

AN INTERNSHIP REPORT

CREDIT POLICY AND CREDIT MANAGEMENT OF PUBALI BANK LIMITED



Prepared

By

Md. Ashanur Rahman Shah
Student ID. E140504050
MBA (Evening), 4th Batch (Major in Finance)
HSTU, Dinajpur

MASTER OF BUSINESS ADMINISTRATION (EVENING)

(This internship report has been prepared for submission into the Faculty of Business Studies, Hajee Mohammad Danesh Science & Technology University, Dinajpur, as a partial requirement for fulfillment of MBA(Evening) program.)

FACULTY OF BUSINESS STUDIES

Hajee Mohammad Danesh Science & Technology University, Dinajpur

*HAJEE MOHAMMAD DANESH SCIENCE AND
TECHNOLOGY UNIVERSITY (HSTU), DINAJPUR-
5200.*

October- 2016

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October- 2016

LETTER OF TRANSMITTAL

22 October 2016

Saiful Islam
Assistant Professor
Department of Accounting
Faculty of Business Studies
Hajee Mohammad Danesh Science & Technology University, Dinajpur.

Subject: Submission of the internship report of MBA (Evening) Program.

Dear Sir,

It is my great pleasure to submit the Internship report entitled "Credit Policy and Credit Management of Pubali Bank Limited". As per requirement of Masters of Business Administration (Evening), I have completed the Internship in Pubali Bank Limited. I have tried to exert all the knowledge that I gathered through my working with this branch of PBL.

Working for this time in the Pubali Bank Limited, Nilphamari Branch helped me to fulfill the requirements of obtaining practical learning and subsequently prepare of this report. My internship in Pubali Bank Limited was a worthwhile experience and the exposure of such an organization would be valuable for me.

I believe that this internship program has enriched both my knowledge and experience.

Yours sincerely,

Hajee Mohammad Danesh Science & Technology University, Dinajpur

.....
Md. Ashanur Rahman Shah
ID No.: E140504050
Masters of Business Administration (Evening)
4th Batch (Major in Finance)
Hajee Mohammad Danesh Science & Technology University, Dinajpur.

I
LETTER OF ACCEPTANCE

I hereby declare that Md, Ashanur Rahman Shah, ID: E140504050 is a student of MBA (Evening) Faculty of Business Studies, Hajee Mohammad Danesh Science & Technology University. He completed his internship program at Pubali Bank Limited, Nilphamari. I am pleased to confirm that he has been able to submit a good report on his study "Credit Policy and Credit Management of Pubali Bank Limited". I appreciate his diligence and devotion completion of partial requirement for the MBA (Evening) program of Hajee Mohammad Danesh Science & Technology University, Dinajpur. This report is prepared under my supervision and guidance. This report is now approved for presentation.

I wish him every success in his life.

.....
Saiful Islam
Assistant Professor
Department of Accounting
Faculty of Business Studies
Hajee Mohammad Danesh Science & Technology University, Dinajpur.

Declaration of Supervisor

I hereby declare that Md. Ashanur Rahman Shah, ID No.: E140504050 is a student of Hajee Mohammad Danesh Science & Technology University. He completed his internship program at Pubali Bank Limited, Nilphamari Branch, Nilphamari. I am pleased to confirm that he has been able to submit a good report on his study "Credit Policy and Credit Management of Pubali Bank Limited". I appreciate his diligence and devotion completion of partial requirement for the Masters of Business Administration (Evening) program of Hajee Mohammad Danesh Science & Technology University. This is an original report prepared by Md. Ashanur Rahman Shah under my supervision and guidance. To the best of my knowledge this report is an authentic work of Md. Ashanur Rahman Shah. This report is now approved for presentation.

I wish him every success in life.

.....
Saiful Islam
Assistant Professor
Department of Accounting
Faculty of Business Studies
Hajee Mohammad Danesh Science & Technology University, Dinajpur

Declaration of Co-Supervisor

It's my pleasure to certify that Md. Ashanur Rahman Shah, ID No.: E140504050, MBA (Evening), 4th Batch, Major in Finance, has successfully completed the internship report titled "Credit Policy and Credit Management of Pubali Bank Limited". I appreciate his diligence and devotion completion of partial requirement for the Masters of Business Administration (Evening) program of Hajee Mohammad Danesh Science & Technology University under my supervision and guidance. This report is now approved for presentation.

I wish his success at every sphere of his life.

.....
Rafia Akhtar
Associate Professor
Department of Management
Faculty of Business Studies
Hajee Mohammad Danesh Science & Technology University, Dinajpur

Hajee Mohammad Danesh Science & Technology University, Dinajpur

IV



PUBALI BANK LIMITED
NILPHAMARI BRANCH
NILPHAMARI

Ref: PBL/NILPAMARI/CIRTIFICATE/2016 Date : 20/ 10/2016

TO WHOM IT MAY CONCERN.

This is to certify that Mr. Md. Ashanur Rahman Shah, S/O-Md. Ashraf Ali and Hasina Begum of Kalitola, Dinajpur Sadar, Dinajpur. He has been working in Pubali Bank Limited since 15 July, 2012. Presently, now he is working in Nilphamari Branch, Pubali Bank Ltd, Nilphamari, Senior Officer. He has done his internship program from 05.09.2016 to 20.10.2016 with this branch on Credit Program of Pubali Bank Ltd and we

Hajee Mohammad Danesh Science & Technology University, Dinajpur

support him with several information and data for making this internship report "Credit Policy and Credit Management of Pubali Bank limited."

We wish him every success in his life.

(Md. Mushfik Zaman)
Rahman)
SO & Manager
Officer

(Md. Mushfikur
Senior

v
Acknowledgement

At first I would like to express my gratitude to almighty god who has given me opportunity to go through the total process of internship and to write a report in this regard.

I would like to take the opportunity to express my gratitude to my Internship Supervisor, Mr. Saiful Islam, Assistant Professor, Department of Accounting, Hajee Mohammad Danesh Science & Technology University, Dinajpur whose direction, guidance and support helped me a lot in writing this report.

It was a great pleasure for me to work in Pubali Bank Limited, Nilphamari Branch as an intern. I thank all the employees with the for being friendly and cooperative. I was taught lots of important things through-out my internship career because of their proper attention and co-operation.

At last I must mention the wonderful working environment and group commitment of this bank that has enabled me a lot deal to do and observe the banking activities during my internship period of forty five days. Finally I convey my sincere thanks to my friends who inspire in different ways to complete the report and the course as well.

.....
Md. Ashanur Rahman Shah
ID No.: E140504050
Masters of Business Administration (Evening)
4th Batch (Major in Finance)
Hajee Mohammad Danesh Science & Technology University, Dinajpur.

VI
Executive Summery

In the last term of final year Masters of Business Administration (Evening) course, as an employee of Pubali Bank Ltd (PBL) I have done my Internship program in Pubali bank Limited with a practical exposure on banking activities under the program ". Pubali Bank Limited is a reputed private commercial bank established on May 20,1984.With the starting the operation of PBL, the main branch continue its operation .Through its three core departments, namely General Banking, Advance and Foreign Exchange, its provides all kinds of banking service to its customers. Throughout my overall study I have mainly tried to critically review the Advance and Foreign Trade business of Pubali Bank Ltd. Dinajpur Branch. Advance or Credit sector of Pubali Bank Ltd. comprises different types of loan such as corporate loan, lease finance, SME finance, Demand loan and foreign trade."

The report focus on background of the study, origin of the study, rational, Scope, objective of the study, limitation of the study, Methodology of the study etc. Secondly the report focused on overview of PBL contains history,

vision, mission, objective, product and services of PBL and so on. The third section focused the project part which called Credit policy of Pubali Bank Ltd. The fourth section focused how to manage and maintenance credit section of Pubali Bank Limited. Last but not the least Section focused my 45 days internship experience which I learned from PBL as well as the some sort of problem which I have found from my observation. In this part I also try to recommend some solution to solve these problem and conclusion based on my study. Through the report I mainly try to critically review the overall Credit Policy and Credit Management of Pubali Bank Ltd.

Date:
Author

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CHAPTER I

INTRODUCTION

1.1. Introduction

Pubali Bank Ltd. is one of the largest commercial bank, which plays a vital role in the economic development of the nation through saving and credit. It diverts and allocates the funds in all over the country, which are aimed to develop country's economy and add national wealth.

Banking has a long and rich history. It started as a result of people's need. And with ages it has been playing an important role in fulfilling the dire needs of businessmen and others. As the size and complexities of business is increasing day by day banking sector is also providing various innovative services with basic functions to increase size but to reduce the complexities.

Modern banking is a result of evolution driven by changing economic activities and life styles. Entering in to a new millennium, banking needs have become more diverse and exotic than ever before. It is known now that commercial bank is a profit maximizing institution. Hence it should provide loans to those sectors in which its return is higher. But the nationalized commercial banks are conducting banking business with different purposes. The main purpose is not just to make profit but also to maximize the social benefit. The main functions of commercial banks are as follows:

A commercial bank collects and manages deposits. It provides cheque facilities and interests for its customer deposits which may be either demand or time deposits of different maturity.

A commercial bank extends credit to a great variety of borrowers through loans as well as by purchasing securities that are either fully or partly financed by commercial banks.

Commercial banks provide a variety of other services to their customers as for example remittance facilities, credit information about customers, financial advice, collection of debts and dues etc.

Banks also provide a number of trust services to their customers. These services may either corporate trust services, which arise in connection with the issue of bonds; personal trust services under which they manage property on behave of their clients or corporate pension funds that provide retirement benefit for their employees.

1.2. Origin of the Study

This report has been prepared as a part of the internship program, which is an integral part of the Masters of Business Administration (Evening) program. Under this program a student has to take a 45 days internship program to an organization. This will give a practical orientation of his/ her theoretical study. After completion of the program she/ he has to submit an internship report to the department and defend the report. So this report is originated as part of the course requirement of the Masters of Business Administration (Evening) program.

This report on "Credit Policy and Credit Management of Pubali Bank Limited" was assigned by academic supervisor Saiful Islam, Assistant Professor, Hajee Mohmmud Danesh Science & Technology University, Dinajpur.

1.3. Objectives of the Study

The objectives of the study are as follows:

1. To get idea of the credit management procedure of Pubali Bank Limited
2. To get idea about the Credit Risk Management of Pubali Bank Limited
3. To discuss the Credit Disbursement procedure.
4. To identify policy recommendations for further improvement.

1.4. Methodology of the Study

The methodology of the study has been designed in the following ways:

1. Data Sources
 - (a) Primary Sources
 - (b) Secondary Sources
2. Data Collection Methods

The primary data has been collected in the following ways:

- Direct communication with clients

□ Sharing the experience and knowledge of my colleagues.

The secondary data has been collected in the following ways:

□ Annual report of Pubali Bank Ltd.

□ Web site of Pubali Bank Ltd.

3. Data Analysis Technique

After collecting the data, it was analyzed by Microsoft word. Then the findings were made. Based on the findings, the present situation was explained and recommendation was made.

1.5. Limitations of the Study

The present study was not out of limitations. But as an internee it was a great opportunity for me to know the banking activities in Bangladesh - especially of Pubali Bank. Some constraints are appended bellow:

□ Lack of Information or Data: Adequate and in-depth well-organized information is not available for access. Though the officials tried to assist, sometimes their working pressure couldn't give me proper assistance what I needed. There is some information which need special permission from top level is not always achievable.

□ Time Constraint: It is something like impossible to cover the entire Credit Management and credit policy with in short time for an officer who working in the relevant desk.

□ Secrecy of Information: Some of the information needed to explore the current marker scenario of the company was not disclosed.

□ Comparison Status: I have had no opportunity to compare the foreign exchange banking system of the Pubali Bank with that of other contemporary and common size banks. I had compared the banks that information is available. It was mainly because of the shortage of time and internship nature.

□ Lack of Experience: Though I have prepared many reports before, I had no experience of internship. So inexperience is one of the main constraints of the study.

CHAPTER II

COMPANY PROFILE

2.1 Background

The Bank was initially emerged in the Banking scenario of the then East Pakistan as Eastern Mercantile Bank Limited at the initiative of some Bangle entrepreneurs in the year 1959 under Bank Companies Act 1913 for providing credit to the Bangle entrepreneurs who had limited access to the credit in those days from other financial institutions. After independence of Bangladesh in 1972 this Bank was nationalized as per policy of the Government and renamed as Pubali Bank. Subsequently due to changed circumstances this Bank was denationalized in the year 1983 as a private bank and renamed as Pubali Bank Limited. Since inception this Bank has been playing a vital role in socio-economic, industrial and agricultural development as well as in the overall economic development of the country through savings mobilization and investment of funds. At Present, Pubali Bank is the largest private commercial bank having 455 branches and it has the largest real time centralized online banking network.

It provides mass banking services to the customers through its branch network all over the country. During the last 5 years the growth rate of bank's earnings is more than 25% on average.

2.2 Corporate Information

Name of the Company : Pubali Bank Limited

CEO & Managing Director : Mr. M. A. Halim Chowdhury

Legal Status : Private Limited Company

An Internship Report on "Credit Policy And Credit Management of Pubali Bank Limited

Registered Office : PUBALI BANK LIMITED Head Office,
26 , Dilkusha Commercial Area, Dhaka -
1000, Bangladesh. G . P . O. Box. Number :
853.

Authorized Capital : Tk. 20,000.00 million

Paid up Capital : 8,803.74 million

Reserve : 14,550.64 million

Number of Branch : 455 branches

Website : www.pubalibangla.com

2.3 Management

The management of the bank is vested on a Board of Directors, subject to overall supervision and directions on policy matters by the board that is constituted in terms of Bangladesh Bank (Nationalization) Order 1972. Board of Directors, constituted by 13 (Thirteen) members, has authority to organize, operate and manage its affairs on commercial consideration within the Board Policy of government. There are directors appointed by the government. Other members of the Board including M.D are also government appointed out of that at least three have the experience in the field of Finance, Banking, Trade, Commerce, Industry and Agriculture. The managing director is the chief Executive of Bank.

2.4 Organization

Pubali bank limited is a leading private commercial Bank. Which started Pubali bank limited is a reputed private commercial bank established on May 20,1984. Open the branch at 26 dilkusha commercial area (local office) p.s motijheel district dhaka. within very short period of time it has been able to createan image for itself and has earned significant reputation in the country's banking sector as a bank of vision. presently it has 455 branches, comprehensive and competitive banking service to its clients.

Figure: 2.1 Functional Hierarchie



2.5 Vision

Providing customer centric life long banking service.

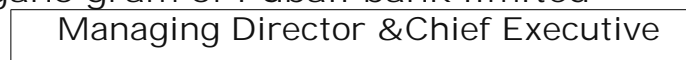
2.6 Mission

1. High quality financial services with the help of the latest technology.
2. Fast and accurate customer service.
3. Balanced growth strategy.
4. High standard business ethics.
5. Steady return on shareholders' equity.
6. Innovative banking at a competitive price.
7. Attract and retain quality human resource.

2.7 Oregano gram of the Bank

Pubali Bank Limited is the largest bank in the private sector of our country. Organogram of the PBL as a whole is shown

Figure 2: Oregano gram of Pubali bank limited





2.8 Management of PBL

The culture developed during nationalized era could not be totally removed from the management style of PBL. Currently an excellent management team under the direct supervision of a competent board of directors (BOD) runs the bank. Under the BOD there is an MD (Managing Director). A general manager heads each department of the bank. There are total eleven divisions in the Head Office of PBL. List of various divisions with its functions is as follows

Table 1: Divisions and Respective Functions at Head Office

No	Division	Functions
1	Board Division	Share Management

An Internship Report on "Credit Policy And Credit Management of Pubali Bank Limited

2	Human Resource Division	Recruitment, promotion, training, disciplinary action, dismissal, discharge, retirement, pay and allowances, career plan, trade union etc.
3	Establishment division	Engineering, transport, telephone, telex, fax, security system, real estate etc.
4	Credit Division	Credit allocation, estimation, sanction etc.
5	Credit Monitor and recovery Division	Credit monitoring, classification, evaluation and recovery etc.
6	International Division	Dealing with foreign banks or organizations.
7	Central Accounts Division	Financial evaluation and forecast of future financial events of the bank.
8	Branch Operation Division	Branches' Management, control, monitoring and performance evaluation.
9	Business Promotion Division	Improvisation and strategy promulgation for business promotion and development of the bank.
10	Audit Division	Conduct internal audits of the branches.
11	I T Division	Data Management, Maintenance of Computer, and Electronic equipments.

2.9 Interest Rate:

Pubali Bank diversified its rate of interest on loan and advances in compliance with the interest rate policy declared by the government in 2005. To encourage the agricultural sector the rate of interest fixed to 5.0-10.0 percent and to increase the rate of industrial production and services industry, the rate of interest rate is fixed to 10.0-11.0 percent and 13.0 percent.

2.10 SWOT Analysis of Pubali Bank Ltd.

Each and every organization should be aware of their strengths, weaknesses, opportunities and threats. This analysis is known as SWOT analysis. The central purpose of SWOT analysis is to identify strategies that fit or match a company's resources and capabilities according to the demand of environment in which company operates. So the strategic alternatives generated by a SWOT analysis should be built on company's strengths in order to exploit opportunities and counter threats and to correct weaknesses.

SWOT analysis explains environment of an organization in two broad ways. They are:

- a) Internal Environment Analysis: It includes strengths and weaknesses.
- b) External Environment Analysis: It includes opportunities and threats.

SWOT analysis – Pubali Bank

During my internship period in Pubali Bank I have found some aspects relating to the Bank's strengths, opportunities, weaknesses and threats, which I think, affect the bank's performance. These are given below :

Strengths

- As a large bank, it has qualified and experienced manpower.
- Branch location is suitable for business.
- Bank's assets position is quite satisfactory and now there is no fund crisis.
- Bank has requisite wealth to sustain in the various challenges of market economy
- Being a nationalized banking organization, it always gets government support in all of its operations.

Weakness

- As many employees retired from the bank, there is a crisis for manpower in the bank.
- Bureaucrat official process hampered the daily internal workflow.
- Lack of motivation for the workers.
- Low salary structure for the employees.
- In some cases management-employee relation is not good.

Opportunities

- Expansion of new investment areas.
- Scope for automation will open a big door of opportunity.
- In case of fund crisis Pubali Bank gets government support.
- The bank undertakes need-based training program.

Threats

- Newly developed privatized and foreign banks.
- Facing a great competition with other commercial banks and financial institutions.
- Loan recovery systems are very weak.
- Policies are not practiced properly.

2.11 Computer Service

To ensure qualified customer service Pubali Bank has started computerization corporate client service and one stop service. 455 branches have already been computerized and a massive computerization program is going on. Pubali Bank Limited, first among the Nationalized Banks in Bangladesh, has introduced One Stop Service. To facilitate the foreign exchange service, Pubali Bank has launched Pubali bank first among the nationalized commercial bank, has introduce ATM service system in its 100 branches. The bank launched Website, Reuter Service, Internet Service and Ready Cash Service. The bank has taken a plan to launch shared ATM system in various important places.

2.12 Government Intervention

Financial services have traditionally been the subject of close government scrutiny and it is expected that exchange rates, interest rates and terms of credit should be monitored in the public interest. In recent years governments have tried to use interest rates, credit regulations and informal controls on banks as a means of managing the supply of money in the economy

in an effort to increase or reduce consumer spending and to hold or promote investment in business. From 1976 to now, these policies have added a new dimension of risk and uncertainty to financial markets, which have already fluctuated for various reasons such as inflation, exchange rate, oil crisis etc.

Sometimes government is a big problem for the nationalized bank in Bangladesh. Government forced to the nationalized bank to lend to government's priority sector, state-owned sectors, state-owned enterprises, sick industries, borrowers with political influence as well as provide exemption schemes to fulfill its pre-election commitment. The loan exemption program of 1986-87 and 1991-92 are 11.37% and 25.56% respectively of total bank loan outstanding. As a result nationalized commercial banks are burdened with very large classified loans (32% of total loans) against which very large provisions are made which affect profit position very adversely. Classified loan in the country's banking sectors on June 30, 1996 was 33.0% of total loans. It was 34.9% on December 31, 1993. Net income of local bank is reduced drastically for maintaining very large provisions for bad debts and interest suspense accounts.

2.13 Training

Pubali Bank Training Institute stated at Moghbazar and also 52-53 Dilkhusha, Motijheel, Dhaka, 1000 Dhaka, Bangladesh, training institutions have been conducting training program covering total banking activities in order to impart training to all categories of officers and staff of Pubali Bank.

CHAPTER III

CREDIT POLICY OF PUBALI BANK LTD.

3.1 Credit Policy of PUBALI BANK LIMITED

When a prospective customer requests a loan, bankers analyze all available information to determine whether the loan meets the bank's risk-return objectives. Credit analysis is essentially default risk analysis in which a loan officer attempts to evaluate borrower's ability willingness to repay. Therefore, bankers need to perform qualitative analysis, which has been classified according to the five Cs of credit as under

- a) Character
- b) Capital
- c) Capacity
- d) Condition
- e) Collateral

3.2 Principles of Sound Lending

a) Safety

PUBALI Bank exercises the lending function only when it is safe and the risk factor is adequately mitigated and covered. Safety depends upon: The security offered by the borrower. The repaying capacity and willingness of the borrower is to repay the advance.

b) Liquidity

The liability of a Bank is repayable of demand or at a short notice. So the Bank has to maintain its liquidity at a sufficient level. Investment on building, plant, machinery, land etc. cannot be recovered quickly, so it is less liquid.

c) Profitability

Profit is needed to pay interest to depositors, depreciation, and maintenance, declare dividend to share holders, provide or reserve against bad and doubtful debts etc. so like all other Banks PUBALI Bank also disburse advances to earn profit.

d) Security

To ensure safety of advances, Banks takes different types of securities like MTDR, Sanchaypatra, land, work order etc. Banker should ensure that the securities are adequate, marketable and free from encumbrances.

3.3 Categories of Loans and Advances:

All loans and advances may be grouped into 6(Six) categories, namely

- (1) Corporate Finance
- (2) Demand Loan
- (3) Personal Loan
- (4) Lease Finance
- (5) SME Finance
- (6) Trade Finance

1) Corporate Finance:

The loan Accounts in which transactions may be made within certain limit and have an expiry date for full adjustment will be treated as Continuous Loans. Examples are: CC, OD etc.

2) Demand Loan:

The loans that become repayable on demand by the bank will be treated as Demand Loans. If any contingent or any other liabilities are turned to forced loans (i.e. without any prior approval as regular loan) those too will be treated as Demand Loans.

3) Personal Loan:

The loans, which are repayable within a specific time period under a specific repayment schedule and loan for personal purpose such as car loan, Flat purchase loan, House hold loan etc.).

4) Lease Finance:

This loan under lease division and different types vehicle, machinery & equipment, medical equipment etc are leased to the borrower with security and guarantee. In this finance system those borrower who are going to establish new side of business then this loan section to them.

5) SME Finance:

The role of Small and Medium Enterprises (SMEs) is indispensable for overall economic development of a country particularly for developing countries like Bangladesh. Since sector is labor intensive with short gestation period, it is capable of increasing national income as well as rapid employment generation

6) Trade Finance:

A finance system that introduce how to business abroad and how to rich foreign currency in our country.

A brief description of loans and advance of Pubali bank limited discussed below:

3.3.1) Corporate Finance

3.3.1. (i) Secured Overdraft (OD)

Overdrawing permitted by the bank in current account is termed as an overdraft facility.

Advances in the form of overdraft are allowed in Current Account operated upon by cheques. The Customer is sanctioned a certain limit up to which he can overdraw his current account within a specified period. Withdrawals and deposits can be made any number of times at the convenience of the borrower provided that the total amount overdrawn dose not at any time exceeds the agreed limit.

Interest is calculated and charged only on the actual debit balances on daily product basis and applied to customer's account at quarterly rests.

3.3.1. (ii) Cash Credit A/C (CC)

Category

- It is of two types: Hypothecation and Pledge
- The account may have debit or credit balance on the basis of transaction. Debit balance will be treated as Asset and Credit balance

will be treated as liability. It will be categorized as demand deposit for credit balance and advance for debit balance.

Customer Eligibility

Opening a Cash Credit Account, prior sanction is required.

Eligible customers are

- Individual (Adult)
- Sole traders Firm/Proprietorship
- Partnership Firm
- Joint Stock Company
- Non Trading Concern (Club, Society etc.)
- Govt./Autonomous Bodies
- NGOs.

Account Opening Procedure

- Photograph
- Specimen Signature
- Specific papers/documents on the basis of the type of the customer.

Joint Account Concept

- Allowed
- Operation as per instruction: Joint/Any/All
- Payable to either or survivor.

Repayment method

- There is no repayment schedule. Borrowers can payback the entire loan amount on or before expiry date.

Security

- Loans are secured by collateral or personal/corporate guarantee.

Renewal

- The cash credit advances can be renewed.
- Renewal with enhancement (increase of principal) is also possible.

Drawing Power Calculation

□ Drawing power (DP) depends on value of stock (collateral) and sanctioned limit. When Loan is sanctioned the value of security (stock), margin and limit as decided by the Bank are taken into account to arrive at the customer drawing power:

$$\text{Drawing Power} = \text{Minimum (Stock - Margin, Limit)}$$

□ Drawing power can be changed due to change of stock value, margin and limit at any time.

Change Interest Rate

□ Interest is fixed and can be changed anytime during the tenor of loan.

Incidental/Account Maintenance Fee and Other Charge

- Incidental/Account Maintenance Fee is collected from the account.
- Online service charge is applicable.
- Closing charge is applicable.
- The Special Services except general services that may be provided to the customer by the Bank, these include:
 - Loan Ledger Statements
 - Loan Ledger Statements
 - Account Closure

Operational Process after Expiry

- There is no restriction for withdrawal in case of credit balance. For debit balance, withdrawal may be allowed by the competent authority. Interest charge will be continued as per rule.

3.3.2) Demand Loan (DL)

Categories

Loan Against PF	Loan Against PSP
Loan Against Gold	Loan Against Other Securities
General HBL	Loan Against SSP
Loan Against DPS	Education Loan
Loan Against Secured Mortgage	Loan Against Provident Fund
Loan Against Transport	Staff House Building Loan
Loan Against FDR	Car Loan (Interest Bearing)
Term Loan	Motor Cycle Loan
Flood Loan	Non Resident Credit Scheme

Loan Against PPS

Other Loan

Customer Eligibility

- Demand loans are sanctioned to Corporate/Companies or Business Concerns or Government or Partnership companies, Proprietorship companies or any individuals and staffs
- Repayment is made by monthly installment or in lump sum as per sanction term. Repayment schedule may be changed if the bank changes the rate of interest or customer fails to pay Installment in due time. Sanction Limit, Installment size, no. of installments and interest rate has to be defining into the sanction letter.

Sanction Details

- Limit
- Date of Sanction
- Period
- Expiry Date

Loan Ceiling/Disbursement

- Disbursement may be one time or by multiple installments up to the sanction limit.
- Suppose limit is 15.00 Lac (15,00,000.00) only. Disbursement may be 1st installment 5.00 Lac, 2nd installment 8.00 Lac and 3rd 2.00 Lac.

Moratorium or Grace period

- Grace period should be defined for General HBL, Staff HBL and such kind of accounts. It may be Six months or Twelve months or Twenty-four months from date of opening. Example: a loan for 1,00000.00 is sanctioned on 01.01.2009 at 10% interest for 1 year. The grace period is 6 months, during grace period interest capitalisation takes place but there will be no repayment from customer.

Repayment

- Repayment will be started after the grace period.
- Installment may be repaid from Current Deposits/Savings Bank Account or through the standing instruction
- Repayment of Monthly/Quarterly/Semi-annually/Yearly installments can be made in CASH through Teller transaction
- Repayment will be completed by settlement process.

Penal Interest

- Penal Interest is not allowed for DL Accounts.

Premature Adjustment

- Allowed as usual subject to realization of accrued interest/charges if any.

3.3.3. Personal Loan

- o Car Loan
- o Flat Purchase Loan
- o Household Durable Loan
- o Medical Equipment Loan
- o Government Primery School Teachers Loan.

3.3.3 (i) Car loan:

This product will allow vehicle financing to the customer segment in terms of bank's policy. Under this scheme, the vehicle is hypothecated to the bank only. In addition to this registration requirement, on a case to case basis, banks may also wish to secure the loan partially by the commonly acceptable form of cash/quasi cash securities available in the market.

Any Bangladeshi individual who has the means and capacity to repay bank loan. In specific terms, these could be salaried executives of

multinational and middle to large size local corporate, Government officials, Officials working in reputed NGOs (Non Government Organizations), international aid agencies & UN bodies, any tax paying businessmen of repute, any employed / self-employed tax-paying individual having a reliable source of income.

3.3.3 (ii) Flat Purchase Loan

This product will allow flat financing to the customer segment in terms of bank's policy. Under this scheme, the flat is registered to the bank only. In addition to this registration requirement, on a case to case basis, banks may also wish to secure the loan partially by the commonly acceptable form of cash/quasi cash securities available in the market.

To purchase a flat for residential purpose in a residential/ commercial area having all amenities/ facilities like water, electricity etc. In case of Developer or Seller there is a condition is Must be well reputed and member of REHAB.

3.3.3 (iii) Household Durable Loan

A personal loan scheme that supports purchase of various consumer durable such as Television, Refrigerator, Air Conditioner, Hi-Fi, Washing Machine, Computers, other household furniture etc. Financing 75% (in case of 3 years term) / 80% (in case of 2 years term) of the cost of the item is allowed.

3.3.3 (iv) Medical Equipment Loan

A personal loan scheme meant for professionals (Practicing Physician) only to support their small-scale purchase of different medical equipment, tools and small machineries for installation at their chamber.

Any Bangladeshi in the following profession as self employed or salaried people: Practicing Physician/Surgeon. For purchase of items to support professional needs of above customer segment (e.g. purchase of X-ray machine, medical beds, ultra-sonogram machine, mechanical tools, or set up of chamber on a small scale etc)

3.3.3 (v) Government Primary School Teachers Loan

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Consumer durables for personal / family use. Items like: Television, Refrigerator, Air Conditioner, Hi-Fi, Washing Machine, Computers, other household furniture etc. Teachers of local Government Primary School only are allowed for this loan.

For Personal loan Security and document submission are same and all loans repayment method are same here we furnish Legal documentation and Sustention of Income as follows:

Legal Documents

- Demand Promissory Note (Joint and single)
- Post dated cheques for each monthly installment
- One undated cheque for full loan value including full interest to be taken in advance
- Personal Guarantee of spouse / parents and an individual having minimum solvency/income not less than that of the borrower supported by income proof
- Hire Purchase Agreement (For Car Loan)

Substantiation of Income

Proper substantiation of income will be mandatory.

All or any of the following original / true copy of original (accepted only after seeing the originals) documents are accepted for the purpose:

- Last Tax Return and latest income tax clearance certificate
- Bank Statements for minimum last 6 months
- Personal Net-Worth Statement
- Any other document that may stand as a proof of income

3.3.4. Lease Financing

There are different categories of lease finance in Pubali Bank Limited, Such as

- Capital Mechinery
- Medical Equipment/ Instrument
- General Equipment, AC, Lift, Generator etc.
- Car/Vehicle/Covered Van etc.

□ Others

Under all lease financing of Pubali Bank Limited follow near about Same methodology in case of Security, documentation, interest rate, Legal security etc. These are furnish below:

Customer Segment

Any Bangladeshi individual or organization who has the means and capacity to repay bank loan. In specific terms, these could be salaried executives of multinational and middle to large size local corporate, Government officials, Officials working in reputed NGOs (Non Government Organisations), international aid agencies & UN bodies, any tax paying businessmen of repute, any employed / self-employed tax-paying individual having a reliable source of income.

Security/ Collateral:

Pubali Bank Limited will overall owner of the lease asset although the leasee will use the lease assets

- Post dated cheques for each monthly instalment.
- Land, building etc. will be treated as auxiliary security of lease financing.
- FDR lien and pledge are acceptable to bank.
- Bank/Insurance guarantee will be treated as security.
- Every director/owner will provide guarantee in case of company that will beneficiary of lease assets.
- In case of Group Company corporate guarantee will necessary.
- In case of Company first charge/additional charge on fixed and floating assets and book debts must do.

Monitoring/Supervision Commission

- Non refundable BDT. 1.00% on Acquisition Cost.

Risk Fund

- BDT. 1.00% on Acquisition Cost will be recovered at the time of instalment recovery.

Bank Interest

- BDT. 12.00% or negotiable interest rate.

Penal/Overdue Interest

- Penal interest shall be charged @ 2% over the normal rate on the defaulted instalments.

Repayment Method

- Monthly from the next month of disbursement.

Disbursement Mode

- After loan approval vendor will receive a Pay Order.

Verification of Personal Details and Quotation

Details of an applicant to be verified by the agent before an approval is accorded.

- Letter from employer with details of employment and salary
- Borrower and Guarantors (if any) details (addresses – both present and permanent, all telephone numbers of residence, office & mobile no.)
- Personal net-worth statement
- Product quotation
- Bank statement

Substantiation of Income

All or any of the following original / true copy of original (accepted only after seeing the originals) documents are accepted for the purpose:

- Last Tax Return and latest income tax clearance certificate
- Bank Statements for minimum last 6 month
- Personal Net-Worth Statement
- Any other document that may stand as a proof of income.

3.3.5. SME FINANCING:

The SMEs worldwide are recognized as engines of economic growth. The important role of SMEs in the national economy of Bangladesh for creating over 90 per cent of industrial enterprises, generating employment to 4 out of 5 industrial workers and contributing to over one-third of industrial value-added to gross domestic product (GDP) emphasizes its promotion by providing access to finance. The relative SMEs share in manufacturing value-added is much higher and estimated to vary between 45 to 50 per cent of totaling value-added generated by the manufacturing industries sector. With these perceived merits of SMEs, Bangladesh Bank has emphasized for their promotion especially in the area of access to finance and has given several directions to the scheduled Banks. For compliance to central bank's instructions and prospects of SMEs in Bangladesh economy, Pubali Bank Limited introduced three products namely

- 1) Pubali Subarna,
- 2) Pubali Karmo Uddyog and
- 3) Pubali Sujan.

All these products are demand loan by nature and all of these loan have near about same procedure for sanction, disbursement, security documentation etc. But we do not have any product for SMEs to ensure continuous finance for fulfilling the needs of working capital. Research and Development Division in consultation with the Credit Division has designed a product named "Pubali Prochesta" to augment working capital base in SMEs for uninterrupted day to day operations.

3.3.5. (i) PBL Subarna:

To meet up working capital of the people this loan system furnish by Pubali bank Limited from very beginning under SME Financing. Those people whose business experience minimum two (02) years they will eligible for this loan, Loan ceiling of this loan is Tk. 2.00 lac to Tk. 10.00 lac and maximum adjustable time is three (03) years.

Security

Primary Security

- Post dated Cheques
- Charge on current assets (receivables, Stock etc.)
- Personal guarantee of Proprietor, Partners, Directors, Spouse
- Hypothecation of machinery, equipments etc
- Personal guarantee of 1 (one) person acceptable to Bank

Collateral (Not mandatory upto Tk. 10.00-lac)

Mortgage (in case of ownership)/assignment of possession right of shop, show-room etc

Documents

- Request letter of the applicant
- Consent letter
- KYC profile with NID
- Photograph of Borrower, Guarantor, Business site
- Financial and Personal net-worth
- Branch Manager's & Regional Manager's visit report

Repayment

Repayment of the loan will be started after 1/2/3 months of disbursement by equal monthly installment .

Penal Interest

@0.25% on the defaulted amount to be charged per month but aggregate of penal interest must not exceed @3% P.A. at any point of time

3.3.5. (ii) PBL Karma Uddog

Pubali Bank Limited launch a new loan under SME Financing, this loan specially for women entrepreneurs. This loan furnish to meet up short term fund requirement of SME's and SME's run by women entrepreneurs, two (02) year experience is essential for eligible of this loan and other criteria such as loanlimit, interest rate, laon ceiling, security, documentation, processing fee, sanction authority,disbursement mode, repayment mode, panel interest all are same as Pubali Subarna.

3.3.5. (iii) Pubali Prochesta

Small and medium enterprise ("SME") borrowers may need to ensure source of continuous finance for uninterrupted operation. Pubali Prochesta will help SMEs to augment working capital base to meet the day to day financial needs.

Borrower's eligibility

The entrepreneur:

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- must have skills in managing his/her business and has experience of successfully managing the business for at least two (2) years;
- is between 21-60 years of age; and has good reputation.
- One exception to the above criteria applies: If a SME customer fully covers credit facility by providing collateral security and has prior employment/business experience in the related industry, the 2 year experience requirement may be relaxed. But experience should be more than 1 year
- In case of individual, S/he must be Bangladeshi. If the borrower is a company/firm or a joint venture, it must be registered in Bangladesh and majority shares owned by Bangladeshis.
- If the borrower is unable to provide collateral/security, she/he must arrange at least one (1) guarantor acceptable to the Bank. If borrower is capable of offering collateral/security, guarantors' requirement may be relaxed and will be reviewed on a case to case basis.

Loan Size

- Tk. 2 lac to Tk 10 lac for SE customers
- Tk 5 lac to Tk 100 lac for ME customers (Collateral is a must)

Security/Collateral

- Registered mortgage of property/ownership of the space/possession right purchased in Bank's name;
- Hypothecation of machineries, equipment, vehicles, inventories;
- Lien of cash collateral (FDR) and other en-cashable financial instrument;
- In case of proprietorship concern, PG of borrower and spouse;
- In case of private ltd. co. or partnership company, PG of all the directors/partners and their spouses to be obtained;
- Post dated replaceable cheque covering the tenor and limit of the loan and charge documents.

Documentation

- Valid trade license of the applicant;
- Copy of at least 1 year old trade license;
- Notarized partnership deed/registered by SRO (in case of partnership company);
- Memorandum and Articles of Association in case of private limited co.
- Passport/national ID/Photocopy of ward commissioner/UP chairman certificate of the proprietor/Partner;
- Photo of the proprietor/partners/a/c signatory attested by the applicant and verified by relationship manager;

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- Last 12 months bank statement of concerned account;
- Statement of all active bank loans;
- Latest clean/UC/standard CIB report;
- Net worth statement of all borrowers and guarantors.

Verification

Contact point verification will be done as per prescribed format. It includes address of residence and office, telephone no and references. All verifications will be done to seek/verify/confirm the declared/undeclared information for proper identification of the applicant.

Common restrictions

- Stock report must be prepared/obtained and placed with loan application;
- Credit risk grading ("CRG") shall have to be at least "Acceptable" (CRG of at least 75) grade for ME customers;
- From the date of the availing the facility the client has no operate his/her transaction through PBL account. At least 50% of the sales should be routed through the designated account in PBL.

3.3.6) Trade Finance

There are different types of Trade finance in Pubali Bank Limited, all of these are as below:

- i) Export LC
- ii) Import LC
- iii) Back to Back LC
- iv) EDF LC
- v) Loan against Trust Receipt (LATR)
- vi) Packing Credit (PC)
- vii) Documents against Payment (D/P)
- viii) Foreign Bill Purchase (FBP)

3.3.6.(i) Export LC

Export LC is extensively used in Foreign Trade to facilitate the smooth conduct of the export business. Banks play the role of intermediaries to get the transaction through, even though the buyer and the seller may not know about each other's background.

Export LCs clear the uncertainty between the buyer and the seller with the bank undertaking to settle the obligations in time. Export LC in favor of the customer is received by the bank, which advises the LC to

the customer. When the customer ships the goods as per LC terms and submits the relevant documents to the bank, the bills are either purchased or sent for collection to the LC issuing bank.

3.3.6.(ii) Import LC

Import LC is used for import of goods from other countries. It could either be a sight LC (payable immediately) or deferred LC (payable at a specific date in the future).

Import LC is opened by the bank on behalf of its customer for the import of raw materials, capital machinery, consumer goods, food, chemicals, vehicles, etc. Margin is collected from the customer and kept in a separate account. On receipt of documents from the negotiating bank, payment is made by debiting the PAD account in the customer's name for sight LCs or sending an acceptance, undertaking to pay at a later date (for usance Lcs).

3.3.6. (iii) Back to Back LC

Back to Back LCs is issued on behalf of a customer against the security of Export LCs for procurement of raw materials either locally or from abroad and makes timely shipments. The customer is entitled to open BTB LC 75% to 100% of the FOB value of the Export LC. More than one BTB import LC can be issued against one or more export LCs.

Government of Bangladesh has advised a special procedure under which the export oriented garment units are allowed to import their raw materials free of duty under the bonded warehouse arrangement. Back-to-Back letter of credit, in essence, is used to import the inputs generally on credit terms up to 180 days on the strength of the foreign LC received from the overseas buyers.

3.3.6.iv) Loan against Trust Receipt (LATR)

LTR to manage immediate liquidity of importers

3.3.6.(v) Packing Credit (PC)

Shipment finance in the form of Export Packing Credit (PC) to assist cash flows for manufacturing or packing goods for export from Bangladesh.

3.3.6.(vi) Documents against Payment (D/P)

Arrangement under documentary collection in which an exporter instructs the presenting bank to hand over shipping and title documents to the importer only if the importer fully pays the accompanying bill of exchange or draft. It is also called cash against documents.

3.3.6.(vii) Foreign Bill Purchase (FBP)

In case of having a credit line with the bank, after all documents are checked, the bank will buy Foreign Bills under the L/C (Usance L/C) by payment in advance and later collected such payment from the issuing bank

CHAPTER IV

CREDIT MANAGEMENT OF

PUBALI BANK LTD.

4.1. Definition of Credit Management

Credit is the ability to obtain goods or services in exchange for a promise to pay for them later. Similarly, it is the power or ability to obtain money by the borrowing process in return for a promise to repay the obligation in the future. Properly defined, credit represents the actual or prospective debtors' power or ability to affect an exchange by his promise by future payment. In defining the credit management we can understand that from the very beginning of the loan giving activities to the end of the recovery of the loan is all the single part of credit management. Credit Management enables the bank to run the safe and sound credit activities and to make the loan receiver fully confident to go forward with a particular bank to achieve a credit facility and that can only be possible if there is an existence of credit management which is intensifying both the bank and the loan receiver.

4.2. General procedure for sanctioning loans & advances

The following procedure is applicable for giving advance to the customer. These are:

- Duly fill-up first information sheet

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- Application for Loans/Advances
- Credit Risk Grading
- Collecting CIB report from Bangladesh Bank
- Making proposal to Head Office
- Project appraisal
- Head office approval
- Sanction letter
- Documentation
- Charges on Securities
- Recovery

A. First Information Sheet

First information sheet is the prescribed form provides by the respective branch contains following particulars: –

- Name of the concern with its factory location, Office address & Phone number,
- Name of the main sponsors with their educational qualification and experience,
- Details of past and present business, it achievement and failures,
- Name of all the concerns wherein the sponsors have involvement,
- Income tax registration number with the amount of tax paid for the last three years,
- Details of unencumbered assets personally owned by the sponsors,
- Details of liabilities with other Banks and financial institutions,
- Estimated cost of the project & means of finance.

B. Application for Investment

After receiving the first information sheet from the borrower Bank official verifies all the information carefully. He also checks the account maintains by the borrower with the Bank. If the official becomes satisfied then he gives application or Investment form to the prospective borrower.

C. Collecting CIB Report from Bangladesh Bank

After receiving the application for advance, PUBALI Bank sends a letter to Bangladesh Bank for obtaining a report from there. This report

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is called CIB (Credit Information Bureau) report. Pubali Bank generally seeks this report from the head office for all kinds of Investment. The purpose of this report is to being informed that whether the borrower has taken loan from any other Bank; if yes then whether the party has any overdue amount or not.

D. Making Investment Proposal

After receiving CIB report, concern branch prepare an Investment proposal, which contains terms, and conditions of Investment for approval of Head Office or Head of the concerned branch. Following documents are necessary for sending the Investment proposal:

- Loan application
- Declaration of the borrower
- Photograph of the borrower duly attested
- Bio data of the borrower
- Limit sanction
- Credit report
- Legal opinion
- Memorandum of article
- Trade license
- Copy of title deeds
- Tax clearance certificate

If the officer thinks that the project is feasible then he will prepare a proposal. PUBALI Bank prepares the proposal in a specific form called Investment proposal. It contains following relevant information:

- Borrower, Date of establishment, constitution, Main sponsor/director with background,
- Capital structure, address,
- Account opening date, introduced by type of business, particulars of previous
- sanctions,
- Security (existing and proposed),
- Movement of accounts,
- Components on the conduct of the account,
- Details of deposit, liabilities of allied concerns, liabilities with other Banks,
- CIB report,
- Rated capacity of the project (item wise),
- Production/purchase during the period,
- Sales during the period,
- Earning received for the period,

E. Project Appraisal

It is the pre-investment analysis done by the officer before approval of the project. Project appraisal in the Banking sector is needed for the following reasons:

- To justify the soundness of an investment,
- To ensure repayment of Bank finance,
- To achieve organizational goals,
- To recommend if the project is not designed properly.

Techniques of Project Appraisal

An appraisal is a systematic exercise to establish that the proposed project is a viable proposition. Appraising officer checks the various details submitted by the promoter in first information sheet, application for Investment and Investment proposal. PUBALI Bank considers the following aspects in appraising a proposal.

- Technical viability
- Commercial viability
- Financial viability
- Economic viability

The Head Office (HO) mainly checks the technical, commercial and financial viability of the project. For others HO is dependent on branch's information. But when the investment size is big, then the HO verifies the authenticity of information physically.

F. Head Office Approval

Upon receipt of the Investment proposal from the branch, the Head Office appraises the project. If it seems to be a viable one, the HO sends it to the Board of Directors for the approval of the Investment. The Board of Directors (BOD) considers the proposal and takes decision whether to approve the Investment or not. If the BOD approves the Investment, the HO sends the approval to the concerned branch. The respective officer of Head Office appraises the project by preparing a summary named Top Sheet or Executive Summary. Then he sends it to the Head Office Credit Division for the approval of the Loan. The Head Office Credit Division considers the proposal and takes decision whether to approve the Investment or not. If the committee approves the Investment, the HO sends the approval to the concerned branch with some conditions. These are like:

- Drawing will not exceed the amount of bill receivables.
- All other terms and conditions, as per policy and practice of the Bank for such advance to safeguard the Banker's interest shall also be applicable for this sanction also.

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- Bank may change/alter/cancel any clause (s) of the sanction without assigning any reason whatsoever and that shall be binding upon the client unconditionally.
- Branch shall not exceed the sanctioned limit.
- Required charge documents with duly stamped should be obtained.

Drawing shall be allowed only after completion of mortgage formalities and other security arrangement.

G. Sanction Letter

After getting the approval of the HO the branch issues sanction letter to the borrower. A sanction letter contains the following particulars amongst other details:

- Name of borrower
- Facility allowed
- Purpose
- Rate of interest
- Period of the Investment and mode of adjustment
- Security
- Others terms and condition

H. Documentation

If the borrower accepts the sanction letter, the Documentation starts. Documentation is a written statement of fact evidencing certain transactions covering the legal aspects duly signed by the authorized persons having the legal status. Following are the most common documents used by the PUBALI Bank for sanctioning different kinds of Investment:

- Joint Promissory Note
- Letter of Arrangement
- Letter of Disbursement
- Letter of Installment
- Letter of Continuity
- Trust Receipt
- Counter Guarantee
- Stock Report
- Letter of Lien
- Status Report
- Letter of Hypothecation
- Letter of Guarantee
- Documents Relating to Mortgage

4.3 Basis for Loan Classification:

The loan classification has been done mainly under two broad heads.

- Objective Criteria
- Qualitative Judgment

4.3.1 Objective Criteria

The continuous loan and demand loans are classified as different heads of discontinuous loan after the expiry of scheduled date of payment or if it is not renewed, before its expiry:

- From 6 months to 9 months.....Substandard loan
- From 9 months to 12 months.....Doubtful loan
- From 12 months and above..... .Bad debt/Loss loan

If any installment of a term loan is not paid within the scheduled date, then that debt will be termed as installment default.

The term loans, which are to be paid within maximum five years time:

- If the amount of installment default is equal to or more than the installment to be paid within six months will be classified as substandard loan.
- If the amount of installment default is equal to or more than the installment to be paid within 12 months will be classified as doubtful loan.
- If the amount of installment default is equal to or more than the installment to be paid within 18 months will be classified as bad debt or loss loan.
- In case of the loan, which are to be paid within more than five years:
 - If the amount of installment default is equal to or more than the installment to be paid within 12 months will be classified as substandard loan.
 - If the amount of installment default is equal to or more than the installment to be paid within 18 months will be classified as doubtful loan.
 - If the amount of installment default is equal to or more than the installment to be paid within 24 months will be classified as bad debt or loss loan.

- If short-term agriculture loan is not paid within the date mentioned in the contract, then it will be termed as discontinuous loan. It will be discontinuous if it crosses:

- 12 months ----Substandard loan
- 36 months-----Doubtful loan
- 60 Months-----Bad debt/Loss loan

4.3.2 Qualitative Judgment

If any doubt or uncertainty arises for any loan irrespective of whether it is termed as continuous, demand or term loan under objective criteria, then those loan have to be classified under qualitative judgment.

If there is any change in terms or conditions under which the loan was sanctioned or if the principal of debtor is affected for adverse situation or if the value of security is reduced or if the loan recovery become uncertain, then this loan has to be classified under qualitative judgment. More over, if without any reason or time and again any loan is rescheduled or the regulations for rescheduling is broken or if the tendency of crossing the limit of schedule or any case is filed or any loan is sanctioned without permission of appropriate authority, then this have to be classified under qualitative judgment.

4.4 Reserve Provision

Bank will reserve provision for continuous, demand and term loan as per following rate:

- Unclassified (UC)..... 1%
- Substandard loan (SS)..... 20%
- Doubtful loan (DF)..... 50%
- Bad debt or Loss loan (BL)..100%

4.5 Security Provision

Eligible security includes following:

Lien security against the loan - 100%

Market rate of deposited gold/ ornaments in the bank	- 100%
Lien Government Bond/Savings certificate	- 100%
Guarantee from Government or Bangladesh Bank	- 100%
Easily Marketable Goods Kept under control of Bank	- 50%
Market value of secured land and building	- 50%

4.6 Laws regarding Bad debt/Loss Loan

If the loan classified as bad debt/loss remained outstanding for 9 years will be written off. But that particular debtor will still be treated as a defaulter. A case has to be filed against the defaulter before writing off the bad debt/loss loan. Moreover loan recovery section of the bank will remain responsible to recover the written off loan.

4.7 Principles of Sound Lending used by PBL.

The three cardinal principles of bank lending are safety, liquidity and profitability. We can now have a closer look at what these and other principles are:

□ *Safety:*

Bank's business consists of dealing in money but, as mentioned above, this money is borrowed money--borrowed mostly in the form of deposits from the general public. The banks themselves in general and regulatory authorities in all the countries in particular are, therefore, vitally concerned with ensuring safety of money invested by banks on loans and advances. By safety is meant that the borrower is in a position to repay the loan along with interest, according to the terms of the loan contract.

□ *Repayment:*

The repayment of a loan depends upon the borrower's (1) capacity to pay and (2) willingness to pay. The former depends upon his tangible assets, cash-flow and the success of his business. The willingness to pay depends upon the integrity, good character and reputation of the borrower. In

addition, the banker generally relies on the security of tangible assets owned by the borrower to ensure the safety of his funds.

□ *Liquidity:*

Banks are essentially intermediaries for short term funds. Therefore, they lend funds for short periods mainly for working capital purposes. The loans are, therefore, largely payable on demand. The banker must ensure that the borrower is able to repay the loan on demand and this depends upon the nature of assets owned by the borrower and pledged to the banker. For example, goods and commodities are easily marketable while fixed assets like land and buildings can be liquidated after a time interval.

□ *Profitability:*

Commercial banks are profit-earning institutions. The banks must employ their funds at a suitable rate of interest to earn sufficient income out of which to pay interest to the depositors, salaries to the staff and to meet various other establishment expenses and generate an income for the shareholders/owners.

□ *The Purpose of the Loan:*

While lending his funds, the banker, among other things, enquires from the borrower the purpose for which he seeks the loan. Banks do not grant loans for each and every purpose; they ensure the safety and liquidity of their funds by granting loans for productive purposes only, viz., for meeting working capital needs of a business enterprise. Loans are not advanced for speculative and unproductive purposes. Loans for capital expenditure for establishing industries are of long-term nature and the commercial banks may use part of its loan able funds to provide loans on long term basis for really viable undertakings.

□ *Creditworthiness of the Borrowers:*

The business of sanctioning unsecured advances is comparatively risky and needs special attention. In the absence of a charge over any specific asset, the safety of advance depends upon the honesty and integrity of the borrower as much as upon the worth of his tangible assets. The banker has therefore, to make proper inquires not only about the borrower's capacity to pay but also about his willingness to pay the amount of credit. 'Though such inquire is also necessary in case of a secured advance also but it assumes special significance in case of unsecured advances. This is more important in Bangladesh where the incidence of default has become almost endemic.

The creditworthiness of a person means that he deserves a certain amount of credit and may safely be granted to him.

Such creditworthiness is judged by the banker on the basis of various parameters but the one that is frequently cited is the so-called CAMEL rating.

4.8 CAMEL Rating:

Banks lend funds to clients having high or acceptable creditworthiness. An effective way of judging the creditworthiness of a borrower is to ascertain CAMEL rating.

CAMEL stands for

C = Capital,
A = Assets,
M = Management
E = Earning ratio and
L = Liquidity.

These parameters can be briefly described as follows:

- *Capital*: The borrower must invest his own equity and have his own stake in the business.
- *Assets*: He must have sufficient assets of good quality which he can fall back upon in case of needs.
- *Management*: The borrower is required to possess managerial capabilities and management expertise to make his business a success
- *Earning*: The business must be a profitable one ensuring good returns on investment.
- *Liquidity*: The business is expected to have a positive cash-flow based on good cash and cash equivalents and its current assets must be enough to meet its current liabilities.

4.9 New Techniques for assessing soundness of a Loan Proposal

- 1) Lending risk analysis (LRA)

2) Collection of Credit Information.

4.9.1 Lending risk analysis (LRA):

Lending Risk Analysis (LRA) refers to the degree/intensity of risk that the bank cannot fully recover a loan. Interest from loan is the main source of earnings for the bank but all loans cannot be easily recovered. It depends upon the correct evaluation of the borrowers. There are set rules and guidelines from Bangladesh Bank for this evaluation. PBL follows the instructions for all types of loans that it provides to the customers. So, overall performance of a bank is dependent upon the sound functioning of the lending system. A venture/project involves risk. While financing a venture/ project banks have to take into consideration the risk elements from different angles that are involved in the project.

Regardless of the type of loan, all credit requests goes through a systematic analysis of the borrower's ability to repay.

The foremost issue in assessing credit risk is determining a borrower's commitment and ability to repay debts. Commitment is typically evidenced by an individual's honesty, integrity, and work ethic. While a borrower may sincerely make every effort to repay a loan, the promise is weak if he or she has misjudged the ability to generate cash for payment. An important facet of character is thus credibility. Even if the numbers look acceptable, a bank should lend nothing if the borrower appears dishonest.

Lending Risk Analysis Procedure

The formal lending risk analysis procedure includes a subjective evaluation of the borrower's request and a detail review of all financial statements. The loan officer may perform the initial quantitative analysis of lending risk. The process consists of:

- Collecting information for the credit file
- Spreading financial statements (analyzing financial ratios)
- Projecting the borrowers cash flow
- Evaluating collateral
- Writing a summary analysis and making a recommendation

There is a format, which is used by the banks to analyze the lending risk involved in various businesses. It consists of mainly two parts i.e. business

risk and security risk. Most important part is business risk, which chiefly includes industry risk and company risk.

4.9. 2 Collection of Credit Information

For the purpose of assessing the creditworthiness of a borrower, a banker has to collect information from a number of sources. In foreign countries specialized agencies collect all information relating to the status and financial standing of businessmen and supply the same to the bankers. Bangladesh Bank has developed a system to collect information regarding the financial position of the borrowers through Credit information bureau.

4.9.3 Credit Information Bureau

The Bureau collects credit information from the banks under Section 42 of the Bangladesh Bank Order, 1972. Banks are required to provide to Bangladesh bank the data on credit facilities provided to the clients. Bangladesh Bank maintains a database in its Credit Information Bureau. The commercial banks enjoy access to these data in respect of their prospective borrowers. Thus, the banks can find out if any of their customers is having excessive borrowings from the banking system at any particular moment and how meticulous they are to meet their repayment obligations. The information is of limited assistance to the banks, but it serves as starting point to institute further inquiries before the loan is granted.

- *Borrower:* Much information may be secured from the borrowers directly. The loan application form seeks basic information about the borrower and his business. The banker may examine his account books and note his past dealings with other banks or parties. His statement of accounts with other banks can show his dealings and the business undertaken in the past. A personal interview with the borrower will also enable the banker to get a clear picture of his state of affairs.
- *Bazar Reports:* Banks try to find out the creditworthiness of the party by making inquiries from the brokers, traders and businessmen in the same trade or industry. Their individual opinions may differ but a balanced opinion may be formed about the borrower on the basis of the feelings expressed by a number of such persons.
- *Exchange of credit information amongst banks:* It is the practice and customary usage amongst banks to exchange credit information relating to the constituents in their mutual interest. Bangladesh Bank

has asked the banks to supply information in respect of defaulting borrowers.

- *Balance Sheet and Profit and Loss Account:* An analysis of the Balance Sheet and Profit and Loss Account of the borrower for the last few years will reveal his true financial position. These statements should be certified by competent accountants. The procedure followed in analyzing these financial statements is discussed separately.

4.10 Supervision and Control of Loans & Advances:

Advances allowed should be very closely watched to see whether the same are being conducted in accordance with the terms and conditions under which the limits were sanctioned or not. The result of the inspection should be an effective guide in sorting out the measures to be adopted in respect either of correcting the unsatisfactory operation of the advances or recovery of the same. In order to ensure safety of advances, all advances shall be kept under strict supervision and control. This will include supervision at the time of disbursement to ensure proper utilization of the Bank credit. to supervise end use during the tenure of advance and to ensure that the repayment is regular. Supervision and control of advances are exercised at different levels in order to keep the same regular.

4.10.1 Control At Branch Level:

Branches must see and ensure the following:

The respective account holder is legally competent to borrow. All necessary documents have been correctly executed and other formalities duly complied with. The security is correctly valued, is easily saleable, margin is properly maintained, turn over of the stock is quick, insurance where necessary has been taken and periodical inspection carried out. Stock report signed by the borrower shall be obtained periodically and pledge godown should be regularly inspected and stocks verified as per existing instruction. All advances accounts must be frequently reviewed particularly when transactions of the account are not satisfactory.

Financial position of the borrower and guarantor, if any, must be reviewed every year and also as and when occasion arises. Published audited balance sheet and profit and loss accounts of the borrowing companies shall be obtained when these are published.

Debt acknowledgement letter duly signed by the borrower, guarantor, shall be obtained in accordance with existing practice to keep the advances alive in order to save advance from being barred by limitation.

Due date diary in respect of important matters e.g. due date of payment of insurance premium, date of collection of interest bearing securities kept under lien, expiry date of sanctioned limits, limitation period, due date of a company's next balance sheet, expiry date of guarantees issued by the branch etc. shall be maintained.

Behavior of the borrower in respect of his overall business shall be closely observed. Party's simultaneous banking with other banks shall be promptly inquired into and immediate measure should be taken to route entire business with the financing branch.

4.10.2 Control at Head Office

Statements relating to advance shall be submitted to the controlling Officers/Head Office. These should be carefully examined for the purpose of watching the period of limitation from the documents executed and securities offered and also the present value of the security offered against the present outstanding.

Branches should be periodically inspected by the Inspection Teams of the Head Office. During inspection all advances, documents, security, turnover, observance of the stipulated terms and conditions of every advance shall be examined.

Where any irregularity in documentation including security arrangements, non adjustment of the advance within the stipulated period and afterwards and other irregularities which lead the advance toward being stuck up are observed, the branch should be advised to make all out efforts, including legal measure, if necessary to recover the stuck up advances.

4.11 Recovery of Advances:

Advances granted in any form are repayable either on demand or on the expiry of the validity period or through agreed installments. When repayment is not forthcoming in accordance with the repayment terms, recovery efforts should be launched.

- When the repayment pattern of the advance is such that continuance of the facility is not worthwhile or while the advance allowed confronts with the following circumstances, advance should be recalled.
- Borrower or the guarantor dies.
- Borrower or the guarantor has become insolvent.
- Borrowing company has been liquidated.

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- Partnership has been dissolved.
- Borrower does not come forward to renew the documents well before the expiry of the period of limitation.
- Turnover in the account has not improved.
- Value of the security has deteriorated.
- The borrower does not comply with the legitimate request of the Bank to complete the required formalities.
- Financial position of the borrower has deteriorated alarmingly which is beyond restoration.
- The party resorts to heavy over trading/speculation.
- The party commits fraud of any sort.
- Policy of the Bank has under gone change in relation to certain types of advances.

For the recovery of the advances, branch should take the under mentioned steps:

- Make formal demand for repayment in writing.
- Put pressure on the borrower by utilizing the most effective and meaningful media that an exert adequate influence on the borrower.
- Intimate the borrower about Bank's ultimate resorting to file suit in the event of non-repayment.
- Advise the guarantor, if any, to adjust the advance or have it adjusted by the principal debtor.
- If the borrower and his guarantor (if any) come forward and propose repayment arrangement and the same is considered to be an acceptable proposal, the branch should seek controlling/B.O. decision in this regard and act in accordance with the instruction.
- When the borrower does not adjust the account, legal notice, under the approval of the controlling officer/H.O., should be served upon the borrower and the guarantor, through Bank's legal adviser/panel lawyer. It should be mentioned in the notice that if the outstanding is not adjusted within the specific time (which shall be mentioned) suit shall be filed for the recovery of the advance.
- When advance to be recovered was allowed against pledge of goods, after giving notice in the aforesaid manner, arrangement shall be made to sell the goods through auction subject to the approval from Head Office.
- When the charge is by way of hypothecation the branch may, on the strength of the relative documents, take the stock under own possession and thereafter dispose of the same in the above manner.
- When advance allowed against mortgage, either simple or equitable legal recourse shall have to be taken to sell the property through court's decree.
- When the security obtained against the advance, does not cover the outstanding, attempts must be made to secure the advance. If it is not possible and borrower does not repay, chance of recovery must be

ascertained and legal action, subject to the approval of the competent authority shall be taken.

- If an advance account of the deceased borrower (individual or proprietary concern) remains unadjusted the following actions shall be taken. No further withdrawal shall be allowed. If the borrower's legal heirs approach for the continuance of the facility, the proposal together with legal opinion shall be referred to the competent authority. In case the authority approves the proposal, the debit balance of the deceased account shall be transferred to a new account in the name of his heirs or successors along with securities held in the account: If the desired facility is declined or no application is made by the successors, the securities if any, may have to be sold and guarantee if any be invoked in a lawful manner. For shortfall, if any, legal action should be taken as per advice of the legal advisor/panel lawyer after obtaining approval from Head Office.

4.12 Filing of Suit for Recovery of Loans and Advances:

Suit is the final steps to be taken in respect of recovery of an advance, when all endeavors of the Bank i.e. personal contact, moral suasion, request, and notice for repayment of the advance turned fruitless.

- As preparatory to filling suit, the branch shall serve legal notice upon the borrower(s), guarantor(s). Directors of the company (in case of advance against Ltd. Co.) through the legal adviser/panel lawyer under registered post demanding adjustment of the liabilities within a specific time.
- Documentation of the advance shall be checked to ensure that these are not barred by limitation for taking legal action. Full particulars of the assets of the borrower and co-obligates of the advance shall be ascertained.
- Review form in respect of each party detailing therein. full particulars about the borrower, his assets and the advance shall be filled in as per the proforma circulated by Head Office. While filing in the review form, chance of recovery shall be clearly mentioned. The review form shall be sent to the competent authority with due recommendation stating the reason for filing Suit. On receipt of approval immediate steps shall be taken to file suit through the Bank's legal adviser/panel

lawyer. While filing suit it shall be ensured that all the necessary parties, partners, directors (in case of Ltd. Co.) guarantor, as the case may be are made defendants in the suit and steps are taken to attach the assets before judgment. In case of mortgage of immovable property either by way of equitable mortgage/or by registered mortgage,

CHAPTER V

RECOMMENDATION & CONCLUSION

5.1 Recommendations:

Banking sector is one of the most important service oriented organization. Each and every bank is trying to give better service. If Pubali bank wants to become a market leader obviously they have to give better service. Though it is observed that credit management of the bank is quite satisfactory, the following recommendations can be taken into consideration to make it more effective.

- If the deposit of the branch is good in position, Loans & Advances may increase for more profit.
- The recovery position of Bad Debt loan is not good enough, So management may take special care in the recovery section.
- Bank may supervise the loans and advances regularly.
- The loan & Advance division may take a short period for processing and sanctioning loans and advances.

5.2 Conclusion:

The present Pubali Bank Limited started its journey as Eastern Mercantile Bank Limited in 1959. Now it is growing Bank in the Banking Industry. The Number of Branches of the bank is 455. In spite of having such big net work and experienced set of staffs and employees the bank even under new entrepreneurs did not make any remarkable good progress. The prospect of the bank is good if it can overcome some problems like old legacy, lack of modernization, lack of supervision. These problems enhanced by inherited classified loans. How ever in the study it revealed that the bank is making steady progress in almost all sectors. The present management seems to have conceived the idea of modernization. But rapid progress is required.

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