



**A REPORT ON
CREDIT APPRAISAL PROCESS
OF**



EXPORT IMPORT BANK OF BANGLADESH LTD.

Prepared For

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Dear Sir,

I am very much pleased to submit the Internship report on “credit appraisal process of EXIM Bank LTD”. Experience from this report which is essential requirement for completion of BBA program. This report is a result of the 3 months working program that I have conducted during specified time. All the presented here is done with utmost sincerely and honesty. I have tried my best to make this report holistic and informative enough.

Apart from the academic knowledge gained, this Internship report and preparation of this report has given me the opportunity to acquaint myself with the banking activities of Bangladesh. I believe that the experience I acquired from this study will be an invaluable asset in my life.

Working with such an interesting branch of an organization has given me the opportunity to achieve experience on. I am always available for any further queries regarding this report.

Sincerely-

Shirmin Sultana Sonia
05104100

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My wholehearted thanks to Mr. Ali Salman - who has continuously encouraged and guided me to work on my intern report topic. His enthusiasm in my subject material only made me more motivated to produce a respectable result. I would like to thank him for co-operating for giving me necessary information on how I should work on this report.

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EXECUTIVE SUMMARY

This report is completed as a partial requirement of my internship, which is compulsory for every student of BRAC University. As I was working in EXIM Bank Limited, Gulshan Branch, Dhaka. I got the opportunity to learn, Credit Appraisal Process of EXIM bank. To get the idea of Credit Appraisal Process and relevant mechanism I had to work with the investment department of the bank.

For this report I had to collect all information from different written document, bank's officers, and as well as from bank web site. In this report I try to cover up a clear overview of EXIM bank limited, my three month job experience and my main report part credit appraisal process of EXIM bank.

This report divided into some chapters. In first chapter I try to portray the banks overall picture. Like when they came into the banking business sector and the history how they convert themselves from conventional banking to Islamic banking and so on. In second part I explain my job responsibilities at bank. Also try to make some my own observation and recommendation in this part. In Third chapter I talked about my main project topic. My project topic is Credit Appraisal Process of EXIM bank limited. Here I explain all the process regarding credit appraisal system of this Bank. Credit appraisal is the part of lending procedure. The procedure starts when borrowers come to any branch and seeking for loan and continues until the clients adjust the total loan. Here I have focused on different stage of lending procedure to assess the credit appraisal process. I showed it in a sequential flow chart. I also find out some problem related with the credit appraisal process and try to give some possible recommendations.

Chapter: 1

Organization Overview

Overview of EXIM Bank Limited

1. Overview of EXIM Bank Limited

1.1 Initiation

Export Import Bank Of Bangladesh (EXIM BANK), a scheduled commercial bank in the private sector, started its banking operation on the 3rd of August, 1999. From 1st July 2004 the bank converted its banking operation into Islamic banking based on Islamic shariah from Traditional banking operation. During the same year, the bank issued 3,138,750 ordinary shares through IPO placement. Within a very short period of the time the bank has earned good reputation among the people in this country. This is a clear evidence by the tremendous growth of its business and operating results. Of its very beginning EXIM bank LTD was known as BEXIM bank limited. But some legal constraints the bank renamed as EXIM bank, which means Export Import Bank Of Bangladesh Limited.

1.2 History

EXIM Bank Limited was established in 1999 under the leadership of Late Mr. Shahjahan Kabir, founder chairman who had a long dream of floating a commercial bank which would contribute to the socio-economic development of our country. He had a long experience as a good banker. A group of highly qualified and successful entrepreneurs joined their hands with the founder chairman to materialize his dream. In deed, all of them proved themselves in their respective business as most successful stars with their endeavor, intelligence, hard working and talent entrepreneurship. Among them, Mr. Nazrul Islam Mazumder became the honorable chairman after the demise of the honorable founder Chairman.

This bank starts functioning from 3rd August, 1999 with Mr. Alamgir Kabir, FCA as the advisor and Mr. Mohammad Lakiotullah as the Managing Director. Both of them have long experience in the financial sector of our country. By their pragmatic decision and management directives in the operational activities, this bank has earned a secured and distinctive position in the banking industry in terms of performance, growth, and excellent management. The authorized capital and paid up capital of the bank are Tk. 1000.00 million & Tk. 313.87 million respectively. The bank has migrated all of its conventional banking operation into Shariah based Islami banking since July 2004.

1.3 Islamic Banking

From 1st July of 2004 the bank become shariah based Islamic bank and from then it is rendering banking services according to Islamic banking principles. For smooth operation the board of directors established a shariah Board, which decides on the banking principles according to which the bank will operate its business.

1.4 Corporate Vision & Mission

Their vision and mission are stated in the following bullets:

- To be the finest bank in the banking arena of Bangladesh under the Shariah guidelines.
- To maintain Corporate and business ethics.
- To become a trusted repository of customers' money and their financial advisor.
- To make our stock superior and rewarding to the customers/share holders.
- To display team spirit and professionalism.
- To have a Sound Capital Base.
- To provide high quality financial services in export and import trade.
- To provide excellent quality Customer service.

1.5 Corporate Objectives

1. To receive, borrow or raise money through deposits, loan or otherwise and to give guarantees and indemnities in respect of all debts and contracts.
2. To establish welfare oriented banking systems.
3. To play a vital role in human development and employment generation to invest money in such manner as may vary from time to time.
4. To carry on business of buying and selling currency, gold and other valuable assets.
5. To extend counseling and advisory services to the borrowers/ entrepreneurs etc. in utilizing credit facilities of the bank.
6. To earn a normal profit for meeting the operational expenses, building of reserve and expansion of activities to cover wider geographical area.

1.6 Corporate Culture

Origination culture means the common perception held by the organization's members a system of shared meaning that distinguished from one organization to other organization. This bank is one of the most disciplined Banks with a distinctive corporate culture. Here we believe in shared meaning, shared understanding and shared sense making. Our people can see and understand events, activities, objects and situation in a distinctive way. They mould their manners and etiquette, character individually to suit the purpose of the Bank and the needs of the customers who are of paramount importance to us. The people in the Bank see themselves as a tight knit team/family that believes in working together for growth.

1.7 Management of EXIM Bank

Management is the process of planning, organizing, leading and controlling the work of organization members and of using all available organizational resources to reach stated organizational goals. The strength of a bank depends of the strength of its management team. EXIM Bank is proud to have a team of highly motivated, well-educated and experienced executives who have been contributing substantially to the continued progress of the bank.

Managerial effectiveness has been measured in EXIM Bank in terms of come selected criteria such deposit mobilization, loans and advances made, loan recovery, profitability and productivity. It has been found that EXIM bank is effective in respect of branch expansion, loan disbursement, loan recovery etc.

With a short spam of time, EXIM Bank has become one of the leading and most successful bank not only among the third generation banks but also it superseded many other banks and financial institutions belonging to second and even first generation banks fro the point of view of its excellent business performance, extraordinary corporate culture and strong team work under the dynamic leadership of its management. Management is trying to support and assist well-motivated and experienced affairs to run the day to day affairs of the bank smoothly. For maintains quality management, it is required to train-up more official at head office and branch level in respect of sanctioning, disbursement and recovery of credit, project appraisals, customer services etc.

1.8 Shariah board

The Board of directors has formed a Sharia Supervisory Board for the Bank. Their duty is to monitor all the Bank's transactional procedures, & assuring it's Sharia compliancy. This Board consists of the following members headed by its chairmen. The tasks of the Sharia supervisor in summary is replying to queries of the Bank's administration, staff members, shareholders, depositors, & customers, follow up with the Sharia auditors and provide them with guidance, submitting reports & remarks to the Fatwa & Sharia Supervision Board and the administration, participating in the Bank's training programs, participating in the supervision over the Allqtisad Allslami magazine, & handling the duty of being the General Secretary of the Board.

1.9 Members of Shariah Council

Professor Moulana Mohammad Salah Uddin	Mr. Md. Nazrul Islam Mazumder
Moulana Mohammad Sadequl Islam	Mr. A.K.M Nurul Fazal Bulbul
Professor H.M. Shahidul Islam Barakaty	Mr. Md. Abdul Mannan
Mr. A.S.M. Fakhrul Ahsan	Mr. Zubayer Kabir
Hafez Moulana Mufti Mohammad Khair Ullah	Mr. Abdullah Al-Zahir Sawpan
Hafez Quari Moulana Mufti Mohammad Nur Uddin	Mr. Kazi Masihur Rahman

1.1o Shariah Auditing

This is the civil supervisory aspect that shapes the Bank's main feature. Its existence is part of the Sharia Supervision procedures. One of its main task is to check the Sharia compliancy in the Bank's transactional procedures in accordance to the Fatwa's issued in that regard, under the guidance of the Sharia Supervisor.

The Sharia auditor is assigned the task of revising the Bank's transactional procedures throughout the year to check the extent to which the staff members and the different departments have abided by the regulations, advices, and Fatwa's issued by the Fatwa & Sharia Supervision Board, forums, & banking conferences. As well as, assuring that all the contracts that states a right for the Bank or an obligation on the Bank is certified by the Fatwa & Sharia Supervision Board. Moreover, the Sharia Auditing submits periodic reports to the Sharia Supervisor in order to be proposed to the Fatwa & Sharia Supervision Board to state what it finds appropriate in that regard.

1.11 Banking with shariah principles

Export Import Bank of Bangladesh Limited is the 1st bank in Bangladesh who has converted all of its operations of conventional banking into shariah-based banking since July/2004. We offer banking services for Muslims and non-Muslims alike allowing our customers choice and flexibility in their savings and investments. Our products are approved by our Shariah Board comprising of veteran Muslim scholars of our country who are expert in all matters of Islamic finance. The process by which Noriba's investments are designed and executed allows the Bank to offer a combination of Sharia compliance and capital markets expertise that is unique throughout the world. Noriba is committed to the strict adherence to the requirements of the Sharia as a result of the Bank's sole focus on Sharia-compliant investments and the full supervision of its

financial products & transactions by the Noriba Sharia Board. Noriba experts specifically design each of the Bank's investment vehicles with the approval of the Noriba Sharia Board. Once the given product or transaction has been arranged, the Noriba Sharia Board carefully screens it for compliance before giving final approval for its implementation. This control mechanism guarantees that all aspects of Noriba's final products and banking transactions are in adherence with the guidelines of the Sharia.

1.12 Shariah Based Islami Banking

By the grace of Almighty Allah, the Bank has started its operation as full-fledged Islami Bank based on Shariah through conversion from conventional interest based banking system with effect from 1st July 2004 with the approval of Bangladesh Bank. It is our great pleasure that every body gladly accepted the conversion with appreciation. It is a breakthrough in the history of Islami Banking, because all other Islamic Banks of Bangladesh are found Shariah based since inception i.e. at the time of their incorporation. We have also experienced some traditional Banks having a few branches based on Shariah. But total conversion of a conventional Bank into a full fledged Islami Bank is, perhaps, first time introduced by us in the World.

It is noted here that a learned Shariah Council, consisting of 12 members who are prominent ulema, reputed bankers and eminent economists of the country, has been formed to guide, monitor and supervise the banking activities complying Shariah principle since inception of its islami banking branches and thereafter transformation of its operation from traditional to fully Shariah based Islamic banking system. Professor Moulana Mohammad Salah Uddin is the Chairman of the council. Total 08(Eight) meetings of the council were held during the period.

1.13 Prime operational Area

As a commercial Bank, EXIM Bank provide all traditional banking services including a wide range of savings and investment scheme products, foreign exchange and ancillary services with the support of modern technology and professional management. But our main stress is, as the name implies, put on export and import trade handling and financing & the bank has become the pioneer in promoting Readymade Garment industries and one of the largest financiers in this sector. Since the inception, the Bank foresighted the bright prospects of this sector and extended finance to the deserving and promising entrepreneurs. It provides this sector with financial support including market information and advice and today the garment sector constitutes about 76% of the total export of the company.

1.14 Human resource management of EXIM Bank

Human resource is the fundamental asset of the organization. Human resource approach is concerned with the growth and development of people toward higher level of competency, creativity and fulfillment. Therefore, human resources development has been given its due importance in an environment that values performance, teamwork, fairness and integrity, it has both qualitative and quantitative dimension. EXIM Bank recognizes that intellectual capital is the most important asset for a financial institution.

Without proper and efficient human resources, no organization can run its operations. The bank believes that the professional competence bank personnel and its commitment for accomplishing assigned responsibilities are a first line of defense to prevent irregularities.

The objectives of Human Resource management of EXIM Bank are as follows:

- Conducting job analysis
- Planning employee needs and recruiting job candidates
- Selecting of candidates
- Orienting and training new employees
- Managing wages and salaries (Compensating Employees) and benefits
- Appraising performance
- Communicating (interview, counseling, disciplining)
- Training and developing managers
- Building employee commitme

1.15 Corporate Information at a glance

Registered Name:	Export Import (EXIM) Bank of Bangladesh Ltd
Registered Head office:	Printers Building (5 th floor) 5, Rajuk Avenue Motijheel C/A Dhaka – 1000
Phone No:	9566764, 9566418, 9553872, and 9561604
Fax No:	880-2-9556988
Telex:	642527 EXMHO BJ
E-mail:	eximho@bdonline.com
Web site:	www.eximbd.com
SWIFT:	EXBKBDDH
Date of incorporation:	3 rd August 1999
Authorized Capital:	Tk.350.00 Crore (2007)
Paid up capital:	Tk.214.22 Crore (2007)
Number of Branches:	44 (forty four)
Chairman:	MR. NAZRUL ISLAM MAJUMDAR
Advisor:	ALAMGIR KABIR, FCA
Managing Director:	MR. KAZI MASIHUR RAHMAN

1.16 Hierarchy of position in EXIM Bank

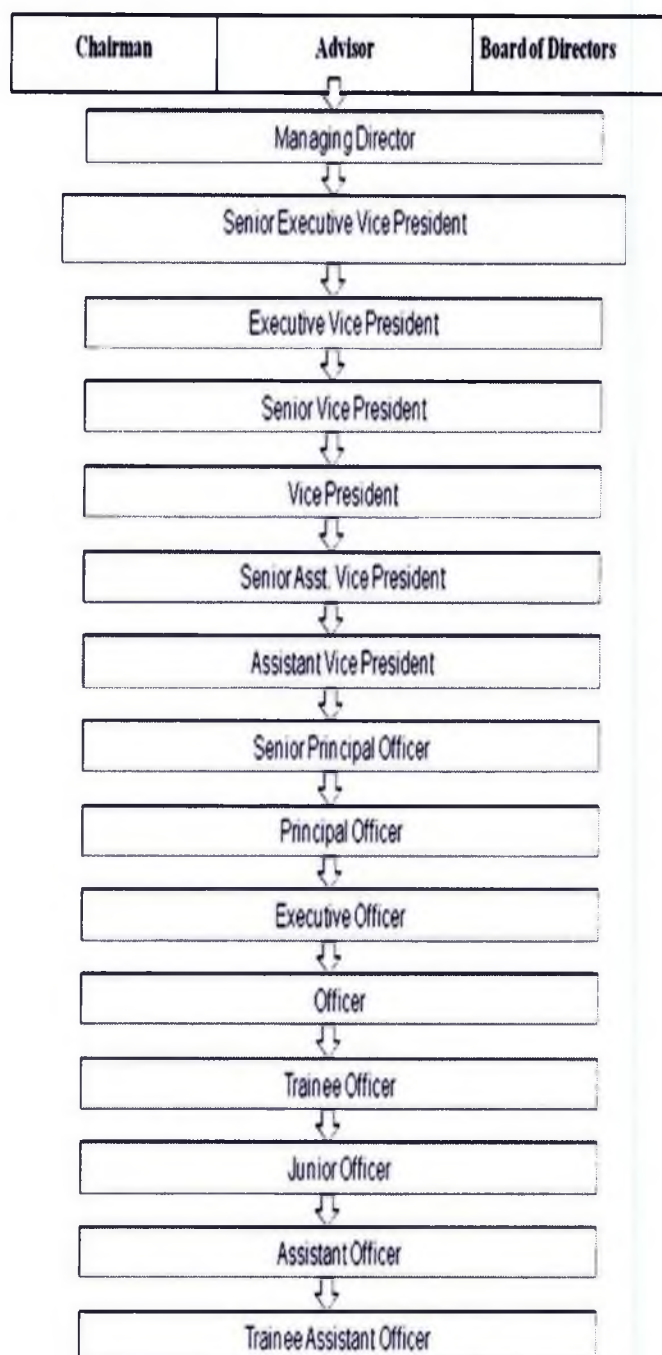


Figure i: Organization Structure

1.17 Corporate Social Responsibility

The purpose of our banking business is, obviously, to earn profit, but the promoters and the equity holders are aware of their commitment to the society to which they belong. A chunk of the profit is kept aside and/or spent for socio-economic development through trustee and in patronization of art, culture and sports of the country. We want to make a substantive contribution to the society where we operate, to the extent of our separable resources.

1.18 Achievement

It is a great pleasure that by the grace of Almighty Allah, we have migrated at a time all the branches from its conventional banking operation into Shariah based Islami banking operation without any trouble. Lot of uncertainties and adversities were there into this migration process. The officers and executives of our bank motivated the valued customers by counseling and persuasion in light with the spirit of Islam especially for the non-Muslim customers. Our IT division has done the excellent job of converting and fitting the conventional business processes into the processes based on Shariah. It has been made possible by following a systematic procedure of migration under the leadership of honorable Managing Director.

1.2 Operating and Financial Performance

1.2.1 Business Functions

The bank operates through its Head Office at Dhaka and 44 branches in all over the Bangladesh. At present, EXIM Bank of Bangladesh has 44 branches of which 24 are in Dhaka, rest of the other division.

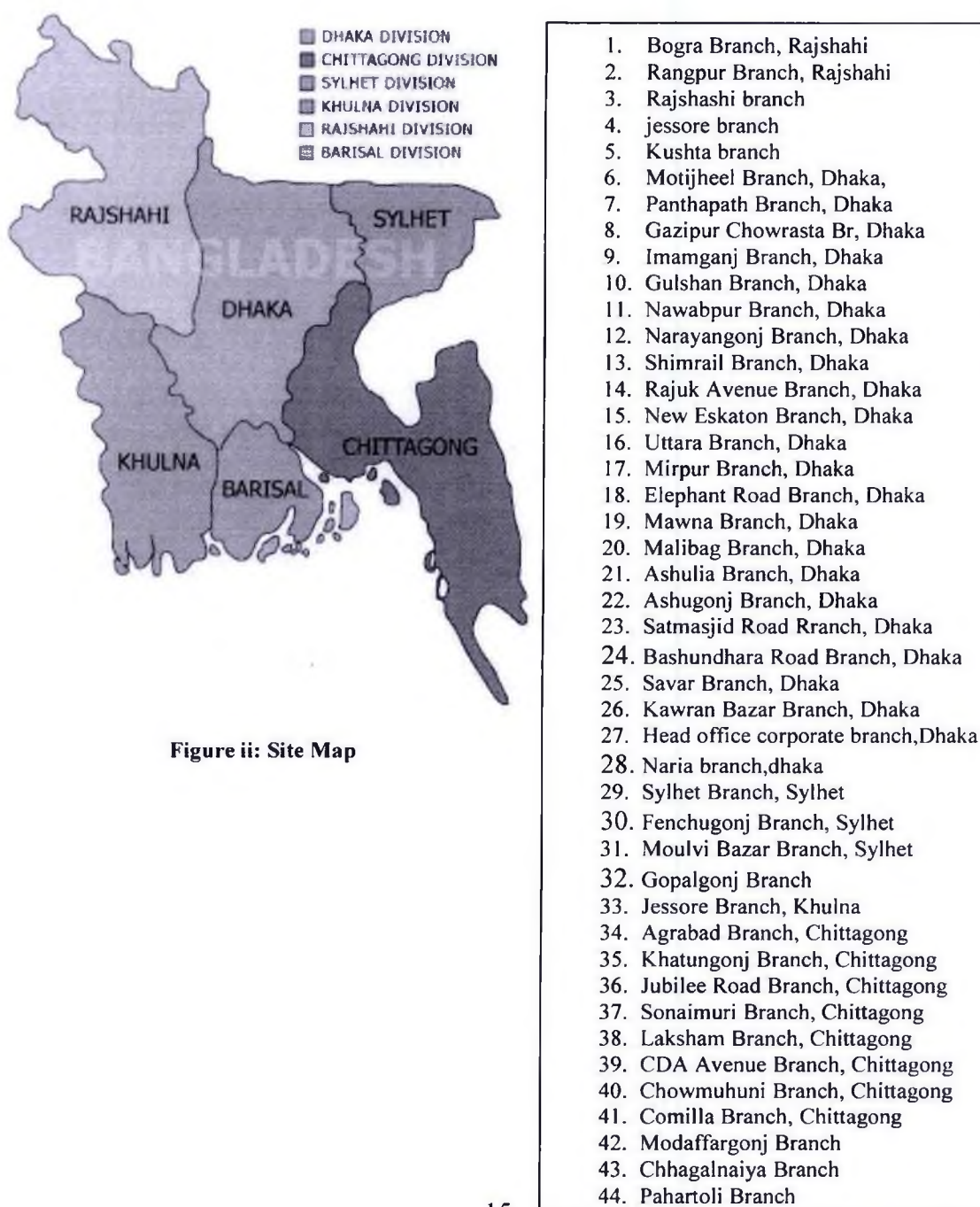


Figure ii: Site Map

1.2.2 International Relationship

The EXIM Bank also maintains international relation with the following countries to perform their activities nicely.

INTERNATIONAL OPERATION						
List of Nostro A/c CIS of January-2002 >						
Sl. No	Name of Country	Name of the Bank	Currency	Bank Identifier Code	A/C No.	
1	U.S.A.	American Express Bank Ltd. , New York	USD	AEIBUS33	739755	
2	U.S.A.	Standard Chartered Bank , New York	USD	SCBLUS33	3582-048957-001	
3	U.S.A.	Mashreqbank psc , New York	USD	MSHQUS33	70119908	
4	U.S.A.	Citibank N. A. , New York	USD	CITIUS33	3615-1783	
5	U.S.A.	Wachovia Bank N.A. , New York	USD	PNBPUS3NNY C	2000193008917	
6	U.S.A	HSBC Bank N.A. , New York	USD	MRMDUS33	000148849 -----	
7	Hong Kong	Union De Banques Arabes Et Francaises (UBAF) Hong Kong Limited, Hong Kong	USD	UBAFHKHX	60-044200-001-03-0-53	
8	Hong Kong	Union De Banques Arabes Et Francaises (UBAF) Hong Kong Limited, Hong Kong	HKD	UBAFHKHX	60-044200-001-26-0-53	
9	Germany	Commerzbank AG, Frankfurt	EUR	COBADEFF	400 8701526 00 EUR	
10	Germany	HypoVereinsbank , Munchen	EUR	HYVEDEMM	69105530	

11	Germany	American Express Bank GMBH, Frankfurt	EUR	AEIBDEFX	018124200
12	U.K.	Standard Chartered Bank, London	GBP	SCBLGB2L	01-7083394-01
13	U.K.	HSBC BANK PLC, London	GBP	MIDLGB22	59180818
14	Japan	American Express Bank Ltd., Tokyo	JPY	AEIBJPJX	313000832
15	Japan	Union De Banques Arabes Et Francaises (U.B.A.F.), Tokyo	JPY	UBAFJPJX	1028157000 1000
16	Japan	Sumitomo Mitsui Banking Corporation, Tokyo	JPY	SMBCJPJT	4324
17	Switzerland	Habib Bank AG Zurich, Zurich	CHF	HBZUCHZZ	1-1-1-20110-1-124701
18	Switzerland	Union Bank of Switzerland AG, Zurich	CHF	UBSWCHZH80 A	230-75605.05A
19	Canada	The Bank of Nova Scotia, Toronto	CAD	NOSCCATT	527120027413
20	India	American Express Bank Ltd., Kolkata	ACU	AEIBINDXCA L	412800726
21	India	Citibank N.A., Mumbai	ACU	CITIINBX	0011440002
22	India	Standard Chartered Bank, Kolkata	ACU	SCBLINBB	322-0-513033-3
23	India	Arab Bangladesh Bank Ltd., Mumbai	ACU	ABBLINBB	300119
24	India	The Hong Kong Shanghai Banking Corporation Limited., Mumbai	ACU	HSBCINBB	019-134980-650
25	India	ICICI Bank Limited, Mumbai	ACU	ICICINBB	000406000235

26	Pakistan	NDLC-IFIC Bank Limited, Karachi	ACU	NIBPPKKA	0060-0034479-3701
27	Pakistan	The Hongkong and Shanghai Banking Corporation Limited, Karachi	ACU	HSBCPKKX	001-032101-190
28	Pakistan	Askari Commercial Bank Limited, Karachi	ACU	ASCMPPKA	020500092-2
29	Sri Lanka	Union Bank of Pakistan, Colombo	ACU	UNBLLKLC	3600-001780-051
30	Nepal	Nepal Bangladesh Bank Ltd. (Kathmandu)	ACU	NPBBNPKA	011121 D
31	Bhutan	Bank of Bhutan Limited, Phuentsholing	ACU	BHUBBTBT	34016
32	Soudi Arabia	National Commercial Bank, Jeddha	SRA	NCBKSAJE	88321015000105

Table i: International Relationship

1.2.3 Bank's Performance at a Glance

EXIM Bank at a Glance

		Figure in crore			
Sl. No.	Particulars	2004	2005	2006	2007
01.	Authorized Capital	100.00	100.00	350.00	350.00
02.	Paid-up Capital	62.78	87.90	171.38	214.22
03.	Reserve Fund	35.73	57.00	81.09	113.46
04.	Deposits	1907.82	2831.90	3503.20	4154.66
05.	Investment(General)	1933.20	2604.60	3264.13	4019.52
06.	Investment(Shares & Bonds)	154.30	163.30	223.33	245.77

07.	Foreign Exchange Business	4931.24	7294.00	9617.51	11790.01
	a) Import Business	2678.10	4143.20	4949.67	6139.94
	b) Export Business	2241.84	3128.50	4623.46	5579.04
	c) Remittance	11.31	22.30	34.38	71.03
08.	Operating Profit	83.58	117.58	137.87	190.82
09.	Loan as a % of total Deposit	101.97%	91.97%	93.18%	96.75%
10.	No. of Foreign Correspondent	200	222	246	246
11.	Number of Employees	768	934	1020	1104
12.	Number of Branches	28	28	30	35
13.	Return on Assets	3.44%	1.65%	1.73%	2.00%

Table ii: EXIM Bank's Performance, 2004-2007

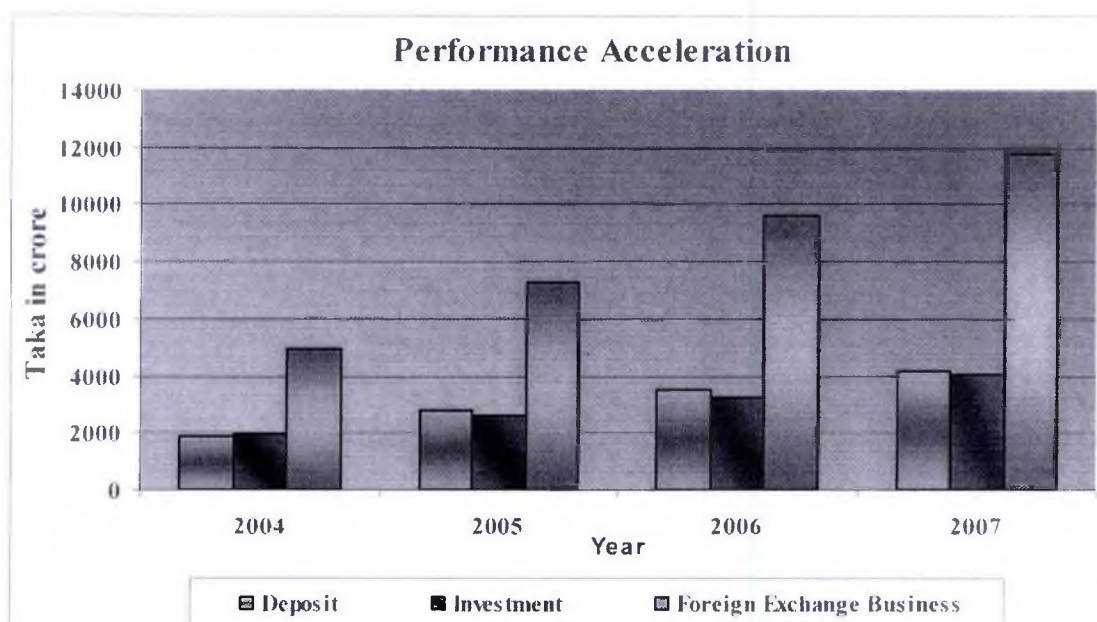


Figure iii: Performance Acceleration, 2004-2007

1.2.4 Share Information of EXIM Bank

Export Import Bank of Bangladesh Limited	
Name of the Company	Export Import Bank of Bangladesh Limited
Instrument Code	EXIMBANK
Number of shares issued in IPO	31,38,750
Total Number of shares including Sponsors	62,77,500
Face Value	Tk.100.00 per share
Premium	Tk.30.00 per share
Market lot	50
Date of publication of Prospectus	June 28, 2004 in "The Daily Janakantha"
Opening Date for Subscription of Shares	July 24, 2004
Closing Date for Subscription of Shares	July 28, 2004
Date and Place of Lottery for Allotment of Shares	August 19, 2004; Bangladesh China Friendship Conference Center
Number of Allotment Letter Issued	56755
Date of Issuance of Allotment Letter(s)	August 21, 2004
Date of listing with DSE	September 26, 2004
Date of listing with CSE	September 04, 2004
Date of 1st Trading	October 16, 2004
Opening price on 1st Trading Date	517.00
Highest price (2004-2005)	805.00
Lowest Price (2004-2005)	450.00

1.2.5 Year wise Dividend Position of EXIM Bank Ltd.

The Board of Directors of EXIM Bank recommends stock dividend @25% per share in the form of Bonus share & 7% cash dividend for the year ended 31st December 2007 subject to approval of the regulatory authorities and ensuing Annual General Meeting

Export Import Bank of Bangladesh Limited Financial Administration Division Head office Dhaka. Year wise Dividend position of the Bank			
Year	% Cash dividend	% Stock dividend	Total
1999	-Nil-	-Nil-	-Nil-
2000	14.00%	-Nil-	14.00%
2001	25.00%	12.50%	37.50%
2002	8.00%	24%	32.00%
2003	40.00%	-Nil-	40.00%
2004	-Nil-	40%	40.00%
2005	-Nil-	30%	30.00%
2006	-Nil-	25%	25.00%
2007	7%	25%	32.00%

Table IV: Year wise Dividend position, 2004-2007

1.3 Financial overview of the Bank

The performance of the bank, during the period under review, is more significant simultaneously in development and achievements of continuous growth rate in all the areas of banking operations. The Bank has successfully been marching ahead with its prime business objective by earning a after tax profit of Tk.930,843,607 registering an annual growth of 43.14% than that of the previous year which was Tk.650,292,342. It has successfully mobilized Tk.41,565,68,592 deposits from depositors and has arranged disbursement of Tk.40,195,239,222 as investment up to 31st December 2007 through its 35 Branches. The total Income on investment (Share & Bonds) of the Bank were Tk.205,594,883. The return on assets (ROA) after tax was 2.00% well above the industry average. The earnings per share were Tk.43.45 as on 31st December 2007 & the net income per share was Tk.43.45 which was 14.49% more then the previous year. The achievements were possible because of the service excellence of management team with support from a very resourceful and skilled workforce rendering efficient and specialized services.

The Bank started its voyage with an authorized Capital of Tk.1, 000 million while it's initial Paid up Capital was Tk.225.00 million subscribed by the sponsors in the year 1999. The Capital and Reserve of the Bank as on 31st December 2007 including paid up capital of Tk.4,569,562,645. The Bank also made provision on classified investment which is amounted to Tk.635,106,791.

1.3.1 Deposit

Deposit is one of the principal sources of fund for investment of commercial banks and investment of deposit is the main stream of revenue in banking business. The total deposit of the Bank stood at Tk.4154.66 crore as on December 2007 against Tk.3503.20 crore of the previous year which is an increase of 18.60%. This growth rate may be termed as a remarkable achievement for the Bank. The present strategy is to increase the

deposit base through maintaining competitive rates of Profit and having low cost of funds.

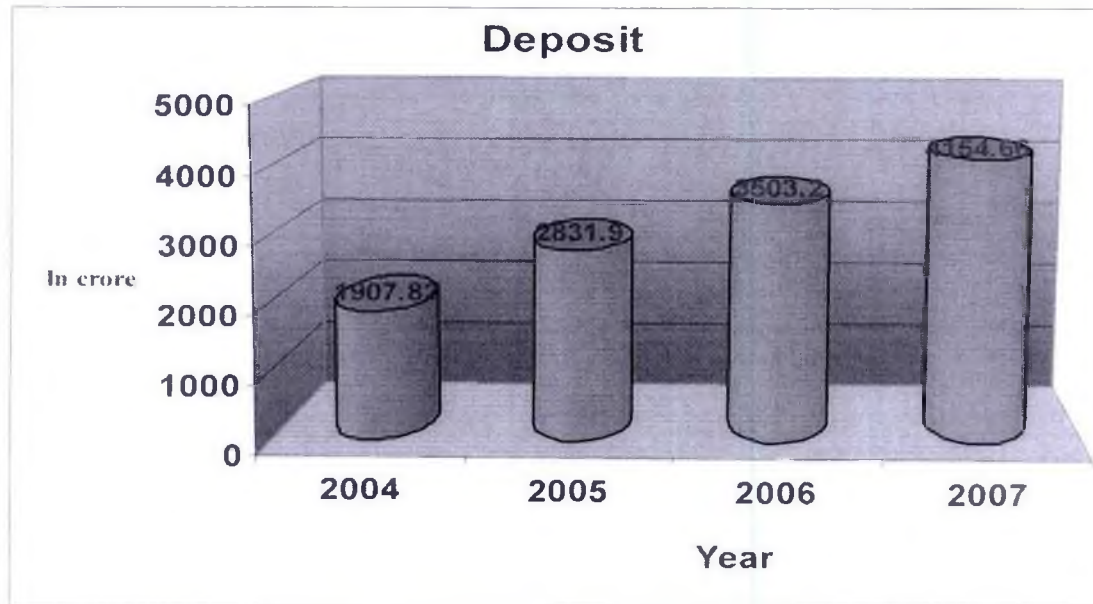


Figure iv: Deposit collection by EXIM Bank, 2004-2007

1.3.2 Investment

Total amount of Investment of the Bank stood at Tk.4019.52 crore as on December 31, 2007 as against Tk.3264.13 crore as on December 31, 2006 showing an increase of Tk.755.39 crore with growth rate of 23.14%. Investment is the core asset of a Bank. The Bank gives emphasis to acquire quality assets and does appropriate lending risk analysis while approving commercial and trade investment to clients.

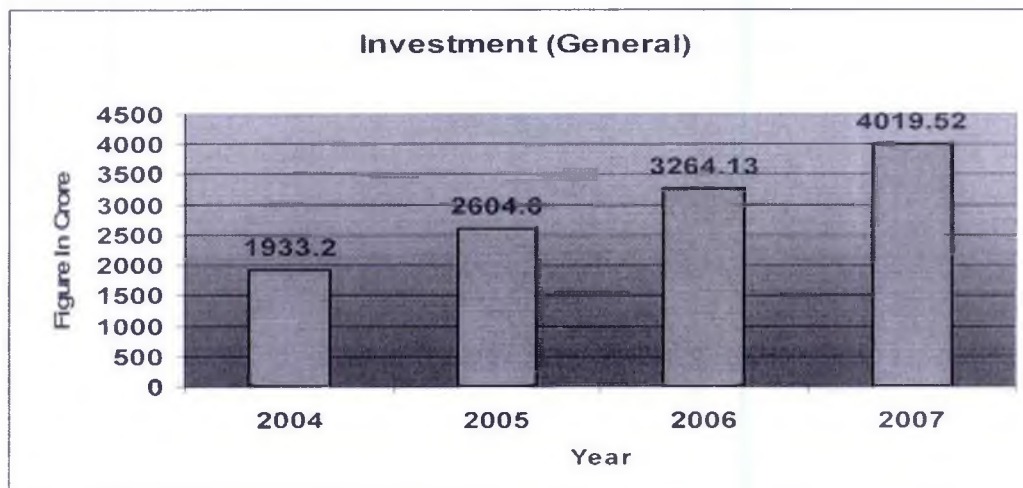


Figure iv: Investment of EXIM Bank, 2004-2007

1.3.3 Investment (Share & Bonds)

The size of the investment portfolio in 2006 is Tk.223.33 crore while it was Tk.163.30 crore in 2005. The portfolio comprises Islamic Investment Bond, Shares and Prize Bonds. And it rise to Tk. 245.77 crore in 2007.

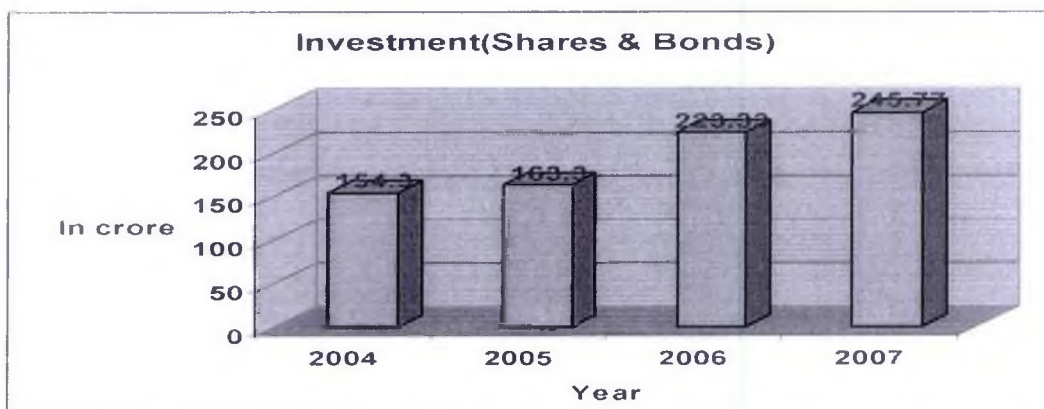


Figure vi: Investment (Share & Bond) of EXIM Bank, 2004-2007

1.3.4 Import Business

During the year, the Bank import volume stood at Tk.6139.94 crore with a growth of 24.05% in comparison with previous year.

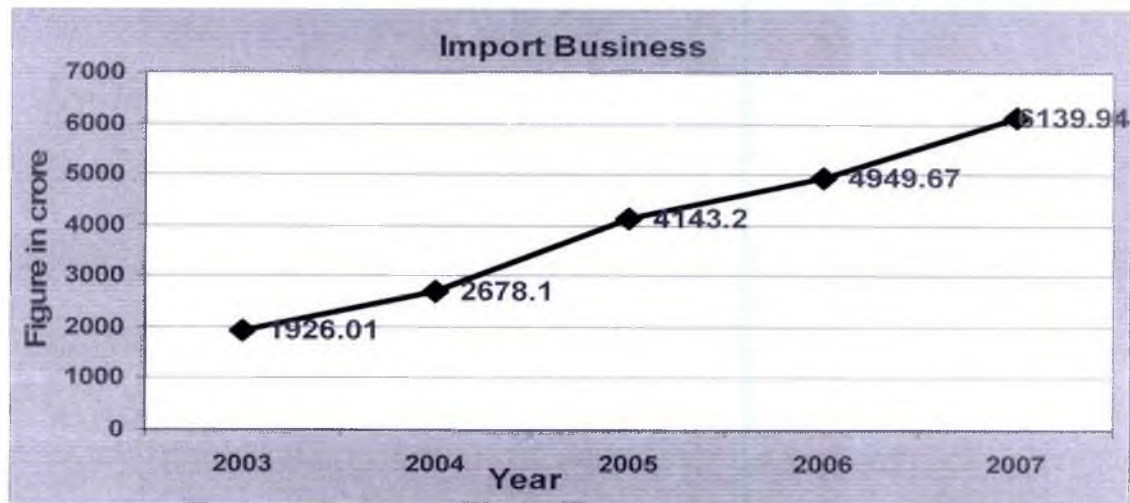


Figure vii: Import Business, 2003-2007

1.3.5 Export Business

The growth of the export business has significantly been increased by 39.55%. It stood at Tk.31, 285.37 million as of December 31, 2005 against Tk.22, 418.40 million of the previous year. And next Year it rise to Tk. 46, 234.60 million which stand for a huge 47.78% increase in this area.

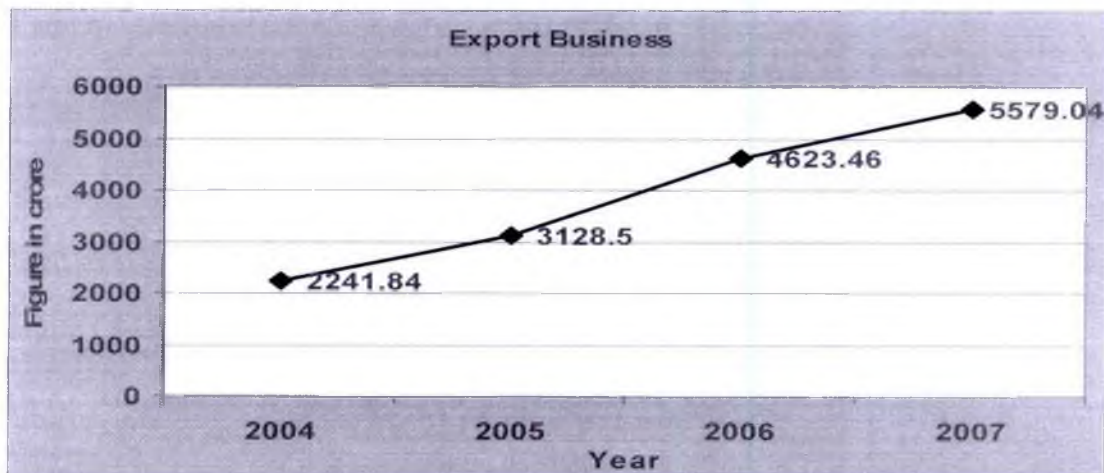


Figure viii: Export Business, 2004-2007

1.3.6 Foreign Remittance

Foreign Remittance of the Bank stood at Tk.34.30 crore as of December 31, 2006 as against Tk.22.3 crore in 2005. And in 2007 it stood at Tk. 71.30 crore.

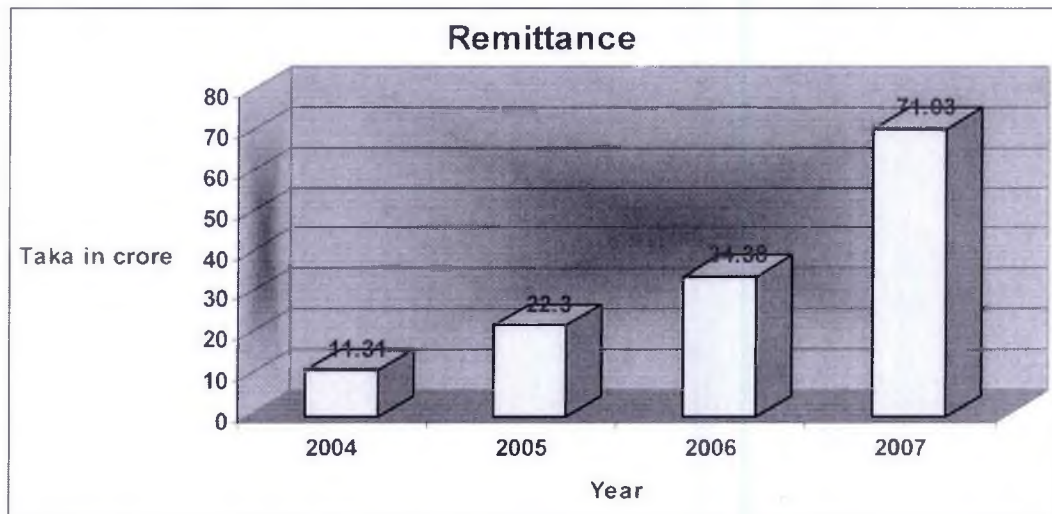


Figure viiix: Foreign Remittance, 2004-2007

1.4 Others

1.4.1 E-cash/ ATM Service

The bank is currently providing Credit Card Service (MasterCard) to the privileged customers of the bank in collaboration of Prime Bank. Floating VISA card for both Debit and Credit card service is under process.

1.4.2 Asset and Liability Management

A Banks Assets are mainly developed with and backed by its liabilities. Thus successful banking requires efficient and effective management of its assets and liabilities. Export Import Bank of Bangladesh Limited has a well organized Asset Liability Management Desk under direct supervision of a well formed and well groomed Asset Liability Committee (ALCO). The ALCO of the Bank monitors Balance Sheet risk and liquidity

risks of the Bank. The term Balance Sheet risk refers to potential change in earnings due to change in rate of profit, foreign exchange rates which are not of trading nature. On the other hand, liquidity risk can be defined as the risk or chance of failure to meet up any withdrawal/disbursement request by a counter party/customer. The ALCO of EXIM Bank reviews liquidity requirement of the Bank, the maturity of assets and liabilities, deposit and lending pricing strategy and the liquidity contingency plan. The primary objective of the ALCO is to monitor and avert significant volatility in Net Profit Income (NPI), investment value and exchange earnings. Besides this, the ALCO of EXIM Bank deals with various issues that may put an impact on the profitability or management procedure of the Bank. To manage the contingent points of time and operation, the ALCO of the Bank calls for special meetings, analyzes the situation and decides what should be done to serve the Banks interest most.

1.4.3 Internal Control & Compliance

Internal Control and Compliance is the key of a good management and a strong core of an organization. It ensures safe and smooth operations within the organization. All the rules and regulation practiced in the banking industry are meant to safety and efficiency in banking operations of all kind. Internal Control and Compliance ensures that all the working units of the Bank abide by those rules and regulations without any fail.

Sometimes Operational loss arises from errors and fraud due to lack of Internal Control and Compliance. Internal Control and Compliance Division undertakes periodical and special audit of the branches and departments at Head Office for review of the operation and compliance of the statutory requirement. The Audit Committee of the Board of Directors plays an effective role in providing a bridge between the Board and Management. The Committee reviews the Financial Reporting process, the System of Internal Control, the Audit process and the Bank's process for compliance with laws, regulations and code of conduct.

Export Import Bank of Bangladesh Limited has a very strong and well organized Internal Control and Compliance Division to look after the control and compliance level of rules and regulations within the Bank. Bangladesh Bank guidelines are strictly followed in case of Internal Control and Compliance of the Bank. There is a well-organized guideline prepared by the Internal Control and Compliance Division (ICCD) of the Bank in line with the guidelines of Bangladesh Bank. The audit and inspection department under ICCD is conducting audit and inspection on regular basis and submits reports to the Management and the Board Audit Committee with the follow-up of review on compliance and monitoring thereof satisfactorily. Besides, a number of circulars regarding Internal Control and Compliance are issued each year so that the employees of the Bank may learn about the rules and regulation of the Bank as well as the Regulatory Authorities and the amendments and changes therein.

1.4.4 Money Laundering

Money laundering means Illegal transactions made in order to project the proceeds of crime as legally obtained. Persons, who earn illegal money, try to hide their source of earning by conducting a number of transactions. Such transactions separate the source of earning from its proceeds. It becomes difficult for the law enforcing agencies to trace the source of earning.

Not only EXIM Bank, all of the company which has banking business must follow the rule. After the act the bank imposed some rule of their banking sector. Such as:

- For money transfer from one bank to another bank a customer must need to be a bank account on the particular bank.
- In case of foreign currency, the customer must need a bank account to receive the currency.
- In case of sent money to outside of the country, without an account the customer cannot be able to sent money.

All of the banks strictly followed the money laundering act. If any of them failed to follow the rules there is a punishment for the bank by the government.

Job Responsibilities

Chapter: 2

The General Banking department does the most important and basic work of the banks. All other departments are linked with this department. It also played a vital role in deposit mobilization of the branch. EXIM Bank provides different types of accounts and special types of saving scheme under general banking. For proper functioning and excellent customer service this department is divided into various sections namely as follows:

- Accounts Opening Section
- Cash Section
- Deposit Section
- Remittance Section
- Bills and Clearing Section
- Accounts Sections
- FDR Section

In EXIM bank, Gulshan branch I worked as an intern for three months. I mostly worked in general banking department in this bank. I am very delighted that I get the chance to work here for long time on the other hand I did not get the opportunity to work in each and every section in general banking department. For some official and security reason as an intern we can not take the opportunity of practical work on some sections.

2. Specific Responsibilities of the Job

There are some sections in general banking me practically worked. I will try my level best to explain what I did past three months in EXIM bank. The section I worked in this bank is-

- Accounts Opening Section

❖ Accounts Opening Section

Account opening is the first step for clients to enter into business with bank. It is the foundation of banker-customer relationship. This is the one of the most important section of general banking department, because by opening accounts bank mobilized funds for investment. This section deals with opening of different types of accounts. It is also deals with issuing of chequebooks.

2.1 JOB LIST IN ACCOUNT OPENING SECTION:

<i>JOB LIST IN ACCOUNT OPENING SECTION</i>	
Account opening	Preparing check book
1. Account opening	1. Prepare a chequebook
2. Recheck the required documents of clients	2. Register the info in register book
3. Writing thanks giving letter to the clients.	
4. Do Risk rating	
5. Put require Seals to complete the application form	

As I say that, I worked in Account opening section. In account opening section, there are not only open an account but also prepare and issues chequebooks. They did these works under two different officers. I had to work under both two officers in a regular basis.

▪ **Account opening:**

- 1 First of all, I had to write the clients personal information to the account opening form for open an account. After write down I had to attach clients and client's nominees' picture to the application form
- 2 Account opening officer always asking clients for required documents for particular accounts. I had take a look that every required papers is given or not.
- 3 The next thing I had to do after opening each account is that writing thanks giving letter to the new clients. The core motive of writing a thanks letter is just checking that, was the client giving the right postal address or not. When the client gets the letter they have to report to their particular bank and have to collect the chequebook.
- 4 There's another important work I had to do, that was risk rating. It's very important for opening an account. There's an instruction from Bangladesh Bank that risk rating is must with each every application. It has to do, to prevent money launder and to know your customer better.
- 5 Finally I have to take three important persons signatures on the application form. The persons are branch manager, general banking department's principle officer and account open officer.

- **Preparing check book:**

1. After open an account, instantly banks give deposit slip to the client. When they come out next with the thanks letter then bank give them cheque book. I had to prepare chequebook for them. I put all seals to the right place on the chequebook and had to write down the name and account number of the client. Following works had done by the respective office.
2. After prepare the chequebook, I had to register chequebook related information on the register book, then take clients signature and finally issue the chequebook.

2.2 Nature of jobs

I mentioned above what I had to do regular basis in my daily work. Without those works I also did some other works in general banking section and as well as the other departments like Foreign exchange and Investment. They are-

- Register the clearing cheques (current, savings, and short term deposit), pay order (PO), and demand draft (DD) .I had to register all the cheques before 2 o'clock. After 2 o'clock they send all the clearing cheques to the head office.
- Posting the cheques. Cheques posting is just putting information on the computer. In bank they called it posting the cheques.
- Writing vouchers. Sometimes I had to write vouchers against what they purchase in daily basis.

- Matching the everyday bank statement with vouchers. I had to match the previous days, all kind of vouchers with computer printed copy.
- Register the LOCAL LC and BTB LC in the register book. We all know about LC, it is Letter of credit. Only few days I worked in foreign exchange department. So I gathered tiny knowledge about this department works. There I had to register all the information about each and every LOCAL LC and BTB LC. I had to put the information of LC-no, LC owner name, product description, product quantity, date of shipment, date of expire the LC and so on.
- Correction of documents mistake.
- Photocopying the documents.
- Arrange the LC files in serial basis.
- Numbering the LC files.
- Check the translation of official letters.

2.3 Critical Observation and Recommendation

- For opening an account the customer must need reference. But sometimes customer may fail to manage reference for opening an account. So in that case they may sometime loss their fervor to open an account in that bank.
- In bank they still record their daily transactions by manually. For most of their work they recorded it by hand, not through modern system like computer. Sometimes it's been so hard to write down so many things with hand. This old fashioned system makes them slow as well as sometimes inefficient.
- The bank is not still technologically updated. There is a huge problem of their online system & their server & also their software which they use for their daily transaction & for their working purpose. For that reason sometimes people may face problem to get their services.
- Their cash payment procedure is traditional way, because they don't provide ATM card to their customer to draw cash. So they need to write check for withdrawing money. On the other side, most of the private banks provide ATM cards to their customers. For that reason people become more interested to open an account that sort of banks.

- Another important fact is, their application form was not very up dated for this reason I had to face many problems; especially when had to do the risk rating. But recently they change their old application form, and exchange it with much modified one.
- In bank they said, through risk rating they can prevent money laundering or can keep eyes open towards those clients who's scored above 14. I am not sure about this process's action, because they don't do it properly. So if they doing this thing in improper way, then there will not be any benefit from this.

Chapter: 3

Introduction

3.1 Introduction

Bank's plays the most important role in the economy. For growing and developing countries, private bank already prove them and play a vital role in the national development. The commercial banks not only contribute with the economy growth of a country but also provide some services according to their customers demand. Now Bank's offer the widest range of financial services and perform a lot of financial functions. Credit appraisal is the major part of a bank. It is the main investment segment of any Bank and its required different type of policy, phase and activities for providing the credit facility to the customers.

3.2 Origin of the report

Internship program is partial requirements for the students of BBS Department of BRAC University .To complete the internship program I have been placed in a bank named "Export Import Bank of Bangladesh Limited". The report based on a "Credit Appraisal Process of EXIM Bank". I prepared this report under the supervision of Ali Salman BBA Program coordinator, of BRAC Business School.

3.3 Objective of the report

3.3.1 Project Part

- a) To explain the credit appraisal system of EXIM bank.
- b) To propose some ways to improve the credit appraisal system.

3.4 Purpose of the study

Maximum risk is centered in credit division and this department is very sensible than other department. Credit division is the heart of the banking system. Under credit division credit management always try to provide support to managing risk in a customer portfolio. Credit Management is mainly concerned with the credit disbursement and recovery of loan.

Credit appraisal system is a combination of some specific activities. A specific procedure should be followed for proper maintaining of credits. EXIM bank follows the instructions of the Bangladesh Bank, Shariah Council of the bank and the circular of the Head Office. There are some problems in the credit appraisal procedure like– time consuming procedure and lack of MIS. Problem mainly occurs due to lack of coordination with the branch and the Head Office.

On the other hand, some times credit division face some problem during loan processing system like- maximum clients they did not maintain any account department and they submit false invoice paper for purchasing machine or other raw materials. And they mentioned different type of charges. As a result bank can not identify the real invoice paper. Because of that sometimes credit division misguided by the clients. But all the problems are recoverable. And this report will try to recover the entire problem.

3.5 Methodology of The report

This report requires a systematic process from selection of the topic and to final report preparation. To perform the study data sources are to be identified and collected, and that are to be classified, analyzed, interpreted and presented in a systematic manner and also the key point are to be find out. This overall process of methodology is given in the below.

3.5.1 Selection of the topic

Before selecting the topic it was discussed with my supervisor, bank officers. For that a well organized internship report can be prepared.

3.5.2 Identifying data sources

Primary and secondary both essential data sources are identified which will be needed to complete the report. To complete this report interviewing the officers, staffs, and the client will be also necessary.

a. Primary sources

1. Primary data collected from face to face conversation with the officers.
2. Practical desk work.
3. Relevant file study which provided by the bank officer.
4. Exposure on different desk of the bank.

b. Secondary sources

1. Annual Reports of EXIM bank.
2. Web site of the bank.

c. Classification, analysis, interpretation and presentation of data

Some arithmetic and graphical tools are used in this report for analyzing the collected data and to classifying those to interpret them.

d. Findings of the study

The collected data were analyzed very well and were pointed out and shown as findings. Few recommendations are also made for improvement of the current situation.

3.6 Scope of the Report

This report provides a wide view of the different stages of credit appraisal system of the bank, starting from the loan application to loan disbursement.

3.7 Limitation

Investment department is very sensitive area and it has a very few scope for the internship student to do work. Most of the works are based on online and software system for that data collected from face to face conversation and some hand out provided by the investment officer.

- Limitation of time was one of the most important factors for collecting data. A longer time period would have ensured to collect more information in details.
- Every organization has some secret that is not exposed to others. While collecting data by face to face conversation with the investment officers they did not discuss much information which was related to the investment process.
- Due to lack of experience, there is a chance of having some mistake in the report but best effort has been applied to avoid any kind of mistake.
- Up-to-date information is not available.
- EXIM Bank Limited is not furnished with adequate written document related to this report.

I tried to point out that how valuable this internship period was to me. It was great opportunity that helps me to gain some practical knowledge and experience regarding banking system

CHAPTER: 4

**CREDIT APPRAISAL
PROCESS OF EXIM BANK**

In a financial system of any economy, we know that financial surplus mobilize from surplus economic unit to the deficit economic unit. In the banking word the bank play an intermediary role between deficit economic and surplus economic unit. Bank mobilizes the fund from surplus economic unit as deposit and makes the fund available to the deficit unit. And after that process credit is create.

The word credit is derived from the Latin word “credo” which means, “I believe” and is usually defined as the ability to buy with a promise to pay. It consists of actual transfer and delivery of goods and services in exchange for a promise to pay in future. It is simply the opposite of debt. Diversification of banking service increasing the use of credit in the expanded business operation. It is a fundamental instruction of banking that advances are made for the customers and the customer are promises to pay rather than the security held by the banker.

4.1 Investment

According to Islamic Shariah Principle any interest or extra money against the money which was lent, is called “Riba” and for that it is prohibited. Therefore credit should not allow any interest. For that the financial institute, Shariah Council has made some rules for validity of business transactions, which is safe and easy to maintain the Islamic rules and regulation. According to the Islamic Shariah one can not lend money to other expecting some more in return. But one can invest money to other business under various modes and that will be discovered clearly before starting a business. In that point “Credit” is named as “Investment” and “Interest” is accounted as “Profit”. In conventional system interest may be defined as the amount of money generated by a particular amount of money at a particular rate after a particular period. But according to the Islamic Shariah principle lending is related with buying and selling of items which is associated with risk. The extra amount of money that comes from the trade is profit and it is acceptable for investment.

4.2 Principle of Investment

According to the Qureshi (1997) a prudent banker should always more concern to the following general principle.

- ☐ Background, Character and ability of the borrowers
- ☐ Purpose of the facility,
- ☐ Term of facility,
- ☐ Safety,
- ☐ Security,
- ☐ Profitability,
- ☐ Source of repayment,
- ☐ Diversity.

According to islami shariah we already know what is called investment and what the investment principles are. My main intern report is on Credit appraisal process of EXIM bank. Before describe that system first I would like to explain in what sectors EXIM bank invest and what their products are.

4.3 Loan Facilities and Products of EXIM Bank

4.3.1 Lone facilities provided for business types

The bank shall provide suitable investment services and products for the following sectors.

Sectors:

- a) Steel & Engineering
- b) Food & Allied.
- c) Agriculture.
- d) Textile & Garments

- e) Pharmaceuticals & Chemicals.
- f) Paper & Paper product.
- g) Service Industry.
- h) Housing & Real Estate.
- i) Cement.
- j) Bricks Fields.
- k) Edible Oil.
- l) Assembling Industry.
- m) Cottage Industry.
- n) Electronics & Electrical Commodities.
- o) Construction Company.
- p) Trading (Retail/Whole sale).
- q) Others.

4.3.2 Lone facilities not provided for business types

The bank does not provided loan facilities to the following business

- a) Military equipment/weapon finance.
- b) Highly leverage transaction.
- c) Finance of speculative loan.
- d) Logging, Mineral extraction/mining or other activities that is ethically of environmental sensitive.
- e) Lending to companies listed on CIB black list or known defaulter.
- f) Share lending.
- g) Taking an equity stake in borrowers.
- h) Lending to holding companies.
- i) Bridge loans relying on equity/debt issuance as a source of repayment.
- j) Tannery finance.
- k) Who has no business with the bank

4.3.3 Modes of credit

The bank has primarily divided all Loans facilities into two major groups.

They are-

1. Izara Bill Baia

These are the investment made by the bank with fixed repayment schedules. The term of loan are defined as follows:

Short term: Up to 12 months

Medium term: More than 12 up to 36 months.

Long term: More than 36 months

2. Continuous Investment

Continuous credit has no fixed repayment schedule but it has an expiry date at which it is renewable on satisfactory performance.

4.3.4 Types of investment facilities

Depending on the various nature of financing, all the lending activities have been brought under the following major heads-

a) Izara Bill Baia (General)

Short term, mid term, long term investments are allowed to individuals/farm/industries for specific purpose but for a specific period and generally repayable by installments fall under these head.

These types of lending are mainly allowed to accommodate financing under the following categories:

1. Large and medium scale industries
2. Small and cottage industries
3. Term financing for agriculture

b) Izara Bill Baia (HB)

Investments allowed individuals/ enterprises for construction of house (Commercial) fall under this type of investment. The amount is repayable by monthly installment with a specified period. Such investments are known as Izara Bill Baia (HB). No investment for construction of residential house building shall be accommodated to the bank's customers. Where there is no other business consideration.

c) Izara Bill Baia (Staff HB)

Investment allowed to the respective bank employees for purchase/construction of house shall be known as Izara Bill Baia (Staff HB).

d) Other investment to staff

Investment allowed to employees other than for house building shall be grouped under head of staff Izara Bill Baia (General).

e) Bai-Muazzal

Investment allowed to individual/firm for trading as well as whole sale purpose or to industries to meet out the working capital requirements against hypothecation of goods as primary security fall under this type of lending. It is a continuous investment.

It is allowed under the categories i) “Commercial lending” when the customer is other than an industry and ii) “Working capital” when the customer is an industry.

f) Izara Bill Baia (HP)

Izara Bill Baia (HP) is type of installment investment under which the purchaser agrees to take the goods on hire at a state rental, which is inclusive of the repayment of principle as well as profit for adjustment of the investment within a specified period.

g) Bai Muazzal (General/FO)

Investment allowed to individual/firms against financial obligation (lien on MTDR / PSP / BSP / Insurance Policy / Share etc.) this may not be a continuous investment.

h) Bai Muazzal (WO)

Investment allowed against assignment of order for implementation of contractual work falls under this head. This investment is generally allowed for a specific period and specific purpose. And it is not a continuous investment.

i) Bai Muazzal (Export)

Investment allowed for purchasing foreign currency for payment against L/Cs (Back to Back) where the exports do not materialize before the date of import payment. This is also an investment for temporary period, which is known as export finance and falls under the category “Commercial Lending”

j) Murabaha Import Bills (MIB)

Payment made by the bank against lodgment of shipping documents of goods imported through L/C falls under this head. It is an temporary investment connected with imported and is generally liquidated against payment usually made by the party for retirement of the documents for release of imported goods from the customs authority. It falls under the category “Commercial Lending”.

k) Murabaha Post Import (MPI)

Investment allowed for retirement of shipping documents and release of goods imported through L/C taking effective control over the goods by pledge in godown under Bank's lock & key fall under this type of investment. This is also a temporary investment connected with import that is known as post-import finance and falls under the category “Commercial Lending”.

l) Murabaha Trust Receipt (MTR)

Investment allowed for retirement of shipping documents and release of goods imported through L/C fall under this head. The goods are handed over to the importer under trust with the arrangement that sale proceeds should be deposited to liquidate the investments within a given period. This is also a temporary investment connected with import and known as post-import finance and falls under the category "Commercial Lending".

m) IBP

Payment made through purchase of local bills/checks to meet urgent requirement of the customer falls under this type of investment facility. This temporary investment is adjustable from the proceeds of bills/checks purchased for collection. It falls under the category "Commercial Lending".

n) Waziral Bill Wakala

Financial accommodation allowed to a customer for exports of goods fall under this head and is categorized as "Investment on Export". The investments must be liquidated out of export proceeds within 180 days.

o) Bill Muzzal(PC)

Investment allowed to a customer against specific L/C firm contract for processing or packing of goods to be exported falls under this head and is categorized as "Bill Muzzal". The investments must be adjusted from proceeds of the relevant exports within 180 days. It falls under the category "Investment on Export".

p) F D B P

Payment made to a customer through purchase/negotiation of a foreign documentary bills falls under this head. This temporary investment is adjustable from the proceeds of the shipping/ export documents. It falls under the category "Investment on Export".

q) L D B P

Payment made against documents representing sell of goods to local export oriented industries that are estimate as exports and which are denominated in Local Currency or Foreign Currency falls under this head. This temporary liability is adjustable from proceeds of the Bill.

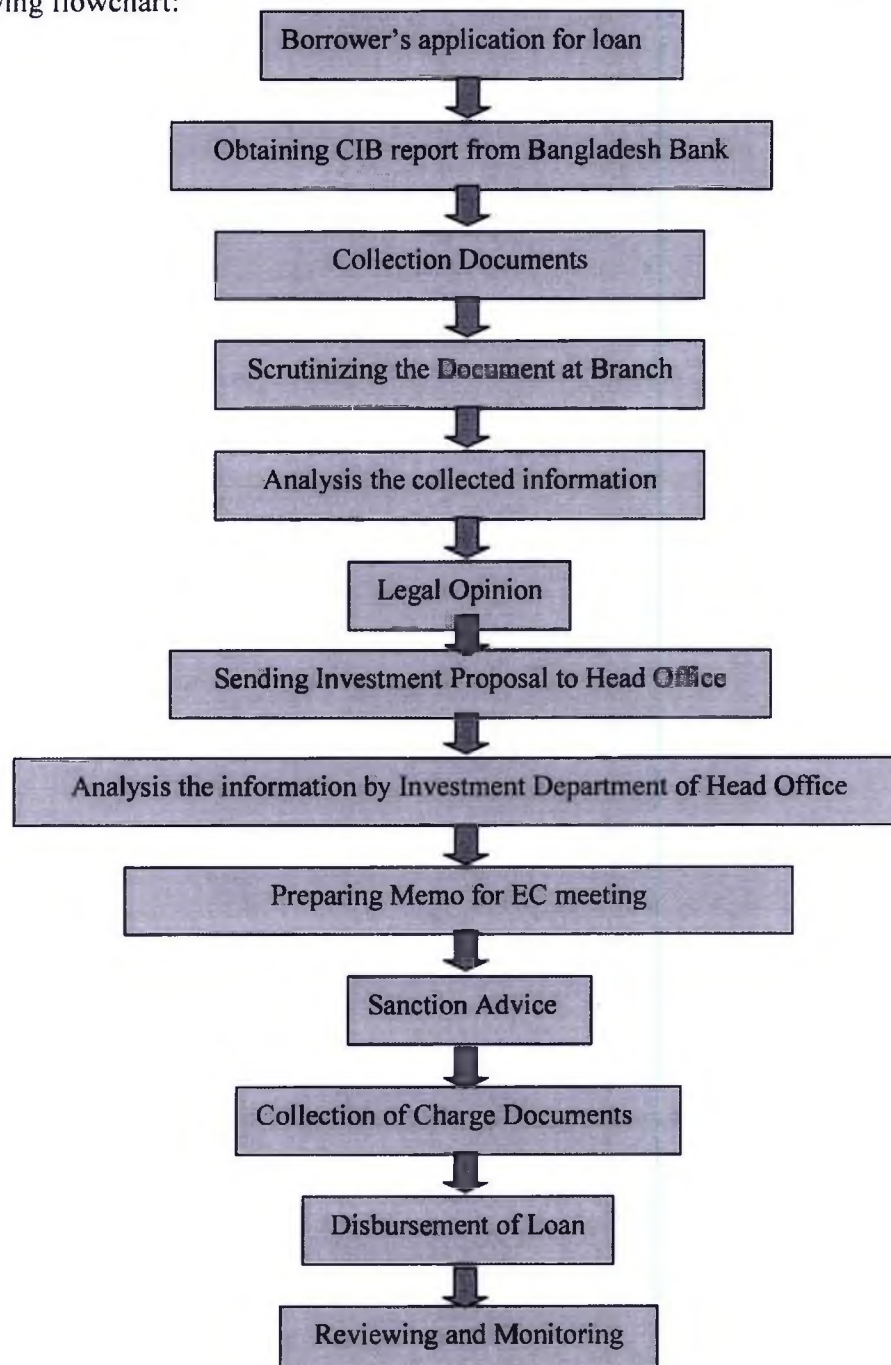
r) FBP

Payment made to a customer through purchase of Foreign Currency Checks/Drafts fall under this head. This temporary investment is adjustable from the proceeds of the checks/draft

4.4 assessment of credit appraisal Process

Of exim bank

Lending is the main profit generating activity of EXIM Bank Ltd. Credit appraisal is the part of lending procedure. Now to assess the credit appraisal procedure, the lending process followed by the bank can be shown as a set of sequential activity by the following flowchart:



The Lending Procedure

The credit appraisal process starts with lending process which consists of various sequential activities. The stages of lending process are done both at the branches and at the Head Office level. The procedure starts when borrowers come to any branch and seeking for loan and continues until the clients adjust the total loan. Before sanctioning of the loan, the borrower's application is appraised in various stages. To assess the credit appraisal system of EXIM Bank Ltd, the stages of lending procedures as shown in the above flow chart are described in sequential order:

4.4.1 Applications from the credit applicant

The procedure of credit appraisal starts when a client comes at any branch of EXIM Bank for taking loan. EXIM Bank gives more attention on borrowers' selection and starts at the very beginning of the procedure by primary interview of the client and the interview taken by the investment officers. If the investment officer satisfied with the client then the borrower can apply in the banks approved format asking for that loan facility. The invest officers interview the client very carefully to get as much information as possible and puts emphasis on the following aspects:

4.4.1.1 Past track record: It is considered by the following criteria:

- ◆ **Bank Record:** Transaction records of own bank and other bank provided by the client. It is very useful for quantitative judgment of the borrower.
- ◆ **Credit Report of the client:** This is provided by Bangladesh Bank and has a good validity in measuring client.

- ◆ **Market Information:** The borrower's reputation in the market is a better probe for the banker.
- ◆ **Financial Statement:** These statements not always considered primarily for selecting a customer. But if the clients bring with these statements those helps a lot to decide the business status of the client.

4.4.2 Obtaining CIB Report

EXIM bank considers CIB (Credit Information Bureau) report provided by the central bank as the top priority information about the borrower. Therefore the bank strictly follows the CIB report as per rules and regulation of BRPD (Banking Regulatory and Policy Directory) instruction. After receiving the loan application from the client, the bank sends a letter to the Head Office to collect the credit inquiry report of that particular client from Credit Information Bureau of Bangladesh bank. This report is called CIB report.

The purpose of this report is to be informed whether or not the borrower has taken loans and advances from any other bank and also the status of those loans and advances.

4.4.3 Collection of Documents and business related information

If Bangladesh Bank sends positive CIB report on that particular borrower then the bank assumes that, this borrower to be a good one and then the bank starts analyze the documents such as:

- ◆ For the corporate client, financial document of the company for the last three to five years is needed. If the company is a new one projected financial data for the same duration is required.
- ◆ Personal net worth of the borrowers.
- ◆ In this stage the bank will ensure that the documents are properly filled in and properly signed. Investment in charge of the relevant branch is responsible for enquiring about the ins and outs of the customers business through discussing with him/them.

Bank asks over different types of documents from their client, sometimes it depends on the relationship with client to the bank. If the client have strong relationship with the bank for a long time and both parties trusted each other then bank go easy with them; don't ask too much documents. If a new client come and wants, the bank invests to his/her business. Then bank ask him, different types of documents to understand his/her trust worthiness in the market and towards the business. And also to make sure that he won't be a defaulter in future.

4.4.3.1 Five c' s analysis

When a customer requests a loan, bank officers analyse all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis in which a loan officer attempts to evaluate a borrower's ability and willingness to repay.

Therefore, Bankers look into key risk factor which has been classified according to the five Cs of credit:

Five “C”S

1. Character:

Character refers to the borrower's honesty and trustworthiness. A banker must assess the borrower's reliability and intent to repay. If there are any serious doubts, the loan should be rejected.

2. Capital:

Capital refers to the borrower's wealth position measured by financial soundness and market standing. It helps reduce losses and possibility of bankruptcy.

3. Capacity:

Capacity involves both borrower's legal standing and management's expertise in maintaining operations so the firm or individual can repay its debt obligations. Under capacity an individual must be able to generate income to repay the cash.

4. Condition:

A condition refers to the economic environment or industry specific supply, production and distribution factors influencing a firm's operations. Repayment sources of cash often vary with the business cycle or consumer demand.

5. Collateral:

Collateral is the lender's secondary source of repayment or security in the case of default. Having an asset that the bank can seize and liquidate when a borrower defaults reduces loss, but does not justify lending proceeds when the credit decision is originally made.

4.4.4 Scrutinizing Document

Bank officer of the investment department inspect the project for which the loan is applied. Here project survival, its distance from the bank originates the loan, monitoring the cost and possibilities etc. If the proposed amount exceeds Tk.10.00 lac, a senior officer from Head Office performs an on site inspection of the project.

In other cases the officers from the branch go for inspection of the side. Sometimes the security documents are also evaluated and officers go for valuation of security like land, shops or market to know the real market value of the security.

4.4.5 Analysis of Collected Information

Any loan proposal needs to be evaluated on the basis of financial information provided by the loan applicant. Financial analysis, analyze the risks associated with a particular loan and to judge the financial soundness and worthiness of the borrower. Besides, Lending Risk Analysis is also undertaken by the bank to measure the borrower's ability to pay considering various risks associated with the loan.

EXIM Bank Ltd uses a multiple methods or techniques to assess prospective borrower as well as the project. These techniques include analysis of CIB report, appraisal of the project possibility and credit risk grading.

These methods are

- Evaluation of CIB report
- Analysis of project feasibility
- Credit risk grading

Here bank follows above three techniques to assess the client. The first one is CIB report evaluation, which is provided from Bangladesh bank. If its have positive result then investment offices go for the next technique, that is analyze the project feasibility. Client submits a project proposal to the branch investment officer. The experienced officers weigh up the project very carefully and try to find out how much practical and profitable the project is. After their assessment if they satisfy with the project, then they go for next method and that is called credit risk rating.

4.4.5.1 Credit Risk Grading

❖ Definition of credit risk grading (CRG)

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

❖ Functions of credit risk grading

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

❖ **Use of credit risk grading**

- The credit risk grading matrix allows application of uniform standard to credit to ensure a common standard approaches to assess the quality of individual obligor. Credit portfolio of a unit, line of business, the branch or the bank as whole.
- As evident, the CRG output would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is rated. the other decision would be rated to pricing and specific feature of the credit facility. These would largely constitution obligor level analysis
- Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of a bank. It is also relevant for portfolio level analysis.

The proposed CRG scale consists of 8 categories with short names and numbers are provided as follow:

NUMBER	GRADING	SHORT	SCORE
1	Superior	SUP	Fully cash secured, secured by government 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
A. Financial Risk	50%		Score
Leverage (15%) Debt equity ratio(x)-times Total liabilities to tangible net worth All calculation should be based on annual financial statements of the borrower(audited proffered)		Less than 0.25x 0.26x to 0.35x 0.36x to 0.50x 0.51x to 0.75x 0.76x to 1.25x 1.26x to 2.00x 2.01x to 2.50x 2.51x to 2.75x more than 2.75x	15 14 13 12 11 10 8 7 0
Liquidity (15%) current ratio (x)-times current assets to current liabilities		Greater than 2.74 2.50x to 2.74x 2.00x to 2.49x 1.50x to 1.99x 1.10x to 1.49x 0.90x to 1.09x 0.80x to 0.89x 0.70x to 0.79x more than 0.70x	15 14 13 12 11 10 8 7 0
3. Profitability (15%) Operating profit margin (%) (operating profit/sales)X 100		Greater than 25% 20% to 25% 15% to 19% 10 %to 14% 7 %to 9% 4 %to 6% 1%to 3% Less than 1%	15 14 13 12 10 9 7 0

4.Coverage (5%) Interest coverage ratio(x)-times Earning before interest and tax(EBIT) interest on debt	More than 2.00x More than 1.51x less than 2.00x More than 1.25x less than 1.50x More than 1.00x less than 1.24x Less than 1.00x	5 4 3 2 0
<u>TOTAL SCORE:</u> FINANCIAL RISK		50
B.Business/industry Risk 18%		
1.Size of Business(in BDT crore) The size of the borrower business measured by the most recent year's total sales. Preferably audited numbers.	>60.00 30.00-59.00 10.00-29.99 5.00-9.99 2.50-4.99 <2.50	5 4 3 2 1 0
2.Age of Business The number of years the borrower engaged in the primary line of business.	>10 years >5-10 years 2-5 years <2 years	3 2 1 0
3.Business outlook Critical assessment of medium term prospects of industry, market share and economic factors.	Favorable Stable Slightly Uncertain Cause for concern	3 2 1 0
4.Industry Growth	Strong (10%+) Good (>5%-10%) Moderate (1%-5%) No Growth	3 2 1 0

5. Market competition	Dominant Player Moderately Competitive Highly Competitive	2 1 0
6. Entry /Exit Barriers	Difficult Average Easy	2 1 0
TOTAL SCORE: Business/industry Risk		18
C. Management Risk	12%	
1. Experience Quality of management based on total no of years of experience of the senior Management in the industry.	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 1-2 years Succession within 2-3 years Succession in question	4 3 2 0
3. Team Work	Very Good Moderate Poor Regular Conflict	3 2 1 0
TOTAL SCORE: Management Risk		12

D. Secure Risk	10%		
1. Security Coverage (primary)	Fully pledged facility/substantially cash covered/Reg. Mortg. for HBL		4
	Registered Hypothecation(1 st charge /1 st passu charge)		3
	2 nd charge/inferior charge simple		2
	Hypothecation/negative lien on assets		1
	No security		0
2. Collateral Coverage (property location)	Registered Mortgage on Municipal Corporation/prime area property		4
	Registered Mortgage on pourashava/semi-urban area property		3
	Equitable mortgage or No property but plant and machinery as collateral		2
	negative lien on collateral		1
	No collateral		0
Support(guarantee)	Personal grantee with high net worth or strong corporate guarantee		2
	Personal guarantee or corporate guarantee with average financial strength		1
	No support/guarantee		0
TOTAL SCORE: Security Risk			10
E. Relationship Risk	10%		
1. Account Conduct	More than 3 years		5
	Accounts with faultless record		
	Less than 3 years		4

	Accounts with faultless record	
	Accounts having satisfactory dealing with some late payment	2
	Frequent past due and irregular dealing in account	0
2.Utilization of limit (actual/projection)	More than 60%	2
	40%-60%	1
	Less than 40%	0
3.compliance of covenants/condition	Full compliance	2
	Some non complacence	1
	No compliance	0
4.personal deposits	Personal account of the key business sponsor/ principle are maintained in the bank, with significant deposits	1
	No depositary relationship	0
TOTAL SCORE: Relationship Risk		10
GRAND TOTAL-ALL RISK		100

4.4.6 Legal Opinion

EXIM Bank Ltd has Lawyer; they provide legal opinion on the collateral provided by the applicant, whether those are properly submitted and up-to-date.

Collateral is the lender's secondary source of repayment or security in the case of default. Having an asset that the bank can seize and liquidate when a borrower defaults reduces loss, but does not justify lending proceeds when the credit decision is originally made. Characteristics of Good Collateral are Standardization, Durability, Identification Marketability and Stability of value. So it is bank's lawyer duty to find out the collateral's legality.

4.4.7 Sending Investment Proposal

The branch starts processing the loan at this stage. Based on the analysis done by the branch and the branch prepare a loan proposal. Then Gulshan branch investment department send it to Head office.

They highlight on the information of the proposal such as: Name of the borrowers, Nature of investment, purpose of Investment, Extent of Investment, Collateral, Margin, Rate of profit, Repayment of schedule, Validity etc.

4.4.8 Analysis the Information by Investment Department of Head Office

The branch sends all the documents and available information to the Head office investment department. Now in this stage, Head office investment department officers are analysis all the information that provided by the branch investment department.

4.4.9 Preparing Memo for the EC Meeting

Investment division prepares a memo which is called EC memo by analyzing the proposal send by the branch. The memo summarizes the proposal and sends by the branch and some important information regarding the client for example if the client has any previous loan, the status of the previous loan and current performance etc. This memo along with proposal is sent to the EC (Executive Committee) meeting.

EC meeting is held twice in a week and is generally control by the honorable Chairman of the bank. The EC takes decision whether to sanction the loan or not.

4.4.9.1 Approval Authority

After the loan proposal is completely prepared by the branch officers, it is sent to the head office for approval to the approval authority. To ensure proper and orderly conduct of the business of the bank, the Board of director empowers the managing director and other executives of the bank to lend up to certain amount under certain terms and conditions at their discretion.

The lending authority is broadly categorized as follow:

- 1 Board/Executive Committee
- 2 Managing Directors
- 3 Head of Loan Division

4.4.10 Sanction Advice

If Head Office Executive Committee or the Investment Committee approves the investment line, an approval letter will sent to the branch. The branch then issues a sanction letter to the borrower with a duplicate copy. The duplicate copy properly signed by the borrower and returned to the branch of the bank. This duplicate copy returned by the applicant proves that the borrower agrees with the terms and conditions of the investment line offered by the bank.

4.4.11 Collection of Charge documents

After issuing the sanction advice, the bank collects necessary charge documents. Charge documents are generally printed documents provided by the bank for implementation by the clients. Charge documents vary on the basis of types of facility, types of collateral etc. The loan is disbursed only when the customer submits all the required charge documents and so the clients usually submit the documents early as possible. The requirements of charge documents in different modes of investment is slight different. A comparative table of these charge documents for loan in various Islamic mode of Investment is shown in the next page:

Different type of charge document

Bai-Murabaha	Bai-Muazzal	Izara Bil Baia (HP/LG/HB/TR)	Wazirat Bil Wakala	Quard Against FO/SS
<ul style="list-style-type: none"> • DP Note • Agreement for pledge of goods • Letter of disbursement • Letter of disclaimer (in case of goods are kept in hired godown of the party) • Receipted copy of sanction advice • Balance confirmation • Letter of continuity • Letter arrangement • Demand Promissory Note Delivery Letter • Murabaha Agreement • DP Note Revival Letter • Purchase Schedule • Bank D.O. 	<ul style="list-style-type: none"> • DP note • Agreement for pledge of goods • Letter of disbursement • Letter of Disclaimer (In case of goods are kept in hired godown of the party) • Receipted copy of sanction advice • Balance confirmation • Letter of continuity • Letter of arrangement • Demand Promissory Note Delivery Letter • Murabaha Agreement • DP Note Revival Letter • Purchase Schedule • Blank D.O. 	<ul style="list-style-type: none"> • DP note • Letter of Disbursement • Purchase Schedule • Cash Memo in the name of Bank • Izara Bil Baia Agreement • Balance Confirmation • Letter of Arrangement • Receipted copy of IBB sanction Advice • Letter of Continuity • Supplementary IBB Agreement (as & when required) • Deed of mortgage of Machinery & equipments • Letter of Installment 	<ul style="list-style-type: none"> • DP Note • Letter of Arrangement • Letter of Continuity • Acceptance of Bill by the Paying Bank • Letter of Hypothecation 	<p>FDR/TDR /MIS / SSS / MPSS / MSS of the same Branch of the bank</p>

4.4.12 Disbursement of Loan

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

4.4.13 Investment (Credit) Monitoring and Reviewing

In EXIM Bank Ltd, the branch manager monitors the over all profile and risk aspect of the Investment portfolio. This Review is formally performed and arranged by the Head Office but it is the responsibility of the branch Manager to ensure that the Investment portfolio meets the standard set that forward by the Bank.

To minimize investment losses, monitoring procedures and systems are in place that provides an early indication of the failing financial health of a borrower. The respective officials monitor the following exceptions:

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

EXIM Bank Ltd uses the “PC Bank Software” developed by Leads International which is able to produce the above information for central/ Head Office as well as local review.

CHAPTER: 5

**KEY POINTS,
RECOMMENDATION
AND
CONCLUSION**

5. Some key point of appraisal process

5.1 Time Scheduling

There is no exact time required for the total investment appraisal process. It varies for different types of investments. In general, the critical time in the total procedure is the time required for getting the CIB report from Bangladesh Bank which is essential for any credit proposal. EXIM Bank depends a lot on CIB report of the borrower and for previous track records. Therefore if the CIB report is clean and provided by the central bank promptly, then it is up to Banks efficient service that how quickly the bank can serve its customers by appraising the credit proposal.

5.2 Investment Recovery

The Law and Recovery unit of Head office directly manage the continued declining accounts. The recovery unit functions as following way:

- Determine account action plan/recovery strategy.
- Pursue all options to maximize recovery.
- Ensure sufficient and timely investment loss provisions are made based on actual and expected losses.
- Regular review of the weak accounts.

5.3 Evaluation of Credit Practice

Credit appraisal system of EXIM Bank Ltd follows both the rules and regulations of Bangladesh Bank and also the Shariah Principle board's instruction and sometimes consulting with the Shariah Board. The procedures of lending process of EXIM Bank Limited are very simple and consist of a number of steps. The process starts with a customer who has an account with the bank or is intended to open an account with the bank. The lending generally starts at the branch level. The branch manager plays an important role at the beginning of the lending process.

5.4 Borrowers Selection

For selecting borrower EXIM Bank give more attention on that, but sometimes the inefficient officers may handle it other way which may cause good customers run away or the bad ones cheats. But the growth of the investment of the bank and there is very little amount of default case, shows that the good clients are screened out from the very beginning in EXIM Bank.

5.5 Product Mix

After conversion to Shariah based banking the credit facilities are termed as investment facilities and loan products are named in different terms in Islamic modes. But the service and facility are same and the previous customers are also satisfied with the new service. But as an Islami bank, EXIM cannot provide some credit facilities like personal loans to its customers.

5.6 Branch Activities

Branches play key roles in credit operation. Usually branch credit department targets the potential borrowers, generates the credit relationship and completes the credit analysis and prepares a well-written credit proposal. Branch collects information through pre-designed forms which filled properly by the customer. And this form includes additional information about the client.

5.7 Loan Monitoring Techniques

EXIM Bank employs several techniques for loan monitoring. So far EXIM Bank's Loan monitoring has been done very effectively which is evident from its very low default rate in the previous years. Sometimes monitoring should be done through physical verification of the borrower's work place, mortgaged property or hypothecated stocks.

5.8 Centralization of Disbursement Authority

At EXIM Bank, each and every investment sanctioned through Executive committee meeting. Branch can not sanction any investment except MTDR (Fixed deposit amount). In these case if the secured MTDR kept in the same branch and if the amount is not more than Tk.10 lac, only then the loan is provided.

6.1 Recommendations

Investment is the major income generating source of the bank. Though the bank is making tremendous growth in the investment, there are some problems in the credit appraisal system. By evaluation the credit appraisal practice of the bank some recommendations have been suggested for the improvement of the credit appraisal system which is as following:

- An integrated planning should be made to reduce time taken by the credit appraisal procedures of EXIM Bank Ltd. The officers of the branch level should make a plan for the sequence of activities.
- There is no shortage of skilled officers in investment department but if the HR department arranges training for the investment officers that will make them up-to-date.
- One proper standard procedure should be developed for all types of clients and no interpersonal relationship should be involved in approve a loan
- EXIM Bank practice centralized disbursement system. Branch can not sanction any investment except MTDR. If head office give branch a certain level of power to sanction investment then the invest process can be more time consuming and efficient.
- There is a lack of coordination between Branch and Head office. For this, sometimes Branch investment offices can't able to give loans to their valuable clients. Head office has to give certain level of power to the branch authority, so that they can keep the client for long time.

7.1 Conclusion

Banking sectors no more depends on only on a traditional method of banking. In this competitive world now a day's banking sector is wide enough to cover any kind of financial services, not only from the local banks but also from the foreign banks. The major task of bank is to survive the services in this competitive environment by managing its assets and liabilities in an efficient way. To make the assets specially loan and advances banks must have too more careful and otherwise this asset will became a burden for the bank.

EXIM Bank has made a continuous growth in all the areas of operations from the starting of its operation in 1999. Within a short span of life time the bank has became one of the leading most successful bank of the country.

Investment is the major revenue generating source of income of the bank, which has a tremendous increasing growth rate. The ratio of classified loan and total investment proves the high recovery rate of the investment division of the bank. Therefore the credit management and credit appraisal system of the bank are excellent.

Here in this study an assessment of the credit appraisal procedure system of the bank was made and critically evaluated. Some problems were found such as time consuming procedures, lack of skilled officers etc and finally some suggestion are made for improvement.

Success in the banking business largely depends on effective lending. Less the amount of loan losses, the more the income will be from investment operation the more will be the profit and here lies the success of EXIM Bank Limited.

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