Daffodil International University

An Analysis of the Credit Management of BRAC Bank Limited: A Study on Nawabgonj Branch

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Letter of Transmittal

December 23, 2023

To

Professor Mohammed Masum Iqbal, PhD

Department of Business Administration

Faculty of Business & Entrepreneurship

Daffodil International University

Subject: Submission of internship report on "An Analysis of the Credit Management of BRAC Bank Limited: A Study on Nawabgonj Branch"

Dear Sir,

I am delighted to present the internship report titled An Analysis of the Credit Management of BRAC Bank Limited: A Study on Nawabgonj Branch. This report fulfills a partial requirement for the completion of my MBA program. The comprehensive analysis includes a blend of primary and secondary data, supplemented by my own investigative efforts. Despite facing various constraints, I dedicated my utmost efforts to ensure the meaningfulness of this report.

I sincerely hope that this report serves the intended purpose of my internship program and contributes value to the existing research literature. I express my gratitude for your invaluable direction and cooperation throughout this endeavor.

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Certificate of Approval

This is to certify that the report titled "An Analysis of the Credit Management of BRAC Bank Limited: A Study on Nawabgonj Branch is prepared by Raffat Jahan, ID # 212-14-3366, as a requirement of the MBA program with a major in Marketing under the Department of Business Administration and the Faculty of Business & Entrepreneurship at Daffodil International University.

The report is recommended for submission.

Professor Mohammed Masum Iqbal, PhD
Department of Business Administration
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ACKNOWLEDGEMENT

I express my sincere gratitude to the Almighty for bestowing me with the ability and perseverance to successfully complete this work. Additionally, I extend my thanks to our esteemed teachers whose encouragement guided me toward achieving my goals.

I may not have been successful in completing the report without the active support and cooperation from many individuals at BRAC Bank Limited (Nawabgonj Branch).

I have exerted my utmost effort and dedicated significant time to compile this project report. I am grateful for the whole-hearted cooperation and guidance provided by my Internship Professor, Dr. Mohammed Masum Iqbal, from the Department of Business Administration, Faculty of Business & Entrepreneurship, Daffodil International University, Bangladesh. His valuable suggestions and insightful observations have been instrumental in preparing this report.

I express my sincere gratitude to the officials of BRAC Bank Limited (Nawabgonj Branch), particularly those at the Corporate Branch, for their invaluable support and assistance throughout the organizational process. Additionally, I extend special thanks to the respondents who graciously dedicated their time and effort to respond to my inquiries, thereby facilitating the completion of my study.

Executive Summery

In conclusion, the banking system in Bangladesh has undergone three distinct phases of development: Nationalization, Privatization, and the Financial Sector Reform. The study aimed to comprehensively understand and analyze the credit management practices of BRAC Bank Limited (Nawabgonj Branch), focusing on credit assessment procedures and identifying various credit products offered by the branch.

The analysis revealed that the bank's income is significantly influenced by the activities of the foreign exchange division and credit division, both of which are managed effectively by BRAC Bank Limited (Nawabgonj Branch). However, challenges arise from external pressures, including political influences, which sometimes lead to hasty loan approvals without proper assessment.

Recommendations for improvement include simplifying the credit policy for better understanding, ensuring thorough verification of original documents, recruiting skilled credit department managers, and carefully scrutinizing loans recommended by influential bodies to mitigate risks. Additionally, efforts should be directed towards reducing the time-consuming loan processing procedures and increasing the number of employees in critical departments such as foreign exchange and credit to enhance customer service.

Despite challenges, BRAC Bank Limited (Nawabgonj Branch) stands out as a well-structured institution with a reputation for innovation and leadership in financing the manufacturing sector within the banking landscape of Bangladesh.

Table of Contents

CHAPTER # 1

Introduction

1.1 Introduction:

In addition to their fundamental roles, banks contribute significantly to capital promotion, encourage entrepreneurship, generate employment opportunities, and facilitate various financial tasks, especially with the ease brought about by globalization.

1.2 Background of the Study:

The internship program is a mandatory component for graduation from the Department of Business Administration. As a prerequisite, students are required to undergo the internship program before completing their degree. In my case, I was assigned to the Nawabgonj Branch of BRAC Bank Limited at the Corporate Branch. This report is a culmination of my practical experiences in day-to-day banking activities, theoretical learning, and close supervision by Professor Dr. Mohammed Masum Iqbal as my internal support and my official supervisor.

1.3 Scope of the Study:

Despite some limitations, the present study provided me with a valuable opportunity to gain insights into the banking activities in Bangladesh, particularly at BRAC Bank Limited (NawabgonjBranch). The constraints encountered during the study are outlined below:

- The primary limitation is the inadequate access to information, which has constrained the depth of analysis required for the study.
- Due to the busy schedules of bank personnel, I received limited time for interaction and information gathering.

1.4 Objectives of the Study:

- **To identify the credit products of BRAC Bank Limited, Nawabgonj Branch;**
- **To explain credit sanctioning and disbursement process of BRAC Bank limited,Nawabgonj Branch;**
- **To analyze credit recovery process of BRAC Bank Limited, Nawabgonj Branch;**
- **To identify problems related to credit management of BRAC Bank Limited,Nawabgonj Branch;**
- **To make recommendations to solve the problems;**

METHODOLOGY OF THE STUDY

i. Nature of the Study

ii. Sources of Data

iii. Target population

iv. Sample Size

v. Sampling Method

vi. Method of Data Collection

Data Collection

To complete the study, two types of data were utilized, as outlined below:

Primary Data:

- Direct engagement within the corporate office of BRAC Bank Limited.
- Face-to-face conversations with customers.
- Practical desk work.
- Observations gathered during the internship period.

Secondary Data:

- Annual reports of BRAC Bank Limited.
- Previous internship reports, research papers, journals, etc.
- Website of BRAC Bank Securities Limited.

Sample Unit:

The Targeted Sample Units for this study encompass customers of BRAC bank Limited who have engaged in purchasing one or more securities or availed other services from the organization. Employing the decision sampling approach, sample units were selected from the organization's client base, consisting of individuals willing to partake in the survey through questionnaire responses.

Sample Size
The study involved a sample size of 70 respondents, comprising actual customers of the corporate branch of BRAC Bank Limited. These respondents were divided into two groups. Given the relatively smaller population of corporate consumers and potential confidentiality issues, some corporate customers may abstain from participating in research activities. Therefore, individuals demonstrating optimal responsiveness to review questions were selected to participate in this study. Consequently, considering these limitations, the study scrutinized a sample size of 70 corporate customers of BRAC Bank Limited.

Sampling Method
Convenience sampling, a method of non-probability sampling, was utilized to expedite the execution of this study.

Data Collection Method

For the compilation of this study, data was acquired utilizing the credit management model, facilitating the evaluation of service quality within the organization. Consumers were surveyed through a structured questionnaire format to obtain pertinent information. Additionally, data for the research was obtained through informal dialogues with valued consumers. Moreover, this study integrated information sourced from BRAC Bank Limited and local consumers.

1.5 Limitations of the study:

Despite these challenges and limitations, the report aims to provide a comprehensive overview, acknowledging that time constraints, lack of secondary information, scope limitations due to non-disclosure of confidential data, uncooperative responses from relevant authorities, busy schedules of bank personnel, and insufficiency of current information were encountered. The shortage of time also impacted the inclusion of consolidated data related to the study.

CHAPTER # 2

OVERVIEW

The BRAC Bank Limited

2.1 Introduction:

The establishment of BRAC Bank (Nawabgonj Branch) in the private sector is a significant milestone in the financial landscape of Bangladesh, sponsored by dynamic entrepreneurs and notable industrialists, marking a crucial development in the country's banking sector.

2.2 Mission and Vision of BRAC Bank Limited

BRAC Bank aspires to optimize shareholder wealth, set industry benchmarks of world-class standards in delivering customer value, and actively contribute to the growth and expansion of the national economy through a comprehensive product range and superior customer service.

2.3 Strategies, Goals & Objectives of BRAC Bank Limited

In business, strategy entails the proactive formulation of organizational missions, purposes, and objectives, alongside the development of policies, program strategies, and methods to ensure their effective implementation, all directed towards achieving the overarching goals of the organization.

2.3.1 Strategies of BRAC Bank Limited

1. Utilize all available resources to develop various plans, policies, and procedures in each of the objectives and goal areas.
2. Ensure synchronized and steady growth of the bank.
3. Implement plans, policies, and procedures effectively.
4. Leverage a team of professional employees for optimal outcomes.

□ .

2.3.2 Goals of BRAC Bank Limited

- Develop a comprehensive plan to enhance customer service delivery.
- Establish a realistic deposit mobilization strategy.

- Develop an appropriate lending risk assessment system.
- Enhance the capital plan.
- Establish a system for prudent lending practices.

2.3.3 Business Objectives BRAC Bank Limited

Objective may be defined as a specific desired result to be achieved.

The objectives of BRAC Bank Limited have outlined hereunder:

- Ensure full recovery of all advances.
- Foster a satisfied workforce.
- Maintain sound loan and investment practices.
- Establish a low-cost fund base.

2.4 Organism of BRAC Bank Limited

Managing Director

Deputy Managing Director

Senior Executive Vice President

Executive Vice President

Senior Vice President

First Vice President

Vice president

First Assistant Vice President

Assistant Vice President

Senior Executive Officer

Executive Officer

Senior Officer

Officer

Junior Officer

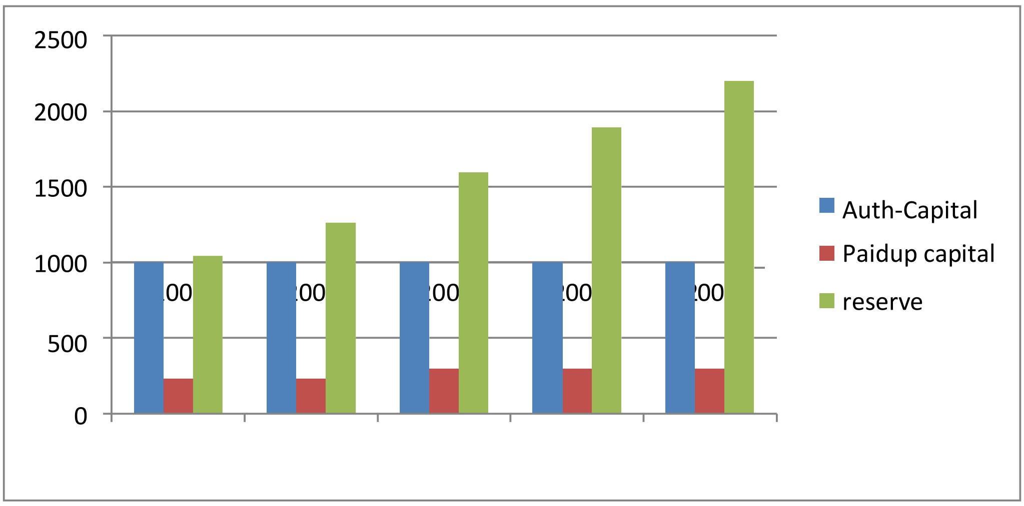
2.5 Board of directors of BRAC Bank Limited

The Board of Directors at BRAC Bank Limited consists of a diverse and proficient ensemble, featuring seasoned and esteemed bankers, under the leadership of a dynamic Managing Director. Furthermore, the institution benefits from the invaluable contributions of well-educated, enthusiastic, and committed officers who diligently work towards the advancement and prosperity of the organization.

Financial Position of BRAC Bank Limited

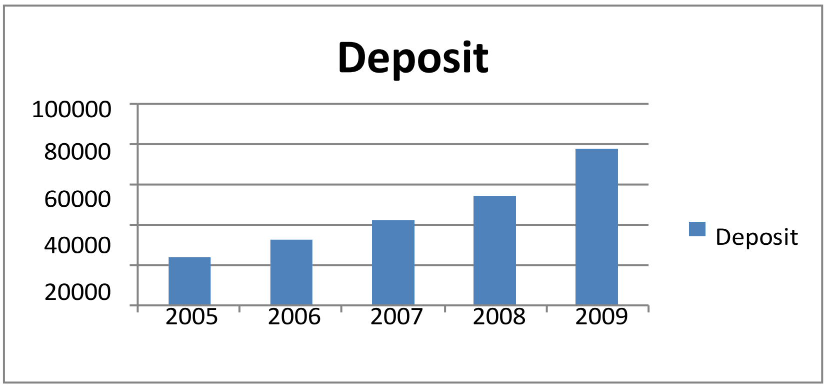
2.5.1 Capital and reserves

During the reporting year, the authorized capital of the bank remained unchanged at TK 1000 million, with a paid-up capital of TK 299 million. Notably, the reserve fund witnessed a significant surge of 16.33 percent, reaching TK 2,197 million compared to TK 1,889 million in the preceding year of 2022. The reserves for the past five years (2017 to 2022) are delineated below, with amounts expressed in million takas.

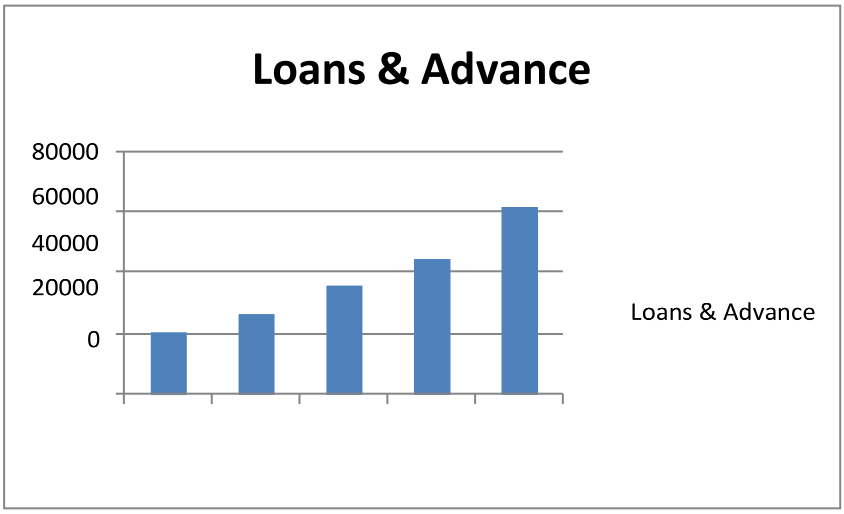


2.5.2 Deposit

In the reviewed year, the bank experienced a substantial surge in deposits, marking a growth of 42.66 percent. As of the end of 2022, the total deposits stood at TK 77,730 million, compared to TK 54,485 million in the preceding year. The deposit composition comprised TK 12,400 million in demand deposits and TK 65,330 million in time deposits. Of the total deposits, TK 68,455 million originated from the private sector, while TK 9,275 million came from the public sector. The deposit figures for the past five years (2017 to 2022) are delineated below.



2.8.3 Credit

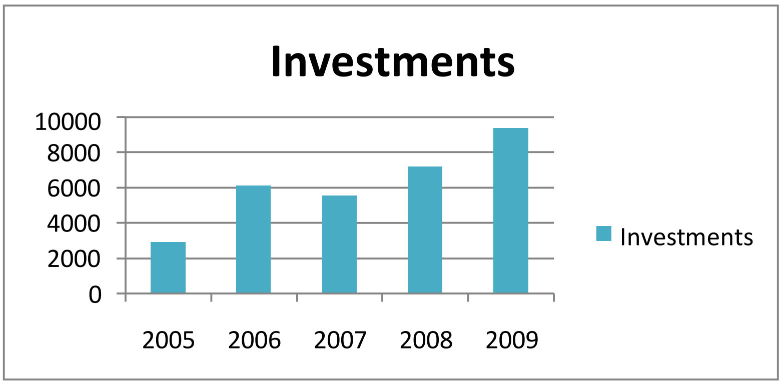


In adherence to its commitment to diverse credit programs, the bank substantially participated in financing new industrial projects, working capital, trade finance, and international trade. This proactive engagement led to a significant increase in total credit, amounting to TK 61,692 million in 2022, compared to TK 44,446 million in 2021.

The credit deposit ratio attained a level of 79.37 percent. The distribution of net advances across various sectors throughout the year is outlined below. Additionally, for reference purposes, the loans and advances figures for the previous five years (2017 to 2022) are also provided.

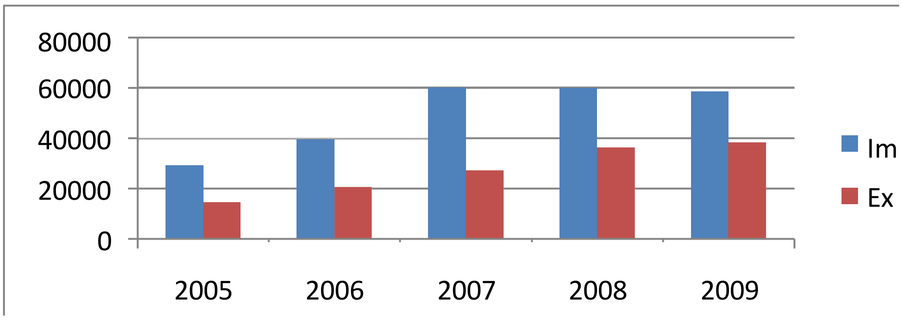
2.6.4 Investment

As of the conclusion of 2022, the total investment of the bank reached TK 9,346 million, marking an increase from TK 7,201 million in 2021. Throughout the year, the bank obtained dividends amounting to TK 8 million from various companies and institutions as a return on its investments in shares.



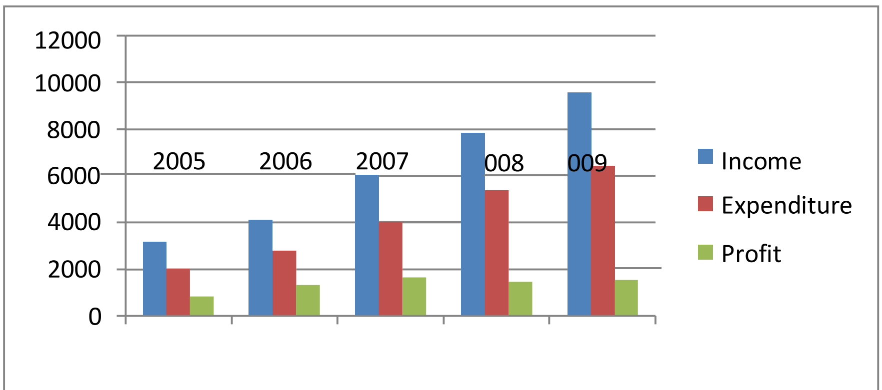
2.6.5 Foreign Trade

In 2022, the import business volume of the bank amounted to Tk.58,857 million, slightly lower than the Tk.60,009 million recorded in 2021.



2.6.6 Income, Expenditure & Operating Profit

In 2022, BRAC Bank disclosed a total operating income of Tk. 9,540 million, indicating an uptick from Tk. 7,850 million in the preceding year. Concurrently, the total operating expenditure for 2022 amounted to Tk. 6,415 million, as opposed to Tk. 5,400 million in 2021.



CHAPTER # 3

Credit Management of BRAC Bank Limited

3.1 Credit Management:

Effectively managing credit activities is crucial for BRAC Bank Limited, ensuring a comprehensive credit management system from pre-sanction to post-sanction activities. This approach is vital for understanding and mitigating various dimensions of risk associated with diverse credit transactions, reflecting the bank's commitment to prudent financial practices.

During the pre-sanction stage, credit management guides the sanctioning authority in critical decision-making processes such as determining lending feasibility, setting loan pricing, defining the extent of exposure, selecting appropriate credit facilities, and employing various risk mitigation tools to control risk levels effectively.

In the post-sanctioning stage, the bank has the flexibility to determine the depth of renewal reviews, the frequency of assessments, grading periodicity, and implement other necessary precautions. Recognizing the criticality of credit risk, it is imperative for the banking system to meticulously cultivate credit management. To address this need, the bank has established a dedicated division known as the credit division.

3.2 Credit Products:

- **Trade Loan**

The eligible recipients for this loan at Corporate Branch 1 & 2 include business owners who acquire or rent shops and unemployed educated individuals engaged in businesses like handicrafts, bookstores, cookeries, furniture shops, grocery and stationary stores, departmental stores, or any other income-generating activities. Additionally, this facility extends to all branches in divisional and old district towns, as well as main branches in new district towns. Loans are approved based on production plans at the Head Office level as per delegation.

- **SME & Micro Credit:**

The Small & Medium Enterprises Financing program, initiated in the bank since 2005, aims to foster and establish efficient and profitable Small & Medium Enterprises in Bangladesh. The overarching goal is to contribute to the economic development of the country by boosting local production, income generation, and employment opportunities.

- **Home Loan:**

The determination of the home loan amount is contingent upon an individual's repayment capacity, which takes into account several factors including monthly net disposable income, age, educational qualifications, value of immovable property, number of family members and dependents, monthly expenses, other fixed obligations, nature of employment or business, and saving habits, among various others.

- **Agricultural Loan:**
- The bank initiated this program with the objective of fostering the growth of small enterprises to contribute to the socio-economic development of the country. The project encompasses a diverse range of micro-enterprises, including tailoring, printing, readymade garments, small pharmacies, shops for electronic goods, small poultry, and various other income-generating activities.Consumer credit:

BRAC Bank Limited introduces a pioneering product for consumers known as the consumer loan, which is accessible to individuals employed in public or semi-government, government, autonomous, and private organizations.

3.3 Credit Assessment System:

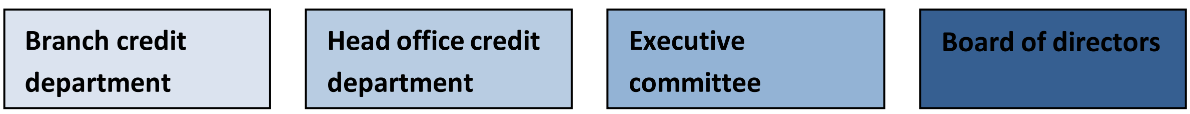
Commercial banks and financial institutions serve as vital intermediaries between lenders and borrowers, playing a pivotal role in collecting deposits and distributing them as loans and advances to individuals, businesses, and commercial and industrial entities.

3.3.1 Allocation of Authority:

To maintain the proper and systematic execution of banking operations, the board of directors has granted authority to the Managing Directors and executives of the bank to extend loans up to a predetermined limit, subject to specific terms and conditions, at their discretion. It is imperative to emphasize that the delegation of authority is not solely contingent upon an officer's position within the organization.

3.3.2 Approving Authority:

The credit proposal process at BRAC Bank limited follows a hierarchical structure, with the board of directors serving as the ultimate authority. Various powers are delegated to different committees. The approval of credit facilities in BRAC Bank limited involves distinct hierarchies.



3.3.4 Branch Credit Committee

The branch credit department at BRAC Bank Limited is supervised by the branch manager, with key roles also assigned to the second-in-command or operations manager, credit in-charge, and additional members appointed by the branch manager. The credit officer responsible for proposal preparation designates them as relationship officers.

3.3.5 Head Office Credit Department

Upon receiving loan proposals from various branches, the credit committee at the Head Office convenes at regular intervals to analyze these proposals. Additionally, the committee evaluates the proficiency of the lending staff in the branches and implements measures to enhance their efficiency and effectiveness. Another critical responsibility entails ensuring that all necessary information and documents are collected and organized properly.

3.3.6 Executive Department

If the loan proposal surpasses the authority delegated to the Head Office credit committee, it is forwarded to the executive committee for approval. The executive committee is responsible for sanctioning the credit facility in line with the directives set by the Board of Directors. Additionally, they oversee the implementation of the Board's directives.

3.3.7 Board of Directors

If the credit demand of the client exceeds the delegated power of the executive committee, the proposal is forwarded to the Board of Directors for approval. The Board of Directors at BRAC Bank Limited retains various credit-related responsibilities, such as delegating authority to approve and review credit, sanctioning credit not delegated to any individual, and formulating credit-related policies and procedures.

3.4.1 Loan Disbursement Procedure of BRAC Bank Limited:

3.4.2 Getting Credit Information:

The credit information about the applicant is gathered by BRAC Bank Limited to assess the creditworthiness of the borrower. This information is collected from various sources, including personal investigations, confidential reports from other bank Head Offices/Branches/Chambers of Commerce, and the Credit Information Bureau (CIB) report of the Central Bank.

3.4.3 Information Collection:

The Loans and Advances Department requires the party seeking a loan to fill out a form, providing a comprehensive set of information. This information encompasses the following:

- Name and address to the borrower (present and permanent)
- Constitution or status for the business
- Date of establishment and place for incorporation
- Particulars for properties, Partners and Directors
- Background and business experience for the borrowers.
- Particulars of personal assets, name of subsidiaries, percentages of shareholding and nature for business.
- Details of liabilities in the name of the borrowers in the name of any directors.
- Financial Statement for the last three years
- Nature of the business/ products.
- Details of the securities offered.
- Proposed the debt equity ratio
- Other relevant the information

3.4.4 Analyzing this Information:

Once the loan application aligns with BRAC Bank Limited's lending policy, the bank proceeds toscrutinize the submitted documents and assesses the creditworthiness of the applicant. For loanamounts exceeding 50,00,000, the bank conducts a Lending Risk Analysis (LRA) and Spreadsheet Analysis (SA), as mandated by Bangladesh Bank regulations. If these analyses indicate favorable conditions and the submitted documents meet the bank's satisfaction, further actions are initiated.

3.4.5 Lending Risk Analysis (LRA):

Lending Risk Analysis (LRA) plays a crucial role in determining the viability of a loan proposal, employing various scientific, mathematical, statistical, and managerial tools. BRAC Bank Limited follows a prescribed format for LRA, incorporating a spreadsheet for comprehensive analysis. Due to the complexity, a detailed discussion of the entire LRA is beyond the scope of this report. Various types of lending risks are associated with this analysis,outlined below—

a) Industry Risk:

- Supply Risk: This pertains to the risk of failure or disruption in the supply of inputs necessary for the business operations.
- Sales Risk: This refers to the risk of failure resulting from disruptions in sales activities.

b) Company Risk: i. Company Position Risk:

- Performance Risk: This entails the risk associated with the company's position being too weak to perform adequately and repay loans, considering expected external conditions.
- Resilience Risk: This refers to the risk of failure due to the company's lack of resilience to unexpected external conditions.

ii. Management Risk:

- Management Competence Risk: This denotes the risk of failure due to a lack of management competence.
- Management Integrity Risk: This signifies the risk of failure due to a lack of management integrity.

c) Security Risk:

- Security Control Risk: This describes the risk that the bank may fail to realize the security provided.
- Security Cover Risk: This is the risk that the realized value of the security is less than the exposure.

3.4.6 Collateral Evaluation:

BRAC Bank Limited places significant emphasis on the valuation of collateral. Bank officials conduct simultaneous evaluations of collateral offered by private firms to ensure accuracy in value estimation. Three types of collateral values are considered: current market price, distressed price, and price after five years. Legal officers of the bank meticulously review documents to verify their authenticity.

3.4.7 Final Decision about the Project:

After sanctioning the loan, the branch disburses the loan amount to the borrower in line with the approved terms and conditions.

3.4.8 Proper Supervision of the Project:

This proactive approach ensures effective utilization of the loan and allows BRAC Bank Limited to monitor the project's performance even in the absence of specific supervisory clauses in the sanction contracts.

3.4.9 Documentation on the loan:

These are the most frequently used and common documents of above mentioned charged and for other formalities for sanctioning the loan—

1.Demand Promissory Note: A written commitment by the borrower to repay the loan upon demand by the bank.

2.Letter of Arrangement: Specifies the sanctioned loan amount provided to the borrower in writing.

3.Letter of Continuity: Ensures continuous facilities by providing continuous securities.

4.Letter of Hypothecation: Documents the goods hypothecated to the bank in case of need.

5.Stock Report: Contains information about the quality and quantity of goods hypothecated for SOD and CC.

6.Personal Guarantee: Additional confirmation by the borrower to repay the loan.

7.Guarantee of the Directors: Guarantee provided by the directors of the company.

8.Resolution of the Board of Directors: Authorization to borrow funds, execute documents, and complete other formalities.

9.Letter of Disclaimer: Withdrawal of the borrower's claim on the mortgaged property.

10.Letter of Acceptance: Acknowledgment of the sanction proposal acceptance by the borrower.

11.Letter of Pledge: Documents the goods pledged and the legality of holding the goods.

12.Letter of Disbursement: Indicates the payment of the sanctioned loan.

13.Letter of Partnership: Required for partnership firms, providing partnership deeds.

14.Letter of Installment: Specifies the installment amount to be paid at certain intervals.

15.Tax Paying Certificate: Proof of tax payment.

16.Any document deemed essential as per the sanctioned advice from the Head Office.

3.4.10 Creation of Charges for securing loan:

The importance of charging securities lies in the legal and complete method, ensuring that the security is available and serves as a cover for the advance, thereby safeguarding BRAC Bank Limited in case of borrower default.

- Protection of interest: Safeguarding the bank's financial interests and ensuring that its investments are secure.
- Ensuring the recovery of the money lent: Taking measures to guarantee the repayment of the loan amount.
- Provision against unexpected changes: Implementing strategies to mitigate risks arising from unforeseen circumstances.
- Commitment of the borrower: Ensuring the borrower's dedication and adherence to the terms and conditions of the loan agreement.

3.5 Credit management

Credit Management is a discipline at the core of every financial institution and encompasses all the activities that affect its risk profile.

a) Ensuring that individuals involved in risk-taking or management have a clear understanding of the risks involved.

b) Ensuring that the bank's risk exposure remains within the predefined limits established by the Board of Directors.

c) Ensuring that decisions related to risk-taking align with the bank's strategy and objectives as set by the Board of Directors.

d) Ensuring that the expected payoffs adequately compensate for the risks undertaken.

3.6 Credit Evaluation/Measurement

A comprehensive assessment and measurement of risks are essential for effective risk control. An accurate evaluation of risks provides management with a clear understanding of the bank's standing, enabling informed decisions on future action plans.

3.7 Credit Management Process:

Risk management at BRAC Bank adopts a strategic approach, integrating risk analysis, assessment, and acceptance. Its purpose extends beyond meeting regulatory mandates, aiming to optimize the operational and financial performance of the bank. The overarching objective is to undertake measured business risks while safeguarding the bank's capital, financial assets, and profitability against a range of risks.

3.8 Board and senior Management oversight:

BRAC Bank's Limited board of director and senior management must concern following things to reduce risk.

a) The effectiveness of credit management hinges on the commitment and tone set by the Board of Directors and senior management. While the Board holds ultimate responsibility for credit management, senior management is entrusted with translating the strategic direction set by the Board into actionable policies and procedures. It is crucial for senior management to establish a clear hierarchy for the execution and implementation of these policies.

b) Merely formulating policies related to credit management is insufficient without clear communication and implementation. Senior management must ensure that these policies are not only well-defined but also integrated into the organizational culture. This entails effective communication of policies throughout the organization to ensure adherence at all levels

3.9 Management of Core Risks in Bank

BRAC Bank Limited effectively manages risks across various operational areas by implementing and adhering to approved risk manuals and guidelines. These comprehensive measures encompass a range of risk areas, ensuring control and mitigation of both business and financial risks at levels deemed acceptable by the bank.

1. Policy Guidelines for Asset Liability Management
2. Policy Guidelines for Credit Risk Management
3. Policy Guidelines for Foreign Exchange Risk Management

BRAC Bank Limited has formed to a Management Committee to review proper implementation and regular monitoring of core areas of Risk Management.

3.10 Credit risk

Credit risk poses a considerable challenge for the bank, characterized by the potential loss arising from a counterparty's inability to fulfill contractual obligations. This failure may arise due to factors such as the counterparty's unwillingness or adverse changes in economic conditions. In direct lending scenarios, there may be a failure to repay principal and/or interest. In cases involving guarantees or letters of credit, funds may not be received from constituents upon the crystallization of liability. Similarly, in treasury operations, the counterparty may fail to make payments as per contractual agreements.

3.11 Principles to Reduce Credit Risk

The board of directors and senior management have established key principles to mitigate credit risk, and all branches diligently adhere to these guiding principles. They form a robust framework for managing credit risk across the bank's operations.

3.11.1 Repayment Capacity

The extension of credit facilities is directed toward customers who demonstrate the optimal utilization of these services, contributing not only to the bank's profitability but also fostering the economic growth of the country.

3.11.2 Compliance

It is imperative for all credit extensions to adhere strictly to the stipulations delineated in the Bank's Memorandum and Articles of Association, the Banking Companies Act, relevant Bangladesh Bank instructions, circulars, guidelines, and other applicable laws, rules, and regulations, in addition to the Bank's Credit Management Policy, Credit Operational Manual, and all pertinent circulars in force.

3.11.3 Loan-Deposit Ratio

BRAC Bank Limited ensures that loans and advances are primarily funded from customer depositsand the bank's capital fund. Moreover, the bank adheres to the practice of financing loans in proportion to its deposits, and it refrains from sourcing funds for loans from the short-term money market or temporary sources.

3.11.4 Deviation

When deviating from the bank's internal policy, it is imperative to provide thorough justification and meticulous documentation. All credit assessment forms should consistently outline any deviations from the policy. It is crucial, however, that no compromise is made on adherence to external regulations.

3.11.5 Return

The credit operations of the bank are anticipated to contribute optimally within defined risk constraints. Precisely, credit facilities should be extended in a manner that ensures profitability for each transaction, thereby facilitating the achievement of the bank's growth objectives and ensuring a superior return on capital.

3.11.6 Credit Quality

Credit facilities shall be extended in a manner that ensures credit expansion while maintaining optimal asset quality, adhering unwaveringly to the bank's standard of excellence. These facilities will be offered exclusively to customers who align with and uphold these high standards.

3.11.7 Diversification

The portfolio will consistently maintain diversification across sectors, industries, geographical regions, maturity, size, and economic purposes. Careful measures will be taken to avoid concentration of credit, minimizing associated risks.

3.11.8 Proper Staffing

A thorough and effective credit assessment demands a high level of numerical and analytical proficiency from the responsible officer. This proficiency ensures a comprehensive understanding of the concept, contributing to the overall health of the Bank's credit portfolio.

3.11.9 Name Lending

Credit facilities will not be granted solely based on the reputation of key individuals or the corporate image of the borrowing company. The Bank strictly avoids name lending and ensures that credit facilities are granted based on thorough business considerations following due diligence.

3.11.10 Single Customer Exposure Limit

BRAC Bank Limited is steadfast in its commitment to comply with prevailing banking regulations, specifically regarding the "Single Customer Exposure Limit" mandated by Bangladesh Bank. In accordance with these regulations, the bank will restrict its maximum exposure, defined as the outstanding amount at any given point in time, on a single customer.

3.11.11 Security

The security pledged against facilities shall undergo thorough valuation procedures and be executed in strict compliance with the laws of the country. In instances where a borrower defaults on loan repayment, the bank reserves the right to recover the outstanding amount by liquidating the pledged security.

3.11.12 Large Loan

Credit facilities extended to a singular customer, including individuals, enterprises, companies, corporations, organizations, and groups, will be categorized as Large Loans if the aggregate outstanding amount against the limit at a specific juncture equals or surpasses 10 percent of the total capital of BRAC Bank Limited. The cumulative exposure within BRAC Bank's Large Loan Portfolio shall not surpass 56 percent of the total outstanding loans and advances at any given instance.

3.11.13 Loan Structure: A thorough rationale for the proposed financing amounts and tenors must be furnished, duly considering the anticipated repayment capacity and the intended purpose of the loan. Overly protracted tenors or excessive amounts vis-à-vis the actual business requirements may escalate the risk of fund misappropriation and potentially impede the borrower's ability to fulfill repayment obligations.

3.11.14 Security:

An updated valuation of collateral must be obtained, and the quality and priority of the proposed security should be thoroughly assessed. It is not advisable to grant loans based solely on security; therefore, the adequacy and extent of insurance coverage should also be carefully evaluated.

3.12 Credit Acceptance Criteria

The management shall conduct regular reviews and formulate Credit Acceptance Criteria (CAC), subject to approval by the Executive Committee/Board, and subsequently communicate these criteria to relevant operational-level executives. The preparation of CAC will encompass various domains, providing room for adjustments as deemed necessary by the competent authority.

Maximum amount in each type of facility line

Maximum limit to a single obligor and group

3.13 Risk Grading

Risk grading serves as a fundamental measure of a bank's asset quality, and it is imperative to ensure the robustness of the grading process. Each facility should receive an assigned risk grade, and any deterioration in risk should prompt an immediate adjustment in the risk grade assigned to a borrower and its facilities. Borrower Risk Grades must be explicitly stated on Credit Applications.

3.14 Significance of Credit Risk Grading

Credit risk grading stands as an essential instrument for credit risk management, facilitating banks and financial institutions in understanding the diverse facets of risk across various credit transactions. Subsequent to the sanction stage, determinations concerning the extent of review or renewal, review frequency, grading periodicity, and other requisite precautions can be made by the bank.

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3.15 Function of Credit Risk Grading

Efficiently administered credit risk grading systems are pivotal in safeguarding the stability and integrity of banks through enabling informed decision-making processes. These systems assess credit risk, thereby enabling the differentiation of individual credits and groups based on the inherent risks they pose.

3.16 Use of Credit Risk Grading

The Credit Risk Grading matrix establishes standardized criteria for evaluating credits, ensuring a uniform approach to assessing the quality of individual obligors and the overall credit portfolio.

3.17 Number and Short Name of Grades Used in the CRG

The CRG scale consists of eight categories with short names and Numbers are provided as follows:

Grading	**Short Name**	**Number**
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watch list	MG/WL	4

Special Mention	SM	5
Sub standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

3.18 BRAC Bank Limited Credit Risk Grading Framework

Credit Risk Grading is an integral part of effective credit management, providing a forward-looking estimate of the probability of default within the next 12 months. It's essential to understand that Credit Risk Grading complements but doesn't replace the need for a comprehensive credit appraisal process.

3.19 Risk Grading Scorecard

The Risk Grading Score Card, developed for all exposures of BRAC Bank Limited, conforms to Bangladesh Bank's instructions and encompasses exposures beyond those outlined in Consumer and Small Enterprise Financing Prudential Guidelines and The Short-Term Agricultural and Micro-Credit. The scoring on the Score Card is weighted one and subject to updates as needed.

3.20 A clear definition of the different categories of Credit Risk Grading is given below

Once the Risk Grading Scorecard is prepared, the designated Relationship Officer will assign a risk grade to the customer following the defined criteria of Credit Risk Grading.:

3.20.1. Superior (SUP)

-Credit facilities fully secured, i.e., fully cash-covered.
-Credit facilities fully covered by government guarantee.
-Credit facilities fully covered by the guarantee of a top-tier international bank.

3.20.2 Good (GD)

-The borrower exhibits a strong repayment capacity.

-There is ample liquidity and low leverage within the borrower's financial profile.

-The company consistently demonstrates strong earnings and cash flow.

-The borrower has established a robust market share.

3.20.3 Acceptable (ACCPT)

-Borrowers in this category exhibit weaker financial strength compared to borrowers with higher grades, although they still display satisfactory earnings, cash flow, and a favorable track record.

-These borrowers maintain sufficient liquidity, cash flow, and earnings to meet their obligations.

-Credit facilities extended to borrowers in this grade are typically secured by acceptable collateral, such as a first charge over inventory, receivables, equipment, or property.

3.20.4 Marginal/Watch list (MG/WL)

Borrowers classified within this grade necessitate increased scrutiny due to factors affecting the borrower, industry dynamics, or broader economic conditions. Such borrowers exhibit a heightened level of risk, marked by challenges such as strained liquidity, higher-than-normal leverage, thin cash flow, and/or inconsistent earnings.

3.20.5 : Special Mentioned (SM)

-Borrowers classified under this grade exhibit potential weaknesses that necessitate close attention from management. Failure to address these weaknesses promptly may lead to a deterioration in the borrower's ability to repay.

-Severe management issues are evident in these cases.

3.20.6 Sub Standard (SS)

-The financial condition of borrowers in this category is weak, raising doubts about their capacity or willingness to repay.

-These weaknesses pose a threat to the complete repayment of loans.

-The criteria set by Bangladesh Bank for Sub Standard (SS) classification shall be applicable in these cases.

3.20.7 Doubtful (DF)

-It is highly improbable that borrowers in this category will fully repay both the principal and interest, with an extremely high likelihood of loss.

-Nevertheless, the asset is not classified as Bad & Loss at present due to identifiable pending factors such as litigation, liquidation procedures, or capital injection.

3.20.8 Bad and Loss (BL)

Credits classified within this grade have remained outstanding for a prolonged duration with no observable progress in repayment or are nearing wind up/liquidation. The outlook for recovery is bleak, and legal measures have been pursued. Expected proceeds from liquidation or the realization of security may be pending. Consequently, the continuation of the loan as a viable asset is unjustified, and provisions for anticipated losses should have been made accordingly.

Process of Loan Recovery:

These areas encompass a strategic approach to the recovery process, involving negotiation, communication, legal action, and collaboration with relevant stakeholders, ensuring a comprehensive effort to retrieve current and overdue loans.

a) Reminder for the client

b) To Creating social pressures

c) Sending for legal notice and

d) The Legal action

a) A formal communication channel is utilized to remind the client through written letters issued on the bank's official papers, signed properly. This reminder is repeated several times to prompt the borrower to repay the outstanding amount.

b) In the event of non-repayment despite repeated reminders, social pressure is exerted on the client by individuals referred to during the account opening process at the bank.

c) When the previous steps fail to yield results, BRAC Bank Limited prepares and sends a legal notice to the borrower, signaling a formal warning.

d) As a last resort, legal action may be pursued through the court system. While BRAC Bank Limited endeavors to avoid such measures for the sake of its valued clients, it may be necessary for the bank's sustainability.

CHAPTER # 4

Problems, Recommendations and Conclusion

4.1 Problems Identified

1. Lengthy loan processing periods are attributed to the preparation of credit proposals, meticulous documentation, and instances of employee negligence, primarily resulting from extensive correspondence between branches and the Head Office.
2. Some clients find the terms and conditions of credit division difficult to comprehend and adhere to, leading to challenges in maintaining compliance.
3. Consumer loan facilities, such as car loans, doctor loans, and education loans, are underutilized, resulting in a lack of competitiveness compared to other modern commercial banks.
4. The bank tends to avoid financing large corporate enterprises to mitigate associated risks, prioritizing trade and commerce financing instead.
5. Inadequate manpower contributes to slower service delivery, impacting the quality of services provided to borrowers.
6. Absence of a dedicated credit recovery unit leads to delays in loan recovery efforts, with responsibilities typically falling on branch managers and relationship managers.
7. The bank lacks a dedicated credit sales and marketing wing to attract and expand its clientele base, limiting its ability to acquire new borrowers.

4.2 Recommendations

1. The bank must expedite its loan processing procedures to enhance client service quality. Empowering branch managers with greater sanctioning authority can streamline the loan processing duration.
2. Terms and conditions governing credit should be adjusted to ensure client-friendly practices. Hosting seminars to elucidate credit department policies and procedures would aid in client comprehension.
3. To maintain a robust credit portfolio, the bank should diversify its loan services, with increased emphasis on lending for agriculture and medium enterprise purposes.
4. Expanding consumer loan facilities is imperative for enhancing market share and meeting consumer demand.
5. Increasing lending in corporate (large) enterprise financing segments can bolster revenue potential for the bank.

6. Recruitment of skilled manpower is essential to bolster professionalism and efficiency in financial operations.
7. Establishment of a dedicated credit recovery unit can serve as an effective mechanism for expediting loan recovery processes.
8. Introduction of a credit sales and marketing wing is recommended to attract and retain a larger clientele base, thereby fostering business growth and expansion.

4.3 Conclusion:

BRAC Bank Limited, distinguished as one of the top-listed banks in Bangladesh, maintains a robust organizational structure and is recognized for its commitment to business innovation and enhancement. Particularly notable is its leadership role in financing the manufacturing sector. The bank excels in credit risk management, diligently adhering to the guidelines, circulars, and tools introduced by Bangladesh Bank to ensure prudent credit practices and minimize non-performing loans at a commendable standard.

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Appendix

Some Abbreviation:

BRAC Bank.

FAD: Finance and Account Division

CAB : Credit information Bureau

BOD: Board of Director

SOP: Standard Operating Procedure

ALCO: Asset Liability Committee

CRM: Credit Risk Management

RM: Relationship Manager

Performance of BRAC Bank Limited at a glance

(Figure in million)

No	Particulars	2018	2019	2020	2021	2022
01	Authorized Capital	1,005	1,005	1,005	1,005	1,005
02	Paid-up Capital	235	235	305	305	305
03	Reserve Fund	1050	1267	1601	1994	2202
04	Deposits	24564	33020	42301	54490	77735
05	Advances	20216	26115	37561	44451	61697
06	Investments	2882	6106	5523	7206	9351
07	Gross Income	3193	4123	6057	7855	9545
08	Gross Expenditure	2041	2802	4039	5405	6420
09	Net Profit(pre-tax)	857	1326	1673	1468	1547
10	Import Business	29413	2939858	60334	60014	58862
11	Export Business	14790	20808	27235	36505	38524
12	Foreign Correspondents	194	218	350	350	279
13	Number of Employees	1954	2034	2087	2297	2513
14	Number of Branches	85	89	89	89	103
15	Number of Shareholders	4069	4125	7504	10342	10342