

An Internship Report

On

Credit Risk Management of Bangladesh Commerce Bank LTD.

Submitted to:



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Date of submission: 29/10/2015



BRAC UNIVERSITY

Letter Of Transmittal

29th October, 2015
Mr. Mahmudul Haq
Associate Professor
BRAC Business School
BRAC University

Subject: Submission of report on Credit Risk Management of Bangladesh Commerce Bank Ltd.

Dear Sir

It is my great pleasure that I have the opportunity to submit a report on “Credit Risk Management of Bangladesh Commerce Bank Ltd”. I have completed my internship as a part of MBA curriculum to observe closely and studied different practical aspects of the Bangladesh Commerce Bank Ltd.

Internship works as a bridge between the academic and the practical knowledge. Practical exposure is very much necessary to adopt with the environment where we have to work. I am very much fortunate that I get the opportunity to work with experienced and devoted professionals to get acquainted about the banking environment by the helping hand.

I tried my best to put meticulous effort for the preparation of this report. Any shortcomings or flaw may arise as I am very much novice in this aspect. I will wholeheartedly welcome any clarification and suggestion about any view and conception disseminated in my report that you might have.

Sincerely Yours

.....
Tasnim Jahan Audita
ID: 13164123

Acknowledgement

The successful accomplishment of this project work is the outcome of the contribution of number of people, especially those who have given the time and effort to share their thoughts and suggestions to improve the report. At the beginning, I would like to pay my humble gratitude to the Almighty Allah for giving me the ability to work hard under pressure.

I would like to express my indebtedness and deepest sense of gratitude to my supervisor Mr Mahmudul Haq, associate professor, BRAC University, for his kind co-operation. I also thank him for kindly assigning to me such a precious & significant topic.

I would like to express my feelings & great affections along with my heartiest appreciation to the Md. Abdur Rahim Mia (SVP), Mr Asish Goshwami(SO), Moulavi Bazar Branch, Bangladesh Commerce Bank Limited and all of their subordinates for providing me such an opportunity to learn about practical experience on banking activities.

A note of gratitude is also extended to the Human Resource Department for providing me with the opportunity to work as an in internee in BCBL.

It was neither an easy task nor we to fit in a situation where we had never been for the duration of the orientation was enough to familiarize with all the aspects of banking activities. But yet I have successfully completed my study in the Bangladesh Commerce Bank Ltd. and it would not have possible without the help of some kind-hearted people. I will be ungrateful if I fail to appreciate their kindness and not thank them.

Finally I also like to thanks all the other employees of all level for their beloved manner and attitude that they had shown to me during the time of staying in the bank.

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Executive Summary

Today's economic policy is concerned to obtain the optimum economic condition in an economy. Banking sector is playing the pioneer role to achieve that optimum. The banking sectors channel resources through deposit mobilization and providing credit for different business venture. The successful running of bank business depends upon effective and efficient commercial and organizational activities of the commercial banks. Banking sector of Bangladesh entered into a new era when all the commercial banks and financial institutions were nationalized after the emergence of Bangladesh as an independent nation.

Banks mainly collect deposits and lend funds in deficit sectors. Lending fund or providing credit is one of the prime tasks of banks and banks earn most of the profit from lending or providing credit in several sectors. So it is very essential for a bank to manage its credit as well as credit department properly and dynamically. Like other business Banks also face many risks, threats regarding their banking business both macro and micro level. Managing risk is also very important for banks.

Among all the risks Credit risk is one of the most vital risks for any commercial bank. Credit risk arises from non performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-commitment contracted manner. The real risk from credit is the deviation of portfolio performance from its expected value. The credit risk of a bank is also effect the book value of a bank. The more credit of a particular is in risk, the more probability of a bank to be insolvent. Therefore, the status of depositor in the bank is at risk and probability of incurring loss from their deposited value. In other way the riskiness of a commercial bank is calculated through long term and short term rating by the credit rating agencies.

In my whole report, I was working on the credit risk of Bangladesh Commerce Bank Limited. During the preparation of the report, I provide the last five years information of BCBL from 2009-2014. In the whole report I also explain the credit policy and credit risk management of BCBL.

The Bangladesh Commerce Bank Limited (BCBL) is a public limited company incorporated in Bangladesh under the Company Act, 1994. It is also guided by the Bank Company act, 1991 and Bangladesh Bank Ordinance 1972, so as to enable the company for doing banking business. For any kind of transaction BCBL plays an important role. BCBL is one of the leading commercial in the country. To maintain its leading position in Bangladesh, BCBL is always keen to develop long term relationship with trustworthy clients. Previously the bank concentrated more on revenue, but for the last few years risk factor gets special consideration in addition to revenue. In today's modern and complex business world banks are the most important participants as they match the surplus & deficit unit by collecting deposit from surplus unit & lend it to the deficit

unit. Without banks a single transaction cannot be done efficiently now. And lending to customers is one of the basic tasks performed by the banks. Bank credit plays an important role in everyday business as well as personal life. Every bank provides loan according to their principals and regulations. Bangladesh Commerce Bank Limited also disburses loans carefully by following different rules and take necessary steps for the safety and recovery of the loans. The bank mostly gives short term loans and has priority towards commercial and industrial sector. Most of the loans disbursed by BCBL are in Dhaka and Chittagong division.

The growth rate of loans and advances of BCBL is positive. Classified loans of BCBL are very much concentrated than before. BCBLs' provision for all types of loans is high as they are very much careful about the security of their loans. The recovery system of BCBL is very much efficient that's why the loan performance/loan recovery rate of the bank is also good. BCBL follows the BBs' guidelines for the proper recovery of loans. The financial performance of the bank is also satisfactory. To maintain a profitable growth rate the bank should take some necessary steps like issuing easy and flexible credit policy, using modern technology in analyzing credit proposal and approval and ensuring proper management of loans and advances.

If I make focus on 2009, I found that BCBL credit to deposit ratio was about to 98.78%, return on asset was about to 2.81, and non performing loan was approximately 4.31%. Those ratio of BCBL indicate that the credit risk in that year was more than any other year in the last five one.

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In the credit risk part, I also find the relationship of Non Performing Loan with the some selected factors like GDP growth rate, Exchange rate. For this I collect some data about the reliability of those factors on the basis of Questionnaire and make Test of Hypothesis and regression analysis. In those test I find significant relationship among the economic condition, deposit, loan, NPL and banks profit. In the regression analysis, I take NPL as dependent variable and GDP, Exchange rate as independent variables. And find negative relation Exchange rate and GDP with NPL.

Finally, I like to conclude that BCBL is one of the most promising and fast growing bank in our country. According to its operational excellence, it is now competing with some renowned foreign commercial banks which are operating in our country

Chapter One: Introduction

1.1 Introduction

The banking system started many years back with a view to facilitate people with liquid money (CASH) who was short in cash but was rich in terms of asset. The concept was to lend them enough money against some capital assets with resell value which they had to pay back with an extra amount (interest). However, the money given to them was actually gathered from other people, who for security & future emergencies kept the extra bit of their living (as savings) in the banks from which they also expect to earn a few bucks via interest. During those years the transaction was done between only a few people of a small locality.

Banking system plays a very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. In a developing country like Bangladesh the banking system as a whole play a vital role in the progress of economic development. A bank as a matter of fact is just like a heart in the economic structure and the Capital provided by it is like blood in it. As long as blood is in circulation the organs will remain. Banking is now an essential part of our economic system. Modern trade and commerce would almost be impossible without the availability of suitable banking services. First of all, banking promotes savings. All manner of people, from the ordinary laborers and workers to the rich land owners and businessmen, can keep their money safely in banks and saving centers.

Banking promotes investments. Banks easily invest the money they get in industry, agriculture and trade. They either invest it directly or advance loans to other investors.

It is most through banks that foreign trade is carried on. Whether we export or import, it is through banks that money is transferred from one country to another. For example, bills of exchange and letters of credit are the regular ways banks use to transfer money. A number of recent studies, however, indicate that the banking sector plays a more important role than it was believed earlier.

Bangladesh commerce Bank Limited has been operating in the country as the private commercial bank rendering progressive banking services for overall development of the country.

To relate the theoretical knowledge with the practice we the student of MBA were assigned in the practical orientation in a bank. During my learner period, I was attached with **Bangladesh commerce Bank LTd** located in Moulavibazar. The Officer of this Branch help me to perform

practical jobs in different desk which help me to gather some practical knowledge for various banking functions and completed this report.

My Internship report is submitted after completion of the three months Internship program in the **Bangladesh commerce Bank Ltd** under my Internship supervisor **Mr. Mahmudul Haq** faculty of Brac Business School in Brac University, who authorized me to submit the report on *Credit Risk Management of BCBL*.

The Internship program is itself an attempt to provide graduates an orientation to a real life situation in which they can observe and evaluate the use and applicability of theoretical concepts which were taught in the classroom. As per norm, this Internship Report is prepared to fulfill the requirement of the Internship Program as full credit subject of the MBA Program of Brac University.

1.2 Historical Background of BCBL

Bangladesh Commerce Bank Ltd. bears a unique history of its own. The bank a leading private sector commercial bank began its operation in as 1st September 16, 1999. Bangladesh Commerce Bank Limited (BCBL) was established by the Act No. 12 on 1997, passed by the Parliament of the People's Republic of Bangladesh. Prior to emerging as bank, it was merely an Investment Company named Bangladesh Commerce and Investment Ltd. (BCIL). Subsequently on February 8, 1998, the Government of Bangladesh constituted an 11 member Board of Directors to administer the affairs of the Bank in accordance with the Act and other related rules & regulations. BCBL was incorporated on June 1, 1998. The Bank formally started operation from September 16, 1999. The aim of the company is to mobilize resources from within and invest them in such way to develop country's Industrial and Trade Sector and playing a catalyst role in the formation of capital market as well. Its membership with the browse helped the company largely in this regard. It has 48 branches and also owns the membership of Dhaka Stock Exchange (DSE). The Bank has been achieving a continuous growth rate in all spheres of banking operations since establishment of the Bank in 1999.

The bank has made significant progress within a short time due to its very competent board of directors, dynamic management & development of various customers. The bank conducts traditional commercial banking functions as well as foreign exchange business & provision of other financial services. At present, the bank's main focus is on the delivery of personalized customer services & expansion of its climate base. The bank follows the lending guidelines of the Bangladesh Bank.

BCBL has been using computer & other modern technology to conduct banking operation from its inception. They are attributing online banking under IT platform. The BCBL has automated most of its branches with computer network with the objective to render modern services in

accordance with the competitive commercial demand. Currently there are six divisions in the bank. Each division is charged with specific tasks and the cells provide necessary support in performing the tasks.

1.3 Organizational Structure

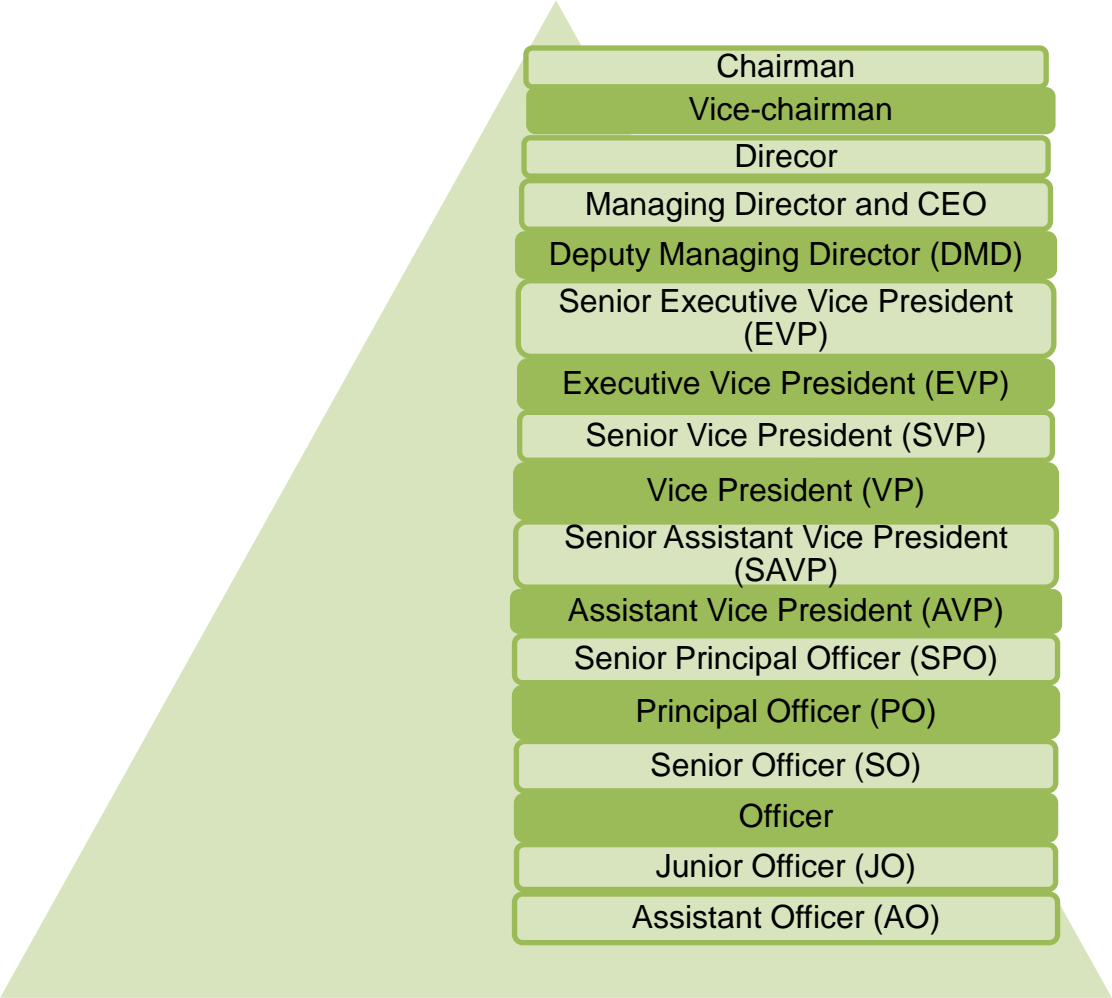


Figure-1; organizational structure

1.4 Vision & Mission

Vision

Become a bank of first choice by the customers with meaningful contributions to the society is the main aim of the bank. Bangladesh Commerce Bank Ltd has also a vision to share its experience and excel to its customers and people around it. At the juncture of global economic activities, Bangladesh Commerce Bank Ltd has been driven by the strategic policy, as the prosperous economies of the global village are option. Bangladesh Commerce Bank Ltd is a private and schedule commercial bank, which is focused on establishing and emerging markets of Bangladesh. It aims to be the leader in banking sector of the country. Achieving the good reputation with efficiency in the specialized area of banking. The bank is committed to keep its working force to be modern and updated knowledge oriented. Committed to maximize satisfaction of the customer and build the trustworthy relationship with them.

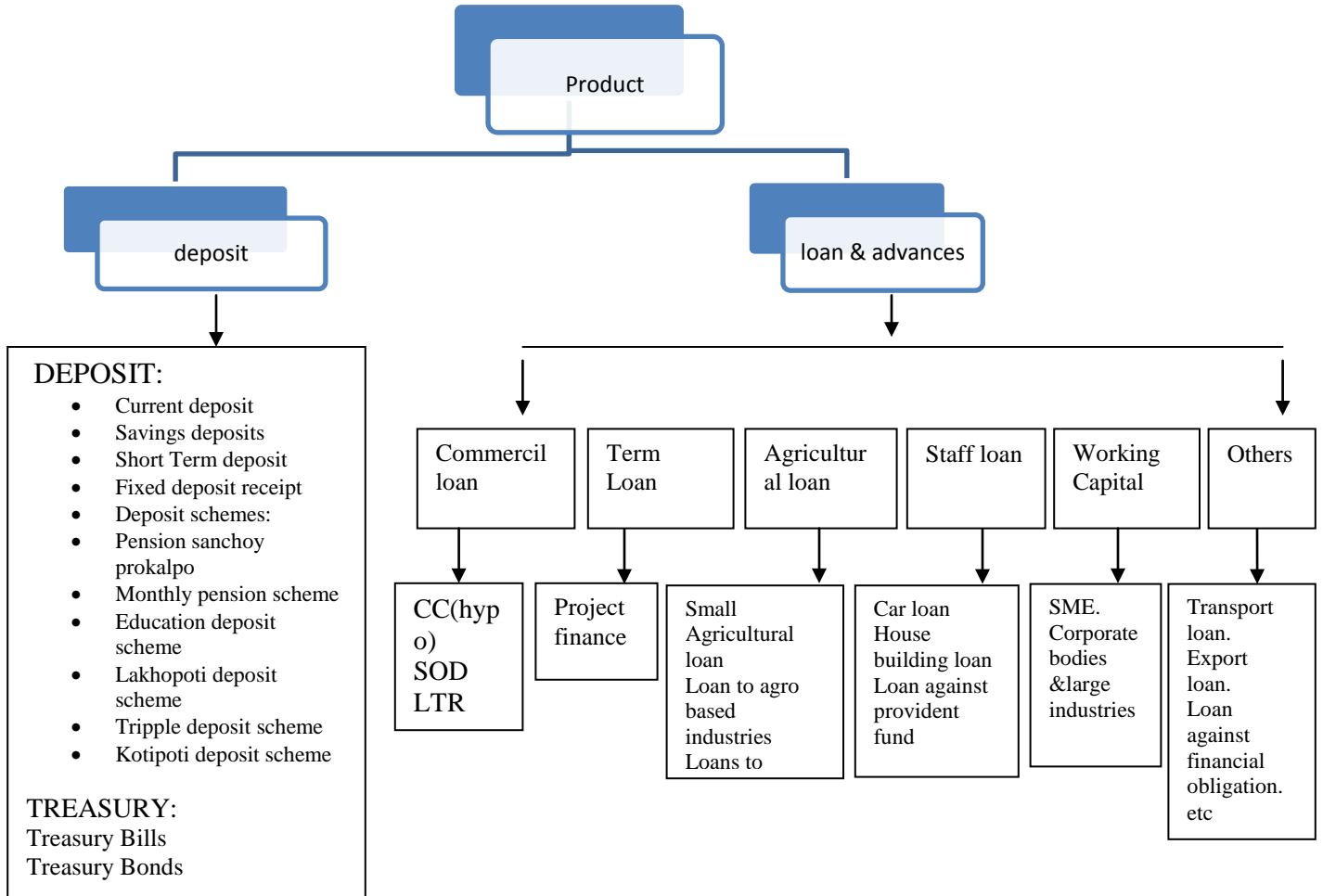
Mission

Bangladesh Commerce Bank Limited is committed to fulfill its customer's needs and become their first choice in banking so that a sustainable growth, reasonable return and contribution to the socio-economic development of the country can be ensured with a motivated and professional work-force along with

- High quality financial services with the assistance of latest technological device.
- One Stop, Fast, and accurate customer services.
- Balanced financial growth strategy.
- High slandered business ethics
- Smooth return on shareholder's equity.
- Innovation in banking service at a competitive price.
- Committed to the growth of society and economic development.
- Collecting & nourishing quality human resources with right compensation.

1.5 Products of BCBL:

Figure- 2; BCBL product



Chapter Two: Description of THE Project

2.1 Background of the study

Financial sector in Bangladesh comprises of mainly banking sector, insurance companies, stock market, non-bank financial institutions and micro financing institutions. Commercial Banks play a dynamic role in the economic development of a nation through mobilization of savings and allocation of credit to productive sectors. However, directed and inefficient credit allocation by the commercial banks of Bangladesh in various economic sectors without adequate credit appraisal and monitoring, ultimately led to the widespread loan delinquency, and deteriorating health of the entire financial system. Banking sector in Bangladesh suffers from chronic inefficiency. The biggest problem of Bangladesh banking system is the bank loan default problem and problems regarding credit exposure and proper credit risk management.

In today's world, skilled Credit officers, managers in evaluating the credit request of business firms rank among the most experienced and highest paid people in the financial services field along with investment bankers. Along with this BCBL credit department try their best in maintenance of credit.

2.2 Objectives Of the report:

Credit Management System enables an organization to manage concerns that are involved in loan processing from loan request to its maturity. Many phases are covered in between, for instance loan request, approval, documentation, schedule, disbursement and maturity. That is start from selection of borrower to sanctioning loan at last monitoring the borrower.

- To observe the practices of credit Plan, policies in real banking aspect.
- To identify the credit policies of Bangladesh Commerce Bank Limited.
- To find out the limitations related to credit policies of BCBL.
- To recommend necessary steps for overcoming the limitations related to credit policies of BCBL.
- Credit risk grading procedure of BCBL.
- To explain the Credit management procedure of BCBL
- Analysis of a credit proposal from selection to monitoring procedure of the bank.
- Credit risk management procedure of BCB

2.3 Methodology:

Both quantitative qualitative judgments and calculations will be applied to make the report more presentable and specific.

2.4 Sources of data:

Basically Primary and secondary sources data will be used. Some data will also be collected through oral interview.

Primary Sources:

- Oral interview of the responsible managers of credit management dept.
- Personal experience gained by visiting different desks during internship period.
- Official Records of BCBL.
-

Secondary Sources:

- Annual Reports of BCBL.
- Relevant papers and different books.
- Manual of different departments.
- Periodical publications.
- Web site of BCBL.
- Prior research reports and Literature reviews.
- Bangladesh Bank Report, publications etc.

2.5 Limitation

To prepare a report on the achieved practical experience in a short duration is not an easy task. In preparing this report, some problems & limitations have encountered, which are as follows:

- Large scale analysis was not possible due to time, information constraints. As the internship is for 3 months, it is really a short time to analysis a large organization like BCBL.
- This report is limited only to the Loans & Advance Department, it does not cover the general banking part of BCBL.
- In many cases, up to date information was not published. In some cases, access to relevant papers & documents were strictly prohibited. In some other cases, access was denied to procedural matters conducted directly by the top management in the operations of loans & advance department.
- The officials of BCBL have a busy working schedule. So, data collection process is also hampered for this.

Organization secrecy policies are also a limitation of this report. Confidential data of BCBL which would be helpful for this report cannot be accessed

Chapter Three: Job Description

3.1 Nature of the jobs

There are different departments in banks and that's why also different types of jobs available there. I was mainly assigned to do work in loan department. But sometimes I also worked for general banking and foreign exchange also. I want to thank the employee of BCBL Moulavibazar branch, who helped me to understand some critical job of banks.

In this 3 month internship program I came to know different knowledge about banking job. such as:

1. What is the procedure to open account?
2. What is the procedure to take loan?
3. Types of loan available in this bank.
4. Types of papers needed for taking loan?
5. Procedure to open a letter of credit.

3.2 Specific job performance

When I used to work as an intern I mainly worked for loan disbursement department and foreign exchange department but I also worked for general banking. Types of work I used to do there is mentioned below:

1. Filling up debit card form.
2. Filling up accounts opening form
3. Doing photocopy for different papers.
4. Posting in ledger when letter of credit open or closed.
5. Filling up branch visit form
6. Filling up collateral appraisal form
7. Filling up stock form for loan department

Chapter Four: Credit Risk Management Of BCB

4.1 What Is Credit And Credit Risk

Credit is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately but instead arranges either to repay or return those resources at a later date. The resources provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. consumer credit). Credit encompasses any form of deferred payment. Credit is extended by a creditor, also known as a lender, to a debtor, also known as a borrower. Movements of financial capital are normally dependent on either credit or equity transfers. Credit is in turn dependent on the reputation or creditworthiness of the entity which takes responsibility for the funds. Credit is also traded in financial markets. The purest form is the credit default swap market, which is essentially a traded market in credit insurance. A credit default swap represents the price at which two parties exchange this risk – the protection "seller" takes the risk of default of the credit in return for a payment, commonly denoted in basis points (one basis point is 1/100 of a percent) of the notional amount to be referenced, while the protection "buyer" pays this premium and in the case of default of the underlying (a loan, bond or other receivable), delivers this receivable to the protection seller and receives from the seller the amount.

Credit may be of two types:



Trade credit:

The word credit is used in commercial trade in the term "trade credit" to refer to the approval for delayed payments for purchased goods. Credit is sometimes not granted to a person who has financial instability or difficulty. Companies frequently offer credit to their customers as part of the terms of a purchase agreement. Organizations that offer credit to their customers frequently employ a credit manager.

Consumer credit:

Consumer debt can be defined as 'money, goods or services provided to an individual in lieu of payment.' Common forms of consumer credit include [credit cards](#), store cards, motor (auto) finance, personal loans ([installment loans](#)), [consumer lines of credit](#), retail loans (retail installment loans) and [mortgages](#). This is a broad definition of consumer credit and corresponds with the Bank of England's definition of "Lending to individuals". Given the size and nature of the mortgage market, many observers classify mortgage lending as a separate category of

personal borrowing, and consequently residential mortgages are excluded from some definitions of consumer credit - such as the one adopted by the Federal Reserve in the US.

The cost of credit is the additional amount, over and above the amount borrowed, that the borrower has to pay. It includes [interest](#), arrangement fees and any other charges. Some costs are mandatory, required by the lender as an integral part of the credit agreement. Other costs, such as those for [credit insurance](#), may be optional. The borrower chooses whether or not they are included as part of the agreement.

Credit recovery is an important procedural guideline of credit risk management procedure. Every bank need to comply with all guidelines that are needed to ensure compliance with the policy and strategy guidelines issued by Bangladesh Bank.

Khan, A.R. “Bank Fund Management (A fund emphasis)-Year 2008”

Credit risk is one of the most vital risks for any commercial bank. Credit risk arises from non performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-commitment contracted manner. The real risk from credit is the deviation of portfolio performance from its expected value. The credit risk of a bank is also effect the book value of a bank. The more credit of a particular is in risk, the more probability of a bank to be insolvent.

Banerjee, Prashanta K., & Farooqui Q.G.M., “Credit Management in Banks-BIBM”

The objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loan and advance and their efficient management. The lending guideline should include Industry and Business Segment Focus, Types of loan facilities, Single Borrower and group limit, Lending caps. It should adopt a credit grading system .All facilities should be assigned a risk grade.

Rose, Peter S. “Commercial Bank Management”

For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions.

4.2 Loans and Advances of BCBL

One of the primary functions of commercial banks is sanctioning of credit to the potential borrowers. Bank credit is an important catalyst for bringing about economic development in a country. Without adequate financing, there can be no growth or maintenance of a stable economy. Bank lending is important for the economy, because it makes possible the financing of

agricultural, commercial and industrial activities of a nation. At the same time, a bank will, therefore, distribute its funds among various sectors in a manner as to derive sufficient incomes.

4.3 Credit Department of BCBL

Bangladesh Commerce Bank, being one of the largest private commercial bank of the country, has some prejudice to finance directly on priority basis to agriculture, commerce and industry sector for strengthening the economy base of the country. Hence, it is very clear that, BCBL plays an important role to move the economic wheel of the country. And the department of loans and advances are responsible for performing this important task.

Routine approval of loans or credit is handled in the following manner:

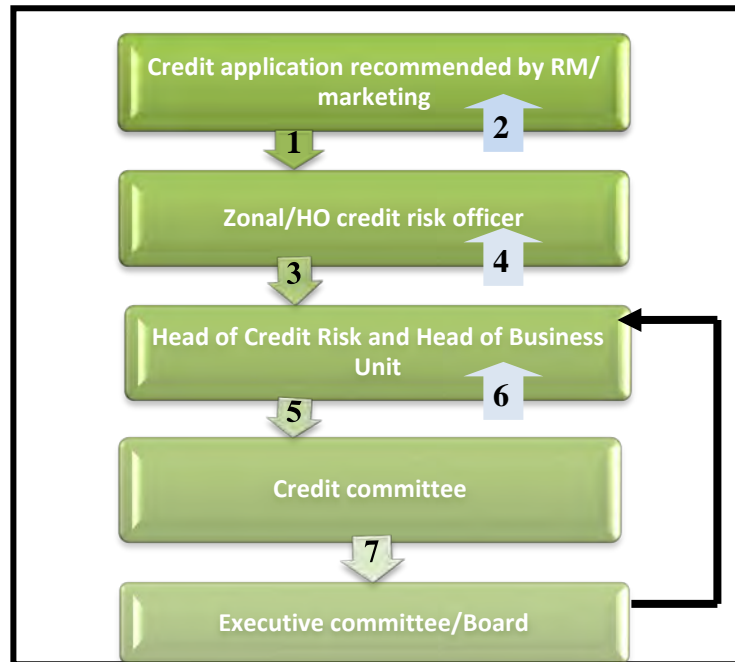


Figure: 3; Loan approval process

The process is described below:

- ✚ Application forwarded to zonal office/head office for review by the ZCRO/HCRO.
- ✚ ZCRO/HCRO advises the review to recommending branches.
- ✚ ZCRO/HCRO supports and forwarded to Head of Business Units within delegated authority and to Head of Credit Risk for onward recommendation.
- ✚ HOCR advises the review to ZCRO.
- ✚ HOCR & HOBU supports and forwarded to credit committee.
- ✚ Credit committee advises the decision as per delegated authority to HOCR & HOBU.
- ✚ Credit committee forwards the proposal to EC/ Board for their approval within their respective authority.
- ✚ EC/Board advises the decision to HOCR & HOBU.

4.4 Credit facilities / products of BCBL

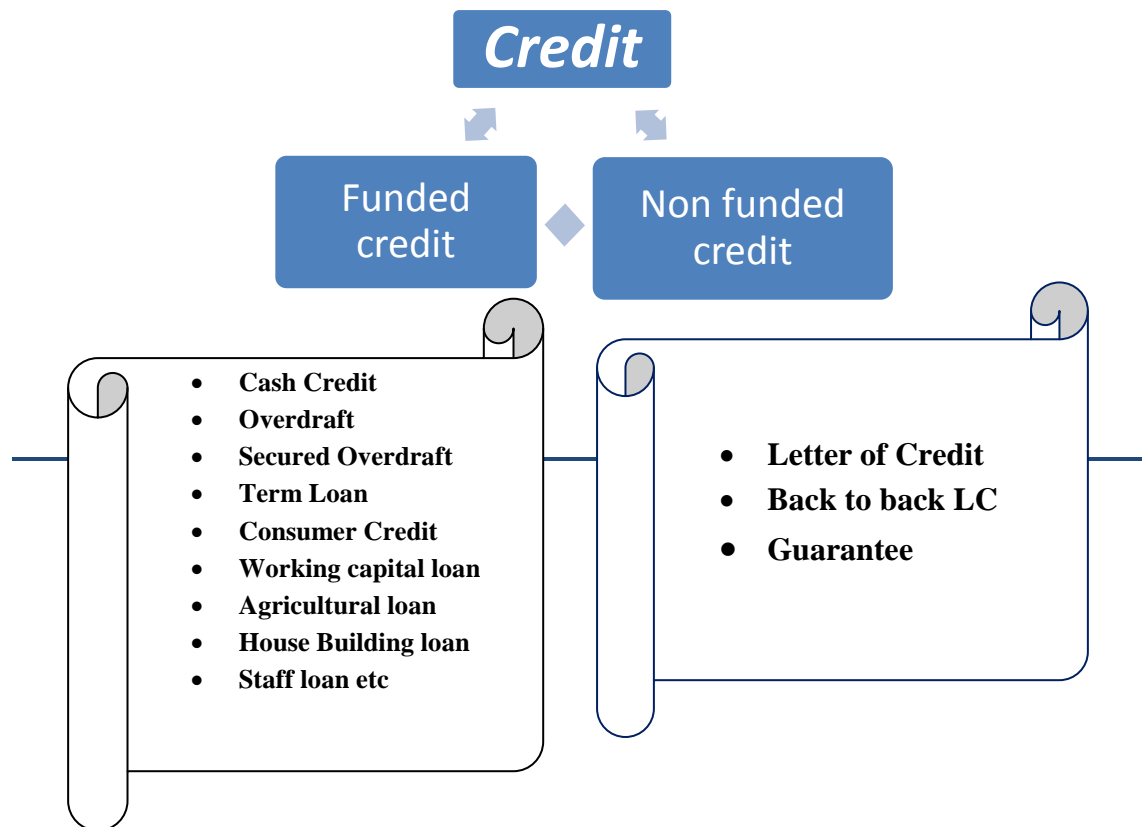


Figure -4; lending product

Funded facilities:

The funded credit facilities are those which involve direct cash. In other words any type of credit facility which involves direct outflow of Bank's fund on account of borrower is termed as funded credit facility. The following funded credit facilities are provided by BCBL.

Cash Credit:

Cash credit is a Continuous loan facility usually provided for working capital fund requirements purpose of the customer. Cash credit is generally given to traders, industrialists for meeting up their working capital requirements. Cash credit can be given on Hypothecation or pledge of goods.

Cash Credit (Hypothecation):

This facility is available both for Trading Houses and Manufacturing concerns against primary security of hypothecated inventory/ stocks of Finished, Raw Materials and Machineries. However, as the primary security remains at the disposal of the borrower with practically no control of the lending institution. BCBL extends such facility only against retention of adequate eligible Collateral Security favoring bank. Criteria of Such Eligible Security shall be as per circular of Head Office and within the guideline set by Bangladesh Bank in this regard.

Cash Credit (Pledge):

BCBL retain the provision to extend WC finance under the head. As the Primary Security i.e. finished goods or raw materials by regulation is supposed to be under strict control of the bank, the arrangement on practical experience eventually proves cumbersome due to numerous difficulties in maintaining the formalities related to strict supervision and monitoring. Therefore, BCBL prefer to consider such facility only under Hypothecation unless assurance and arrangements are available about compliance on the spirit of the portfolio.

Overdraft:

Overdraft facility is also a continuous loan arrangement on a customer's current account permitting him/her to overdraw up to a certain approved limit for an agreed period. Here the withdrawals of deposit can be made any number of times at the convenience of the borrower, provided that the total overdrawn amount does not exceed the agreed limit. Customer can return any amount at any time within the pre-fixed time of the facility. Turnover of an over-draft facility is the most important phenomenon on which renewal of the facility depends. Overdraft facility is given to the businessmen for financing working capital requirement and high net worth individual to overcome temporary liquidity crisis.

Commercial loan:

Commercial loan may be many types. Like

- CC('HYPO)
- LTR(loan against trust receipt)
- LIM(loan against imported merchandise)

Non-funded facilities:

Non-funded facilities are also known as contingent facilities are those where bank's fund is not required directly. A non-funded facility can be turned to a funded facility as per situation creates. Bank receives commission rather than interest income by providing Non-funded facilities.

Following non-funded facilities are provided by BCBL.

Letter of Credit (L/C):

A Letter of Credit can be defined as a Credit Contract whereby the buyer's bank is committed (on behalf of the buyer) to place an agreed amount of money at the seller's disposal under some agreed upon condition. BCBL provides only irrevocable letter of credit (L/C) facility.

Bank Guarantee (Bid Bond, Performance Guarantee):

A significant portion of the Bank's revenue comes from providing Bank Guarantee service. This is a non-funded credit service of the Bank where it only works as a guarantor and earns commission. This service is available in all branches of the Bank in the country.

Guarantee:

BCBL offers guarantee for its reliable and valuable customer as per requirements. This is also a credit facility in contingent liabilities.

4.5 Credit risk and commercial bank

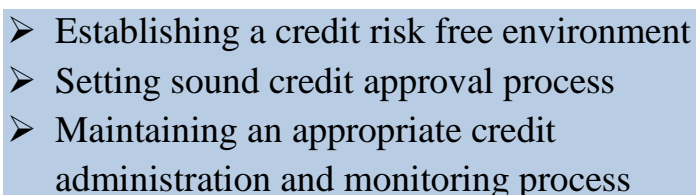
Risk is inherent in all aspects of a commercial operation; however for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions.

Credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that banks have robust credit risk management policies and procedures that are sensitive and responsive to these changes.

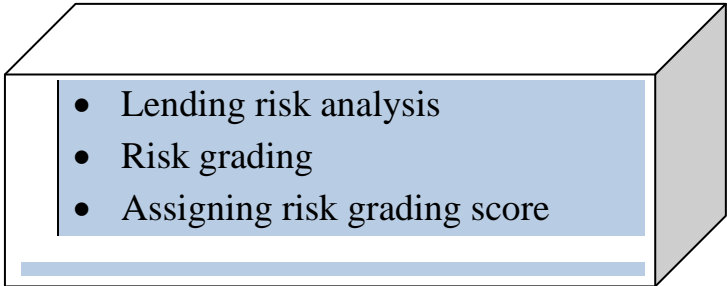
4.6 Credit risk management and Bangladesh Commerce Bank Limited (BCBL):

The most sophisticated area of a bank is credit department. Credit can be termed as the gainful employment of deposits received. In banking, a bank receives various types of deposits that it has to employ somewhere for further benefit. That is why a bank lends that fund to people or organization under certain terms & conditions for repayment with an additional amount or benefit. As we know that a bank lends money that it has borrowed, we can assume that creation of credits is a very important task of a bank and a major source of its income.


Apart from the robust credit risk management process, BCBL has a Credit Risk Management policy documents which address the following issues. .

- 
- Establishing a credit risk free environment
 - Setting sound credit approval process
 - Maintaining an appropriate credit administration and monitoring process

The bank use comprehensive risk analysis procedures .these are...

- 
- Lending risk analysis
 - Risk grading
 - Assigning risk grading score

The bank maintains authority to sanction/approve loans is clearly delegated. Credit Risk Management has segregated into four broad functions:

- 
- Credit Marketing /Relationship
 - Credit Approval/Credit Risk Management
 - Credit Administration
 - Credit Recovery

4.7 Root causes of problem credit in commercial banks like BCBL:

- ✦ Compromise or violation of credit principles, that is granting credit carrying undue risks or unsatisfactory terms.
- ✦ Extension of credit on an unsound basis to directors or large shareholders
- ✦ Incomplete credit information.
- ✦ Lending without a clear agreement governing repayment
- ✦ Being influenced by salary, incentives and bonuses based on loan portfolio growth.
- ✦ Failure to obtain or enforce repayment agreements
- ✦ Lack of adequate supervision of old and familiar borrowers
- ✦ Ignoring warning signs pertaining to the borrower, economy, region, industry or other related factors.
- ✦ Timidity of dealing with individuals having dominating personalities or influential connections or friendships or personal conflicts of interest involved.
- ✦ Poor selection of risks
- ✦ Loan for the speculative purchase of securities or goods
- ✦ Dependence on oral information furnished by borrowers in lieu of reliable financial data
- ✦ Technical in competences

4.8 Steps of credit granting

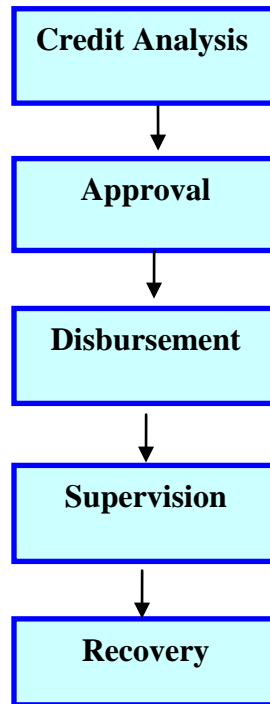


Figure -5; Steps of credit granting

4.9 Approaches to the Bank for loans

When a borrower approaches to BCBL for a loan, he or she is required to fulfill the following criteria:

- He or she has to be a client of the bank.
- He or she needs to apply properly describing the purpose of the loan amount needed & his/her capacity of repayment

4.10 Process of Handling Loans

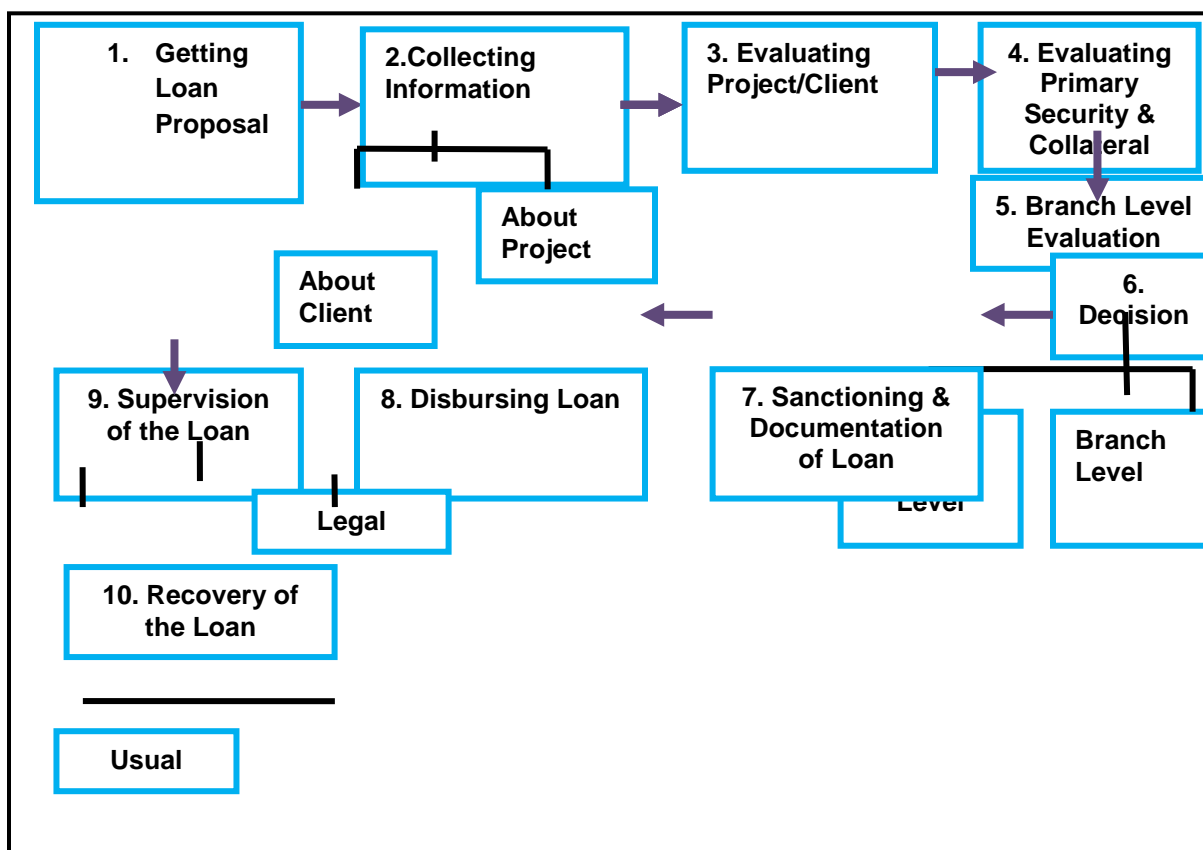


Figure -6; Process of Handling Loans

The whole process is described below:

Step 1: Getting Loan Proposal

The prospective borrower has to apply to the branch by filling up a specific credit line application form along with the following documents required for processing the loan proposal:

- ❑ Request for credit limit of customer.
- ❑ Project profile of profile of business.
- ❑ Copy of trade license duly attested.
- ❑ Copy of TIN (Tax Identification Number) certificate.
- ❑ Certificate copy of Memorandum and Articles of Association, certificate of incorporation, certificate of commencement of business, resolution of the board, partnership deed (where applicable).

- ❑ Personal net worth statement of owner, directors, partners etc.
- ❑ Valuation certificate of the collateral security in bank's form with photograph of security.
- ❑ CIB (Credit information Bureau) inquiry form duly filled in.
- ❑ Stock report duly verified (where applicable)
- ❑ Indent / Pro forma invoice / Quotation.
- ❑ Price verification report.
- ❑ Statement of accounts.
- ❑ Declaration of the name of the sister concern and their liability.

Step 2: Collecting Information

At this stage, after receiving the loan application form, branch sends a letter to Bangladesh Bank for obtaining a report from there regarding the prospective borrower. This report is called CIB (Credit Information Bureau) Report, The purpose of this report is to being informed that whether the borrower has taken loan from any other bank or not, if 'yes' then whether these loans are classified or not.

Step 3 and 4: Evaluating Project/Client and Primary Security & Collateral

At this stage, after receiving the CIB (Credit Information Bureau) Report, if the Bank thinks that the prospective borrower will be a good choice then the bank will scrutinize the documents submitted by the borrower. In this stage, the branch will look to check whether the documents are properly filled up and signed for verification. The bank also scrutinizes the security or collateral for the safety of the loan.

Step 5: Branch level evaluation

In this stage, the respective branch will prepare a credit proposal containing relevant information, regarding the sanctioning of the loan which the prospective borrower has applied for.

Step 6: Decision

Now, the Branch has to send the proposal to the Head Office. Head Office will prepare a minute and submit it before the Executive Committee of the comprising members from the Board of Directors and top management officials. The minute for the proposed loan has to be passed by the Executive Committee.

Step 7: Sanctioning & Documentation of Loan

After getting the approval of Head Office through an official sanction letter, the Branch will provide the borrower a sanction advice containing particulars of the loan and detailed terms and conditions of the Bank regarding the loan. The borrower has to acknowledge receipt of this sanction letter as a token of his acceptance before availing the loan. At this stage documentation which is an important aspect of loans and advances is carried out for collecting necessary Charge Documents from the borrower. Charge Documents are a set of printed and prescribed forms,

which are executed by the borrower to protect the bank's interest while bank is providing loans/advances.

Step 8: Disbursing Loan

After verifying all the documents, the branch disburses the loan to the borrower's loan account in this stage known as the disbursement stage. At this stage for withdrawing the sanctioned loan amount, the borrower creates a deposit account and the loan is transferred to it by passing vouchers. Afterwards, the customer can withdraw the money of his desired loan amount. A loan repayment schedule along with mode of repayment is also prepared by the branch and is provided to the borrower.

Step 9: Supervision of the Loan

At this stage known as the post-disbursement stage, the bank observes and follows the borrower in the following manner after the disbursement of the loan:

- ❑ Constant supervision.
- ❑ Working Capital assessment.
- ❑ Stock report.
- ❑ Break even Analysis.
- ❑ Rescheduling of repayment.

Step 10: Recovery of the Loan

At this stage, loans are repaid in installment or through lump sum amount to be adjusted within the validity period, according to the Bank's directives provided as per the sanction terms of the loan. If any loan is not repaid then notices are served to the borrower. Sometimes legal actions are also taken for recovery of the loan.

4.11 Credit Policy of BCBL

One of the most important ways, a bank can make sure that its loan meet organizational and regulatory standards and they are profitable is to establish a loan policy. Such a policy gives loan management a specific guideline in making individual loans decisions and in shaping the bank's overall loan portfolio. Bangladesh Commerce Bank Limited there is perhaps a credit policy but there is no credit written policy. In the feature, credit principles include the general guidelines of providing credit by branch manager or credit officer. In BCBL they follow the following guideline while giving loan and advance to the client. Credit advancement shall focus on the development and enhancement of customer relationship. All credit extension must comply with the requirements of :

- Bank's Memorandum and Article of Association,
- Banking Company's Act,
- Bangladesh Bank's instructions, other rules and regulation as amended from time to time.

The bank shall provide suitable credit services for the markets in which it operates. It should be provided to those customers who can make best use of them. Interest rate of various lending categories will depend on the level of risk and types of security offered.

4.12 Core Credit Principles of BCBL

- ✚ Quality of credit is more important than exploiting new opportunities.
- ✚ The principal management and/or shareholders must be free of any doubt about their integrity.
- ✚ If the bank does not understand the business, it shall not lend to that business.
- ✚ The purpose of the loan should contain the basis of its repayment.
- ✚ Credit decision should not be made until receipt of all the relevant facts.
- ✚ Assessing a company's management quality is vital.
- ✚ The economic cycle is inevitable. It is wise to be conscious in evaluating risks likely to arise when economic conditions change in the future. "Bad loans are usually made in good times".
- ✚ Collateral security should not be a substitute for repayment.
- ✚ Lending to smaller borrowers is riskier than lending to larger borrowers. Smaller firms are more vulnerable to economic downturns.
- ✚ Bank should not let poor attention to detail of credit administration, which may spoil a sound facility.
- ✚ If any borrower wants a quick answer, it is "NO". The word 'quick' means lack of sufficient time for due diligence on any credit request.
- ✚ Bank should monitor where the bank's money is going to be spent.
- ✚ Think first for the Bank.

4.13 Loan Approval Process

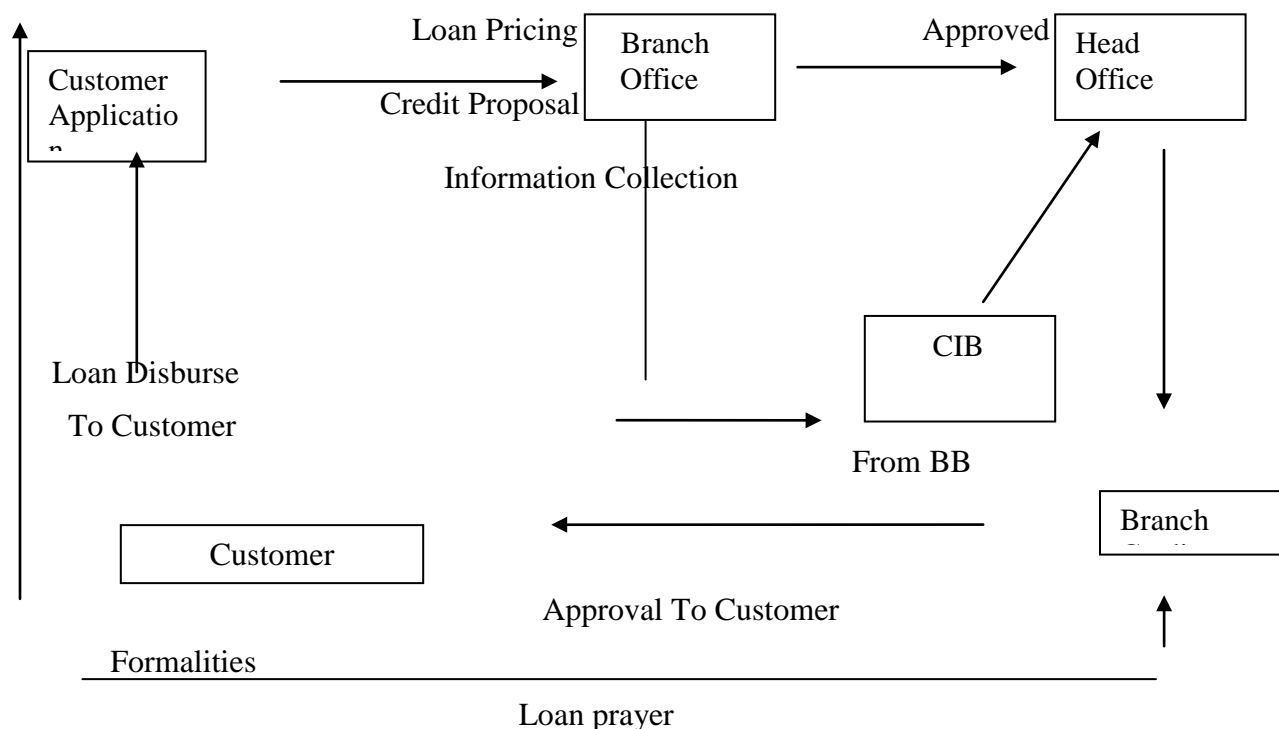


Figure- 7; loan approval process

Lending Principles followed by BCBL

The principle of lending is a collection of certain accepted time tested standards, which ensure the proper use of loan fund in a profitable way and its timely recovery. BCBL follows the following seven principles in its lending activity:

- ✓ **Safety:** Safety should get the prior importance in the time of sanctioning the loan. At the time of maturity the borrower may not or may be unable to pay the loan amount. Therefore, in the time of sanctioning the loan adequate securities should be taken from the borrowers to recover the loan. Banker should not sacrifice safety for profitability. Safety depends mainly on integrity, business behavior, reputation, past experience in the particular line of business, financial solvency, quantum of own equity in business, capability to run business efficiently, capacity and willingness to repay the loan etc.
- ✓ **Liquidity:** Banker should consider the liquidity of the loan in time of sanctioning it. Liquidity is necessary to meet the consumer need. The borrower should have liquid assets

so that he can adjust liability on demand and as much as possible loan itself should be quasi liquid so that it can be realized on demand in case of need for which call/short term loans are preferable so far this aspect is concerned.

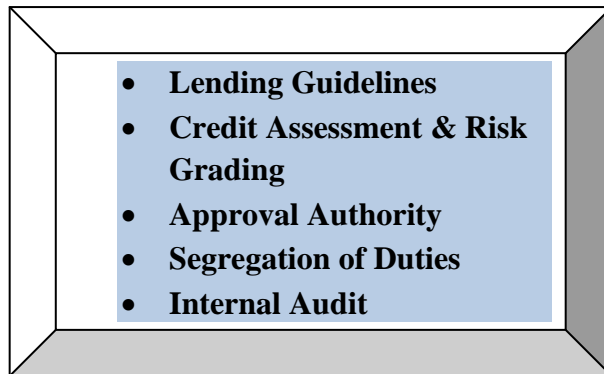
- ✓ **Security:** Banker should be careful in the selection of security to maintain the safety of the loan. Banker should properly evaluate the proper value of the security. If the esteemed value is greater than or equal to loan amount, the loan may be given. The more the cash near item the better the security. In time of valuing the security, the banker should be more conservative. The securities must possess required basic qualities. It must be ensured that repayment of the loan is secured and for this purpose concerned officials must retain security against loan to fall back upon in case of borrower's default.
- ✓ **Profitability:** As a commercial and financial organization, banker should consider the profitability. So banker should consider the interest rate when going for lending. Bankers should always fix such an interest rate for its lending which is higher than its savings deposits interest rate.
- ✓ **Diversity:** Bank should make advance in different sector and regions and instead of sanctioning loan of bigger amount to some party, should spread too many in smaller amount. Banker should minimize the portfolio risk by putting its fund in the different fields or sectors. If bank puts its entire loan able fund in one sector, it will increase the risk. Banker should distribute its loan able fund in different sectors. So if it faces any problem in any sector, it can be covered by the profit gained by lending to another sector.
- ✓ **Productive Purpose:** BC Bank Ltd. exercises its lending function only on productive purpose. Purpose of loan should be production, development and economic benefit oriented.

National or Social Interest: BCBL also considers national aspect of any project while financing. They take utmost care so that the project cannot be detrimental to the society as well as to the nation. Nothing can be done legally if it jeopardizes national interest in any way

4.14 Credit Risk Management Policy of BCBL

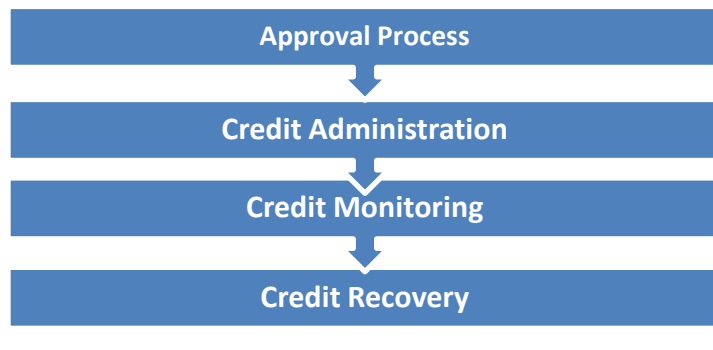
The guidelines have been organized into the following:

1. Policy Guidelines:



2. Management Structure & Responsibilities:

3. Procedural Guidelines:



The guidelines were prepared and endorsed by senior credit executives from private sector, foreign and nationalized commercial bank operating in Bangladesh. They are intended for use in the corporate/commercial banking businesses. BCBL also suggest following these guidelines for BCBL's Bank's all Branch Managers and Credit Officers must be conversant with the guidelines and ensure that the rules are strictly observed as highlighted in this policy.

Policy Guidelines:

Lending Guidelines: The Lending Guidelines includes the following:

- Industry and Business Segment Focus
- Types of Loan Facilities
- Single Borrowers/Group Limits/Syndication
- Lending Caps

Credit Assessment & Risk Grading:

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

- Environment or social risk inputs
- Amount and type of loan (s) proposed.
- Purpose of loans.
- Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangements
- Any other risks or issue
- Risk triggers & action plan-condition prudent, etc.

Risk Grading:

Risks are graded as per Lending Risk Analysis' (LRA) Bangladesh Bank's Guidelines of Classification of Loans and Advances.

Approval Authority:

- ✚ Credit approval authority has been delegated to Branch Manager, Credit Committee by the MD/Board.
- ✚ Delegated approval authorities shall be reviewed annually by MD/Board.
- ✚ Approvals must be evidenced in writing. Approval records must be kept on File with the Credit application.
- ✚ The aggregate exposure to any borrower or borrowing group must be used to determine the approval authority required.
- ✚ Any credit proposal that does not comply with Lending Guidelines, regardless of amount, should be referred to Head Office for Approval.

Segregation of Duties:

Bank aim at segregating the following lending function:

- ✚ Credit approval/Risk Management
- ✚ Relationship Management/Marketing

Credit Administration

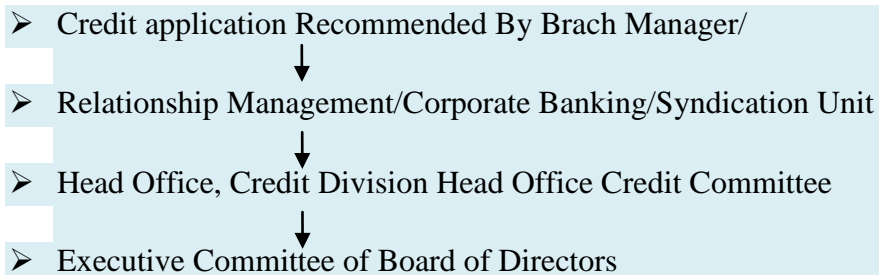
Internal Control & Compliance:

Bank already has a segregated internal audit/control department charged with conducting audits of all branches.

Procedural Guidelines

Approval process:

The following diagram illustrates the approval process:



Recommended Delegated Approval Authority Levels:

| | |
|------------------|-----------------------------------------------------------------------------------------------|
| Branch Manager | Tk.15.00 lac to TK.1.00 crore according to designation of Branch Manager & Nature of advances |
| Credit Committee | Tk.25.00 lac to TK.3.00 crore according to nature of advances. |
| EC/Board | Beyond the delegation power of Branch Manager/Credit Committee |

Credit Administration:

The Credit Administration function is critical in ensuring that proper documentation and Approvals are in place prior to the disbursement of loan facilities. Stages of credit are:

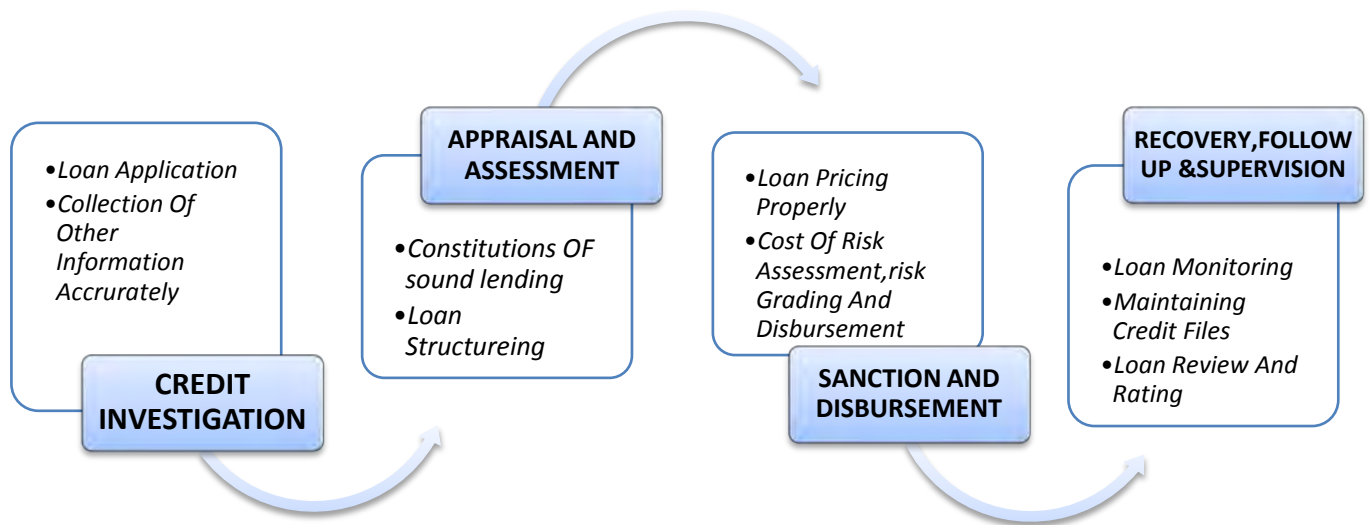
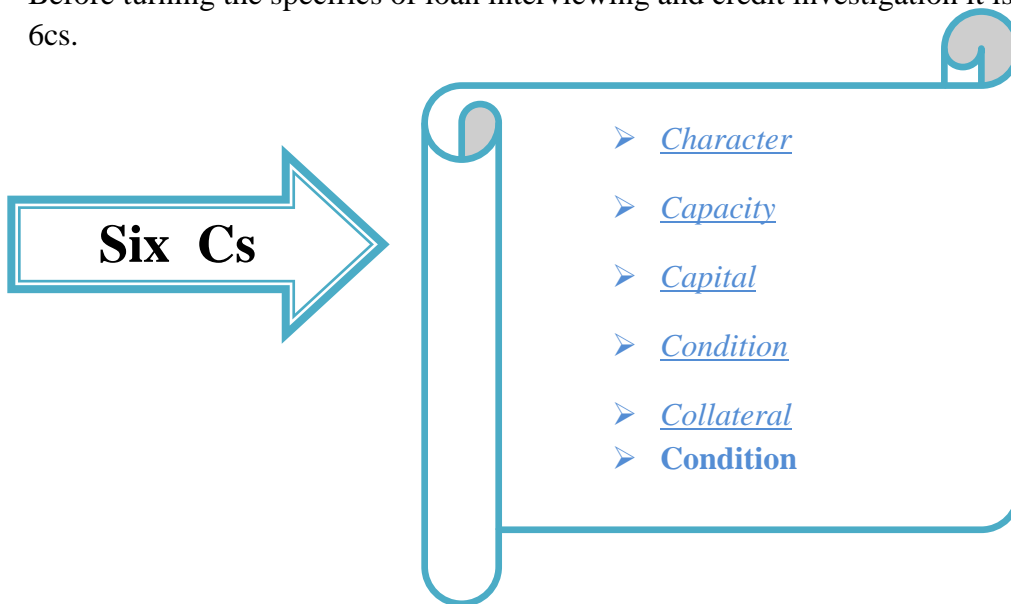


Figure :8 ;Feature of Credit Administration

Before turning the specifics of loan interviewing and credit investigation it is useful to consider 6cs.



4.15 Functions of Credit Administration dept.of BCBL:

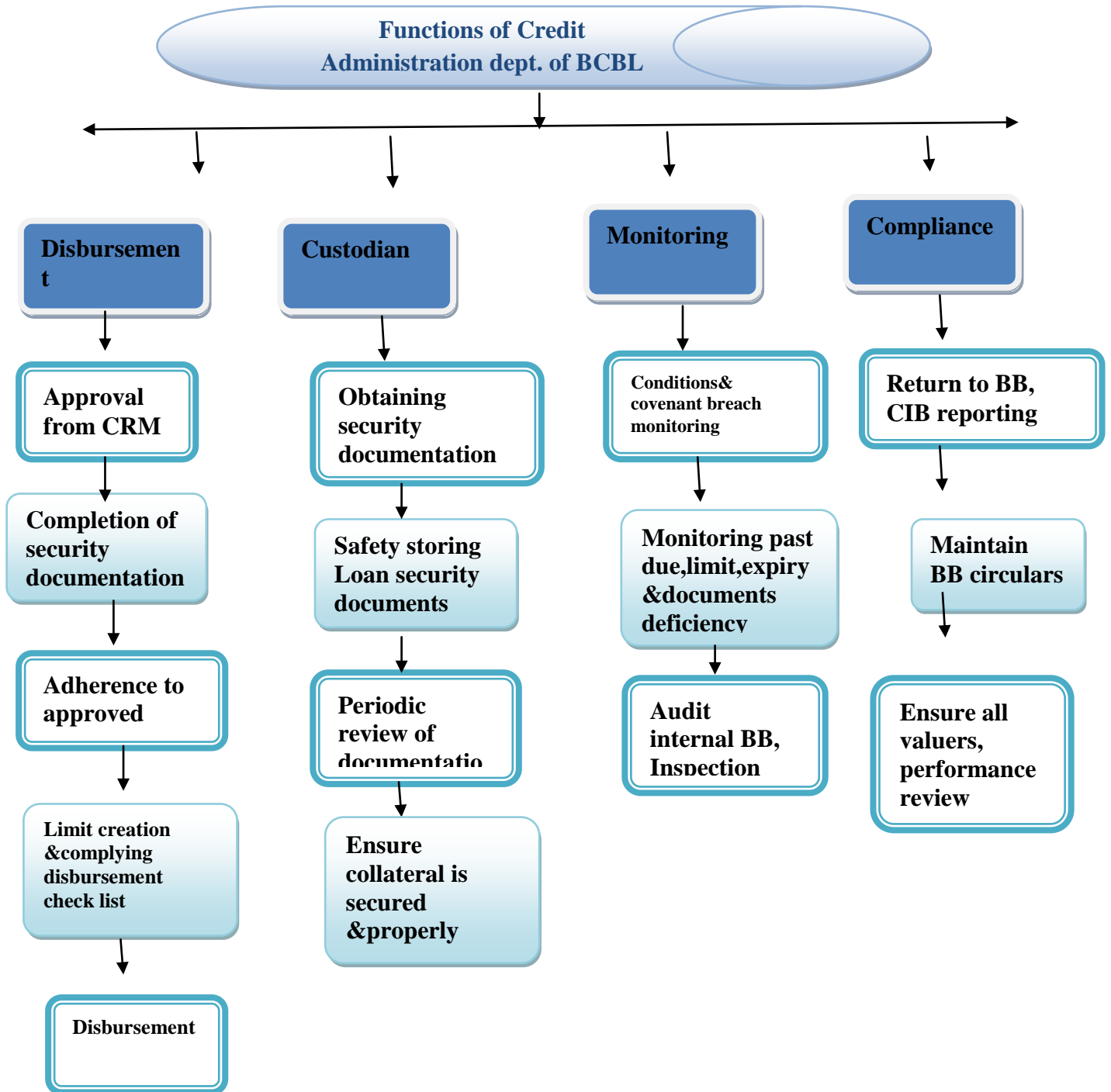


Figure -9: specific Functions of Credit Administration

Disbursement:

Disbursements under loan facilities are only to be made when all security documentation is in place. CIB report should reflect/include the name of all the lenders with facility, limit & outstanding. All formalities regarding large loans & loans to Directors should be guided by Bangladesh Bank circulars & related section of Banking Companies Act. All Credit Approval terms have been met.

Custodial Duties:

- Appropriate insurance coverage is maintained (and renewed on a timely basis) on assets pledged as collateral.
- Security documentation to be held under strict control, preferably in locked fireproof iron-safe at branches under dual custody.

Compliance Requirements:

- Ensure all excess & exceptions are approved from the appropriate credit discretion level.
- All required Bangladesh Bank returns are to be submitted in the correct format in a timely manner.
- Bangladesh Bank circulars/regulations are to be maintained and advised to all relevant departments to ensure compliance.
- All third party service providers (valuers, lawyers, insurers, CPAs etc.) are to be approved. List of Lawyers to be enlisted and approved and circulated accordingly.

Credit Monitoring

To minimized credit losses, monitoring procedures and systems should be in place that provide an early indication of the deteriorating financial health of borrower. At a minimum, systems should be in place to report the following exceptions to Head Office, Credit:

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

- ✚ All borrower relationships/loan facilities are reviewed and approved through the submission of a Credit Application at least annually.

Credit Recovery:

The Recovery Unit of Branch should directly manage accounts with sustained deterioration (a Risk Rating of Sub Standard or worse).The RU's primary functions are:

- ✚ Determine Account Action Plan/Recovery Strategy
- ✚ Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- ✚ Ensure adequate and timely loan loss provisions are made base o-n actual and expected losses.

4.16 Non Performing Loan (NPL) Monitoring:

A Classified Loan review (CLR) should be prepared by the RU Account Manager to update the status of the action/recovery plan, review and assess the adequacy of provisions, and modify the bank's strategy as appropriate. The proper authority should approve the CLR for NPLs.

Loan Rescheduling

Experience shows that the existing system of loan rescheduling has created impediments in the way of realizing defaulted loans. Specially, a tendency has been observed among the defaulted borrowers to avail the opportunity of loan rescheduling again and again without any definite business rationale. Some confusion has also been cropped up relating to the condition of cash deposit as down payment for loan rescheduling. After careful and overall review of the aforesaid problems and in suppression of all previous instructions the detailed policies for rescheduling of loans are being issued for compliance by banks.

NPL Provisioning and Write Off:

In course of conducting credit operations by banks the quality of a portion of their loan portfolio, in many cases, deteriorates and uncertainty arises in realizing such loans and advances. These loans are adversely classified as per existing rules and necessary provision has to be made against such loans. Writing off bad loans having adequate provision is an internationally accepted normal phenomenon in banking business. Owing to the reluctance of banks in Bangladesh in resorting to this system their balance sheets are becoming unnecessarily and artificially inflated. In order to avoid possible legal complications in retaining the claims of the banks over the loans written off section 28 ka has been incorporated in 2001 in the Bank Company Act, 1991.The guidelines established by Bangladesh Bank for CIB reporting, provisioning and write off of bad and doubtful debts, and suspension of interest should be followed in all cases. Regardless of the length of time a loan is past due, provisions are to be

raised against the actual and expected losses at the time they are estimated. The approval to take provisions, write offs, or release of provisions/upgrade of an account should be restricted to the Credit Committee/Execute Committee or Board.

4.17 Classification of Loans

Loan classification attempts to categorize the debt information in a systematic manner. Loan classification is defined in terms of degree of risk associated with loans. Loans are generally classified into two (2) types:

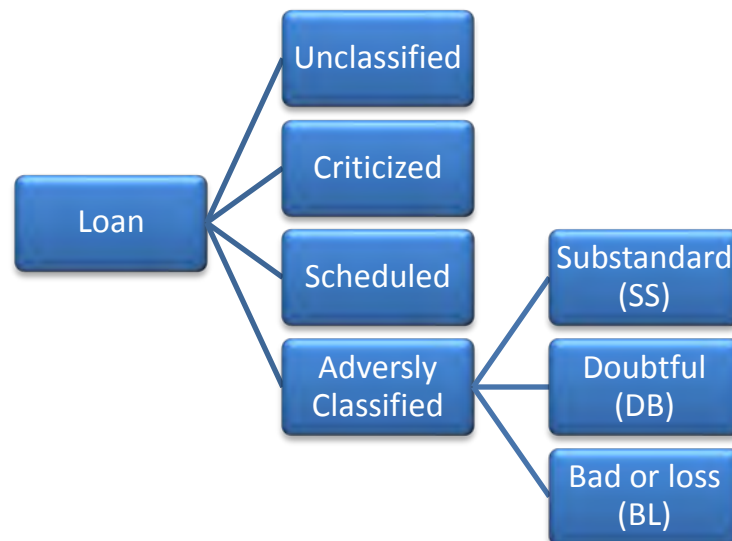


Figure -10; Classification of Loans

- ✚ **Unclassified Loan:** Unclassified loans are those which repay regularly and fully secured in terms of safety, liquidity and marketability etc.
- ✚ **Criticized loan:** Loans that are performing well but have minor weakness because the bank has not followed its own loan policy or failed to get full documentation from the borrower are called criticized loans.
- ✚ **Scheduled loan:** Loans that appear to contain significant weakness or that represent what the examiner regards as a dangerous concentration of credit in one borrower or in the industry are called scheduled loans.
- ✚ **Adversely classified Loan:** When an examiner finds some loans that carry an immediate risk of not paying out as planned, these credit are called adversely classified loans.
 - ✓ **Substandard:** When the banks margin of protection is inadequate due to weakness in collateral or in the borrowers repayment abilities hen it is called substandard loan.
 - ✓ **Doubtful:** A loan is doubtful when it carry a strong probability of an uncollectible loss to the bank.
 - ✓ **Bad/Loss:** A loan is considered as bad when it is regarded as uncollectible and not suitable to be called as bankable assets

4.18 Provision for loans

BCBL keeps different types of provision based on the category of the loans. The rate of provision is as follows:

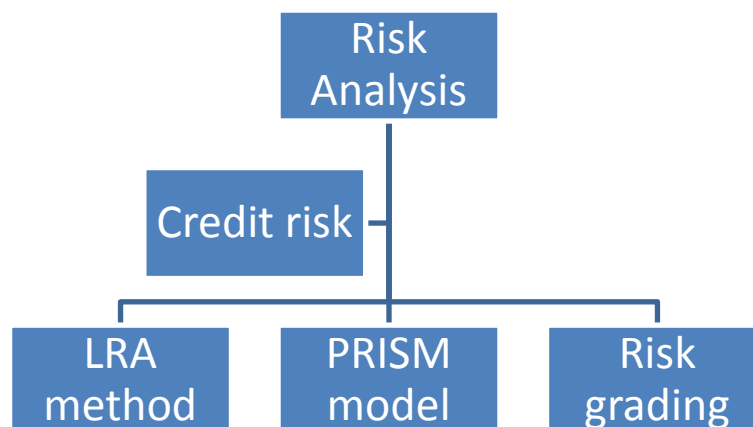
| Particulars | Rate |
|----------------------------------------------------------------------------------------------------------------|------|
| General provision on unclassified general loans and advances | 1% |
| General provision on unclassified small enterprise financing | 2% |
| General provision on unclassified loans for housing finance and on loans for professionals | 2% |
| General provision on unclassified consumer financing other than housing finance and on loans for professionals | 5% |
| General provision on special mention account | 5% |
| Specific provision on substandard loans and advances | 20% |
| Specific provision on doubtful loans and advances | 50% |
| Specific provision on bad/loss loans and advances | 100% |

Table-1; Provision for loans

4.19 Credit risk management of Bangladesh Commerce Bank Limited (BCBL):

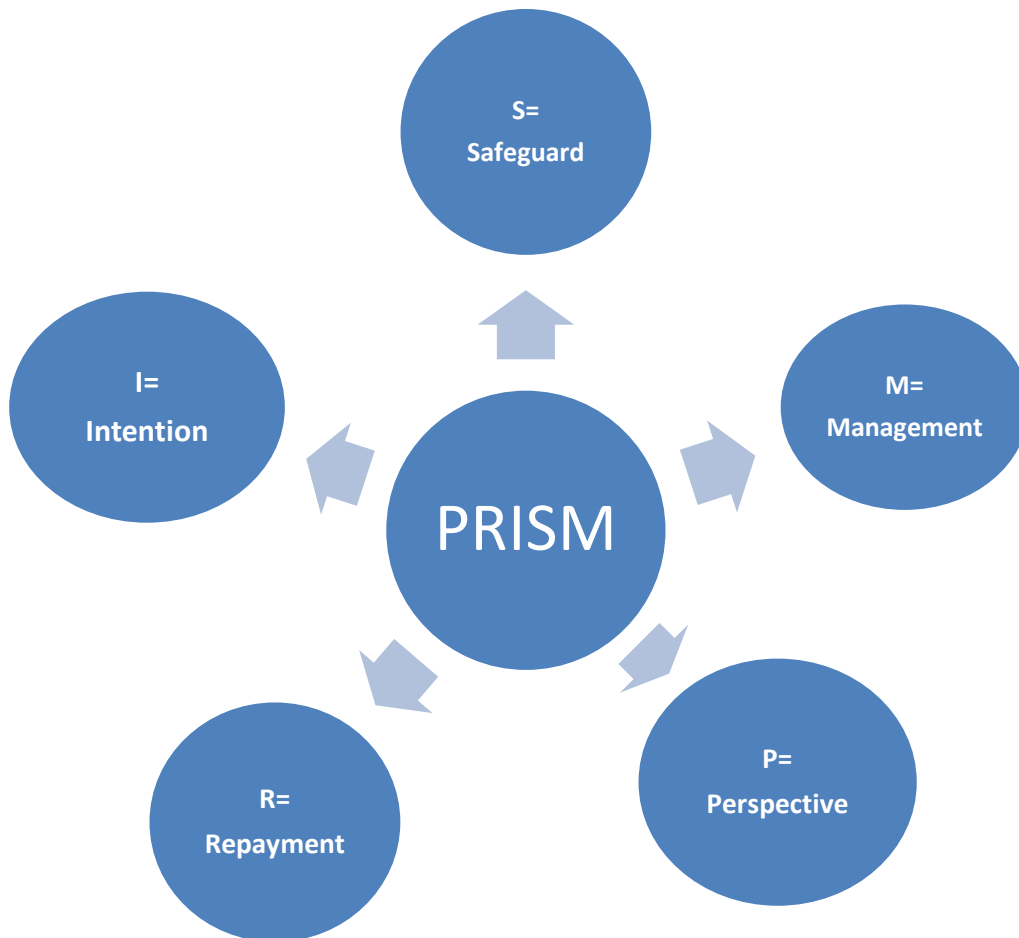
BCBL use several type models, methods to analyze credit risk and to manage it properly. BCBL use:

- ✚ PRISM Model
- ✚ Lending risk analysis
- ✚ Risk grading and grading score



4.20 PRISM Model

This model represents the core credit risk management and the PRISM is the acronym of following:



In using PRISM model it is important to note that the thoroughness of the credit manager analysis will largely depends on borrower's credit grade or standard or poor. Highly rated borrowers require little mental activity; lowly rated need the combined attributes of exhaustive analytics and introspection to properly process requests for credit.

Management:

PRISM Management has to analyze following things:

- ✚ Business operation
- ✚ Management
- ✚ Bank relationship
- ✚ Financial reporting

Intention:

PRISM intention has to analyze following things:

- ✚ Support/replace Asset
- ✚ Support/replace creditor
- ✚ Replace equity

Repayment:

PRISM Repayment has to analyze following things:

- ✚ Sources of repayment like debt or equity or both.

Safeguard:

PRISM safeguard have to analyze following things:

- ✚ Internal Source
- ✚ External Source
- ✚ Internal external both

Perspective:

PRISM Perspective has to analyze following things:

- ✚ Risk reward analysis
- ✚ Decision and pricing
- ✚ Operating and financial strength analysis

4.21 Lending Risk Analysis (LRA)

LRA is a very important and vital analysis for deciding whether the loan proposal is potential or not. Many types of scientific, mathematical, statistical and managerial tools and devices are required to perform this analysis. Before LRA the following analysis were used to analyze the loan proposals.

Bank maintains a prescribed format containing 16 pages for lending Risk Analysis, which includes a spreadsheet to analyze a lot of things to assess mainly two categories of risk viz. business risk and security risk.

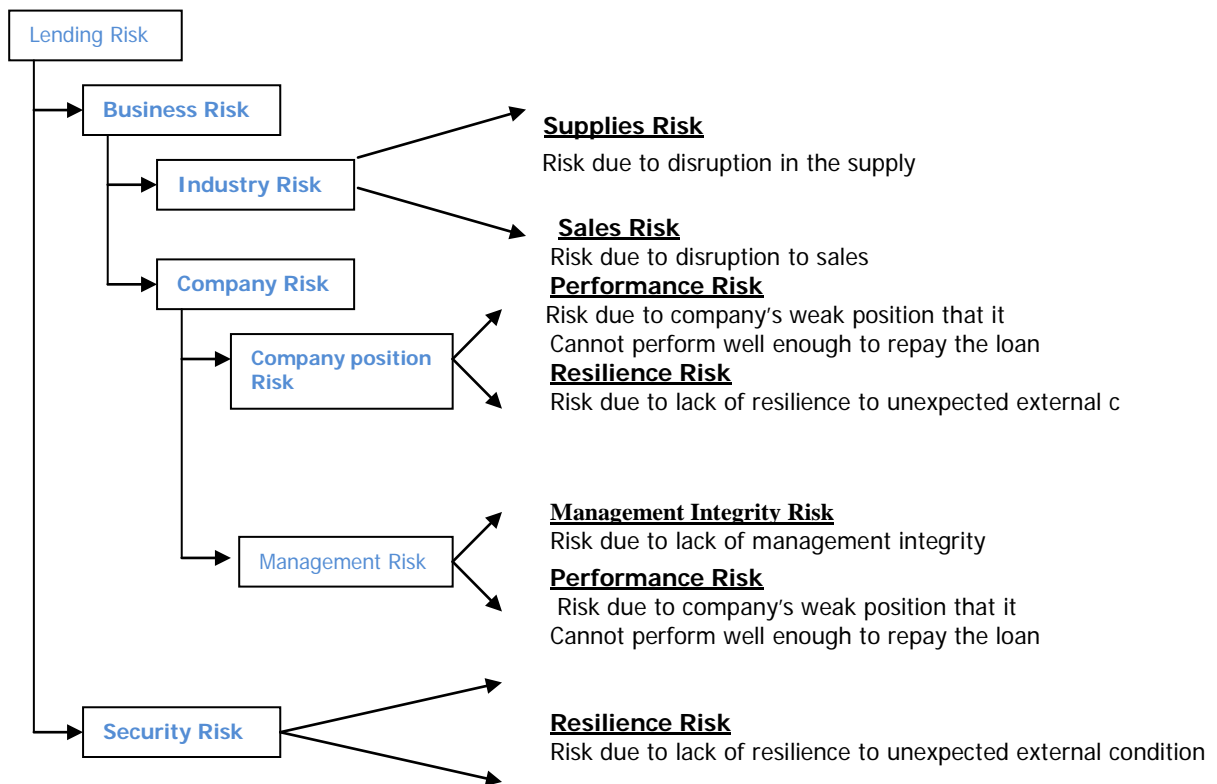


Figure12: Lending Risk Analysis

It is not possible to discuss the entire LRA in this report but the entire framework under which it works has given in the following manner

Decision matrix from LRA

| Status | 1 | 2 | 3 | 4 |
|----------|------|------------|----------|------|
| Criteria | A | A | A | A |
| | B | B | B | B |
| | C | C | C | C |
| | D | D | D | D |
| Decision | Good | Acceptable | Marginal | Poor |

Table -2; LRA matrix

Here 1A indicates that the loan is least risky. Hence it should or could be given. From the LRA sheet we can calculate the numbers and plotting them into the matrix we can arrive into the decision of lending.

4.22 Risk Grading

All Banks should adopt a credit risk grading system. The system should define the risk profile of borrower’s to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank’s asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications. The more conservative risk grade (higher) should be applied if there is a difference between the personal judgment and the Risk Grade Scorecard results.

| Kikll. | Grade | Definition |
|--------------------------|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Superior – Low Risk | 1 | Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentation should be in place. |
| Good – Satisfactory Risk | 2 | The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow and have an unblemished track record. All security documentation should be in place. Aggregate Score of 95 or greater based on the Risk Grade Scorecard. |
| Acceptable – Fair Risk | 3 | Adequate financial condition though may not be able to sustain any major or continued setbacks. These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. A borrower should not be graded better than 3 if realistic audited financial |

| | | |
|-----------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | statements are not received. These assets would normally be secured by acceptable collateral (1st charge over stocks / debtors / equipment / property). Borrowers should have adequate liquidity, cash flow and earnings. An Aggregate Score of 75-94 based on the Risk Grade Scorecard. |
| Marginal - Watch list | 4 | Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Facilities should be downgraded to 4 if the borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. An Aggregate Score of 65-74 based on the Risk Grade Scorecard. |
| Special Mention | 5 | Grade 5 assets have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30-60 days, or if a significant petition or claim is lodged against the borrower. Full repayment of facilities is still expected and interest can still be taken into profits. An Aggregate Score of 55-64 based on the Risk |

| | | |
|-----------------------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Grade Scorecard. |
| Substandard | 6 | Financial condition is weak and capacity or inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans. Loans should be downgraded to 6 if loan payments remain past due for 60-90 days, if the customer intends to create a lender group for debt restructuring purposes, the operation has ceased trading or any indication suggesting the winding up or closure of the borrower is discovered. Not yet considered non-performing as the correction of the deficiencies may result in an improved condition, and interest can still be taken into profits. An Aggregate Score of 45-54 based on the Risk Grade Scorecard. |
| Doubtful and Bad (non-performing) | 7 | Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Loss. Assets should be downgraded to 7 if loan payments remain past due in excess of 90 days, and interest income should be taken into suspense. Loan loss provisions must be raised against the estimated unrealizable amount of all facilities. The adequacy of provisions must be reviewed at least quarterly on all non-performing loans, and the bank should pursue legal options to enforce security to obtain repayment or negotiate an |

| | | |
|--------------------------|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | appropriate loan rescheduling. CIB reporting, loan rescheduling and provisioning must be followed. An Aggregate Score of 35-44 based on the Risk Grade Scorecard |
| Loss (non-performing) | 8 | Assets graded 8 are long outstanding with no progress in obtaining repayment (in excess of 180 days past due) or in the late stages of wind up/liquidation. The prospect of recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for. This classification reflects that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of 35 or less based on the Risk Grade Scorecard |

Table 3: Risk grading

4.23 Key Parameters of Principal Risk Components

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

| Principal Risk Components | Weight |
|---------------------------|--------|
| Financial Risk | 50% |
| Business / Industry Risk | 18% |
| Management Risk | 12% |
| Security Risk | 10% |
| Relationship Risk | 10% |

Table 4: Principal risk component

4.24 Credit Risk Grading Review

Grade 1 to 3 are reviewed annually, grade 4 is reviewed half yearly and grade 5 to 8 are reviewed quarterly.

Bangladesh Commerce Bank Ltd. as a scheduled private commercial bank adopted a Risk Grade Matrix until any review is made by the competent authority. All facilities including Syndication shall be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities shall be immediately changed. Borrower Risk Grades shall be clearly stated on all Credit Applications falling under the criteria noted above.

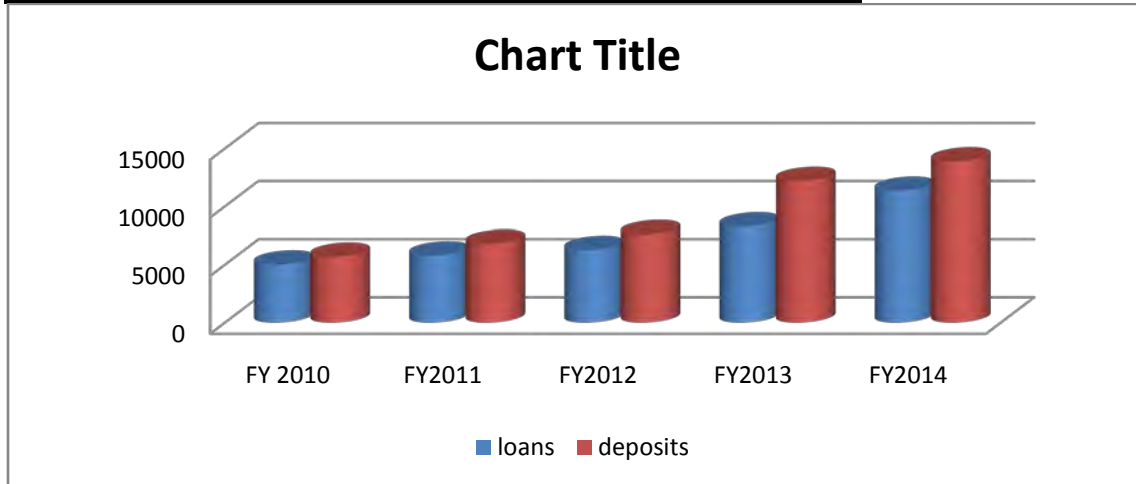
4.25 Analysis

Table no-5; Total Deposit and Loan of BCBL (2010-2014)

| year | FY 2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|----------|---------|---------|---------|----------|----------|
| loans | 5010.43 | 5785.98 | 6256.2 | 8266.02 | 11334.44 |
| deposits | 5682.93 | 6786.86 | 7604.97 | 12187.61 | 13876.88 |

Source: Financial Statement and Annual Report of BCBL

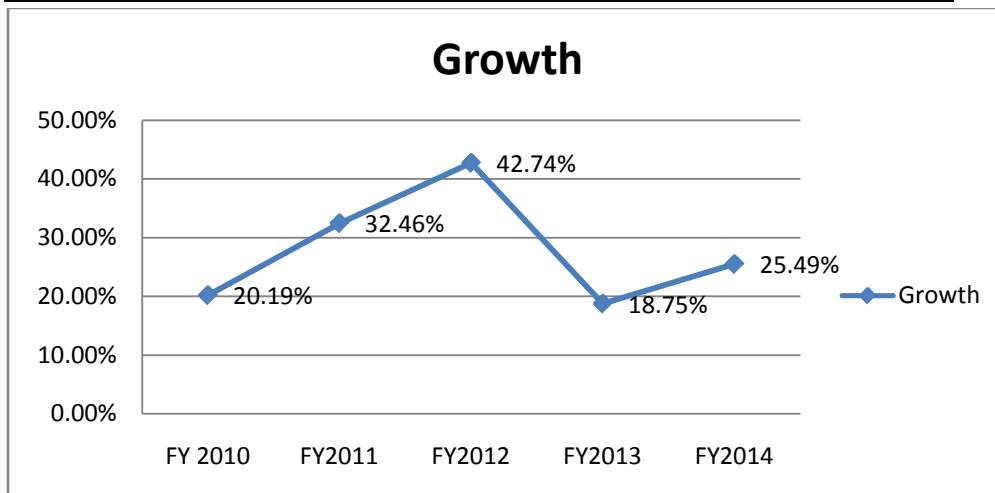
Graph no-1; Title: Total Deposit and Loan of BCBL (2010-2014)



Source: Financial Statement and Annual Report of BCBL.

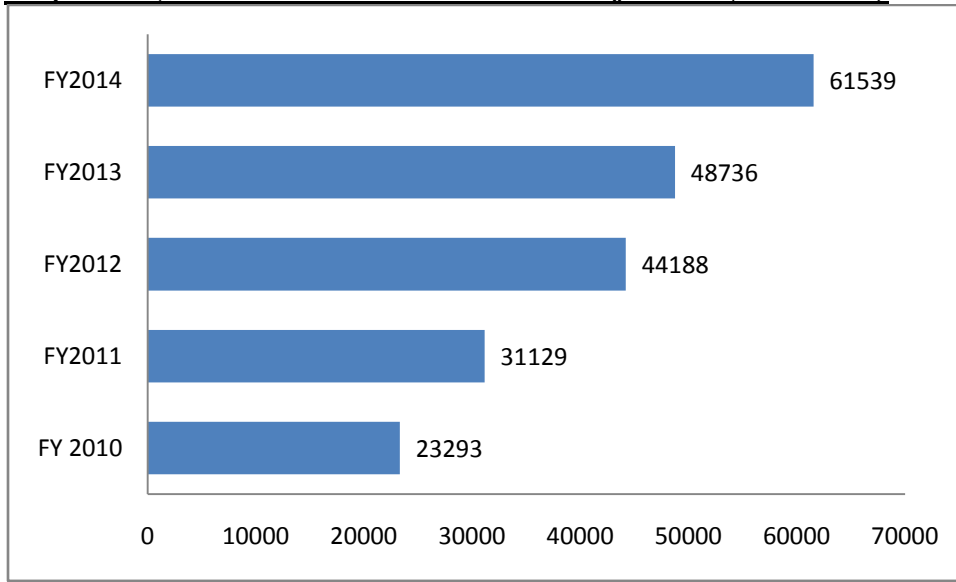
Interpretation: The amount of total deposits and loans and advances has increased constantly over the year. In the year 2014 it reached its highest point.

Graph no-2; Title: Growth of Loan and Advances of BCBL (2010-2014)



Interpretation: In the first three year the growth rate of the loans and advances remains increasing. The rate was highest in 2012 of 42.74% more from the previous year. But in the next year this rate fall dramatically to 18.75%. By taking quick step the management has become successful in increasing the growth rate.

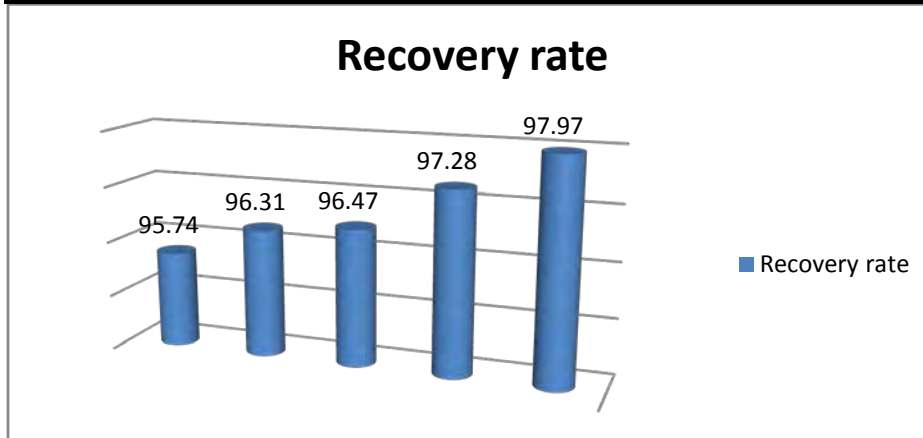
Graph no-3; Title: Total Loan and Advances of BCBL (2010-2014)



Source: Annual report of BCBL

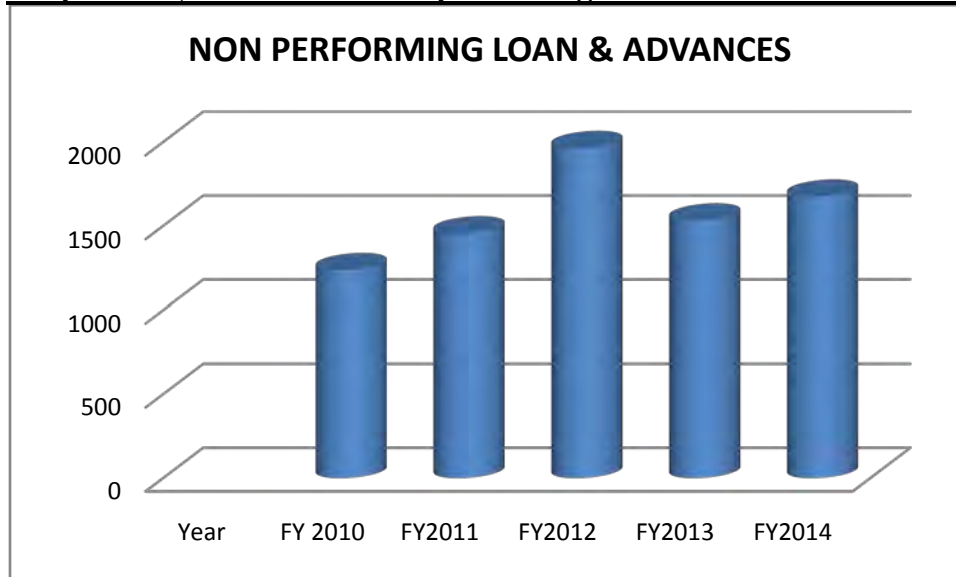
Interpretation: Like the total loans and advances net loans and advances has been increasing over the years. In 2014 the amount was about tk. 61539 million.

Graph no 4; Title: Recovery rate of Loans and Advances of BCBL (2007-2011)



Interpretation: From the above graph it is seen that the recovery rate of loans and advances of BCBL is gradually increasing and in 2010 it was about 97% which indicates a strong recovery strategy of the bank.

Graph no:-5; Title: Total non -performing Loan and Advances of BCBL (2007-2011)



Source: Financial Statement and Annual Report of BCBL

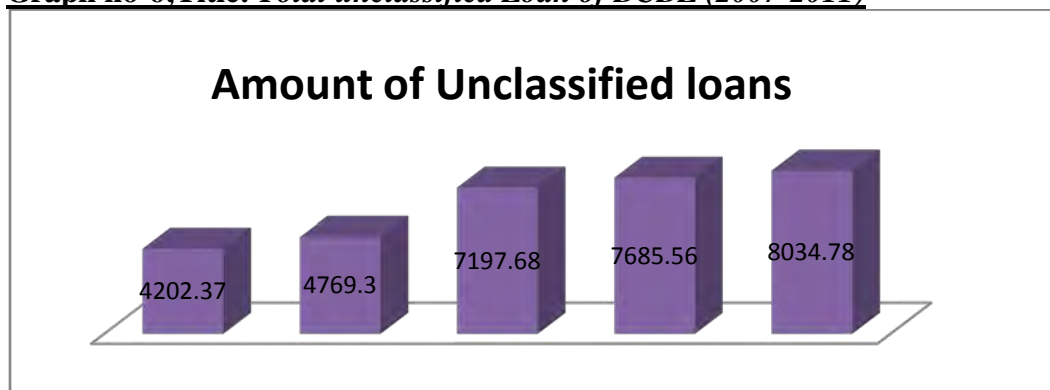
Interpretation: Non-performing loans and advances were increasing previously. As the bank took necessary steps the amount declined to tk. 1420 million in 2012 from tk. 1902 million in 2011. But it increased slightly in the last year.

Table no-6; Title: Total unclassified Loan of BCBL (2010-2014)

| Year 2010 | Year 2011 | Year 2012 | Year 2013 | Year 2014 |
|-----------|-----------|-----------|-----------|-----------|
| 4202.37 | 4769.3 | 7197.68 | 7685.56 | 8034.78 |

Source: Financial Statement and Annual Report of BCBL

Graph no-6; Title: Total unclassified Loan of BCBL (2007-2011)



Source: Financial Statement and Annual Report of BCBL

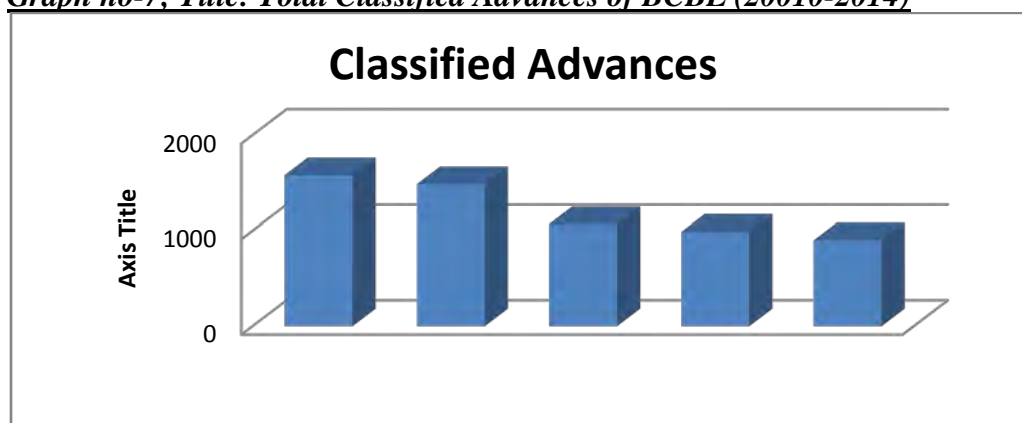
Interpretation: Constant increasing of unclassified loans and advances indicates that the bank is very much sincere about proper management of loans and advances.

Table no-3; Title: Total Amount of Classified Loans and advances of BCBL (2010-2014)

| Year 2010 | Year 2011 | Year 2012 | Year 2013 | Year 2014 |
|-----------|-----------|-----------|-----------|-----------|
| 1579.48 | 1485.06 | 1068.04 | 987.66 | 899.33 |

Source: Financial Statement and Annual Report of BCBL

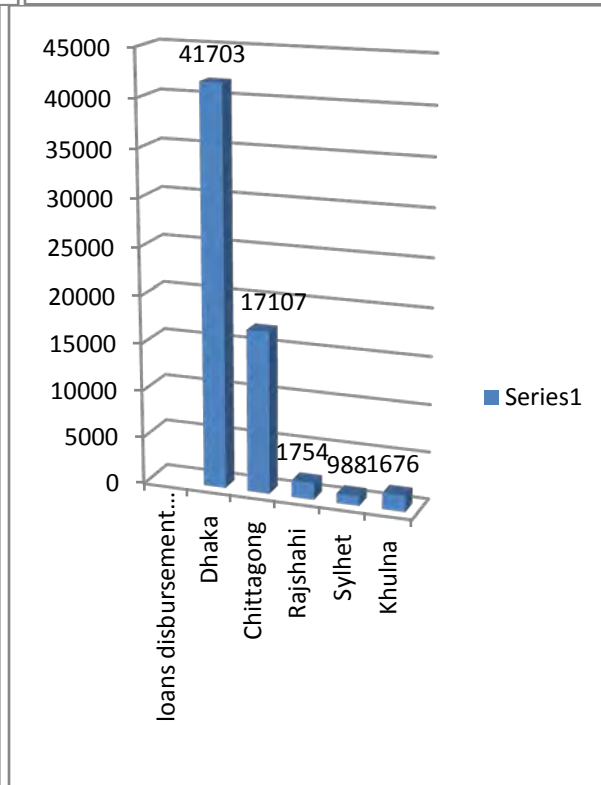
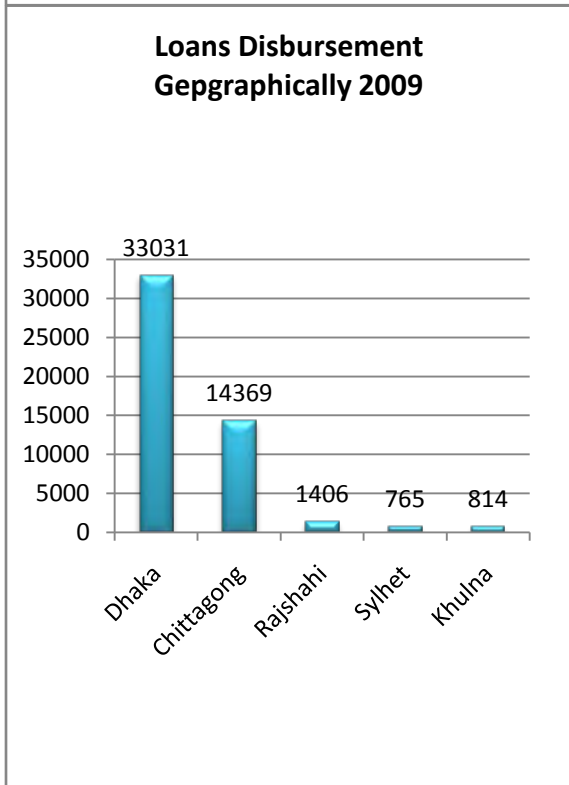
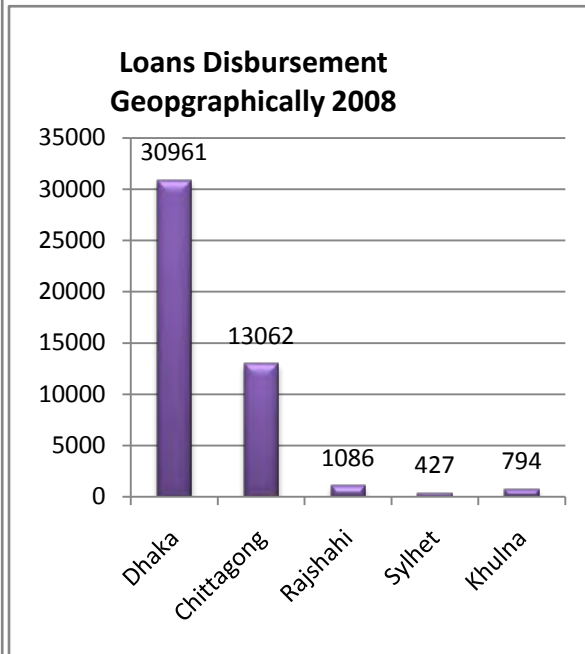
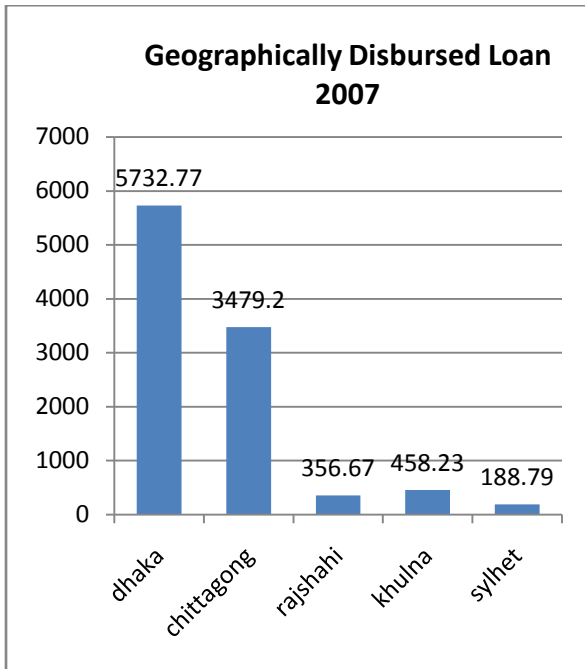
Graph no-7; Title: Total Classified Advances of BCBL (2010-2014)

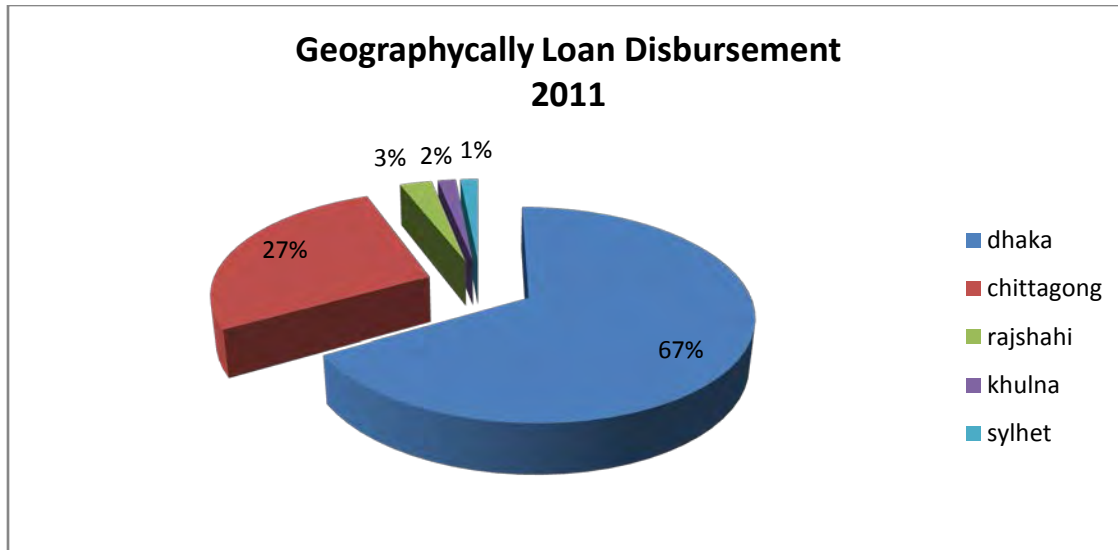


Source: Financial Statement and Annual Report of BCBL

Interpretation: Classified loans include three other types which are substandard, doubtful and bad/loss loans. The lower the amount of classified loans the better. Though this amount was increasing gradually in the 2010-2011, the amount was falling in 2013 and 2014.

Graph no:8; Title: Total Loan and Advances disbursement geographically of BCBL (2010-2014)

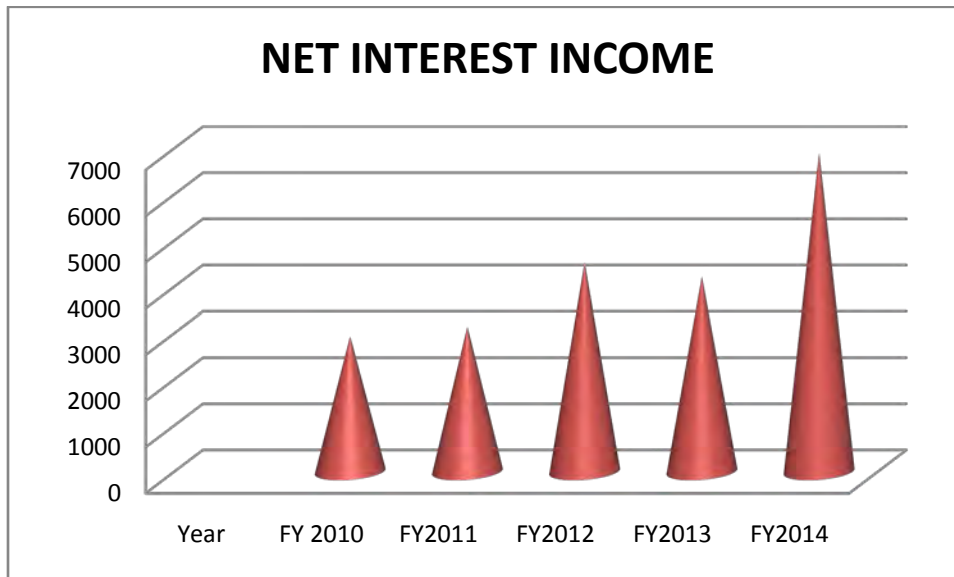




Source: Financial Statement and Annual Report of BCBL

Interpretation: From the above five graphs it is seen that BCBL disburses its most of the loans and advances to Dhaka division as it is the most populated and centre of all commercial and business activities. Chittagong, Rajshahi, Khulna and Sylhet are in the serial accordingly.

Graph no:9; Title: Net interest income of BCBL (2010-2014)

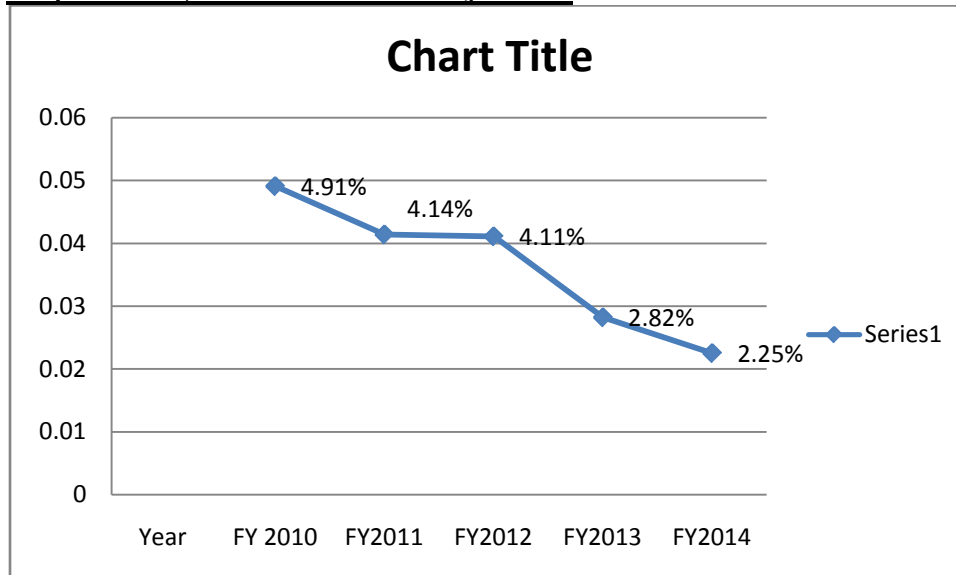


Source: Financial Statement and Annual Report of BCBL

Interpretation: Amount of interest income is increasing as the total amount of loans and advances is increasing. From tk. 2934 million in 2010 it becomes tk. 6904 million in 2014.

NPL to total loan ratio

Graph no: 15; Title: NPL to Loan of BCBL



Interpretation: Because of good management the ratio of NPL to total loans has been decreasing over the years and it was the lowest in the 2014 is 2.25% only.

Chapter Five: Findings & Recommendations

5.1 Findings Analysis

While working at Bangladesh Commerce Bank Limited, I got a newer kind of experience. After collecting and analyzing data, I have got some findings and recommendations. In the findings section, I like to focus on the credit risk and credit rating of BCBL on the basis of Qualitative aspects and Quantitative aspects.

Qualitative Aspects

Here, I like to present the qualitative aspects of findings of the overall report named Credit Risk Analysis of BCBL.

- Security / collateral (landed property) based lending approach
- Unique Credit Proposal Format (CPF)
- Limited techniques used in analyzing credit risk management.
- Loan applications originated mostly from the branch level.
- Apart from the syndicated loans hardly any loan originates from the Head office.
- No effective early warning system yet been developed.
- According to some clients opinion introducer is one of the problems to open an account. If a person who is new of the city wants to open account, it is a problem for him/her to arrange an introducer of SB or CD accounts holder.
- Bangladesh Commerce Bank Limited currently don't have any strong marketing activities through mass media e.g. Television.
- Internal factors like delay in loan processing cut off time, improper assessment of the business that applied for credit facility, too much concentration on the physical collateral security and external factors like deceitfulness of the borrower, political and economical condition of the country often give birth to a NPL.
- The board of directors also influences / forces the management to disburse any credit.
- No or little attempt to control the loans and advances which are on the way to classified.
- Bangladesh Commerce Bank Limited hasn't yet setup online or network system, which is very important to compete with the others in this electronic world.
- For credit appraisal, the bank some time depends on the client for its confirmation.
- Management Information System (MIS) should be more updated.
- Compliance with the Bangladesh Bank rules and regulations in time of disbursing or responding any lending request from the customer.
- Good working environment and the employee remuneration is excellent.
- Developing a good brand image day by day.

Quantitative Aspects

In this section, I try to find the some key point of BCBL credit risk and credit rating on the basis of previous year financial statement and comparison with some selected commercial banks in Bangladesh. In the following manner the quantitative findings of the report are provided.

- Credit to Deposit ratio is very high compare to other commercial banks in Bangladesh and does not follow the Bangladesh Bank guideline of 82%.
- The Non performing loan scenario of BCBL is better than that of other commercial banks in Bangladesh The NPL ratio of BCBL is in declining way.
- The Return on Asset (ROA) is in very consistence level and increasing day by day. The credit rating status of BCBL both in long term and short term is improving year by year. Compare to the other commercial bank in Bangladesh, the credit rating condition of BCBL is in very strong position.
- The capital structure of BCBL is more impressive than any other renowned commercial bank in Bangladesh and that will ultimately bring the depositor and investor of the bank in a secure position.

5.2 Recommendations

Practical knowledge is very necessary in every sphere of life. According to my little experience in the BCBL (principal branch), I think the following recommendations can be made which are not decisions; rather they are only suggestions to improve the customer's service in order to fulfill the customer's satisfaction so that customers give more preference to BCBL. The recommendations are given below:

- Concentration of classified loans should be reduced.
- The bank should give long term loans besides short term loans which will earn return for the bank.
- Before accepting a loan/project, management should implement sophisticated capital budgeting tools specially risk measurement tools like standard deviation, correlation and so on.
- Investment/credit policy of BCBL should be easy, and flexible.
- Current financial performance should be maintained. .
- For increasing more funds customer may be offered different types of prizes.
- There is a great demand for Islamic Banking and that should be considered. Also the idea placed by some Islamic minded customers
- Present recovery strategy should be more advanced and followed strictly.
- More skilled and self motivated people especially business graduates with skills of financial management and investment analysis should be recruited.
- BCBL should always monitor the performance of its competitors.
- BCBL should introduce fully online banking and internet banking facility for staying in the competitive market and they also need to use high technology for these system.
- BCBL should take innovative marketing strategy like advertising, sponsoring seminar and symposium, for the purpose of increasing awareness about the services of the bank.
- At last most important point is that the operating expenses of the bank may be reduced than the earnings

Other recommendations:

- **Weak Network (On line):**

There is no question about the returns to scale for the banks that developed their financial products and built the delivery system on a global scale. The Bank whose network system is strong enjoys a cost and competitive advantage over the financial institutions. In the electronic world the nature of competition is different and efficient bank can get a benefit from being an innovator, which sticks with a bank for a long time. Bangladesh Commerce Bank Limited as a new Bank hasn't yet setup proper network system. It is really very important of present time.

Conclusion

The Banking sector in any country plays an important role in economic activities. Bangladesh is no exception of that, as because it's financial development and economic development are closely related. That is why the private commercial banks are playing significant role in this regard.

Bangladesh Commerce Bank Limited attaining to offer special deposit scheme with higher benefits, which is a crying need for long-term position in financial market. Because of the entrance of more banks in the financial market, deposits will be spreader over. So it is high time to hold some permanent customers by offering special deposit scheme otherwise in future amount of deposit may come down. To strengthen the future prospect of branch, it is very emergency to collect more deposit.

The main purpose of the report was to focus on the Credit Risk Management of Bangladesh Commerce bank Limited as comprehensively as possible. Notwithstanding some limitations The BCBL is doing better and holding a good percentage of market shares in banking sector. Although there was not much time to learn the whole procedures but it was supportive to understand and gather an initial banking management experience. Banking industry has been treated as a prospective financial sector in Bangladesh. Success in the banking business largely depends on effective lending, good customer service, good management, a good training program, effective implementation of plans and policies and programs etc. And in the long-run, performance of any organization depends on its intake of qualified people and developing them to perform their best as a team, as well as individually. To cope with the recent challenges of banking sector BC bank is creating an environment where employees are happy to build their career and customers feel good doing business with them. BCBL is serving the market with almost full range of services. As the number of branches implies, still the bank has limited operation in our country, but it should also be noted that within the next few years from its establishments, no bank could make as good standing as BCBL has now done. The bank always disburses loans by following proper guidelines and takes necessary steps for the efficient recovery of that loan. That's why the bank's loan performance is very good and recovery system is also efficient. Both of these contribute to the excellent financial performance of the bank. The bank is following certain traditional marketing strategy & it's doing well. This marketing strategy is quite satisfying to customers & has positive impact on its profit trend. But in the present situation in Bangladesh, the bank should improve its marketing strategy. If BCBL improves its marketing strategy and maintain its present financial performance, then it can attract more customers & will have more positive impact on its profit trend as well as the bank would be able to become one of the leading financial institutions in the country.

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