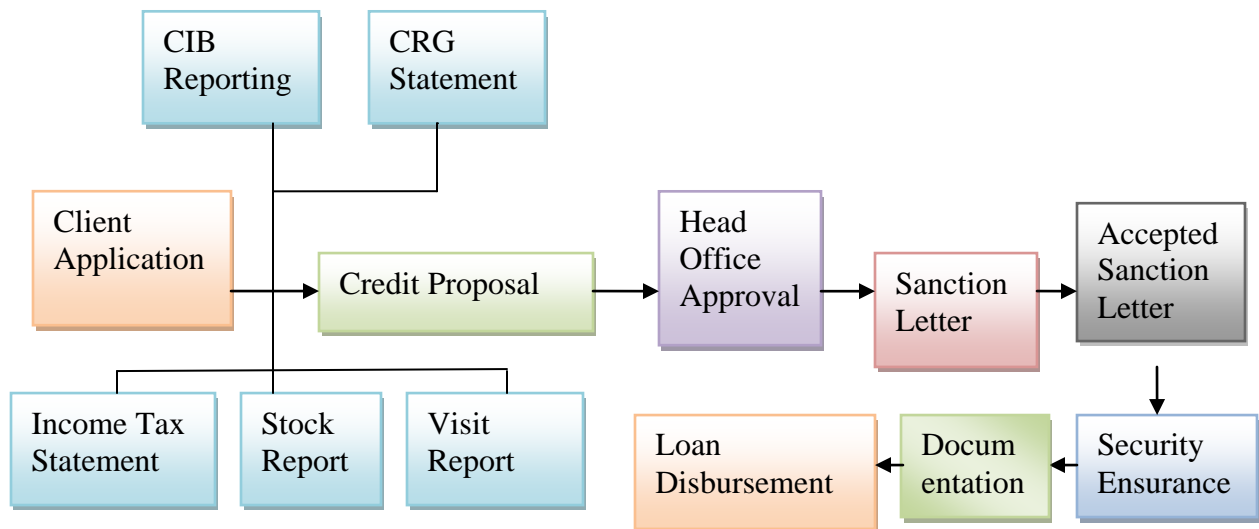


Fig 5.1: Credit Sanction Procedure

- i. At first client should apply for credit facility through Credit Application Form and Should provide Trade License, Memorandum and Article of Association, Form X, Schedule X, latest income tax statement, stock report, latest financial statement, company information, client list and other information which is needed for the Particular cases.
- ii. The credit officer make detail analysis with the information, visit the client's business and if the deal seems profitable for the bank, the officer prepares a credit proposal according to the client's credit need and send it to the credit risk Department of Head Office.
- iii. After detail analysis, assessment and approval through high officials it is send to the board meeting and sanctioned through consent of the Board of Directors. After that the approval of credit facility is send to the branch.
- iv. The credit officer then prepare 2 copies of sanction letter and send it to the client. If the condition is acceptable then the client signed back one copy of sanction letter.
- v. After that the credit officer make appropriate security arrangements and finish documentation through the direction of lawyer's, client's consent and if needed through the help of registry office in case of mortgage, hypothecation, General Power of Attorney etc.
- vi. After all the procedures when the credit officer feels satisfied with the client's financial position, their security and documentation, the officer then create loan account and disburse the loan.

5.2 Credit Proposals and Sanction Advise:

The credit application have to follow some rules. These are given below :

- i. Every Branch has to obtain Credit Application from the customer on bank's prescribed form.
- ii. The form must be signed by the proprietor/partners/directors (as the case may be).Signature of the applications to be verified in conformity with account opening form.
- iii. It is to be ensured that all the Columns of application form are properly filled in, particulars and information are complete and correct.
- iv. All required documents/papers mentioned in the applications form are submitted.
- v. Branch has to prepare a **proposal** in favor of the client by highlighting the security, financial obligation, financial statement to make the credit facility offered to the client be approved.
- vi. Branch has to enclose a **CRG Statement** which is a complex matrix prepared to find out the financial position of the client is Acceptable or not. If the matrix shows the score 75 or above then the client is credible to provide credit facility.
- vii. Branch will outright reject the proposals, which are restricted by Bangladesh Bank and in conflict with Head Office guidelines.
- viii. Branch in-charge/credit anchorage will have to visit the business site of the customer.
- ix. Branch will verify the particulars furnished in the application and ascertain customers honestly, integrity and business dealing, through other sources also.
- x. Branch will obtain credit report of borrower and its sister concerns from the credit Information Bureau of Bangladesh Bank. They may also obtain credit report from local banks and financial and credit institutions.
- xi. Branch will have to prepare appraisal report for all credit proposals. In appraising advance proposal, Branch Manager must follow in general principles of good lending i.e.

5.3 Steps involved in Credit Processing :

The steps involved in Credit Processing are given below:

5.3.1 Application for Loan :

Applicant applies for the loan in the prescribed form of Bank. The purpose of this forms is to eliminate the unwanted borrowers at the first sight and select those who have the potential to utilize the credit and pay it back in due time

5.3.2 Getting Credit Information :

Then the bank collects credit information about the borrower from the following sources:

1. Report from the Credit Information Bureau (CIB) of Bangladesh Bank.
2. Personal Investigation.
3. Confidential report from other banks / Head office / Branch / Chamber of commerce.

5.3.3 Scrutinizing and Investigation:

Bank then starts examination that whether the loan applied for is complying with its lending policy. If comply, then it examines the documents submitted and the credit worthiness. Credit worthiness analysis, i.e., the analysis of financial condition of the loan applicant is very important. Then bank goes for Credit Risk Grading which is introduced by Bangladesh Bank in 2003.

If this analysis reflects favorable condition and documents submitted for the loan appears to be satisfactory then, bank goes for further action.

5.3.4 Existing Process of Handling Loans:

The process of sanctioning loans is as follows:

The C's of Good and Bad Loan: The Branch manager of DBL try to judge the possible client based on some criteria. These criteria are called the C's of good and bad loans. These

C's are described below:

i. Character : The outcome of analyzing 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 analyze the character of the borrower.

1. Interaction/interview: the indicators are:

a) Prompt and consistent information supply, information given has not been found false (Willingness to give information).

b) CIB also reveals business character.

c) Willingness to give owns stake/equity and collateral to cover.

d) Tax payer.

2. Market Research: a) Information on business is verified.

b) Dealing with supplier and or customer as supplier is also a kind of lender; the payment character can also be verified.

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

a) Financial Statements

b) Receivable, Payable, statements to practically assess the business positions. Net worth through financial statements or from declaration of Assets and Liabilities.

iii. 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.

a) Entrepreneurship skills i.e. risk taking attitude shown by equity mobilization.

b) Management competencies both marketing and products detail, ability to take decision.

c) Resilience or shock absorption: Connection, Back up (if first time falls second lines come to help.)

iv. Collateral : Make sure that there is a “second way out” of a credit, but do not allow that to drive the credit decision.

v. Cash Follow: 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.

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

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

viii. Carelessness: Remember that documentation, follow-up and consistent monitoring is essential to high quality loan portfolios.

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

x. Contingencies: Make sure that you understand the risks; particularly the downside possibilities and that you structure and price the loan consistently with that understanding

xi. Competition: Do not get swept away by what others are doing.

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

5.4 Credit Risk Grading:

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

5.4.1 Categories of Credit Risk :

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

- **Superior - (SUP) - 1**
 - ⇒ Credit facilities, which are fully secured i.e. fully cash covered.
 - ⇒ Credit facilities fully covered by government guarantee.

- ⇒ Credit facilities fully covered by the guarantee of a top tier international Bank.
- **Good - (GD) - 2**
 - ⇒ Strong repayment capacity of the borrower
 - ⇒ The borrower has excellent liquidity and low leverage.
 - ⇒ The company demonstrates consistently strong earnings and cash flow.
 - ⇒ Borrower has well established, strong market share.
 - ⇒ Very good management skill and expertise.
 - ⇒ All security documentation should be in place.
 - ⇒ Credit facilities fully covered by the guarantee of a top tier local Bank.
 - ⇒ Aggregate Score of 85 or greater based on the Risk Grade Score Sheet
- **Acceptable - (ACCPT) - 3**
 - ⇒ These borrowers are not as strong as GOOD Grade borrowers, but still demonstrate consistent earnings, cash flow and have a good track record.
 - ⇒ Borrowers have adequate liquidity, cash flow and earnings.
 - ⇒ Credit in this grade would normally be secured by acceptable collateral (1st charge over inventory / receivables / equipment / property).
 - ⇒ Acceptable management
 - ⇒ Acceptable parent/sister company guarantee
 - ⇒ Aggregate Score of 75-84 based on the Risk Grade Score Sheet
- **Marginal / Watch list - (MG/WL) - 4**
 - ⇒ This grade warrants greater attention due to conditions affecting the borrower, the industry or the economic environment.
 - ⇒ These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings.
 - ⇒ Weaker business credit and early warning signals of emerging business credit detected.
 - ⇒ The borrower incurs a loss
 - ⇒ Loan repayments routinely fall past due
 - ⇒ Account conduct is poor, or other untoward factors are present.
 - ⇒ Credit requires attention
 - ⇒ Aggregate Score of 65-74 based on the Risk Grade Score Sheet

- **Special Mention - (SM) - 5**

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

- **Substandard - (SS) - 6**

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

- **Doubtful - (DF) - 7**

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

- **Bad and Loss - (BL) - 8**

- ⇒ Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/liquidation.
- ⇒ Prospect of recovery is poor and legal options have been pursued.

- ⇒ Proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for.
- ⇒ This classification reflects that it is not practical or desirable to defer writing off this basically valueless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. Legal procedures/suit initiated.
- ⇒ Bangladesh Bank criteria for bad and loss credit shall apply.
- ⇒ An Aggregate Score of less than 35 based on the Risk Grade Score Sheet.

5.4.2 Computation of Credit Risk Grading:

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

Step I : Identify all the Principal Risk Components

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

- Financial Risk
- Business/Industry Risk
- Management Risk
- Security Risk
- Relationship Risk

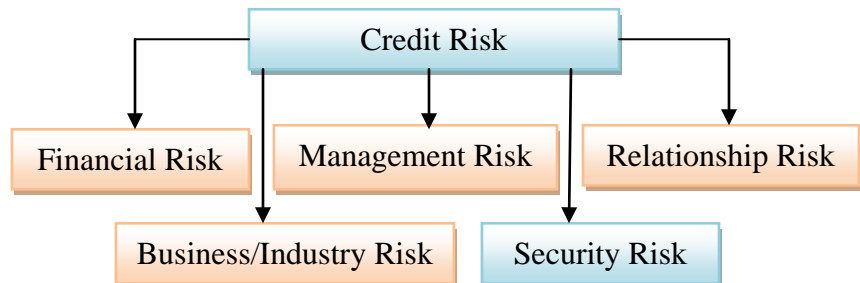


Fig 5.4.2 : Types of Credit Risk

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

a) Evaluation of Financial Risk:

Risk that counterparties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. analysis of leverage, liquidity, profitability

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

b) Evaluation of Business/Industry Risk:

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

c) Evaluation of Management Risk:

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

d) Evaluation of Security Risk:

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

e) Evaluation of Relationship Risk:

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

Step II Allocate weights to Principal Risk Components

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

<u>Principal Risk Components:</u>	<u>Weight:</u>
▪ Financial Risk	50%

- | | |
|--------------------------|-----|
| ▪ Business/Industry Risk | 18% |
| ▪ Management Risk | 12% |
| ▪ Security Risk | 10% |
| ▪ Relationship Risk | 10% |

Step III Establish the Key Parameters

Principal Risk Components:

Key Parameters:

- | | |
|--------------------------|--|
| ▪ Financial Risk | Leverage, Liquidity, Profitability and Coverage ratio. |
| ▪ Business/Industry Risk | Size of Business, Age of Business, Business Outlook, Industry Growth, Competition and Barriers to Business |
| ▪ Management Risk | Experience, Succession and Team Work. |
| ▪ Security Risk | Security Coverage, Collateral Coverage and Support. |
| ▪ Relationship Risk | Account Conduct ,Utilization of Limit, Compliance of covenants/conditions and Personal Deposit. |

Step IV Assign weightages to each of the key parameters.
--

Principal Risk Components:

Key Parameters:

Weight:

- | | | |
|---------------------------------|-----------------------|------------|
| ▪ Financial Risk | | 50% |
| | ⇒ Leverage | 15% |
| | ⇒ Liquidity | 15% |
| | ⇒ Profitability | 15% |
| | ⇒ Coverage | 5% |
| ▪ Business/Industry Risk | | 18% |
| | ⇒ Size of Business | 5% |
| | ⇒ Age of Business | 3% |
| | ⇒ Business Outlook | 3% |
| | ⇒ Industry growth | 3% |
| | ⇒ Market Competition | 2% |
| | ⇒ Entry/Exit Barriers | 2% |
| ▪ Management Risk | | 12% |
| | ⇒ Experience | 5% |
| | ⇒ Succession | 4% |
| | ⇒ Team Work | 3% |
| ▪ Security Risk | | 10% |
| | ⇒ Security coverage | 4% |
| | ⇒ Collateral coverage | 4% |
| | ⇒ Support | 2% |
| ▪ Relationship Risk | | 10% |
| | ⇒ Account conduct | 5% |

- ⇒ Utilization of limit 2%
- ⇒ Compliance of covenants /condition 2%
- ⇒ Personal deposit 1%

Step V Input data to arrive at the score on the key parameters.

After the risk identification and weight assignment process (as mentioned above), the next steps will be to input actual parameter in the score sheet to arrive at the scores corresponding to the actual parameters.

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

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

Number	Risk Grading	Short Name	Score
1	Superior	SUP	<ul style="list-style-type: none"> ▪ 100% cash covered ▪ Government guarantee ▪ International Bank guarantees
2	Good	GD	85+
3	Acceptable	ACCPT	75-84
4	Marginal/Watch list	MG/WL	65-74
5	Special Mention	SM	55-64
6	Sub-standard	SS	45-54
7	Doubtful	DF	35-44
8	Bad and Loss	BL	<35

Table 07 : Credit Risk Grading Matrix

5.5 CIB Reporting :

Customer Information Bureau (CIB) means verifying the information provided by a client before loan disbursement to know about the liability position of the prospective

borrower. The information is gathered from Bangladesh Bank. CIB reporting is also done for the existing customers in every 6 months and for large borrowers in every 2 months.

5.6 Securities :

Security means things deposited as a guarantee of the undertaking or credit to be forfeited in case of failure to repay the same. The customer/guarantor should own it. In other words, the assets against which Banks allow credits are called securities. Such as: (a) Immovable property and (b) Movable property.

5.6.1 Different Modes of Securities

- i. Pratiksha Sanchaya Patra, Bangladesh Sanchaya Patra, ICB unit certificate, wage earners' development bond.
- ii. Fixed Deposit Receipt (FDR) and Deposit Pension Plan (DPS).
- iii. Shares quoted in the Dhaka Stock Exchange and Chittagong Stock Exchange.
- iv. Pledge of goods.
- v. Hypothecation of goods, produce and machinery.
- vi. Fixed assets of manufacturing unit
- vii. Land, Building, Machinery etc
- viii. Shipping documents.
- ix. Insurance Policy
- x. Provident Fund
- xi. Gold

xii. Transport

xiii. L/C

5.6.2 Relationship between Advances and Securities

Types of advance	Securities
Loans	Lien or various kinds of Sanchaya patras, Govt. Securities, FDR, DPS, Collateral of immovable property, shares quoted in stock exchange
Overdraft and Cash Credit	Pledge or hypothecation of machinery, land and building on which machinery are installed, stock in trade, goods products and merchandise.
Bills purchased	Bill itself

Table 08 : Relationship between Advances and Securities

5.6.3 Main Types of Securities :

Securities are mainly two types-

- a) **Primary Security:** Primary Security is that security which is regarded as the prime covers for an advance and is ordinarily tender by the borrower, e.g. hypothecation of stocks, assignment of bills. It is considered as main security.
- b) **Collateral security:** Collateral Security means additional/ subsidiary or secondary security as opposite to primary security i.e. Land and Building. It is the additional security.

5.7 Required Documentation to Protect both the Client and the Bank :

Document is the acknowledgment of the parties concerned their involvement in the credit/ transaction. It is the acknowledgment of debt and confirmation to repay from the part of a borrower/ mortgagor/ owner of the security, to be liable in the court of law and can be enforced by the court of law.

A properly structured credit agreement must also protect the bank and those it represents-principally its depositors and stockholders-by imposing certain restrictions on the borrower's activities when these activities has a chance to threaten the recovery of the bank funds. The process of recovering the bank's funds-when and where the bank can take action to get its fund returned-also must be carefully spelled out in a credit agreement.

5.7.1 To whom documents to be obtained :

Documents to be obtained from the following-

- i) Borrower
- ii) Holder of the instrument, such as FDR, Shares etc
- iii) Owner of the property
- iv) The authorized person in official capacity

5.7.2 Steps of Documentation :

Generally there are 4 (Four) steps of documentation. They are:

- i) Obtaining of document or instrument from the borrower/ guarantor/ mortgagor
- ii) Execution
- iii) Stamping (Stamp duty rate enclosed)
- iv) Registration

5.7.3 Charge Documents :

Charge documents are generally prescribed in printed forms used by the Bank against credit to be executed by the borrower/party concerned. For all types of credits, there is some common charge documents to be obtained before disbursement. They are:

- i) **Promissory Note:** It is the documents, which ensures that the client promises to pay the money along with the interest of the loan to the Bank authority.
- ii) **Loan Disbursement letter:** The document is consider as the request or application to disburse the loan on behalf of the client.
- iii) **Account Balance Confirmation Slip:** It is the document which confirms the amount of money which the client has agreed upon to borrow.
- iv) **Letter of Revival:** It is document as a liability bond for the client to pay back the money with securities and obligation remaining in force.
- v) **Letter of Continuity :** The document is a promise by the client to continue to repay the

loan with the interest and it is considered as the liability to pay the installments in every month and in a continuous basis.

Depending on the nature of credit, nature of security, nature of constitutes, some other additional documents are required.

5.7.4 Charging Securities :

There are different types of charge created on securities considering types of assets, nature of credit and the degree of control over the debtors properly required by the banker. The common ways of charging securities are as follows:

- i) Lien
- ii) Pledge
- iii) Hypothecation
- iv) Mortgage
- v) Assignment
- vi) Set-off

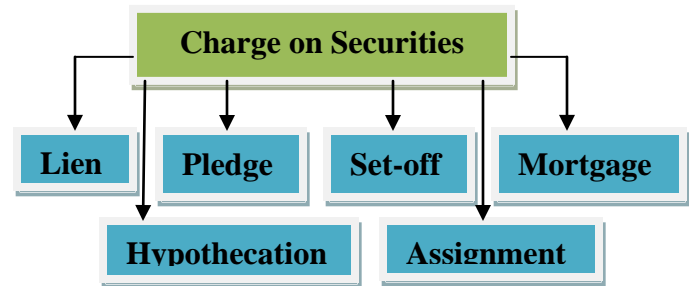


Fig 5.7.4 : Charge on Securities

i) **Lien:** Lien means right to hold the securities till the liability is adjusted. For excusing the right of lien the following conditions to be fulfilled:

- a) The security over which the right is to be executed must be in possession of the creditor who will exercise it.
- b) There must be a lawful debt due to the person in possession of the goods by the owner of the goods.
- c) There must not be any contract to the contrary.

ii) **Pledge:** Pledge may be define as the transfer of possession of goods and produce by a debtor to his creditor as security for the payment of a debt or the fulfillment of some obligations by the transferor.

iii) **Hypothecation:** Hypothecation means the charging of property to secure debt while the possession and ownership of the property remains with the debtor. Documents of title to goods are handed over to the banker..

iv) **Mortgage:** Mortgage is a transfer of interest in specific immovable property as security by the owner for the payment of debt. Mortgage is mainly two types. Such as:

- a) **Equitable Mortgage:** A mortgage created by mere deposit of title deed relating to mortgage property with the intention to create a security thereon. Under this mortgage both the possession and ownership of the property remains with the borrower/debtor.

b) **Legal Mortgage:** In a legal mortgage, the mortgagor transfer the mortgagee the legal title and interest to the property by preparing a mortgage deed duly registered with the Registry Office. In both the cases, the mortgaged property is retained in the hand of the borrower. Mortgage is created on the immovable property like land, building, plant etc.

v) **Assignment:** An assignment means a transfer by one person of a right, property or debt (existing or future) to another person. The person who assigns the right property or debt is called the assignor. The person to whom the right, property or debt is assigned is called the assignee. The most common examples of assignment are:

- a) Contract money due from Government and Semi Government body
- b) Supply Bills
- c) Book Debts
- d) Life Insurance Policy

vi) **Set-off:** Set-off means the total or partial margining of a claim of one person against another by counters claims by the later against the former. It is combining of accounts between a debtor and creditor, so as to arrive at the net balance payable to one or the other.

vii) **Special type 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 of 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.

5.7.5 Documentation for Issuance of Bank Guarantee :

The following steps are important to issue a Bank Guarantee-

1) Usually branch may issue Bank Guarantee if it is covered by 100% cash margin or 100% covered by cash collateral. (If power is delegated to Branch Manager).

2) Get a Current Account opened in applicant's name.

3) Obtain formal application for Bank Guarantee.

4) Obtain proforma of Bank Guarantee required.

5) Obtain the copy of agreement between the applicant and beneficiary.

6) Prepare a credit report.

7) Obtain margin: Margin is the security of the Bank against the amount of Guarantee is issued. The Bank gives the guarantee as a percentage of the amount of BG. Margin varies from party to party depending on the credit worthiness and respectability of the party.

- 8) Prepare necessary vouchers for margin: -
 - a) Debit: Party's Account.
 - b) Credit: Margin Account.

- 9) Pass liability vouchers for the amount of Bank Guarantee: -
 - a) Debit: Customers liabilities on Bank Guarantee.
 - b) Credit: Bankers liabilities on Bank Guarantee.

- 10) Realize Commission: Present rate being 0.50% per quarter or as approved by Head Office.

- 11) Insert the clause in B.G. worded as under: -

“This letter of Guarantee is valid up to No claim what so ever will be considered as valid after this date. Bank's liability under this Guarantee shall stand discharged and extinguished completely after the expiry of the time mentioned above unless during this period claim has been filed with the Bank.”

- 12) Maintain B.G. issue Register.

- 13) Note that the period of B.G. should normally be 12 (Twelve) months.
- 14) Obtain collateral securities where necessary on account of the Bank's liability for B.G. Equitable/Registered mortgage of immovable properties or any other tangible securities are acceptable.

- 15) Retain copies of B.G. issued.

- 16) Issue Registered A/D letter to the beneficiary of the B.G. on date of expiry advising that the guarantee has expired and the guarantee be returned to the Bank within ten days from the date of letter and after which the entry will be removed from the Bank's record and no claim under this guarantee will be entertained.

- 17) Reverse the liability entries refund margin and return securities (if any) only after expiry of the notice period.

- 18) Note that counter Guarantees obtained from the constituents are of continuing nature.

- 19) Receive back the guarantee bond duly discharged by the beneficiary at the time of encasement and mark contra date of payment in B.G. issued Register.

Before Opening of a Bank Guarantee If the balance is not sufficient, the customer shall be asked to deposit the amount of shortfall immediately and in case of failure, the matter shall be dealt with as per Head Office instruction. Before settlement of claim under guarantee furnished by the bank, it must be ensured that the claim is lodged as per terms of guarantee and genuine. The customer shall also be informed as usual before settlement of claim.

5.8 Credit Review :

While banks today use a variety of different credit review procedures, nearly all banks follow a few general principles. These includes:

- i) Carrying out reviews of all types of credits on a periodic basis- for example, every 30,60, or 90 days the largest credits outstanding may be routinely examined, along with a random sample of smaller credits.
- ii) Structuring the credit review process carefully to make sure the most important features of each credit are checked.
- iii) Reviewing most frequently the largest credits, because default in these credit agreements could seriously affect the bank's own financial conditions.
- iv) Conducting more frequent reviews of troubled credits, with the increasing frequency of review, as the problems surrounding any particular credit increase.
- v) Accelerating the credit review schedule if the economy slows down or if the industries in which the bank has made a substantial portion of its credits develop significant problems.

CHAPTER 6: LOAN CLASSIFICATION

The main major risk of the Bank is the default credit and classified loans. The Bank fails to perform smoothly because of poor handling of default or classified loans.

6.1 Default Credits :

Inevitably, despite the safeguards most banks build in their lending programs, some credits on a bank's books will become problem credits. Usually this means the borrower has missed one or more payments or the collateral pledged behind a credit has declined significantly in value.

6.2 Indication of Default Credit :

1. Unusual or unexplained delays in receiving financial reports and payments or in communicating with bank personnel.
2. Non-payment of interest or principal or both on due dates or past dues beyond a reasonable period or recurring past dues.
3. In case of Overdraft no movement in the account beyond a reasonable period.
4. A deterioration in financial condition of the client, as gathered from client's latest financial statement.
5. A shortfall in collateral coverage, particularly if the collateral was a key factor in the decision-making.
6. Death or withdrawal of key owner(s) or management personnel.
7. Company filing for bankruptcy or voluntary dissolution.
8. For business credits any sudden change in methods used by the borrowing firm to account for depreciation, make pension plan contributions, value inventories, account for taxes, or recognize income.
9. For business credits, restructuring outstanding debt or eliminating dividends, or experiencing a change in the customer's credit rating.

6.3 Classification Process :

For the purpose of determining the “Classified” status of an account, following guidelines are to be observed:

TYPE	TYPES OF LOANS	DEFINITION
Unclassified	All current loan	All current loan with required eligible security.

<p>Sub Standard (SS) when degree of risk for non-payable is high but there is reasonable prospect that the loan condition can be improved.</p>	<p>Continuous and Demand Loan</p> <p>Term Loan (Less than 5 years)</p> <p>Term Loan (More than 5 years)</p> <p>Short term Agri. Credit and Micro Credit</p>	<p>Overdue is more 6 months or beyond but less than 9 months</p> <p>Amount of defaulted installment is equal to or more than the amount of installment due with in 6 months.</p> <p>Amount of defaulted installment is equal to or more than the amount of installment due with in 12 months.</p> <p>Overdue is more than 12 months but less than 36 months.</p>
<p>Doubtful (DF) when chance of recovery is uncertain.</p>	<p>Continuous and Demand Loan</p> <p>Term Loan (Less than 5 years)</p> <p>Term Loan (More than 5 years)</p> <p>Short term Agri. Credit and Micro Credit</p>	<p>Overdue is more 9 months or beyond but less than 12 months</p> <p>Amount of defaulted installment is equal to or more than the amount of installment due with in 12 months.</p> <p>Amount of defaulted installment is equal to or more than the amount of installment due with in 18 months.</p> <p>Overdue is more than 36 months but less 60 months.</p>
<p>Bad/Loss (B.L.) No security held</p>	<p>Continuous and Demand Loan</p>	<p>Overdue/past due for 12 months or beyond</p>

Borrower not traceable, time barred loans, no hope of recovery.	Term Loan (Less than 5 years)	Amount of defaulted installment is equal to or more than the amount of installment due with in 18 months.
	Term Loan (More than 5 years)	Amount of defaulted installment is equal to or more than the amount of installment due with in 24 months.
	Short term Agri. Credit and Micro Credit	Overdue is more than 60 months

Table 09 : Type of Classified Loans(in case of Long Term Loans)

LENGTH OF OVERDUE	STATUS OF CLASSIFICATION	RATE OF PROVISION	FREQUENCY OF CLASSIFICATION
Less than 6 months	Unclassified	1 %	Quarterly
Loans overdue for 6 months but less than 9 months	Substandard	20 %	
Loans overdue for 9 months but less than 12 months	Doubtful	50 %	
Loans overdue for 12 months or more	Bad/loss	100 %	

Table 10 : Type of Classified Loans(in Terms of SOD and OD)

6.4 Provisioning Requirement :

TYPE OF LOAN	STATUS OF CLASSIFICATION	RATE OF PROVISION
General Provision	Unclassified	1 % of Unclassified Loans (Except Small Enterprise and Consumer Financing and SMA) 1% of Unclassified Amount for Small Enterprise Financing 5% of Unclassified Amount for Consumer Financing whereas it has to be maintained at 2% on the unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up Business.
Continuous, Demand and Fixed Term Loan	Substandard	20 %
	Doubtful	50%
	Bad/Loss	100%
Short Term Agricultural and Micro Credit	Substandard	5 %
	Doubtful	5%
	Bad/Loss	100%

Table 11 : Provisioning Requirement

6.5 Steps to Follow to Handle Classification:

The measures that the credit department has to take to handle the default credits are-

- i. Recheck the account, for all outstanding, including any outstanding in allied or sister company or in owner's or partners' or directors personal names.
- ii. Thoroughly review loan documentation to confirm, "we have what we need", documents are in proper form, properly executed and current (i.e. not time barred).
- iii. If possible take current market value of the securities according to liquidation basis. And take a close look at the assets and liabilities to determine who has the prior right on those assets.
- iv. If Grantors are involved, look closely at the net worth statement and send demand notice.
- v. Once the account is classified Sub-Standard, credit lines must be frozen.

Following guidelines are to be strictly observed for treatment of unpaid interest in classified accounts:

- i. If interest is over-due by more than 180 Days the outstanding must be classified sub-standard – Non-Earning or even lower (such as Doubtful), if not already so classified.
- ii. If any loan is classified Sub standard or doubtful, interest should be charged on this cannot be treated as income. All such interest will be credited to Interest Suspense A\C or any other account specially designed for this purpose by Bangladesh Bank.
- iii. If a loan is classified as Bad or Loss, charging of interest thereafter to be suspended from the dates of Bad and Loss classification. A contingent entry to be taken up for the interest being suspended, which should be reversed back as actual liability at the time of suit being filed for recovery.
- iv. A properly conducted overdraft facility can be considered earning as long as outstanding with interest debited to the account remain within approved and valid limit.

v. Sometimes Sub-standard loans may be restructured with the stipulation that as part of the rescheduling, accrued unpaid interest be capitalized.

6.6 Up-Down Grading Classification:

After classification the client has only two options in hand – either payoff the whole or partial liabilities and erase or down grade the name from the classified list. Or the client can refuse to pay and up grade their position in the classification list.

6.7 Monitoring and Control Unit (MCU):

DBL has a special department called MCU who are responsible for all accounts classified in the bank's portfolio. However MCU's responsibility will cover these areas –

1. Monitoring and controlling the classified accounts through monthly reporting and quarterly review.
2. Actively follow the borrowers for recovery.
3. Negotiate and reschedule the debts.
4. If the client don't utilize the new offer than it is the MCU's responsibility to file suit against the client.
5. MCU will also prepare a Consolidated Report of all bad loans written-off on a quarterly basis.

6.8 Recovery Probability and Effort:

1. Loans determined to have high probability of recovery within 6 months; recovery efforts to continue on an on-going basis.
2. Loans determined to have moderate probability of recovery within 1 year; review recovery efforts on a 3 months basis.
3. Loans determined to have low and remote probability of recovery; review case on a 6 months basis.
4. Loans determined to have virtually no chance of recovery: charge-off the books.

However in this situation proper approval from the appropriate approving authorities should be obtained and also shall be guided by Bangladesh Bank instructions and subject to complete analysis of:

- ◆ Banking practice.
- ◆ Legal and tax implication and
- ◆ Status of each individual credit.

But one of the important thing is to get rationalize the amount of loan /overdue that would be recovered and the cost of recovering process. The cost includes-

- (i) employee man-hour
- (ii) legal expenses
- (iii) charge of any external collection agency if used.

CHAPTER 7: CREDIT REPORT

The Main Reports which are prepared by the Credit Department and Submitted to the Head Office on Monthly or Quarterly Basis is described below :

7.1 CIB Report :

Every Month a CIB report is sent to Bangladesh Bank from the Credit Department mainly describing each and every borrowers liabilities and credit status with the Branch.

7.2 Statement of Government, Financial Institutions and Big Sectors :

Monthly statement of Loans of Government Sector / Autonomous and Semi Autonomous Bodies / Public Non-financial Corporation / Local Authorities / Non Bank Depository Corporations-Public / other Financial Intermediaries- Public (Except Deposit Money Banks) / Insurance Companies and Pension Funds-public with the branch is send to Bangladesh Bank each and every month. This statement depicts the amount of funded and non-funded loan and the status of the loans of the particular entities.

7.3 Cash and Quasi Cash Statement :

It's a statement which is sent to Bangladesh Bank every month depicting the status of Collateral security of each and every borrower of credit.

7.4 SME Monthly Report :

Every month credit department generate monthly report of SME depicting the SME credit clients funded and Non-funded limit and their outstanding and overdue loan position both individually and in total.

7.5 SME Quarterly Report :

Every quarter credit department generate sector wise quarterly SME report depicting the SME credit clients funded and Non-funded limit and their outstanding loan position both individually and in total.

7.6 Loan Classification and Provision (CL) Report :

This report is generated every quarter depicting the branch Loan Classification and Provision Status. This Report mainly has 6 parts.

Part 1 : It describe sector wise calculation of credit clients outstanding loan position, provisioning requirement and interest on suspense account both individual and in total

Part2: It describe detail calculation of each and every credit clients outstanding loan position, provisioning requirement and interest on suspense account who have taken continuous loans from the branch both individual and in total.

Part 3 : It describe detail calculation of each and every credit clients outstanding loan position, provisioning requirement and interest on suspense account who have taken demand loans from the branch both individual and in total.

Part 4 : It describe detail calculation of each and every credit clients outstanding loan position, provisioning requirement and interest on suspense account who have taken term loan up to 5 years from the branch both individual and in total.

Part 5 : It describe detail calculation of each and every credit clients outstanding loan

position, provisioning requirement and interest on suspense account who have taken term loan of more than 5 years from the branch both individual and in total.

Part 6 : It describe total calculation of the loans provided to the staff of Dhaka Bank Limited from the branch.

7.7 Classification of Advances (SBS 3) Report :

This is a quarterly report which gives clear understanding about the amount of Outstanding Classified loan according to sector, purpose, security and Stage of Classification.

Some other reports are also send from Credit Department to the Head Office on execution of an event, monthly and quarterly basis.

CHAPTER 8: BRANCH PERFORMANCE

8.1 Branch Performance: Deposit-Advance Gap basis :

Branch performance mainly depends on the gap between its cost of deposit and interest on advances. The past three years performance of Foreign Exchange Branch and its analysis is given below :

Income:	2008	%	2009	%	2010	%
Intt. Loan and Advance	66.51	78.56	66.96	82.12	65.08	83.18
DBL Income	7.22	8.52	6.26	7.68	5.11	6.53
Comm. Income	9.86	11.64	7.30	8.95	7.18	9.18
Other Operating Income	1.08	1.28	1.02	1.25	0.87	1.11
Total Income	84.66	100.00	81.53	100.00	78.24	100.00

Table 12: Comparative Income of Foreign Exchange Branch

From the above table, we can see that the main source of income comes from interest on loans and advances.

Expenses:	2008	%	2009	%	2010	%
Deposit Expenses	48.56	92.53	46.49	92.37	39.59	90.43

Salary, Allow, Bonus, Pro. Fund	2.12	4.05	2.15	4.27	2.20	5.02
Operating Expenses	1.80	3.43	1.69	3.36	1.99	4.55
Total Expenses	52.48	100.00	50.33	100.00	43.78	100.00

Table 13 : Comparative Expense of Foreign Exchange Branch

From the above table, we can see that the main portion of expenditure of the branch goes to deposit expense.

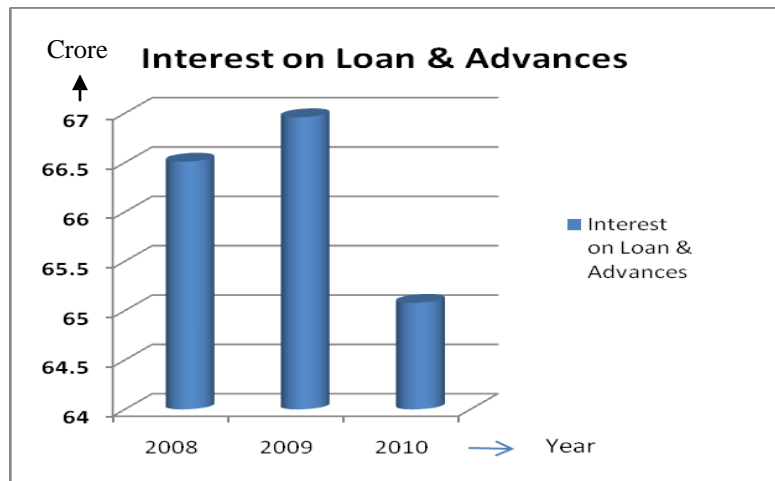


Figure 8.1: Interest on Loans and Advances (Foreign Exchange Branch)

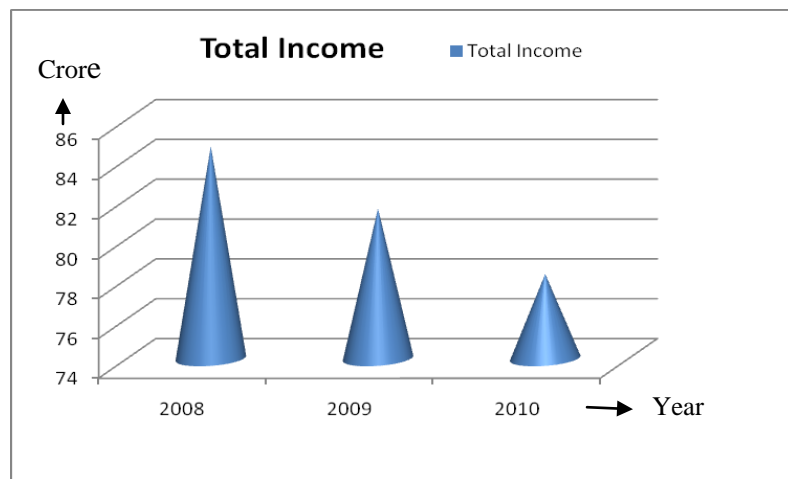


Figure 8.1 : Total Income (Foreign Exchange Branch)

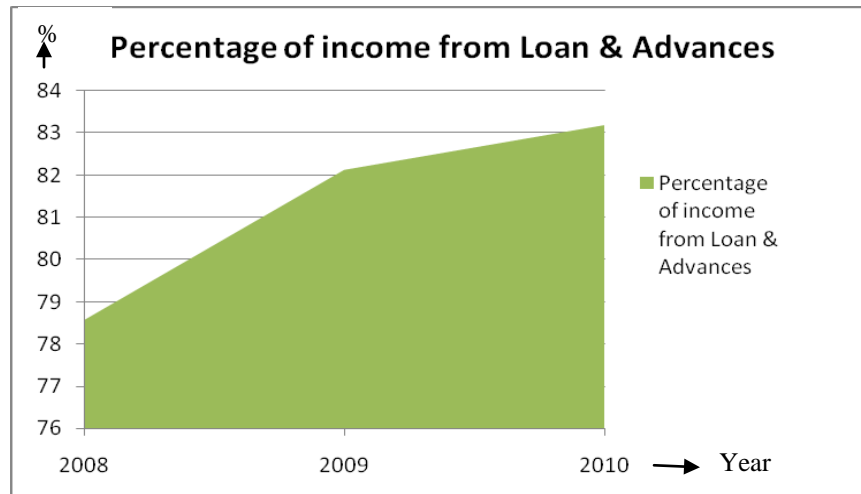


Figure 8.1: Percentage of Income from Loans and Advances (Foreign Exchange Branch)

From the above 3 figures, we can see that, in the past 3 years overall the income as well as the income from interest on loans and advances decreased. As a result, the percentage of income from interest on loans and advances shows an increasing trend.

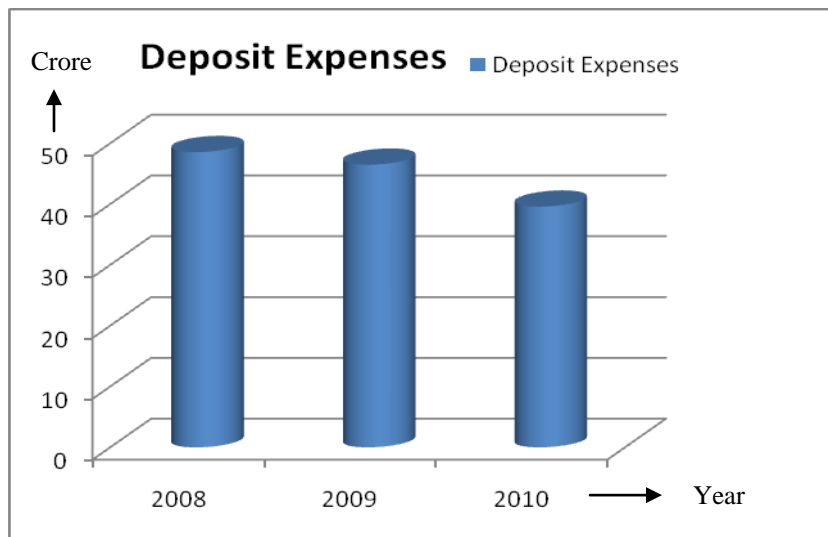


Figure 8.1 : Deposit Expense (Foreign Exchange Branch)

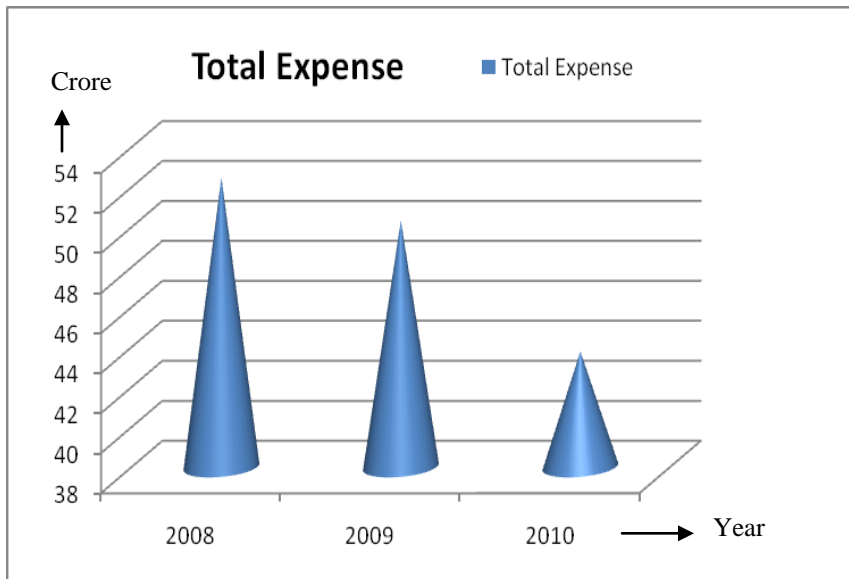


Figure 8.1 : Total Expense (Foreign Exchange Branch)

From the above 2 figures, we can see that, in the past 3 years overall deposit expense as well as the total expense is showing a decreasing trend.

As a result, although the total income is decreased over the past 3 years, the total expense decreased more than the decline in total income.

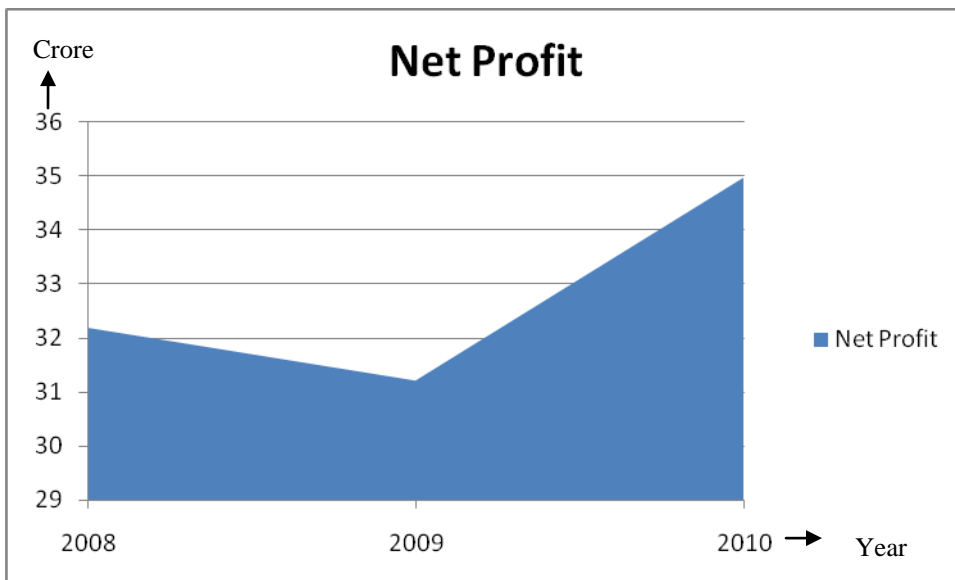


Figure 8,1: Net Profit (Foreign Exchange Branch)

Thus from the above figure, we can see a good amount of increase in total income in the year 2010.

8.2 Comparison of Cost of Fund :

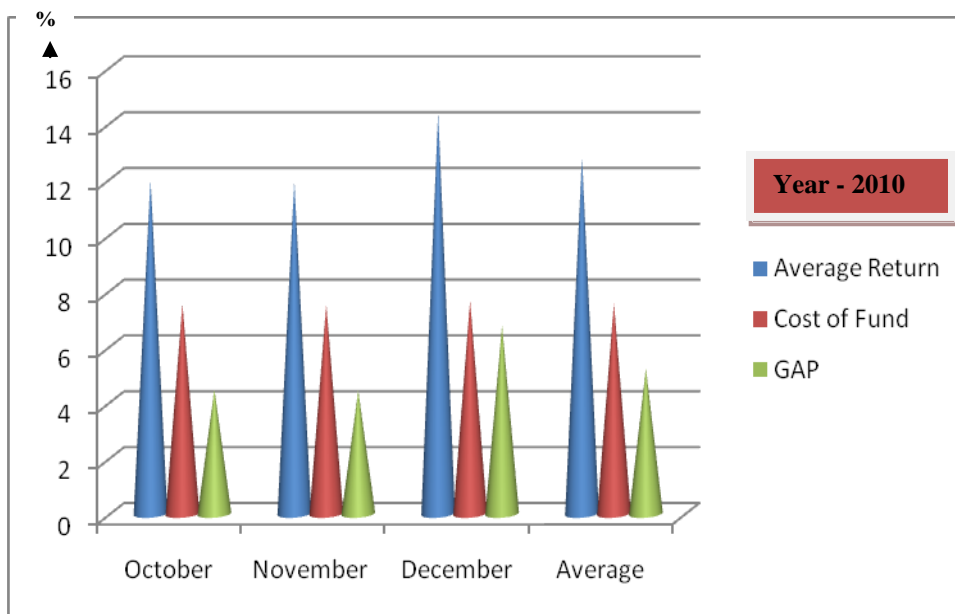


Figure 8.2 : Comparison of Cost of Fund (Foreign Exchange Branch)

From the above figure, we can see that although cost of fund increased in the last quarter, average return increased in a bigger extent. So, Foreign Exchange Branch obtained a good profitability increase in last quarter of 2010.

8.3 Sector-wise Loan Position :

Type of Loan	Total Amount of Advance
Continuous Loan	135,77,85,000.00
Demand Loan	207,12,45,000.00
Term Loan Up to 5 Years	177,53,79,000.00
Term Loan Over 5 Years	64,22,99,000.00
Short term Agri. Credit and Micro Credit	-----
Staff Loan	9,25,01,000.00
Total	593,92,09,000.00

Table 14 : Sector-wise Loan Position of Foreign Exchange Branch

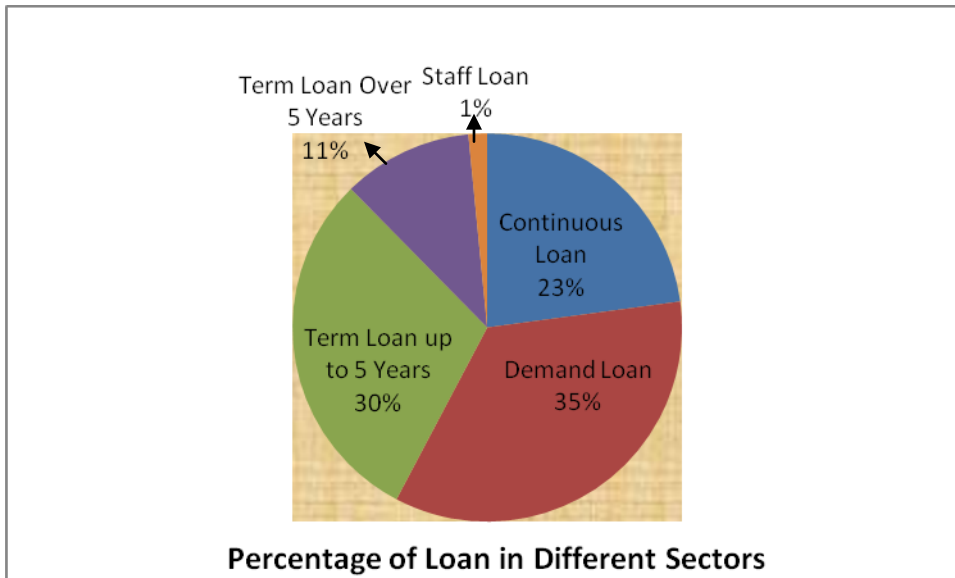


Figure 8.3 : Sector-wise Loan Position (Foreign Exchange Branch)

From the above chart, we can see that the greatest percentage of credit concentration is on demand loan, after that term loan up to 5 years, then continuous loan, then term loan over 5 years and lastly staff loan.

So, from the picture above, we can depict that the biggest amount of credit concentration of Foreign Exchange Branch is on One Time and Short Term Loan Facilities which is less risky, provide high liquidity and very good for a Branch Profitability.

8.4 Loan Classification :

The list of sector-wise and customer-wise suspicious loan of Dhaka Bank Limited, Foreign Exchange Branch is given below:

Type of Loan	Name of the Client	Type of Loan	Classification Status			
			Special Mention (SMA)	Sub-Standard (SS)	Doubtful (DF)	Bad/Loss (BL)
Continuous Loan	Nipa Enterprise	SOD (WO)	75,83,876.00	---	---	---
Demand Loan	Nipa Enterprise	LTR	68,91,470.00	---	---	---
	AA Synthetis	LTR	13,08,24,370.00	---	---	---

	Fibres Ltd.					
Term Loan up to 5 Years	Quiduz Zaman Azad	Car Loan	4,99,172.00	---	---	---
	Md. Nurul Islam	Car Loan	---	372,12.00	---	---
	Mr. Arif Hossain	Car Loan	---	---	---	14,57,857.00
	Abid Hossain Khan	Personal Loan	---	---	---	30,864.00
	Sultan Ahmed	Personal Loan	---	---	---	1,10,979.00
	SK. Masuk Rahman	Personal Loan	---	---	---	1,06,829.00
	Mahmudul Haque Razib	Personal Loan	536,29.00	---	---	---
	M/S Druba Int'l	Personal Loan	60,765.00	---	---	---
	Tawhid Shamim	Personal Loan	---	---	2,68,539.00	---
	Abdur Rahim	Personal Loan	---	---	---	1,05,001.00
	Md. Akkel Ali	Personal Loan	---	---	---	12,940.00
	Shyeda Sharmin	Personal Loan	---	---	---	2,74,248.00
	Md. Wali Hossain	Personal Loan	600,67.00	---	---	---
	Secura BD. Ltd.	Term Loan(Others)	74,65,717.00	---	---	---
	Stamford Uni. Bd.	Term Loan (Synd.)	---	1,92,69,940.00	---	---
Total			3,56,97,133.00	1,93,07,152.00	2,68,539.00	20,98,718.00

Table 15 : Suspicious and Classified Loans of Foreign Exchange

From the above table, we can see that a big amount is stuck in Special Mention status but AA Synthetic Fibres Ltd. and Secura Bangladesh Limited is our big borrowers and they are our good customers. These two borrowers will adjust their outstanding soon. Nipa Enterprise possess a 100% secured loan facility. So, the Loans in SMA status is not an alarming signal for this Branch.

The Syndication Loan of Stamford University Bangladesh is in Sub-standard. The officials of Foreign Exchange Branch is negotiating with them. Hopefully, it will be adjusted soon.

The amount of loan in Doubtful status is very insignificant.

The amount of loan in Bad Loan Status is not a big amount. These loans are 8-9 years old personal loans. The credit monitoring unit of Head Office is dealing with these loans.

So, in overall case the Loan Classification Status of Dhaka Bank Limited, Foreign Exchange Branch is in a good shape.

8.5 Budget-Achievement Comparison :

BUSINESS HEAD	Budget 2010	Achievement Dec.2010	Percentage %
1) Base Deposit	615.00	563.00	91.54
2) Advances	525.00	587.00	111.81
3) Import (Foreign and Inland)	1,200.00	900.73	75.06
4) Export Business	800.00	581.44	72.68
5) Bank Guarantee	50.00	51.72	103.44
6) Inward Foreign Remittance	40.00	16.39	40.98
7) Operating Profit Dec-10	36.00	34.97	97.14

Table 16 : Budget-Achievement Comparison

From the above figure, we can see that, by overcoming all obstacles only the credit department of Foreign Exchange Branch has achieved more than its target for the year of 2010.

CHAPTER 9: FINDINGS

Findings:

The findings of this study are summarized below:

- a) **Customer Satisfaction:** Customer satisfaction level is quite good. Informal conversation with some customers reveals that they approve the credit evaluation and management process of Dhaka Bank Ltd. But they have some irritation about the high service charges of the bank compared to other banks.
- b) **Network System:** Network system in Dhaka Bank Limited has to be improved. Network gets disconnected several times a day which causes delays in the overall process and other operations of the bank.
- c) **Filing System:** Filing procedure is maintained in a definite and clear manner. It is very easy to locate the documents in a chronological and sequential manner. A definite practice is always maintained by the credit officials.
- d) **Processing Time:** The credit sanction and disbursement procedure is quite lengthy. Lack of Back Office delays the loan sanction process. Processing of CIB (Credit Information Bureau) report is quite lengthy.
- e) **Credit Risk Management:** The credit risk management process of Dhaka Bank Limited is quite commendable. Systematic and timely monitoring and appropriate documentation are tried to be maintained.
- f) **More emphasis on collateral security:** The bank emphasizes more on collateral security than supervision of loan.
- g) **Incomplete Documentation:** Incomplete documentation delays the processing time.
- h) **Credit to unproductive sector:** The bank disburses a large portion of the total loans to the unproductive sectors like car loan than the productive sectors like industrial sector.
- i) **Branch Discretion:** The sanction limit of the Branch Managers should be increased.

CHAPTER 10: RECOMMENDATIONS

10. Recommendations:

Recommendations of these report has been made on the basis of the research findings of the credit facilities of Dhaka Bank Limited, Foreign Exchange Branch. It is very difficult to recommend about this topic because of research restrictions and unavailability of data. Despite these problems there are something that the credit department of Dhaka Bank Limited, Foreign Exchange Branch should look at.

- To create better client the bank should increase the amount of consumer loans in a short-term basis.
- Most of Foreign Exchange Branch's loans are in the large sector. If the performance of that sector crash then the bank will fail to continue though the profit is very high. So, the bank should provide more loans of small scale in different sectors though it will decrease the profit a little. But it will be more safer.
- Service charges of the bank should be revised to make the clients delighted rather than satisfied.
- An uninterrupted network system has to be ensured. It will save the officials from much hassle and will save time.
- The bank should pay more concentration on productive sectors like industrial loan instead of unproductive car loan.
- Customized loan products should be launched to attract more corporate clients.
- The bank should supervise how the amount of loan is being used.
- The bank should maintain a back office to accelerate the documentation process.
- The discretion of the branch manager to sanction the loan limit should be increased.
- To encourage Recovery Unit incentive program may also be introduced.

CHAPTER 11: CONCLUSION

11. Conclusion:

Credit policy is a genuine suitable banking tool for the commercial world. The rate of this service is vast. It has assembled such a place in the banking area that individuals at developed and also developing regions are very much influenced by on this service. In Bangladesh credit services or loans started to become very smart in current epochs. But still lots developments in services and services have to be made in this section.

The learning of the report refers to the fact that individuals are conscious of loan amenities in our country but they are not fully alert of the facilities or structures of the loan process and its guidelines and principles mainly in case of individual or user loans. After the study it looks that Dhaka Bank Limited emphasis on the business sectors for the credit facility. But in case of consumer loans there are lots of parameters created by the Bank.

Credit Division of Dhaka Bank Limited, Foreign Exchange Branch has a very skilled and enthusiastic group of officers and staffs who are always trying to deliver the best service to the clients. They always display the credit in diverse segments and their position. Before providing the loan they analyze whether the loan will be gainful and whether the customer is good enough to refund the loan in the given retro of time.

References

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APPENDIX-A (CRG)

DATA COLLECTION CHECK LIST

**ABC BANK LIMITED- Dhanmondi Branch
DATA COLLECTION CHECK LIST**

Documents/items required for Credit Risk Grading	Required?		Obtained?	
	YES	NO	YES	NO
Company accounts for at least 3 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bank statements for prior 12 months from previous bank (for new customer)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Set of accounts for at least two competitors (if published)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industry average figures (If available)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial projection required for: • Term loans; forecasts should be for the duration of the term loan. • New overdraft facilities-forecast should be for 12 months • Working capital estimation for new/renewal/enhancement of facility.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial Spread Sheet (FSS)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer Limit Utilization Form	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current CIB Report of the Obligor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Organization chart	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Biodata for – ▪ All Directors –Other key executives ▪ Head of operations/marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Copies of all reports on site visits made during the last 12 months.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Valuations of securities/collateral offered	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Memorandum/articles of association/certificate of incorporation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business plan/Project Feasibility Report (required for start up company)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Receivables Aging	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Client's declaration of Stock/Inventory and Book Debts for the last 12 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trade License	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
TIN Certificate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Pending Item Checklist

Item	Responsibility	Due Date	Status

Relationship Manager (RM)

Senior Relationship Manager (SRM)

APPENDIX-B(CRG)

LIMIT UTILIZATION FORM

LIMIT UTILIZATION FORM

Borrower: XYZ Company Limited – Principal Branch

Date:

Period: For the Period from ----- to ----- (12 months Actual/Projected)

Account Performance:

(Amount in '000' Taka)

Nature of the Account	Debit Summation	Credit Summation	Balance/Outstanding	
			Maximum	Minimum
Current Deposit Account	N/A	N/A	X	X
Overdraft (OD)	X	X	X	X
Cash Credit (CC)	X	X	X	X
Term Loan	N/A	N/A	X	X
Import Loan	N/A	N/A	X	X
Local/Export Bills outstanding	N/A	N/A	X	X
Guarantee	N/A	N/A	X	X

Account Volume:

Facilities	Total No. of transaction	Amount in '000' Taka
Letter of Credits	X	X
Guarantees	X	X
Local/Export Bills Handled	X	X

Account Profitability:

(Amount in '000' Taka)

Nature of Account/Facility
Average Utilization
Rate of Interest
Interest

Income
Commission

Other Revenue
Total

--	--

X Current Account

X

X Overdraft/Cash
 Credit

X

X SLC

X

X Term Loan

X

Import Loan-
Hypo

X

X

Demand Loan-
Hypo

X

X

Guarantees

X

X

LBDP/Export Bills
Handled

X
X
X

X

Gross Earnings

XXX
XXX
XXX

XXX

Less: Cost of
Fund

XX

XX

Net Earnings

XXX
XXX
XXX
XXX

Comment on Relationship/Earnings:

- Our earnings from borrower for the last year was BDT----- and from Group BDT-----
- Our projected earnings from borrower for the next year will be BDT----- and Group BDT---
- Account Turnover and utilization of limit during the last year was satisfactory.

Relationship Manager (RM)

Senior Relationship Manager (SRM)

APPENDIX-C (CRG)

CREDIT RISK GRADING SCORE SHEET

CREDIT RISK GRADING SCORE SHEET

Reference No: _____

Date: _____

Borrower:		Aggregate Score: _____		
Group Name (if any):				
Branch:				
Industry/Sector:				
Date of Financials:				
Completed by:				
Approved by:		Risk Grading: _____		
Number	Grading		Short	Score
1	Superior		SUP	Fully cash secured, secured by Government/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	

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
A. Financial Risk	50%				
1. Leverage: (15%) Debt Equity Ratio (x) - Times Total Liabilities to Tangible Net worth All calculations should be based on annual financial statements of the borrower (audited preferred).		<ul style="list-style-type: none"> ▪ Less than 0.25x ▪ 0.26x to 0.35 x ▪ 0.36x to 0.50 x ▪ 0.51x to 0.75 x ▪ 0.76x to 1.25 x ▪ 1.26x to 2.00 x ▪ 2.01x to 2.50 x ▪ 2.51x to 2.75 x ▪ More than 2.75x 	15 14 13 12 11 10 8 7 0		
2. Liquidity: (15%) Current Ratio (x) - Times Current Assets to Current Liabilities		<ul style="list-style-type: none"> ▪ Greater than 2.74x ▪ 2.50x to 2.74 x ▪ 2.00x to 2.49 x ▪ 1.50x to 1.99 x ▪ 1.10x to 1.49 x ▪ 0.90x to 1.09 x ▪ 0.80x to 0.89 x ▪ 0.70x to 0.79 x ▪ Less than 0.70x 	15 14 13 12 11 10 8 7 0		
3. Profitability: (15%) Operating Profit Margin (%) $\frac{\text{Operating Profit}}{\text{Sales}} \times 100$		<ul style="list-style-type: none"> ▪ Greater than 25% ▪ 20% to 24% ▪ 15% to 19% ▪ 10% to 14% ▪ 7% to 9% ▪ 4% to 6% ▪ 1% to 3% ▪ Less than 1% 	15 14 13 12 10 9 7 0		
4. Coverage: (5%) Interest Coverage Ratio (x)-Times $\frac{\text{Earning Before Interest \& Tax (EBIT)}}{\text{Interest on debt}}$		<ul style="list-style-type: none"> ▪ More than 2.00x ▪ More than 1.51x Less than 2.00x ▪ More than 1.25x Less than 1.50x ▪ More than 1.00x Less than 1.24x ▪ Less than 1.00x 	5 4 3 2 0		
Total Score–Financial Risk			50		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
B. Business/Industry Risk	18%				
1. Size of Business (Sales in BDT crore) The size of the borrower's business measured by the most recent year's total sales. Preferably based on audited financial statements		<ul style="list-style-type: none"> ▪ > 60.00 ▪ 30.00 – 59.99 ▪ 10.00 – 29.99 ▪ 5.00 - 9.99 ▪ 2.50 - 4.99 ▪ < 2.50 	5 4 3 2 1 0		
2. Age of Business The number of years the borrower has been engaged in the primary line of business.		<ul style="list-style-type: none"> ▪ > 10 years ▪ > 5 - 10 years ▪ 2 - 5 years ▪ < 2 years 	3 2 1 0		
3. Business Outlook A critical assessment of the medium term prospects of the borrower, taking into account the industry, market share and economic factors.		<ul style="list-style-type: none"> ▪ Favorable ▪ Stable ▪ Slightly Uncertain ▪ Cause for Concern 	3 2 1 0		
4. Industry Growth		<ul style="list-style-type: none"> ▪ Strong (10%+) ▪ Good (>5% - 10%) ▪ Moderate (1% - 5%) ▪ No Growth (<1%) 	3 2 1 0		
5. Market Competition		<ul style="list-style-type: none"> ▪ Dominant Player ▪ Moderately Competitive ▪ Highly Competitive 	2 1 0		
6. Entry/Exit Barriers		<ul style="list-style-type: none"> ▪ Difficult ▪ Average ▪ Easy 	2 1 0		
Total Score-Business/Industry Risk			18		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
C. Management Risk	12%				
1. Experience (Management & Management Team) The quality of management based on the aggregate number of years that the Senior Management Team has been in the industry.		<ul style="list-style-type: none"> ▪ More than 10 years in the related line of business ▪ 5–10 years in the related line of business ▪ 1–5 years in the related line of business ▪ No experience 	5 3 2 0		
2. Second Line/ Succession		<ul style="list-style-type: none"> ▪ Ready Succession ▪ Succession within 1-2 years ▪ Succession within 2-3 years ▪ Succession in question 	4 3 2 0		
3. Team Work		<ul style="list-style-type: none"> ▪ Very Good ▪ Moderate ▪ Poor ▪ Regular Conflict 	3 2 1 0		
Total Score-Management Risk			12		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
D. Security Risk	10%				
1. Security Coverage (Primary)	<ul style="list-style-type: none"> ▪ Fully pledged facilities/substantially cash covered/Reg. Mortg, for HBL ▪ Registered Hypothecation (1st charge/1st Pari passu charge) ▪ 2nd Charge/Inferior charge ▪ Simple hypothecation/negative lien on assets. ▪ No security 	4			
		3			
		2			
		1			
		0			
2. Collateral Coverage (Property Location)	<ul style="list-style-type: none"> ▪ Registered Mortgage on Municipal Corporation/Prime area property. ▪ Registered Mortgage on Pourashava/semi-urban area property ▪ Equitable Mortgage or No property but plant & machinery as collateral ▪ Negative lien on collateral ▪ No collateral 	4			
		3			
		2			
		1			
		0			
3. Support (Guarantee)	<ul style="list-style-type: none"> ▪ Personal guarantee with high net worth or Strong Corporate Guarantee ▪ Personal Guarantees or Corporate Guarantee with average financial strength ▪ No Support/Guarantee 	2			
		1			
		0			
Total Score- Security Risk			10		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
E. Relationship Risk	10%				
1. Account Conduct	<ul style="list-style-type: none"> ▪ More than 3 (three) years accounts with faultless record ▪ Less than 3 (three) years accounts with faultless record ▪ Accounts having satisfactory dealings with some late payments ▪ Frequent Past dues & Irregular dealings in account 	5			
		4			
		2			
		0			
2. Utilization of Limit (actual/projection)	<ul style="list-style-type: none"> ▪ More than 60% ▪ 40% - 60% ▪ Less than 40% 	2			
		1			
		0			
3. Compliance of Covenants / Conditions	<ul style="list-style-type: none"> ▪ Full Compliance ▪ Some Non-Compliance ▪ No Compliance 	2			
		1			
		0			
4. Personal Deposits The extent to which the bank maintains a personal banking relationship with the key business sponsors/principals.	<ul style="list-style-type: none"> ▪ Personal accounts of the key business Sponsors/ Principals are maintained in the bank, with significant deposits ▪ No depository relationship 	1			
		0			
Total Score-Relationship Risk			10		
Grand Total- All Risk			100		

APPENDIX-D (CRG)

CREDIT RISK GRADING FORM

CREDIT RISK GRADING FORM

Date:

Borrower:	Branch:				
Incorporated:	Legal Status:				
Client Since:	Business:				
CIB date & status:	Risk Grading	Existing		New	
Next Grading Review Date:	Grade Score	Existing		New	
Credit Risk Grade Score Sheet Ref. No ----- & dated ----- enclosed.					

Facilities	Amount in '000 TK		Expiry/ Maturity	Days Past due	Interest Suspense	Provision Held
	Limit	Outstandings				
SLC/PAD						
LTR						
ULC/Acceptance						
Overdraft						
Cash Credit						
Demand Loan						
Term Loan						
Guarantee						
Total						

Key Financials

Period	FYE December 2001	FYE December 2002	FYE December 2003
Sales			
Net Profit			
Current Ratio (X)			
Leverage (X)			
Operating Profit/Sales (%)			
Interest Coverage (X)			

Query:

Are we receiving Financials regularly?	
Monthly sales deposit receipt and adjustment by the Bank: (For last 6 months.)	
Is client in business?	
What is happening to sister company cash flow?	
Do we have corporate guarantee? What is the risk grade of guarantor?	
Is loan documentation 100% OK?	
Are stock of client verified/When/What is the valuation?	
When last client/factory visit was made by RM and comment by RM?	
Is Registered Mortgage in place/ What is the value?	
Are all the approval conditions/covenants complied by borrower?	

Reason for change (if any) in credit risk grading:

General comment by RM or Recommended action steps for upgrade if required:

Relationship Manager (RM)

Senior Relationship Manager (SRM)

GRADING APPROVAL

Credit Officer, CRM

Senior Credit Officer, CRM

APPENDIX

Balance Sheet

Consolidated Balance Sheet			
As at 31 December 2007			
	Notes	2007 Taka	2006 Taka
PROPERTY & ASSETS			
Cash	3	3,039,925,900	2,441,538,356
Cash in Hand (including foreign currencies)		489,865,709	281,098,664
Balance with Bangladesh Bank & Sonali Bank (including foreign currencies)		2,550,060,191	2,160,439,692
Balance With Other Banks And Financial Institutions:	4	3,281,295,315	2,042,136,564
In Bangladesh		1,624,585,137	1,410,042,408
Outside Bangladesh		1,656,710,178	632,094,156
Money At Call And Short Notice	5	3,415,950,000	1,623,300,000
Investments	6	5,971,748,749	5,377,817,025
Government		5,354,586,956	5,160,644,224
Others		617,161,793	217,172,801
Loans & Advances:	7	39,971,903,240	34,048,820,675
Loans, Cash Credit & Over Draft etc.		38,705,863,949	32,889,831,245
Bills Purchased and Discounted		1,266,039,291	1,158,989,430
Fixed assets including premises, furniture and fixtures	8	291,259,210	217,235,082
Other Assets:	9	1,471,168,893	1,842,918,731
Non-banking Assets		-	-
Total Assets		57,443,251,307	47,593,766,433
LIABILITIES & CAPITAL			
Liabilities:			
Borrowings from other banks, financial institutions and agents	10	530,413,500	650,750,000
Deposits And Other Accounts	11	48,730,676,322	41,553,551,972
Current Accounts & Other Accounts		4,624,566,768	4,042,651,153
Bills Payable		1,715,811,939	1,188,900,637
Savings Bank Deposits		4,392,547,071	3,362,895,450
Term Deposits		37,997,750,544	32,959,104,732
Other Liabilities	12	5,056,472,772	2,838,608,401
Total Liabilities		54,317,562,594	45,042,910,373
Capital / Shareholders' Equity			
Paid-up Capital	13	1,547,402,300	1,289,501,900
Statutory Reserve	14	1,170,419,032	864,236,898
Other Reserve	15	10,266,672	6,721,526
Surplus in Profit and Loss Account	16	397,600,709	390,395,736
Total Shareholders' Equity		3,125,688,713	2,550,856,060
Total Liabilities & Shareholders' Equity		57,443,251,307	47,593,766,433

APPENDIX

Off Balance Sheet

	Notes	2007 Taka	2006 Taka
Off-balance sheet items			
Contingent liabilities	17	20,536,809,128	24,605,189,439
Acceptances and endorsements		6,556,967,399	6,350,305,837
Letter of credit		5,278,760,440	8,362,084,210
Letter of guarantee		5,880,466,903	7,325,858,391
Bills for collection		2,335,587,532	2,116,179,264
Other contingent liabilities		485,026,854	450,761,737
Other commitments			
Documentary credit and short term trade-related transactions		-	-
Forward assets purchased and forward deposits placed		-	-
Undrawn note issuance and revolving underwriting facilities		-	-
Undrawn formal standby facilities, credit lines and other commitments		-	-
Total off - balance sheet items including contingent liabilities		20,536,809,128	24,605,189,439
The annexed notes form an Integral part of the Consolidated Balance Sheet.			

APPENDIX

Profit and Loss Account

Consolidated Profit and Loss Account			
for the year ended 31 December 2007			
	Notes	2007 Taka	2006 Taka
OPERATING INCOME			
Interest / Profit Income	18	5,635,855,271	4,341,777,044
Interest / Profit paid on Deposits & Borrowings	19	4,048,903,967	3,379,648,680
Net Interest Income/ Porfit Income		1,586,951,304	962,128,364
Income from Investment	20	529,143,689	382,797,808
Commission / Fees, Exchange Earnings & Brokerage	21	819,267,338	599,241,028
Other Operating Income	22	234,122,743	116,180,453
TOTAL OPERATING INCOME (A)		3,169,485,074	2,060,347,653
OPERATING EXPENSES			
Salary & Allowances:	23	531,838,211	400,982,148
Rent, Taxes, Insurance, Lighting etc.	24	112,413,302	97,896,715
Legal & Professional Expenses	25	2,539,281	4,313,715
Postage, Stamp, Telecommunication etc.	26	44,381,473	35,295,511
Stationery, Printing, Advertisement etc.	27	101,268,319	72,507,786
Chief Executive's salary & allowances	28	7,660,419	6,821,419
Directors' Fee & Meeting Expenses	29	1,985,927	1,356,181
Audit Fee		250,000	100,000
Charges on loan losses		-	-
Depreciation of Bank's Assets	30	27,868,663	11,697,479
Repair & Maintenance of Bank's Assets	31	27,062,887	21,380,382
Other Expenses	32	301,735,775	236,460,451
TOTAL OPERATING EXPENSES (B)		1,159,004,257	885,811,787
Profit / (Loss) Before Provision (C) = (A - B)		2,010,480,817	1,183,253,670
Provision for loan	33	360,230,345	206,009,000
Provision for Off Balance Sheet Exposure	34	88,607,000	-
Provision for diminution in value of investments	35	-	7,250,000
Provision for Dhaka Bank Foundation	36	30,732,800	19,500,000
Total Provision (D)		479,570,145	232,759,000
Total Profit / (Loss) before Tax (C - D)		1,530,910,672	950,494,670
Provision for Current Tax (Note-)		827,127,829	369,920,451
Provision for Deferred Tax		-	79,549
Net Profit / (Loss) after Tax :		703,782,843	580,494,670
Distribution :			
Statutory Reserve		306,182,134	190,098,934
General Reserve		-	-
Dividend etc.		-	-
Retained surplus		397,600,709	390,395,736
Earning per Share (EPS):	37	46.06	45.17
The annexed notes form and integral part of the Consolidated Profit and Loss Account.			

APPENDIX

Cash Flow Statement

Consolidated Cash Flow Statement			
as at 31 December 2007			
	Notes	2007 Taka	2006 Taka
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest / profit receipts		5,563,599,787	4,281,038,902
Interest / profit payments		(4,023,825,857)	(2,580,173,080)
Dividend receipts		4,436,985	11,215,630
Fee and commission receipts		550,643,708	458,097,690
Recoveries on loans previously written off		1,117,160	1,593,676
Payments to employees		(531,838,211)	(400,982,148)
Payments to suppliers		(148,439,073)	(112,217,012)
Income taxes paid		(346,149,168)	(596,712,442)
Receipts from other operating activities	38	284,217,896	154,358,214
Payments for other operating activities	39	(450,858,310)	(363,915,148)
Operating profit before changes in operating assets and liabilities		902,904,917	852,304,282
Increase / (decrease) in operating assets and liabilities			
Statutory deposits		-	-
Purchase / sale of trading securities		(193,344,532)	(2,333,100,000)
Loans and advances to other banks		-	-
Loans and advances to customers		(5,923,082,565)	(10,676,370,303)
Other assets	40	790,705,046	(113,874,723)
Deposits from other banks		994,278,000	228,957,000
Deposits from customers		6,182,846,350	12,885,802,545
Other liabilities account of customers		(1,743,320)	18,319,212
Trading liabilities		-	-
Other liabilities	41	887,831,607	898,947,712
		2,737,490,586	908,681,943
Net cash from operating activities (A)		3,640,395,503	1,760,986,225
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of securities		524,156,148	370,930,789
Purchase of securities		(399,988,992)	127,395,596
Purchase of property, plant and equipment		(101,892,791)	(106,939,073)
Sale of property, plant and equipment		2,215,250	866,133
Purchase / sale of subsidiary		-	-
Net cash used in investing activities (B)		24,489,615	392,253,445
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing from other banks		(120,336,500)	70,750,000
Receipts from issue of ordinary shares		-	-
Dividend paid		(128,950,190)	(245,619,400)
Net cash from financing activities (C)		(249,286,690)	(174,869,400)
Net increase / (Decrease) in cash (A+B+C)		3,415,598,428	1,978,370,270
Effects of exchange rate changes on cash and cash equivalent		215,196,067	112,223,572
Cash and cash equivalent as at 01 January 2007		6,109,320,920	4,018,727,078
Cash and cash equivalent as at 31 December 2007		9,740,115,415	6,109,320,920
Cash and cash equivalent as at 31 December 2007			
Cash in Hand		489,865,709	281,098,664
Balance with Bangladesh Bank and Sonali Bank		2,550,060,191	2,160,439,692
Balance with other banks and Financial Institutions		3,281,295,315	2,042,136,564
Money at call and Short Notice		3,415,950,000	1,623,300,000
Prize Bond (Investment, Note 6)		2,944,200	2,346,000
Total		9,740,115,415	6,109,320,920

The annexed notes form and integral part of the Consolidated Cash Flow Statement.

APPENDIX

Statement of Changes in Equity

Consolidated Statement Of Changes In Equity					
for the year ended 31 December 2007					
Particulars	Paid up capital	Statutory Reserve	Other Reserve	Profit and Loss Account	Total
Balance as at 01 January 2007	1,289,501,900	864,236,898	6,721,526	390,395,736	2,550,856,060
Changes in accounting policy	-	-	-	-	-
Restated balance	1,289,501,900	864,236,898	6,721,526	390,395,736	2,550,856,060
Surplus/deficit on account of revaluation of properties	-	-	-	-	-
Surplus/deficit on account of revaluation of investments	-	-	-	-	-
Currency transaction differences	-	-	-	-	-
Net gains and losses not recognized in the income statement	-	-	-	-	-
Net Profit for the year	-	-	-	703,782,843	703,782,843
Dividend paid during the year	-	-	-	(128,950,190)	(128,950,190)
Changes in reserve	-	306,182,134	-	(306,182,134)	-
Issuance of Bonus Shares	257,900,400	-	-	(257,900,400)	-
Transferred from Profit and Loss account	-	-	3,545,146	(3,545,146)	-
Balance as at 31 December 2007	1,547,402,300	1,170,419,032	10,266,672	397,600,709	3,125,688,713

APPENDIX

Liquidity Statement

Consolidated Liquidity Statement

(Asset and Liability Maturity Analysis)

For the year ended 31 December 2007

Particulars	Upto 1 month	1 - 3 months	3 - 12 months	1 - 5 years	more than 5 years	Total
Assets						
Cash in hand	3,039,925,900	-	-	-	-	3,039,925,900
Balance with other banks and financial institutions	3,281,295,315	-	-	-	-	3,281,295,315
Money at call and short notice	240,000,000	50,000,000	2,805,000,000	320,950,000	-	3,415,950,000
Investment 1,471,697,399	299,818,132	-	2,089,661,373	2,110,571,845	5,971,748,749	39,971,903,240
Loans and Advances	2,466,581,987	256,757,307	22,719,762,321	11,189,900,000	3,338,901,625	291,259,210
Fixed assets including premises, furniture and fixtures	-	-	-	102,987,017	188,272,193	1,471,168,893
Other assets	358,992,460	-	349,288,920	745,567,623	17,319,890	-
Non-banking assets	-	-	-	-	-	-
Total Assets	10,858,493,061	606,575,439	25,874,051,241	14,449,066,013	5,655,065,553	57,443,251,307
Liabilities						
Borrowing from Bangladesh Bank, Other banks, financial institutions and agents	(250,000,000)	-	(165,191,500)	(115,222,000)	-	(530,413,500)
Deposits and Other Accounts	(6,342,490,883)	(6,775,912,749)	(31,892,238,298)	(1,153,036,684)	(2,566,997,708)	(48,730,676,322)
Other liabilities	(2,630,125,805)	-	(2,417,369,550)	(8,977,417)	-	(5,056,472,772)
Capital and Reserve	-	-	-	(3,125,688,713)	-	(3,125,688,713)
Total Liabilities	(9,222,616,688)	(6,775,912,749)	(34,474,799,348)	(4,402,924,814)	(2,566,997,708)	(57,443,251,307)
Net Liquidity Gap	1,635,876,373	(6,169,337,310)	(8,600,748,107)	10,046,141,199	3,088,067,845	-
Cumulative Liquidity Gap	1,635,876,373	(4,533,460,937)	(13,134,209,044)	(3,088,067,845)	-	-