



# **BRAC UNIVERSITY**

## **INTERNSHIP REPORT ON**

**“Evaluation of Credit Assessment & Risk grading  
management of Dutch Bangla Bank Ltd.”**

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**Date of Submission: 09/12/2010**

## **Letter of Transmittal**

**Date: 09/12/2010**  
**Suman Paul Chowdhury**  
**Senior Lecturer**  
**BRAC Business School**  
**BRAC University**

**Subject: Submission of Internee Report.**

Dear Sir,

It is a great pleasure and privilege to present the internship report titled “**Evaluation of Credit Assessment & Risk grading management of Dutch Bangla Bank Ltd**” which was assigned to me as a partial requirement for the competition of BBA Program.

Throughout the study I have tried with the best of my capacity to accommodate as much information and relevant issues as possible and tried to follow the instructions as you have suggested. I tried my best to make this report as much informative as possible. I sincerely believe that it will satisfy your requirements. I however sincerely believe that this report will serve the purpose of my internship program.

I am grateful to you for your guidance and kind cooperation at every step of my endeavor on this report. I shall remain deeply grateful if you kindly take some pan to go through the report and evaluate my performance.

My effort will be reworded only if it adds value to the research literature.

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**Ashfaq Mustafa Anwar**  
**ID # 05104124**

## **Letter of Endorsement by the Supervisor**

### **To Whom It May Concern**

This is to certify that, **Ashfaq Mustafa Anwar**; a student of BBA program, Major in Marketing, Department of BRAC Business School, and BRAC University- has completed the internee report titled “**Evaluation of Credit Assessment & Risk grading management of Dutch Bangla Bank Ltd**” successfully under my supervision.

I wish every success in his life.

Supervisor

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**Suman Paul Chowdhury**  
**Senior Lecturer**  
**BRAC Business School**  
**BRAC University**

## Acknowledgement

First of all I would like to thank all mightily Allah for giving me the patience and proper time to complete the internship study successfully. It is pleasure to take this occasion to thank a few people who have, assisted, encouraged directed and supported through out the internship program.

I heartily thank all the officials of the Dutch Bangla Bank limited, Shantinagar Branch for their supporting as well as co- operating me as an intern in their organization.

After that I especially thank to our manager sir **ABDULLAH AL KAFEE** and my supervisor **MAHBUB-UL-ALAM** of that branch for guiding me through the internship program and also **MD. AL AKBAR MULLICK ( SEO), KAZI SARWAR ALAM ( SEO), RUBAYET HOSSAIN ( SEO), FAROQUE AHMED (SEO), ZAHID AHMED( SEO), YASIN HUDA ( SO), MAHABUBUL ALAM ( OFFICER), ZAHIRUL ISLAM JEWEL (AO)** and each & everyone was very much sincere to give me the knowledge of Credit Assessment and Credit Risk Grading.

Finally, I want to give my special thanks to the Academic supervisor **Suman Paul Chowdhury (Senior Lecturer, BRAC Business School, BRAC University)** for his support and enormous help throughout this Internship program, especially his guidelines throughout the period of preparing the report. I would like to convey my best regards to all officials of the Shantinagar Branch of Dutch Bangla Bank (DBBL).

## **Executive Summary**

This paper has attempted to highlight on an evaluation of **Credit Assessment** and **Credit Risk Grading (CRG)** in the context of Dutch Bangla Bank Limited, Shantinagar Branch. Dutch Bangla Bank Limited is among the leading commercial banks of the country. Lending is one of the principal functions of the bank. Sound lending practice therefore, is very important for profitability and success of a bank. . For the sake of sound lending, it is necessary to develop a sound policy and modern credit management techniques to ensure that loans/ advances are safe and the money will come back within the time set for repayment. For this purpose, proper and prior analysis of credit proposals is required to assess the risk. Credit risk analysis is one of the basic to risk management and control, as it is the risk factor inherent in many bank businesses as the quality of credit is critical to sound banking. For the effective application of CRA, expertise and willingness as well as motivation of the bankers are needed. By removing the road blocks of CRM and CRG implication through the recommendations mentioned in this paper Dutch Bangla Bank Limited can open a new horizon to better assess the risks for lending bankers and will bring the accountability in financial sector

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## **Chapter 1**

### **1.1 Background of the study:**

Credit Risk Grading is an important tool for credit risk management as it helps a Bank to understand various dimensions of risk involved in different credit transactions. Credit Risk Grading Manual of Bangladesh Bank was circulated by Bangladesh Bank vide BRPD Circular No. 18 dated December 11, 2005 on Implementation of Credit Risk Grading Manual which is primarily in use for assessing the credit risk grading before a bank lend to its borrowing clients.

Since the nature of business as well as leverage level of Banks is different from that of other borrowing clients, the need for a separate Credit Risk Grading Manual has been felt. Keeping this in mind and with a view to properly risk rate a Bank in order to set up counter party limits for providing credit products extended by one bank to another Bank this Credit Risk Grading Manual for the Bank has been produced.

The Credit Risk Grading Manual developed for a Bank shall be an effective tool to help a Bank to take a sound decision in analyzing credit risk on another bank and to set up a credit limit for money market and other business operations.

According to Bangladesh Bank “Credit Risk Grading Manual” I have decided to prepare a report on “**Evaluation of Credit Assessment & Risk grading management on Dutch Bangla Bank Ltd**”.

### **1.2 Rationale of the Study:**

Bangladesh is one of the underdeveloped countries in the world. The economy of the country has a lot left to be desired and there are lots of scopes for massive improvement. In an economy like this, banking sector can play a vital role to improve the overall social-economic condition of the country. The banks by playing the role of an intermediary can mobilize the excess fund of surplus sectors to provide necessary finance, to those sectors, which are needed to promote for the sound development of the economy. As the banks provide finance or lending to its counter parts, there arises a risk of credit risk, which is the possibility that a borrower or counter party will fail to meet its obligations in accordance

with agreed terms. Even at present, this problem is haunting many banks and poses a major threat towards their sound performing. So it's very important to have an effective and sound credit risk management system in place which will help the bank mitigate its risk factors and carry out successful financing service or lending. With that issue in mind, the topic "Credit Risk Management" has been undertaken as my topic for internship report.

### **1.3 Statement of the Problems:**

To make the consequence more specific we have focused different sectors. Those are:

- What are the most important assessment criteria
- How grading are done based on assessment
- To analyze the Credit flow of DBBL
- To evaluate the overall credit management system of DBBL
- Functions and use of Credit Risk Grading in DBBL

### **1.4 Scope and Delimitation of the Study:**

Through this survey following people will be benefited

- **Banks**
- **Financial institutions**

### **1.5 Objectives of the Study:**

The report is prepared on the "Evaluation of Credit Assessment & Risk grading management" of Dutch Bangla Bank with the thought of getting in depth of the credit Assessment criteria and understands its importance.

#### **Broad Objective:**

The broad objective is to know about **the credit assessment and risk grading process.**

#### **Specific Objective:**

- **To have better orientation on credit management activities specially→ credit policy and practices, credit appraisal, credit-processing steps, credit management of Dutch Bangla Bank Limited (DBBL).**

- **to familiarize with the credit management in the Banking arena and to grasp an idea about bank involvement in credit management system**
- **Evaluation of credit risk.**
- **Lending Procedure of Dutch Bangla Bank Ltd**

### **1.6 Methodology of the Study:**

- The following methodology will be followed for the study based on observation and interpretation. Data sources are scheduled survey, informal discussion with professionals and observation while working in different desks.
- The secondary data sources are annual reports, manuals, and brochures of Dutch Bangla Bank limited and different publications of Bangladesh Bank. To identify the implementation, supervision, monitoring and repayment practice-interview with the employee and extensive study of the existing file was and practical case observations were done.

### **1.7 Limitation of the Report**

Though I have given utmost effort to prepare this paper but there are some limitations of the study. They are as follows-

1. This paper has focused on the most sensitive part of the organization i.e. loan and advance. So the bank authority hesitated to disclose important information to maintain business secrecy.
2. Only 3 months time is not enough to complete such a study in a lucid manner.
3. The whole report was prepared on the Shantinagar Branch of Dutch Bangla Bank and so it doesn't focus the true picture of the Credit Risk Assessment scenario of the whole banking sector in the country.

## **Chapter 2**

### **ORGANIZATIONAL PART**

Dutch-Bangla Bank Limited (DBBL) is a scheduled commercial bank. The Bank was established under the Bank Companies Act 1991 and incorporated as a public limited company under the Companies Act 1994 in Bangladesh with the primary objective to carry on all kinds of banking business in Bangladesh. The Bank is listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited.

DBBL- a Bangladesh European private joint venture scheduled commercial bank commenced formal operation from June 3, 1996. The head office of the Bank is located at Senakalyan Bhaban (4th floor), 195, Motijheel C/A, Dhaka, Bangladesh. The Bank commenced its banking business with one branch on 4 July 1996.

Banks are the pillars of the financial system. Specially, in Bangladesh the health of the banking system is very vital because the capital market is little developed here. As the banks are still the major sources of credit and exercise great influence on the financial system, it is extremely important that the country's banking systems should be in good health in the interest of investment activities meeting the needs of all kinds of finance and related matters.

Over the years, Dutch-Bangla Bank Limited has built itself as one of the pillars of Bangladesh's financial sector and is playing a pivotal role in the extending the role of private sector of the economy. The bank has strong branch network national wide with 56 branches.

## **2.1 Company Profile at a glance:**

Name:	Dutch-Bangla Bank Limited
Year of Establishment:	1996
Authorized Capital	400 Crore
Paid up Capital:	202.14 Crore
Number of Branches:	59
Number of Employees:	789
Total Number of Shareholders:	7900
Total Profit Figure in 2007:	143.86 Core
Total Deposit of the Bank in 2007:	42,110.15 million
Total Number of Executive & Officers:	847
Earning per Share :	237.37 taka
Business Link:	Different Organization both Government and Non Government

## **2.2 Corporate Information:**

**Registered Office** Sena Kalyan Bhaban (3<sup>rd</sup> Floor), 195, Motijheel Commercial Area, Dhaka 1000, Bangladesh

### **2.3 Mission**

Dutch-Bangla Bank Limited engineers enterprise and creativity in business and industry with a commitment to social responsibility. “Profits alone” do not hold a central focus in the Bank’s operation; because “man does not live by bread and butter alone”.

### **2.4 Vision**

Dutch-Bangla Bank dreams of better Bangladesh, where arts and letters, sports and athletics, music and entertainment, science and education, health and hygiene, clean and pollution free environment and above all a society based on morality and ethics make all our lives worth living. DBBL’s essence and ethos rest on a cosmos of creativity and the marvel-magic of a charmed life that abounds with spirit of life and adventures that contributes towards human development.

### **2.5 Core Objectives of Dutch-Bangla Bank Limited.**

Dutch-Bangla Bank believes in its uncompromising commitment to fulfill its customer’s needs and satisfaction and to become their first choice in banking. Taking cue from its pool of esteemed clientele, Dutch-Bangla Bank intends to pave the way for a new era in banking that upholds and epitomizes its vaunted marques “Your Trusted Partner”

**2.6 The Goal of the Bank:** To share a significant portion of the banking sector's by utilizing available manpower and also state of the art technology for maximizing the shareholders wealth.

- Long-term goal: To maximize the wealth of the shareholders.
- Short term goal: The earn satisfactory rate of return on investment providing wide range of banking services.

## **2.7 Features of Dutch-Bangla Bank Limited**

There are so many reasons behind the better performance of Dutch-Bangla Bank Limited than any other newly established banks:

- Highly qualified and efficient professionals management the bank
- Dutch-Bangla Bank Limited has established a core Research & Planning Division with efficient persons.
- The Bank has established correspondent relationship more that 100 of foreign banks.
- The computerized operation system in all branches of DBBL has provided the frequent and prompt customer service.
- The inner environment and teamwork of all branches in DBBL motivated
- All experienced employees to achieve the ultimate objective of DBBL.
- Dutch-Bangla Bank Limited has become a member of the SWIFT system to expedite foreign trade transaction.
- Dutch-Bangla Bank Limited has become introduced some scheme for the purpose of saving of low income people which are not available in other like "Ajibon Pension Scheme"
- The Bank offers attractive saving rate than other financial institutes.
- Dutch-Bangla Bank Limited provides loan to the customers at lower interest with easy and flexible condition that the others do.
- Dutch-Bangla Bank Limited charges lower commission from their customer in comparison with other banks.
- Along with the profit generation Dutch-Bangla Bank Limited also maintains social responsibilities.
- The Bank always guided their potential customer by giving valuable advises.

## **2.8 Overall Banking of DBBL:**

1. **Electronic Banking:** Service because it is advanced, secure and affordable. DBBL creates a custom banking service to suit any business of any size. The services have a wide range that includes cash flow services, distribution banking and salary accounts. If a company knows what type of custom and tailored banking service they need, DBBL can provide it instantly and at minimal cost (usually free of charge).

2. **SME Banking:** The purpose of the loan may be Seasonal Financing of inventory or Trade Receivable or both to the business entity Nature of Business Wholesalers, Manufacturers / Assemblers and Retailers of machinery, accessories, agriculture items, etc Loan Amount Maximum TK. 500,000/- Interest Rate @ 17% p.a.

3. Letter Of Credit (LC) :Areas of Operation

- **Import Finance**

DBBL extends finance to the importers in the form of:

1. Opening of Import L/C
2. Credit against Trust Receipt for retirement of import bills.
3. Short term & medium term loans for installation of imported machineries & production thereof.
4. Payment against document

- **Export Finance**

1. Pre-Shipment Finance

Pre-Shipment finance in the form of:

- I) Opening of Back-to-Back L/C
- II) Export Cash Credit

2. Post-Shipment Finance

Post-Shipment finance in the form of:

I) Foreign/Local Documentary Bills Purchase

- II) Export Credit Guarantee

III) Finance against cash incentive

#### 4. **Foreign Remittance**

DBBL provides premium quality service for repatriation and collection of remittance with the help of its first class correspondents and trained personnel. By introducing on-line banking service and becoming a SWIFT Alliance Access Member, which enable its branches to send and receive payment instruction directly that helps provide premium services. Remittance services provided by DBBL are:

Inward Remittance: Draft, TT

Outward Remittance: FDD, TT, TC and Cash (FC)

#### 5. **Treasury**

DBBL is well equipped for treasury operation through subscribing Reuters's terminal and operating in SWIFT network. It is also well equipped with competent human resources for efficient dealing.

#### 6. **Accounts Services:**

DBBL provides all the accounts services as prescribed by the guidelines of Central Bank (Bangladesh Bank). Account services are:

1. Foreign Currency Account



2. Non-Resident Foreign Currency Deposit Account (NFCD)
3. Resident Foreign Currency Deposit Account (RFCD)
4. Convertible and Non-Convertible Taka Account
5. Convertible and Non-Convertible Taka Account
6. Non-Resident Blocked Taka Account.

**7. Corporate Banking:** Dutch-Bangla Bank offers a wide range of corporate banking services. They include:

- Project finance.
- Working Capital finance
- Syndications & Structured finance
- Trade finance
- Equity finance
- Social and Environmental Infrastructure finance
- Custom electronic-banking projects

## **8. Debit / Credit Cards**

Dutch-Bangla Bank provides the debit and credit card facility to their customer.

## **9. Internet Banking:**

DBBL allows customer to do seamless internet banking. This allows you to review account, statements, paying bills as well as making some transactions. Because of local banking regulations, DBBL is not allowed to provide some types of transactions even though it is fully capable.

## **2.9 Competitors: BRAC Bank, Standard Chartered Bank Ltd, Bank Asia**

### **2.10 Corporate Culture**

Dutch-Bangla Bank Limited (DBBL) is one of the most disciplined Bank with a distinctive corporate culture. In this bank, it believes in shared meaning, shared understanding and shared sense this bank, it believes in shared meaning, shared understanding and shared sense making. The People of bank can see and understand events, activities, objects and situation in a distinctive way. They mould their manners

and etiquette, character individually to suit the purpose of the Bank and the needs of the customers who are of paramount importance to them. The people in the Bank see themselves as a tight knit team/family that believes in working together for growth. The corporate culture they belong has not been imposed: it has rather been achieved through their corporate culture.

## **2.11 Product Services Information**

Card Products:	<p>DBBL-NEXUS Classic Card (debit)  DBBL-NEXUS Maestro card (debit)  DBBL-NEXUS Maestro card (debit)  DBBL-NEXUS Silver OD card (credit)  DBBL-NEXUS Gold OD card (credit)</p>
IT Products:	<p><u>Truly Online Banking</u>  Wide range of <u>ATM</u> &amp; <u>POS</u>  <u>Internet Banking</u>  <u>SMS &amp; Alert Banking</u></p>
Retail Banking Products:	<p><b>Clean Credit Lines:</b>  (No cash security, No personal guarantee.)</p> <p><b>DBBL Life Line:</b>  From the basket of Life Line, DBBL is offering a complete series of credit facilities for individual service holders, professionals and self-employed person.</p> <p><b>Health Line:</b>  Hospitalisation or other emergency medical needs; Topurchase body fitness equipments.</p> <p><b>Education Line:</b>  For Higher education purposes:  Tuition fees</p> <p><b>Professionals Line</b></p>

<p>Retail Banking Products:</p>	<p>Purchase of Professional equipments; For Office renovation/decoration</p> <p><b>Marriage Line</b> To meet marriage expenses for himself/herself Marriages in the family</p> <p><b>Travel Line:</b> For Honeymoon trip, abroad or in the country For Family trip, abroad or in the country</p> <p><b>Festival Line:</b> To enjoy festive period Gift for the family / in laws / relatives</p> <p><b>Dreams Come True Line:</b> To purchase TV, Fridge, Furniture, Home Theatre, Motor Cycle, AC etc. To decorate/renovate own Home/Car</p> <p><b>Care Line:</b> Loan for fulfilment of parents need/dream To purchase economy car for the family (i.e. to purchase low cost second hand car)</p> <p><b>General Line:</b> Any other legitimate purposes which do not fall under the above specific lines</p>
<p>Secured Credit Lines (flexible facility with minimum security)</p>	<p><b>Auto Line:</b> To purchase a new / re-conditioned car Refinancing of availed car</p> <p><b>Home Line:</b> To purchase a flat Refinancing of owned house property Home renovation Extension / construction of building</p> <p><b>Full Secured Lines :</b> Loans for family expenses Any other valid purposes</p>

DBBL Future Line	<p>Secured / Clean OD Lines:  (flexible OD lines in Debit Card)  OD facility against security  OD facility against salary</p> <p><u>DBBL Deposit Plus Scheme (DPS)</u>  <u>DBBL Periodic Benefit Scheme (PBS)</u>  <u>DBBL Bochore Dergun Scheme (BDS)</u>  <u>DBBL Children Education Savings Scheme (CHESS)</u>  <u>DBBL Pension Plus (PP)</u></p>
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## **2.12 Banking Products**

### Deposit

Savings Deposit Account  
Current Deposit Account  
Short Term Deposit Account  
Resident Foreign Currency Deposit  
Foreign Currency Deposit  
Convertible Taka Account  
Non-Convertible Taka Account  
Exporter's FC Deposit(FBPAR)  
Current Deposit Account-Bank  
Short Term Deposit Account-Bank

### Term Deposit

MONTHLY TERM DEPOSIT  
TERM DEPOSIT 3 MONTHS  
TERM DEPOSIT 6 MONTHS  
TERM DEPOSIT 12 MONTHS  
TERM DEPOSIT 12 MONTHS  
TERM DEPOSIT 24 MONTHS  
TERM DEPOSIT 24 MONTHS 1 Year  
PAYOUT  
TERM DEPOSIT 36 MONTHS  
TERM DEPOSIT 36 MONTHS 6 Months  
PAYOUT  
TERM DEPOSIT 36 MONTHS 1 Year  
PAYOUT  
TERM DEPOSIT ABOVE 36 MONTHS  
MONTHLY TERM DEPOSIT BANKS  
TERM DEPOSIT 3 MONTHS BANKS  
TERM DEPOSIT 6 MONTHS BANKS  
TERM DEPOSIT 12 MONTHS BANKS

1 MONTH TD NFCD  
 3 MONTHS TD NFCD  
 6 MONTHS TD NFCD

### **2.13 Loan & Advances**

- Life Line (a complete series of personnel credit facility)
- Loan angst. Trust Receipt
- Transport Loan
- Real Estate Loan (Res. & Comm.)
- Loan Angst. Accepted Bill
- Industrial Term Loan
- Agricultural Term Loan
- Lease Finance
- Other Term Loan
- FMO Local currency Loan for SME
- FMO Foreign currency Loan
- Cash Credit (Hypothecation)
- Small Shop Financing Scheme
- Overdraft

### **2.14 Management Hierarchy:**

Chairman
Director
Managing Director
Additional Managing Director
Deputy Managing Director
Senior Executive Vice President
Executive Vice President
Senior Vice President
First Vice President
Vice President
Senior Assistant Vice President

First Assistant Vice President
Assistant Vice President
Senior Executive Officer
Executive Officer
Senior Officer
Officer
Assistant Officer
Trainee Officer
Assistant Relationship Officer

### **2.15 Major units of the Bank:**

- Board Secretariat
- Office of the Managing Director
- Office of the Additional Managing Director
- Office of the Deputy Managing Director (Operation)
- Office of the Deputy Managing Director (Administration)
- Accounts Division
- Credit Division
- Card Division
- Credit Administration Division
- Credit Monitoring & Recovery Division
- Corporate Banking Division
- General Services Division
- Human Resource Division
- Information Technology Division
- International Division (Treasury Back Office)
- Internal Control And Compliance Division
- International Division (Front Office)
- Medical Consultant
- Retail & SME Division
- Training Wing

## **Chapter 3**

### **Credit Management of Dutch Bangla Bank Ltd : A Theoretical Analysis & Interpretation:**

#### **3.1 Definition of Credit:**

The word credit comes from the Latin word “Credo” meaning “I believe”. It is a lender’s trust in a person’s/ firm’s/ 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. For a Bank, it is the main source of profit and on the other hand, the wrong use of credit would bring disaster not only for the bank but also for the economy as a whole.

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 loan and advance and their efficient management. Credit management is a dynamic field where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund.

Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default. Actually the credit portfolio is not only constituted the banks 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.

#### **3.2 Factors Related with Credit:**

- Risk
- Time
- Interest rate
- Security or Collateral
- Operating Expense
- Legal Considerations

- Inflation
- Finance Charge

### **3.3 Credit flow of DBBL:**

Credit Risk Management is basic to risk management and controlling, as it is the major risk factor in most bank business. Therefore, a bank should assess the degree of risk associated with each loan and its profitability. In this connection prior assessment of and follow up on a loan transaction constitute essential ingredients of the credit risk control process. An in-depth analysis of the borrower financial conditions, expected usage of funds, ability to repay, willingness to repay and sources of repayment all together constitute step one in the risk control processes.

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 banks 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.

### **3.4 Types of loans and advances offered by DBBL:**

The making of loan and advance is always profitable to a bank. As the bank mobilizes savings from the general people in the form of deposit, the most important task of it is to disburse the said deposit as loan or advance to the mass people for the development of commercial, industrial who are in need of fund for investment. Like other business firm, the main purpose of the commercial bank is to make profit. The profitability of the banks depends on the efficient manner and avenues in which the resources are employed. DBBL has made so far efficient use of the deposit and has the classified rates under control. The Bank disburses loan in different form. It varies in purpose wise, mode wise and sector wide. The varieties used by DBBL are briefly described below with the common terms and condition and performance in each mode.



## **Classification of Advance: Commercial & Industrial Credit:**

**3.41** Corporate Credit Scheme.

**3.42** Retail Credit Scheme

### **3.4.1 Corporate Credit Scheme:**

The bank is entrusted with the responsibility of providing short, medium and long term loans and other financial assistance for promotion of industrial sectors. There are 3 types of corporate credit scheme:

- Cash Credit
- Over Draft
- Secured Over draft

### **3.4.2 Retail Credit Scheme:**

The bank also provides retail loan to individual customer. There are different types of retail loan which helps customer to fulfill their dream. Like car loan, educational loan, travel loan etc

## **3.6 Lending Policies of Dutch Bangla Bank Ltd:**

A loan policy gives loan officers, relationship managers and the Bank's management specific guidelines in making individual loan decisions and in shaping the Bank's overall loan portfolio. One of most important ways a Bank can make sure its loans meet regulatory standard and are profitable is to establish a written loan policy.

Dutch Bangla Bank Ltd. also has a good loan policy and the most important elements of the policy are stated below:

- A goal statement for the Bank's loan portfolio (in terms of types, maturities, sizes, and quality of loans).
- Specification of the lending authority given to each loan officer and loan committee (measuring the maximum amount and types of loan that each person and committee can approve.)
- Lines of responsibility in making assignments and reporting information within the loan department.

- Operating procedures for soliciting, reviewing, evaluating, and making decisions on customer loan applications.
- The required documentation that is to accompany each loan application and what must be kept in the Bank's credit files (required financial statements, security agreements etc.)
- Lines of authority within the bank regarding who is responsible for maintaining and reviewing the Bank's credit files.
- Guidelines for taking, evaluating and perfecting loan collateral.
- A presentation of policies and procedures for setting loan interest rates and fees and the terms for repayment of loans.
- A statement of quality standards applicable to all loans.
- A statement of the preferred upper limit for total loans outstanding (i.e. the maximum ratio to total loans to total assets allowed.)
- A description of the Bank's principal trade area, from which most loans should come.
- A discussion of the preferred procedures for detecting, analyzing and working out problem loan situations.

A written loan policy statement carries a number of advantages for the bank adopting it. It communicates to employees working in the loan department what procedures they must follow and what their responsibilities are. It helps the Bank moves forward a loan portfolio that can successfully blend multiple objectives such as promoting the bank's profitability, controlling its exposure and satisfying regulatory requirements.

### **3.7 Lending Procedure of Dutch Bangla Bank Ltd:**

The lending procedure starts with building up relationship with customer through account opening. The stages of credit approval are done both at the branches and at the corporate office level. The various stages of credit approval are described sequentially:

#### **➤ Step-1**

A loan procedure starts with a loan application from a client who must have an account with the Bank. At first it starts from the branch level. Branch receives application from client for a loan facility. In the application client mention what type of credit facility

he/she wants from the bank including his/her personal information and business information. Branch Manager or the Officer-in-charge of the credit department conducts the initial interview with the customer.

➤ **Step-2**

After receiving the loan application from the client, the bank sends a letter to Credit Information Bureau of Bangladesh Bank for obtaining a credit inquiry report of the customer from there. This report is called CIB (Credit Information Bureau) report. This report is usually collected the credit information of customer. The purpose of this report is to be informed that whether or not the borrower has taken loans and advances from any other banks and if so, what is the status of those loans and advances i.e. whether those loans are classified or not.

➤ **Step-3**

If Bangladesh Bank sends positive CIB report on that particular borrower and if the Bank thinks that the prospective borrower will be a good one, then the bank will scrutinize the documents. Required documents are:

- In case of corporate client, financial documents of the company for the last three to five years. If the company is a new one, projected financial data for the same duration is required.
- Personal net worth of the borrower(s).
- In this stage, the bank will require whether the documents are properly filled up and duly signed. Credit in charge of the relevant branch is responsible enquire about the ins and outs of the customer's business through discussing with him/them.

➤ **Step-4**

Bank officials of the credit department will inspect the project for which the loan is applied. Project existence, its distance from the bank originating the loan, monitoring cost and possibilities are examined.

➤ **Step-5**

Any loan proposal needs to be evaluated on the basis of financial information provided by the loan applicant. Financial spread sheet analysis which consists of a series of quantitative techniques is employed to analyze the risks associated with a particular loan and to judge the financial soundness and worthiness of the borrower. Besides lending risk analysis is also undertaken by the bank to measure the borrower's ability to pay considering various risks associated the loan. These quantitative techniques supported with qualitative judgment are the most important and integral part of the credit approval process used by DBBL. This is the credit analysis phase.

➤ **Step-6**

Obtain legal opinion on the collateral provided by the applicant, whether those are properly submitted- regular and up to date or else those documents will be asked to regularize by the applicant.

➤ **Step-7**

The branch starts processing the loan at this stage. Based on the analyses (credit analysis) done by the branch, the branch prepares a loan proposal. The proposal contains following important and relevant information:

- Name of the borrower (s).
- Nature of credit.
- Purpose of the credit.
- Extent of the credit.
- Collateral.
- Margin.
- Rate of interest.
- Repayment schedule
- Validity

➤ **Step-8**

If the proposal meets DBBL's lending criteria and is within the manager's discretionary power, the credit line is approved. The manager and the sponsoring officer sign the credit line proposal and issue a sanction letter to the client.

If the value of the credit line is above the branch manager's limit then it is send to head office or zonal office for final approval with detailed information regarding the client (s), credit analysis and security papers.

#### ➤ **Step-9**

Head office processes the credit proposal and afterwards puts forward an office notice if the loan is within the discretionary power of the head office credit committee or board memorandum if the loan requires approval from the board of directors.

#### ➤ **Step-10**

If the zonal office, credit committee of the head office or the board as the case may be approves the credit line, an approval letter is sent to the branch. The branch then issues a sanction letter to the borrower with a duplicate copy. The duplicate copy duly signed by the borrower is returned to the branch of the bank.

#### **Step-11**

After issuing the sanction advice, the bank will collect necessary charge documents. Charge documents vary on the basis of types of facility, types of collateral.

#### ➤ **Step-12**

➤ Finally loan is disbursed by the branch through a loan account in the name of the borrower and monitoring of the loan starts formally.

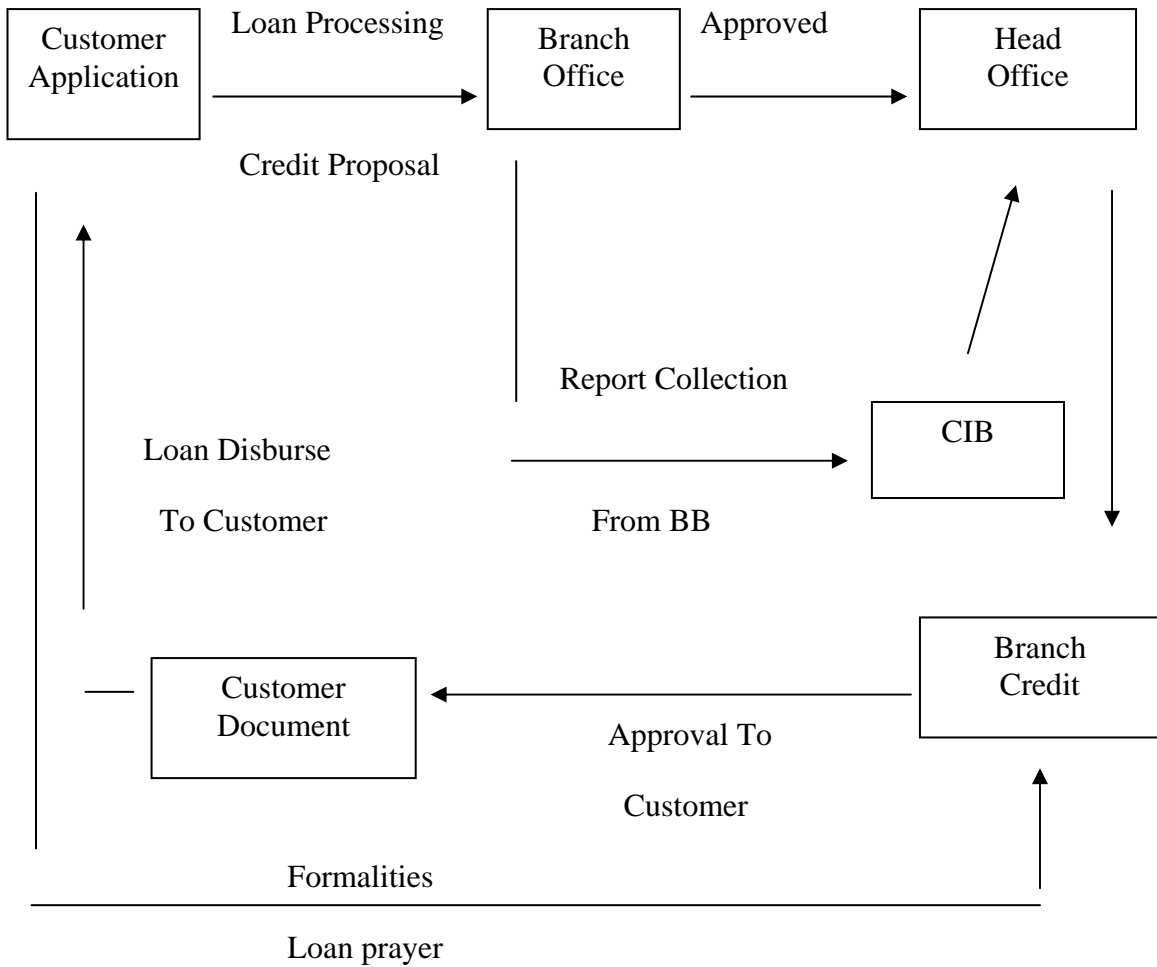
#### **There must be a depth study on the following points:**

- ⇒ When the loan is to be given;
- ⇒ How the loan is to be given;
- ⇒ What may happen after disbursement of the loan;
- ⇒ Generally what happens (from past experience) after disbursement of the loan;
- ⇒ Is it hopeful that the loaner will repay the loan;
- ⇒ In which sector, private or public, trading or industrial, the loan will be given;

⇒ The loan will be short term or long term.

A manager will do the possible efforts to minimize the risk of the Bank.

### 3.8 General Procedure for Loans and Advances:



#### 3.8.1 First information sheet (FIS)

First information sheet (FIS) is the prescribed form provided by the respective branch that contains basic information of the borrower. It contains following particulars.

1. Name of the concern with its factory location, office address and Tel no.
2. Name of the main sponsors with their educational qualification.

3. Business experience of the sponsors, details of past and present business, its achievement and failures, name of all the concerns wherein the sponsors have involvement.
4. Income tax registration no. With the amount of tax paid for the last three years.
5. Details of unencumbered assets (movable & immovable) personally owned by the sponsors.
6. Details of liabilities with other banks and financial institutions including securities held there against.
7. Purpose of loan sought from DBBL.
8. Estimated cost of the project & means of finance.

### **3.8.2 Application for credit line**

After receiving the first information sheet from the borrower Bank official verifies all the information carefully. He also checks the account maintains by the borrower with the Bank. If the official become satisfied then he gives application to the bank prescribe format supplied by the bank called Credit for request limit (CRFL).

### **3.8.3 Credit Sanction & Appraisal Process**

Borrowers Credit Worthiness Analysis by DBBL following 6 “C”s:

The question that must be dealt with before any other whether or not the customer can service the loan that is pay out the loan when due with a comfortable margin of error. This usually involves a detailed study of six aspects of the loan application: character, capacity, cash, collateral, conditions and control. All must be satisfied for the loan to be a good one from the lender’s (DBBL) point of view.

- ⇒ **Character:** The loan officer must be convinced that the customer has a well defined purpose for requesting credit and a serious intention to pay. Responsibility, truthfulness, clean past record, true purpose and honest intention to repay the loan make up what a loan officer calls character.
- ⇒ **Capacity:** The customer requesting credit must have the authority to request such and the legal standing to sign a binding loan agreement.

- ⇒ **Cash:** The borrower should have the ability to generate enough cash flow to repay the loan. This cash flow can be generated from sales or income from the sales or income, from the sale of liquidation of assets or funds raised through debt or equity securities.
- ⇒ **Collateral:** The borrower must possess adequate net worth or enough quality assets to provide adequate support for the loan. The value of the collateral security must cover the loan exposure.
- ⇒ **Conditions:** The recent trend of borrower's line of work or industry must be taken into considerations by the lender.
- ⇒ **Control:** The lender should be careful about whether changes in law and regulations could adversely affect the borrower and whether loan request meets the Bank's and regulatory authorities' standards for loan quality.

#### **3.8.4 Collecting CIB Report from Bangladesh Bank**

After receiving the application for credit line, Bank sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Credit Information Bureau) report. Basically branch seeks this report from the head office for all kinds of loans. The purpose of this report is to being informed that whether the borrower the borrower has taken loan from any other bank; if 'yes', then whether the party has any overdue amount or not.

#### **3.8.5 Making Credit proposal (CP)**

Branch then has to find the right borrower by considering the following 6 C's. These are character, capital, capacity, cash, collateral, condition (economic). If the branch thinks that the project is feasible then he will prepare a Proposal. Bank prepares the proposal in a specific form called credit proposal. Significance the proposal branch sends it to head office for approval.

#### **3.8.6 Credit assessment**

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a credit application that originates from the Relationship Manager, and is



recommended by Branch Credit Committee (BCC). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the bank's Lending Guidelines and should conduct due diligence on new borrowers, principals and guarantors.

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

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

In addition, the following risk areas are analyzed:

- Borrower analysis
- Industry analysis
- Supplier/ Buyer analysis
- Historical financial analysis
- Projected financial performance
- Account conduct
- Adherence to lending guidelines
- Mitigating factors
- Loan structure
- Security

### **3.8.7 Risk Grading**

All Banks should adopt a credit risk grading system. The system should define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications.

### **3.8.8 Project Appraisal**

It is the pre-investment analysis done by the officer before approval of the project. Project appraisal in the banking sector is needed for the following reasons:

1. To justify the soundness of an investment
2. To ensure repayment of bank finance
3. To achieve organizational goals
4. To recommend if the project is not designed properly

### **3.8.9 Head Office Approval**

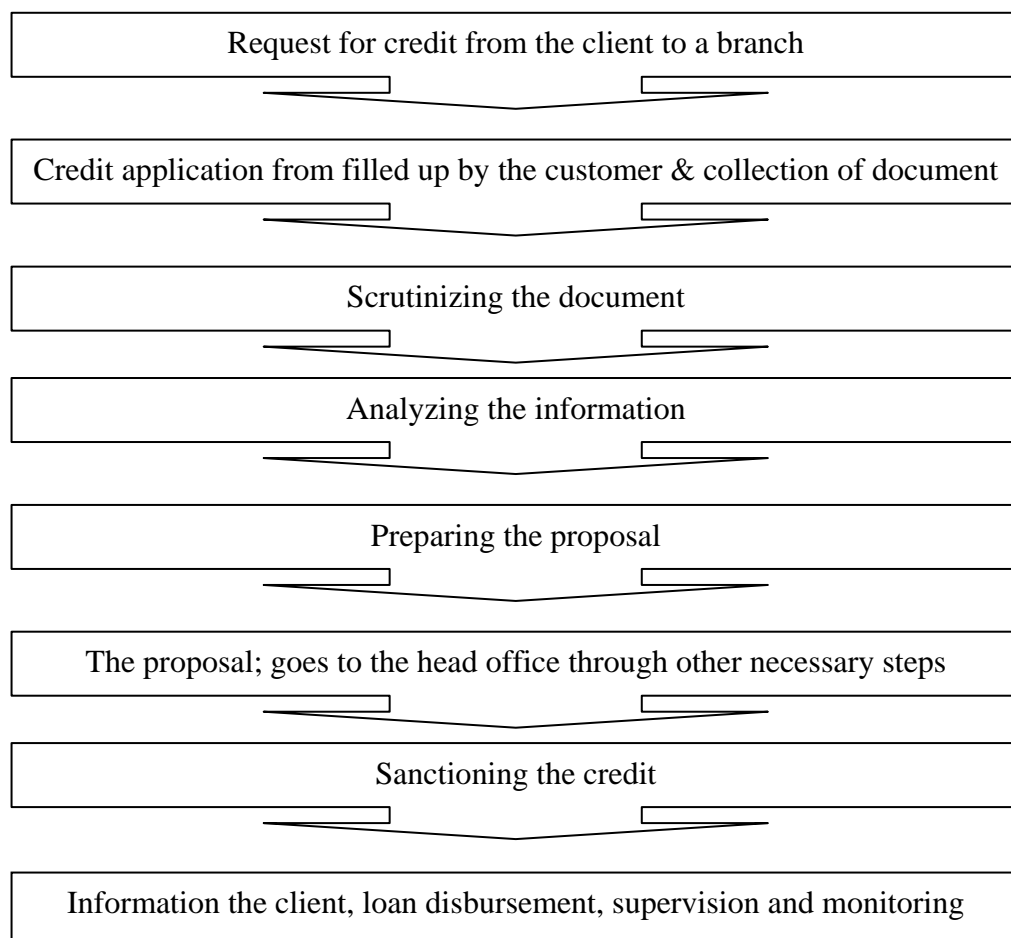
The respective officer of Head Office appraises the project by preparing a summary named “Top Sheet” or “Executive Summary”. Then he sends it to the Head Office Credit Committee (HOCC) for the approval of the loan. The Head Office Credit Committee (HOCC) considers the proposal and takes decision whether to approve the loan or not. If the loan is approved by the HOCC, the HO sends the approval to the concerned branch with some conditions. These are like.

- ❖ Drawing will not exceed the amount of bill receivables.
- ❖ The term over in the account during the tenure of the limit should not be less than four times of the credit limit.
- ❖ All other terms and conditions, as per policy and practice of the bank for such advance to safeguard the banker’s interest shall also be applicable for this sanction also.
- ❖ Branch shall not exceed the sanctioned limit.
- ❖ Required charge documents with duly stamped should be obtained.
- ❖ Drawing shall be allowed only after completion of mortgage formalities and other security arrangement.

### 3.8.10 Sanction letter

After getting the approval from the HO, the branch issues the sanction letter to the borrower. The borrower receives the letter and returns a copy of this letter duly signed by him as a token of having understood and acceptance of the terms and conditions above.

**Diagrammatically the whole loan appraisal and approval process is**



**Fig: Loan appraisal and approval process**

### 3.8.11 Documentation of loans and advances

In spite of the fact that a banker lends credit to a borrower after inquiring about the character, capacity and capital of the borrower, he must obtain proper documents executed from the borrower to protect him against willful defaults. Moreover, when money is lent

against some security of some assets, the document must be executed in order to give the banker a legal and binding charge against those assets. Documents contain the precise terms of granting loans and they serve as important evidence in the law courts if the circumstances so desire. That is why all approval procedure and proper documentation shall be completed before the disbursement of the facilities. The documents for loans and advances can be classified into two categories, namely Charge documents & Security documents.

### **3.8.12 Disbursement**

After verifying all the documents the branch disburses the loan to the borrower. A loan repayment schedule is also prepared by the bank and given to the borrower.

### **3.8.13 Follow-up**

After the disbursement of the loan bank officials time to time monitor the loan by physical observation of the activities of the party. It is done in the following manner.

- ⇒ Constant supervision
- ⇒ Working capital assessment
- ⇒ Stock report analysis.

### **3.8.14 Loan classifications**

#### **Classifications Scale**

1. **Unclassified:** Repayment is regular
2. **Substandard:** Repayment is irregular or stopped but has reasonable prospect of improvement.
3. **Doubtful Debt:** Unlikely to be repaid but special collection efforts may result in partial recovery.
4. **Bad/loss:** Very little chance of recovery.

### **3.8.15 Credit Monitoring**

Monitoring is a process of taking case of loan cases starts from the selection of the borrower and remains live throughout the life of a loan.

To minimize credit losses, monitoring procedures and systems should be in place that provide an early indication of the deteriorating financial health of a borrower. At a minimum, systems should be in place to report the following exceptions to relevant executives in CRM and RM team:

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

All borrower relationships/loan facilities are reviewed and approved through the submission of a Credit Application at least annually. Two possible solutions to minimize the credit loss:

### **3.8.16 Early Alert Process**

Despite a prudent credit approval process, loans may still become troubled. Therefore, it is essential that early identification and prompt reporting of deteriorating credit signs be done to ensure swift action to protect the Bank's interest.

### **3.8.17 Credit Recovery**

Commercial Banks sanction loan to different categories of borrowers for various purposes. Before sanctioning of loans and advances (short term loan, long term loan) bank appraises a loan proposal and analyze information relating to the borrower and purpose of the loan to determine viability of the loan proposal. If the proposal is found viable and safe for lending, loan is sanctioned and disbursed.

At the time of sanctioning loan, along with all other terms and conditions repayment period and installment is fixed. Recovery of loan starts just after the maturity of grace period. But more exhaustive appraisal of the loan proposal in the pre-sanction stage is not the guarantee to recover the loan money with interest unless a built in system of

supervision & follow up is applied and proper treatment is given as and when problem arises.

The RU's primary functions are:

- Determine Account Action Plan/Recovery Strategy
- Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- Regular review of grade 9 or worse accounts.

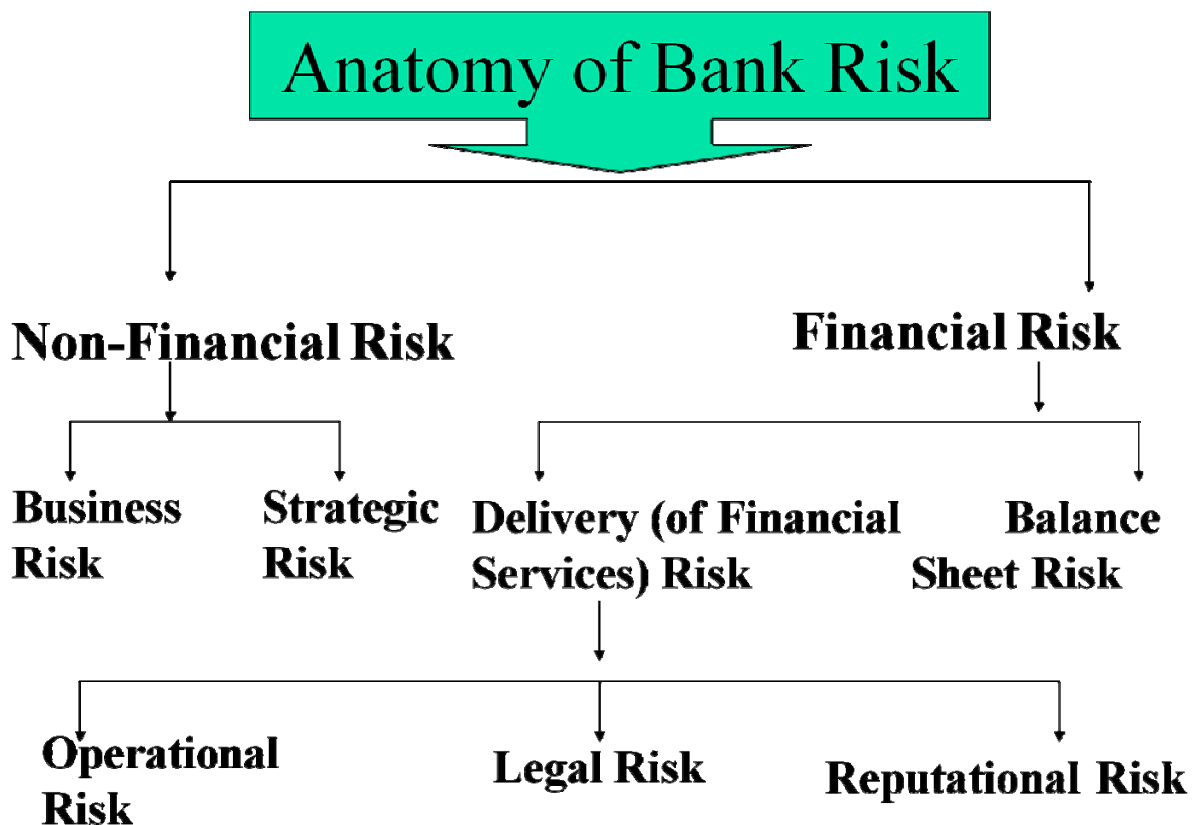
The loan classification procedure for all types of loan is governed by the guidelines contained in BRPD Circular no 16 dated 06.12.98 issued by Bangladesh Bank and subsequently revised partially through BRPD Circular no 9 and 10 dated 14.05.2000, According to this circular if any borrower fails to repay his amount or installment within the following time period then it will fall under the following classification status.

## Chapter 4

### Risks associated with Credit

#### 4.1 What is Risk?

- Risk is the probability that the realized return would be different from the anticipated/expected return on investment.
- Risk is a measure of likelihood of a bad financial outcome.
- All other things being equal risk will be avoided.
- All other things are however not equal and that a reduction in risk is accompanied by a reduction in expected return.
- The uncertainties associated with risk elements impact the net cash flow of any business or investment. Under the impact of uncertainties, variations in net cash flow take place. This could be favorable or un-favorable. The un-favorable impact is 'RISK' of the business.

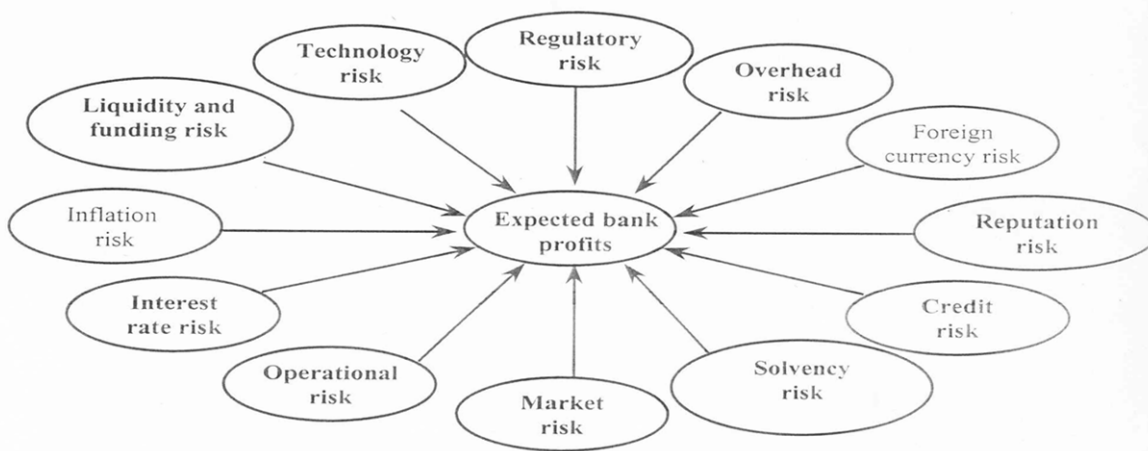


### 4.2 Risks in Banking Business

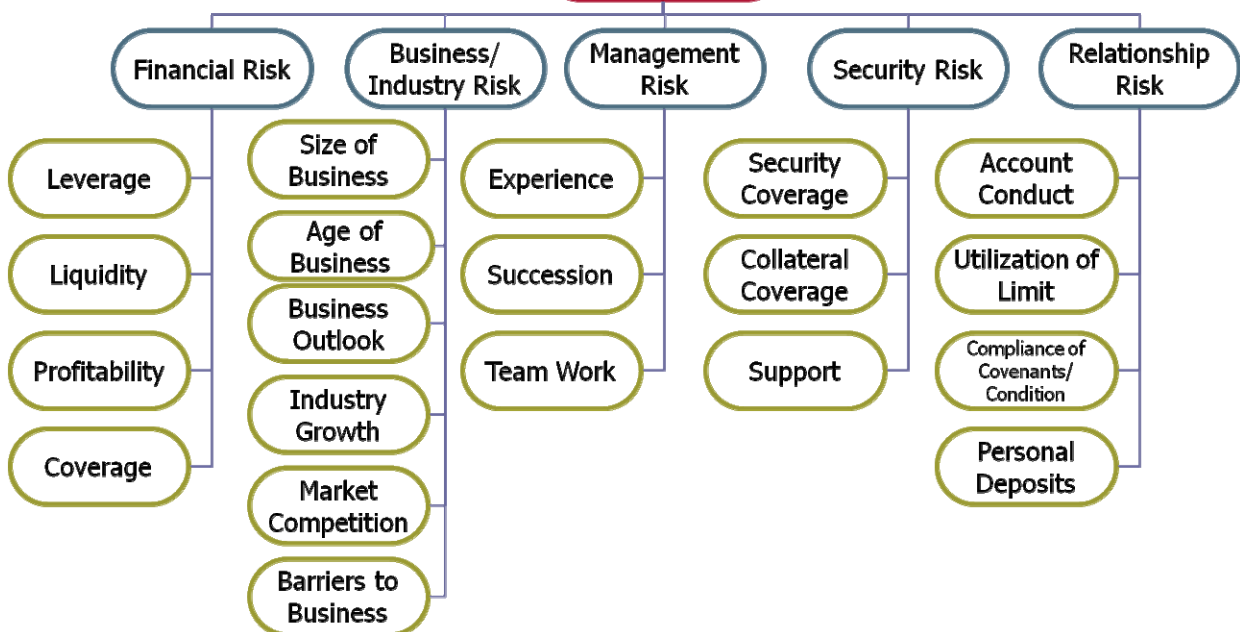
Banking business is broadly grouped under following major heads from Risk Management point of view:

1. The Banking Book
2. The Trading Book
3. Off-Balance-sheet Exposures

### Appropriate Balance between Expected Profits and Risk



### CREDIT RISK





### **4.31 Business Risk**

Business Risk is concerned with whether the borrowing company would fail to generate sufficient cash out of business to repay the loan. Business Risk, the main component of lending risk, consists of the Industry Risk and the Company Risk.

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

1) **Supply risk:** It indicates the risk of failure of the business due to disruption in the supply of inputs resulting from their price, quantity or quality. It is difficult to obtain right quality of supplies, when it is difficult to obtain required quality of raw materials and when there is a shortage of necessary skilled labor.

2) **Sales risk:** It is another component of industry risk. When the business fails for disruption in sales, this type of risk would generate. Sales may be disrupted due to changes in market size, increased competition, changes in regulations, losing of a single large customer etc.

B. **Company Risk:** Each and every company holds a position within an industry. This position is very much competitive. Due to weakness in the company's position in its industry, a company may fail and the risk of failure is called company position risk. It depends on company performance.

### **4.32 Management risk:**

If the management of a company fails to exploit the company's position effectively, the company can fail to and this risk of failure is called management risk.

### **4.33 Security Risk:**

Security Risk is the risk that the realized value of the security does not cover the exposure of loan. Exposure means principal plus outstanding interest. Security risk can be divided into two parts.

#### **4.4 RISK MANAGEMENT PROCESS**

- TO IDENTIFY
- TO MEASURE
- TO MODIFY
- TO MANAGE
- TO MONITOR

#### **4.5 Risk Management:**

Credit risk, arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions.

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

The purpose of this document is to provide directional guidelines that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of our Bank's performances. Credit risk management is of utmost importance, and as such, policies and procedures should be endorsed and strictly enforced.

#### **4.6 Lending Risk Analysis (LRA)**

One of the important functions of any bank is considered to be lending. This is the main source of income for the bank. The modern concept of lending has shifted from the

security-oriented approach to business viability one. The emphasis is given on the likelihood of repayment, business viability, management competence and management integrity of the proposed debtor. As the prevailing legal system of the country often favors the borrower by making it difficult for the Bank to foreclose on collateral, the ultimate security of the Bank is the Commercial success of the borrower. Adequate emphasis of business risk is more important than analysis of security risk.

<b>Collect Data</b> ↓	→	<b>Analyze</b> ↓	→
<ul style="list-style-type: none"> <li>• Collect all data available from published source ↓</li> </ul>		<ul style="list-style-type: none"> <li>• Prepare financial spreadsheet</li> <li>• Analyze spreadsheet ↓</li> <li>• Ratio</li> </ul>	
<ul style="list-style-type: none"> <li>• Visit company to collect company specific data that is not published, interview management to assess their ability and integrity view the security from your own impressions of company operations</li> </ul>		<ul style="list-style-type: none"> <li>• Prepare supplementary</li> </ul>	<ul style="list-style-type: none"> <li>• Complete lending risk analysis form</li> </ul>

Experienced people of the credit department of DBBL Bank do this sort of analysis. It is a ranking whose total score are 140. Among these scores 120 is for total business risk and 20 for total security risk. It is a four-scale rating.

In case of business risk, if the point falls between 13 to 19 then poor risk; if the score falls between 20 to 26 then acceptable risk; if the score falls between 27 to 34 then marginal risk and if the score is over 34 then good risk.

In ease of security risk, if the score falls between -20 to -1 5 then poor risk; if the score falls between -14 to 0 then acceptable risk; if the score calls between 0 to 10 then marginal risk and if the score is over 10 then good risk.

## Chapter 5

### CREDIT ASSESSMENT AND SELECTION OF BORROWER

Credit assessment helps the banker to ensure selection of right type of loan proposals/projects/ventures/enterprise and right type of borrower. For selecting the borrower security should not be the only thing to be relied upon. So responsibilities of the bankers to investigate the client from different view point i.e. the strength and weakness of the client so that the client will be able to repay the bank loan as repayment schedule with profit.

Credit risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The result of this assessment should be presented in a credit application that originates from the Relationship Manager (RM), and is approved by Credit Risk Management (CRM). Credit applications should summarize the results of the RMs risk assessment and include, as a minimum, the following details:

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

In addition, the following risk areas should be addressed:

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

- **Industry Analysis:** The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weakness of the borrower relative to its competition should be identified.
- **Supplier/Buyer Analysis:** Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.
- **Historical Financial Analysis:** An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed.
- **Projected Financial Performance:** Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.
- **Account Conduct:** For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) should be assessed.
- **Adherence to Lending Guidelines:** Credit applications should clearly state whether or not the proposed application is in compliance with the bank's Lending "Guidelines. The Bank's Head of credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank's Lending Guidelines.

- **Mitigating Factors:** Mitigating factors for risks in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/ or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.
- **Loan Structure:** The amounts and tenors of financing proposed should be justified based on the perfected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.
- **Security:** A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.
- **Name Lending:** Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceive willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

Facilities will only be provided after analysis of the risks associated with the counter parties. There are numerous risks attached to every transaction/relationship but there is a need for certain fundamental risk aspects to be considered for every relationship. Certain of these risks have been identified which will be required to be commented upon on a mandatory basis.

## **Chapter 6**

### **CREDIT RISK GRADING**

#### **5.1 DEFINITION OF CREDIT RISK GRADING (CRG)**

- The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure.
- A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure.
- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

#### **5.2 FUNCTIONS OF CREDIT RISK GRADING**

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

#### **5.3 USE OF CREDIT RISK GRADING**

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



## **5.4 HOW TO COMPUTE 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**
- Step II : Allocate weight ages to Principal Risk Components**
- Step III : Establish the Key Parameters**
- Step IV : Assign weight ages to each of the key parameters.**
- Step V : Input data to arrive at the score on the key parameters.**
- Step VI : Arrive at the Credit Risk Grading based on total score obtained.**

<b><u>Principal Risk Components:</u></b>	<b><u>Key Parameters:</u></b>	<b><u>Weight:</u></b>
▪ <b>Financial Risk</b>		<b>50%</b>
	⇒ Leverage	15%
	⇒ Liquidity	15%
	⇒ Profitability	15%
	⇒ Coverage	5%
▪ <b>Business/Industry Risk</b>		<b>18%</b>
	⇒ Size of Business	5%
	⇒ Age of Business	3%
	⇒ Business Outlook	3%
	⇒ Industry growth	3%
	⇒ Market Competition	2%
	⇒ Entry/Exit Barriers	2%
▪ <b>Management Risk</b>		<b>12%</b>
	⇒ 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%

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"> <li>▪ 100% cash covered</li> <li>▪ Government guarantee</li> <li>▪ International Bank guarantees</li> </ul>
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 & Loss	BL	<35

## 5.5 EXCEPTIONS TO CREDIT RISK GRADING

- Head of Credit Risk Management may also downgrade/classify an account in the normal course of inspection of a Branch or during the periodic portfolio review. In such event, the Credit Risk Grading Form will then be filled up by Credit Risk Management Department and will be referred to Corporate Banking/Line of Business/Credit Administration Department/Recovery Unit for updating their MIS/records.
- Recommendation for upgrading of an account has to be well justified by the recommending officers. Essentially complete removal of the reasons for downgrade should be the basis of any upgrading.
- In case an account is rated marginal, special mention or unacceptable credit risk as per the risk grading score sheet, this may be substantiated and credit risk may be accepted if the exposure is additionally collateralized through cash collateral, good tangible collaterals and strong guarantees. **These are exceptions and should be exceptionally approved by the appropriate approving authority.**
- Whenever required an independent assessment of the credit risk grading of an individual account may be conducted by the Head of Credit Risk Management or by the Internal Auditor documenting as to why the credit deteriorated and also pointing out the lapses.
- If a Bank has its own well established risk grading system equivalent to the proposed credit risk grading or stricter, then they will have the option to continue with their own risk grading system.

## CHAPTER: 7

### IN TERPRETATION OF CREDIT RISK MANAGEMENT AND CREDIT RISK GRADING OF DUTCH BANGLA BANK LIMITED:

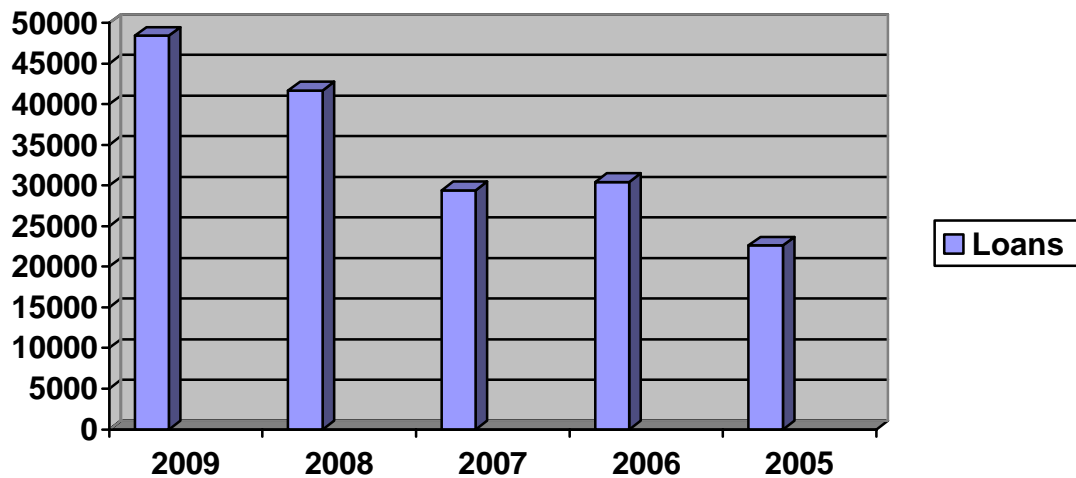
(BASED ON THE LAST FIVE YEARS DATA)

This table is showing the last five years few particulars. Such as total loan amount, The income come from the investment, the rate of the defaulter, then the total number of the customers of the Dutch Bangla Bank limited.

(In million taka)

<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>The Loans</b>	<b>48410.99</b>	<b>41698.32</b>	<b>29403.12</b>	<b>30456.32</b>	<b>22592.27</b>
<b>Income From Investment</b>	<b>202.02</b>	<b>428.97</b>	<b>630.86</b>	<b>621.73</b>	<b>1334.17</b>
<b>Number Of customers</b>	<b>1</b>	<b>50 Lac</b>	<b>25 Lac</b>	<b>20 Lac</b>	<b>25 Lac</b>

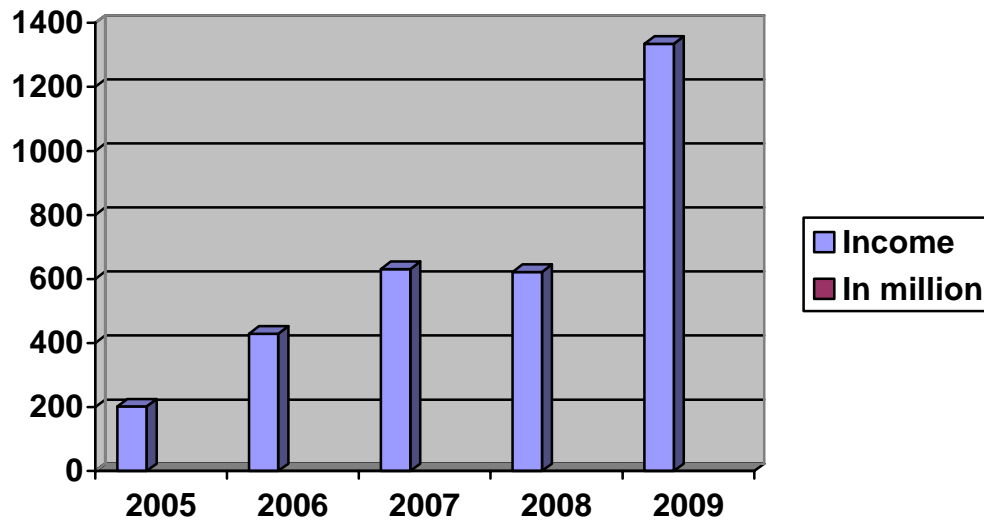
### 7.1 LOANS OF DBBL FROM THE 2005 TO 2009



#### Interpretation:

In the year 2005 the loan amount was 22592.27 million and then at the year 2006 It increased to 30456.32 million per year and then in the year 2007 it decreased to 29403.12 million then in the year 2008 the loan amount has reached to the almost highest level as 41698.32 and in the recent year 2009 the loan amount is 48410.99 million per year.

## 7.2 INCOME FROM INVESTMENT OF DBBL OF THE YEAR 2005 To 2009:



### Interpretation:

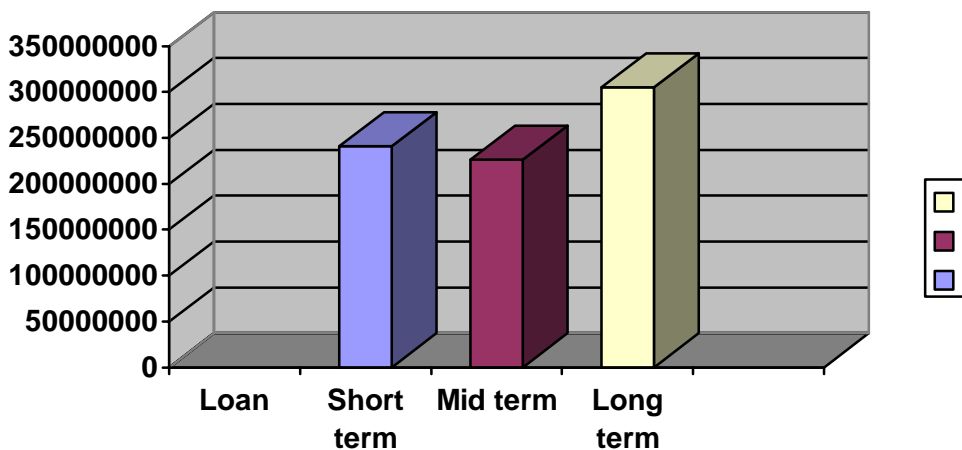
The income from the investment or the loan is given below:

At the year 2005 the income from revenue was 202.02 million per year and to the next year the income has been increased to 428.97 in the year 2007 the income was again increased to 630.86 .After that year in the next year the income sloped down a little bit to 621.73 million. And in the last year 2009 the income is in the highest number that means at 1334.17 million taka per year.

**7.3 Interpretation of Loans and advances Of the leatest year 2009 of Dutch Bangla Bank Limited : SHANTINAGAR BRANCH :**

**Loan, Advance & lease including the bills purchased  
And discounted**

Short term (with in one to three months)	241231266.39
Mid term (with in three to twelve months)	225961028.08
Long term (with in one to five years)	205301705.38
Long term (for specials purpose More than five year)	2562992.30
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	<u>675056992.15</u>



In these three sectors Dutch Bangla Bank provides the loan to the customers among the all they provide more emphasis to the long term loan sessions. They earn more profit from these sectors.

## Chapter: 8

### Findings & Analysis

#### 8.1 Analysis:

S\L no	Questions	Strongly Agree (1)	Agree (2)	Neither Agree nor Disagree (3)	Disagree (4)	Strongly Disagree (5)
1	DBBL increasing the economic and political environments through long term business opportunities.	3	9	2	0	1
2	Retail product (loan) creates enough satisfaction.	3	5	5	1	1
3	Good numbers of retail products (loan) are offered by DBBL.	1	8	3	3	0
4	DBBL retail loans offer minimum pricing structure.	3	5	6	0	1
5	DBBL offer to customers 70% term loan	1	5	7	2	0
6	Target customers of DBBL smart cash credit are small or medium entrepreneur. Are you agreeing with us?	3	6	4	1	1
7	Processing fees .75% of DBBL smart loan for customers which are affordable.	5	6	1	1	1
8	Repayment system comfortable for customers because of auto debit installment from customers' deposit account.	9	5	0	0	1
9	Customers satisfied with DBBL smart SME.	3	7	5	0	0
10	13% interest rate on term loan, very cheap for customers.	2	6	5	2	0
11	DBBL gives customers affordable offer for term loan to purchasing motor vehicle interest rate only 15%	3	8	1	2	1
12	Customers satisfied with cash overdraft (COD), security must be 2.5% of loan amount	2	4	2	6	1
13	Customers satisfied with DBBL auto line repayment tenor (12 to 60 months).	3	9	1	1	1
14	Customers give 30% down payment to the DBBL for term loan. Are you agreeing with this	0	7	3	5	0



	condition?					
15	DBBL clean credit line interest rate 17.50% for no cash security customer. Interest rate are high than other bank.	0	9	4	2	0

## **8.2 Findings:**

Bases on observation and interpretation I found some positive and negative side in DBBL. Those are given below:

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

## **8.2 PROBLEM IDENTIFICATIONS:**

- The Bank does not go through back ground investigation all parties.
- Some time the loan documentation is not fairly done.
- Some time the document verification is done after loan sanction.
- The SME loan section is very poor because they focused on corporate loan.

### 8.3 RECOMMENDATIONS

- ❑ The Bank can organize more training program and workshop to make the employees more efficient in their sector.
- ❑ The Bank has to establish a strong “Credit Manual”.
- ❑ The Bank has to go through back ground investigation of all party’s.
- ❑ All the loan documentations have to done honestly.
- ❑ All the document verifications have to done before loan sanction.
- ❑ The Bank has to construct a long term strong investment policy.
- ❑ The Loan and Advance section has to make strong and the employees have to be devoted to the Bank.
- ❑ The Bank has to give emphasis the SME loan section.
- ❑ The Bank should introduce more loan section.

### Conclusion

It goes without saying that credit policy cannot be isolated from the broader monetary policy of the country. Like any other segment of the economic policy, credit is very important for any financial institution as it generates profit and gear up economic activities of the country. In other words, credit is business and it is input in the production process of the country. Since credit has an inherent risk, therefore proper utilization of the loans are essential to meet the requirements of the borrower. The loan applied for by the borrower must not be employed for unproductive purpose. In this regard, the Dutch Bangla Bank Ltd. must closely follow the progress of the loan and the way the borrower

is utilizing the funds. In this way the Dutch Bangla Bank Ltd. will deter any fraudulent activities on the part of the borrower.

Credit evaluation system of Dutch Bangla Bank Ltd. is very lengthy process. It has been revised time to time in response to the respective circular of Bangladesh Bank. The overall credit activity of Dutch Bangla Bank Ltd. is composed of corporate credit division and credit administration.

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

Overall, Dutch Bangla Bank Ltd. fairs very highly in the eyes of the clients as can be seen from the frequency distribution breakdown given in Chapter 7. This means that the Dutch Bangla Bank Ltd. is well — placed to further increase their presence in the credit market and thus increase their profits in the future.

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