Internship Report On

CRITICAL ANALYSIS OF CREDIT APPROVAL PROCESS IN PREMIER BANK LTD.

An Internship report submitted to the course instructor as a partial fulfillment of the requirements of the BBA Program.

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Letter of Transmittal

12 Jan 2014
Md. Shahnawaz Mostofa
Lecturer
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Subject: Solicitation for Acceptance of the Report.

Dear Sir,

I am pleased to submit the report titled “Critical Analysis Of Credit Approval Process In Premier Bank Ltd.” as requirement BBA program. I had tried my best to make this report holistic and informative enough. All the works presented here is done with utmost sincerely and honesty.

Thank you for you cooperation and guideline. Working with such an interesting program has given me the opportunity to achieve experience on it. I shall be highly encouraged if you are kind enough to receive this report. I am always available for any further quarries regarding this report.

Sincerely yours

Pavel Biswas
BBA Program, 21th Batch
ID: M21011111187

Acknowledgment

All praises to almighty Allah who has created me and has given me opportunities and strength to work with people. With deep interest I had started my work. My “Internship Program” is just a part of BBA under the Dept. of Business Administration, Uttara University.

With due respect I remain all the teachers of my department, who have significant contribution behind merging “Internship program” in BBA curriculum. I am greatly indebted to who has supervised Md. Shahnawaz Mostofa lecturer business administration Uttara University instructed & directed me to complete “Internship Training”.

I am also grateful to **senior Executive Officer & Br. Manager, Deputy Manager, Md. Abu Foysal (JO)** of the Premier Bank Ltd who has helped me very much by providing me various documents and information about the banking operations & management. Which is the topic of my Internship Report. The Regional office other officers and staff also helped me by providing the actual data and correct information. I am also grateful to them.

Besides I am also grateful to the authors, researchers, and articles writer who’s Books, Reports, Thesis papers and journals that have helped me to prepare my Internship Report successfully.

Whom it may Concern

This is to certify that Pavel Biswas is a student of BBA, Uttara University ID M21011111187 successfully completed his internship program entitled Critical Analysis Of Credit Approval Process In Premier Bank Ltd. under my supervision as the partial fulfillment for the award of BBA degree.

The student is to be sincere hardworking, self-motivated and he has put a lot of work and also brought his own views and idea these are being studies for implementation at appropriate place at suitable time.

He has done his job according to my supervision and guidance. He has tried his best to do this successfully. I think his program will help in the future to build up his career.

I wish his success and prosperity in life.

……………………………..

Md. Shahnawaz Mostofa

Lecturer (Finance)

School of business

Uttara University.

Declaration

I am Pavel Biswas the student of bachelor of business administration, (BBA) 21th batch bearing ID: M21011111187 major Finance in Uttara University would like to solemnly declare here that an internship report on Critical Analysis Of Credit Approval Process In Premier Bank Ltd.. Has been authentically prepared by me. While preparing this internship report didn’t breach by copy right act internationally am did not submit this report anywhere for awarding degree, diploma or certificate.

…………………………………

Pavel Biswas

ID: M21011111187

BBA, 21th Batch

Uttara University

Executive Summary

This report is prepared on the basis of three months practical knowledge at Premier Bank Ltd. This internship program helped me to gather practical knowledge of a financial organization where I impalement my knowledge properly and also relate my knowledge with the practical situation. That helps me to merge the total knowledge with my education and the practical field.

The Premier Bank Limited is one of the leading private commercial Bank having a spread network of 80 branches across Bangladesh and plans to open few more branches to cover the important commercial areas in Dhaka, Chittagong, Sylhet and other areas in 2009. The Bank sponsored by the Premier Foot ball league. With a wide range of modern corporate and consumer financial products The Premier Bank Limited has been operating in Bangladesh since October 1999 and has achieved public confidence as a sound and stable Bank.. The Premier Bank Limited is incorporated in Bangladesh as banking company on June 10, 1999 under Companies Act.1994. Bangladesh Bank, the central bank of Bangladesh, issued banking license on June 17, 1999 under Banking Companies Act.1991. The Head Office of The Premier Bank Limited is located at Banani, one of the fast growing commercial and business areas of Dhaka city.

To complete my internship report I choose the topic for research on **"**Critical Analysis Of Credit Approval Process In Premier Bank Ltd**".** This report focuses on the awareness level of the customers. Here I include each and every point that is really important for all that should discusses. Here I discusses about the history of Premier Bank Ltd also. Other achievements are also included there. I think this report can give the total knowledge for all to get proper knowledge about Premier Bank Ltd.

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Chapter 1

Introduction:

Modern banking system plays a vital role for a nation's economic development. Over the last few years the banking world has been undergoing a lot of changes due to 'deregulation, technological innovations, globalization etc. These changes in the banking system also brought revolutionary changes in a country's economy. Present world is changing rapidly to face the challenge of competitive free market economy. It is well r;ecognized that there is an urgent need for better, qualified management and better-trained staff in the dynamic global financial market. Bangladesh is no exceptions of this trend. Banking Sector in Bangladesh is facing challenges from different angles though its prospect is bright in the future.

1.1 Rational of the study:

This report titled "The Premier Bank Ltd. Critical Analysis of Credit Approval Process in The Premier Bank Ltd." is an termpaper report, which is the integral part of B.B.A program.

Scope of the Study

In this report, I am trying to portray the overall scenario or performance of Credit of The Premier Bank Ltd. As I have been working in The Premier Bank Ltd., Bhaluka Branch as a result this Branch has been an essential basis of this report. More over, I will be focusing on the critical analysis of credit approval process in The Premier Bank Ltd.

1.2 Objectives of the study

The objective of the study is to combine the theoretical exposure gathered from the BBA program with the practical knowledge on banking system and operation. This is a great opportunity to co-ordinate with the theoretical knowledge and the practical experience. The following are of objective for term paper in bank:

- To apply theoretical knowledge in the practical field.
- To analyze the service procedure of Premier Bank Ltd.
- To portray the banking operation.
- To reveal the area of General Credit.
- To describe the process of loan disbursement.
- To analyze the process of loan recovery.
- To describe the documents of credit.

1.3 Research Methodology:

Some fundamental steps of research methodology have been adopted through my specialization field of study of B.B.A program and also from the fields of other areas. In my study I had to go for personal interaction with staffs of The Premier Bank Ltd, Imamgonj 'Branch and Head office to conduct the research work.

1.4 Organization of the Report:

Both primary and secondary sources of information were being pursued with regards to the presentations of this study. The following procedure and sources I accessed:

- The web page of The Premier Bank Ltd.
- Prior researches report on this topic.
- Face to face interaction with all employees of the branch
- Significant amount of information was gathered from secondary sources, such as bank's brochures, relevant different printed formats, different printed manuals and policies of The Premier Bank Ltd.

1.5 Limitations of the Study:

I have tried my best to provide with all necessary information about The Premier Bank Ltd. But due to exhaustive nature of this study most secret & strategic ethics could not be brought in this report. As having the status of the empirical study, this report is subject to following limitations.

The Premier Bank is fully a centralized bank and all information is available in head office. Branch gets information when special request is made. Branch employees only can know the information that's available in EBBS (Electronic Base banking System).

Some of the data are self-generated by ratio analysis, so it was difficult to draw inference.

A worthwhile study requires the analysis of as much data as possible covering various aspects of the study. But I did not have access to the various types of information about Loans & advances.

To protect the organizational loss in regard of maintaining confidentiality some parts of the report are not in depth.

I carried out such a study for the first time. So, in-experience is one of the main factors that constituted the limitation of the study.

Backdrop of the Premier Bank Limited

The Premier Bank Limited is incorporated in Bangladesh as banking company on June 10, 1999 under Companies Act.1994. Bangladesh Bank, the central bank of Bangladesh, issued banking license on June 17, 1999 under Banking Companies Act.1991. The Head Office of The Premier Bank Limited is located at Banani, one of the fast growing commercial and business areas of Dhaka city. The Bank has a Authorized Capital of BDT 2000.00 Million and the Paid up Capital is BDT 845.00 Million.

Chapter 2

An Overview
Of
Premier Bank Ltd

The Premier Bank Limited is incorporated in Bangladesh as Banking Company on June 10, 1999 under Companies Act. 1994. Bangladesh Bank, the central bank of Bangladesh, issued banking license on June 17, 1999 under Banking Companies Act.1991. The Head Office of the Premier Bank Limited is located at Bonani, one of the fast growing commercial and business areas of Dhaka city.

2.2 Description Of The Business

The Premier Bank Limited a schedule commercial bank among the third generation banks in the private sector in Bangladesh, was incorporated on June 10, 1999 as a public limited company under the Companies Act, 1994 and Banking Company Act,1991, with a view to carry on, transacting, undertaking all kinds of banking, investment and financial businesses in Bangladesh and abroad.

2.3 Vision of The Bank

To carve out a name for the esteemed organization as a symbol of corporate exception that would stand out in the crowd as a “bank par excellence.”

2.4 Missions of The Bank

- To be the most caring provider of financial services, creating a befitting atmosphere for the clients to thrive and for the employees to develop.
- To stand steady in the teeth of adversities and ensure sound profitability in a bid to safeguard the optimum benefit of the shareholders.

- To adopt state-of-the art technology at all walks of operation and develops an advance mechanism to enhance efficiency and make the bank's involvement cost-effective.
- To prioritize high level of transparency and ethical standards in all business transaction.
- To be solicitous about the welfare of society and strive to uplift quality of life by serving philanthropy, charity and humanity.

2.5 Commitment of The Bank

The Premier Bank Limited is committed to the following aspects

- **Service First**: Premier Bank is committed to provide the best service to its customers. "Service First" is the bank's motto. The bank knows that by responding to customer needs it can provide better services, For this, the bank trains its employees to use their own initiative to satisfy customers' needs, resolve problems quickly and make suggestions about how to serve them better.
- **Easier Banking:** Providing its customers with a comfortable environment and up-to-date technical facilities to meet their banking needs is an important aspect of the customer service at Premier Bank. The bank's Goal is to make banking easier through one-to-one communication.
- **Better Relationship**: The bank views banking to be a long-term relationship with its customers. The business they transact with the bank helps it to understand their goals and expectations. The bank responds proactively to their financial needs.
- **Assured Confidentiality:** Premier Bank takes great care of its customers to make sure that all banking transactions are done in a confidential and professional manner.
- **Good corporate governance**: The premier bank limited has a very dynamic board of directors drawn from different disciplines. The hold very respectable position in the society and are form highly successful group of business and industries in Bangladesh. The bank has a very competent management team who has long experience in domestic and international baking. The bank upholds and strictly abides by good corporate governance practices and is subject to the regulatory supervision of Bangladesh bank.

2.6 Financial Performance of The Premier Bank Ltd

PERFORMANCE AT A GLANCE	(Tk. in million)				
Particulars	2008	2009	2010	2011	2012
Authorized Capital	2000.00	2000.00	2000.00	2000.00	2000.00
Paid-up Capital	557.55	681.45	845.00	1689.99	1689.99
Reserve Fund	301.08	403.85	543.76	649.79	870.22
Total Capital Fund	1312.63	1318.99	1855.58	2792.33	3603.03
Deposits	18005.20	20290.47	24199.01	27114.47	32059.62
Advances	15383.93	18032.50	20677.68	23637.61	30319.53
Investments	2750.00	2242.78	2394.01	3463.45	4107.03
Foreign Trade Business	33937.38	33571.00	38797.20	28172.20	59546.70
Foreign Remittance	1408.00	1427.40	940.10	1620.60	2786.40
Income	2395.45	2863.86	3622.05	4186.33	5070.04
Expenditure	1464.52	1964.83	2679.98	3188.22	3797.10
Operating Profit	930.93	899.03	942.07	998.11	1272.94
Fixed Assets	149.57	165.48	163.93	219.79	298.85
Total Assets	20100.25	22767.84	27170.45	32573.19	38723.49
Book Value per share (Taka)	207.69	203.31	192.44	145.88	184.39
Earning per share	84.40	32.45	43.63	4.66	38.51
Dividend	36.84%	24%	10%	7% stock	24.00%
Loan as % of total Deposits	85.44%	88.87%	85.45%	87.18%	94.57%
Non-Performing Loan as percentage of total Loan	0.43%	3.86%	4.91%	5.96%	4.55%
Capital Adequacy Ratio	10.69%	8.24%	10.66%	12.66%	12.71%

Number of Branches	21	21	26	27	30
No of Foreign Correspondents	297	345	350	397	
Number of Employees	554	605	677	731	834

Source: Annual Report' 2012

2.7 Products & Services of PBL

PBL serves all types of modern, progressive and dynamic business as well as banking services to the customers of all strata of society. During the short span of time, the Bank has been highly recognized and praised by the business community, from small entrepreneurs to large traders and industrial firm, and emerged as the fastest growing among the 3rd generation banks in respect of business and profitability. It has already opened 30 branches in different commercially important places throughout the country to make its services available to the people.

PBL successfully marketed its products designed to fulfill the needs of various socioeconomic level. Attractive features of the products have given a distinctive image among the private banks. It has been making continuous attempt to offer new products and services. Apart from usual Fixed Deposits, Savings Bank Deposits and Current Account Deposits, the bank offers the following customer friendly schemes:

- Monthly Income Scheme
- Monthly Savings Scheme
- Educational Savings Scheme
- Special Savings Scheme
- Double Benefit Scheme
- Dui Brochure Digun Scheme
- Savings Deposit (SB) Account
- Short Term Deposit (STD) Account
- Current (CD) Account
- Foreign Currency (FC) Account
- Fixed Deposit
- Premier 50+ Account

- Premier Genius Account
- Premier Millionaire Scheme
- Premier Lakhopati Scheme

Besides the above-mentioned deposit schemes, **PBL has the following lending products:**

- Consumer Credit Scheme (CCS)
- Personal Loan
- Loan (General)
- Cash Credit (Hypo)
- Secured Overdraft (SOD)
- Payment Against Document (PAD)
- Loan Against Trust Receipt (LTR)
- Inward Bill Purchase (IBP)
- Export Cash Credit (ECC)
- Packing Credit
- Hire-Purchase
- Lease Finance
- Apartment/Housing Finance
- Rural Credit Scheme
- Small and Medium Enterprise (SME) Finance
- Doctor’s Loan
- Student Credit Program
- VISA Credit Card (PBL is the Principal Member of VISA Credit Card in Bangladesh)

Other Banking Services:

- Real Time Online Banking
- SMS and CMS Banking
- Evening Banking
- Call Center
- Safe Custody (Locker Services)

Islamic Banking: PBL has two Islamic Banking Branches located at 99 Mohakhali C/A, Dhaka and Laldighirpar, Sylhet, which offer Islamic Banking services under the Principle of Shariah.

Some of PBL’s exclusive Islamic Products are:

- Al-Wadiah Current Deposit
- Mudaraba Savings Deposit
- Mudaraba Term Deposit Receipt
- Mudaraba Short Term Deposit
- Mudaraba Monthly Income Scheme
- Mudaraba Monthly Savings Scheme
- Mudaraba Education Savings Scheme
- Mudaraba Special Deposit Scheme
- Mudaraba Double Benefit Scheme

PBL's Islamic Banking Branches strictly follow the operational modes and methodologies as permissible under Shariah principle. The bank invests the fund received from the Depositors on the principle of Mudaraba under different modes of investments, such as:

- Bai Al- Mudaraba
- Bai Al- Muajjal
- Bai Al- Salam
- Hire-Purchase under Shirkatul Milk
- Ijara (Lease)
- Qard Against MTDR

Chapter 3

Critical Analysis of Credit Approval Process

Credit is the most important function of the banking system. A bank invests its fund in many ways to earn profit. Credit policy of Premier Bank Ltd. is formulated in a very sincere way and they implement it very strictly. Banks accept deposit from surplus unit and lend it to deficit unit. Banks make loans and advances to traders, businessmen, industrialists and many other persons against security.

3.1 Definition of Credit

A transaction in cash or kind with an obligations repay at some specified time in the future is generally termed as credit or advance.

3.2 Principles of Sound Lending

The function of lending is very crucial to the banker. To ensure sound lending some principles should be followed. These are -

a) SAFETY

Safety is the mostly important thing to exercise the lending function. It also exercised only when it is safe and that the risk factor is adequately mitigated and covered. The success of the public depends upon the confidence of the depositing public. Safety depends upon:

- The security offered by the borrower, and
- The repaying capacity and willingness of the debtor to repay the loan with interest.

So the Banker should ensure that the securities offered are adequate and readily realizable and the borrower is a person of integrity, good character and reputation.

b) SECURITY

The securities of the customers are insurance and Banker can fall back upon them in times of necessity. For the sake of safety he should ensure that the securities are adequate, marketable and free from encumbrances. Securities, which could be marketed easily, quickly and without loss, should be preferred.

c) LIQUIDITY

Liquidity refers to the ability of an asset to convert into cash without loss within short time. The Banks should keep its funds in liquid state to meet the demand of the depositors in time. Short-term loans are granted against securities such as goods can be converted into cash easily and so liquid. So a bank should take adequate care so that the liquidity is not compromised.

d) DIVERSITY

The integrity of the borrower and the security consciousness of a banker are not adequate factors to keep the banker on safe side. What is more important is the diversification of risk. This means he should not lend a major portion of his loan able funds to any single borrower or to any industry or to any particular region.

Therefore a bank should follow wise policy to avoid risk by diversified the loan portfolio and concentration of lending in one particular sector should be avoided.

e) PROFITABILITY

Like all other commercial institution banks also run for profit. Banks earn profit to pay interest to depositors, declare dividend to shareholders, meet establishment charges and other expenses, provide for reserve and for bad and doubtful debts, depreciation, maintenance and improvement of property owned by the bank and sufficient resources to meet contingent loss. So profit is an essential consideration. a banker should employ his funds such a way that they will bring him adequate return: The main source of profit comes from the difference between the interest received on loans and those paid on deposit. Anyway a banker should never give undue importance to profitability.

3.3 Different Credit Facilities Offered By Premier Bank Ltd.

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

3.3.1 OVER DRAFT

When a current account holder is permitted by the bank to draw more than what stands to his credits, such an advance is called an overdraft. The banker may take some collateral security or may grant such advance on the personal security of the borrower. Premier Bank Limited has given this overdraft facility to its clients.

OVERDRAFT IS OF THREE KINDS

Overdraft

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Temporary Clean Secured

Overdraft (TOD) Overdraft (COD) Overdraft (SOD)

3.3.1.1 Temporary Overdraft

TOD is allowed to honor an important check of a valued client without any prior arrangement. As this facility is allowed for a very short period, it is called temporary Overdraft.

3.3.1.2. Clean Overdraft

Sometimes overdrafts are allowed against Land, Building etc. is called clean overdraft. Usually PBL, Dilkusha, branch does not maintain these two types of overdraft.

3.3.1.3. Secured Overdraft

When overdrafts are allowed against financial obligation, they are called secured overdraft. Overdraft (SOD). SOD is generally granted for smooth running of the client's business.

Financial Obligation includes those papers, which can be easily liquidated like FDR, Insurance Policy, and Share Debenture etc. PBL, Dilkusha Branch allows 85% - 90% of loan facility against this scheme, where the remaining 10% of the instrument is treated as margin if the party fails to pay the interest.

Interest rate: 15% **-**16% per annum.

3.3.2 Cash Credit

So far I have observed in this desk, a cash credit is an arrangement by which the customer is allowed to borrow the money up to a certain limit. This is a permanent arrangement and the customers need not to draw the sanctioned amount of money at a time. The borrower can draw the money as and when repaired. The borrower can put back any surplus. Interest is changed only to the amount withdrawn and not the whole amount sanctioned. Cash credit arrangement is usually divided into two ways:

- Cash Credit pledge
- Cash Credit Hypothecation

3.3.2.1 Cash Credit Pledge

In case of cash credit pledge, the possession of the goods belongs to bank and ownership of the goods belongs to the borrower and bank takes the possession of the goods as primary security.

The goods stored in go down under lock and key and it is under direct supervision of the bank. If the borrower wants to sell any portion of the pledged goods needs the bank permission with returning the value of the loan amount. It is therefore regarded as the most secured type of advance. PBL does not practice this type of loan facility.

3.3.2.2 Cash credit Hypothecation

In case of “Hypothecation”, possession of goods is not transferred to the bank and therefore, such an advance is not better than a clean loan, such an advance can thus only be granted to a person with full integrity, where the bank has full confidence on the client. Cash credit in the” Hypothecation” is normally accompanied with mortgage of immovable properties. The party/ borrower possess the lock and key of the go down.

Rate of interest: 15% - 16% per annum.

Renew system: It can be renewed after one year.

3.3.3 Consumer credit scheme

Consumer credit scheme offer the customer to buy their needed item without paying the full cost of the item. Bank used to buy the product in favor of the customer. Customer needs to repay the loan with a fixed installment for a certain period of time. The installment consists of principal payment as well as interest.

Major objectives:

- To extend credit facility to the limited income group.
- To develop standard of living of middle and upper middle class.
- To participate in the socio economic development of the country.
- To extend credit to a wide range of customers

3.3.4 SME Finance

Bangladesh, as a developing country has been trying for its overall economic growth. The development of small & medium enterprise (SMEs) would be the key element in this regard. Recognizing the demand in financing of the companies operating small & middle sized business, Premier Bank offers a simple scheme of providing financing.

Loan Ceiling:

Minimum TK. 2,00,000.

Maximum TK. 50,00,000.

Tenure of Loan Payment:

1(one) year to 5 (five) years.

Who can apply :

Initially, small & medium size industries which have total assets (excluding land & building) between TK. 50,000 to TK. 1 corer will be eligible under this scheme. The applicant should have an existing profitability business or a viable business plan.

3.4 The Lending Procedure

This process starts with building up of relationship with customer through account opening. The stages of credit approval are done both at the branches and at the Head Office levels. The lending procedure as observed in Premier Bank is described below-

3.4.1 INTERVIEW

Customers come in the bank to describe their want about loan. The credit officer takes an interview of the client.

3.4.2 SELECTION OF BORROWER

Before allowing credit facility a banker should be satisfied that the applicant qualifies the following five essentials, which may be termed as 5C's. These includes -

1. **Character –** Borrowers Integrity, honesty, intention to repay the loan money, commitment, credit record, dependability etc.
2. **Capacity -** Borrower's business ability, cash flow, Debt service coverage, COGS, Sales, Business experience, Technical knowledge, Age, particularly profitability.
3. **Capital -** Financial strength to cover a business risk, Stake in business, Solvency, retention of earning, ability to infuse more money etc
4. **Condition -** It is general business condition. Economic trends, Industry Growth, competitive & regulatory environments, working conditions etc.
5. **Collateral -** Borrower's ability to produce additional securities. Asset quality, type, Location, Title, Forced sales value etc.

3.4.3 Credit Application

A borrower seeks credit facility from the bank in a bank's prescribed credit form. The borrower has to provide relevant information in the credit application including his personal profile, last five years business performance, project details and fund requirements. In case of a new business next five years projected business statistics has to be submitted.

3.4.4 ACCOUNT OPENING

In this stage banker asked the customer to open an account. By opening account banker will be able know the customer.

3.4.5 COLLECTION OF SUPPORTING DOCUMENTS

Bankers receive supporting documents from the client. These are –

Loan sanctions advice of other banks.

Loan statements of other banks.

These are required because in the CIB report details status of loans repayment are not obtained.

3.4.6 OBTAINING CIB REPORT

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

3.4.7 TRADE CHECKING

Bank officials of the credit department inspect the project for which the loan is applied; this is termed as trade checking.

3.4.8 ANALYSIS OF COLLECTED INFORMATION

Any loan proposal needs to be evaluated on the basis of financial information provided by the loan applicant. Financial spreadsheet analysis, which consists of a series of quantitative techniques, is employed to analyze the risks associated with a particular loan and to judge the financial soundness and credit worthiness of the borrower. Besides, CRG (Credit Risk Grading) is prepared to evaluate the borrower.

3.4.9 PREPARATION OF CREDIT PROPOSAL

The branch starts processing the loan at this stage. Based on the analysis (credit analysis) done by the branch, the branch prepares a credit proposal & send it to the head office.

3.4.10 SANCTIONING OF CREDIT

If the proposal is approved by the head office, then head office declared the branch to take the next step.

3.4.11 SANCTION ADVICE

The branch issues a sanction letter to the borrower with a Duplicate Copy. branch of the bank. This duplicate copy returned by the applicant proves that the borrower agrees with the terms and conditions of the credit offered by the bank.

3.4.12 DOCUMENTATION

After issuing the sanction advice, the bank collects necessary documents. Documents vary on the basis of types of facility, types of collateral etc.

Document is of two types –

1. Legal documents – All securities are legal document. Ex – Cheque , Mortgage.

2. Charge document – Those documents which proved that one takes loan. These includes -

 # Letter of Guarantee: This letter of guarantee is two sided. One is borrower side guarantee and another one is guarantor side guarantee. Borrower side guarantee consists of agreement of all terms and conditions of Bank as well as assurance of proper repayment of installment. Guarantor side guarantee is the undertaking by the guarantor to pay the installments in case of failure of the client.

 # Letter of Hypothecation: It signifies that the goods/items are hypothecated to the Bank.

 # Demand Promissory Note: It is the promise of borrower to pay on demand to the Bank the overdue or total outstanding if necessary.

 # Letter of Installment: In this documents borrower promise to pay all regular and irregular installments in due time.

 # Letter of Disbursement: This is the declaration of disbursement of Loan to the borrower.

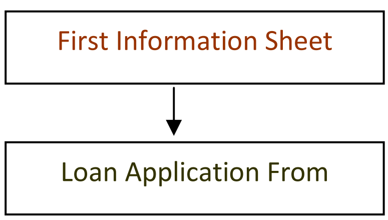
 # Letter of agreement*:* This is the agreement that the borrower is bound to pay all dues together with all other charges and the borrower gives the bank the authority to discharge the agreements any time due to the fault in borrower side.

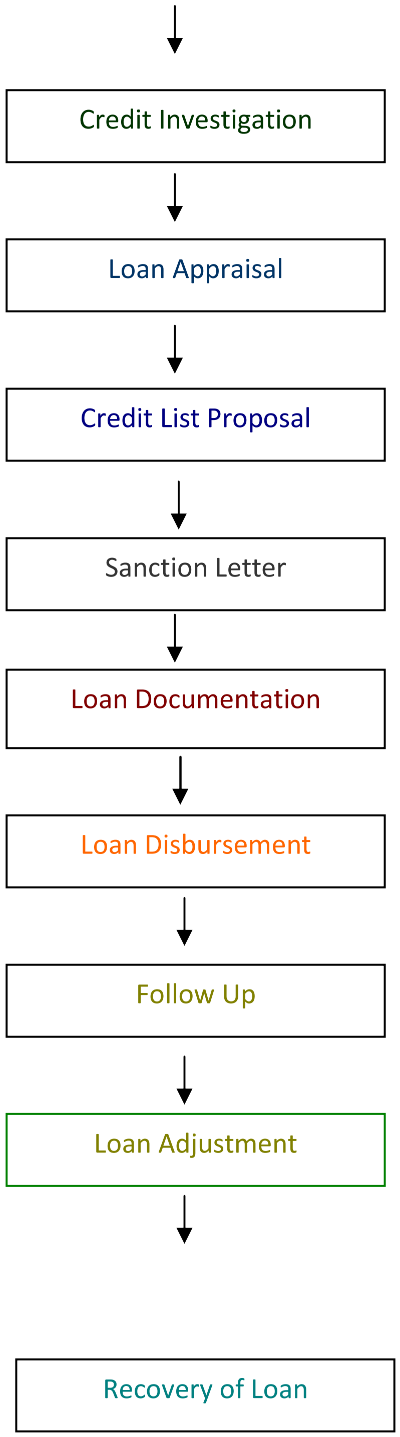
#Letter of Authority: This is the letter the borrower gives the Bank the Authority to debit the account if necessary.

3.4.13 DISBURSEMENT OF LOAN

After completion of all formalities bank disburses the loan as per conditions of sanction letter. All the disbursements and repayment installments take place through bank account.

FIGURE: 4.1





3.4.14 CREDIT ADMINISTRATION

This stage involves monitoring, control and recovery of the disbursed credits, i.e. after loan disbursement, continuous follow up of the loaner is done by the bank.

3.4.15 COLLECTION / MONITORING STEPS

Days Past Due (DPD)	Collection Action
1-14	Letter, Follow up & Persuasion over phone
15-29	1st Reminder letter & Sl. No. 1 follows
30-44	2nd reminder letter + Single visit
45-59	• 3rd reminder letter • Group visit by team member • Follow up over phone • Letters to Guarantor, Employer, Reference all above effort follows • Warning on legal action by next 15 days
60-89	• Call up loan • Final Reminder & Serve legal notice • Legal proceedings begin • Repossession starts
90 and above	• Telephone calls/Legal proceedings continue • Collection effort continues by officer & agent • Letter to different banks/Association

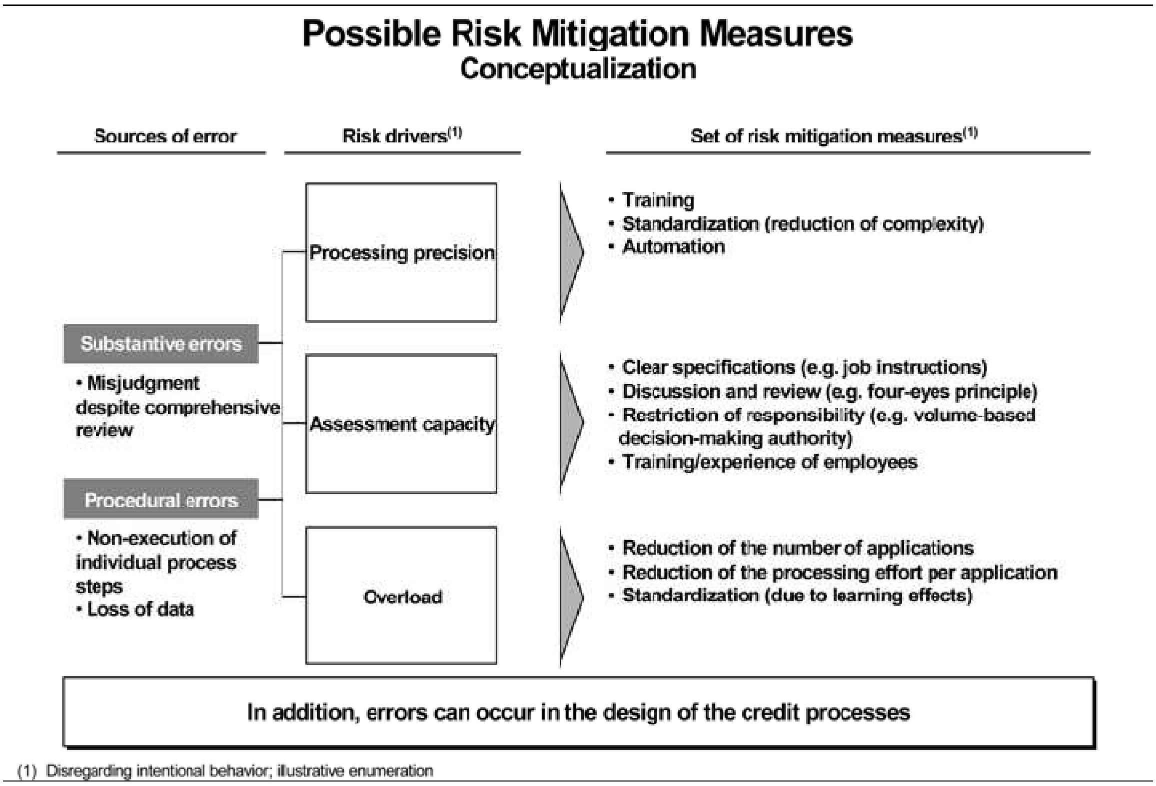
Credit Approval Process

The individual steps in the process and their implementation have a considerable impact on the risks associated with credit approval. Therefore, this chapter presents these steps and shows examples of the shapes they can take. However, this cannot mean the presentation of a final model credit approval process, as the characteristics which have to be taken into consideration in planning credit approval processes and which usually stem from the heterogeneity of the products concerned are simply too diverse. That said it is possible to single out individual process components and show their basic design within a credit approval process optimized in terms of risk and efficiency. Thus, the risk drivers in carrying out a lending and rating process essentially shape the structure of this chapter.

First of all, we need to ask what possible sources of error the credit approval process must be designed to avoid. The errors encountered in practice most often can be put down to these two sources:

- Substantive errors: These comprise the erroneous assessment of a credit exposure despite comprehensive and transparent presentation.
- Procedural errors: Procedural errors may take one of two forms:

On the one hand, the procedural-structural design of the credit approval process itself may be marked by procedural errors. These errors lead to an incomplete or wrong presentation of the credit exposure. On the other hand, procedural errors can result from an incorrect performance of the credit approval process. These are caused by negligent or intentional misconduct by the persons in charge of executing the credit approval process. In the various instances describing individual steps in the process, this chapter refers to the fundamental logic of error avoidance by adjusting the risk drivers; in doing so, however, it does not always reiterate the explanation as to what sources of error can be reduced or eliminated depending on the way in which they are set up. While credit review, for example, aims to create transparency concerning the risk level of a potential exposure (and thus helps avoid substantive errors), the design of the other process components laid down in the internal guidelines is intended to avoid procedural errors in the credit approval process.



3.5 Segmentation of Credit Approval Process

In order to assess the credit risk, it is necessary to take a close look at the borrower's economic and legal situation as well as the relevant environment. The quality of credit approval processes depends on two factors, i.e. a transparent and comprehensive presentation of the risks when granting the loan on the one hand, and an adequate assessment of these risks on the other. Furthermore, the level of efficiency of the credit approval processes is an important rating element. Due to the considerablle differences in the nature of various borrowers and the assets to be financed as well the large number of products and their complexity, there cannot be a uniform process to assess credit risks. Therefore, it is necessary to differentiate, and this section describes the essential criteria which have to be taken into account in defining this differentiation in terms of risk and efficiency.

3.5.1 Basic Situation

The Premier Bank Ltd serves a number of different customer segments. This segmentation is mostly used to differentiate the services offered and to individualize the respective marketing efforts. As a result, this segmentation is based on customer demands in most cases. Based on its policy, a bank tries to meet the demands of its customers in terms of accessibility and availability, product range and expertise, as well as personal customer service.

In practice, linking sales with the risk analysis units is not an issue in many Cases at first. The sales organization often determines the process design in the risk analysis units. Thus, the existing variety of segments on the sales side is often reflected in the structure and process design1 of the credit analysis units. While classifications in terms of customer segments are, for example, complemented by product-specific segments, there appears to be no uniform model. Given the different sizes of the banks, the lack of volume of comparable claims in small banks renders such a model inadequate also for reasons of complexity, efficiency, and customer orientation. Irrespective of a bank's size, however, it is essential to ensure a transparent and comprehensive presentation as well as an objective and subjective assessment of the risks involved in lending in all cases. Therefore, the criteria that have to be taken into account in presenting and assessing credit risks determine the design of the credit approval processes.

3.5.2 Accounting for Risk Aspects

The quality of the credit approval process from a risk perspective is determined by the best possible identification and evaluation of the credit risk resulting from a possible exposure. The credit risk can distributed among four risk components which have found their way into the new Basel Capital Accord (in the following referred to as Basel II).

a) Probability of default (PD)
b) Loss given default (LGD)
c) Exposure at default (EAD)
d) Maturity (M)

The most important components in credit approval processes are PD, LGD, and EAD. While maturity (M) is required to calculate the required capital, it plays a minor role in exposure review.

The significance of PD, LGD, and EAD is described in more detail below.

3.5.2.1 Probability of Default

Reviewing a borrower's probability of default is basically done by evaluating the Borrower's current and future ability to fulfill its interest and principal repayment obligations. This evaluation has to take into account various characteristics of the borrower (natural or legal person), which should lead to a differentiation of the credit approval processes in accordance with the borrowers served by the bank. Furthermore, it has to be taken into account that — for certain finance transactions — interest and principal repayments should be financed exclusively from the cash flow of the object to be financed without the possibility for recourse to further assets of the borrower. In this case, the credit review must address the viability of the underlying business model, which means that the source of the cash flows required to meet interest and principal repayment obligations has to be included in the review.

3.5.2.2 Loss Given Default

The loss given default is affected by the collateralized portion as well as the cost of selling the collateral. Therefore, the calculated value and type of collateral also have to be taken into account in designing the credit approval processes.

3.5.2.3 Exposure at Default (EAD)

In the vast majority of the cases described here, the exposure at default corresponds to the amount owed to the bank.5 Thus, besides the type of claim; the amount of the claim is another important element in the credit approval process. Thus, four factors should be taken into account in the segmentation of credit approval processes:

1. Type of borrower
2. Source of cash flows
3. Value and type of collateral
4. Amount and type of claim

3.5.3 Approaches to the Segmentation of Credit Approval Processes

The following subsections present possible segmentations to include the four factors mentioned above in structuring the credit approval process. The lending business in which banks engage is highly heterogeneous in terms of volume and complexity; this makes it impossible to define an optimal model, and therefore we will not show model segmentation. After the description of possible segmentations, two principles are dealt with that have to be included in the differentiation of the credit approval processes along the four risk components to ensure an efficient structure of the credit approval processes.

- Distinction between standard and individual processes in the various segments;
- taking into account asset classes under Basel II

3.5.3.1 Type of Borrower

In general, type of borrower is used as the highest layer in credit approval processes. This is due to the higher priority of reviewing legal and economic conditions within the substantive credit review process. The way in which the economic situation is assessed greatly depends on the available data. The following segments can be distinguished:

- Sovereigns
- Other public authorities
- Financial services providers
- Corporate
- Retail

Usually, at least the segments of corporate and retail customers are differ entiated further

3.5.3.2 Source of Cash Flows

The distinction of so-called specialized lending from other forms of corporate finance is based on the fact that the primary, if not the only source of reducing the exposure is the income from the asset being financed, and not so much the unrelated solvency of the company behind it, which operates on a broader basis.

Therefore, the credit review has to focus on the asset to be financed and the expected cash flow. In order to account for this situation, the segmentation of the credit approval processes should distinguish between

- credits to corporations, partnerships, or sole proprietors; and
- specialized lending

Credit institutions have to distinguish between the following forms of specialized lending in the calculation of regulatory capital.6

1. Project finance
2. Object finance
3. Commodities finance
4. Finance of income-producing commercial real estate

This subdivision of Basel II primarily serves to determine the required capital correctly, but it can also prove useful from a procedural point of view.

3.5.3.3 Value and Type of Collateral

Value and type of collateral have a significant impact on the risk involved in lending. Of particular relevance in this context are those types of collateral which afford the lender a claim in rim on the collateral, and those product constructions under which the lender has legal and economic ownership of the asset to be financed. Two forms of finance are particularly relevant in practice:

- mortgage finance and
- leasing finance

Mortgage finance and leasing are those forms of finance which often give the lender a substantial degree of control over the asset being financed. The strong legal position resulting from such collateral may warrant special treatment of the relevant forms of finance. Please refer to 2.4.2.4 for a description of the types of collateral usually accepted by banks and the valuation of such collateral.

3.5.3.4 Level of Exposure

The level of exposure has an immediate impact on the exposure at default (EAD). Therefore, any increase in the level of exposure should trigger a more detailed credit review of the respective borrower. This aspect and the risk minimization that can be achieved by standardization and automation are the rationale behind the separation of low-volume and high-volume lending business that can often be found in the way in which credit approval processes are designed.

In practice, the ensuing sub-segmentation within the claims segments is now commonly referred to as standard process and individual process.

3.5.3.5 Standard and Individual Processes

The distinction between standard and individual processes does not create a separate segment. It is rather a common process differentiation within claims segments which are defined in accordance with the criteria described above. In the vast majority of cases, the level of engagement is the decisive element in the differentiation between standard and individual processes. In addition to the level of exposure, it is possible to describe some general differentiating criteria that characterize the process type in question. Generally speaking, the objective of establishing standard processes is more efficient process execution. As most segments show concentrations of certain product specifications, it is possible to develop processes that specifically address these characteristics. Standard processes are characterized by the fact that they are only intended and suitable for handling certain credit products with limited features and options.

Limiting the process to certain products and maximum exposure volumes allows for simplifications and automations within the process.

3.5.3.6 Asset Classes under Basel II

As already mentioned above, the new Basel Capital Accord — in its incorporation into European and thus Austrian law presents mandatory rules for the regulatory capital requirements of claims under any and all banking book transactions of credit institutions and investment firms. Basel II provides two approaches to determine the capital requirement:

1. A standardized approach and
2. An internal ratings-based approach (IRB approach)

The IRB approach allows a more risk-sensitive calculation (based on the banks internal estimates) of the capital required to cover the risks associated with claims than was or will be possible under Basel I and the newly modified standardized approach. The goal is to use the capital required from an economic point of view as the yardstick for the regulatory capital requirement. However, this will only happen if the banks measure the risks in accordance with the regulatory criteria.

The IRB approach distinguishes seven asset classes:

1. Sovereign exposures
2. Bank exposures
3. Corporate exposures
4. Retail exposures
5. Equity exposures
6. Securitization
7. Fixed assets

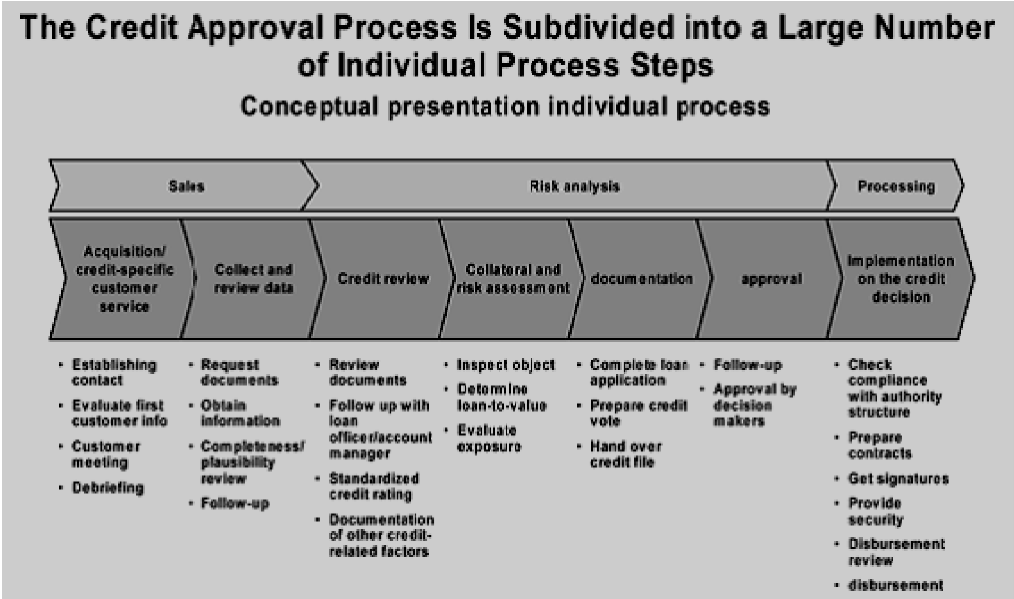
3.5.4 Object of Review and Exposure Management

Credit approval processes are started on behalf of a credit applicant. Especially in the context of lending to corporate customers, it is often necessary to include several (natural or legal) persons in the credit rating process. This will be required if these (natural and legal) persons are to be considered one economic unit and would thus probably have a mutual impact on each others credit standing. In practice, granting an individual loan often involves a large number of (natural and legal) persons. This has to be borne in mind throughout the entire credit approval process, but particularly in the course of the credit review. Credit approval for groups of companies should be designed in a manner which is specific to the risk involved and efficient and should aim to focus the review on the actual risk-bearer, that (natural or legal) person whose legal and economic situation ultimately determines the ability to fulfill the obligations under the credit agreement. In any case, Basel II requires the assessment of the borrower’s credit standing. Processing or risk analysis, or in a decentralized fashion by each unit itself.

3.5.5 Overview of the Credit Approval Process

The order of the following subsections reflects the sequence of steps in the credit approval process, with the credit approval process for new customers serving as the general framework. Credit approval processes for existing customers will be addressed explicitly if they contain process steps that are not found in the credit approval process for new customers at least in a similar form specifics of each segment, there is a uniform basic structure of these measures which are discussed in the following subchapters. A presentation of the specific design of these measures would only be possible with reference to a detailed definition of the individual segments. Such a definition is impossible due to the great heterogeneity among the banks addressed by this guideline to begin with and can thus only be established for each bank separately.

Figure: 5.2



Thus, the following subchapters will primarily discuss the basic structure of the risk mitigation measures and the way in which they work. At some points, the distinction between standard and individual processes is pointed out as this distinction is a central element in the design of credit approval processes nowadays. In case differences in the process design are considered essential for the effectiveness of the risk mitigation measures, this design will be described in more detail.

3.5.6 Integration of Sales and IT in the Process Design

An early integration of sales and IT is an essential prerequisite for the success of a reorientation of the credit approval process. In order to facilitate their implementation, changes in processes have to be reflected in the banks IT structure.

3.6 Process Steps Leading up to the Credit Review

The execution of the credit review is based on external and internal data on the credit applicant. Especially for extensive exposures, considerable resources may be tied up in the process of collecting the data, checking the data for completeness and plausibility, and passing on the data to people in charge of handling, analyzing, and processing the exposure within the bank. These steps can also lead to a large number of procedural errors. As the data included form the basis for the credit review, errors in collecting, aggregating, and passing them on are especially relevant also from a risk perspective. The subchapter thus focuses on measures to avoid such procedural errors.

3.6.1 Data Collection picture of the borrower.

In order to ensure that all the information gathered by the account manager is passed on to the person in charge of the credit review, it would be advisable to prepare standardized and structured reports on customer visits. In practice, this has proven effective in directing conversations with customers as desired (function as conversation guide). This procedure ensures that information is gathered in its entirety and in an efficient manner. The layout of the visit reports should be specified for each segment and should be included in the internal guidelines.

3.6.2 Plausibility Check and Preliminary Review

Before a credit exposure is subjected to a comprehensive credit review, the employee initially in charge should conduct a plausibility check and preliminary review.

This check should look at the completeness and consistency of the documents filed by the borrower to minimize any process loops and the need for further inquiries with the customer. In addition, sales should carry out an initial substantive check based on a select few relevant criteria. The objectives include the creation of awareness and active assumption of responsibility for credit risk on the part of the sales department.

3.6.3 Passing on Data

Making sure that information is passed on in its entirety is relevant from a risk perspective and concerns those processes in which the credit approval process is not concluded by the account manager himself. If the internal guidelines provide for a transfer of responsibility, or if the credit review is conducted by two or more people, it is necessary to ensure that the complete set of relevant documents is handed over. It would be advisable to prepare handover reports for this purpose.

Handover reports should fully reflect changes in responsibility in the course of the credit approval process as well as any interface occurring in the process.

In practice, a modular structure has proven particularly effective for such forms.

If possible, they should be kept electronically or, alternatively, as the first page of the respective credit folder.

The sales employee has to use the module (table or text module) provided for handing over the exposure to the respective process. This contains, among other things, an enumeration of the documents required for the respective risk analysis segment (completeness checklist). On the one hand, this ensures a smooth transfer of the documents, and on the other, it prevents incomplete files from being handed over to risk analysis. In addition, further modules, e.g. notes taken during customer appointments, should be included in the handover reports. Furthermore, appropriate modules should be included for all other interfaces between sales and risk analysis, or between different persons in processing.

3.7 Exposure Assessment: Credit Review and Valuation of Collateral

Exposure assessment involves the credit review and a valuation of the collateral based on the data provided by the credit applicant. These steps aim at making the risks resulting from the exposure transparent and allowing a final assessment of the exposure

The credit review basically consists of two process components:

1. Standardized models of data evaluation
2. Documentation and evaluation of other credit assessment factors

Credit reviews are increasingly marked by standardized procedures. These procedures support and sometimes even replace the subjective decision making process in assessing credit standing. In practice, we can also find credit review processes that are completely based on standardized and automated models and thus do not provide for any manual documentation and assessment of other credit assessment factors beyond that.

After establishing and assessing the risk involved in lending, the collateral offered by the applicant is examined and evaluated. The collateralized portion does not affect the applicants probability of default1; and its impact on assessing the exposure thus has to be dealt with independently of the credit receive

3.7.1 Standardized Models of Data Evaluation (Rating Models)

Today, we have many different models for the standardized evaluation of credit assessment data. These models can basically be divided into heuristic models, empirical sta'tistical models, and causal models. In addition, hybrid models are used in practices that are based on two or three of the models mentioned.

Heuristic models attempt to take experiences and use them as a basis to methodically gain new insights. These experiences can stem from

- conjectured business interrelationships,
- Subjective practical experiences and observations,
- Business theories related to specific aspects.

In terms of credit review, this means that experience from the lending business is used to try to predict a borrower's future credit standing. Heuristic models thus depend on the fact that the subjective experiences of the credit experts are reflected appropriately. Thus, not only the credit assessment factors are determined heuristically, but also their impact and their weighting with reference to the final decision are based on subjective experiences.

Empirical statistical models, by contrast, try to assess a borrower's credit standing on the basis of objectifying processes. For this purpose, certain credit review criteria of the exposure under review are compared to the existing database which was established empirically. This comparison makes it possible to classify the credit exposure. The goodness of fit of an empirical statistical model depends to a great extent on the quality of the database used in developing the system. First, the database must be sufficiently large to allow significant findings. In addition, it must be ensured that the data used also represent the credit institutions future business adequately.

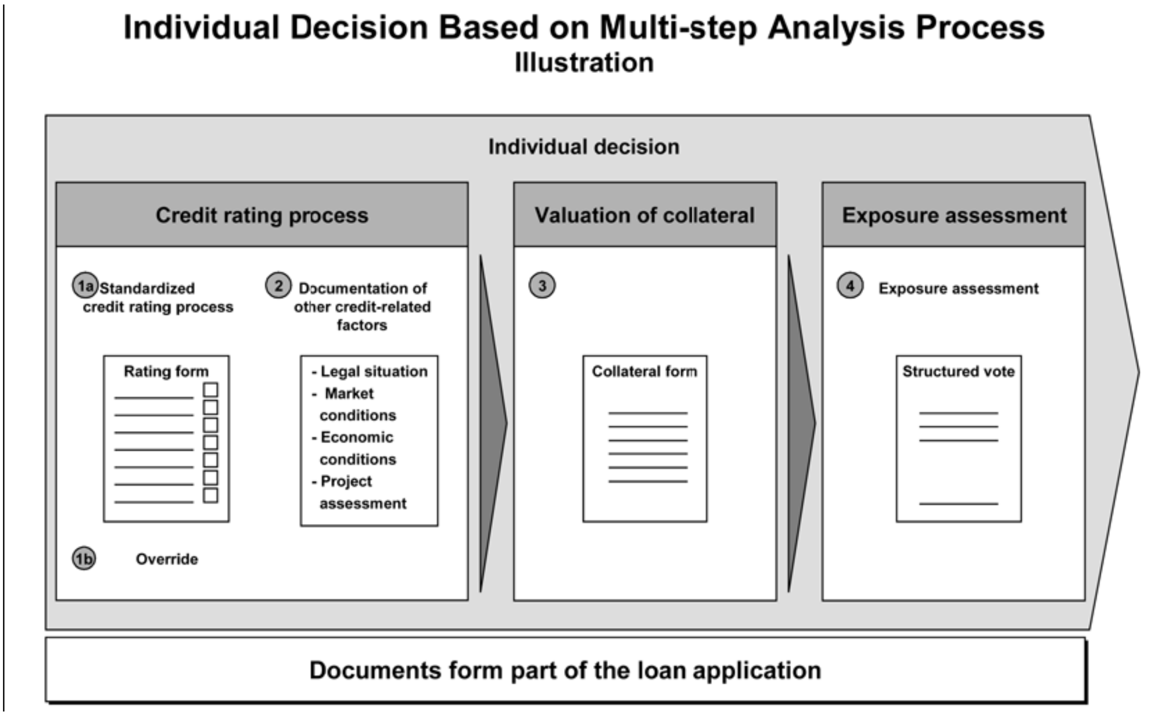
Causal models derive direct analytical Links to creditworthiness on the basis of finance theory. They do not use statistical methods to test hypotheses on an empirical basis.

Hybrid models try to combine the advantages of several systems. Empirical statistical models are used only for those assessment factors for which a database exists which is sufficient in terms of quality. The other credit assessment factors which have to be included in the model are assessed by means of heuristic systems, while causal analysis models are typically not used.

3.7.2 Individual Decision

In an individual decision, the standardized data evaluation is complemented by further process steps to assess the credit standing. After the credit review, the collateral is evaluated. An integrated look at the detailed results leads to an individual credit decision which is not directly contingent on the results of the individual process components.

Figure: 5.3



3.7.2.1 Standardized Credit Review (Rating)

A typical rating process consists of two components:

1. Financial rating (or quantitative rating)
2. Qualitative rating

Financial rating comprises an analysis of the financial data available for the credit applicant. The analysis of annual financial statements (backward-looking approach) has a central position in this context. Increasingly, however, the analysis of business planning (forward-looking approach) is being employed in the credit review process. Usually, automated programs are used to calculate indicators from the annual financial statements or the business plan.

In the conventional corporate customer business most elements of the financial rating are carried out by specialized employees. There may be additional specialized units that furnish those employees which are primarily responsible with certain analyses (modular system). In many banks, for example, it is possible to find units specializing in the analysis of foreign companies or real estate finance. Setting up a separate unit should be considered whenever the analysis requires the development of special know-how and the number of the analyses to be handled renders a complete specialization of employees feasible in terms of efficiency.

If analyses that were drawn up by employees other than those primarily responsible for the credit approval process, it is essential to make sure that the administrative process involved is as efficient as possible. There should be a general guideline stipulating that the analysis is confirmed by the person in charge of the organizational unit supplying the module for the credit analysis when this module is handed over to the credit officer managing the exposure.

The common practice of having the people in charge of every single organizational unit involved in the credit approval process also confirm the completed credit application is rejected as inefficient and does not seem necessary in terms of risk, either.

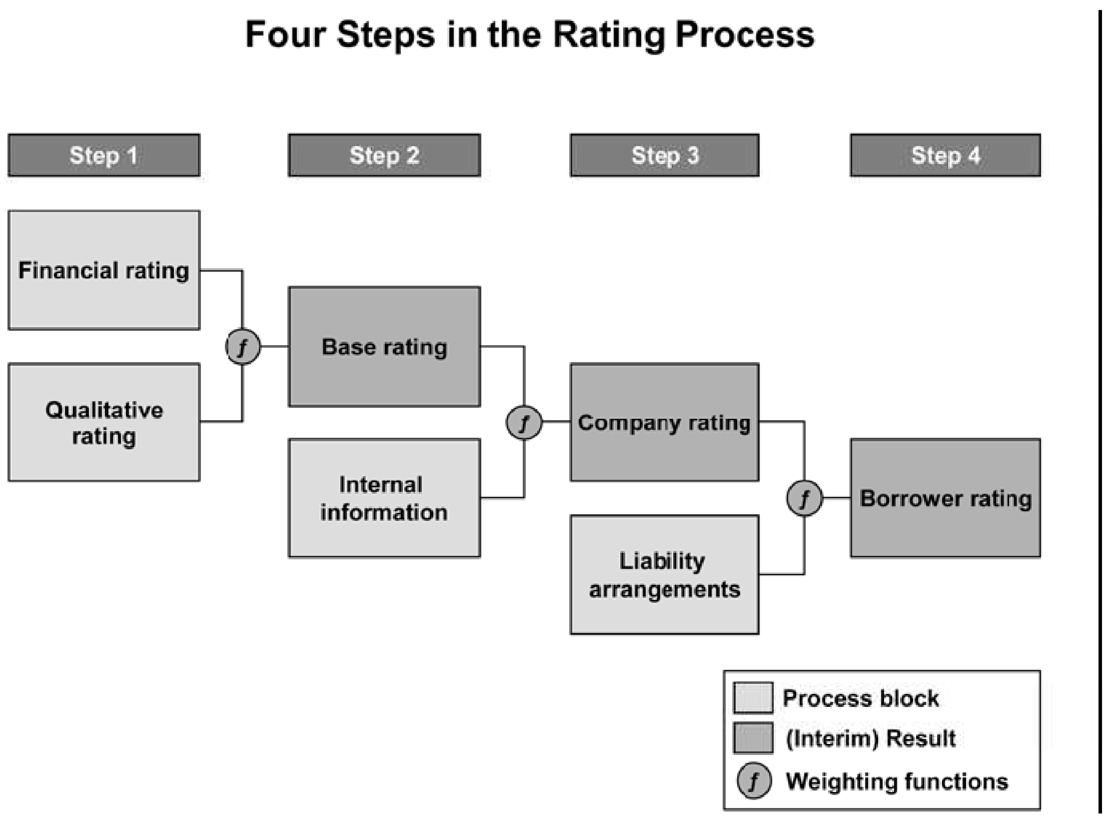
Using a weighting function, financial and qualitative ratings are combined, with the result usually referred to as base rating.

If companies are affiliated, it is necessary to look at possible loss-sharing arrangements in the rating process. The inclusion of loss-sharing arrangements makes it possible to determine the risk-bearing entities. The inclusion of a loss-sharing arrangement can affect the assessment of the probability of default of the company on which the rating is based positively and negatively.

- Positive effect: assumption of support for the company in case of a crisis
- Negative effect: spillover of a crisis to the company

The final borrower rating should be awarded and confirmed together by the sales and risk analysis employees primarily in charge of the exposure. The employees should carry out mutual plausibility checks. In addition, external ratings should also be used in the plausibility check. If it is not possible to come to an agreement, the managers in charge look at the exposure, but the final decision should not be left in the hands of the front office. The need for a formal arrangement is underscored by the significance which will be attributed to the rating under the IRB approach in the future.

Figure: 5.4



3.7.2.2 Overriding Rating Results

The internal guidelines should contain rules governing the circumstances under which it is permissible to interfere manually in the standardized credit rating models. This might, for example, be necessary in the course of a financial rating if a meaningful ratio analysis is precluded due to a special structure of the enterprise to be examined. Any changes made must be subject to strict documentation requirements to ensure complete transparency of the process. The authority to do so must be stipulated in the decision-making structure. Further-more, the number of overrides represents an indicator of the reliability of the credit rating processes. Therefore, the documentation is also required for validation purposes.

3.7.2.3 Documentation of Other Credit Assessment Factors

In addition to the factors evaluated by means of the standardized credit rating process, the employees handling the exposure could include further data/factors in the credit review. The need to offer at least the option to add a description and evaluation of the exposure results from the fact that the standardization of the credit rating process makes it necessary to limit the extent to which all existing credit assessment factors are presented. Ideally, the processes should adequately reflect all factors necessary to assess the credit standing, and the need for a separate description should arise only as an exception.

The description and assessment of these factors should be carried out in accordance with clear rules in the internal guidelines. In practice, the credit applications show fields that help document these factors. Five categories are usually distinguished:

1. Legal situation
2. Market situation
3. Economic situation
4. Project evaluation
5. Debt service capacity

3.7.2.4 Valuation of Collateral

The valuation of the collateral provided by the credit applicant is an essential element in the credit approval process and thus has an impact on the overall assessment of the credit risk involved in a possible exposure. The main feature of a collateralized credit is not only the borrower's personal credit standing, which basically determines the probability of default (PD), but the collateral which the lender can realize in case the customer defaults and which thus determines the bank's loss. Via the risk component of loss given default (LGD) and other requirements concerning credit risk mitigation techniques, the value of the collateral is included in calculating the capital requirement under Basel II.

In order to calculate the risk parameters under Basel II correctly, it is important for the valuation of the collateral to be effected completely independently of the calculation of the borrower's PD in the credit rating process. This should ensure that the probability of default and the loss given default are shown separately in order to meet the Basel requirements of splitting up the review into a customer rating which reflects only the PD on the one hand, and a transaction valuation which also contains a valuation of the collateral to support the credit decision on the other.

Collateral is generally divided into personal and physical collateral.

In the case of personal collateral, the provider is basically liable with his entire fortune. Examples of personal collateral are the following:

a) Suretyship
b) guarantee and letter of support
c) collateral promise

In the case of physical collateral, the bank receives a specific security interest in certain assets of the borrower or the collateral provider. Examples of physical collateral are the following:

a) Mortgage
b) pledge of movable assets (on securities, goods, bills of exchange)
c) security assignment
d) retention of title

The collateral catalog has to include appropriate instructions on assessing the collateral potentially accepted by the bank as well as determining its collateral value. A description of the processes and principles in determining the collateral value for each type of collateral will primarily have to be drawn up in accordance with the business orientation of each bank and the complexity of the approved collateral. General principles governing the valuation of collateral such as accounting for sustainable value or valuing the collateral based on the liquidation principle should be included in the determination of collateral value; similarly, it should also include general risk deductions (haircuts) as well as deductions for procedural cost (e.g. long time required to sell the collateral).

3.7.2.5 Exposure Assessment

After reviewing borrower rating, other credit assessment factors, and the collateral, it is possible to assess the borrower's creditworthiness with regard to the proposed exposure. The final assessment of the exposure risk can only be made (especially in the corporate customer business) after a comprehensive evaluation of all sub-processes of credit review. The results of the valuation of the collateral will also be included in this assessment which has to be made by the employees handling the exposure. The credit form should thus provide appropriate fields.

Here, it is important to make sure that the internal guidelines contain clear rules on the level of detail and the form in which the explanation has to be presented. In practice, it has proven useful to compare the positive and negative assessment criteria. In addition, the form should provide a field for a concluding summary. Here, too, the use of text modules appears appropriate to avoid long-winded and vague statements. The assessment of the employees in charge of processing the exposure is the basis for the subsequent credit decision. This must be done in line with the decision-making structure for the credit decision stipulated in the internal guidelines.

3.7.3 Automated Decision

The standardized retail business in particularly does mostly without individual interventions in the credit decision process, with the result of the standardized credit rating process being the major basis for the credit decision. As these processes are used only for small credit volumes, the data are often entered by a sales employee. Deviations can be found mostly in residential real estate finance, as it is possible to set up specialized risk analysis units for this usually highly standardized process. In both cases, the credit decision can be made by a single vote up to a volume to be defined in the internal guidelines in order to curb the complexity and thus increase the efficiency of the process.

Increasingly, mostly automated decision processes are also used in the small business segment. The prerequisite is a clear definition of and the data to be maintained for this customer segment. This makes it possible to create the conditions to derive a discriminatory analysis function.

3.8. Preparation of Offers

The internal guidelines have to lay down the responsibility for the final decision concerning conditions. If a calculation of the conditions in line with the risk involved is carried out by automated systems, sales can have the sole authority to set conditions. The sales department is fully responsible for earnings and should thus have the authority to decide on the conditions. If the systems do not allow a precise calculation of the risk-adequate conditions, the person in charge of risk analysis should be included in the final decision on the conditions.

3.8.1. Authority to Set Conditions

Income from loans commensurate with the risk involved to generate profits from other transaction with the customer in question (cross-selling). The basis for setting the conditions here is not the product costing, but a comprehensive customer costing, with total customer profitability being the main objective.

3.8.2 Credit Decision — Decision-making Structure

If a set-up of the specific credit exposure was agreed upon in the course of preparing the offer, this is followed by a formal internal approval of the individual exposure as part of the credit approval process. The essential risk-related issue of this process step is the definition of credit authority, particularly with regard to the coordination of sales and risk analysis.

Credit authority describes the authorization granted by the management to use discretion in making credit decisions up to a certain amount. In order to comply with the “four-eye principle”, this authority can — as a rule- only is exercised jointly by two or more decision makers. Moreover, a credit decision should always involve people that do not belong to the sales department (double vote). In addition, the level of authority should be commensurate with the experience of the employees in charge of assessing the credit exposure looking at decision-making authority; we will now discuss an idealized decision making structure. Special emphasis is placed on the determining factors to allow an adaptation to different business models.

3.8.2.1 Single and Double Vote Requirement

Entrusting the credit decision to persons from two unlinked departments is a major tool to prevent risks associated with granting loans. The hierarchical decision level should be identical for the sales and risk analysis departments.

Like the assignment of different levels of decision authority, the introduction of double vote requirements helps avoid or mitigate the occurrence of substantive and procedural errors in the course of the credit approval process.

3.8.2.2 Basic Guidelines Covering the Creation of a Decision-making Structure

After looking at the risk level of the pending decision, the structure should be subdivided based on the nature of the object of the decision. Three categories are usually formed here:

1. Non-standardized credits
2. Standardized credits
3. Short-term overdrafts (all instances in which credit lines are exceeded in the Short term)

From a conceptual point of view, it makes sense to refer to the credit risk associated with the individual exposures when drawing up the decision-making structure for non-standardized credits. As already outlined in section 2.2.2, the most important components in assessing the credit risk are probability of default

1. level of exposure
2. value of collateral
3. type of borrower
4. probability of default

In contrast to structuring credit approval processes, which have to be set up in accordance with the differing conditions in terms of assessing the risk-related facts, the criteria in this context should be weighted based on the absolute risk level of the exposure. Therefore, the level of exposure plays a decisive role in stipulating the decision-making structure. This is reflected in the fact that in most cases, the different levels of authority are defined by the level of exposure.

From a risk perspective, far-reaching standardization may render double vote requirements unnecessary. In deciding what transactions are subject to a single vote requirement, special emphasis will have to be placed on the following factors:

- Product and
- Volume

The differentiating criterion of “standardization” typically applies to products. The products have to be designed in a uniform manner as far as possible.

3.8.2.3 Delineation of the Levels of Authority

It has to be borne in mind, however, that such a procedure creates dependence between the decision-making structure with its underlying number of credit decisions and the bank’s organizational structure. It is particularly important to make sure that changes in the organizational structure do not lead to a backlog of credit decisions at a hierarchical level if the originally available capacity there is reduced as a result of such changes. It would, of course, also be possible to solve this problem by adapting the decision-making structure. Individual employees, for example, might be endowed with the decision-making authority of their respective managers. From a risk perspective, it needs to be ensured that no backlog of credit decisions occurs that would result in a limited capacity to examine the risk level of the individual exposures.

3.8.2.4 Executive Authority and Credit Committees

As a rule, company law does not restrain the authority of the entire executive board, but such restraints may exist under the Banking Act and for factual reasons. The legal explanation is that the absence of a stipulation in the bylaws is deemed to mean joint representation. This is definitely true for the authority to make decisions. In order to balance the interests of authorized representatives and owners, the decision-making structure provides for the consent of more than one executive or the involvement of owner representatives for exposures exceeding a certain volume to be defined.

3.8.2.5 Other Possible Stipulations of Decision-making Structures

The decision-making structure can stipulate further decision-making powers in connection with granting loans or questions that arise during the term of the credit (e.g. deviation from standard conditions).

In general, deviations from standard conditions are differentiated in accordance with their extent. In practice, three differentiating levels are typically applied:

- Deviation of less than 25%
- Deviation between 25% and 50%
- Deviation of more than 50 %

The decision-making structure has to stipulate the decision-making authority accordingly.

3.8.3 Internal Documentation and Credit Agreements

Documentation comprises the internal compilation of files as well as the preparation and conclusion of credit agreements.

The credit file is the central instrument of documentation. It should include all documents and decisions relevant for the credit approval so that it is possible to review the credit approval process at any time. Some banks use systems that allow the automated preparation of credit agreements based on the information in the credit file. This is done with the helps of programs that combine predefined text modules in predefined patterns. At the same time, that data specific to the exposure are included. The credit officer can then focus on reviewing the agreements, as procedural errors are largely excluded. A distinction has to be made between the internal coordination and review of contracts and the legally effective conclusion of contracts between bank and borrower. Therefore, the internal guidelines also have to stipulate the signing authority.

3.9 Continuous Monitoring of Credit Exposures,

Early Warning System and Reminder Procedures Throughout the contractual relationship between the credit institution and its borrowers, economic developments may bring about changes that have an impact on risk. Banks should monitor their credit exposures continuously to detect such changes in time. In general, this is done by means of so-called periodic and regular checks. Individual exposures are checked at fixed periodic intervals. Many banks integrate these checks in the roll-over of credit exposures which becomes due as periods expire.

In order to detect risks already prior to the periodic check to be carried out due to the expiry of a specified term, many banks use early warning systems.

Based on early warning indicators which have to be defined for each segment, a differentiated review process is triggered. Among other things, these early warning systems take into account defaults with regard to the contractual relationship between bank and borrower. Of great importance here is the insufficient performance of interest and principal repayment obligations. In order to react to these situations, banks have set up reminder procedures to inform the debtor of the default. Finally, this subsection thus looks at the structure of reminder procedures, which at the same time serves as a link to the next sub section, which deals with special servicing processes as opposed to standardized servicing processes.

3.9.1 Periodic Reviews and Roll-over

The processes governing the design of periodic reviews and roll-over differ only in a few aspects. The terminological distinction is based on different process triggers. While periodic reviews are carried out at intervals to be determined in the internal guidelines, the roll-over is triggered by the expiry of a contractually agreed period. In practice, banks try to carry out upcoming roll-over in the course of the periodic review. If it is not possible to do both at the same time, the internal guidelines may stipulate a period after the most recent review during which a roll-over can be carried out without the need for a new credit review. If this period has expired, the process of periodic review also has to be conducted in case of a roll-over. Below, we present the process of periodic review as the basic process. The only difference between a periodic review and a roll-over is that the latter offers the possibility to agree changes in the contractual stipulations of the credit exposure with the customer (e.g. new conditions) or to terminate the exposure properly.

The review of credit exposures should comprise four major activities:

1. Assessing the personal and economic situation of borrowers based on current data.
2. Adapting the rating, if applicable.
3. Checking and evaluating the available collateral.
4. Checking and modifying the conditions.

The review should focus on the development since the most recent approval or review. The decision-making structure should stipulate who is responsible for periodic reviews. In most case, it will be that level of authority which would also be in charge of approving new credit applications.

In order to make the review as efficient as possible, banks typically distinguish between three types of review. The differentiation is motivated by the differing risk level of the exposures entering the individual process chains. Review-related documents and the plausibility check of these documents. Typically, the questionnaires relating to the abbreviated review process contain checklists to check the data received for validity and plausibility the following list is an example of the content of a questionnaire relating to the abbreviated review process:

- Received balance sheet/statement of receipts & disbursements, and plausibility check
- Checking debt service capacity
- Reviewing account movements
- Checking and assessing significant deviations of financial figures or personal data compared to the previous review of the exposure.

3.9.2 Risk-triggered Reviews — Early Warning Systems

The events triggering a review of credit exposures described in section 2.6.1 are independent of the occurrence of risk signals arising from the business relationship with the borrower. Risk-triggered reviews, by contrast, are contingent on the actual occurrence or the assumption of negative criteria with regard to the borrower's credit standing also in between review dates.

3.9.2.1 Development

In many cases, an unscheduled review of credit exposures is carried out after receiving informal notification concerning new details about the customer from the account manager or third parties. This individual approach, however, should be complemented by a standardized and automated trigger process. This is usually done within the framework of so-called early warning systems. The immediate goal is the consistent and uniform trigger of the review process and thus a reduction of the individual process and assessment risk.

Basically, two models can be distinguished:

- Heuristic models (in particular risk grids)
- Empirical statistical procedures (in particular discriminate analysis)

3.9.2.2 Heuristic Models

These systems are characterized by the definition of individual risk signals that are checked at regular intervals and usually in an automated manner. They are used both in the retail and the corporate customer segment.

3.9.2.3 Empirical Statistical Models

Multivariate discriminate analysis is used in most cases here. This procedure assumes that troubled companies show certain common characteristics which distinguish them from sound companies. The derivative of a discriminate function needed for this procedure requires a large and homogeneous number of comparable borrowers. Accordingly, this procedure is primarily used in the retail segment (standardized business). Once a discriminate function has been defined, this is also applied to all credits of the respective segment at scheduled intervals and in an automated manner. However, the result of the multivariate discriminate analysis does not replace the review of the exposure, which is then used to determine the way in which to proceed with the exposure in question.

3.9.3 Reminder Procedures

In case of default on interest or principal repayment on the part of a borrower, a formal reminder procedure has to be initiated.

Reminder procedures are part of the credit monitoring of individual credit exposures. In order to avoid forgetting to send out reminders, Premier Bank Ltd should apply standardized and automated reminder procedures. If the

IT system registers the occurrence of a default on interest or principal repayment, a collection letter should automatically be sent to the borrower. The length of the waiting period has to be stipulated in the internal guidelines and implemented in the systems. This ensures that collection letters are sent out in time in every case.

Furthermore, tight reminder deadlines are useful for risk considerations.

This is true in particular as the lender's position may deteriorate compared to other creditors of the borrower during this period.

In order to make collection letters as effective as possible, some banks use a discriminating approach which is based on the classification of the borrower identified by an early warning system. Typically, both the wording of the text and the payment deadline are modified accordingly.

For business reasons, it is possible to exclude certain customers from the standardized reminder procedures (individualized reminder procedures). The prerequisites for an individualized reminder procedure have to be stipulated in detail in the internal guidelines. It is important that no general exception is made for entire groups of customers. Quite on the contrary, the exception should apply only to those customers whose contributions to earnings justify the resulting risk and the associated process cost. Therefore, the rules should define minimum contribution margins. If the individualized process — usually in the form of a personal conversation with the borrower — does not yield any results, the standardized reminder procedure should be initiated.

3.10 Intensive Servicing and Handling of Troubled Loans

If a borrower's credit standing deteriorates, the bank should interfere in the standardized servicing process and try to control credit risks that are imminent or have already taken effect. This should ensure that adequate measures to secure claims can be taken in time. The objective is not only an improved collateral position of the lender compared to other creditors (caused by the time gained by taking early precautionary measures), but also an effective restructuring of the borrowers debt, thus preventing the total loss of the credit exposure. It does not make economic sense to continue the credit exposure, the workout of the exposure and the resulting sale of the collateral should be initiated.

3.10.1 Transfer Process and Responsibilities

3.10.1.1 Definitions and Delineations

In this context, the term special servicing subsumes the process components intensive service, credit restructuring, and workout. These are delineated by way of exclusion from the standardized servicing of individual credit exposures.

With regard to process and risk, intensive servicing additionally has to be distinguished from the restructuring and workout process. In practice, the last two processes are usually combined under the term handling of troubled loans. This separation is based on the different credit risk potential inherent to each case.

3.10.1.2 Economic Rationale behind Differentiation

The differentiation between intensive servicing, credit restructuring, and workout is based on the consideration of risk and efficiency aspects. For efficiency reasons, the bank should attempt to put as little effort as possible into exposures that cannot be restructured. As insolvency would usually rule out further business with the borrower affected, in many cases, the expenditure cannot be offset by additional income from new business. Therefore, the first step is an intensive process modeled on the standardized process. The restructuring process is only applied to those exposures whose default would have a significant impact on the banks earnings situation and for which restructuring seems possible. Ultimately, this means weighting the level of the expected loss against the cost associated with restructuring the exposure.

3.10.1.3 Characterization and Responsibilities

The processes used in special servicing differ in terms of content and objective of the activities and actors involved in those processes.

While intensive servicing remains the responsibility of the employee in charge of the standardized process, the restructuring and workout processes usually involve a shift of responsibility to specialized employees.

3.10.2 Transfer Processes

3.10.2.1 Transfer from Standardized Servicing to Intensive Servicing

High-risk exposures should be monitored closely by the employee responsible in sales and processing. As there is usually no change in responsibility, a formal transfer is not necessary. In many cases, the resulting split of responsibilities leads to banks maintaining so-called intensive servicing databases, showing all customers who are monitored in the course of intensive servicing.

3.10.2.2 Transfer to the Restructuring Process

The internal guidelines should contain clear and preferably standardized rules on the factors triggering the transfer. The specific reasons for a transfer from standardized or intensive servicing to restructuring have to be laid down in the credit files. The reasons must be defined in a way that allows an independent check of the major reasons for transfer. Most importantly, the documentation of the reasons for transfer is required as the transfer to restructuring often entails a change in responsibility within the bank. Furthermore, the resulting process risks should be limited by using strict guidelines and standardized handover reports. As the treatment of exposures in restructuring requires a massive use of resources, the handover decision should also include a cost-benefit analysis. In practice, it has been shown that a large number of exposures cannot be restructured efficiently. Therefore, many credit institutions do not provide for restructuring in the retail segment, especially not for standard products.

Instead, non-performing exposures are handed over straight to the workout process. Thus, it is advisable to distinguish between standard and individual transactions. The internal guidelines have to stipulate the types of business covered under standard and individual transactions.

When an exposure is transferred to restructuring, the collateral should be reviewed and, if necessary, reevaluated.

3.10.2.3 Transfer to the Workout Process

The workout process is the last sub-process in processing delinquent exposures. Exposures from standardized and special servicing can be subjected to this process directly. The reasons for the decision to hand over an exposure to the workout process have to be laid down in the credit files. The reasons must be defined in a way that allows an independent check of the major reasons for transfer.

When an exposure is transferred to the workout process, the collateral should be assessed from a liquidation perspective.

3.10.3 Design of Intensive Servicing

Intensive servicing should be a process designed to maintain the customer relationship, with the goal of minimizing the risk associated with the exposure.

When an exposure is subjected to intensive servicing, the employee in charge in processing and the account manager should make an according note in the credit file summarizing the measures that are to be taken to secure the claims

Examples of elements of an intensive servicing strategy include the following:

- Agreements on exposure reduction
- Changes to the finance structure
- Restrictive account management
- Agreement on continuous reporting on the part of the customer
- Collateral enhancement
- Changes to the contract design

3.10.4 Design of the Restructuring Process

The restructuring process is typically carried out by employees that are not in charge of the exposure in the standard servicing process. Two reasons are particularly relevant here:

- Special know-how
- potential problems with regard to the close relationship between standard account manager and customer

The transfer of an exposure to restructuring should be accompanied by a written documentation of the borrower's economic situation with reference to the existence of the relevant characteristics of a restructuring case.

In order to ensure an efficient restructuring process, it is important to prepare a cost-benefit analysis and a restructuring concept.

Restructuring concepts should comprise four major themes:

1. Determination of the basic restructuring orientation;
2. Planning of milestones (e.g. financial planning);
3. Temporal limitation of restructuring efforts;
4. Financial limitation of restructuring efforts.

It should be checked at regular intervals if the milestones of the restructuring concept have been reached. These reviews should also include an assessment of the restructuring progress with regard to a timely achievement of objectives.

The person in charge has to be informed of the results. This person then has to make a decision on the further procedure in connection with the exposure in question, especially taking into account the original restructuring concept.

3.10.5 Design of the Workout Process

An efficient execution of the workout process is contingent upon the existence of clear guidelines on handling different types of claims and collateral. There- fore, the internal guidelines should contain relevant process rules. As many examples show, deviations from the workout strategy defined in the internal guidelines should not be permissible in the course of workout. Therefore, the leeway for employees in charge of workout should be defined narrowly.

3.10.6 Risk Provisions

Finally, the processes concerning the set-up of specific loan loss provisions as well as recording the write-off of claims are discussed.

3.10.6.1 Setting up Specific Loan Loss Provisions

The fundamental regulations governing the determination of specific loan loss provisions are stipulated in the commercial and the tax code. For reasons of completeness and easy access, these norms should be contained in the internal guidelines.

The set-up of specific loan loss provisions requires a forecast including all factors that can be expected to affect the extent of the provisions. Furthermore, the determination of the reduction in value requires the valuation of the collateral associated with the exposure. In accordance with the lending principles stipulated in the internal guidelines, the current loan-to-value ratio forms the initial value used to determine the collateral value. If there are any doubts about the actual value, the loan-to-value ratio has to be reviewed and modified if necessary. The internal guidelines should lay down the possibilities to determine loan-to-value ratios in the set-up of specific loan loss provisions. This lending value may be reduced from case to case to account for the marketability of the asset as well as an objective assessment of the sales prospects at the balance sheet date. The employee in charge has to justify the reduction in value in the credit files. Further-more, it has to be ensured that the realization costs are taken into account when determining the collateral value relevant for the specific loan loss provision.

3.10.6.2 Write-offs

Write-offs of claims refer to those amounts by which claims are reduced as a result of becoming uncollectible. This includes direct write-offs as well as the utilization of specific loan loss provisions.

The exposure should be written off if

➲ The collateral of the related exposure has been realized in full or is of no value; or

➲ The claims were waived in part or in full, and no more payments on the remaining claim are to be expected.

Stipulations governing the decision-making authority have to be laid down in the internal guidelines. The request for a write-off of claims should include the presentation of the reasons for the default. Furthermore, it should contain a statement as to whether the claim should be pursued any further. The claims should be recorded in a central list of defaulted claims which is uniform for the bank as a whole. Depreciation and provisions should be recorded continuously, also throughout the year

Chapter 4

Data Analysis & Findings

4.1 SWOT ANALYSIS

SWOT analysis is an analysis of the organization Strengths, Weakness, Opportunities, and Threats. Based on the SWOT analysis, managers can identify a strategic niche that the organization might exploit. In light of the SWOT, managers also reevaluate the organization's current mission and goals. The question whether company modification or not is coming out through this analysis. If changes are needed in the overall direction, this is where they are likely to originate. If no changes are necessary, managers are ready to begin the actual formulation of strategies.

***Strength*: **Strengths are the skills or capabilities that enable the *Premier Bank Ltd* to conceive and implement its strategies.

Strong corporate identity

- Retail product interest rate is low compare to others
- Distinct operation procedures
- Minimum loan defaulter
- Distinctive product and features
- The parameter of rattail banking is clear and friendly
- Efficient management system
- Customer loyalty is high
- Significant customer relationship management

Weakness: Weaknesses are the skills or the capabilities that does not enable the Premier Bank Ltd to conceive and implement strategies that support its mission.

- Lack of advertisement
- Lack of ATM booth
- Lack of investment procedure
- Lack of budget in case of branding
- Low remuneration package for the employee
- Political partiality

Opportunity: Opportunities are the areas that may generate higher performance.

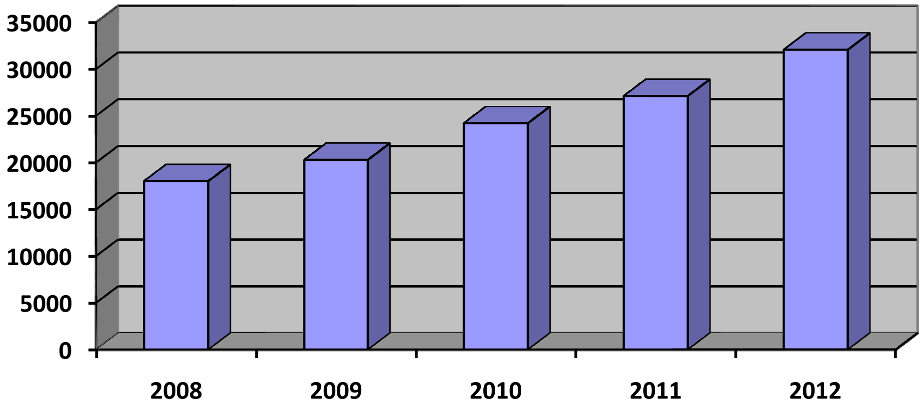
- Opportunity to become market leader
- High demand for retail loan
- Opportunity product explanation
- Opportunity to brand expansion
- Dual currency credit card
- On line banking facilities

Threat: Threats are the areas that increase the difficulty of Premier Bank Ltd performing at a higher level.

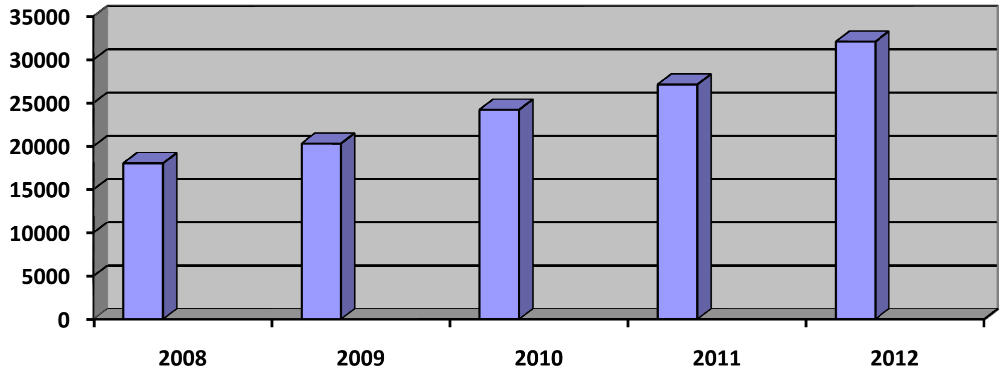
- Threats of new entrance
- Threat of substitute service
- Product/service risk
- Economic recession
- Threat of loan collection
- Threat from the government such as change of rules regulation etc.
- Environment change
- Political instability

4.2 Ratio Analysis:

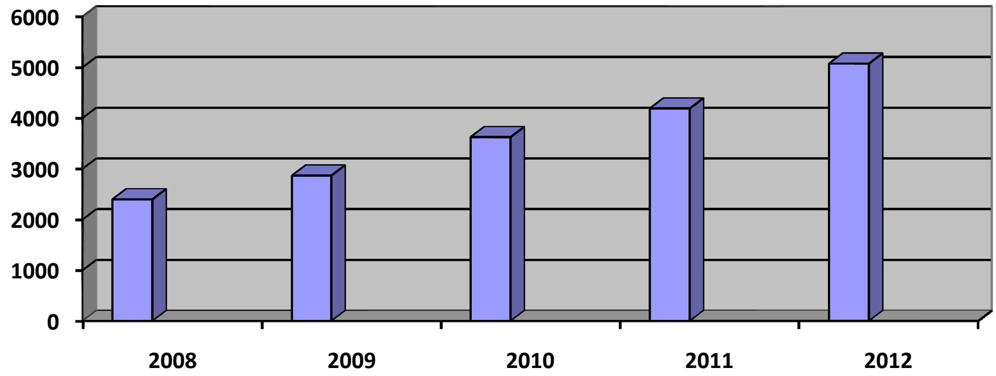
Financial Performance of the Premier Bank Ltd



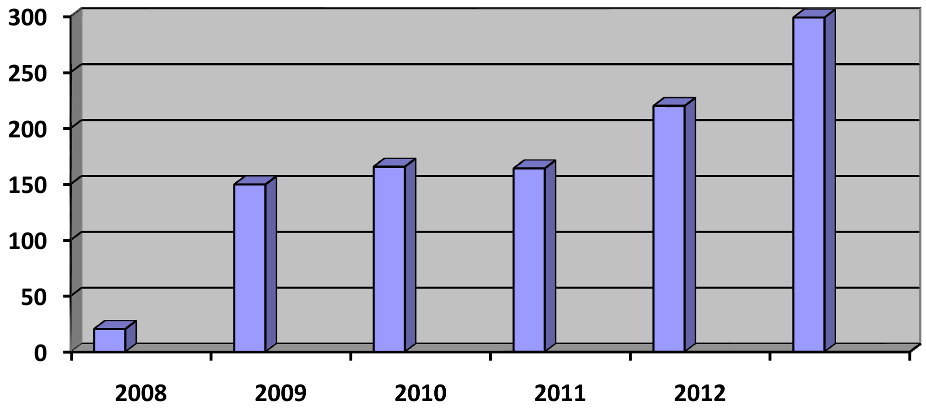
Investment



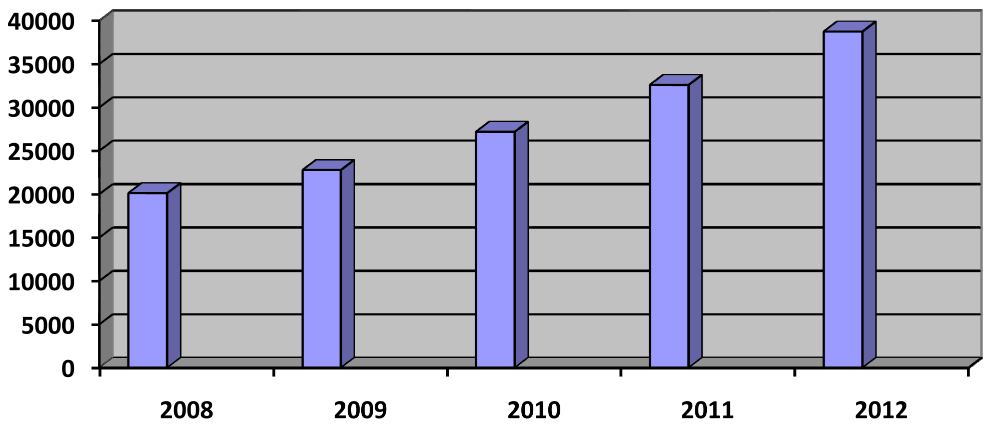
Deposits



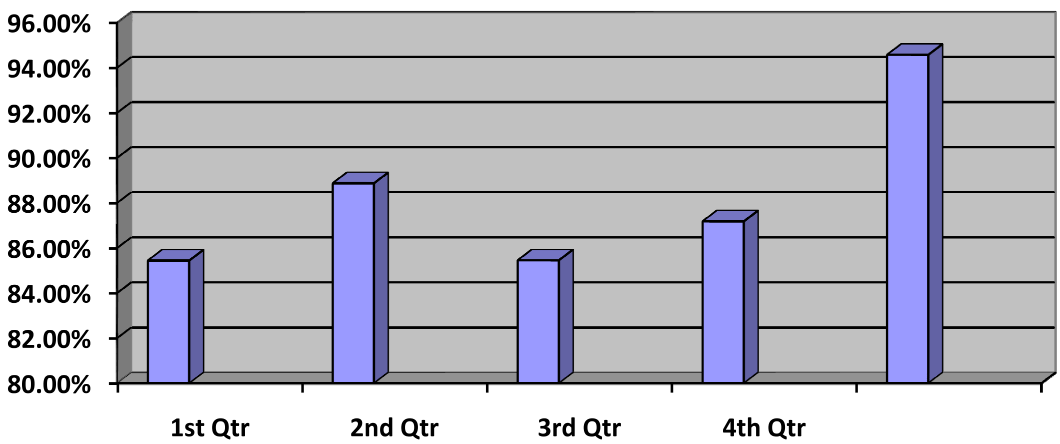
Income



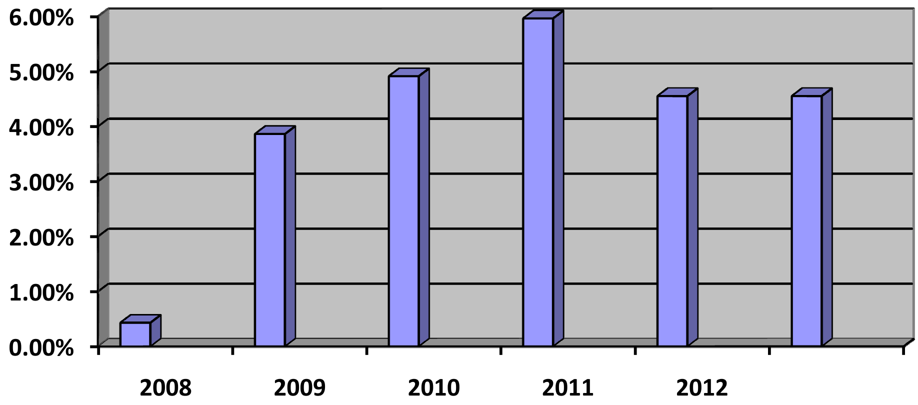
Fixed Asset



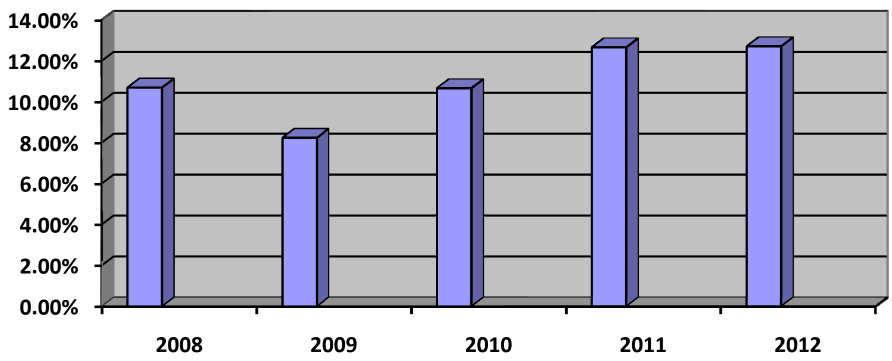
Total Asset



Loan as total Deposits



Non Performing Loan



Capital Adequacy Ratio

4.3 Findings:

➲ With a view to improving the quality and soundness of loan portfolio, credit risk management methods were updated. The Bank is now applying a new system of credit assessment and lending procedures by stricter separation of responsibilities between risk assessment and lending decisions.

➲ The Bank provide incentive bonus to its employees on the basis of profit earned during the year. This year the Bank provides several times' basic salary as the incentive bonus to its employees and two festival bonuses which motivates employees to perform effectively and efficiently.

➲ The employees of the Bank are young, energetic, cooperative and friendly. Their dealings with the client are cooperative and friendly which creates attractive perception about the client and interest to do business with the Bank

- **Premier Bank** also gives preferences to local customer through its marketing efforts.
- **Premier Bank** started operation in Bangladesh in 1999. By following prudent corporate marketing and risk management policy, Premier bank recognized as one of the leading bank in the country. PBL group has well-established corporate lending and credit risk management process which involves analyzing customers' need prudently and carefully, analyzing local culture and economy, periodic analysis of industry, offering products in line with customer's needs and maintaining good asset portfolio.
- KYC, "Know Your Customer", is a very important term that is gaining importance day by day. In lien with this principle, Premier bank Ltd carries out a details analysis before entering onto a relationship. Understanding business type is therefore very important as it assist the bank to structure credit facilities in line with customer's need. For example, Loan tenor and type for a manufacturing concern should be different from that of the retailers.

- **Premier Bank** has a full service capability for corporate operating. The Premier Bank is proud to bring its global capabilities to the customers in Bangladesh. Through analyzing the local market and industry, PBL offering full range of corporate products such as working capital loan, long term loan, project loan, import & export loan, treasury etc. in line with local needs.
- **Premier Bank's** credit evaluation process for corporate customers involves an assessment of the customer's business operations and strength in order to identify and understand the current and potential operating and financial risks. Before approving any credit proposal, the bank carry out a very detailed financial analysis as it helps to identify and quantify the customer's financial risks and prompt questions about possible operating risk.
- **A doctor** whose patient complaint of a severe headache does not prescribe paracetamol on the theory that all headaches are the same. A doctor determines the cause of the headache and treats the ailment found. In lending, banker plays the role of doctor when the customer complains of a **"cash ache"**. Premier bank Ltd has a well-defined products structuring policy. According the needs and on the basis of business cash cycle, the bank structure and offer the products to the customer. In report, we have seen number of reasons for borrowing such as borrowing caused by sales growth(both short and long term), borrowing caused by slowdown in the operating cycle, borrowing caused by purchase/replacement of fixed assets.
- The most common finance that the bank grants is for the short term working capital of a business. This finance is usually provided by way of overdraft. However, it is always

difficult to identify precisely how funds are being used from an overdraft because the customer can easily divert them to take advantage of other opportunities which the original facility was not designed to meet.

➲ Import, Export finance and related products, by contrast, provide a means of tailoring facilities to specifically meet a customer's working capital requirement. From the bank's viewpoint, by relating finance to the goods which move through company's trade cycle, trade finance facilities provide the bank with greater control over the use to which its facilities are put by the company. Premier bank is known as one of the best trade banks in Bangladesh.

➲ Understanding industry is indeed a very crucial aspect of corporate lending. Bank can identify potential area of lending through analyzing various industries. Apart from identifying prospective sector, industry analysis also assist a bank in detecting opportunity and risk associated with specific borrower Premier Bank’s corporate banking department carry out industry analysis on a regular basis and set strategy accordingly.

➲ Economic conditions, political stability, government policy, demographic statistics, social aspect, regulatory framework, ethnic mixes are the major issues that mainly evaluated by Premier Bank. In line with changes of these environmental issues the bank change its lending policy. Due to recent growth rate of GDP and improvement in investment conditions, Premier bank fells more comfortable to expand its operations.

Chapter 5

Recommendations & Conclusion

5.1 Recommendations:

Based on the evaluation of different aspects of the credit process of Premier Bank, the following recommendations have been made:

- In the face of competitive and borrower dominated credit scenario Premier Bank must come up with innovative loan products to meet up the demand of time. In this connection PBL can focus on some more loan products like:
  - Leasing
  - Apartment loan
  - Marriage loan
  - Education loan
  - Credit card
- To combat the problem of mobilizing deposit in the form of credit, Premier bank should focus on intensive marketing effort.
- Entrepreneurship lending should be given due emphasis.
- As borrower selection is the key to successful lending, Premier Bank should focus on the selection of true borrower. But at the same time it must be taken into account that right borrower selection does not mean that PBL has to adopt conservative lending policy but rather it means that compliance with the KYC or Know Your Customer to ascertain the true purpose of the loan.
- Care should also be taken so that good borrowers are not discarded due to strict adherence to the lending policy.
- At the branch level credit department must be adequately capable of collecting the correct and relevant information and analyzing the financial statements quickly and precisely.
- Credit officer must be skilled enough to understand the manipulated and distorted financial statements.
- Credit committees at all levels must work in co-ordination with each other for quick approval of loans and to reduce the loan processing cost.
- To expedite the lending process, board credit committee meeting should be held twice a month instead of once a month.
- Monitoring of a loan should be conducted at regular interval to enhance the borrower is properly maintaining the mortgage property and utilizing the borrowing money. The bank should benchmark the monitoring techniques practiced by the successful and established banks in Bangladesh. It should take the counseling service from the experienced expatriate

to further improve the monitoring techniques. Furthermore it should also aware of the monitoring techniques adopted by the established banks around the world.

- In case of mortgage, care must be taken to accept collateral on second charge.
- In case of assignment the bank must ensure that the assignment debtor has given undertaking.
- Reporting of all loans should be periodically made to Bangladesh Bank
- Loan monitoring is a continuous task and requires expert manpower. Therefore it is suggested that Premier Bank should set up a separate loan monitoring cell, which will be responsible for monitoring its total loan portfolio with special care to the problem loan.

During the last few the entire economy is having a upward growth which helped the banking industry to widen their business at different sectors. The success of banks depends on how effectively they can deliver their services to the customers and earn maximum amount of profit. Hence, to achieve the objective of credit services the monitoring techniques should be updated and the assessment financial information provided by the customers should be done carefully.

5.2Conclusion:

Banking business in 21st century is a challenging business. The There are different financial organization but bank aree the only institution who provide financial help to other financial organization.

Bangladesh is a country with huse plan angreat future because it changing day by day. According to the change in the todays world Premier Bank Ltd is changing and try to run according to the change.

Banking in Bangladesh is possible for the foreign investor who has a good knowledge about the country's banking and financial system. Bangladesh has many banks including commercial banks, international banks and rural banks. Banks in Bangladesh cover all banking needs, but anyone wishing to use Bangladeshi banks should have a good understanding of how the system works.Banks of Bangladesh can be used by foreigners.

After annalysing the overall setuation of this bank we found that Premier Bank is a bank working with a great position also with a huse number of people. It is also faicing risk but the setution is day by day changing changing to reduce the risk.Here lot of sugiggisition is given if it wikll analyse here the bank can grrt a solution mon there day by day situation that can be the situation of a good station.

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