Internship Report on

FUNCTIONS OF CREDIT RISK MANAGEMENT IN NON BANKING FINANCIAL INSTITUTIONS (NBFI) IN BANGLADESH

A study on IDLC Finance Limited

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Submitted to:

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BRAC Business School (BBS)

BRAC University

Date of Submission: 23rd December 2009

Letter of Transmittal

23rd December 2009

Sharmin Shabnam Rahman

BRAC Business School (BBS)

BRAC University

Subject: Submission of Internship Report of BBA Programme

Dear Madam,

It is my great pleasure to submit the internship report on ***"Functions of Credit Risk management in Non Banking Financial Institutions (NBFI) in Bangladesh, A study on IDLC Finance Ltd "*** which is a part of BBA Programme to you for your consideration.

I made sincere efforts to study related materials, documents, observe operations performed in IDLC Finance Limited and examine relevant records for preparation of the report.

Within the time limit, I have tried my best to compile the pertinent information as comprehensively as possible and if you need any further information, I will be glad to assist you.

Thanking you,

Chowdhury Tasmiah Jabeen

ID-06104024

BRAC Business School (BBS)

BRAC University

Acknowledgement

At first I would like to thank my honorable internship supervisor from BRAC Business School (BBS), BRAC University, Sharmin Shabnam Rahman for providing me such an opportunity to prepare an Internship Report on **"Functions of Credit Risk management in Non Banking Financial Institutions (NBFI) in Bangladesh, A study on IDLC Finance Ltd "**. Without her helpful guidance, the completion of this project was unthinkable. I would like to place my gratitude to the HR of IDLC Finance Limited to enable me to complete my internship in their esteemed organization.

Very special thanks goes to Mr. M. Jamal Uddin, Deputy General Manager & Head of Corporate and Structured Finance Division, IDLC Finance Limited & Mr. Alam Iftekhar Chowdhury, Manager Corporate Division, IDLC Finance Limited, for helping me in all phase of the internship process. Their overwhelming support for my internship gave me the inspiration to do a better report.

During my preparation of the project work I have come to very supportive touch of different individuals (respondents from IDLC Finance Limited) & friends who lend their ideas, time & caring guidance to amplify the report's contents. I want to convey my heartiest gratitude to them for their valuable responses.

Executive Summary

The non-bank financial institutions (NBFIs) constitute a rapidly growing segment of the financial system in Bangladesh. The NBFIs have been contributing toward increasing both the quality and quantity of financial services and thus mitigating the lapses of existing financial intermediation to meet the growing needs of different types of investment in the country.

Today all NBFIs are playing a vital role for the growth of the nation’s economy with the best of their ability. During the world recession period NBFIs in Bangladesh act in a stringent manner so that their financial systems as well as the economy do not collapse. 29 NBFIs are now contributing to the growth of national economy. IDLC Finance Ltd as a leading and pioneer NBFI started their operation in 1986 and still they are dominating the NBFI sector as well as contributing to the prosper of economic development. Their success in this industry has inspired others to invest their capital in a profitable way.

As major business of all NBFIs are providing lease facilities to the business along with various types of loan to individual and organizations therefore risk is associated with each and every product they are offering. To minimize this risk every institution has its own risk management policies. A number of actions are taken so that risk associated to their investment can be minimized.

This report is emphasizes credit risk management in NBFIs in Bangladesh. In this regard IDLC Finance Limited has been taken as the sample organization, its, services, rules and regulation, corporate governance is also taken into consideration.

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4.0 Findings and Analysis---
Credit Risk Management by IDLC Finance Ltd.

5.0 Recommendation & Conclusion

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1.1 INTRODUCTION

The development of financial market has been receiving heightened attention from the policy-makers in recent years. One explanation lies in the fundamental shift of development strategy reflected in the nearly universal embrace of the private sector as an engine of economic growth. The governments in both developed and developing countries, the international financial institutions which exert tremendous influence on the policy-making apparatus of developing countries and, to a great extent, the intelligentsia have all joined together as ardent advocates of private entrepreneurship.

IDLC Finance Ltd, a leading financial institution of the country achieved significant growth in all areas of business up to 3rd quarter of the year 2009. IDLC began its operation in 1985 as the first leasing company in Bangladesh. In 1995, IDLC was licensed as a Financial Institution by the country's central bank and during the last two decades, the company has grown in tandem with the country's growing economy.

The company's wide array of products and services range from retail products, such as home and car loans, corporate and SME products including lease and term loans, structured finance services ranging from syndications to capital restructuring and capital market services.

The company also strengthened its presence in the country's growing stock market with launching a subsidiary-IDLC Securities Limited-which is offering full-fledged brokerage service for retail and institutional clients.

1.2 ORIGIN OF THE REPORT

Since practical orientation is an integral part of the BBA degree requirement, I was deputed by the BRAC Business School (BBS), BRAC University to IDLC Finance Limited to take real life exposure of the activities of the organization as a financial institution.

During my internship at IDLC Finance Limited I have come across with different functions of the company. From them I have decided to work in the field of Credit Risk Management (CRM) and giving special emphasis on Special Asset Management (SAM).

This report has been originated as the course requirement of the BBA program. I hope the report will give a clear idea about the activities and role of Credit Risk Management in reducing the risk associated with the lease and loan thereby maintaining the IDLC's interest.

1.3 OBJECTIVES OF THE REPORT

The main objective of the study is to get a definite idea about how CRM plays a vital role in managing the risk associated with each and every product and services of IDLC Finance Limited. Furthermore, the orientation is very useful to detect whether the theoretical knowledge matches with real life scenario or not. Though the title **" Functions of Credit Risk management in Non Banking Financial Institutions (NBFI) in Bangladesh, A study on IDLC Finance Ltd**" very lengthy area, the specific objectives are as follows:

1. To know the necessity of Credit Risk Management.
2. To learn about the whole CRM procedure.
3. To know the decision making process of CRM.
4. To know the functions of Special Asset Management part of CRM
5. To know about the probable modification can be done in the whole CRM process.

1.4 METHODOLOGY OF THE STUDY

Analysis has been made on the basis of the objectives mentioned before in the context of " **Functions of Credit Risk management in Non Banking Financial Institutions (NBFI) in Bangladesh, A study on IDLC Finance Ltd"**

The paper will be written on the basis of information collected from primary and secondary sources.

(i) Primary Data; Discussion with the respective organization's officials.

(ii) For the completion of the present study, secondary data has been collected. The main sources of secondary data are:

- Annual Report of IDLC Finance Limited.
- Website of IDLC Finance Limited.
- Data from published reports of SEC, DSE
- Different Books, Journals, Periodicals, News Papers etc.

1.5 LIMITATIONS OF THE STUDY

To make a report various aspects and experiences are needed. But I have faced some barriers for making a complete and perfect report. These barriers or limitations, which hinder my work, are as follows:

- Difficulty in accessing data of its internal operations.
- Non-Availability of some preceding and latest data.
- Some information was withheld to retain the confidentiality of the organization.

I was placed for only around 3 months of time & working like a regular employee hindered the opportunity to put the effort for the study. The time span was not sufficient enough to learn all the activities of the organization properly. Therefore, it was very difficult to carry out the whole analysis.

1.6 STRUCTURE OF THE REPORT

The report has two main parts:

Part One: This is basically introductory part, the objective and scope of the study, limitations, and research methodology has been highlighted. Brief Introduction of IDLC Finance Limited, its product and service, organizational structure, performance, etc are presented.

Part Two: Products of NBFIs for which Credit Risk Management has become a key operational tool, how it performs its overall risk analysis and on the basis of the analysis identification of the ways of reducing the risk, thus maintains the core interest of the business. This part also contains the conclusion, reference & appendix of the report.

2.0 The Company

2.1 ILDC FINANCE LIMITED

IDLC Finance Ltd commenced its journey, in 1985, as the first leasing company of the country with multinational collaboration and the lead sponsorship of the International Finance Corporation (IFC) of The World Bank Group. Technical assistance was provided by Korean Development Leasing Corporation (KDLC), the largest leasing company of the Republic of South Korea.

The unique institutional shareholding structure comprising mostly of financial institutions helps the company to constantly develop through sharing of experience and professional approach at the highest policy making level.

IDLC offers a diverse array of financial services and solutions to institutional and individual clients to meet their diverse and unique requirements. The product offerings include Lease Finance, Term Finance, Real Estate Finance, Short Term Finance, Corporate Finance, Merchant Banking, Term Deposit Schemes, Debentures and Corporate Advisory Services.

The company has authorized capital of Taka 1,000,000,000 (10,000,000 shares of Taka 100 each) and paid up capital of Taka 250,000,000 (2,500,000 ordinary shares of Taka 100 each). IDLC has also established two wholly owned subsidiaries, IDLC Securities Limited and I, Cons Limited to provide customers with security brokerage solutions and IT solutions, respectively.

2.2 SHAREHOLDING STRUCTURE

IDLC was incorporated in the year 1985 as a joint venture public limited company among five foreign and three local financial institutions. Now there are no foreign investors the present Shareholding Structure of IDLC Finance Ltd is given bellow:

SL.NO.	NAME OF SHAREHOLDERS	%
	Sponsors/Directors:	
1	The City Bank Ltd.	29.70
2	Sadharan Bima Corporation	7.62
3	IPDC of Bangladesh Ltd.	0.0002
	Sub-Total	**37.33**
	GENERAL	
4	**Institutions :**	
	Mercantile Bank Ltd.	7.50
	Reliance Insurance Co. Ltd.	7.00
	Eskayef Bangladesh Ltd.	8.00
	BD Lamps	1.32
	Transcraft Ltd.	4.01
	Eastern Bank Limited	6.00

	Phonix Finance	1.00
	Partex Baverage	0.86
	Marina Apparels	1.00
	ICB	2.32
	Dhaka Stock Exchange Ltd.	0.95
	One Bank Ltd.	0.85
	Star Particle Board	0.60
	Bangladesh Finance & Invest.	0.88
	Other institutions	6.92
	Sub total	**49.21**
5	**Individuals :**	
	General Public(Individuals)	13.45
	Mr. A.K.M. Shaheed Reza, Director nominated by Mercantile Bank Ltd.	0.017
	Sub total	13.47
	Total Holdings	**100.00**

2.3 COMPANY CHRONICLE

May 23,1985	Incorporation of the Company
February 22,1986	Commencement of leasing business
October 1, 1990	Establishment of branch in Chittagong, the main port city
March 20,1993	Listed in Dhaka Stock Exchange
February 7, 1995	Licensed as a Non- Banking Financial Institutions under the Financial Institutions Act, 1993
November 25, 1996	Listed on the Chittagong Stock Exchange
May 27, 1997	Commencement of Home Finance and Short Term Finance Operations
January 22, 1998	Licensed as a Merchant Banker by the Securities and Exchange Commission
January 15, 1999	Commencement of Corporate Finance and Merchant Banking Operation
January 29, 2004	Opening of Gulshan Branch
November 22, 2004	Launching of Investment Management Services “Cap Invest”
February 7, 2005	Issuance of Securitized Zero Coupon Bonds by IDLC Securitization Trust 2005
September 18, 2005	Launching of Local Enterprise Investment Centre(LEIC), a centre established for the development of SMEs with the contribution of the

	Canadian International Development Agency (CIDA) of the Government of Canada
January 2, 2006	Opening of SME focused branch at Bogra
April 6, 2006	Opening of Branch at Uttara
May18, 2006	Opening Merchant Banking branch in the port city if Chittagong
July 1, 2006	Relocation of Company’s Registered and Corporate Head Office at own premises at 57, Gulshan Avenue
September 18, 2006	Commencement of operation of IDLC Securities Limited, a wholly owned subsidiary of IDLC
March 14, 2007	Launching of Discretionary Portfolio Management Services “Managed Cap Invest”
August 5, 2007	Company name changed to IDLC Finance Limited, from Industrial Development Leasing Company of Bangladesh Limited
December 3, 2007	IDLC Securities Limited Chittagong Branch commenced operation
December 18, 2007	IDLC Securities Limited DOHS Dhaka Branch opened.
January 6, 2009	IDLC Finance Limited and IDLC Securities Limited open Sylhet branches
August 09, 2009	Opening of IDLC Securities Limited, Gulshan Branch
August 26, 2009	Opening of Gazipur SME Booth

September 09, 2009	Opening of Imamgonj SME Booth
December 2009	Opening of Narayangonj Branch
December 2009	Opening of Savar Branch

2.4 GUIDING PRINCIPLES

IDLC is a multi-product financial institution offering an array of diverse financial services and solutions to institutional and individual clients to meet their diverse and unique requirements. Following are the guiding principles that shape the organizational practice of IDLC

Customer first: IDLC has grown with its customers, who are believed to be the center of all actions. As the crux of IDLC's corporate philosophy, customer service gets the highest priority.

Innovation: IDLC has continuously introduced new financial products for meeting the needs of the entrepreneurs in a complex & challenging business environment. The concept of innovation is in-built into the working culture.

Professional Knowledge: IDLC is staffed with qualified professionals and innovative minds in the country. Years of operational experience, large industrial database and competent workforce have gives them unparalleled advantages.

Professional ethics: The professional at IDLC maintain the highest degree of financial and business ethics in all transactions with the clients. Over the last two decades, IDLC have put in bets efforts to meet the expectations of the clients and investors.

One stop solution: Work at IDLC begins with the idea generation, and then goes on into the feasibility study followed by arrangement of financing to implement the project. IDLC advises the clients, finance them and even arrange financing for them via different financing modes, namely: lease financing, term loan, bridge loan, syndication, bridge loan, syndication, ordinary shares, preferred shares and debentures.

Vision: Become the best performing and most innovative financial solutions provider in the country

Mission: Create maximum possible value of all the stakeholders by adhering to the highest ethical standards

For the Company: Relentless pursuit of customer satisfaction through delivery of top quality services

For the Shareholders: Maximize shareholders' wealth through a sustained return on the investment.

For the employees: Provide job satisfaction by making IDLC a center of excellence with opportunity of career development.

For the society: Contribute to the well-being of the society, in general, by acting as a responsible corporate citizen.

Goal: Long term maximization of Stakeholders' value

Corporate Philosophy: Discharge the functions with proper accountability for all actions and results and bind to the highest ethical standards

2.5 ORGANOGRAM

THE APEX OF THE ORGANIZATION IS THE BOARD OF DIRECTORS, WITH THE MANAGEMENT COMMITTEE AND MANAGING DIRECTOR IN THE FOLLOWING TIERS. THE BOARD CONSISTS OF THE FOLLOWING DIRECTORS:

- Chairman from Reliance Insurance Ltd
- Five Directors nominated by The City Bank Limited
- One from Sadharan Bima Corporation (SBC)
- One from Transcom Group
- One From Mercantile Bank Limited
- One Independent Director from Monowar Associates

ACTIVITIES OF THE BOARD

The Board appoints the Executive Committee (EC), which takes day-to-day decisions on behalf of the company. Every credit proposal has to be approved by the EC for sanction and disbursement. EC is also authorized to observe and review other major day-to-day operational functions including corporate plans, budgets and borrowing activities. The composition of the EC is as follows:

a) Four Directors

b) Managing Director / Chief Executive Officer and

The Company Secretary shall be the Secretary of the Committee

ACTIVITIES OF THE MANAGING DIRECTOR

The Managing Director (MD), appointed by Board, manages the overall organizational activities and also plays the role of the figurehead.

ACTIVITIES OF THE DEPUTY MANAGING DIRECTOR

The DMD establishes the company's policies and reviews the operational performance of the company including approval of large credit proposals, major fund procurements, budget and planning and diversification decisions.

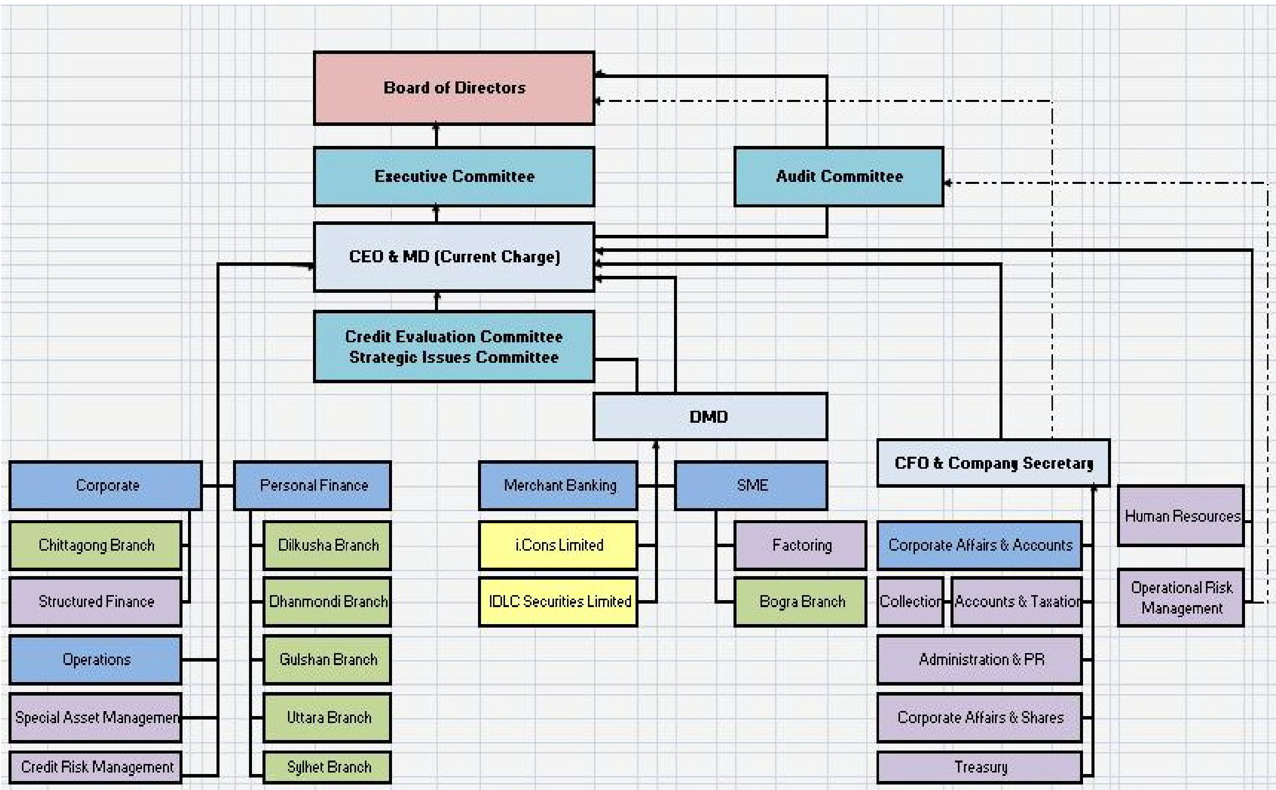


Diagram: Organ gram of IDLC Finance Limited

2.6 PRODUCTS AND SERVICES

To ensure steady and long term growth as well as to sharpen its competitive edge in a changing and challenging business environment, IDLC always endeavors to diversify into other financial services which have long term prospects. In 1997, it expanded its range of services by introducing Housing Finance and Short Term Finance, which have broadened its customer base and have contributed significantly to IDLC's growth and profitability. In early 1999, after getting license of Merchant Banking from Securities and Exchange Commission, IDLC started its operation of underwriting, issue management, corporate financing and other investment banking related services. The products and services are as follows

1. LEASING

Assets are leased to clients on predetermined rental basis for a fixed term with a purchase option at the end.

2. TERM LOAN

The customers are offered loan facilities for a determined term at a negotiated rate.

3. EQUITY FINANCING

IDLC invests money into equity of both publicly traded and non-traded companies for dividends and capital gain.

4. INTER CORPORATE DEPOSIT (ICD)

This disbursement scheme is offered to clients under two variations:

a) Non- Revolving ICD which consists of single disbursement of funds

b) Revolving ICD where multiple disbursements and collections take place

5. WORK ORDER/ PURCHASE ORDER FINANCING

The clients are financed against their work order or purchase order on a revolving basis.

6. FACTORING

Under this scheme, IDLC finances receivables of supply of goods or delivery of services on credit to help the clients realize the maximum portion of their payment soon after they have made the delivery to the buyer. The payment is collected from the customers and the balanced amount is re-reimbursed to the clients.

7. SYNDICATION

IDLC helps to raise fund for clients with huge financial requirement through syndication and also help them with the documentation, execution and administration of the syndicated finance.

8. SECURITIZATION

IDLC sell financial instruments of organizations in local financial market backed by their asset/cash flows such as loan, lease etc.

9. BRIDGE FINANCE:

This refers to short-term finance (maturity of not more than 12 months) in anticipation of immediate long term financing such as public issue, private placement, syndication, loan, lease, debenture, etc.

10. CAP INVEST

IDLC maintains a non-discretionary portfolio account for clients where they have absolute power to make investment decisions. the portfolio manager provides margin loan to clients and also prepares the list of securities in which they can invest.

11. DEPOSIT SCHEMES

IDLC offer different variety of deposit schemes for clients.

- Cumulative Term Deposit
- Annual Profit Term Deposit
- Monthly Earner Deposit
- Double Money Deposit

12. CAR LOAN

Term loan are offered to clients for acquiring car, brand new or reconditioned, for their personal use and the ownership is transferred on loan repayment.

13. HOME LOAN

IDLC offers loans to purchase apartment to individuals for their personal use

14. REAL ESTATE FINANCE

IDLC finances clients to construct house, renovate and extend house, for office chamber/space for professionals etc. under two different schemes:

- Developer's Finance Scheme
- Corporate Finance Scheme

15. PRIVATE PLACEMENT

IDLC places the shares/debenture with both domestic and overseas investors (institutions or individuals) on private placement basis.

16. UNDERWRITING

IDLC makes a univocal and irrevocable commitment with an issuing company to subscribe to the securities of that company when the existing shareholders or the general public do not subscribe to the securities offered to them. The different types of underwriting offered are:

- Initial Public offering (IPO) of common stock, preferred stock, debentures etc.
- Right Issue
- Underwriting of public securities-loan, lease, debenture

17. ISSUE MANAGEMENT

Under this activity, IDLC plan, coordinate and control the entire issue activity of clients and direct other agencies for successful marketing of securities.

18. FINANCIAL ADVISORY SERVICE

IDLC help the existing venture or a new venture by providing various advisory services such as corporate counseling, project counseling, capital restructuring, financial engineering etc.

19. MERGERS AND ACQUISITIO

IDLC help clients to search for the right organization, evaluate the concern based on different types of analysis and select the method of m & a to make it a profitable deal.

20. TRUSTEESHIP MANAGEMENT

We act as trustee for the debenture holders by accepting security created by the company and take action to safeguard their interest and enforce their rights.

Name of Product Line	Product Name
Structured Financing	Syndication Advisory Services Merger and Acquisition Securitization Local Enterprise Investment Center
Real Estate Financing	Real Estate Finance Home Loan
Lease Financing	
Short Term Financing	Factoring of Accounts Receivable Work Order Finance
Deposit Schemes	Cumulative Term Deposit Annual Profit Term Deposit Monthly Earner Deposit Double Money Deposit Inter Corporate Deposit
Merchant Banking Services	Issue Management Underwriting Private Placement Portfolio Management Trusteeship Management Bridge Loan Financing
Personal Loan	Car Loan Personal Loan
SME Loan	
Securities Services	

Table: Product & Services offered by IDLC Finance Limited

2.7 DIVISIONS AND DEPARTMENTS

The organization includes divisions which mainly deal with the products and services and departments which support in the operating activities. The **divisions** are the

- Corporate
- SME
- Merchant Banking
- Personal Investment
- Factoring
- Structured Finance
- Operations

The **departments** include

- Credit Risk Management (CRM)
- Treasury
- Human Resource
- Accounts and Taxation
- Administration and PR
- Operational Risk Management (ORM)/Internal Control Compliance(ICC)
- Special Asset Management(SAM)

2.8 SWOT ANALYSIS

The SWOT analysis for IDLC can be described as follows:

Strengths

1. **Reputation and brand image:** IDLC is well-reputed company and has developed a brand image that is recognized by the customers. IDLC is an international joint-venture company and its shareholders have long records of sustainability and reliability in their respective fields. IDLC is one of the esteemed names in financial market of Bangladesh. Since 1985, IDLC has marked its journey through introduction of various innovative products and thus meeting the needs of large corporate clients.

2 .**Product portfolio:** IDLC has diverse product portfolio for customers which made them second to none in Non-Banking Financial Industry.

3. **Quality Customer Portfolio:** IDLC has a Credit Risk Management department of Multinational standard which enables the company to maintain a quality customer portfolio.

4. **Human Resources:** The Company has competent management team. The over all work force of the company is considered as key resources for the organization. IDLC personnel are motivated, competent, energetic and creative. The company provides utmost support in terms of both technical and moral.

5. **Operational efficiency:** IDLC provides customized solution to their customers to adjust their need. The company processes the loan applications quickly and smoothly. The sanction and disbursement of the loans are hassle-free.

6. **Employee Empowerment:** At IDLC decision-making is free flowing and transparent. Every appraiser is given ample opportunity to exercise his/her creativity in accommodating a customer. Approvers are open for any discussion and sanction is largely based upon recommendation of the appraisers. The open and free flow of communication ensures clarification of any queries in no time--from any level of hierarchy. Reasonable suggestions are not only welcome but are highly appreciated. Effective suggestions by the employees are immediately set for action. This flexibility has helped IDLC a lot in shaping up its operations into a level of efficiency and to be an excellent performer in case of loan recovery.

Weaknesses

1. **High Cost of fund:** IDLC as any other NBFIs have high cost of fund in comparison to banks. As NBFIs can take deposit for less than one year from any individuals as banks can do, the deposit base of IDLC is not strong enough to reduce the average cost of fund.

2. **More Focus on Volume:** Although IDLC has department called Credit Risk Management to monitor the asset quality of the company, still the company sometimes for the sake of profit and past relationship provide loans to customers who at the end hamper the portfolio quality of IDLC.

3. **Too Much Diversification:** Too much diversification of product and services offering hamper the focus on the core services of the organization.

4. **Less People in Liability Marketing:** IDLC still employs lesser number of workforces for the aggressive liability marketing in comparison to banks and NBFI like DBH.

Opportunities

1. **Continuity of Liberalization:** Government has continued to liberalize the economy towards more market orientation. This encouraged both local and foreign investors to invest in potential sectors. The privatization plan of government is likely to have positive impact on industrialization.

2. **Foreign Investment in Prospective Sectors:** In recent days foreign investment in the various prospective sectors has increased phenomenally. This creates a good opportunity for all financial institutions to enter in the booming new sector.

3. **Local banks inefficiency:** One of the major reasons for thriving of leasing company in Bangladesh is local banks inefficiency of providing project loan. This phenomenon still persists.

Threats

1. **Threat from banks:** In recent times banks are also entering into leasing business which is generally considered as functions of Non-Banking Financial Institutions.

2. **Regularity control of government:** The legal framework of Bangladesh is relatively weak. Lack of effective foreclosure laws and manual land recording system creates possibility of forgery and disputes. This may hinder the loan recovery from the defaulters.

2.9 PERFORMANCE OF IDLC FINANCE LIMITED

	2004	2005	2006	2007	2008	Growth (%)
Financial Performance						
Lease and term loans executed	2,030	2,564	2,875	2,977	3,412	14.61
Real estate finance disbursement	519	898	1,205	1,255	1,612	28.45
Short term finance portfolio	420	355	326	213	336	57.75
Lease Finance	4,174	4,711	5,001	4,571	4,734	3.57
Real estate finance assets	1,064	1,643	2,441	3,065	3,915	27.73
Total assets	7,219	9,291	11,680	15,056	17,442	15.85
Long term liabilities	4,571	6,989	8,115	11,103	12,115	9.11
Term deposit balance	2,760	4,487	5,610	8,257	8,249	-0.10
Net current assets	365	(238)	(192)	1,401	1,559	11.28
Operational Performance						
Operational revenue	859	1,008	1,291	2,023	2,618	29.41
Operational expenses	612	747	1,059	1,655	2,022	22.17
Financial expenses	418	536	816	1,246	1,552	24.56
General and administrative expenses	95	135	170	225	294	30.67
Profit before tax	247	265	236	475	708	49.05
Net profit after tax	134	153	157	303	406	33.99
Average effective tax rate	45.75	42.31	33.41	36.08	42.57	17.99%
Financial Ratios						
Debt equity ratio	7.60	8.00	9.28	9.54	8.32	-12.79
Financial expenses coverage ratio	1.60	1.50	1.29	1.43	1.56	9.09
Current ratio (Times)	1.1:1	1.6:1	0.96:1	1.2:1	1.2:1	-
Return on total assets (%)	2.11	1.96	1.57	2.37	2.50	5.49
Non performing loan ratio	5.93	5.00	4.74	4.62	4.50	-2.60
Return on shareholders' equity	18.80	19.00	17.45	27.59	28.43	3.04
Earnings per share*	53.59	61.20	62.80	121.33	162.55	33.97
Dividend per share (%)	35.00	37.50	38.33	40.00	35.00	-12.50
Price earnings ratio (Times)	13.90	9.90	7.60	10.02	14.08	40.52
Dividend yield (%)	2.81	3.72	4.89	2.63	1.53	-41.82
Dividend payout ratio (%)	65.31	61.47	60.94	32.97	21.53	-34.69
Equity Statistics						
Number of shares (in million)	1.5	1.5	1.5	2.0	2.5	25.00
Year end market price per share (Tk)	1,245	1,007	784	1,519	2,289	50.69
Net asset value per share (Tk.)	302	340	381	499	645	29.25
Market capitalization	1,868	1,511	1,176	3,038	5,722	88.34
Market value addition	741	440	150	1,020	1,644	61.17
Shareholders' equity	756	851	952	1,247	1,611	29.19

* Prior years' number of shares has been adjusted to reflect bonous share issued in 2007

** General and administrative expenses have increased by 30.6% compared to last year because of increase in branches and recruitment of additional staff for future growth of the Company.

2.9.1 CAMEL RATING

Rating type	Base	At 31.12.08	Rating
1.Capital sufficiency **C**	Reserve should be 25.00 crore by the end of 30.06.06	16.113 Crore	**1(Strong)**
2.Asset Quality **A**	(Classified loan/lease and other assets)/overdue amount*100	6089.04/153384.93*100=3.97%	**2(Satisfactory)**
3.Management **M**	Average of C,A,E & L ratios	(1+2+1+1)/4=1.25	**1(Strong)**
4.Earning Ratio **E**	(NPAT/TA)*100% (NPAT/TE)*100%	(4063.72/167085.65)*100%=2.43% (4063.72/16113.12)*100%=25.22%	**1(Strong)**
5.Liquidity Ratio **L**	1.CRR & SLR reserve 2.Interbank dependency 3.Profit	-Reserved -Less dependent -Strong	**1(Strong)**
CAMEL	Sum of 5 Ratios/5	(1+2+1+1+1)/5=1.20	**1(Strong)**

CAMEL rating has improved to 1 comparing to the last year 2(Satisfactory)

3.0 Credit Risk Management

3.1 WHAT IS RISK?

In general Risk can be define as the " Probability or threat of a damage, injury, liability, loss, or other negative occurrence, caused by external or internal vulnerabilities, and which may be neutralized through pre-mediated action."

But in Finance risk is defined concerning some special factors of market and other externalities which can affect an individual or organization's decision. In Finance risk is defined as "Probability that an actual return on an investment will be lower than the expected return." Financial risk is divided into the following general categories: (1) **Basis risk**: Changes in interest rates will cause interest-bearing liabilities (deposits) to re-price at a rate higher than that of the interest-bearing assets (loans). (2) **Capital risk**: Losses from un-recovered loans will affect the financial institution's capital base and may necessitate floating of a new stock (share) issue.

Therefore to reduce this risk Banks, NBFIs, and other organizations take various types of measures so that it can be reduced in a minimal affordable limit. In Banks and NBFIs the core risk is credit risk. As Banks, NBFIs performs there major operations on providing loan, lease (for NBFIs) therefore there is a chance of default at time of repayment. So to reduce this default risk so that number of default payment does not increase and to forecast this probability with appropriate tools Banks, NBFIs always work on managing their Credit Risk. Several Guideline and standards are prepared so that Credit Risk for individual banks and NBFIs can be reduced.

3.2 CREDIT RISK

Credit risk is the possibility that a borrower or counter party will fail to meet agreed obligations. Globally, more than 50% of total risk elements in banks and FIs are Credit Risk alone. Thus managing credit risk for efficient management of a FI has gradually become the most crucial task. Credit risk may take the following forms:

- **In direct lease/term finance**: rentals/principal/and or interest amount may not be repaid

- **In issuance of guarantees:** applicant may fail to build up fund for settling claim, if any;
- **In documentary credits:** applicant may fail to retire import documents and many others
- **In factoring:** the bills receivables against which payments were made, may fail to be paid
- **In treasury operations:** the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases
- **In securities trading businesses:** funds/ securities settlement may not be effected
- **In cross-border exposure:** the availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the sovereign

Credit risk management encompasses identification, measurement, matching mitigations, monitoring and control of the **credit risk exposures to ensure that**:

- The individuals who take or manage risks clearly understand it
- The organization's Risk exposure is within the limits established by Board of Directors with respect to sector, group and country's prevailing situation
- Risk taking Decisions are in line with the business strategy and objectives set by BOD
- The expected payoffs compensate the risks taken
- Risk taking decisions are explicit and clear
- Sufficient capital as a buffer is available to take risk

3.3 CREDIT RISK MANAGEMENT PROCESS

Credit risk management process should cover the entire credit cycle starting from the origination of the credit in a financial institution's books to the point the credit is extinguished from the books. It should provide for sound practices in:

1. Credit processing/appraisal;
2. Credit approval/sanction;
3. Credit documentation;
4. Credit administration;
5. Disbursement;
6. Monitoring and control of individual credits;
7. Monitoring the overall credit portfolio (stress testing)
8. Credit classification; and
9. Managing problem credits/recovery

3.3.1. CREDIT PORCESSING/APPRAISAL:

Credit processing is the stage where all required information on credit is gathered and applications are screened. Credit application forms should be sufficiently detailed to permit gathering of all information needed for credit assessment at the outset. In this connection, NBFIs should have a checklist to ensure that all required information is, in fact, collected.

NBFIs should set out pre-qualification screening criteria, which would act as a guide for their officers to determine the types of credit that are acceptable. For instance, the criteria may include rejecting applications from blacklisted customers. These criteria would help institutions avoid processing and screening applications that would be later rejected.

Moreover, all credits should be for legitimate purposes and adequate processes should be established to ensure that financial institutions are not used for fraudulent activities or activities that are prohibited by law or are of such nature that if permitted would contravene the provisions of law. Institutions must not expose themselves to reputational risk associated with granting credit to customers of questionable repute and integrity.

The next stage to credit screening is credit appraisal where the financial institution assesses the customer's ability to meet his obligations. Institutions should establish well designed credit appraisal criteria to ensure that facilities are granted only to creditworthy customers who can make repayments from reasonably determinable sources of cash flow on a timely basis.

Financial institutions usually require collateral or guarantees in support of a credit in order to mitigate risk. It must be recognized that collateral and guarantees are merely instruments of risk mitigation. They are, by no means, substitutes for a customer's ability to generate sufficient cash flows to honor his contractual repayment obligations. Collateral and guarantees cannot obviate or minimize the need for a comprehensive assessment of the customer's ability to observe repayment schedule nor should they be allowed to compensate for insufficient information from the customer.

Care should be taken that working capital financing is not based entirely on the existence of collateral or guarantees. Such financing must be supported by a proper analysis of projected levels of sales and cost of sales, prudential working capital ratio, past experience of working capital financing, and contributions to such capital by the borrower itself.

Financial institutions must have a policy for valuing collateral, taking into account the requirements of the Bangladesh Bank guidelines dealing with the matter. Such a policy shall, among other things, provide for acceptability of various forms of collateral, their periodic valuation, process for ensuring their continuing legal enforceability and realization value.

In the case of loan syndication, a participating financial institution should have a policy to ensure that it does not place undue reliance on the credit risk analysis carried out by the lead underwriter. The institution must carry out its own due diligence, including credit risk analysis, and an assessment of the terms and conditions of the syndication.

The appraisal criteria will of necessity vary between corporate credit applicants and personal credit customers. Corporate credit applicants must provide audited financial statements in support of their applications. As a general rule, the appraisal criteria will focus on:

- Amount and purpose of facilities and sources of repayment;
- Integrity and reputation of the applicant as well as his legal capacity to assume the credit obligation;
- Risk profile of the borrower and the sensitivity of the applicable industry sector to economic fluctuations;
- Performance of the borrower in any credit previously granted by the financial institution, and other institutions, in which case a credit report should be sought from them;
- The borrower's capacity to repay based on his business plan, if relevant, and projected cash flows using different scenarios;
- Cumulative exposure of the borrower to different institutions;
- Physical inspection of the borrower's business premises as well as the facility that is the subject of the proposed financing;
- Borrower's business expertise;
- Adequacy and enforceability of collateral or guarantees, taking into account the existence of any previous charges of other institutions on the collateral;
- Current and forecast operating environment of the borrower;
- Background information on shareholders, directors and beneficial owners for corporate customers; and
- Management capacity of corporate customers.

3.3.2. CREDIT-APPROVAL/SANCTION

A financial institution must have some written guidelines on the credit approval process and the approval authorities of individuals or committees as well as the basis of those decisions. Approval authorities should be sanctioned by the board of directors. Approval authorities will cover new credit approvals, renewals of existing credits, and changes in terms and conditions of previously approved credits, particularly credit restructuring, all of which should be fully documented and recorded. Prudent credit practice requires that persons empowered with the credit approval authority should not also have the customer relationship responsibility.

Approval authorities of individuals should be commensurate to their positions within management ranks as well as their expertise. Depending on the nature and size of credit, it would be prudent to require approval of two officers on a credit application, in accordance with the Board's policy. The approval process should be based on a system of checks and balances. Some approval authorities will be reserved for the credit committee in view of the size and complexity of the credit transaction.

3.3.3 CREDIT DOCUMENTATION

Documentation is an essential part of the credit process and is required for each phase of the credit cycle, including credit application, credit analysis, credit approval, credit monitoring, and collateral valuation, and impairment recognition, foreclosure of impaired loan and realization of security. The format of credit files must be standardized and files neatly maintained with an appropriate system of cross-indexing to facilitate review and follow-up.

Documentation establishes the relationship between the financial institution and the borrower and forms the basis for any legal action in a court of law. Institutions must ensure that contractual agreements with their borrowers are vetted by their legal advisers. Credit applications must be documented regardless of their approval or rejection.

For security reasons, financial institutions need to consider keeping the copies of critical documents (i.e., those of legal value, facility letters, and signed loan agreements) in credit files while retaining the originals in more secure custody. Credit files should also be stored in fire-proof cabinets and should not be removed from the institution's premises.

3.3.4 CREDIT ADMINISTRATION

Financial institutions must ensure that their credit portfolio is properly administered, that is, loan agreements are duly prepared, renewal notices are sent systematically and credit files are regularly updated.

An institution may allocate its credit administration function to a separate department or to designated individuals in credit operations, depending on the size and complexity of its credit portfolio.

A financial institution's credit administration function should, as a minimum, ensure that:

- Credit files are neatly organized, cross-indexed, and their removal from the premises is not permitted;
- The borrower has registered the required insurance policy in favour of the bank and is regularly paying the premiums;
- The borrower is making timely repayments of lease rents in respect of charged leasehold properties;
- Credit facilities are disbursed only after all the contractual terms and conditions have been met and all the required documents have been received;
- Collateral value is regularly monitored;
- The borrower is making timely repayments on interest, principal and any agreed to fees and commissions;
- Information provided to management is both accurate and timely;
- Funds disbursed under the credit agreement are, in fact, used for the purpose for which they were granted;
- "Back office" operations are properly controlled;
- The established policies and procedures as well as relevant laws and regulations are complied with; and

- On-site inspection visits of the borrower's business are regularly conducted and assessments documented.

3.3.5 DISBURSEMENT

Once the credit is approved, the customer should be advised of the terms and conditions of the credit by way of a letter of offer. The duplicate of this letter should be duly signed and returned to the institution by the customer. The facility disbursement process should start only upon receipt of this letter and should involve, inter alia, the completion of formalities regarding documentation, the registration of collateral, insurance cover in the institution's favor and the vetting of documents by a legal expert. Under no circumstances shall funds be released prior to compliance with pre-disbursement conditions and approval by the relevant authorities in the financial institution.

3.3.6 MONITORING & CONTROL OF INDIVIDUAL CREDITS

To safeguard financial institutions against potential losses, problem facilities need to be identified early. A proper credit monitoring system will provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of the borrower. Examples of such warning signs include unauthorized drawings, arrears in capital and interest and deterioration in the borrower's operating environment. Financial institutions must have a system in place to formally review the status of the credit and the financial health of the borrower at least once a year. More frequent reviews (e.g. at least quarterly) should be carried out of large credits, problem credits or when the operating environment of the customer is undergoing significant changes.

- Funds advanced are used only for the purpose stated in the customer's credit application;
- Financial condition of a borrower is regularly tracked and management advised in a timely fashion;
- Borrowers are complying with contractual covenants;
- Collateral coverage is regularly assessed and related to the borrower's financial

health;

- The institution’s internal risk ratings reflect the current condition of the customer;
- Contractual payment delinquencies are identified and emerging problem credits are classified on a timely basis; and
- Problem credits are promptly directed to management for remedial actions.
- More specifically, the above monitoring will include a review of up-to-date information on the borrower, encompassing:
- Opinions from other financial institutions with whom the customer deals;
- Findings of site visits;
- Audited financial statements and latest management accounts;
- Details of customers' business plans;
- Financial budgets and cash flow projections; and
- Any relevant board resolutions for corporate customers.

3.3.7 MAINTAINING THE OVERALL CREDIT PORTFOLIO

An important element of sound credit risk management is analyzing what could potentially go wrong with individual credits and the overall credit portfolio if conditions/environment in which borrowers operate change significantly. The results of this analysis should then be factored into the assessment of the adequacy of provisioning and capital of the institution. Such stress analysis can reveal previously undetected areas of potential credit risk exposure that could arise in times of crisis.

Possible scenarios that financial institutions should consider in carrying out stress testing include:

- Significant economic or industry sector downturns;

- Adverse market-risk events; and
- Unfavorable liquidity conditions.

Financial institutions should have industry profiles in respect of all industries where they have significant exposures. Such profiles must be reviewed /updated every year.

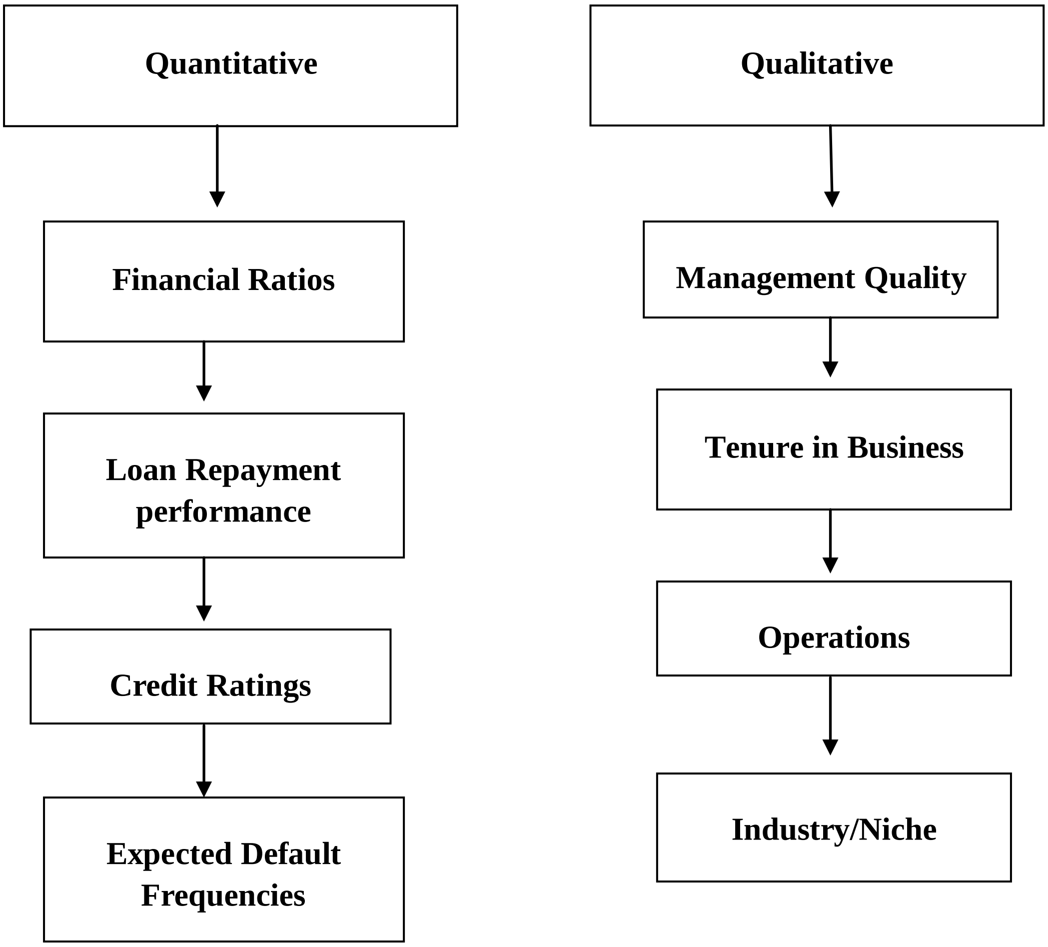
3.3.8 CLASSIFICATION OF CREDIT

Credit classification process grades individual credits in terms of the expected degree of recoverability. Financial institutions must have in place the processes and controls to implement the board approved policies, which will, in turn, be in accord with the proposed guideline. This guideline may also be called as Credit Risk Grading (CRG), is a collective 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.

Credit risk grading is an important tool for credit risk management as it helps the 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 FI. The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage. Two- types of factors play vital role in modeling the CRG, they are,

1. Quantitative factors
2. Qualitative factors

The chart is given in the following page;



At the pre-sanction stage, credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the lending price, what should be the extent of exposure, what should be the appropriate credit facility, what are the various facilities, on the basis of the above factors.

At the post-sanction stage, the FI can decide about the depth of the review or renewal, frequency of review, periodicity of the grading, and other precautions to be taken. Risk grading should be assigned at the inception of lending, and updated at least annually.

3.3.9 MANAGING PROBLEM CREDITS/RECOVERY

A financial institution's credit risk policy should clearly set out how problem credits are to be managed. The positioning of this responsibility in the credit department of an institution may depend on the size and complexity of credit operations. It may form part of the credit monitoring section of the credit department or located as an independent unit, called the credit workout unit, within the department. Often it is more prudent and indeed preferable to segregate the workout activity from the area that originated the credit in order to achieve a more detached review of problem credits. The workout unit will follow all aspects of the problem credit, including rehabilitation of the borrower, restructuring of credit, monitoring the value of applicable collateral, scrutiny of legal documents, and dealing with receiver/manager until the recovery matters are finalized.

Financial institutions will put in place systems to ensure that management is kept advised on a regular basis on all developments in the recovery process, may that emanate from the credit workout unit or other parts of the credit department.

There should be clear evidence on file of the steps that have been taken by the financial institution in pursuing its claims against a delinquent customer, including any legal steps initiated to realize on the collateral. Where there is a delay in the liquidation of collateral or other credit recovery processes, the rationale should be properly documented and anticipated actions recorded, taking into account any revised plans submitted by the borrower.

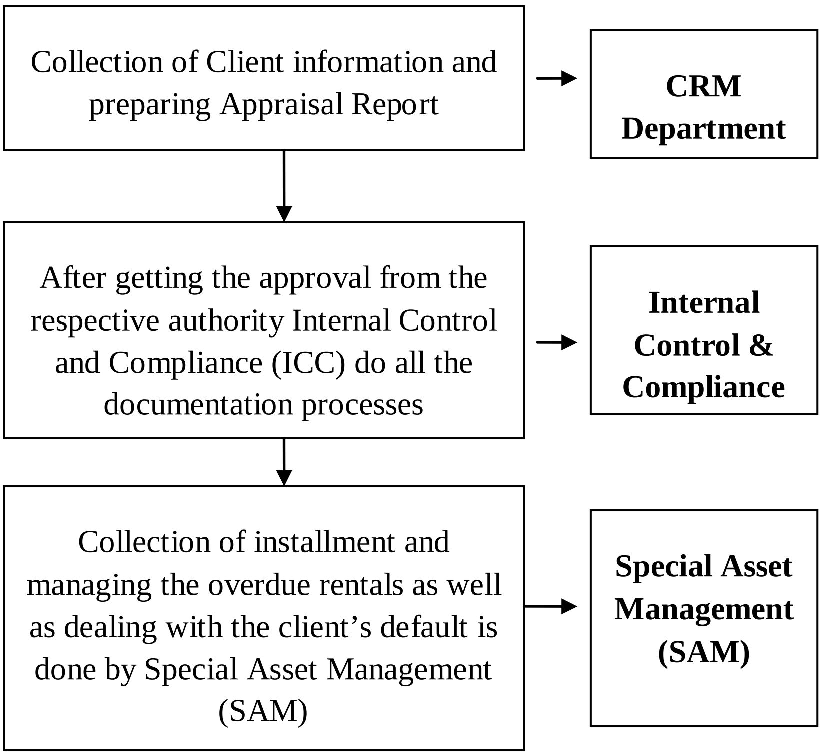
The accountability of individuals/committees who sanctioned the credit as well as those who subsequently monitored the credit should be revisited and responsibilities ascribed. Lessons learned from the post mortem should be duly recorded on file.

4.0 Findings and Analysis --

Credit Risk Management by IDLC Finance Ltd

To perform the overall CRM process 3 departments are working together at IDLC Finance Ltd. As a leading NBFI in Bangladesh IDLC has always tried to maintain the quality they achieve through 24th year business tenure.

These three departments are-



4.1 PROCEDURAL WORK FLOW OF LEASE MARKETING

At the initial stage, IDLC concentrated to establish a market and then enlarge the market. The criteria based on which the market for lease financing has been established are as follows:

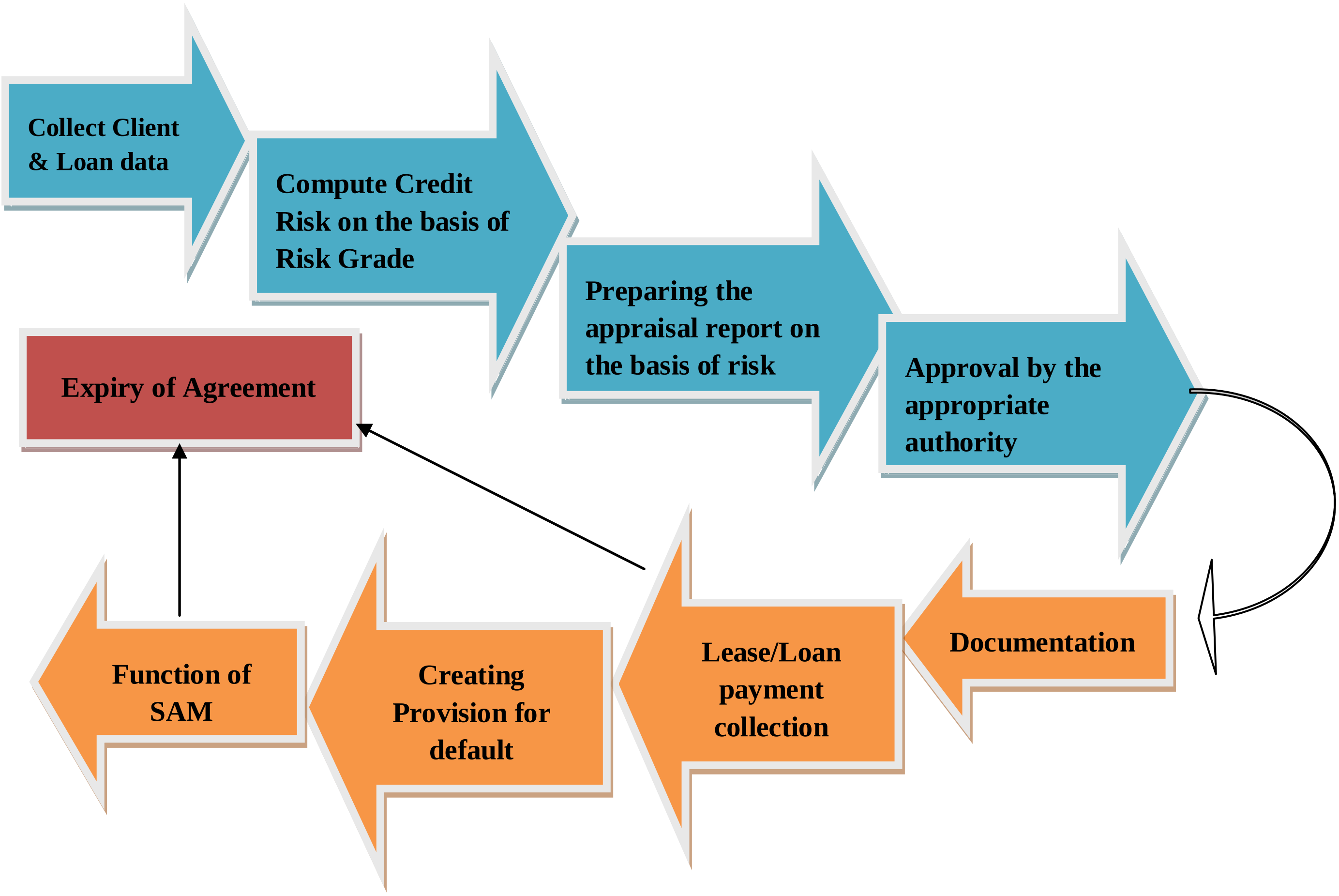
- Diversification of portfolio
- Selecting top industrial unit in the respective industry
- Financing for Balancing, Modernization, Replacement and Expansion (BMRE) of existing unit
- Priority of existing leases
- Set up priority based on sector wise performance

Primary focus of IDLC till now is in the area of financial leasing of industrial and professional equipment and vehicles for three to five years term with particular emphasis on BMRE of existing units. Instead of lending funds to purchase equipment, IDLC provides the equipment and extends the exclusive right to its use against specified rental payments at periodic intervals.

There are two types of client for which the procedural work flow would be different though the basic part would be the same. The different types of clients are

- Existing Clients – with whom IDLC has already been working
- New Clients - with whom IDLC has no business yet

The basic procedural work flow is given below:



The above procedures are briefly described below:

- The client applies for required facility through letter. These required facility can vary from different sort of equipments for BMRE to vehicles or expansion projects. The letter generally consists of brief description about the asset to be procured, its price and reason for procurement along with its lease period.

- IDLC studies the proposal and sends an offer letter to the client. The offer letter contains acquisition cost, lease period, per month rental and other terms & conditions to be applied if the agreement is done. It is to be noted here that the offer letter is a mere offer and by no means an agreement between the two parties. Thus, the terms & conditions may change upon final agreement. However, it seldom changes as that will hamper the goodwill of the company.

- The client accepts the offer and submits an accepted offer letter. If the client agrees to the terms & conditions of the offer letter, they sign & seal the offer letter as accepted and send it back to IDLC.

- IDLC collects initial information about the client. The initial information are

    - ✓ CIB Undertaking & Form XII (if a limited company) for that client to be sent to Bangladesh Bank for CIB Report of the applying client (as per rule of Bangladesh Bank)

    - ✓ IDLC looks for banks opinion for that client

- The designated Relationship Manager prepares the appraisal report and evaluated the client's proposal. The appraisal report consists of

    - ✓ Background analysis of the company

    - ✓ Management and organization

    - ✓ Cost estimate of equipment/vehicle

    - ✓ Technical and marketing analysis, both from macro and micro level

    - ✓ Financial analysis of the company. i. e. profitability projection, credit report, year wise performance

- The appraisal report seeks approval from the appropriate authority. First of all the Relationship Manager places the report to Credit Evaluation Committee (CEC), which consists of representative from Credit Risk Management, Operational Risk Management, General Manager and Deputy Managing Director. After CEC consent, the report is sent to approving authority.

- After approval, the documentation process starts. A sanction ledger is prepared and a sanction letter is issued in the client's name. However, depending on the nature of negotiation, the documentation procedure varies.

- The client collects the asset.

- Proper insurance coverage is done depending upon the asset and procurement of asset from a selected pool of insurance companies.

- The lease operation starts i.e. a formal agreement is signed by both IDLC and lessee. The lessee starts to pay the rental and the lease continues.

- Generally, just after the last rental is paid on a regular basis, the transfer of ownership takes place. Depending upon the negotiated transfer price at the beginning, IDLC transfers the asset's ownership to the client and lease expires. However, the lease operation can also be expired early through partial termination or foreclosure.

For new clients the following few steps are added:

- Identification of client – the identification of new client is done through relationship management. The main sources of information about new clients are:
  - ✓ Existing client
  - ✓ Word of Mouth
  - ✓ Internal Connection
  - ✓ Client call
  - ✓ Walk-in Client
- Prepare extensive appraisal report and seek formal bank & FI opinion.

The documentation procedure can differ depending upon the modes of acquisition of asset.

4.2 FACTORS SCRUTINIZED DURING APPRAISAL PROCEDURE

According to the guideline provided by Bangladesh Bank, IDLC considers the following factors while appraising a client and its finance proposal:

1. Business Risk Factors:

- Industry
- Size
- Maturity
- Production
- Distribution
- Vulnerability
- Competition
- Demand- supply situation
- Strategic importance for the group and for the country
- Concentration
- Market reputation

2. Financial Risk Factors:

- Profitability
- Liquidity
- Debt management
- Post Balance sheet events
- Projections
- Sensitivity Analysis
- Peer Group Analysis

- Other Bank Lines

3. Management Risk Factors:

- Experience/relevant background
- Track record of management in see through economic cycles
- Succession
- Reputation

4. Structural Risk Factors:

- Identify working capital requirement
- Relate the requirement with asset conversion cycle
- Purpose of the facilities should be clear and thus mode of disbursement should be preferably structured in a manner to make direct payment to the third party through LC, pay order, Bangladesh Bank cheques etc.

5. Security Risk Factors:

- Perishablilty
- Enforceability /Legal structure
- Forced Sale Value (calculations of force sale value should be at least guided by Bangladesh Bank guidelines)

4.3 WEIGHTS ASSIGNED TO EACH RISK FACTOR

CRITERIA	WEIGHT
LEVERAGING *The ratio of a borrower's total debt to tangible net worth.*	**20%**
LIQUIDITY *The ratio of a borrower's Current Assets to Current Liabilities.*	**20%**
PROFITABILITY *The ratio of a borrower's Operating Profit to Sales.*	**20%**
ACCOUNT CONDUCT *Time length of relationship with the client*	**10%**
BUSINESS OUTLOOK *A critical assessment of the medium term prospects of the borrower, taking into account the industry, market share and economic factors.*	**10%**

CRITERIA	WEIGHT
MANAGEMENT *The quality of management based on the aggregate number of years that the Senior Management Team (top 5 executives) has been in the industry.*	**5%**
PERSONAL DEPOSITS *The extent to which the bank maintains a personal banking relationship with the key business sponsors/principals.*	**5%**
AGE OF BUSINESS *The number of years the borrower has been engaged in the primary line of business.*	**5%**
SIZE OF BUSINESS *The size of the borrower's business measured by the most recent year's total sales. Preferably based on audited financial statements.*	**5%**

4.4 MEASURES TAKEN FOR RESTORATION OF DEFAULT CLIENTS

The Special Asset Management Department of IDLC is responsible for mending and improving the repayment pattern of the default clients. Principal Objectives of the SAM department is keeping overdue situation at possible lowest level so that provision for dues can be minimized so that the negative impact of defaults on the reported profit of IDLC can be kept at minimum level.

For this the department goes through the following procedures:

1. Monitoring the overdue situation of the financed projects
2. Initiating procedures as appropriate for each case

Some clients fail to make payments of rentals/ installments to the lender/ lessor institution. In several cases, the failure is temporary, which is eventually paid within a short time. But in other cases, the client continues to default and the situation worsens since it deteriorates the profitability condition of IDLC, just like any other Financial Institution. So, critical measures are taken on the part of IDLC and these measures are mainly undertaken by Special Asset Management Department.

4.5 FUNCTIONS OF SPECIAL ASSET MANAGEMENT (SAM)

The Special Asset Management Department performs a number of activities to keep the overdue situation of IDLC within minimum level. These are:

1. **Overdue Monitoring**- Corporate, SME, Syndication
2. **Overdue follow Up-** Corporate, SME, Syndication(Phone, Visit, letter)
3. **SAM Client Follow Up**- (Regular, Difficult, Block, Litigated)- Phone, Visit, Letter, Negotiation
4. **Termination, Block & Litigation-** Initialization, Follow up, Court Attendance
5. **Appointment of Lawyers** for different Legal Procedures
6. Recovery Agent Appointment & Follow up

7. **Rescheduling-** Negotiation, Approval, Follow up
8. **Routine works:** Receivable Calculation, Closure, Waiver Approval, Adjustments, Reconciliation.
9. **Letter Issue**- Overdue Clients

SAM departmental Targets:

1. Collection of Overdue Rentals
2. Reduction of Non- performing Loans (NPL)
3. Reduction of Infection ratio
4. Bad/Loss Provision Management- Incremental Provision Control

4.5.1. RECOVERY ACTION PLAN BY SAM

Special asset management takes various recovery actions to reduce the overdue amount, thus reducing the infection ratio. These actions differ on the basis of investment classification as follows;

4.5.1.1 REGULAR ACCOUNTS (RGACC)

Age of overdue: One to Three months

- Call immediate ext working day after 1st default installment to remind about overdue.
- Try to get specific commitments from client. Committed date should not exceed seven days.
- In case of no response from client within seven days, call the client again in order to ascertain reasons for delay and obtain another specific date for payment.
- In case of failure to reach client through phone calls within seven days from the due date of payment, send reminder letter and visit client’s office.

- To create pressure, try to bring client to IDLC office for discussion over solution of default situation.

Age of Overdue: Four to Five months

- Try to get specific payment date through phone calls, e-mails and repeated visits.
- Try to get written commitments along with instruments (if required)
- Send reminder letters within three working days of default of fourth installment. If required, the reminder letter contains a clause indicating that legal actions may follow.
- Try to bring client to IDLC office for discussion over solution of default situation.
- If deemed necessary, arrange meetings between higher management of IDLC and the owners/ directors, etc of the chronic organizations.

4.5.1.2 SPECIAL ACCOUNTS (SPACC)

Age of Overdue: Above Five Months

A) Review security status of the account and based on the nature of the default, undertake following measures:

- Send final reminder letter to the defaulting client, allowing them time up to 15 days to pay the overdue. The letter contains various measures that would be taken, if deadlines for payment expire, as per the law of the land or regulatory authorities.
- In case of no development, send legal notices through lawyers after receipt of senior management's approval.
- Based on the nature of the default, may appoint Recovery/Repossession Agents with management approval.

B) If no improvement takes place after the above actions, initiate the following measures:

- Legal Actions as per the merit of the security of the defaulting clients.

    a. File suit under the negotiable Instrument (NI)Act.

    b. File suit under Artha RIn Aine (ARA) or Bankruptcy Act.

- Circulates Names of defaulting borrowers and relevant persons and organizations among banks and financial institutions of Bangladesh.

- At any point of Overdue over 3 months, the following actions may be undertaken under subjective judgment.

    A) Reschedule the account- if deemed feasible

    B) Transfer accounts to block account- if deemed necessary

    C) Terminate the account- as initial step to filing ARA suit or to pressurize client.

4.6 IMPACT OF OVERDUE ON PROFIT PERFORMANCE OF NBFI

Every financial institution is required by Bangladesh Bank to keep a certain portion of the overdue amounts as provision. This provision amount is subtracted from the profit of the institution. So, overdues have direct negative effect on the reported profit and thereby reported performance of a financial institution.

The base for calculation of base for provision is computed as follows:

Outstanding = Overdue + URPA
Base for Provision = Outstanding - Securities (100% of Cash-Bond-Guarantee / 50% of Mortgaged Property) - Interest Suspense

4.6.1 PROVISIONING POLICY OF BANGLADESH BANK

Bangladesh Bank Guideline regarding Investment Classification:

Investment shall be classified as follows:

a. Unclassified
b. Sub-standard
c. Doubtful
d. Bad/Loss

Classification / Period	**Sub-standard** (Overdue for the period)	**Doubtful** (Overdue for the period)	**Bad/Loss** (Overdue for the period)
<5 years- Lease/Term loan	**6>months<12**	**12>months<18**	**18>months**
>5 years- Lease/Term loan	**12>months<18**	**18>months<24**	**24>months**
<5 years- Home loan	**12>months<18**	**18>months<14**	**24>months**
>5 years- Home loan	**18>months<24**	**24>months<36**	**36>months**
Credit card loan	**6>months<9**	**9>months<12**	**12>months**

According to Bangladesh Bank Guideline the financial institutions are required to keep provision as follows:

Provisioning:

The provisions for classified investment should be as follows,

a. Un-classified : 1%

b. Sub-standard : 20%

c. Doubtful : 50%

d. Bad/loss : 100%

Provision shall be kept on Term loan/lease/home loan classified as bad/loss after deducting suspense interest/principle and appropriate security value from the suspense account.

4.6.2 PROVISIONING POLICY OF IDLC

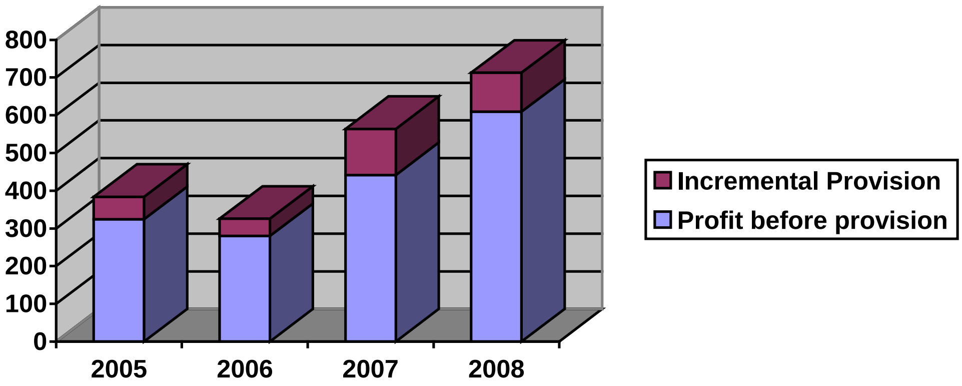
IDLC uses a more conservative approach in keeping provision than that required by Bangladesh Bank. This is shown in the following figure:

Month Overdue	**% of Base kept as provision**
00	1%
01-03	3%
04-06	25%
07-12	50%
12+	100%

4.7 TREND IN PROVISION VOLUME

The following figure shows that a huge portion of the profit of IDLC has gone into provisioning during the past few years. An average of **18.22%** of the hard earned profit of IDLC has to report as provisioned amount each year.

Year	Profit before Provisioning	Incremental Provision
2005	324.31	59.31
2006	279.83	45.83
2007	441.4	122.54
2008	609.4	103.04



The above figure shows that a large amount has been kept into provision during the past five years. This clearly has a very negative impact on the profitability of the financial institution. So, every possible measure is taken very carefully so that the overdue can be minimized.

4.8 DEFAULT CLIENT CHARACTERISTICS ANALYSIS

This section of the report describes the characteristics of the default clients of IDLC. For this part, a total of nine characteristics of the default clients have been used and a sample size of fifty defaulters has been taken. All of these factors have been used to analyze default client character analysis in previous reports and working papers at different times and in perspective of different countries and areas. The reference part of the appendix gives the list of working papers and research reports where these factors were used in the past.

The nine attributes used for analysis of the default clients are listed below:

1. Industry Perspective

2. Cost of Project to Sales Volume

3. Asset Size

4. Debt-Equity Ratio

5. Interest Rate Charged

6. Business Experience of the Sponsors

7. Security Ratio

8. Relationship with the Client

9. Past Repayment Performance of the Client

These attributes have been used in previous papers to examine the defaulters of financial institutions. The attributes used have been taken to measure the common characteristics of the defaulters of IDLC. These nine attributes of the default clients are analyzed to find out whether any relationship exists between each attribute and the default volume. The analysis would assist the finance proposal appraisers of NBFIs to be more diligent about the factors which have greater impact on defaults.

For some factors, only volume differences among various levels are shown; in other cases, regression analysis has been used to show the intensity of relationship between that factor and default structure.

4.8.1 INDUSTRY ANALYSIS

Any financial institution finances projects in various industries. The firms belonging to any industry in a country that need financing for any of their purpose may come to financial institution and if approved, avail funds from the financial institutions.

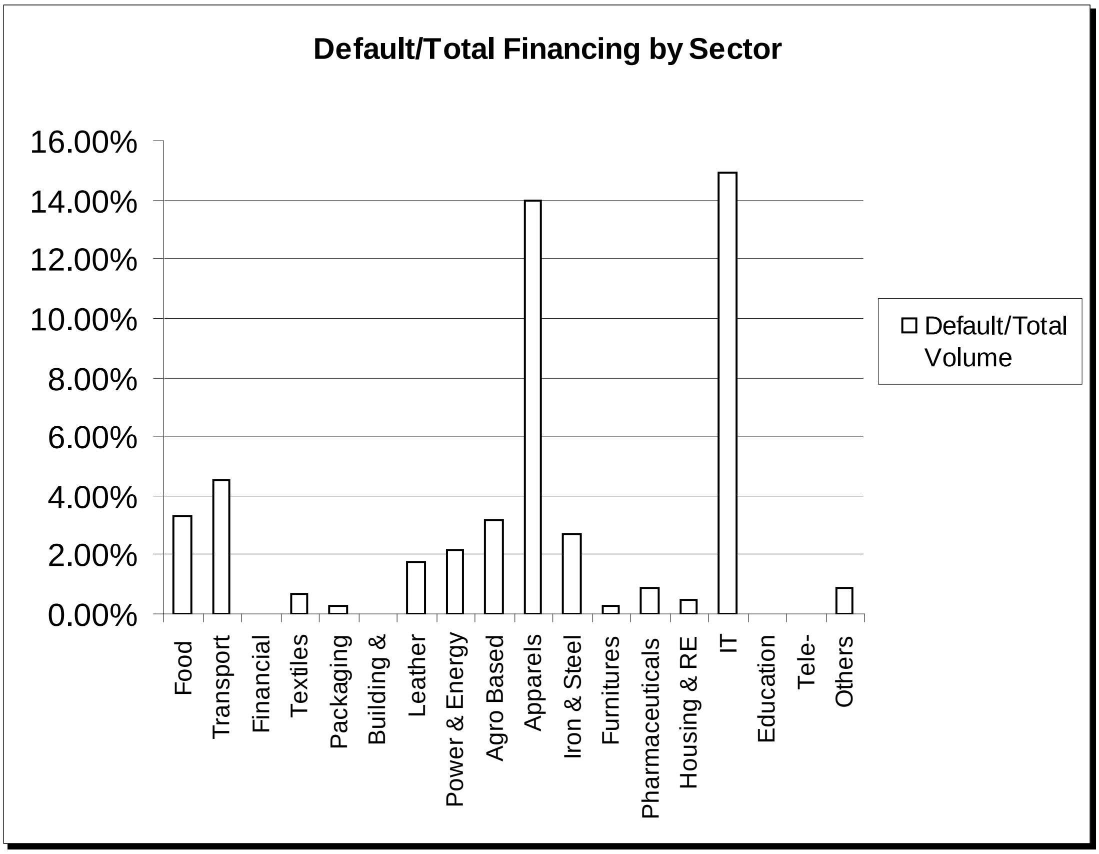
IDLC has existing financing facility to the following eighteen industrial sectors. The table includes the total volume of financing to the sectors and percentage of default of the total volume of financing in each sector.

Industry	**Volume**	**Default/Total Volume**
Food	1,000,518,400	3.28%
Transport	751,942,400	4.51%
Financial Services	709,218,400	0.00%
Textiles	635,422,400	0.68%
Packaging	626,877,600	0.26%
Building & Construction	544,536,800	0.00%
Leather	492,491,200	1.72%
Power & Energy	417,141,600	2.13%
Agro Based industry	400,828,800	3.19%
Apparels	374,417,600	13.95%
Iron & Steel	355,774,400	2.70%

Furniture	282,755,200	0.25%
Pharmaceuticals	257,897,600	0.85%
Housing & RE	231,486,400	0.44%
IT	201,191,200	14.91%
Education	180,994,400	0.00%
Tele-communication	125,841,600	0.00%
Others	178,664,000	0.91%

The table above shows that the two sectors have defaulted a high portion of financing in those sectors. One sector is Information Technology. The defaulters in this sector were mainly IT education firms. There was a fad in our country about IT education and a large number of firms mushroomed for this purpose. Some of them availed financing from IDLC. As the fad fades away they eventually fell in trouble and started defaulting.

The other highly defaulting sector, apparel, is a rather confusing one. This sector defaults mainly for management deficiencies. The sector is in most cases operating profitably. But their management is reluctant to pay off the debt.



The other sectors that need much care at the time of financing are Transport, Food, Agro based products and Iron and Steel sector.

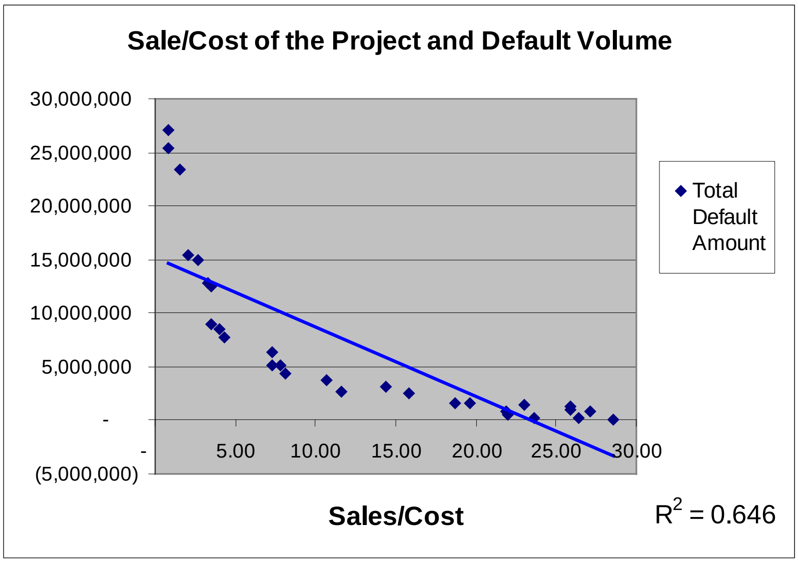
The Transport sector defaulters are mainly taxi cab importers who sublease the vehicles to individuals. The low quality of the vehicles was the main reason of their business failure and default.

The Food and Agro Based products are subject to high volatility in sales volume. The Iron and Steel sector has the problem of unavailability of quality raw materials.

The minimum defaulting sectors are Education, Telecommunication, and Financial Services.

4.8.2 COST OF PROJECT TO SALES VOLUME

The cost of project in this section refers to the amount financed by IDLC to each client. The sales volume has direct relationship with the amount it borrows.



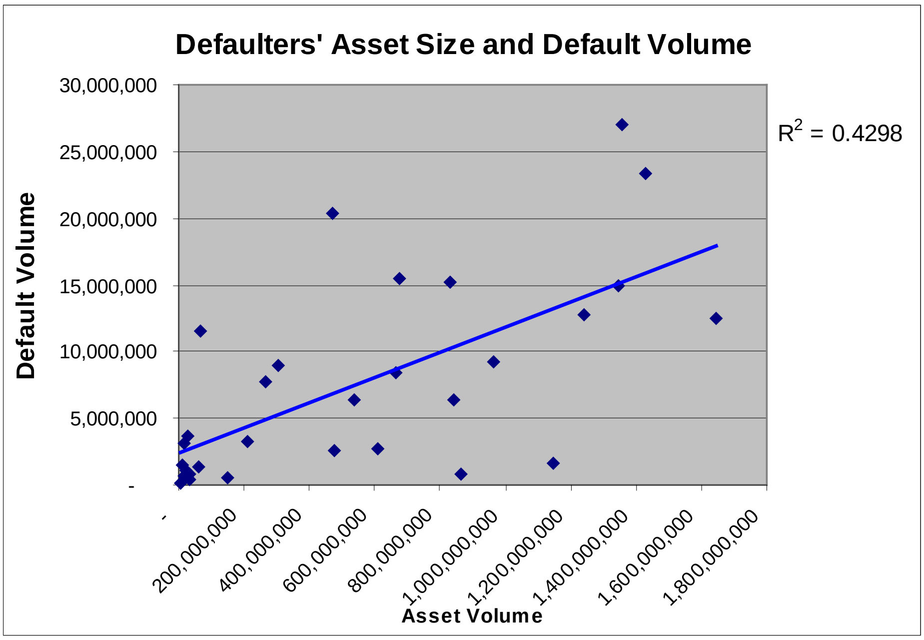
The above figure shows the relationship between the ratio of Sales Volume to Cost of the Project and default volume. The figure indicates a strong relationship between the two variables and the relationship is negative. It comes down to the fact that the higher the Sales Volume to Cost of the Project Ratio is lower is the default amount.

The relationship simply defines the ability of the borrower to pay off the amount it borrows for a project. Thus the appraiser needs to be diligent in analyzing the finance proposal whether the borrower produces enough sales volume to make sure he can pay off the debt.

4.8.3 ASSET SIZE OF THE BORROWER

The asset size is used to describe the scale of the borrowers' business. In conventional thought, the larger the asset base of an organization, the higher its ability to generate funds and pay off its debts.

But the following figure shows otherwise:



In the above figure we see an unconventional relationship between the asset base of a borrower and their respective default volume. The relationship is positive and strong.

The reason behind the above relationship is that the firms with higher volume of business generally need higher amount of fund. It is because most of their projects, whether it is capacity building, expansion or other, are large in volume.

So when they default, the default volume also becomes large. Therefore the conventional thought of greater stability of firms with larger asset volume does not work here. The default frequency does not depend on the asset base of the defaulter. But the default amount is higher in case of the borrowers with larger asset base.

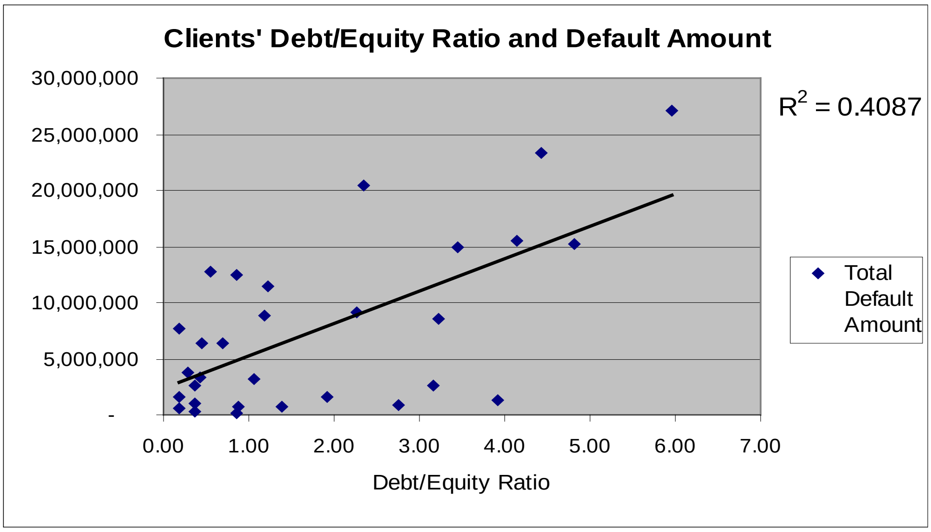
Thus, the appraiser has to take care in financing the larger business firms since if they default, it will have greater impact on their financial institution.

4.8.4 DEBT/EQUITY RATIO

Debt/Equity ratio is a common tool to measure an entity's debt position relative to its equity volume. Equity, that is the capital provided by the owners of a firm serves as cushion to the fund availed from the lenders and other creditors of the firm.

It is a measure of the financial leverage used by a firm. When an organization uses debt funds, it is said to be leveraging financially. The greater financial leverage a firm utilizes (that is the higher its debt/equity ratio), the riskier it becomes to pay off their debt.

Any loan appraiser uses the Debt/Equity ratio to see how much debt the firm is already using in relative to its equity. The basic assumption is that the firm will be less likely to repay its new debt if it is already using a large amount of debt.



The above figure confirms the conventional theory regarding the Debt/Equity ratio. Here we see a strong positive relationship between the ratio and the default volume of the default clients of IDLC.

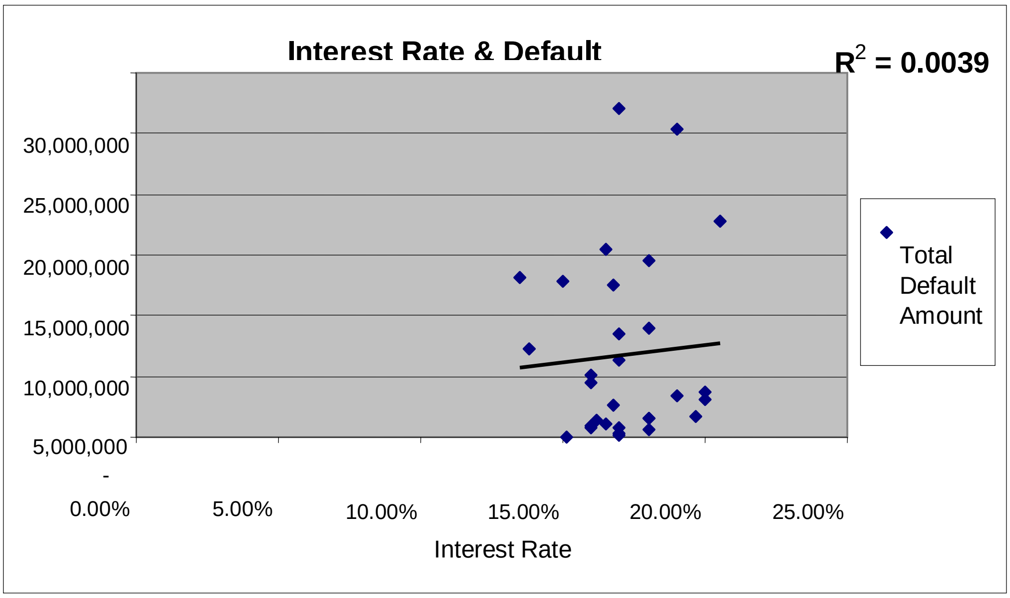
The analysis affirms the importance of measuring a client's debt/equity ratio by a lender while appraising a client and forecasting its future repayment performance.

4.8.5 INTEREST RATE CHARGED

Except for the central bank's special provisions in respect of interest rates to be charged on the borrowers of some special characteristics, interest rate is charged on each loan/lease on the basis of the appraiser's analysis of the risk of financing the proposed borrower.

A financial institution first calculates its weighted average cost of capital. This is used as the basis for calculating the interest rate when financing a borrower. The financer evaluates the risk exposure of lending funds to a borrower and then charges a risk premium that is added to the financial institution's own cost of capital. The rates charged are kept within a predefined range.

To comprehend the impact of the magnitude of interest rate on the repayment performance of the borrowers the following figure can be examined:

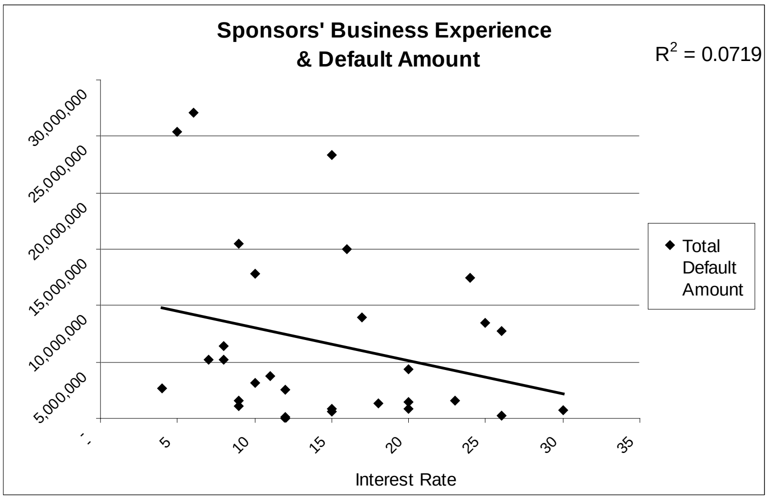


The above figure shows a weak relationship between the interest rate charged and the default amount of the borrowers which indicates that interest rate is a minor determinant of the defaulting nature of the clients. The interest rates are gauged before financing devising it upon the forecasted cash flows of the client and repayment amounts are determined accordingly, this factor logically has low effect on the repayment performance.

4.8.6 SPONSORS' BUSINESS EXPERIENCE

The business experience of the sponsors of an organization acts as a positive factor to the future prospects of the organization itself. The sponsors with long business experience are able to run the business more successfully than the ones with little experience.

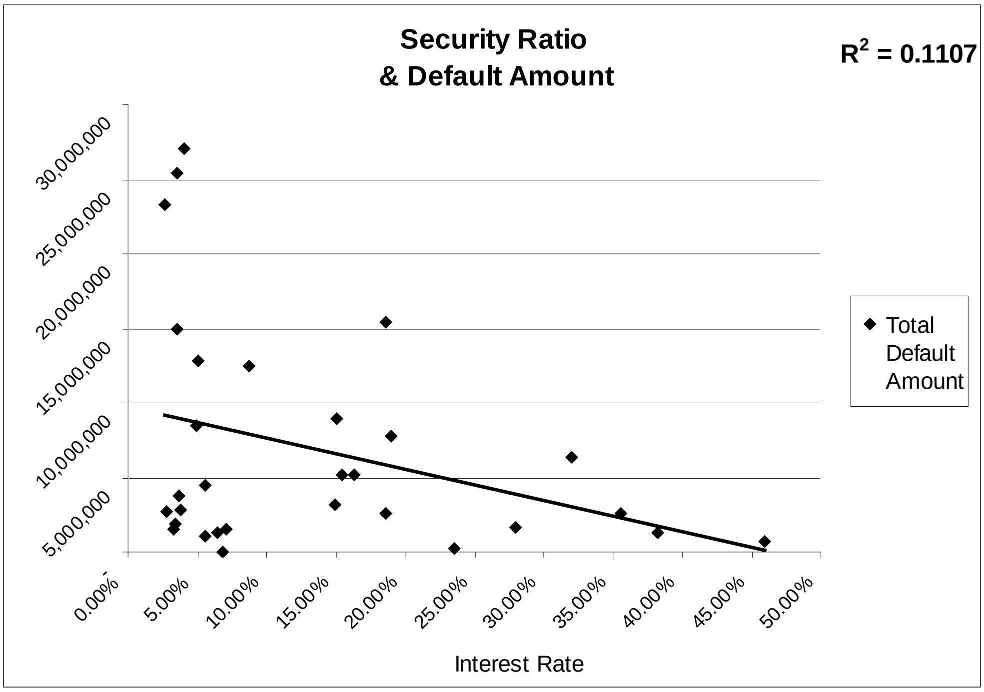
Therefore this factor is considered by the loan appraisers as the businesses of the sponsors having longer experience are less likely to fail and default their repayments.



The above figure depicts the relationship between the sponsors' experience in the relevant business and the default volume. The figure reconfirms the logical assumption regarding the relationship between the two. It reveals a negative relationship between the sponsors' business experience and default volume. But the relationship is not very strong.

4.8.7 SECURITY RATIO

Security Ratio is the ratio of the monetary amount of the security kept by a financer to the amount financed. The security amount is deposited by the borrower to the financer as cash deposit, security deposit, etc. This amount is readily available to the financial institution in case the borrower defaults in making its payments.



The security ratio demonstrates the portion of the borrowed amount that the lender can recover from the client without facing any difficulty. This means that the higher the security ratio for a client, the greater amount of money the borrower has to lose immediately if it defaults in repayment of the facility it availed.

The figure above shows a negative relationship between the security ratio and default volume, that is, the higher the security ratio, the lower is the default volume. Further, the relationship is quite strong. This indicates that the security ratio acts as safeguard against defaults and at the same time discourages the borrowers from defaulting.

4.8.8 RELATIONSHIP WITH THE CLIENT

For this portion of analysis, the default clients have been divided into:

1. Existing Clients, i.e., the clients who availed financing from IDLC before, and
2. New clients, i.e., the clients who never availed financing from IDLC before.

From IDLC's research it was found that the new clients are riskier in terms of default. It is because IDLC has the history of repayment performance of the client available in case of the existing clients. IDLC is able to predict the future repayment performance of the client with the available information.

But in case of new clients, IDLC has no such experience and has to depend on the information provided by others and the client to predict their future payment performance. It makes financing the new clients riskier for the financial institution.

4.8.9 SPONSORS' PAST PERFORMANCE

Past performance of anything is a good source of information to predict its future performance. This is accepted to be true in case of the borrowers of a financial institution. A borrower's repayment performance depends on two factors both of which are critical in predicting the future repayment performance of a borrower. These two factors are:

1. The borrower's **ability** to repay its debt
2. The borrower's **will** to repay its debt

The second factor can be realized by analyzing the past payment behavior of the borrower. So, any appraiser wants to be aware of the number and nature of defaults in the repayment history of the proposed client. For this, a financial institution may collect relevant information from other banks and the financial institutions about the concerned client and very importantly the central bank.

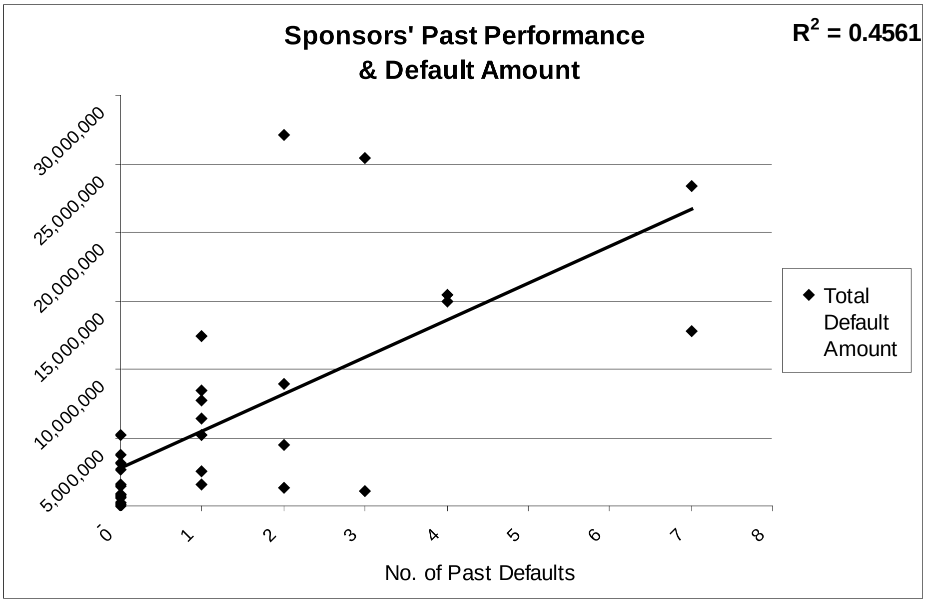
The major and most important source of information about past repayment performance of any individual or organization is Central Information Bureau (CIB) Database of Bangladesh Bank. This database contains information of current and past debt position of any organization, its sponsors and sister concerns to any bank or financial institution in Bangladesh. It contains information of classification of any debt availed by the concerned organization or individual in the past or at present.

Whenever a firm applies for finance from any financial institution, the latter resorts to CIB for past repayment information of the concerned firm. The following table shows the past default numbers of the current default clients of IDLC and the average current default amount of each category of defaulting client:

Past Default No.	**Average Default Amount (Figures in BDT)**
0	1,622,592
1	6,348,835
2	10,429,420
3	13,205,458
4	15,215,805
7	18,069,921

The above table shows that the average default amount is higher in case of the clients who have higher number of defaults in the past. This is a very important indicator of a client's character in terms of repaying its debt.

The following figure reconfirms the above observation. It shows the relationship between the number of past defaults of the defaulting clients of IDLC and the total current default volumes.



The figure shows a very strong and positive relationship between the two. It suggests that the past default behavior is a strong indicator of the future repayment performance of a client.

5.0 Recommendation & Conclusion

5.1 RECOMMENDATION

As a pioneer and leading NBFI in Bangladesh IDLC Finance Ltd have been maintaining its quality in a smooth way. Their experience in the field of lease and other loan product make them very much cautious about the risk. A very skillful and technically enriched department always working in their full capacity to analyze the risk of the their product and services, So far they proof them as a successful organization in assessing risk and thus take care off it. Undoubtedly IDLC Finance Ltd is the best in NBFI sector therefore findings are general and recommendation is not that much necessary for the organization in the overall Credit Risk Management Procedure. Still the following can be mentioned,

- More detail information shall be tried to find out so that assessment can be made more accurately.
- As market is very much flexible so special concentration should be given in assessing the individual industry risk.
- In case of individual client assessment should be made in more details.
- There shall be an extra caution in making provisions against all defaults so that unwanted risk can be absorbed more easily.

5.2 CONCLUSION

To conclude the report, it is imperative to mention that default clients have been a major problem for the Non Banking Financial Institutions for long and the financial institutions have been trying to minimize the default problem all along. The central bank of Bangladesh has been striving to assist the financial institutions to get out of the default problem and formulating policies for that purpose. As a continuance to this, Bangladesh Bank has been providing directives when and where it seems to be necessary.

In Bangladesh many business organizations are still facing problems in the functioning of smooth business operations and moreover they concentrate on making profit more than their safety as a result of this they sometime get out of safety caution to absorb the industry sock. Therefore fall in to loss and sometimes get liquidated. The consequence of this is that NBFIs do not get their due amount in time which is a big and foremost risk to the organizations. To overcome this, a very important factor to which risk weights have to be raised is the past default behavior of the borrowers. From interviews with the higher management of IDLC, who are much knowledgeable in this area have opined that one the most important factors that can be used to predict the future payment performance of the borrower is his character regarding repayment of his borrowed fund.

Another critical matter is that the financial statements of the business organization in fact contain manipulated data. So the analysis of such statements leads to wrong and faulty conclusion. This problem can be solved by judging the financial statement by individual amount specially which will provide information for the beneficiary of the NBFIs.

Also, law enforcement needs to be stronger and faster so that the willful defaulters can be punished for their defaults promptly. This will also cause the genuine business people to be more cautious when availing finance from financial institutions. The CIB database is a good start in this respect and has served to improve the overall loan repayment situation by the borrower.

In the end, it can be remarked that the central financial authority as well as all the financial institutions have to continuously analyze the overall environment, economic, social, business, cultural and so on. Depending on this, they have to improve their risk evaluating procedure.

Appendix

Appendix 1

CREDIT PROPOSAL

Facilities will only be provided after analysis of the risks associated with the counter-parties and facilities proposed in writing. A template of the credit application is provided below:

1. EXECUTIVE SUMMARY

1.1 FACILITY DETAILS

Group	**ABC Group**		**Date**	**Date/Month/Year**
App Company	***ABC Company Limited (ABCCL)***			
Address				
Sector				
Relationship Since				
Facility Type	**Disbursed Amount**	**Current Exposure**	**Proposed Facility**	**Total Cumulative Exposure (if approved)**
Lease				
Term Loan				
Other Facilities				
Total				
Prev. High. Exposure				

1.2 FINANCING PROPOSAL

a) Purpose of Financing

b) Tenure

c) Secured by

1.3 COMPANY BACKGROUND

Company brief history, progress, main sponsors, management strength etc.

1.4 ACTIVITIES/MARKET

- Activities
- Group Activities
- Financial Performance
- Market

1.5 KEY RISK ISSUES & MITIGANT

Highlight the major risks associated with this particular proposal and its mitigant.

1.6 WHY DO WE WANT TO DO IT

- In line with FI's budget & business strategy

1.7 SOURCE OF REPAYMENT

Primary:

Secondary:

Tertiary:

1.8 CREDIT POLICY COMPLIANCE

Lending Guidelines -Complied/Not complied

Credit Policy -Complied/Not complied

- Please give reason for non compliance.

1.9 PAYMENT PERFORMANCE

CIB report (Immediate last quarter ending), Performance of existing contracts, Performance with other Banks and FIs

2. DETAIL PROPOSAL

2.1 HISTORY/PROGRESS TO DATE

- This should be brief & kept to key features. In particular, it should cover, when the business was founded, incorporated, & where appropriately listed.
- Major acquisition and mergers could also be included, as should major share issues.

2.2 OWNERSHIP/ORGANIZATION

- Legal status of the borrower
- Ownership structure may be described as per the following format

Name	Designation	Relationship	Taka Amount	Shareholding
			Xx,000	Xx%
			Xx,000	Xx%
Total			**Xxx,000**	**Xxx%**

2.3 CORPORATE OBJECTIVE/STRATEGY/VISION

Clear and definite Corporate objective, mission, and vision to be mentioned for large, medium, and small enterprises. It enables cross selling of products, as well as to better assess risk.

2.4 ACTIVITIES/PRODUCTS/MARKET

- Products
- Sourcing
- Sales
- Market

2.5 CRITICAL SUCCESS FACTORS:

2.6 COMPETITORS

Should include direct and indirect competitors. Implications of a “shrinking world” and “single market” concept should be factored in.

2.7 TRIGGER POINTS

Under what circumstances, the credit facility to be called back

2.8 MANAGEMENT, LABOR AND OTHER RESOURCES

- Who are the key Management?
- What size is the labor force, male/female, skilled/unskilled? Unionized? Militant? High turnover of staffs? Training undertaken?

2.9 INFRSTRUCTURE REPORT AS PER VISIT

- Where the business is located and is this good location?
- Physical infrastructure like land, building, machinery
- Availability of Utilities and connected load
- Inventory situation
- Operating condition of the factory
- Approval from all regulatory authorities

2.10 IMPLEMENTATION SCHEDULE

Implementation schedule in case of new project or large expansion

2.11 CREDIT INFORMATION

- Particulars of facilities currently being enjoyed
- Credit check with other Banks & FI’s
- Clarification of any overdue as found in the CIB report

3. ANALYSIS OF RISK

The risks identified and the mitigants for those risks may be presented as per the following format:

Risks	Mitigants

There are numerous risks attached to every transactions/relationship but there is a need for certain fundamental risk aspects to be considered for every relationship. Some of these risks have been identified which will be required to be commented upon on a mandatory basis.

3.1 BUSINESS RISK

SWOT Analysis on the following:

- Industry
- Size
- Maturity
- Production
- Distribution
- Vulnerability
- Competition
- Demand- supply situation
- Strategic importance for the group and for the country
- Concentration
- Market reputation

3.2 FINANCIAL RISK

Key Indicators

Period: Jan-Dec	Year-1	Year-2	Year-3	Proj-1	Proj-2

Operating Performance

Turn Over					
Gross Profit					
Net Profit After Tax					

Balance Sheet

Fixed Assets					
Current Assets					
Total Assets					
Current Liabilities					
Long Term Liabilities					
Net Worth					

Financial Ratio

Current Ratio					
Gearing Ratio					
Cash Cycle					

- Profitability
- Liquidity
- Debt management
- Post Balance sheet events
- Projections
- Sensitivity Analysis:

- Other FI Lines:

3.3 MANAGEMENT RISK

- Experience/relevant background
- Track record of management in see through economic cycles
- Succession
- Reputation

3.4 STRUCTURAL RISK

- Identify requirement type of financing facility
- Relate the requirement with capacity utilization/sales volume/asset conversion cycle etc.
- Purpose of the facilities should be clear and thus mode of disbursement should be preferably structured in a manner to make direct payment to the third party through LC, pay order, BB cheques etc.

- all facilities should be time bound while a small overdraft facility may be allowed based on the business requirement to cater to the financing needs for payments of wages & salaries and other daily expenses.

3.5 SECURITY RISK

- Perishablilty
- Enforceability /Legal structure
- Forced Sale Value (calculations of force sale value should be at least guided by Bangladesh Bank guidelines)

3.6 ACCOUNT PERFORMANCE RISK

- Credit Turnover vs stock movement & sales
- Repayment track record of working capital facilities and installment facilities

4. REWARD/RELATIONSHIP STRATEGY

- **ACCOUNT STRATEGY:** **GROW**

Hold/Maintain

Reduce/Restructure

Exit

5. RECOMMENDATION

_______________________ _______________________

Relationship Manager **Head of Business Unit**

Appendix 2

CREDIT RISK GRADING SCORE SHEET

Reference No: **Date:**

Borrower:		**AGGREGATE SCORE: _________**
Group Name (if any):		
Branch:		**Risk Grading:** _________
Industry/Sector:		
Date of Financials:		
Completed by:		
Approved by:		

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/Watchlist	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: Debt Equity Ratio (×) Total Liabilities to Tangible Net worth		▪ Less than 0.25× ▪ 0.26× to 0.35 x ▪ 0.36× to 0.50 x ▪ 0.51× to 0.75 x ▪ 0.76× to 1.25 x ▪ 1.26× to 2.00 x ▪ 2.01× to 2.50 x ▪ 2.51× to 2.75 x ▪ More than 2.75×	15 14 13 12 11 10 8 7 0		
2. Liquidity: Current Ratio (×) Current Assets to Current Liabilities		▪ Greater than 2.74× ▪ 2.50× to 2.74 x ▪ 2.00× to 2.49 x ▪ 1.50× to 1.99 x ▪ 1.10× to 1.49 x ▪ 0.90× to 1.09 x ▪ 0.80× to 0.89 x ▪ 0.70× to 0.79 x ▪ Less than 0.70×	15 14 13 12 11 10 8 7 0		

3. Profitability: Operating Profit Margin (%) $\frac{\text{Operating Profit}}{\text{Sales}} \times 100$	▪ 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 Interest Coverage Ratio (×) $\frac{\textit{Earning Before Interest \& Tax (EBIT)}}{\text{Interest on debt}}$	▪ More than 2.00× ▪ More than 1.51× Less than 2.00× ▪ More than 1.25× Less than 1.50× ▪ More than 1.00× Less than 1.24× ▪ Less than 1.00×	5 4 3 2 0		
Total Score–Financial Risk		**50**		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
B. Business/Industry Risk	**15%**				
1. Size of Business (Sales in BDT crore)		▪ > 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. Business Outlook		▪ Favorable ▪ Stable ▪ Slightly Uncertain ▪ Cause for Concern	3 2 1 0		
3. Industry Growth		▪ Strong (10%+) ▪ Good (>5% - 10%) ▪ Moderate (1% - 5%) ▪ No Growth (<1%)	3 2 1 0		
4. Market Competition		▪ Dominant Player ▪ Moderately Competitive ▪ Highly Competitive	2 1 0		
5. Entry/Exit Barriers		▪ Difficult ▪ Average ▪ Easy	2 1 0		
TOTAL SCORE-BUSINESS/INDUSTRY RISK			**15**		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
C. MANAGEMENT RISK	*15%*				
1. Experience (Management & Management Team)		▪ 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		▪ Ready Succession ▪ Succession within 2-3 years ▪ Succession within 3-5 years ▪ Succession in question	5 3 2 0		
3. Team Work		▪ Very Good ▪ Moderate ▪ Poor ▪ Regular Conflict	5 3 2 0		
Total Score-Management Risk			**15**		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
D. Security Risk	**10%**				
1. Security Coverage (Primary)		▪ Fully pledged facilities/substantially cash covered ▪ 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)		▪ 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		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
3. Support (Guarantee)		▪ Personal guarantee with high net worth or Strong Corporate Guarantee (Guarantor's Grading Acceptable or higher) ▪ 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. Utilization of Limit (actual/projection)		▪ More than 70% ▪ 51% - 70% ▪ 30% - 50% ▪ Less than 30%	3 2 1 0		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
2. Account Conduct		▪ 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	3 2 1 0		
3. Compliance of Covenants/Conditions		▪ Full Compliance ▪ Some Non-Compliance ▪ No Compliance	2 1 0		
4. Personal Deposits		▪ All personal accounts of the key business Sponsors/ Principals are maintained in the bank, with significant deposits ▪ Principals maintain some accounts, but have relationship with other banks ▪ No depository relationship	2 1 0		
Total Score-Relationship Risk			**10**		
Grand Total- All Risk			**100**		

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