

Intern report on banking sector

Business



Supervisor's Approval This is to certify that a research work title " Credit Management Practices of the Private Banks in Bangladesh – A case study on Mutual Trust Bank Limited," has completed under my supervision by " Mr. Shahidul Alam", ID No : M122806 Student of MBA, International Islamic University Chittagong. This research work has been original one. It was not published earlier and not submitted to any other university. We therefore recommended this dissertation to accept for completion of Masters of Business Administration (MBA).

We wish him every success in life.

Student's Declaration To The Dean, Department of Business Administration, International Islamic University, Chittagong. Dear Sir, Here the internship report that you have assigned to accomplish as an essential requirements to partial fulfillment for the Graduate Degree of Masters of Business Administration (MBA) and also achieving knowledge about " Credit Management Practices of the Private Banks in Bangladesh – A case study on Mutual Trust Bank Limited. " Without your cordial cooperation it was not possible for me to prepare this report. Thanking you,

Md. Shahidul Alam ID No: M122806 International Islamic University Chittagong LETTER OF SUBMISSION To The Dean, Department of Business administration, Southern University Bangladesh.

Subject: Submission of Internship Report Sir, I have the pleasure to submit an elaborate Internship report after a successful three months Internship attachment in the Mutual Trust Bank Limited, at Agrabad Branch, Chittagong. The Internship Report concentrates on the " Credit Management

Practices of the Private Banks in Bangladesh – A case study on Mutual Trust Bank Limited. The practical knowledge and experience gathered during report preparation will immeasurable help in my future professional life. I will be obliged if you kindly approved this endeavor. Thanking You, Md.

Shahidul Alam BBA (Finance & Banking) ID-NO: 111-28-14 Southern University Bangladesh
ACKNOWLEDGMENT At the very beginning, I would like to express my deepest gratitude to almighty Allah for giving me the strength and the composure to finish the report. At first I would like to express my gratitude to my supervisor Mrs. Israt Jahan & Mr.

Abdullah Al Hasan for all their kind cooperation to the successful end to this internship report. I would like to convey my gratitude to the authorities of Mutual Trust Bank Limited, for giving me the opportunity to have my internship at their reputed organization. I also offer my acknowledgement to Md.

Khurshed Ul Alam sir (Executive Vice President & Manager) and other officer of Mutual Trust Bank Limited, Agrabad Branch Chittagong for their kind cooperation and support for completing this report. Without their help and cooperation, this report would have been an unsuccessful one.

Therefore, last of all I would like to thank all the individuals who provided their kind cooperation in preparing this report. EXECUTIVE SUMMARY It is very much important to coincide the academic knowledge with the practical one. Keeping this viewing in mind department of Bachelor of Business Administration, Southern University Bangladesh, arrange a practical orientation (Internship program) for the students. In this way I was placed in

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the Mutual Trust Bank Limited, Agrabad Branch, Chittagong for my internship program to have a practical working experience & have understanding of the real life with a closer look.

The prime objective of internship program is to introduce the learners with the practical organizational environment so that they can turn themselves for the jobs in future & can get an opportunity to reflect their theoretical learning with real life situation. In my internship with Mutual Trust Bank Limited at Agrabad Branch, Chittagong; I worked with the activities of the Credit Management & practiced by them. The main objective of this study is to evaluate the Credit Management Practices of Mutual Trust Bank Limited in Bangladesh. So the objectives are: 1. To high light the Credit Instrument, 2.

Factors affecting for choosing good Credit Client, 3. Credit Policy of this Bank, 4. Year wise Credit analysis, 5. Financial performance in Credit, 6. Credit Risk Management, 7. Techniques used to manage Credit Risk Management, etc.

The data of this report is based on primary and secondary data. The sources of data are as follows Personal experience gained by visiting different desks during internship period, Procedure Manual published by Mutual Trust Bank, Annual report of Mutual Trust Bank Limited, various documents provided by Mutual Trust Bank, Lecture sheets provided by Mutual Trust Bank Limited, Web site of Mutual Trust Bank Limited.

As the year has not yet completed, so updated data can not be presented. It is too much difficult to comment and suggest based on the annual report and

information supplied by the organization. Mutual Trust Bank Ltd. keeps data confidentially.

So, it was not possible to collect important data. The time provided for the report was not sufficient. This report contains practical observation and experience of different desks in Mutual Trust Bank Limited, Agrabad Branch, Chittagong. It has highlighted the Credit Management process of this bank. Here these are known as credit management.

But according to report, the subject is “ Credit Management Practices of the Private Banks in Bangladesh – A case study on Mutual Trust Bank Limited. ”
Introduction of the Study: Financial development is essential for economic growth and development, and weak financial systems make countries into vulnerable situation. To enhance the economic growth developing countries must take initiative to increase both the financial depth and diversity of their financial sectors. Banking sector is one of the most important sectors for the economy of a country. Government controls/implements the monetary policy through Bangladesh Bank.

Bangladesh Bank controls the banking system of the country which are the core financial services provider. From 1971 to till today the total a good number of bank in Bangladesh is 47; which include four nationalized banks, five governments owned specialized banks, twenty nine local private banks and nine multinational banks. Besides that, there are twenty-eight non-banking financial institutions also conducting their operation in this country. The economic growth depends upon the cash flow and credit policy of a country. Banks are the financial institution: the sources of cash flow as well as credit.

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So it is very much needed to understand the credit and its policy.

Fund needs and over flow of funds is both negative impact in the economy.

The understanding of credit and its monitoring policy should be guided according to the laws of the regulatory body /framework. In the study, the policy and practice of credit practice of MTB is demonstrated. Objectives of the Study: Every task has some particular objectives. Anything without having the objectives cannot reach its destination.

We know that objective is the end result to ensure the any organizations goal.

The Principal Objective is to evaluate the Credit management practice of Mutual Trust Bank Limited. The specific objective of this study is as follows: i. To highlight the Credit instrument available to Mutual Trust Bank Limited. ii. To know about the factors affecting the choice of Credit of Mutual Truest Bank Limited.

iii. To learn the Credit policy of Mutual Truest Bank Limited. iv. To highlight the year wise Credit in different instruments of Mutual Truest Bank Limited. v.

To evaluate the financial performance in Credit. vi. To asses the Credit risk of Mutual Truest Bank Limited. ii. To asses the tools or techniques used to manage the Credit risk viii. To give the recommendation to improve the weakness of Mutual Truest Bank Limited.

Methodology of the Study: Both primary and secondary data sources will be used to generate this report. Primary data sources are scheduled work,

informal discussion with seniors and departmental staffs and daily desk work. The secondary data sources are annual reports, manuals, and brochures of Mutual Trust Bank Limited and different publications of Bangladesh Bank and books various foreign report. Primary Data:

Primary data for the study are collected through questionnaires and other techniques including observation, formal meeting and informal discussion. • Observation: Observation technique was adopted for primary data collection. • Interview: Conduct interview/discussion with the seniors/executives of the bank in formally and informally for collecting information.

Secondary Data: Secondary data were collected from the annual report, journal and records. The sources from where Secondary data were collected may be divided into following categories: • Relevant books, Journals, Periodicals, Research Papers and others. Business Conference Report of the Bank. • Printing materials like monthly publication (MTBiz) of the Bank. • Printing materials of other private banks and Financial Institutions.

Limitations of the Study: The limitations of the study are: • Lack of sufficient knowledge in different sector: It is not possible to have to concentrate in all departments by a single body. Lacking of sufficient knowledge may be observed in different parts of the study. • Time limits: The budgeted time of the study was limited and is not sufficient to achieve overall knowledge of the objectives. Information: Due to the desk assignment and heavy work load it is almost difficult to collect information from the different sources other than my bank. But the report is covered in such a way that it will be a

blending of organizational information as well as outer financial institute data.

Historical Background: The Company was incorporated on September 29, 1999 under the Companies Act 1994 as a private company limited by shares for carrying out all kinds of banking activities with Authorized Capital of Tk. 38, 00, 000, 000 divided into 38, 000, 000 ordinary shares of Tk. 00 each. The Company was also issued Certificate for Commencement of Business on the same day, was granted license on October 05, 1999 by Bangladesh Bank under the Banking Companies Act 1991, and started its banking operation on October 24, 1999. As envisaged in the Memorandum of Association and as licensed by Bangladesh Bank under the provisions of the Banking Companies Act 1991, the Company started its banking operation and entitled to carry out the following types of banking business: ? All types of commercial banking activities ? Money Market Operation Credit in Merchant Banking activities ? Credit in Company activities.

? Financiers, Promoters, Capitalists etc. ? Financial Intermediary Services. ?

Any related Financial Services Mission: We aspire to be one of the most admired banks in the nation and be recognized as an innovative and client-focused company, enabled by cutting-edge technology, a dynamic workforce and a wide array of financial products and services Vision: Mutual Trust

Bank's vision is based on a philosophy known as MTB3V. We envision MTB to be: • One of the Best Performing Banks in Bangladesh The Bank of Choice •

A Truly World-class Bank Organizational Structure: MTB's organizational structure aims at supporting the strategies detailed in the policy. The key feature is the segregation of Marketing/Relationship management from

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Credit Approval/ Risk Management and Administration functions: Credit Approval is centralized within CRM function. All credit applications are approved by the Head of CRM Division/Deputy Managing Director/Managing Director/Executive Committee/ Board of Directors as per delegated authority.

Organizational Structure of Head Office:

Organizational structure of MTB, HO is demonstrated below: [pic] Note: MD- Managing Director DMD-Deputy Managing Director HOCBD-Head of Corporate Banking Division HOCRM-Head of Credit Risk Management Division HOCAD-Head of Credit Administration Department HOCMC-Head of Credit Monitoring Cell HOCRC-Head of Credit Recovery Cell ICCD-Internal Control & Compliance Division Organizational Structure of Branch: [pic] ** At branch

level credit Administration Department will perform the function of credit monitoring and legal functions. ** Applicable for large/Selected branches.

Goals and strategies: Utilize all available resources to develop various plan, policies and procedures in each of the objective and goal areas. • Synchronized and steady growth of the bank. • Utilize team of professional employees. • Search for a total customized solution for by establishing full automation step.

- Develop a plan for offering better customer service. • Develop a realistic deposit mobilization plan • Build up appropriate lending risk assessment system • Improve capital plan • Develop a structure to make sound loan and advances • Develop systematic procedures and approaches by improving management efficiency. Expand scientific MIS to monitor bank's activities. • Ensure a sound rate of recovery of all advances, loans and other credits. •

Build up a low cost fund base • Meet capital adequacy recruitment at all the time.

Introduction: The two main functions of a bank are borrowing money from public by accepting deposit and invest to the public for the development of trade, commerce, industry and agriculture. Banks give some interest to depositors for deposit and take higher interest for lending. The margin is the banks profit. So, lending is by far the most important function of modern bank.

The strength of a bank is, thus, primarily judged by the soundness of its advances.

A wise and prudent policy in regard to advances is considered an important factor inspiring confidence in the depositors and prospective customers of a bank. Advances not only play an important part in gross earnings of bank, but also promote the economic development of the country. All types of business activity includes trade, industry and agriculture have to depend on bank finance in one form to offer. Bank by channeling accumulate savings of the nation into productive uses, help both the depositors and the borrowers.

MTBL disburses advances in two broad areas.

These are industrial credit and commercial credit scheme. Industrial credit: Industrial credits are given for industrial purpose. The sector where some process involves is called industry, such as shape of material. Industry can be two types: 1. Manufacturing industry- Cement, steel factory etc. 2.

Service industry- Hotel, transport, etc. Industrial credit is given for two purposes: 1. Term loan – fixed assets financing. 2. Working capital – current assets financing.

Commercial Credit: Commercial credits are given for trading purpose. Where no process involved.

EXIM lends support towards development of trade, business and other commercial activities in the country. Personal Loan-Unsecured ? Brand Name: Personal Loan ? Product cap: BDT 300 million ? Segment Cap. : BDT 1 billion ? Point of Sales: All Branches of MTBL Target market specification: ? Employees of' reputed local corporate, MNCs, NGO, Airline, private Universities, Schools & Colleges, International Aid Agencies and UN bodies ? Government employees ? Self-employed Professionals (Doctors, Engineers, Chartered Accountants, Architects, Consultants) ? Businessman Purpose ? House renovation Marriages in the family ? Advance rental payments ? Purchase of office equipment/accessories ? Office renovation ? Purchase of miscellaneous household appliances ? Purchase of Personal computers ? Purchase of audio-video equipment ? Purchase of furniture Personal Loan-Secured * Brand Name : Personal Loan *Product cap.

: BDT 300 million *Segment Cap. : BDT 1 m illion *Point of Sales: All ranches of MTBL Target market specification-All clients of MTBL

Purposes -Personal Loan against lien over FDR, BSP, ICB unit Certificate, RFCD, NFCD, CD account(s) etc. Auto Loan • Brand Name: Auto Loan • Product cap. : BDT 300 million • Segment Cap. : BDT 1 billion • Point of sales: All Branches of MTBL Target market specification:•Employees of

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reputed local corporate, MNCs, NC)Os, Airlines, Private Universities, Schools and Colleges, International Aid Agencies and UN bodies •Government Employees •Self-employed professional (Doctors, Engineers, Chartered Accountants, Architects, Consultants) •Businessman Purposes•Brand New Non-registered reconditioned car Credit Scheme for Women Entrepreneurs Objective of the Scheme The scheme is intended to finance the women entrepreneurs to efficiently and successfully build up business enterprises oil' their own. The statistics presently show that 540 of the total population are women.

thus the participation of the women fold in the economic development of the country is a must and their new enterprises will help in achieving the social and national goals, which in turn will enormously contribute towards employment generation and thereby add to the country's GDP

Eligibility Enterprising adult women working single or involved in a group or association may be eligible to apply. Overdraft against pledge of goods/stocks: Overdraft facility may be extended to the borrowers against pledge of raw materials/finished products as security subject to credit and margin restrictions imposed by Bangladesh Bank/Head office from time to time. In this case the client by signing a duly stamped letter of pledge surrenders the physical possession of the goods, under effective control of the bank.

But in case of default by the borrower in repayment of the advance, the bank can sell the goods, after giving proper notice to the borrower and adjust the outstanding with the sale proceeds. If any excess amount remains after full adjustment of the outstanding, the same is to be refunded to the borrower.

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If however, there remains any shortfall, the same may be recovered from the client separately. While allowing overdraft facility against pledge of goods/stocks, the following points must be considered: A.

The quality and quantity of the goods B. The goods are readily saleable and have a constant and effective demand in the market; C. Goods are not perishable either on short or in long term duration; D. In case of agricultural crops the same should pertain to the current season, and the credit is adjustable before the end of the season; E.

Goods are stored in Pucca Godown to save them from deterioration, and also to guard them against risk of pilferage; F. The borrower has an absolute title to the goods; G. The goods are not already encumbered;

H. The prices of the goods are not subject to violent changes; I. Goods stored in the Godown in the presence of a responsible officer of the bank at the time of first pledge; J.

Valuation of the goods are made very carefully with reference to invoice, bill of Entry, Ex-factory price, Market price etc. ; K. The selling price of the goods offered as security is to be ascertained from the market; L. The goods are to be insured against all risks under Bank's mortgage clause for a sum 10 % above the sanctioned limit.

Godown keeper and Security Guards are to be posted into the godown as per rules of the Bank M. Name plate of the Bank has to be displayed at the pledge godown both inside and outside; N.

The stock report has to be obtained duly signed by the borrowers, indicating the goods item by item, their quality, rates and value duly certified by the Godown keeper; O. Goods/stock must be inspected regularly by authorized representative of the bank; P. Stocks Cards indicating the quality of stocks in the godown, their value and rate should be placed inside the godown, at a prominent place.

In large Godown with a number of stocks, separate cards for each stocks are made and a summary of the cards is displayed; Q. The locks of the Godown are to be sealed and one set of the keys are to be kept in the branch and the other set to be kept in safe deposit vault with Head Office duly acknowledged; Advance against work order 1. Advance can be made to a client to perform a work order.

The following points should be noted carefully to judge the merit of the case:

- A. The work orders of government Department, Corporation, Semi-Govt. Autonomous Bodies and reputed Multinational/Private organizations can be considered.
- B. The Client's management capability, equity strength, nature of the scheduled work and feasibility study should be judiciously made to arrive at a logical decision.
- C. If there is a provision for running bills for the work, appropriate amount to be deducted from each bill to ensure complete adjustment of the liability within the payment period of the final bill.
- D. Besides assigning bills, receivables, additional collateral security should be taken to safeguard the Bank's interest.
- E.

Disbursement should be made only after completion of documentation formalities and fulfillment of necessary arrangement the client to undertake the works, to the satisfaction of Bank. F. The work should be strictly monitored to review the progress each interval. Loan against hypothecation of Cars, Buses, Trucks, Scooters and Watercrafts. 1. While allowing loan against hypothecation of Cars, Buses, Trucks, Scooters or Water Crafts, the following points should be taken into consideration subject to credit restriction imposed from time to time.

A. The trustworthiness of the borrower. B.

The value of the vehicle C. Whether it is a brand new vehicle.

D. While importing vehicles, the total landed cost to be determined and retirement arrangement to be made beforehand. E. Whether the repayment capacity of the borrower is satisfaction F. The title of the borrower in respect of vehicle is absolute. Loan against imported merchandise (L.

I. M.) 1. Loan against the security of merchandise imported through the bank may be allowed against pledge of goods, retaining margin prescribed on their landed Cost, depending on their categories and credit restrictions imposed by the Bangladesh bank.

Branches shall also obtain letter of undertaking and indemnity from the clients, before getting goods cleared through LIM account. 2.

Clearance of the goods should be taken through Approved Clearing Agent of the Bank. 3. The following points must be taken into consideration while allowing advance against the security of imported goods: A. That the landed

cost of the merchandise is properly worked out before the goods are delivered to the customer against proportionate payments. The landed cost of the goods subject to the credit restriction imposed by Bangladesh Bank is arrived at by taking into account: . The invoice value of the merchandise including freight.

2. Customs Duty 3. Sales Tax. 4. Wharf age. 5.

Clearing Agent's Charges. 6. Railway Freight etc. 7. Insurance Premium 8.

Demurrage 9. Other Charges, if any. B. The landed cost of each item should be separately worked out, so that goods are delivered to the customers against proportionate payment made for each item. While making part delivery, it must be ensured that slow moving items are also taken delivery simultaneously.

Valuable and less valuable items should not be averaged together. C.

While creating forced LIM manager should satisfy that forced sale value will cover the outstanding LIM. , if not arrangement should be made to recover the liabilities through sale of documents. Prior approval of head Office to be obtained for creating forced LIM.

Loan against trust receipt facility 1. Advance against a Trust Receipt obtained from the customers are allowed when the documents covering an import shipment are given (to first class parties only) without payment. However, for such advances prior permission from Head office must be obtained. 2.

The customer holds the goods or their sale proceeds in trust for the Bank, till such paid off. 3.

The Trust Receipt is a document which creates the Banker' lien on the goods and practically amounts to hypothecation of the proceeds of sale in discharge of the lien. 4. The period of Trust Receipt may be 30, 45, 60 or 90 days, as allowed by the head Office. The loan is adjustable within the period. It should be noted that the sale proceeds of goods held in trust must be deposited in the bank by the borrower irrespective of the period of the Trust Receipt.

Advance against shares (Loans & Overdrafts) . Advances may be allowed against shares of various companies approved by head office from time to time quoted on the Stock Exchange against required margin subject to credit restriction & prior permission from Head Office. 2. Before allowing the advance, obtain the delivery of the shares and their Transfer Deed forms and thoroughly scrutinize them with regard to the following: A. They are original share scripts and bear the seal of the company. B.

The shares are fully paid up. Do not allow advance against partly paid up shares, unless approved by the Head Office. C.

The shares are accompanied with blank Transfer Deed duly signed by the person in whose name those shares stand and witnessed by some body that is easily traceable. D.

The transferor's signature on the Transfer Deed is verified by the Company concerned under its stamp. E. The transfer Deeds are undated. F. A fresh set of Transfer Deeds signed by the borrower, and witnessed by some body who
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is easily traceable is obtained and retained with branch, for all such shares that are to be sent to various companies for registration in his name, before the closure of their books, if so requested by him.

G.

These shares are lodged with the companies for registration with their original Transfer Deeds, duly completed in all respects, under a covering letter from the branch, requesting them to return the shares to the branch, as the Bank has its lien on them. The Transfer Deeds attached with shares are completed and signed by the borrower as transferee, before these are dispatched to the companies. H. A receipt is obtained from the companies and retained with branch, duly discharged by the shareholder, for exchange with the share certificates, when ready for delivery. I.

The borrower's signatures on the fresh set of Transfer Deeds are verified by the companies concerned and retained with branch along with their respective share certificate when received back from them after registration.

J. The branch should obtain a letter of lien from the borrower in respect of all such shares which stand in his name, or which have been sent to the various companies registration, in his name. Where advance has been allowed to the borrower at the specific request of a third party against shares owned by them the letter of lien shall be obtained from third party, in its own name K.

The branch shall not generally resort to transferring the shares registered in the name of the borrower or any third party, in its own name. L. In the event of transferring the shares in the name of the Bank with the approval of the Head Office, branches shall take special notice of any declaration of

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Declaration of Dividends, Bonus Shares or any offer of Right Shares made by the companies concerned.

They shall also ensure that all such Dividends and Bonus Shares are duly received by them. 1. The dividend is credited to the account of the borrowers and the bonus shares are kept along with other shares of the borrower. . In case of an offer of Right Shares, branches shall send an intimation to the borrowers concerned enquiring from them if they were interested to acquire them for the value mentioned on the letter of Right which should immediately be deposited by them with Bank.

3. If the borrowers do not deposit the money from their own resources or make any alternate arrangement in that behalf, the letter of rights may be renounced with the permission of the Head Office and sold, and the sale proceeds should be credited to the borrower's account under intimation to him.

Export Finance. Credit facilities extended to the exporters prior to the actual shipment of goods for Export, such credit includes: a. Working Capital solely for Export b. Procuring and processing of raw materials c.

Packing and transporting of goods for export d. Payment of insurance premium. e. Inspection fee f. Freight charges etc. Preshipment credit facilities are essentially a short-term credit, which is to be liquidated by negotiation by negotiation/purchase of export bills covering the particular shipment.

Pre-shipment credit facilities can be allowed either against IRREVOCABLE LETTER OF CREDIT of a first class foreign Bank or against FIRM CONTRACTS <https://assignbuster.com/intern-report-on-banking-sector/>

from first class foreign buyer's acceptable to the Bank on the following basis:

A. Packing Credit. Packing Credit is essentially a short-term advance granted by a Bank to an exporter for assisting him to buy, process, pack and ship the goods. Generally for movement of goods from the hinterland areas to the ports of shipment, the banks provide interim facilities by way of Packing Credit. B. Back-to-Back Credit

It is nothing but a secondary credit opened by the advising Bank in favor of a domestic supplier on behalf of the beneficiary of the original foreign L/C.

As the original Letter of Credit back the domestic L/C, it is called back to Back L/C. The second L/C is opened on the strength of the original L/C but for a smaller amount. C. Red Clause Letter of Credit Under this L/C the Issuing Bank instructs the negotiating Bank (Advising) to make advances to the beneficiary up to an aggregate amount in order to enable him to purchase and process merchandise.

The advances with interest are to be realized on purchasing/negotiation of export bills to be tendered by the exporter.

In this case all risks goes to issuing Bank since the issuing bank undertakes the payment of such advances with interest, should they not be repaid by the beneficiary prior to the expiration of this credit. In the event of non-deliver of shipping documents y the beneficiary I time, the issuing Bank will recover the amount advanced plus the interest and any charges, from the applicant who assumes all risks. ' INTRODUCTION: Credit or Lending of money to different kinds of borrowers is one of the most mportant functions of Mutual Trust Bank Limited. Not only this is most profitable business of

Mutual Trust Bank Limited and major sources of income. But also Credit is a risky business.

The borrowers of a bank range from individuals to partnership companies' institutions societies corporations etc. engaged in such activities as business industry transport farming etc. The nature of their activities the location of business financial stability earning and repaying capacity purpose of advance securities all differ and their degree of risk also differ.

Although all lending involve risk of default in repayment a bank has to go with it for earning profit and economic upliftment as well. Risk involvement may be kept at minimum if the lending principles are followed. To do the lending business profitably the following factors should be evaluate: ? Safety ? Purpose ? Liquidity ? Profitability ? Spread/Diversification ? National Interest/Social Benefit Safety: The very survival of a banker and for the matter of that safety of bank demands on his/her loans and advance.

The ideal position is when all the loans and advances positions are fully secured.

Thus safety of the advances should be the first principle of lending. To ensure the safety of lending Mutual Trust Bank follows the followings factors: Five C s: ? Character, ? Capacity, ? Capital, ? Condition, ? Collateral Security. Five Ps: ? Person, ? Purpose, ? Product, ? Place, ? Profit. Five Ms: ? Man, ? Management, ? Money, ? Materials, ? Market Five Rs: ? Reliability, ? Responsibility, ? Resources, ? Respectability, ? Returns ? Purpose: Another important point to be studied by Mutual Trust Bank lending is the purpose for which loan is required.

The purpose of loans helps the banker to determine his/her course of action as regard lending. Bank should avoid making loan for unproductive purpose and speculative activities. ? Liquidity: Liquidity means availability or readiness of bank fund on short notice. The liquidity of loan means its repayment on demand on due date or after a short notice. Liquidity also means conversion of assets into cash without loss or with insignificant loss.

? Security: Security is another principle of sound lending which serves as the safety for unforeseen emergency.

Security offered against loan may be various types. Not only this must the security accepted by bankers to cover a bank advance be adequate readily marketable easy to handle and free from encumbrances. ? Profitability: Bank will not invest in assets which do not generate profit or income. So the profitability of funds has to be considered by bankers.

Spread /Diversification: Advance should not be given in one particular area /industry activity are one on few borrowers because any adversity faced by that particular sector will have a serious effect on the bank.

Here the principle of “ Do not put all the eggs in the same basket” is followed by Mutual Trust Bank Limited. ? National Interest/ Social Benefit: Bank has a significant role in the economic development process of a country. They should keep in mind the national development plan/program while going for lending maintaining safety liquidity and profitability. Modern factors of lending principles Modern factor of Credit or lending presupposes a well developed loan proposal /loan case/ project.

It will cover as many as six pertinent factors like Managerial, Organizational, Technical, Marketing, Financial, and Economic/Social economic. These are technical knows as feasibility or viability study of a loan proposal/loan case/project. By studying all these six factors if a banker is satisfied about the viability of a loan proposal/loan case/project, then he/she can finance it i. e. , grant for lending otherwise not.

There are six types of modern factors is given below. ? Managerial feasibility ? Organizational feasibility ? Technical side ? Marketing side Financial aspect ? Economic aspect ? Managerial feasibility: Managerial feasibility will ensure the character/conduct, capacity/capability to run the project/activity, sincerity/ honesty/ integrity, education, experience, reputation of the borrower. ? Organization feasibility: Organizational feasibility will see under what type of organization the activities will be under taken. Whether it is under proprietorship / sole trader ship or partnership or private limited company, public limited company or cooperative societies or any state corporation. ? Technical side:

Technical side will take care of location of business/ activities /project, construction of building/shed etc. requirements to be used like power, fuel, water, materials, etc.

? Marketing side: Marketing side will ensure about the marketability of the product out of activities / business / project. ? Financial aspect: Financial aspect will tell total requirements of fund for the business / activities / project and how much will be required from bank , what amount will be given by the borrower himself cash inflow and cash outflow, sale forecasts, balance sheet, profit and loss account etc. Economic aspect: Economic aspect will look into <https://assignbuster.com/intern-report-on-banking-sector/>

socio-economic benefit out of the business / activities /project. If it is found that fund can be provided to a particular activity / business / project then sanction will be given. After that proper documentation will be done by the banker. This is an integrated approach of lending by bank which covers safety, liquidity, purpose, security, profitability etc.

INTRODUCTION: A prescribed credit policy is inevitable for assessment of credit application judiciously.

The credit policy of any banking institution is a combination of certain accepted time tested standards and other dynamic factors dictated by the realities of changing situations in different market places. The accepted standards relate to safety, liquidity and profitability of the advance whereas the dynamic factors relate to aspects such as the nature and extent of risk, interest or margin, credit spread and credit dispersal. General guidelines about the conduct of advance are issued by Head Office.

In all business dealings, officers and employees must be guided by the principles of honesty, integrity and safe-guard the interest of the depositors and shareholder of the bank. They should strictly adhere to the banking laws, rules and regulations of the govt.

of Bangladesh, the instructions issued by the Bangladesh bank /Head Office from time to time which affect the business practices of the bank. However they key to safe, liquid, healthy and profitable credit operation lies in the quality of judgment used by the officers making lending decisions and their knowledge of the borrowers and the market place.

In formulating a credit judgment and making QUALITY credit decisions the lending officer must be equipped with all information needed to evaluate a borrower character management competence, capacity, ability to provide collaterals and external conditions which may affect his ability in meeting financial obligations. CREDIT / LENDING PRINCIPLES: To achieve the goal for maximizing the stakeholders' value and protect the interest of the depositors as well as to improve asset quality, MTB abide by but is not confined to the following credit principles, which should guide their behavior in the lending decisions: a. | Assessment of the customer's character, integrity and willingness to repay will form basis of lending.

| | b. | Customers having capacity and ability to repay shall only be lent. | | c. | Possibility of default will be worked out before lending. | | d. | Credit will be extended in the areas, risks of which can be sufficiently understood and managed.

| | e. | Independent credit participation in the credit process shall be ensured.

| | f. | Ethical behavior in all credit activities shall be ensured. | | g. |

Encourage proactiveness in identifying, managing and communicating credit risks.

| h. | Maintain due diligence in ensuring that credit exposures and activities including processing function comply with | | | MTB requirements as well as requirement of regulatory authority. | | i. | Risk and reward to be optimized. |

| j.

| Diversified credit portfolio to be built and maintained. | | k. | Credit will normally be financed from customers' deposits and not out of short-term

temporary funds or borrowing | | | from other banks. | | l. | The bank shall offer suitable credit services and products for the market in which it operates.

| | m. Credit will be allowed in a manner which will in no way compromise with the Bank's standard of excellence and to | | | customers who will not compromise with such standards. | | n. | All credit extension must comply with the requirement of Bank Company Act- 1991 and amendments thereof made from | | | time to time and all the requirements of other regulatory authorities. | | m.

| Prevention of extending credit facilities to the CIB black listed persons/entities. | General Policy Guidelines: | a. | MTB finances in lawful business for lawful purpose in lawful manner. | | b. MTB extends credit facilities to individuals, proprietorship concerns, partnership concerns, limited | | | companies-private and public, government organizations, financial institutions, joint ventures, and such other | | | organizations having legal existence and necessary permissions for conducting business in Bangladesh. | | c.

| MTB extends credit facilities only to productive and legitimate business activities, which are socially desirable, | | | nationally important, financially viable and will avoid lending as far as possible for unproductive purposes and | | | speculative ventures. | | d. While extending credit facilities MTB will abide by its Know Your Customer (KYC) policy, anti money-laundering | | | regulations, and will conduct its credit activities within the prescribed regulatory parameters of Bangladesh Bank | | | and Bank Company Act. All

statutory requirements outlined in BOI Guidelines, Industrial policy, Export Policy, | | | Import Policy, Transfer of Property Act, etc. to be strictly followed. | | e.

| The intending borrower must have legitimate source of earnings, clear purpose of utilizing loans, specific sources| | | of repayment and capacity to enter into loan agreement. | f. | MTB discourages low net-worth or highly leveraged borrowers. | | g. | Credit proposals will not be unduly influenced by over reliance on the sponsoring principal’s reputation, reported| | | independent means, or their perceived willingness to inject funds into various business enterprises in case of | | | need.

These situations will be discouraged and treated with utmost caution.

Rather, credit proposals and | | | granting of loans will be based on sound fundamentals, supported by a thorough financial and risk analysis. | | h. MTB discourages lending against owner’s cheque or pledge of goods | | i. | Satisfactory turnover in the credit operation to be stressed upon.

| | j. | MTB does not generally accept subordinate position to other lenders. | | k. | Tenor of loans to be set rationally matching with cash conversion cycle/cash flows. | | l.

| MTB prefers extending credit facilities within the command areas. | | m. | MTB prefers extending credit facilities where it has the industry/business knowledge and discourages where highly | | | specialized skills needed to properly evaluate the loan proposals. | n. | Credit Applications will clearly state whether or not the credit application is in compliance with the bank’s | | | lending guidelines. Deviations from Credit Policy with Credit Risk

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Management Guidelines must be clearly identified and mentioned in the credit application and proper justification for approval with the deviation to be provided.

Any such deviation to be approved by the Managing Director/Executive Committee/Board of Directors depending on the bank's delegated authority. Credit Application/Memorandum to be initiated by the branches for renewal/renewal with enhancement/interim review etc. shall reach the appropriate authority 2 (two) months before the expiry date. Time period for approval/decline of a complete credit proposal is at best 1 (one) month from the date of reaching the same to appropriate authority.

| SECTOR WISE LENDING CAPS: Mutual Trust Bank is very much aware of hazards associated with concentration of credit in a particular area, which may under some situation, might be a case of stress for the bank.

Keeping this in consideration and also the over all business trend, prospects/potentials, problems, risks & mitigants, pricing, owner's stake in business, competitors involvement, safety, liquidity, security etc. MTB's lending will generally be guided by the following caps: – | Sl. No. | Sector Caps* |% | | a.

| Trade & Commerce | 40 % | | b. | Industry-working capital | 20 % | | c.

Project Finance – Medium and Long Term | 10% | | d. | Work/Supply order

(Contractual Finance) | 5% | | e. | SME & Retail | 10% | | f. | Agri Credit | 5% |

| g.

| Others | 10% | | Total | 100% | The Caps will be revised from time to time depending on the market conditions, Government Policy, MTB's credit focus and will be subject to internal adjustment depending on the requirement of credit. INDUSTRY AND BUSINESS SEGMENT FOCUS: MTB's main focus on various lending areas will be as under: | | Industry and Business Segment | Focus | | a. | Trading Business | Grow | | b. Ready made garments | Maintain | | c. | Textile -Yarn/Fabrics manufacturing | Maintain | | d. | Chemicals / Toiletries | Grow | | e.

| Entertainment | Maintain | | f. | Telecommunication/ IT | Grow | | g. Power Generation and Distribution | Grow | | h. | Energy(Power/Fuel/Gas) | Grow | | i. | Electric Goods | Grow | | j.

| Services viz. GSA, Freight Forwarder, Airlines etc. | Grow | | k. | Steel and Re-rolling Mills | Discourage | | l. Engineering and Construction | Grow | | m.

| Small Traders/SME | Encourage | | n. | Agro-based industry / Dairy products/Fishery / Tea/Crop | Encourage | | o. | Export Oriented Industries | Encourage | | p. | Pharmaceuticals | Maintain | | q. Consumer loans (personal, auto, credit card) | Encourage | | r. | Food and Allied (edible oil, flour, etc.

) | Maintain | | s. | Ship Scrapping | Discourage | | t. | Real Estate | Maintain | | u. | Paper | Maintain | | v. Transport | Discourage | | w.

| Cold storage finance | Discourage | Note: The Industry and Business Segment Focus will be revised from time to time depending on national requirement, priority, market conditions, cyclic aspects of the economy, appetite for growth for each sector, shift in Government Policy and Mutual

Trust Bank's credit planning. CLIENT BASE: Clients – reputed corporate, institutional, reliable individuals, firms, companies,, retailers etc. aving good track records and financial standing will be the primary focus of MTB. Under all circumstances client selection will undergo rigorous risk management process. SINGLE BORROWER/GROUP LIMITS/SYNDICATION: Mutual Trust Bank Ltd.

pursues / will continue to pursue the policy of avoiding too much loan concentration to a single borrower/ group in order to by pass possible threat in the event of such advances turning toxic. In a bid to keep credit risk at the minimum level in respect of large but prospective advance, MTB will prefer syndicated/Club financing after proper feasibility study.

Mutual Trust Bank has been strictly following and will continue its lending operation, in complete obedience to the guidelines circulated by Bangladesh Bank on single party exposure limit to a borrower/group. Mutual Trust Bank Limited will not extend credit (Funded + non-funded) for more than the percentage on capital of the bank, permitted by Bangladesh Bank and will follow all modifications, amendments, additions alterations that may be made by Bangladesh Bank from time to time. However, at present MTB will follow the following existing guidelines of Bangladesh Bank on lending to single borrower / group under one obligor: Lending cap to single borrower | Amount | | Total exposure (Funded and non funded) | 35 % of Bank's total capital | | Maximum funded exposure | 15 % of Bank's total capital | | Maximum non-funded exposure where there will be no funded | 35 % of Bank's total capital | | exposure | | | Maximum exposure for export sector | 50 % of Bank's total capital | | |(But funded facility will not exceed | | | 15% of

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the total capital) | • The above Single Borrower/ Group Exposure is currently universally mandatory as per Bangladesh Bank instruction.

However, this is subject to change that may be made by Bangladesh Bank from time to time. • Total Capital of MTB is to be determined in accordance with Section 13 of the Bank Company Act 1991 and subsequent amendment thereto, if any. • Credit Concentration (Borrower/Group/Sector/Industry) to be monitored at regular frequency. STRATEGY OF LOAN PRICING Loan pricing decision is taken by Asset of the borrower. The basis of pricing are: • Cost of funds • Risk exposure of obligor and industry • Risk appetite of MTB in industry/business segment • Maturity of loans In conformity with Bangladesh Bank's BRPD circular no.

04 dt. 06. 06. 004, MTB follows the strategy of Loan Pricing by declaring ' Mid Rate' for each category of lending with the provision of movement on either direction by maximum 1. 5%.

This rate is periodically reviewed in terms of regulatory norms and also in order to make the rates competitive in the market. Rates of interest so fixed are circulated among all concerned for necessary compliance. MTB believes that ' pricing should be commensurate with the risk grading' and therefore takes the policy that subject to the interest rates as fixed above concessional/lower interest rate are considered for the prime customers on the basis of their low risk grades. Conversely, higher rate of interest are also considered for riskier clients because of their higher score in the risk grade.

Commission/ charges on credit facilities are realized taking the competing scenario in the banking market into account, involved risks in financing & <https://assignbuster.com/intern-report-on-banking-sector/>

overall policy of the bank. DISCOURAGED BUSINESS TYPES MTB generally discourages lending in the following areas:- a.

Military equipment / weapon Finance b. Highly leveraged Transactions c. Finance of speculative business d. Logging, Mineral Extraction / Mining or other activity that is ethically or environmentally sensitive. e. Lending to companies listed on CIB black list or known defaulters.

Counter parties in countries subject to UN sanctions. f. Share lending g. Taking an equity stake in borrowers. h.

Lending to holding companies. i.

Bridge Loans relying on equity / debt issuance as a source of repayment. j.

New cold storage financing. k.

Financing cement industries. DELEGATION OF BUSINESS POWER AND SANCTIONING AUTHORITY Board of directors/Executive Committee basically enjoys all the sanctioning powers vested in any other executives/officers.

Besides its own sanctioning power, Board of Directors has delegated managing director of the bank and also the management of different tiers of the bank, credit sanctioning authority up to a certain amount (limit).

Sanctioning authority will apply their delegated power prudently taking the surrounding circumstances of the client and market forces into consideration.

Every credit proposal to be processed and appraised taking in to consideration MTB's prudential lending guidelines and relevant acts, different circulars, guidelines and directives of MTBL, Bangladesh Bank and other

regulatory authorities. Any proposal beyond the delegated power of the concerned official having delegated authority will have to be placed before the next higher authority for consideration.

MTBL sanctions all credit facilities in accordance with the delegation of business power currently in use. Introduction: The primary factor determining the quality of the Bank's credit portfolio is the ability and willingness of a borrower to honor, on timely basis, all credit commitments made to the Bank. This is to be accurately determined by the authorized credit officers/Executives prior to approval.

Therefore, a thorough credit and risk assessment is conducted prior to the granting of loans, and once approved all facilities are reviewed at least once annually for all facilities. The results of credit assessment are presented in a Credit Application/Proposal called Credit Memorandum (CM). Initially it is originated by the Credit Officer/Relationship Manager/Manager of the Branch and reassessed in Corporate Banking Division and finally in Credit Risk Management Division.

The Relationship Manager (RM) is the owner of the customer relationship who is held responsible to ensure the accuracy of the entire credit application submitted for approval.

RMs must be conversant with the MTB's Lending Guidelines and shall exercise due diligence on borrowers, principals and guarantors. Risk Assessment Areas: a. Borrower Analysis Full particulars of the proprietor, partners, directors, etc. to be examined and their management capability to be ascertained.

Overall performance and credit status of the client and of its allied concerns i. e. group will be assessed. Lack of management capability of the concern, concentration of the whole affairs of business in one hand and lack of initiative to create subsequent management line, complicated ownership structure of inter group transactions shall be addressed and related risks to be mitigated. b. Industry Analysis:

Before extending credit in an area, over all business conditions of that area/sector will be critically examined, prospects and problems to be ascertained. Demand and supply of the concerned goods / services, demand and supply gap, contribution of the borrower in meeting the gap, strength and weakness of the borrower and of their competitors to be assessed accurately. Sales concentration of the borrower, borrower's rating with competitors in terms of strengths, weaknesses, market share, prevalence of substitutes of the produced items in the market and barriers to entry into the product line of the borrower to be properly identified. c. Supplier/ Buyer Analysis:

Lending decision will be preceded by an intensive analysis on whether the borrower depends on a single or a very few customer or gets the supply of the raw materials/ dealing items from a single supplier. Such sales and supply concentration will be given a very careful consideration, because it will have significant impact on the future viability of the borrower. d. Historical Financial Analysis: An analysis of minimum of 3 years historical financial statements of the borrower shall be presented. Where reliance is placed on a corporate guarantor, guarantor's financial statements shall also be analyzed. The analysis shall address the quality and sustainability of

earnings, cash flow and the strength of the borrower's balance sheet. Specifically cash flow, leverage and profitability must be analyzed. e.

Projected Financial Performance:

Where term facilities (tenor more than 1 year) are proposed, borrower's future / projected financial performance/cash flow analysis shall be provided (at least for the entire Term Loan Period), indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans shall not be granted if projected cash flow is insufficient to repay debts. f. Account Conduct: For existing borrowers, historic performance in meeting repayment obligations (trade payments, cheque, interest and principal payments etc) shall be addressed. Credit- debit summation, maximum-minimum balance, recycling and adjustment of the liability will be looked into which generally will back renewal decision. g.

Mitigating Factors: In credit assessment, possible risks, such as margin sustainability and / or volatility , high debt load (leverage/ gearing), over stocking or debtor issues, rapid growth, acquisition or expansion, new business line, product expansion, management changes or succession issues, customer or supplier concentrations and lack of transparency or industry issues and their mitigating factors to be identified. h. Loan Structure: Amount and tenor of loan will be fixed justifiably depending on income generation prospect, projected repayment capacity and the purpose of the loan. Failure in properly perusing these factors especially allowing loan or excessive tenor and/or amount compared to business needs lead to increase in risk of fund diversion and may adversely impact the borrower's repayment capacity. i. Security: MTB's lending will generally be adequately

securitized. Securities to be obtained will be of acceptable quality and value, easily marketable and defect less in title. Valuation of security will be properly assessed by the Bank official as well as MTB enlisted professional valuer. Security will comprise of primary and collateral. Adequate insurance coverage to be obtained where applicable. j. Name Lending: Name Lending/Lending depending only on the fame and reputation of a borrower will be avoided. All associated risks, lending fundamentals and a thorough financial analysis will be made. k.

Adherence to lending guidelines: Credit Proposals to be prepared in line with Bank's lending Guidelines. A credit application/proposal will clearly mention whether or not the proposal complies with the banks lending guidelines. A proposal that will not adhere to the bank's lending guidelines will not be approved unless it is specifically mentioned and proper justification is provided. Tools & Techniques for management of Credit / Credit Risk: Credit risk grading (CRG) is an important tool for credit risk management as it helps the Banks & financial institutions to understand various dimensions of risk involved in different credit transactions.

The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a bank or a branch. The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage. At the pre-sanction stage, credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the loan price, what should be the extent of exposure, what should be the appropriate credit facility, what are the various facilities, what are the various risk mitigation

tools to put a cap on the risk level. Well-managed credit risk grading system promotes safety and soundness of bank's asset portfolio by facilitating informed decision making.

Grading system measures credit risk and differentiates individual credit or groups of credits by the risk they pose. This allows management to monitor changes and trends in risk levels. The process also helps the management to optimize returns. MTB adopts the Risk Grading System prepared by Bangladesh Bank as a mandatory requirement for all exposures irrespective of amount for corporate and commercial lending.

Definition of Credit Risk Grading (CRG)

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

Credit Risk Grading is the basic module for developing a Credit Risk Management system.

Functions of Credit Risk Grading:

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

Number and Short Name of Grades used in the CRG:

- The proposed CRG scale consists of 8 categories with Short names and Numbers are provided as follows:

GRADING	SHORT NAME	NUMBER
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watch list	MG/WL	4
Special Mention	SM	5
Sub standard		

SS | 6 | | Doubtful | DF | 7 | | Bad & Loss | BL | 8 | Credit Risk Grading
Definitions:

A clear definition of the different categories of Credit Risk Grading is given as follows:

- Superior – (SUP) – 1
- Good – (GD) – 2 local Bank.
- Acceptable – (ACCPT) – 3
- Marginal/Watch list – (MG/WL) – 4
- Special Mention – (SM) – 5
- Substandard – (SS) – 6
- Doubtful – (DF) – 7
- Bad & Loss – (BL) – 8

How to Compute Credit Risk Grading: The following step-wise activities outline the detail process for arriving at credit risk grading.

Step I: Identify all the Principal Risk Components

Credit risk for counter party arises from an aggregation of the f