

Internship Report

On

THE CREDIT RISK MANAGEMENT OF DHAKA BANK LIMITED

SUBMITTED BY

MD. SAIDUR RAHMAN

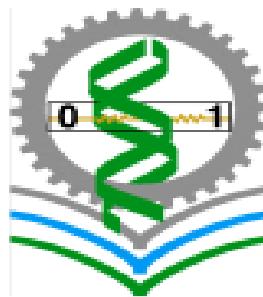
Student ID: E130502010

MBA (Evening)

2nd Batch

Major in Finance

Department of Finance and Banking



Department of Finance and Banking
Hajee Mohammad Danesh Science and Technology University
Dinajpur.

April, 2016

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Jesmin Ara

Supervisor

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Dedicated to My Beloved Parents

Abstract

Credit risk management has become an import topic for financial institutes, especially since the business sector of financial; service is related to conditions of uncertainty. The goal of credit risk management is to maximize a bank's risk- adjusted rate of return by maintaining credit risk exposure within acceptable parameters. This report objective was formulated in order to gain a better understanding of credit risk management and to get knowledge about the effectiveness of loan and sanction procedure that is conducted on the evaluation of credit risk. Credit risk has always been a vicinity of concern not only to

bankers but to all in the business world because the risks of trading partner not fulfilling his obligations in full on due date can serious jeopardize the affairs of the other partner. The axle of this study is to have a clearer picture of how banks manage their credit risk. This study showed that banks credit risk assessment process for loans provides the bank with the necessary tools, procedures and observable data to use for assessing credit risk, accounting for impairment of loans and for determining regulatory capital requirements. The study finds, credit risk is mitigated by appropriate credit appraisal systems before lending and proper collateral or guarantees are taken to hedge the risk. The leads the researcher to conclude that banks with good credit risk management policies have a lower loan default rate and relatively higher return on asset.

Acknowledgements

For the very first of all I would like to express my gratefulness and harmony to Allah, the supreme authority of the Universe, without whom we would be nothing. Next I would like to express my kindness to my beloved parents whose continuous inspiration and blessings enrages me to make a right move in my life.

Then of all I would like to thank my Supervisor of the report Jesmin Ara, Lecturer Department of Finance and Banking without whose help, suggestion and co-operation the total report would be valueless.

My sincere gratitude is due Co-supervisor Abul Kalam, Assistant Professor, Department of Marketing, who was kind enough to provide her valuable feedback and guidance. Her continuous support provides a substantial basis for this report.

I would also like to express my hearties gratitude to Mr. Soheb Ahmed, SPO and Manager (C.C) of Dhaka Bank Limited, Dinajpur Branch. I have got tremendous help from him.

Finally, I would like to thank all officer and workers of DBL, Dinajpur Branch for their co-operation, support and love. They always provide me the required materials and helped me to clarify the banking activities. This report will give me practical knowledge about the banking activities.

I would like to thank from the deed of my heart to those people who are related with making of this report and make it a success.

Finally, I would like to thank HSTU University and its faculty of Postgraduate studies, Department of Finance and Banking for giving me an opportunity to complete my MBA Degree and give me a scope to gather practical experience and enrich my knowledge.

DBL/DPR/2016/

April 24, 2016

To Whom It May Concern

This is to certify that Mr. **Md. Saidur Rahman**, bearing student ID No. E130502010 student of MBA Evening (Major in Finance) of Hajee Mohammad Danesh Science and Technology University, Dinajpur worked as Intern during Thirty eight (38) days internship program from 6th March 2016 to 20th April 2016 in our Branch. His endeavor, interest and performance and highly satisfactory.

We wish him all success in life.

Soheb Ahmed

SPO & Manager (C.C)

Student's Declaration

I hereby declare that the report of internship namely “**THE CREDIT RISK MANAGEMENT OF DHAKA BANK LIMITED**” by me after completing of thirty eight (38) days of internship with Dhaka Bank Limited at Dinajpur Branch and a comprehensive study of the existing activities of Dhaka Bank Limited and its implementation.

I also declare that this paper is original and prepared for academic purpose which is a part of MBA (Evening).

.....

Md. Saidur Rahman

Student ID : E 130502010

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**Hajee Mohammad Danesh Science & Technology University
Dinajpur, Bangladesh.**

Declaration of Supervisor

This is to certify that **Md. Saidur Rahman**, Student ID No.E130502010, a student of Master of Business Administration (MBA),(Evening) Major in Finance under the faculty of Business Studies of Hajee Mohammad Danesh Science and Technology University, Dinajpur. He has successfully completed comprehensive internship program which is approved and suitable in eminence. During the period of his internship in Dhaka Bank Limited, Dinajpur Branch, he acquired practical knowledge as well as showing satisfactory overall performance to study and work on the title “THE CREDIT RISK MANAGEMENT OF DHAKA BANK LIMITED”.

I wish his all success in life.

.....

Jesmin Ara

Lecturer

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Dinajpur, Bangladesh.**

Co- Supervisor's Declaration

I hereby declare that **Md. Saidur Rahman**, Student ID No.E130502010, a student of Master of Business Administration (MBA),(Evening) Major in Finance have his internship report entitled “**THE CREDIT RISK MANAGEMENT OF DHAKA BANK LIMITED**” after completing his internship program under my co-supervision. This report has been submitted in partial fulfillment of the requirement for the degree of Master of Business Administration (MBA), Evening at Hajee Mohammad Danesh Science and Technology University, Dinajpur-5200.

.....

Abul Kalam

Assistant Professor & Chairman

Department of Marketing

Faculty of Business Studies

HSTU, Dinajpur-5200.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Generally by the word "bank" we can easily understand that the financial institution dealing with money. The whole scenario of the economy of a country can be ascertained by examining the condition of the banking sector. Banking sector has a vital role to play in the economic activities and development of any country. There are different types of banks like Central Banks, Commercial Banks, Savings Banks, Investment Banks, Industrial Banks, and Co-operative banks etc. But when we use the term "bank" without any prefix or restriction, it refers to the Commercial Banks. Commercial Banks are the primary contributors to the economy of a country like Bangladesh. In Bangladesh, the commercial banks are dominating the financial sector and macroeconomic management largely depends on the performance of the commercial banks as well as banking sector. Banking grew primarily in the public sector with main emphasis on restructuring of the financial system and development needs of the war-torn economy with gradual liberalization in subsequent years. It was increasingly felt that banks should be allowed in the private sector for giving a fillip to development process on the basis of private initiative. In the 80's for the first time a number of banks in the private sector were allowed. Dhaka Bank is one of them. Today the banking concept is not continuing inside the branches or the cabin of the branches. The bankers are now practicing the non-cabin banking. The assurance of the availability of the service provider is main factor in bank service. As a result, it has become essential for every person to have some idea on the bank and banking procedure. At present, there are 56 scheduled banks operating all over the country. Out of these, 9 are state-owned (including five specialized banks), 38 are private commercial banks and the rest 9 are foreign commercial banks.

Even though banking sector in Bangladesh is going through a radical change, it still suffers from chronic inefficiency. The biggest problem of Bangladesh banking system is the bank loan default problem. Various initiatives have been undertaken to tackle the loan default problem in Bangladesh. One of them is to have a credit policy and procedures guideline mandated by the Bangladesh Bank.

In this process banks earn profit by receiving interest from the borrowers who want to take short-term or long –term loans and making relatively lower interest payment to the depositors for providing their funds for use by the bank. The report basically deals with “The Credit Risk Management of Dhaka Bank Limited”. Credit risk refers to the chance a borrower will fail to repay a loan. The risk directly relates to the borrower’s entire credit history. Today many companies decide on credit risk management before signing an agreement with an unknown business. This helps avoid dealing with financially unstable partners and reduce the risk of losing your assets or badly impacting your business reputation. (Why is Credit Risk Management Important, [http: www. check thatcompany.co.uk/articles/2011/May](http://www.checkthatcompany.co.uk/articles/2011/May)).

The credit risk management policy of Dhaka Bank Limited is prepared in line with the guidelines of Bangladesh Bank in credit risk management and for the guideline of the officers or executives in handling affairs relating to credit in a disciplined way. Credit department plays a very important role in bank as they evaluate the risk and take decision about giving loan to the customers. Credit risk corresponds to potential financial loss as a result of customer’s inability to honor these terms and conditions of credit facility. This report will mainly focus on managing credit risk by providing proper satisfaction towards the customers as well as achieving organizations goals.

1.2 Objectives

Preparation and presentation of this report contains few specific objectives. These are:

1. To have a sound understanding of credit risk management system and procedure followed by Dhaka Bank Limited.
2. To gain knowledge about the credit related operations and maintenance in this bank.
3. To get knowledge about the effectiveness of loan and sanction procedure that is conducted on the evaluation of credit risk.
4. To analyze in details the credit risk management process of the bank and to make recommendations if needed.

1.3 Review of Literature

Credit risk refers to the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

For example:

- A consumer may fail to make a payment due on a mortgage loan, credit cars, line of credit, or other loan.
- A company is unable to repay asset- secured fixed or floating charge debt.
- A business or consumer does not pay a trade invoice when due (Credit risk, Wikipedia).

Credit Risk Management

The basic concept for measuring credit risk-probability of default, recovery rate, exposure at default, expected loss, loss given default and unexpected loss—are easy enough to understand and explain (Source : Dhaka Bank Limited, Annual Report 2014). The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Bank need to manage the credit risk exposure inherent in the entire portfolio as well as the risk in individual credit or transactions. The effective management of credit risk an institution must consider three issues:

- Default Probability
- Credit Exposure
- Recovery Rate

Credit risk management has become an important topic for financial institutes, especially since the business sector of financial service is related to conditions of uncertainty. The turmoil of the financial industry emphasizes the importance of effective risk management procedures.

1.4 Methodology of the study

How close to the issue-under-study can a researcher reach depends to a great extent, on how methodically he/she can approach the issue. Although necessity of issuing data and information has been the prime determinant of the quality, accuracy and worthiness of a research project, in these days of abundant availability of data and information this

necessity has only been acute, methodology is the pathfinder of working out a good research paper.

Sources of Data

To perform the study data sources are to be identified and collected, the data are to be classified, analyzed, interpreted and presented in a systematic manner.

The “Primary Sources” are as follows-

- Face-to-face conversation with the respective Executives & Officers of the Bank.
- Informal conversation with the clients.
- Practical work exposures from the different desks of the various departments of the Branch covered.
- Relevant file study as provided by the officers concerned.

The “Secondary Sources” of data and information are-

- Annual reports of Dhaka Bank Limited. Periodicals published by Bangladesh Bank.
- Various books, articles, compilations etc.
- Regarding general banking functions, foreign exchange operations and credit policies.

CHAPTER 2

INSTITUTIONAL PROFILE

2.1 Overall History of the Institution

2.1.1 The Origin of Dhaka Bank Limited

Banks are important financial institutions, which play a vital role in the economy of a country. It deals with credit i.e. accepts deposit from the public and advances various loans. The system of banking is very ancient. It was prevalent in India, Greece and Rome. It arose out of the logical fact that people who possessed surplus money deposited them for safe keeping to whom they have confidence, payable after a period of time when the need would arise. The holders of this surplus money soon found out that it was profitable to lend out the money, the provided loans were repaid before the date when the money would be demanded.

The banker or the holders of the money give sign paper to their depositors as evidence of the deposit money. As people had confidence in the integrity and the solvency of the banker their signed papers would pass from hand to hand in the settlement of transaction. These papers were the origin of notes as people had confidence in the credit of the bankers only, as small proportion of notes/signed papers would be presented for encashment during a period. In course of time cheque were adopted and this imparted to the system. Thus came into existence the system of commercial banking. A bank can be best by its functions, it collects the savings of the public, it gives loans and advances and it created media of exchanges through cheque. A commercial bank is dealer in short term credit. In addition to the above, bank performs various other functions:

- a) Financing of foreign trade
- b) Agency services,
- c) General utility services.

A bank is a big substations center for liquidity, which takes the deposits from the public and supplies liquidity to the economic system.

2.1.2 An Overview of Dhaka Bank Limited

Dhaka Bank Limited is the leading private sector bank in Bangladesh offering full range of personal, corporate, international trade, foreign exchange, lease finance and capital market services. Dhaka Bank Limited is the preferred choice in banking for friendly and personalized services, cutting edge technology, tailored solutions for business needs, global reach in trade and commerce and high yield on investments, assuring

“ Excellence in Banking Services.”

Dhaka Bank Limited is a scheduled bank that was incorporated under the companies act 1994, started its operation on July 1995 with a target to play the vital role on the socio-economic development of the country. Aiming at offering commercial banking service to the customers' door around the country. This organization achieved customers' confidence immediately after its establishment. Within this time the bank has been successful in positioning itself as progressive and dynamic financial institution in the country. This is now widely acclaimed by the business community, from small entrepreneur to big merchant and conglomerates, including top rated corporate and foreign investors, for modern and innovative ideas and financial solution. As on June 2015 the Bank serves it's customers through eighty six (86) branches spread all over the country and 2115 employees spread all over the country.

2.1.3 Features & Function of Dhaka Bank Limited

1. Dhaka Bank builds up strong pillar of capital, promote trade, commerce and industry; discover strategies for achieving systematic growth.
2. It is the pioneer in introducing and launching different customer friendly deposit schemes to tap the savings of the people for channeling the same to the productive sectors of the economy.
3. It has created congenial atmosphere so that the client becomes interested to deal with the Dhaka Bank Limited.
4. For uplifting the standard of living of the limited income group pf the population, the bank has introduced retail credit scheme by providing financial assistance in the form of loan to the consumers for procuring house hold durables.
5. The bank is committed to maintain continuous research and development to keep pace with modern Banking.

6. Recently the bank starts internet banking in order to provide prompts and efficient service to the customers.
7. The bank has introduced customer relations management system to assess the needs of various customers and resolve any problem on the spot.

Function of Dhaka Bank Limited

Dhaka Bank Limited performs all types of functions of a modern commercial bank, which generally includes:

1. Mobilization of savings of the people and safe keeping of all types of deposit account
2. Making advances especially for productive activities and for the other commercial and socio-economic needs.
3. Providing banking services to common people through the branches.
4. Handling of export and import trade and foreign remittances and with special support to export activities.
5. Introduce modern banking services in the country.
6. Discounting and purchasing bills.
7. Providing various information, guidance and suggestions for promotion of trade and industry keeping in view of the overall economic development of the country.
8. Industrial finance for both capital machinery and working capital.
9. Finance relating to constructions of both commercial and residential
10. Finance under small business of self employed clients.
11. Finance of farming and non-farming activities to rural people including purchase of agricultural equipments.
12. Ensuing proper utilization of credit disbursed.
13. Developing new products.
14. Market surveys before making any finance.
15. Finance for small transport.
16. Monitoring and forecasting.
17. Developing marketing campaigns.
18. Finance for household durables.
19. Work simplification studies.
20. Monitoring diversification of portfolio among different sectors.

2.1.4 Objective and Corporate Values of DBL

Objectives

The objectives of Dhaka bank Limited are specific and targeted to its vision and to position itself in the mindset of the people as a bank with difference. The objectives of Dhaka Bank Limited are as follows:

- Building a strong customer focus and relationship based on integrity, superior service
- To value and respect people and make decisions based on merit
- To strive for profit & sound growth
- To work as a team to serve the best interest of owners
- To be relentless in pursuit of business innovation and improvement
- To be responsible, trustworthy and law-abiding in all that it does
- To finance the industry, trade and commerce in both the conventional way and by offering customer friendly credit service.
- To encourage the new entrepreneurs for Country's industry sector and contribute to the economic development.
- To be socially responsible institution that will not lend to businesses that has a detrimental impact on the environment and people.

Corporate Values:

- Customer focus
- Integrity
- Quality
- Teamwork
- Respect for individuals
- Responsible citizenships

2.1.5 Vision and Mission

Vision

At Dhaka Bank Limited we draw our inspiration from the distant stars. Our team is committed to assure a standard that makes every banking transaction a pleasurable experience. Our endeavor is to offer you the razor sharp sparkle through accuracy,

reliability, timely delivery, cutting edge technology, tailored solutions for business needs, global reach in trade and commerce and high yield on your investments. Our people, products and processes are aligned to meet the demand of our discerning customer. Our goal is to achieve a distinction like the luminaries in the skies. Our prime objective is to deliver a quality that demonstrates a true reflection of our vision Excellence in Banking.

Mission

To be the premier financial institution in the country providing high quality product and services backed by latest technology and a team of highly motivated personnel to deliver Excellence in Banking.

2.1.6 The Major Products & Service of DBL:

The Bank is suitably equipped to meet customer expectation by offering its products & services:

1. Retail Banking
2. Corporate Banking
3. Islamic Banking
4. Online Banking
5. Capital Market Operation
6. International Trade and Foreign Exchange
7. Small & Medium Enterprise (SME) Financing

Resources & Facilities:

The product and services that are currently available are given below:

Depository Product

Dhaka Bank Limited is now offering different types product for mobilizing the savings of the general people.

- Saving Deposit
- Current Deposit
- Fixed Deposit(FDR)

- DPS (Deposit Pension Scheme)
- Special Deposit Scheme (Monthly income)
- Deposit Double Scheme
- Lakhopati Deposit Scheme
- Katipoty Deposit Scheme
- Smart Plant
- STD Account
- Student Account
- Senior Citizen Account
- Foreign Currency Deposit Account
- NFCD Non Resident Foreign Currency Account
- Islami Banking Service related some Deposit product

In 2009, Retail Banking Division will introduce VISA Credit and Debit Cards. Emphasis will also be given on liability products, which ensures mobilization of funds. Considerable growth has been achieved in both Asset and Liability products during 2009.

The Division has always been focusing on maintaining a quality asset portfolio, which ensures growth as well as good return. The Retail Banking Division ensures quick disbursement of loans in line with market competitiveness.

Loan Product:

The Dhaka bank is offering the following loan and advance product to the client for financing different purpose that fulfill the requirements of the bank and have good return to the investment as well as satisfy the client. The loan and advance products are:

- Personal Loan Scheme
- Salary Loan
- Lease Finance
- Term Loan
- Small & Medium Enterprise loan
- Working Capital Financing
- Import Financing
- Export Financing

- Syndicate Loan
- Industrial Financing
- Personal Banking Products
- Credit Card Service

Dhaka Bank Limited his branch banking practices and actives has been done under following way:

GENERAL BANKING SERVICE:

General banking is the front-side banking service department. It provides those customers who come frequently and those customers who come one time in banking for enjoying ancillary services. The officers of this department have to perform several kinds of tasks.

These are as follows:

- 1) Account opening and close.
- 2) Collection of cash, cheques from customers.
- 3) Issuing of FDR, pay orders, cheque books and demand draft.
- 4) Assisting customer to open various deposit scheme.
- 5) Conducting clearing house activities.
- 6) Collection of local and outward bills.

DBL General banking is divided into five sections

- 1) Account opening section.
- 2) Bills and clearing section.
- 3) Remittance section.
- 4) Deposit section.
- 5) Cash section.

Account Opening Section: Under this section, DBL Officer opens different types of accounts on the request of clients. The procedure of opening account is given below.

- Procedure for Opening of Accounts:

Before opening of a **savings account**, the following formalities must be completed by the customer:

1. Application on the prescribed form
2. Furnishing photographs
3. Introduction by an account holder
4. Putting specimen signatures in the specimen card
5. Mandate if necessary
6. National ID card

Current Individual Account:

Requirement same as savings account

1. Proprietorship/Firm Account
2. Common Individual of S/A
3. Trade License with validity
4. Seal of the firm.

Partnership Account:

1. Common Individual of S/A
2. Trade License with validity (more than two owners).
3. Partnership Deed with Registered
4. Partnership letter (Bank will gives)
5. Firm's seal

Private (LTD) Account:

1. Common Individual of S/A
2. Trade License with validity
3. Memorandum or articles of association
4. Certificate in corporation
5. Regulation of full board with signature
6. List of Directors
7. Organizations seal
8. Certificate of commencement

Club/Society

1. By laws
2. Regulation
3. Common Individual
4. Seal of club /society
5. Registration number

Trustee

1. Common as club/society
2. Trustee Deed

NGO

1. Common as club/society
2. Registration of NGO Bureau

Student Saving Account:

Documents required:

1. Recent Photographs of the account holder(2 copy)
2. Photograph of the nominee /Parents or legal guardian (01 copy) duly attested by applicant.
3. Copy of the National ID card of the parents/ legal guardian
4. School ID card or student documents from the school authority.

After fulfilling the above formalities, DBL provides the customer a pay-in-slip book and a checkbook.

DEPOSITS ACCEPTED BY DBL

Bank is the largest organization of mobilizing surplus domestic savings. For poverty alleviation, we need self-employment, for self-employment we need investment and for investment we need savings. In the other words, savings help capital formations and the capital formations help investments in the country. The investment in its turn helps industrialization leading towards creation of wealth of the country. And the wealth finally takes the country on road to progress and prosperity. As such, savings is considered the

very basis of prosperity of the country. The more the growth of savings, the more will be the prosperity of the nation. In order to improve the savings rate, Financial institutions responsible for mobilization of savings should offer attractive savings schemes so that the marginal propensity to save increases. The savings do not, of course, depend only on the quantum of income but largely depend on the habit of savings of the people. Deposits are life-blood of a commercial bank. Without deposits there are no businesses for the commercial banks. Accepting deposits is one of the most important classic functions of commercial banks.

FORM OF DEPOSITS THAT ARE TAKEN BY DBL

- (a) Current Deposit
- (b) Saving Deposit.
- (c) Fixed deposit Receipts (FDR).
- (d) Short Term Deposit (STD).
- (e) Deposit Pension Scheme (DPS).

Theoretically, total deposits are divided into categories on the basis of withdrawal procedure. Time deposit & demand deposit. In case of demand deposit money is withdrawn on demand. It includes current deposit & saving deposit. On the other hand, a deposit which is payable at a fixed date or after a period of notice is a time deposit; DBL accepts time deposit, for example, FDR. Short Term Deposit (STD) is hybrid A/C in which the features of current and saving account exist. In short Term Deposit account the deposit should be kept for at least seven days to get interest. The interest offered for STD is less than that of saving deposit. In DBL, various big companies, organizations, government departments keep money in STD accounts. Frequent withdrawal is discouraged and requires prior notice.

FIXED DEPOSIT

Fixed deposit is one, which is repayable after the expiry of a predetermined period fixed by him. The period varies form 3 months to 1 year. These deposits are not repayable on demand but they are withdrawable subject to a period of notice. Hence, it is a popularly known as ‘Time Deposit’ or ‘Time Liabilities’’. Normally the money on a fixed deposit is not repayable before the expiry of a fixed period. In case of fixed deposit account the

Bank needs to maintain a cash reserve. So DBL offers a high interest rate in fixed deposit accounts. The Interest rates followed by DBL in Fixed Deposit accounts are,-

For 1 Month @ 3.50%

For 3 Months @ 4.25%

For 6 Months @ 4.25%

For 1 year or above @ 4.50% and

But in a very exception case this rate of interest is flexible case to case basis. This rate is the Bank's internal policy not controlled by the central bank. The FDR becomes renewed automatically in DBL if the customer does not encash it within 7 days of maturity.

SPECIAL DEPOSIT SCHEME (SDS):

Under this scheme minimum principal deposit is Tk.100,000 (Taka one lac). The client can deposit any amount in multiples of Tk.50,000.00 (Taka fifty thousand) subject to a maximum amount of Tk. 50,00,000.00(Taka fifty Lac) either singly or jointly.

Table 2.1: Feature of SDS

Key Features	Offer
Rate of interest rate	6.50% p.a
Total Monthly Return on Tk.1.00 Lac each	Tk.541.66
Net Payable after Tax (Monthly)	Tk.487.50
Auto Renewal	Yes
Tenor	1 to 3 year

(Source: Dhaka Bank Limited Liability product 2016)

DEPOSIT PENSION SCHEME (DPS):

If any monthly installment remains unpaid for three (03) consecutive months, the account will be closed automatically and the account will be settled as detailed below:

Monthly installment, Tenure and Maturity Values will be as per following Schedule:-

Table 2.2: Monthly installment, tenure and maturity value

MONTHLY DEPOSIT AMOUNT	MATURED VALUE (TAKA)							
	2 YEARS	3 YEARS	4 YEARS	5 YEARS	6 YEARS	7 YEARS	8 YEARS	10 YEARS
TK 500	12,694.33	19,569.80	26,823.43	34,476.01	42,549.47	51,066.98	60,052.96	79,534.77
TK 1,000	25,388.65	39,139.61	53,646.86	68,952.01	85,098.95	102,133.97	120,105.91	159,069.63
TK 2,000	50,777.31	78,279.21	107,293.72	137,904.02	170,197.90	204,267.93	240,211.82	318,139.07
TK 3,000	76,165.96	117,418.82	160,940.58	206,856.04	255,296.85	306,401.90	360,317.73	477,208.60
TK 5,000	126,943.27	195,698.03	268,234.30	344,760.06	425,494.74	510,669.83	600,529.55	795,347.67
TK 10,000	253,886.53	391,396.05	536,468.59	689,520.12	850,989.49	1,021,339.67	1,201,059.11	1,590,695.35
TK 20,000	570,773.07	782,792.10	1,072,937.19	1,379,040.25	1,701,978.98	2,042,679.34	2,402,118.22	3,181,390.70
TK 25,000	634,716.33	978,490.13	1,341,171.48	1,723,800.31	2,127,473.72	2,553,349.17	3,002,647.77	3,976,738.37

(Source: Dhaka Bank Limited Liability product 2016)

DEPOSIT DOUBLE:

Under this scheme minimum principal deposit is Tk.50,000.00 (Taka Fifty Thousand). The client can deposit any amount in multiples of Tk.50,000.00 (Taka fifty thousand) subject to a maximum amount of Tk. 50,00,000.00 (Taka fifty Lac) either singly or jointly.

Table 2.3: Tenure and applied interest

Key Features	Offer
Rate of interest rate	7.178% p.a
Tenure to double initial deposit	10 Years (120 Months)
Auto Renewal	No

(Source: Dhaka Bank Limited Liability product 2016)

Local Remittance:

Remittance of funds means transfer of money from one place to another through the banking channel. Remittance of funds is ancillary services of DBL like other commercial banks. It aids to remit fund from one place to another place on behalf of its customers as well as non- customers of bank. DBL has its branches in the major cities of the country and therefore, it serves as one of the best mediums for remittance of funds of funds from one place to another.

The main instruments used by DBL, Dinajpur Branch for remittance of funds.

-Pay Order/ Banker's check.

-Demand Draft.

-Telegraphic Transfer, Local Bills for Collection (LBC), Outward Bills Collection (OBC)

Foreign Remittance:

- 1) Deals with inward foreign Remittance.
- 2) Dealing of Traveler Checks.
- 3) Transfer money and currency through western union.
- 4) Transfer fund through draft, Telegraphic, Mail Transfer etc.
- 5) Foreign Bills Collection
- 6) Foreign Bills purchase and discount.

Western Union

Dhaka Bank is the pioneer to launch Western Union in Bangladesh and now it is one of the most popular way to transfer money. It is used for foreign dealings.

ID (To receive money through Western Union), Passport (Within the Validity period), Driving License, National ID, Pan card, Refugee Card, Student ID(Nationalized Universities and college), Bank Accounts, Credit Card, Army Card, Post Office Loyalty Card, Govt. employee ID Card, Local (W/C) ID Card, All ID are valid only if they have a photograph and the ID verifies the person's signature.

Foreign Exchange

These activities are:

1. Activities related to L/C opening.
- 2) Receiving documents from Exporters Bank.
- 3). Perform all activities for retirement of document for collecting the importing goods.

The main functions of the Exports are:

- 1) Getting the L/C Documents from Foreign importers Bank.
- 2) Gives this L/C to Exporter.
- 3). Advising the L/C.
- 4) Opening the Bank-to -Bank L/C.
- 5) Collection and

distribution of the payment of Bank to Bank. 6) When after shipment of goods the exporter submits all documents as per as L/C, This department scrutinizes those documents and sent to importer Bank.

Advance

Advance in the form of loans, overdraft (i.e cash credit CC, OD(SME), Secured overdraft –SOD) and discounts are sanctioned to the customers. If the amount of advance crosses the limit of authority of Branch in-charge then it has to take approval from the Head Office Credit Division. Advance facilities provided by the Bank are;

- OD(SME)- Overdraft under SME
- STLS- Short Term Loan under SME
- RSTL- Revolving Short Term Loan under SME
- Consumer Loan
- Car Loan
- House Building Loan
- Secured Overdrafts –SOD(FO), SOD(DPS), SOD(PO), SOD(WO).
- Cash Credit (Hypo)
- Loan against work order
- Agricultural Loan etc.

Services of Dhaka Bank Limited

Exchange House

DBL exchange house at various locations (USA, UK, etc) is enabling non-resident Bangladeshis to send their remittances at home in a quickest and safest way.

Islamic Banking

Islamic Banking is based on interest-free economic transactions; mutual participation and sharing of profit and loss through various modes of finance with its unique human face approach. Islamic banking has become quite popular in Bangladesh and due to that Dhaka Bank Limited opened its first Islamic banking branch on July 02, 2003 at Motijheel Commercial Area, Dhaka. These Islamic Banking branches offer fully Sarah-based,

interest free, profit-loss sharing banking services. Dhaka bank Limited has shown tremendous performance in Islamic Banking. The operating profit of Islamic Banking Branches, Import & Export business generated by the Islamic Banking Branches showed remarkable performance and which has increased the overall profitability of Dhaka Bank to a great extent. Dhaka Bank Limited is also an active member of Islamic Banks Consultative Forum [IBCF], Dhaka and Central Shariah Board for Islamic Banks of Bangladesh. Dhaka Bank, operating 2 Islamic Banking Branches in complying with the rules of Islamic Shariah, which absolutely prohibits receipts and payments of interest in any form. The modus operandi of these two branches is totally different from other conventional branches. A separate balance sheet and income statement are being maintained as recommended by the Central Shariah Board for Islamic Banking in Bangladesh.

Visa Credit Card

Credit Cards facilitate in life style in all facets like shopping, dinning, accommodation, traveling, hospitalization, purchasing furniture & equipment for an interest free time, gift cards and so on that would be determined in needs of time.

ATM Service

Dhaka Bank Limited has modern banking facility .Withdraw cash 24 hours a day.

SME Banking

Dhaka Bank Limited has been financing Small and Medium Enterprises with a view to developing a balanced and dynamic industrial sector having a strong base of SMEs throughout the country. From the very inception of industrial credit financing of Dhaka Bank (Currently Dhaka Bank Limited) SME division has sanctioned term loan in small and medium industries sector in 5204 projects of taka 1205.23 cores.

Women Financing and Agricultural Loan:

Dhaka Bank Limited has been financing Women entrepreneur base business up to 50.00 lac @ 10.00% p.a. and side by financing at agri sector @ 13.00% p.a.

Consumer Loan:

The objectives of this loan are to provide essential household durable to the fixed income group (Service Holders) and other eligible borrowers. Car loan, loan for house renovation, vacation loan, marriage loan and loan for household equipment well as entertainment products are governed by personal loan program. Personal loan is given under personal guarantee of the borrower and another third person known to the borrower. As this loan is collateral free the rate of interest is little bit high such as 11% to 14%. There is also a processing fee of 1.00% taken at the time of disbursement of the loan.

Corporate Banking

Bangladesh economy is changing every day. Changes are more and more visible and sometimes it seems they are happening overnight. Now days the economical challenged requires flexibility and adjustment capacity. To face the challenges and business opportunities Dhaka Bank delivers cash management and lending solutions match for specific business and requests.

Other Services

- Government Treasury Bonds
- Locker Service
- A.T.M. Card
- Utility Bills Collection
- Ancillary Services

2.1.7 Management Information System

Since its journey as a Commercial Bank in 1995 Dhaka Bank Limited (DBL) has been laying great emphasis on the use of improved Technology. It has gone to Online Operation System since 2003 when two new banking software namely FLEXCUBE & DBCUBE was installed. As a result the Bank is able to give the services of international standards. The bank has launched its Corporate Portal (Intranet), which was initiated by

IT/BPR with the primary goal to provide comprehensive and collaborative content management, paperless communication and information management, and to provide a gateway to the web application across the enterprise within one integrated platform, instead of relying of separate fragmented systems. Dhaka Bank Limited invested Tk. 50 crore to install the software and to establish separate IT division.

2.1.8 Divisions

If the jobs are not organized considering their interrelationship and are not allocated in a particular department it would be very difficult to control the system effectively. If the departmentalization is not fitted for the particular works there would be haphazard situation and the performance of a particular department would not be measured. Dhaka Bank Limited has done this work very well. They are:

- Human Resources Department
- Central Accounts Department
- Operation Department
- Credit Department
- Investment Department
- Personal Banking Department
- Global trade services
- Audit and Risk Management Division
- Information Technology Department
- Dhaka Bank Training Institute

Human Resource Department

Dhaka Bank Limited strongly believes that competent and skilled human resources are the cornerstone of success. In order to attract talented, well-qualified staff with outstanding qualifications, Dhaka bank Limited maintains a fully functioning Human Resources Department in all business units of the bank. In order to remain as the employer of choice, Dhaka bank offers a broad range of benefits and compensation to employees with clear career path. Dhaka bank has successfully introduced Dhaka Bank Employees service manual which contains all the important aspects relevant for an employee. Starting from recruitment to termination, the Human Resource of Dhaka Bank Limited deals with anything and everything related to an employee.

Central Accounts Department

Dhaka Bank Limited has a central accounts department from which the accounts departments of respective branches are monitored. This department is responsible for developing policies and guideline for respective branches and at the same time monitor the activities. All the relevant accounts information and calculation is maintained in this department under special monitoring.

Operations Department

For the success of any branch a fully functioning operations department is absolutely important. This department is responsible to ensure that all the works are done. This department is responsible for making policies, setting guidelines, developing performance measures and monitoring standards and designing reward policies. This department is the soul of the institution and contributes to the success of the organization.

Credit Department

Credit Department is at the heart of the banking division of Dhaka Bank Limited. This Department is responsible to provide loans to clients, measure the risk assessment of clients, judge the feasibility of process and recover the sanctioned loans on time. This department is continuously trying to develop new schemes to attract new clients. This department is also responsible for deciding the lending and investment rates, the loan issuing and loan recovery measures. Some of the main components of the credit department are Overdraft, Consumer Credit Loan, PAD, LTR, Packing Credit, Term Loan, Staff Loan, House-Building Loan, Demand Loan, Lease Financing, Letter of Credit and Bank guarantee.

Investment Department

Dhaka Bank Limited has a significant presence in the country's capital market operations. A specialized unit of the Bank, the 'Investment Division', deals in the sale and purchase of shares in the stock market and manages the Bank's own portfolio. Investment division offers clients the latest updates on the stock prices and trading of stocks. The facility may be availed by maintaining an account with the investment division. A minimum balance is required to be maintained in the account at the same time as a commission is charged for undertaking the trade deals.

Personal/General Banking Division

The Personal banking Division of Dhaka Bank Limited is also known as the General banking Division. This department is mainly responsible for providing general services to client i.e. opening and closing accounts, deposit and withdrawal funds, issuing pay orders and gift cheques etc. The main responsibility of this department is to develop schemes to attract clients. As a result of the relentless performance of this department, Dhaka Bank is continuously coming up with new products to satisfy its clients.

Global trade services

Dhaka Bank Limited started providing remittance services through its local & foreign correspondents in 2004. Dhaka Bank has formed separate remittance operations department in each of its branches. This department mainly deals with foreign remittance and currency exchange. This department is also responsible for developing policies on foreign trade and investment. The main activities of this department include Issuing, advising and confirming documentary credits arranging forward exchange cover. Pre-shipment and post-shipment finance negotiation and purchasing of export bills, discounting of bills of exchange, collecting bills and assisting customers to insure all risks. The major activities of this department are to Issue L/C, L/C Advising & Conforming, L/C Collection & Negotiating, FDRP, selling TC & Dollars Endorsement.

Audit and Risk Management Division

The Bank has designed its internal control system based on the guidelines framed by Bangladesh Bank in managing core risks in banking: Internal Control & Compliance and Guideline on information & communication technology for scheduled banks and financial institutions. The audit and internal control division covers all areas of banking operational activities including IS/IT Infrastructure and IS/IT Governance where risk of operational losses may arise. This division also monitors and follow-up the ethical standards through Departmental Control Function Check List (DCFCL), Loan Documentation Check List (LDCL) and Quarterly Operation Reports. These measures have helped to maintain a strong internal and audit control in Dhaka Bank Limited.

Information Technology Department

ICT is at the core of Dhaka Bank's operational processes. The technological advantage is embedded in all the products and services. Dhaka Bank has built its processes and delivery channels on the world class core banking system which provides seamless and efficient services to all our customers. At Dhaka Bank, continuous improvement and upgrading of system and processes is reflected in its investment in ICT. All the branches are now connected with online services and Dhaka bank operates on one bank concept. Dhaka Bank Limited is expanding its ATM booths and has a comprehensive program to expand its networks in 2010. To ensure that everything is going smoothly Dhaka Bank Limited has a separate information and technology department which consists of highly skilled technicians who instantly solves IT problem.

Dhaka Bank Training Institute

Human resources development through training is the most essential part for organizational growth since it enriches knowledge, skill and professional expertise. The utter need for professional development of employees is really important for the success of any organization and as a result of that the Dhaka Bank Training Institute was formed. Dhaka Bank Training Institute is committed to develop the human resources through structured modular training programs. With a view to achieve professional excellence in Banking, Dhaka Bank Training Institute conducts various courses, workshops, executive development programs mainly for officers and executives of the Bank. These trainings are mostly provided so that the employees can function properly in the original banking environment. Dhaka Bank Training Institute invites experienced and knowledgeable external resource persons from Ministries, Bangladesh Bank, Bangladesh Institute of Bank Management, Universities and other relevant organizations to deliver lecture and conduct practical sessions.

2.1.9. Corporate Social Responsibility of DBL

DBL involves itself in charity, social welfare and other benevolent activities towards the promotion of the objective of its foundation which would act as a catalyst in creating awareness on development issues and as a facilitator for building bridges with the common goal of sustainable development of the society, providing direct assistance to various development projects and people. Dhaka Bank Ltd. has formed a five member

CSR committee headed by the Managing Director to oversee the overall activities and management of the CSR fund of the bank. Dhaka Bank Foundation, established in 2002 as a non-profitable, non-governmental organization, is solely devoted to the cause of charity, social welfare and other benevolent activities towards the promotion of the objective of the foundation. Dhaka Bank has taken the decision to provide 2% of the pre-tax profit each year as its CSR activities. Some important activities given below;

Health

- Donation of passenger lifts and two haemodialysis machines to BIRDEM Hospital and Tk. 1.2 million per year from 2006 for supporting operating costs.
- Donation of Tk. 10 million to Centre for Women and Child Health Hospital for setting up pathological laboratory.
- Setting up of a 10-bed ward at the proposed Ahsania Mission Cancer and General Hospital, sponsoring Society for the Welfare of Autistic Children (SWAC).
- Donating to Bangladesh Eye Hospital, Sponsorship for Shield Trust.

Disaster relief

- Among Dhaka Bank's contribution as corporate social responsibility, a few initiatives are donation to Asiatic Society of Dhaka.
- Relief operation for flood victims at a cost of Tk.5.00 million.
- The bank distributed 10 kg rice, 1 kg pulse, and 1 kg salt to each of the 10,000 distressed families of Arahazar, Sirajdikhan and Belkuchi.

Social welfare

- Renovation of the auditorium of Dhaka Reporters Unity.
- Sponsoring of Anti Drug Debate Festival, Distribution of winter cloths by the employees of the bank.
- Sponsoring of Bangladesh Under-19 cricket team.
- Awareness creation for Road Safety, Blood Donation, Eye Donation, Prevention of AIDS.
- Provided financial assistance for Educational Development Trust of Scholastica to support and nurture academically gifted students.
- Sponsorship for BADC School.

Environment

- Sponsored the city beautification program initiated by Dhaka City Corporation by refurbishing
- Dhaka Bank Fountain in front of Ministry of Foreign Affairs and Dhaka Bank Park in front of
- Dhaka Bank Head Office, beautification at Jashimuddin Crossing at Uttara costing 1.5 m, and also in front of Dhaka Bank Head Office costing 1.2 m..

Branches

The Bank has 86 branches across the country and a wide network of correspondents all over the world. The Bank has plans to open more branches in the current fiscal year to expand the network.

CSR program consists of the three main dimensions:

- 1) Contribute National Economy through financial service & support.
- 2) Community involvement welfare programs through donations and sponsorships.
- 3) Employee welfare initiatives.

2.1.10 Organogram

Hierarchy of Dhaka Bank Limited

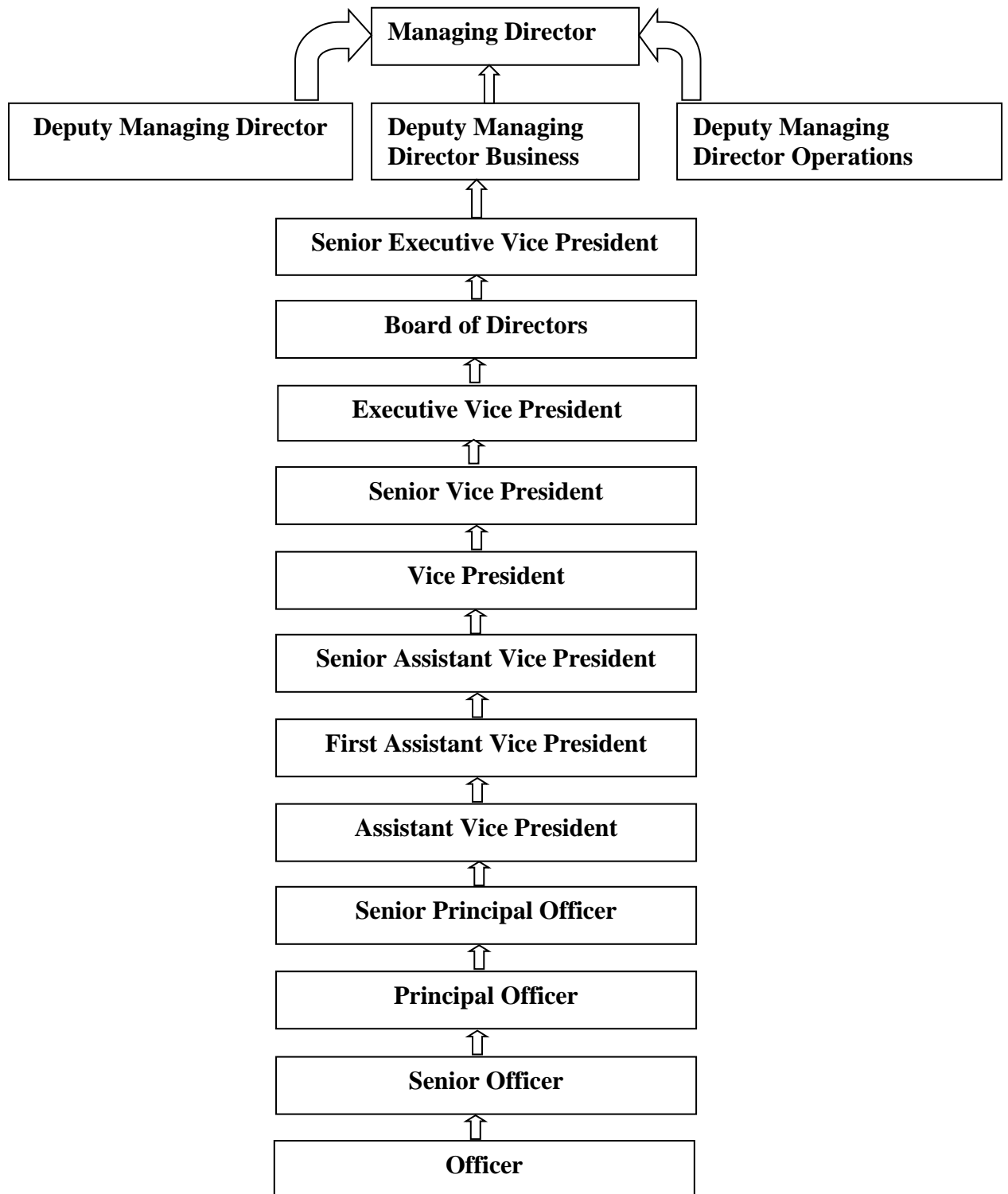


Figure-2.1: Hierarchy of DBL
(Source: DBL Annual Report 2014)

Table 2.4: Dhaka Bank Limited at a glance

Name of the Bank	Dhaka Bank Limited
Status	Public Limited Company
Date of Incorporation	April 06, 1995
Date of Commencement	July 05, 1995
Registered Office	BimanBhaban (1st Floor) 100 Motijheel C/A, Dhaka-1000 Bangladesh
Telephone	9554514
Telex:	9556584, 9571013, 9565011
Swift Code	DHBLBDDH
E-mail	<u>info@dhakabank.com.bd</u>
Web Page	<u>www.dhakabankltd.com</u>
Chairman	Mr. Reshadur Rahman
Managing Director	Syed Mahbubur Rahman
Paid up Capital	Tk.5685.13 million
Total Capital	Tk.15438.50 million
Earning per Share	Tk.3.57
Number of Branch	86

(Source : DBL Annual Report 2014)

2.1.11 History of Particular Branch

An overview of Dinajpur Branch

The study has completed at Dinajpur branch, Rawshon Tower (1st Floor),44/42, North Munshipara Road, Sadar Dinajpur. This is started of 24th May 2012 with the 8 efficient & responsible employees. There are some efficient and effective bankers workers in this branch, the management of the branch always tries to provide better service to its customer and behave well with them. As a result they have got a huge number of accounts in

Branch Organogram:

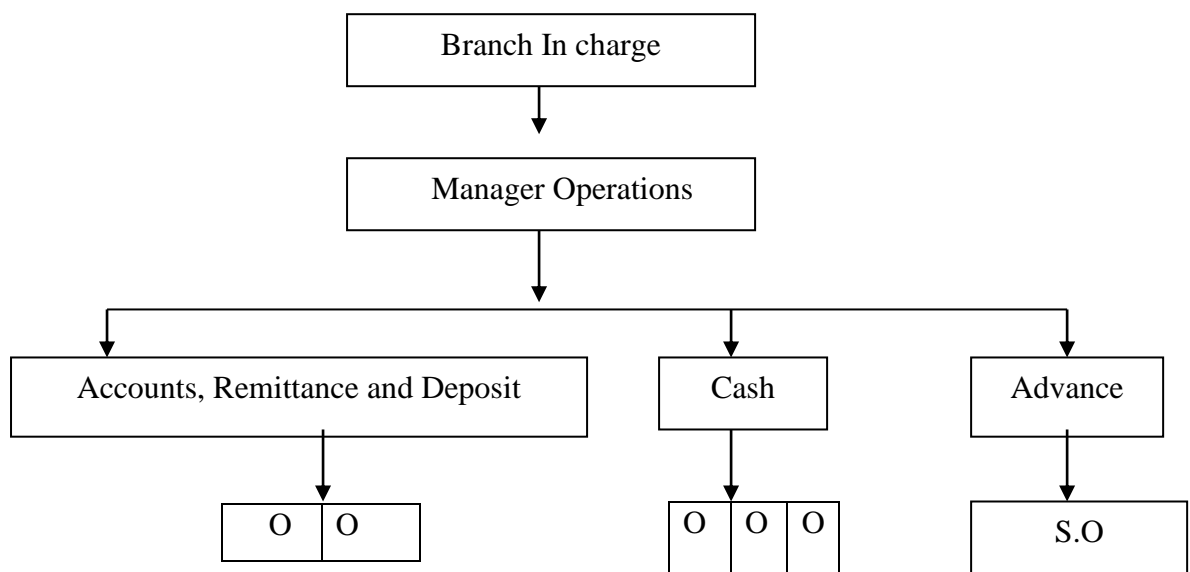


Figure-2.2: Branch Organogram of DBL

(Source: Prepared by the Author)

Here SPO- Senior Principal Officer
 S.O- Senior Officer
 O - Officer
 DBL- Dhaka Bank Limited

(Source: 1. Assignment point: 2. Annual Report of Dhaka Bank Limited (2012,2013,2014,2015,).)

2.2 Function and Operation

2.2.1 Definitions of Risk:

The chance of financial loss or, more formally, the variability of returns associated with a given asset (Gitman J.L. *Principals of managerial finance*) or we can say that “Risks are events or conditions that may occur, that may occur, and whose occurrence, if it does take place, has a harmful or negative effect”. Risk on the other hand can be defined as the possibility that something unpleasant or dangerous might happen (Macmillan Dictionary, 2002). For this goal to be attained decision makers need to first of all identify the risk involved, measure its intensity, assess it, monitor it and then look for measures on how to control it. This act of managing the risk is called RM. RM is “a course of action planned to reduce the risk of an event occurring and/or to minimize or contain the consequential effects should that event occur”

2.2.2 Risk Management Process:

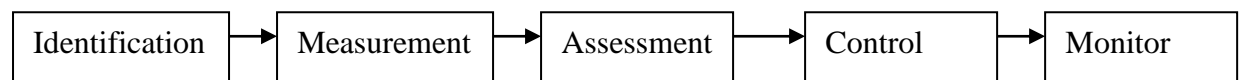


Figure 2.3: Risk Management Process

(Source: Prepared by the Author)

1. Risk Identification
2. Risk Measurement.
3. Risk Analysis or Assessment
4. Risk Control
5. Risk Monitoring (Eveline N, 2010)

A. Sound risk management system should have the following elements:

1. Active board and senior management oversight; (BMO)
2. Adequate policies, procedures and limits; (PPL)
3. Adequate risk measurement, mitigating, controlling, monitoring and periodic review with management information system (MIS); and
4. Comprehensive internal controls. (ICs) (Annual Report of DBL)

2.2.3 Credit Risk

Credit risk is a risk due to uncertainty in counterparty's ability to meet its obligation. There are many types of counterparty's obligations ranging from individuals to sovereign governments. Risk is inherent in all aspects of commercial operation. However for banks and financial institution; credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower counter party will fail to meet its obligation in accordance with agreed terms. Credit risk, therefore, arises from the banks dealing with of lending to corporate individuals and other banks or financial institutions.

2.2.4 Types of Credit Risk

The analysis of the financial soundness of borrowers has been at the core of banking activity since its inception. This analysis refers to what nowadays is known as credit risk, that is, the risk that counterparty fails to perform an obligation owed to its creditor. It is still a major concern for banks, but the scope of credit risk has been immensely enlarged with the growth of derivatives markets. Another definition considers credit risk as the cost of replacing a cash flow when counterparty defaults. The risks are-

1. **Market Risk:** Market risk is the risk that the value of on and off balance sheet positions of a financial institution will be adversely affected by movements in market rates or prices such as interest rate, foreign exchange rates, commodity prices, credit spreads and /or commodity prices resulting in a loss to earnings and capital. Market risk exposure may be explicit in portfolio of securities/equities and instruments that are actively traded. Conversely it may be implicit such as interest rate risk due to mismatch of loans and deposits. Therefore market risk is potential for loss resulting from adverse movement in market risk factors such as interest rates, equity and commodity prices.

2. **Systematic Risk:** At an aggregate level, the risk that a default by one individual firm triggers a wave of failures across the market is known as systematic risk. Depending on the specific circumstances of an individual failure, and on market factors during that period, systematic risk could become a real threat to vast portions of the financial system.
3. **Operational Risk:** Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is associated with human error, system failures and inadequate procedures and controls. Operational risk exists in all products and business activities.
4. **Legal Risk:** Legal risk is the risk that a firm suffers a loss as a result of contracts being unenforceable or inadequately documented.
5. **Liquidity Risk:** Liquidity risk is the risk that a lack of counterpart leaves a firm unable to liquidate or offset a position, or unable to do so at near the previous market price.

2.2.5 Credit Risk Management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. To manage credit risk, the Bank applies credit limits to its customers and obtains adequate collaterals. Credit risk in the Dhaka Bank Ltd. Portfolio is monitored; reviewed and analyzed through quality credit risk management (CRM).

CRM determines the quality of the credit portfolio and assists in minimizing potential losses. To achieve this objective, CRM formulates appropriate credit policies and procedures for the Bank to ensure building and maintaining quality credits and an efficient credit process (Assignment point).

2.2.6 Credit Quality

Credit Quality of an obligation, this refers generally of the counterparty's ability to perform on that obligation. This encompasses both the obligation's default probability and anticipated recovery rate. To place credit exposure and credit quality in perspective, recall that every risk comprise two element: exposure and uncertainty. For credit risk credit exposure represents the former, and credit quality represents the latter. For loans to individuals or small businesses, credit quality is typically assessed though a processor credit scoring. Prior to extending credit a bank or other lender will obtain information about the party requesting a long. In the case of a bank issuing credit cards, this might include the party's annual income, existing debts, whether they rent or own a home etc. A standard formula is applied to the information to produce a number which is called a credit score. Based upon the credit score the lending institution will decide whether or not to extend credit. The process is formulaic and standardized. Many forms of credit risk especially these associated with larger institutional counterparties are complicated unique or are or such a natural that it is wither assessing them in a less formulaic manner. The term credit analysis is used to describe any process for assessing the credit quality of counterparty. While the rearm can encompass credit scoring, it is more commonly used to refer to processes that entail human judgment. One or more people called credit analysts will review information about ate counterparty. This might include its balance sheet income statement recent trades in its industry, the current economic environment, etc.

2.2.7 Credit Risk management Department of DBL

Banking business consists of borrowing and lending. Bakes act as intermediaries between surplus and deficit economic units. Thus a banker is a dealer in money and credit. Banks accept deposit from large number of customers and then lend a major portion of the accumulated moray to those who wish to borrow. IN this process banks secure reasonable return to the savers, make funds available to the borrowers at accost and earn a profit after covering the cost of funds. Bakes, besides there role of intermediation between savers and borrowers and providing an effective payment mechanism, have been allowed to diversify into many new areas of better paying business activities.

Dhaka Bank's Lending activities may be classified into

Following broad segments:

1. Trade & Commerce
2. Industries (Small, Medium & large)
3. Agriculture and Agro based Ventures
4. Consumer financing
5. Real Estate and Civil construction
6. Work order Finance

Trade & Commerce

The broad category under trade & commerce would encompass large business houses dealing in imputed consumer items, medium and small import business houses trading in similar lines and finally shopkeepers distributor wholesalers retailers and small manufactures scattered throughout the country.

Industries

The domain of industrial financing would basically comprise

- Capital financing in the form of term loans
- Working Capital financing
- Financing of small and cottage industries

Consumer Financing

Consumer financing is being used as an effective tool to help the people of fixed income group, specially, the survive holder to meet up their need for household appliances, Vehicles and professional equipment.

Real Estate and Civil Construction

The global performance of the sector both terms of business and recovery rate has been by and large satisfactory. The bank's policy should be to carefully wing any investment in this sector only in a selective basis.

Agriculture and Agro-based Ventures

Agriculture is the mainstay of bangles economies being a major contribute to the GDP. Dhaka bank will reaming keen to contribute towards the growth of economy in financing the agro-based ventures of firms/companies, specially in agriculture peeper, poultry fishery and hatchery. Financing will also be provided to export oriented shrimp culture and fish processing industries.

Work order Finance

Purchase/construction of road & building /land development made by government, semi government, autonomous bodies, corporate bodes, multinational companies, joint venture companies in large scale thorough open tender requires financing of work order to patronize concern bodies/suppliers/contractors to execute the work schedule. Dhaka Bank Limited shall take interest in the segment of financing to participate in nation building activities.

Loan Pricing Polices

The Bank would Price loans to recover Bank's cost of funds and administrative costs. At the same time the price is high time to recover an increment for land losses while making sufficient profits to reach the goals set by DBL's board of directors. The bank's loaned pricing will be calculated in line with the following basic formula:

Loan Yield= (A) Cost of Funds + (B) Admin. Cost +(C) Loan Loss Reserve + (D) Profit

Each factor is considered in the following manner:

- (A) **The Cost of Funds used in the loan pricing:** An appropriate cost of funds factor is the 90 day rate for large Fixed Deposits. This is approximately what it costs the bank to fund a loan.
- (B) **Loaned Administrative Cost:** The best way to determine banks loan administrative cost is probably though functional cost analysis program of last year.
- (C) **Loan Loss Reserve:** The bank will maintain a 1% loan loss riser on all its performing loans. Reserves and provisions will be created on classified loans as per directives of the Bangladesh Bank.

(D) **Profit:** The profit goal of pricing is one that will ensure a return 20% on stockholders equity for Dhaka Bank with a capital-to-assets ratio of 8% or as may be prescribed by the Bangladesh bank from time to time (Assignment point).

2.2.8 Credit Risk Management: A Study on DBL Dinajpur Branch

Credit Process & Risk Management:

Contemporary banking organizations are exposed to a diverse set of market and non-market process and the management of risk has accordingly become a core function within banks. Banks have invested in risk management for the good economic reason that their shareholders and creditors demand it. But bank supervisors, such as the Bangladesh Bank, also have an obvious interest in promoting strong risk management at banking organizations because a safe and sound banking system is critical to economic growth and to the stability of financial markets. Indeed, identifying, assessing, and promoting sound risk management practices have become central elements of good supervisory practice.

The credit risk management process followed in DBL can be categorized in the following specific segments.

1. Mission Statement
2. Credit Policy Guidelines
3. Credit Assessment
4. Credit Risk Grading
5. Credit Approval Process
6. Credit Risk Management
7. Credit Recovery

The Bank maintains up-to-date manuals on all credit products and services. The following credit products are offered by the Bank:

Commercial Loans, Industrial Loans, Residential and Commercial Building Loans, Rural and Agro-based Loans, SME Loans and Micro-credit, Working Capital Loan, Consumer Loans, Vehicle Loans, Staff Loans.

Types of Credit Facilities (LOAN)

PL (Personal Loan)

The loan amount which is 1,00,000-10,00,000 taka is called PL. Two types of people are eligible to get PL. One who is salaried person, getting salary through any bank's salary account and for the private organization's employees getting salary at least 20000 taka and for the public organization's employees getting salary at least 15000 taka as take home salary are eligible to apply for PL. On the other hand the persons who have small/medium business, having trade license, TIN (tax identification number) certificate (for more than 5 Lacs).TNT Or Mobile number and bill copy (for more than 5 Lacs) and also have been maintaining at least a bank account of their individuals or business name are eligible to apply for PL.

BL (Business Loan)

The loan amount which is 20,00,000-30,000,000 taka is called BL. Only business men who own their business are eligible to apply for BL. For applying BL the individuals' bank account's turn over must be at least 1.5 core a year with good balance. The mandatory requirements are: business deed, trade license, TIN (tax identification number) certificate, TNT or Mobile number and bill copy and also have been maintaining at least a bank account of their individuals or business name.

ML (Mortgage Loan)

The loan amount is given to individual against property is called ML. The persons who maintain business of his own or for the salaried persons who get salary of more than 50000 taka and have flat building are eligible to take ML. But for the business person, the individual's bank account's turn over must be at least 1.5 crore an ear with good balance. The mandatory requirements are: land deed or flat's deed, other files related to deed, trade license, TIN certificate, salary certificate (for salaried persons),One(1) year bank statement. According to the property value and place, the loan amount is approved. But with the loan application form the loan sales person has to add a short report on the applicant's property.

AL (Auto Loan)

The loan amount is given to individual for the purpose of buying car is called AL. The persons who maintain business of his own or for the salaried persons who get salary of more than 50000 taka are eligible to take AL. But for the business person, the individuals' bank account's turn over must be at least 1.5 core a ear with good balance. The mandatory requirements are: the company name of car, the total value of car, total features of car and the name of Auto garage from where the applicant wants to buy the automobile. The applicant will get 50% of the total expenditure of automobile. The process is same as PL, BL and ML.

2.2.9 Principal of Credit Risk Management

The management of credit risk is essential to a sound credit management process, the basic principles a bank has to follow in its credit risk management are:

Background, Character and ability of the borrowers

- Purpose of the facility
- Term of facility
- Safety and Security
- Profitability
- Source of repayment
- Diversity of loan portfolio

2.2.10 Tools Used in Credit Risk Management

The quality of the credit portfolio of banks depends to large extent on the quality of its borrower. To judge the ciliate of a borrower the bank s takes into consideration the following:

- a) Character: It refers to the willingness of the customers to pay.
- b) Capacity: The customer's ability to meet credit obligations.
- c) Capital: The customer's financial reserves
- d) Collateral: Adequate net worth to support for the loan
- e) Conditions (economic) Recent trends in borrower line of credit
- f) Compliance (law & regulations)

Before performing credit report, the Manager has to go through an investigation. The degree of investigation will be greater or less depending upon the amount of the loan & whether the loan is or is not secured.

For investigation the manager has to enquiry about:-

- Who is the borrower
- Nature of Business
- Experience in the business
- Equity in the business
- Purpose of borrowing
- Duration of loan
- Sources of repayment
- Means & security offered
- Profitability of the transaction
- History of accounts operated by borrower
- Market reputation regarding character, honesty, Integrity etc.

Sources of credit investigation

- The followings are the sources of Credit information:

Loan application, Financial statement, Study of accounts, Market reputation, Other sources, i.e Income-Tax statement, Registration office, Press report Revenue and municipal rent receipt, Registrar of joint stock co., VAT return, Report from CIB. Confidential report from follow banks, Personal interview, Personal visit (Assignment point.)

Credit Risk Management Procedure:

Policy Guidelines

Lending Guidelines

- Safety
- Liquidity
- Purpose
- Profitability
- Security

- Spread
- National interest, Suitability etc.

Credit Assessment for Risk Grading

Risk Grading

All Banks should adopt a credit risk grading system. The system should define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the risk Grade Assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Application.

Approval Authority

The authority to sanction / approve loan must be clearly delegated to senior credit executives by the Managing Director/CEO & Board based on the executive's knowledge and experience. Approval authority should be delegated to individual executives and to committees to ensure accountability in the approval process.

Segregation of Duties

- Banks should aim to segregate the following lending function:
 - Credit Approval and Risk management
 - Relationship management/marketing
 - Credit Administration

The purpose of the segregation is to improve the knowledge levels and expertise in each department, to impose controls over the disbursement of authorized loan facilities and obtain an objective and independent judgment of credit proposals.

Internal Audit

Banks should have a segregated internal audit/control department charged with conducting audits of all departments. Audits should be carried out annually, and should ensure compliance with regulatory guidelines, internal procedures, Lending Guidelines and Bangladesh Bank requirement.

2.2.11 Credit Risk Management Process

Main parts of credit risk management:

- Through Insurance
- Through PDC (Post Dated Cheque)
- Through Verification
- Through Credit Analysts

Through Insurance

Insurance is added with each of the credit. The insurance premium is paid by the borrower with his/her EMI (equated monthly installment). So if any borrower defaults or die before closing of the loan the insurance company will provide loss to the bank. Otherwise the total insurance amount will be kept by the insurance company.

Through PDC (Post Dated Cheque)

Before the disbursement of the loan, cheques /PDC of borrower's maintained bank according to the number of EMI is collected from the borrower. As a result the borrower doesn't need to pay EMI to the bank. The bank collects the borrower's EMI through PDC.

Through Verification

After applying for loan by the borrower, the field verification team of DBL head office comes to the borrower to check the borrower's residence, work address and the guarantor of the loan. If the team find everything correct which has been mentioned in the application form, the loan is taken in process to approve loan. If the team finds any of the information as incorrect, the loan is considered as invalid and doesn't take the loan to process.

Through Credit Analysts

After the verification is completed correctly, the loan is taken by the analysts to approve. The analysts analyze the borrower's monthly income, how much the borrower can pay to the bank as per installment for applied loan and some other factors. Then the loan and the loan amount are approved. By adopting these 4 major parts DBL manage and reduces the risk of the credits.

2.2.12 Credit Risk Management Process

Credit risk management process should cover the entire credit cycle starting from the origination of the credit in a financial institution like this:

1. Credit processing/appraisal
2. Credit approval/sanction
3. Credit documentation
4. Credit administrations
5. Disbursement
6. Monitoring and control of individual credits
7. Monitoring the overall credit portfolio (stress testing)
8. Credit classification and
9. Managing problem credits/recovery

2.2.13 Under Credit Risk Management the Following Tasks are also done

1. Collect all relevant data from different models and information systems for analyzing risk.
2. Assess the quality, completeness and correctness of all relevant data needed to analyze risks.
3. Highlight risky portfolios and deficiencies of the bank on timely manner with recommendations and suggestions.
4. Analyze data through preparation of paper named risk management paper.
5. Identify, evaluate, control and monitor major risks in line with the standard set ; in the policy guideline to avoid necessary loss and ensure the banks in pricing all risk correctly.
6. Review market conditions and take precautionary measures towards facing abnormal market situation.
7. Ensure through independent oversight that different risks are identified, evaluated, monitored and reported within the established risk management frame work.

2.2.14 Implementation of Basel II

Basel II Capital accord is the revised framework of international Convergence of Capital Measurement and Capital Standards' the Comprehensive version of which was issued by the Base! Committee on Banking supervision in June 2006. The framework of Basel II Capita! accord consists of three pillars:

1st Pillar- Minimum Capital Requirements

Provide approaches to the calculation of Minimum Capital Requirements (MCR).MCR is based on credit risk, market risk and operational risk to.

2nd Pillar: Supervisory Review Process:

Provide the framework to ensure that each bank has sound internal processes to enable it to perform a through evaluation of its risk and therefore assess the required capital. The Supervisory Review process (SRP) recognizes the responsibility of Bank management in developing an internal Capital assessment process and setting capital target that are commensurate with the Banks risk profile and control environment.

3rd Pillar: Market Discipline:

The purpose of pillar-3, market discipline, is to complement the minimum capital requirements (Pillar-1) and the Supervisory review process (pillar-2).The Basel committee aims to encourage market discipline by developing a core set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposure, risk assessment process, and hence the capital adequacy of the institution. In principle Banks' disclosure should he consistent with how senior management and the Board of Directors (BoDs) of the Banks assesses and manage different risks of the bank.

Capital Charge Method for Risk:

At the, initial stage of Basel II implementation the following approaches is calculate MCR:

1. Standardized approaches for calculating Risk Weighted Amount (RWA) against credit risk supported by External Credit Assessment Institution (ECAI);

2. Standardized Rule Based approach against market risk; and
3. Basic Indicator approach for operational risk.

2.2.15 Loans and Advances of DBL

Disclosures on Risk Based Capital (Basel-II) as on 31.12.2014

Credit Risk:

Credit risk is the risk that a borrower will not make full and timely payment of debt service once a borrower falls behind in debt servicing; credit risk also involves the relative size and probable duration of default. It is one of the significant risks a bank is exposed to. Each of the risk areas requires be evaluating and aggregating to arrive at an overall risk grading measure.

- i. **Evaluation of financial risk:** Financial analysis of leverage, liquidity, profitability and interest coverage ratios will help to analyze the risk that borrower might fail to meet obligation due to financial distress.
- ii. **Evaluation of Business/Industry Risk:** Analyzing the business outlook, size of business, industry growth, market completion and barriers to entry or exit to understand the industry situation or unfavorable business condition that might have an impact on borrower's capacity to meet obligation. This capitalizes on the risk of failure due to low market share and poor industry growth.
- iii. **Evaluation of Management Risk:** Due to poor management skill, experience of the management, its succession plan and teamwork might cause the borrower to default.
- iv. **Evaluation of Security Risk:** Risk that the bank might be exposed due to poor quality or strength of the security in case of default. This may involve the strength of security and collateral, location of collateral and support.
- v. **Evaluation of Relationship Risk:** These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

Qualitative Disclosure: a) Definition of past due and impaired (for accounting purpose):
A customer will be considered to be past due once a repayment becomes overdue.

Past due and impaired: In instances in which a customer is past due and for whom the furnished collateral is insufficient to cover the outstanding amount will be considered to be both past due and impaired Accordingly, impaired will be raised in line with the impairment policy for the relevant accounts.

Past due but not impaired: In instances in which a customer is past due, but the customer facilities are fully collateralized, no impairment will be raised and the customer will be considered past due, but not impaired.

Types of Loans & Advances availed by DBL

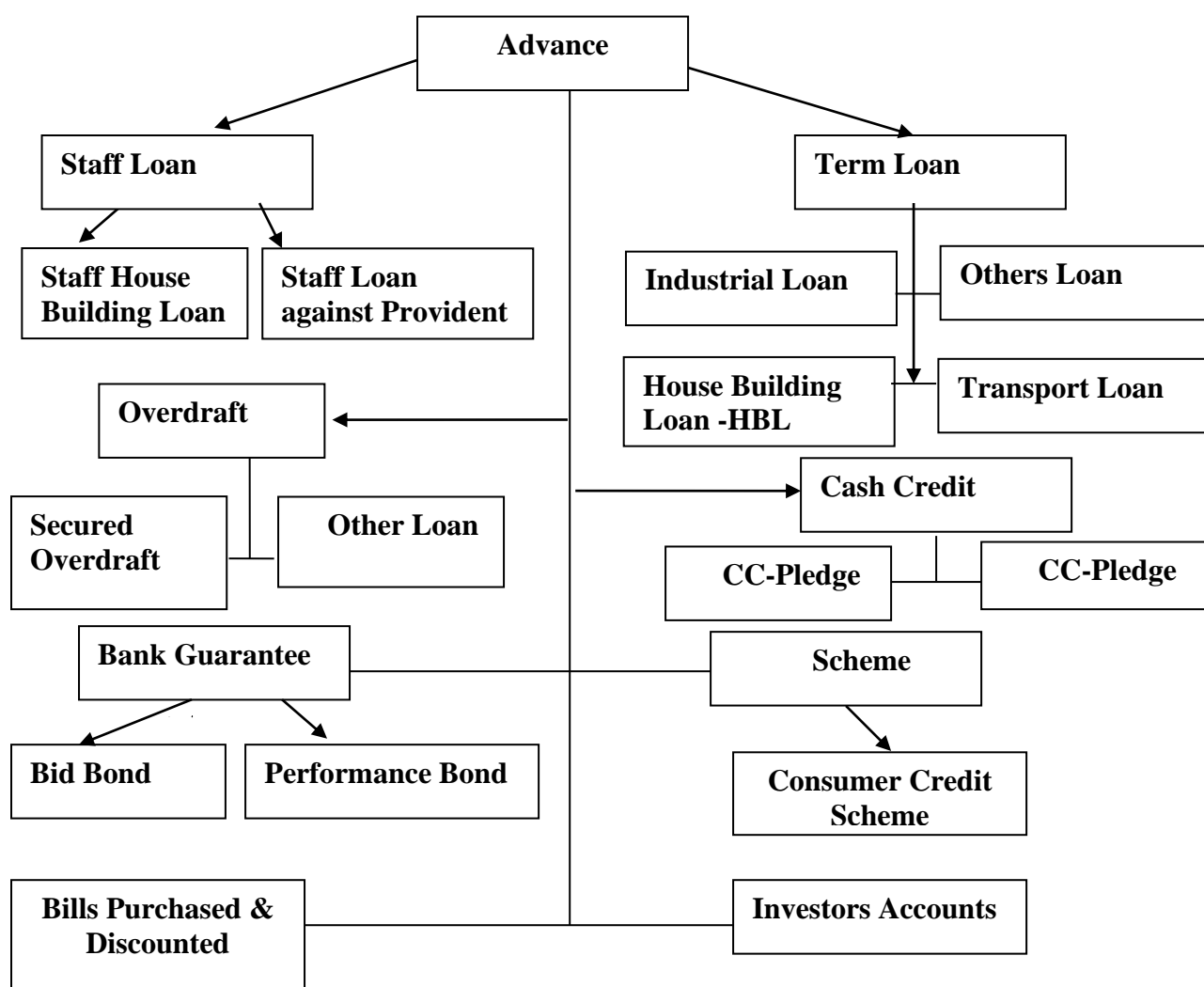


Figure 2.4: Categories of loans and Advances

(Source: DBL Annual Report 2014)

A continuous loan, Demand loan, or a term loan which will remain overdue for a period of 02 (two) months or more, will be put into the “Special mention account (SMA)”. This will help banks to look at accounts with potential problems in a focused manner and it will capture early warning signals for account showing first sign of weakness. Loans in the Special Mention Account “(SMA)” will have to be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

Any continuous loan will be classified as:

1. ‘Sub-Standard’ If it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months.
2. ‘Doubtful’ if it is past due/overdue for 06 (six) months or beyond but less than 09 (nine) months.
3. Bad/Loss’ if it is past due/overdue for 09 (Nine) months or beyond.

Any Demand loan will be classified as:

1. ‘Sub-standard’ if it remains past due/overdue for 03 (Three) months or beyond but not over 06 (six) months from the date of expiry or claim by the Bank or from the date of creation of forced loan.
2. ‘Doubtful’ if it remains past due/overdue for 06 (six) months or beyond but not over 09 (nine) months from then date of expiry or claim by the bank or from the date of creation of forced loan.
3. ‘Bad or loss’ if it remains past due/overdue for 09 (nine) months or beyond from the date of expiry or claim by the bank or from the date of creation of forced loan.

In case of any installment(s) part of installment(s) of a Fixed Term loan amounting up to Tk 10.00 Lacs is not repaid within the due date, the amount of unpaid installment(s) will be termed as past due or overdue installments.

In case of such types of Fixed term loans

- If the amount of past due installment is equal to or more than the amounts of installments due within 06 (six) months, the entire loan will be classified as “sub-Dhaka”
- If the amount of past due installment is equal to or more than the amounts of installments due within 09 (Nine) months, the entire loan will be classified as “Doubtful”
- If the amount of past due installment is equal to or more than the amounts of installments due within 12 (Twelve) months, the entire loan will be classified as “Bad/Loss”

In case any installments or part of installments of Fixed Term Loan is not repaid with in due date, the amount unpaid installments will be termed as past due or overdue installment.

In case of Fixed Termed Loans:

1. If the amount of past due installment is equal to or more than the amount of installments due within 03(Three) months the entire loan will be classified as “Sub- Standard”
2. If the amount of past due installment is equal to or more than the amount of installments due within 06(Six) months the entire loan will be classified as “Doubtful”
3. If the amount of past due installment is equal to or more than the amount of installments due within 09(Nine) months the entire loan will be classified as “Bad/Loss”

2.2.16 Explanation

If any Fixed term Loan is repayable on monthly installment basis, the amount of installment(s) due within 06(six) months will be equal to the sum of 06 monthly installments. Similarly, if the loan is repayable on quarterly installment basis. the amount of installment(s) due within 06(six) months will be equal to the sum of 2 quarterly installments.

2.2.17 Description of Approaches Followed for Specific and General Allowances and Statistical Methods

PROVISIONING

Specific Provision

Head office credit division prepares a list of credit accounts, which are considered to be totally or partially be unrecoverable & keeps a provision against the outstanding loans.

Rate of Provisioning

Dhaka Bank Limited in the time of loan provisioning to get the real picture of the income mainly follows the Bangladesh Bank guideline. The rate of provisioning used in DBL is summarized in the following table.

RATE OF PROVISION

Table: 2.5: Rate of Provision

Class	Short Term Agriculture credit.	All other credit
	<i>Rate of Provisions</i>	
Unclassified (UC)	5%	1%
Substandard (SS)	5%	20%
Doubtful	5%	50%
Bad or Loss	100%	100%

(Source: DBL Annual Report 2014).

2.2.18 Loan Process

Application for the loan: The loan process start with the submission of loan application by the borrower. The borrower submits the loan application to the branch manager. In the loan application the borrower provides following information.

- Personal detail of applicant
- Nature of business
- Amount and duration of the loan
- Purpose of the loan
- Details of the collateral

Preparation of loan proposal

Based on financial and management analysis and need of the client and his capability of operating the business, RM shall design the credit keeping in mind on the following issues:

- Purpose of the credit
- Experience in the similar business
- Risk, Remuneration
- Ancillary business
- Validity Loan period & business profitability
- Debt Equity Ratio
- Repayment capacity & production capacity
- Market demand of the product

Table 2.6: Loan Procedure of DBL

Evaluating project and proposal
Collecting information
Loan proposal from client
About client about project evaluating by agent
Legal assessment evaluating collateral
Sanctioning and documentation of loan
Branch supervision level of the loan
Disbursing loan decision
Recovery of the loan
Usual recovery
Legal recovery

(Source: DBL Annual Report 2014)

Documentation

Before sending proposal to the approving authority, the branch ensures that the following documents have been completed properly:

- Current CIB report
- Audited financial report
- Forecasted financial statement
- CRG score sheet of the business
- Bank statement regarding the bank transaction of the borrower.
- Net worth of the business
- Net worth of the individual
- Total debit and credit of the business
- Trade license of the business
- Income tax return of the borrower

Assessment of the loan proposal

- Borrower analysis
- Industry analysis
- Supplier/Buyer analysis
- Historical financial analysis
- Projected financial performance
- Credit background
- Account conduct
- Adherence of lending guidelines

2.2.19 Credit approval process

Credit application processed and recommended by credit officers

Table 2.7: Credit Approval Process

1 st Step	Branch Credit Committee
2 nd Step	Head Office-Credit Division
3 rd Step	Head Office-Credit Committee
4 th Step	Deputy Managing Director (credit)
5 th Step	Managing Director
6 th Step	Board of Directors

Figure: Credit Approval Process

(Source: DBL Annual Report 2014)

Securities:

- Modes of securities
- Pledge, Hypothecation, Lien, Mortgage

Documentation of Loan Agreement

Following documents are compulsory while giving loans:

Promissory Note, Letter of Disbursement, Letter of guarantee, Letter of authority, General Loan and Collateral Agreement, General Letter of Hypothecation, Letter of continuity, Letter of revival, Letter of undertaking.

2.2.20 Loan Disbursement:

After completing all the necessary steps for sanctioning loans bank will create a loan account by the name of the borrower and deposit the money to that account. Bank will give cheque book to the party and advise them to draw the money and use it as soon as possible.

2.2.21 The Banks Credit Risk Management Policy

The board approves the credit policy keeping in view relevant Bangladesh Bank guidelines to ensure best practice in credit risk management and maintain quality of assets, authorities are properly delegated ensuring check and balance in credit operation at every stage e screening, assessing risk, identification, management and mitigation of credit risk as well as monitoring, supervision, and recovery of loans with provision for early monitoring, supervision, and recovery of loans with provision for early warning system. The credit risk division is independently operated for dedicated credit risk management, separate credit administration division for ensuring perfection of security coverage and credit it monitoring and recovery division for monitoring and recovery of irregular loans.

Besides, internal control and compliance division independently assess quality of loans and compliance status of loans at least once in a year. Adequate provision is maintained against classified loans as per Bangladesh Bank guidelines. Status of loan portfolio is being regularly reported to the Board/Executive committee.

2.2.22 Credit Rating Report

Dhaka Bank limited has been rated by credit Rating Agency of Bangladesh (CRAB) on basis of Audited Financial Statement as on 31 December, 2013. The summary of the rating is presented below:

CRAB has rated Dhaka Bank Limited as “AA3” (Pronounced as double A Three) rating in the long term and “ST-2” rating in the short term which as stable as before. Commercial Bank rated “AA3” in the long term belong to have very strong capacity to meet their financial commitments. They differ from the highest rated commercial banks only to a small degree. AA3 is judged to be of very high quality and is subject to very low credit risk. Commercial bank rated in the short term ST-2 category are considered to have the strong capacity for timely repayment of obligations. Banks rated in the category are characterized with commendable position in terms of liquidity, internal fund generation and access to alternative sources of funds is outstanding (Source: Dhaka Bank Limited Annual Report 2014).

CHAPTER 3

ANALYSIS AND DISCUSSION

3.1 Credit Risk Managements

The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Bank need to manage the credit risk exposure inherent in the entire portfolio as well as the risk in individual credit or transactions. Bank should consider the relationship between credit risk and other risk. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long term success of any banking organization.

Indeed, the basic concepts for measuring credit risk-Probability of default, Exposure at default, Recovery Rate, Expected loss, Loss given default and unexpected loss are easy enough to understand and explain. However, even for those involved in risk management who agree on the concepts. It is not always easy to practically implement a method that is fully consistent with an original concept.

Therefore, the banks credit risk management activities have been designed to address all these issues, a pricing model for credit reveals the factors that drive credit risk management:

PD (Probability of default): the likelihood that the obligor or borrower, will fail to make full and timely repayment of its financial obligations over a given time horizon (duration).

EDF (Expected default frequency): the estimated risk that a firm will default with in a given time horizon (1 year), by failing to make an interest and principle payment.

LGD (Loss given default): the amount of the loss if there is a default expressed as a percentage of the exposures value.

EAD (Exposure at default): the expected exposure at the default.

EL (expected loss): the average expected credit loss over a given time period.

UL (Unexpected loss): the loss in excess of expected loss.

RR (Recovery rate): the proportion of the EAD the bank recovers.

D (Duration): duration of default

S (Spread): Spread for pricing credit-linked obligation. In addition to measuring the credit risk of an individual exposure, and computing the credit risk and potential credit losses of a credit portfolio, credit concentration risk should also be considered when pricing credits.

(Source: Dhaka Bank Limited Annual Report 2014)

3.2 Principles for the Assessment of Bank Management of Credit Risk:

Establishing an Appropriate Credit Risk Environment:

Principle 1: The board of directors should have responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Principle 2: Senior management should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing and procedures for identifying, measuring, monitoring and controlling credit such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels.

Principle 3: Banks should identify and manage credit risk inherent in all products activities. Banks should ensure that the risks of products and activities new to them are subject to adequate procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.

Operating Under a Sound Credit Granting Process:

Principle 4: Banks must operate under sound well-defined credit-granting criteria. These criteria should include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

Principle 5: Banks should establish, overall credit limits at the level of individual borrowers and counterparties. and groups of connected counterparties that aggregate in a comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet.

Principle 6: Banks should have a clearly-established process in place for approving new credits as well as the extension of existing credits.

Principle 7: All extensions of credit must be made on an arm's-length basis. In particular, credits to related companies "and individuals must be monitored with particular care are other appropriate steps taken to control or mitigate the risks of connected lending.

3.3 Credit Risk Assessment

A thorough credit risk assessment should be conducted prior to the sanctioning of credit facilities. They must conduct necessary KYC (Know Your Customer) part on the customer and money laundering guidelines must be followed.

KYC Concept (Dhaka bank)

The Credit Officers must know their customers and conduct due diligence on new borrowers, principals and guarantees to ensure such parties are in fact who they represent themselves to be i.e.. Know Your Customer (KYC).

The Banker — Customer relationship would be established first through opening of CD STD / SB accounts. Proper introduction, photographs of the account holders / signatories, passport, Trade License, Memorandum and Articles of the Company, List of Directors, resolution, etc., all the registered papers as per Bank's policy and regulatory requirements are to be obtained at the time of opening of the account. A declaration regarding

approximate transaction to the account is to be obtained during opening of account. Information regarding business pattern, nature of business, volume of business, etc. are to be ascertained. Any suspicious transaction must timely addressed and brought down to notice of Head Office / Bangladesh Bank as required and also appropriate corrective measures to be taken as per the direction of Bank Management / Bangladesh Bank.

Following risk areas in the credit proposal should be addressed and assessed before sending to Head Office.

1. Borrower Analysis:

- a. Share holding
- b. Reputation
- c. Education
- d. Experience — success history
- e. Net worth
- f. Age etc.

2. Industry Analysis:

- a. Industry Position/Threat/ Prospect.
- b. Risk factors pertaining to the industry.
- c. Borrower's position / share in the industry.
- d. Strength, weakness of the borrower compared to the competitors etc.

3. Supplier/ Buyer Risk Analysis

4. Demand Supply position

5. Technical Feasibilities / Infrastructural Facilities

6. Management Teams Competence

7. Seasonality of Demand

8. Debt to Equity Ratio

9. Historical Financial Analysis:

- a. An analysis of 3 years historical financial statements.
- b. Earning — its sustainability.
- c. Cash flow
- d. Leverage

- e. Profitability
- f. Strength and reliability of Balance Sheet etc.

10. Projected Financials:

- a. Sufficiency of cash flows to service debt repayment.
- b. Debt Service Coverage Ratio.

11. Trade Checking

12. Account Conduct:

- a. For existing customer the repayment history, credit turnover, study of account statement
- b. If the customer is proposed to be migrated from other Bank, statement of account from present Banker is required
- c. Allied deposit with our Bank.
- d. Other business with our Bank.

13. Security:

- A current valuator of collateral security by Professional Enlisted Surveyor be obtained with photograph and site map. Collaterals within command area of the respective branch location are preferred. Third Party property and vacant land should be discouraged.
- Loans should not be considered based solely on collateral.
- Adequacy and extent of Insurance coverage should be assessed. Insurance Policy should be obtained from approved Insurance Company. Premium should be paid through Bank, duly stamped money receipt be obtained. Insurance Policy be held by the Bank. The Policy be renewed in time. Letter of authority be obtained from the customer to debit account to pay premium for renewal/enhancement of the policy.

14. Succession Issue:

Margin, volatility of business, high debt (Leverage / gearing), over stocking, huge receivables with long aging, rapid expansion, new business line, management change. lack of transparency should be addressed.

15. Adherence to Credit Guidelines:

- It should be clarified whether the customer is agreeable to comply with guidelines in respect of regulatory requirement and Banks policy requirement.
- Any deviation be clearly identified and maintained.

16. Mitigating Factors:

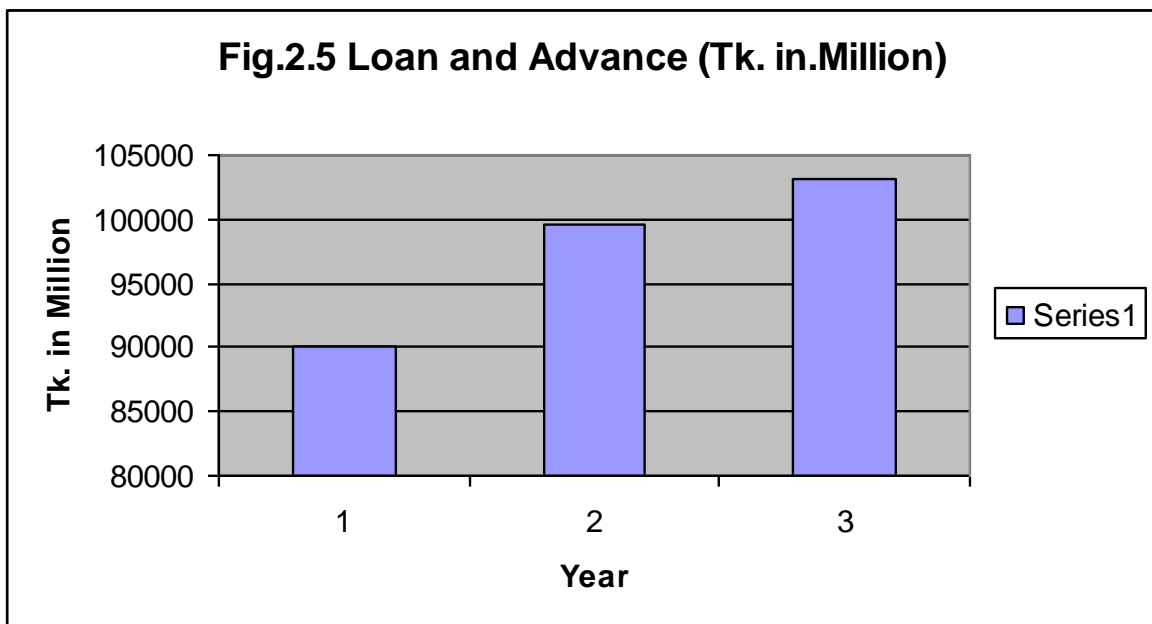
Risk factors be identified and side by side mitigating factors of those risks should also be mentioned to justify the proposed facility.

17. Environmental factor.

18. Employment generation and contribution to the national economy.

3.4 Loan and Advances:

Total loan and advances figure of the bank has increased to Tk.103131.52 million as on December 2014 in comparison to Tk. 99595.88 million as on December 31, 2013 which indicates as increase of 4% over the figure of the last year. During this time the bank has passed through some adversity in the economy, due to volatile capital market and world recession. Addressing those constraints, DBL prudently worked on consolidated of its existing portfolio ensuring profitability and risk mitigation.



(Source: Annual Report-2014, Dhaka Bank Limited)

During this time the bank has given emphasis on service sector like power sector, telecommunication, Tourism, Hotel and other emerging sectors like Pharmaceuticals, Steel Re-m Ceramic, Jute etc and extended credit in those sectors for contributing into GDP of the national economy. The bank is also emphasis small and medium enterprise loan, Women Entrepreneurship and Agricultural sector and allocated fund of taka 1250.00 million for agricultural sector towards contributing to poverty alleviation program. More funds will be allocated considering the requirement in future.

The bank is very much aware of this marginal increasing trend of NPL and recover effort has been geared up to reduce the nonperforming loan amount. A separate recovery unit has been formed with experienced employees, monitoring system has been strengthened and careful and due steps are been taken to maintain asset quality (Source: Dhaka Bank Limited Annual Report).

3.5 Credit Approval Process Include

- **Credit Risk Grading**
- **Credit Administration**

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.

Use of Credit Risk Grading

1. The Credit Risk grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of individual obligor, credit portfolio of a unit line of business. The branch or the bank as a whole.
2. As evident, the CRG outputs would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to pricing (credit-spread) and specific features of the credit facility. These would largely constitute obligor level analysis.
3. Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of a bank. It is also relevant for portfolio level analysis.

Credit Risk Grading Definitions

CREDIT RISK GRADING (CRG)

Credit Risk Grading (CRG) was an important issue in the BASEL 2 Committee. This is a uniform measurement tool for assessing potential risk involved in lending. Bangladesh Bank in 2003 issued guidelines for the commercial banks to follow those Grading System and made the CRG mandatory irrespective of loan amount other than Retail/SME/Agri/Micro Credit. CRG is in actual amended, developed and reproduced form of LRA (Lending Risk Analysis).

CRG applies in two stages

Pre-sanction stage: Sanctioning authority uses CRG to decide whether to lend or not, loan price, extent of exposure, appropriate credit policy, various facilities, risk mitigation tools etc.

Post-sanction stage: To decide the depth of review or renewal, frequency of review, periodicity of grading, other pre-cautions.

CRG SYSTEM

	Number	Name	Code	Grade
Credit-Worthy	1	Superior	SUP	100%
	2	Good	GD	+85%
	3	Acceptable	ACCPT	75-84%
	4	Marginal/Watch list	MG/WL	65-74%
No-Lending	5	Special Mention	SMA	55-64%
	6	Sub-standard	SS	45-54%
	7	Doubtful	DF	35-44%
	8	Bad & Loss	BL	Less than 35%

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

Superior — (SUP) — 1

- Credit facilities, which are full)' secured i.e. fully cash covered.
- Credit facilities fully covered by government guarantee.
- Credit facilities fully covered by the guarantee of a top tier international Bank.

Good—(GD)—2

- Strong repayment capacity of the borrower.
- The borrower has excellent liquidity and low leverage.
- The company demonstrates consistently strong earnings and cash flow.
- Borrower has well established, strong market share.
- Very good management skill & expertise.
- All security documentation should be in place.
- Credit facilities hilly covered by the guarantee of a top tier local Bank.
- Aggregate Score of 85 or greater based on the Risk Grade Score Sheet.

Acceptable — (ACCPT) —3

- These borrowers are not as strong as GOOD Grade borrowers, but still demonstrate consistent earnings, cash flow and have a good track record.
- Borrowers have adequate liquidity, cash flow and earnings.
- Credit in this grade would normally be secured by acceptable collateral (1st charge over inventory / receivables / equipment / property).
- Acceptable management.

- Acceptable parent/sister company guarantee
- Aggregate Score of 75-84 based on the Risk Grade Score Sheet

Marginal/Watch List — (MC/WL) —4

- This grade warrants greater attention due to conditions affecting the borrower, the industry or the economic environment.
- These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or
- Inconsistent earnings.
- Weaker business credit & early warning signals of emerging business credit detected.
- The borrower incurs a loss
- Loan repayments routinely fall past due
- Account conduct is poor, or other untoward factors are present.
- Credit requires attention
- Aggregate Score of 65-74 based on the Risk Grade Score Sheet

Special Mention — (SMA) — 5

- This grade has potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.
- Severe management problems exist.
- Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage),
- An Aggregate Score of 55-64 based on the Risk Grade Score Sheet.

Substandard — (SS) —6

- Financial condition is weak and capacity or inclination to repay is in doubt.
- These weaknesses jeopardize the full settlement of loans.
- Bangladesh Bank criteria for sub-Dhaka credit shall apply.
- An Aggregate Score of 45-54 based on the Risk Grade Score Sheet.

Doubtful — (DF) — 7

Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.

- However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Bad & Loss.
- Bangladesh Bank criteria for doubtful credit shall apply.
- An Aggregate Score of 35-44 based on the Risk Grade Score Sheet.

Bad & Loss — (BL) —8

Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/liquidation. Prospect of recovery is poor and legal options have been pursued. Proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for this classification reflects that it is not practical or desirable to defer writing off this basically valueless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. Legal procedures/suit initiated. Bangladesh Bank criteria for bad & loss credit shall apply. An Aggregate Score of less than 35 based on the Risk Grade Score Sheet.

Head Office shall sanction or place proposals to the Board/Committee for sanction of loans only if it meets the criteria under credit policy. Loans shall not be approved and shall be recalled if the lending limit of the bank exceeding 80% of deposits.

LENDING RISK ANALYSIS (LRA): MODERN TECHNIQUE OF CREDIT APPRAISAL

The Financial Sector Reform Project (FSRP) has designed the LRA package, which provides a systematic procedure for analyzing and quantifying the potential credit risk. Bangladesh Bank has directed all commercial bank to use LRA technique for evaluating credit proposal amounting to Tk. 10 million and above. The objective of LRA is to assess the credit risk in quantifiable manner and then find out ways & means to cover the risk. However, some commercial banks employ LRA technique as a credit appraisal tool for evaluating credit proposals amounting to Tk. 5 million and above. Broadly LRA package divides the credit risk into two categories namely: a) Business risk. B) Security risk.

A detail interpretation of these risks and the procedure for evaluating the credit as follows:

BUSINESS RISK

It refers to the risk that the business falls to generate sufficient cash flow to repay the loan. Business risk is subdivided into two categories.

INDUSTRY RISK

The risk that the company fails to repay for the external reason. It is subdivide into supplies risk and sales risk.

SUPPLIES RISK

It indicates that the business suffers from external disruption to the supply of imputes. Components of supplies risk are as raw material, Labor, power, machinery, equipment, factory premises etc. Supply risk is assessed by a cost breakdown of the inputs and then assessing the risk of disruption of supplies of each item.

SALES RISK

This refers to the risk that the business suffers from external disruption of sales. Sales may be disrupted by changes to market size, increasing in competition, change in the regulation or due to the loss of single large customer. Sales risk is determined by analyzing production or marketing system, industry situation, Government policy, and competitor profile and companies strategies.

SECURITY RISK

This sort of risk is associated with the realized value of the security, which may not cover the exposure of loan. Exposure means principal plus outstanding interest. The security risk is subdivided into two major heads i.e. security control risk and security cover risk.

SECURITY CONTROL RISK

This risk refers to the risk that the bank falls to realize the security because of bank's control over the security offered by the borrower i.e. incomplete documents. The risk of failure to realize the security depends on the difficulty in obtaining favorable judgment

and taking possession of security. For analyzing the security control risk the credit office is required to verify documentation to ensure security protection, documentation completeness, documentation integrity and proper insurance policy. He/she also conducts site visit to verify security existence. Assessment of security control risk requires analyzing the possibility of obtaining favorable judgment and analyzing the case with which the bank could take the possession and liquidate the securities.

SECURITY COVER RISK

This refers to the risk that the realized value of security is less than exposure. Security cover risk depends on speed of realization and liquidation value. For analyzing security cover risk, the official requires assessing the power of the customer to prolong the legal process and to analyze the market demand for the security. For assessment of security control risk, the officials times the time that would require to liquidate the security and assess the risk and estimates the security value at liquidation and assess the risk.

Before completing the LRA form, the relationship manager collects data specially industry specific from published sources and company specific data that not usually published., by personally visiting the company. After collecting the necessary data he/ she prepares financial spreadsheet. This spreadsheet provides a quick method of assessing business trend & efficiency and helps to assess the borrower ability to pay the loan Obligation. Financial spreadsheet includes balance sheet, income statement, cash flow statement and ratios for the purpose of financial statement analysis. Through analyzing data and collected information, the concerned official completes the LRA form and all scores are transferred to the scoring matrix to find the overall risk of lending. The overall matrix provides four kinds of lending risk for decision making viz. (I) Good (ii) Acceptable (iii) Marginal and (iv) Poor. The bank does not provide any credit request having an over all risk as “ marginal” and ” Poor” without justification. All credit application rated “Poor” shall require the approval of the Board of Directors regardless of purpose tenor or amount. Therefore bank can minimize the dangers regarding the bad loan and advances through using the LRA.

Credit Administration

The credit administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of loan facilities. For this reason, it is essential that the functions of Credit Administration be strictly segregated from relationship Management/Marketing in order to avoid the possibility of controls being compromised or issues n being highlighted at the appropriate level.

Credit Administration should be in place to ensure the following:

Disbursement:

- Security documents are prepared in accordance with approval teams and are legally enforceable. Dhaka loan facility documentation that has been reviewed by legal counsel should use in all cases. Exceptions should be referred to legal counsel for advice based on authorization from an appropriate executive in CRM.
- Disbursement under loan facilities are only be made when all security documentation is in place. CIB report should reflect/include the name of all the
- Lenders with facility, limit and outstanding. All formalities regarding large loans and loans to directors should be guided by Bangladesh Bank circulars and related section of Banking companies act. All credit approval terms have been met.

Custodial Duties:

- Loan disbursements and the preparation and storage of security documents should be centralized in the regional credit centers.
- Appropriate insurance coverage is maintained (and renewed on a timely basis) on assets pledged as collateral.
- Security documentation is held under strict control, preferably in locked fireproof storage.

Compliance Requirements:

- All required Bangladesh Bank returns are submitted in the correct format in a timely manner.
- Bangladesh Bank circulars/regulations are maintained centrally and advised to all relevant departments to ensure compliance.
- All third party service providers (values, lawyers, insurers, CPAs etc.) are approved and performance reviewed on an annual basis. Banks are referred to

Bangladesh Bank circular outlining approved external audit firms that are acceptable.

Credit Monitoring:

To minimize credit losses, monitoring procedures and systems should be in place that provide an early indication of the deteriorating financial health of a borrower. At a minimum, systems should be in place to report the following exceptions to relevant executives in CRM and RM (Relationship Manager) team.

- Past due principal or interest payments, past due trade bills, excesses, and breach of loan covenants.
- Loan terms and conditions are monitored, financial statements are received on a regular basis and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow-up.
- Timely corrective action is taken to address findings of any internal - external or regulator inspection audit.
- All borrower relationship/loan facilities are reviewed and approved through the submission of a Credit application at least annually.

Computer system must be able to produce the above information for central/head office as well as local review. Where automated systems are not available, a manual process should have the capability to produce accurate exception reports. Exceptions should be followed up on and corrective action taken in a timely manner before the account deteriorates further.

3.6 SWOT Analysis

SWOT analysis is done for a company, to find out its overall Strengths, Weaknesses, Threats and opportunities leading to gauging the competitive potential of the company. The SWOT Analysis enables a company to recognize its market standing and adopt strategies accordingly. Here SWOT analysis of DHAKA BANK is made to understand the positioning of the bank better.

Strengths

• Strong corporate identity

According to the customers, DBL is the leading provider of financial services identity worldwide. With its strong corporate image and identity, it has better positioned itself in the minds of the customers. This image has helped DBL grab the personal banking sector of Bangladesh very rapidly.

• Strong employee bonding and belongings

DBL employees are one of the major assets of the company. The employees of DBL have a strong sense of commitment towards organization and also feel proud and a sense of belonging towards DBL. The strong organizational culture of DBL is the main reason behind its strength.

▪ Efficient Performance

It has been seen from customers' opinion that DBL provides hassle-free customer services to its client comparing to other financial institutions of Bangladesh. Personalized approach to the needs of customers is its motto.

• Young enthusiastic workforce

The selection & recruitment of DBL emphasizes on having the skilled graduates & postgraduates who have little or no previous work experience. The logic behind is that DBL wants to avoid the problem of 'garbage in & garbage out'. And this type of young & fresh workforce stimulates the whole working environment of DBL.

• Empowered Work force

The human resource of DBL is extremely well thought & perfectly managed. As from the very first, the top management believed in empowering employees, where they refused to put their finger in every part of the pie. This empowered environment makes DBL a better place for the employees. The employees are not suffocated with authority but are able to grow as the organization matures.

▪ Hospitable Working Environment

All office walls in DBL are only shoulder high partitions & there is no executive dining room. Any of the executives is likely to plop down at a table in its cafeteria & join in a lunch, chat with whoever is there.

- **Strong Financial Position**

It has been seen that the net profit has been gradually rising over the years. Furthermore, DBL is not just sitting on its previous year's success, but also taking initiatives to improve.

Weaknesses

- **High charges of L/C**

Presently DBL charges same rates for all types of import L/C. But for import L/C of exports- oriented industry, DBL should reduce the charge of L/C. As a result, exporter will be benefited and the country will earn more foreign exchange. The commission often even rises up to 30%.

- **Discouraging small entrepreneurs**

DBL provides clean Import Loan to most of its solvent clients. But they usually do not want to finance small entrepreneurs whose financial standing is not clean to them.

- **Absence of strong marketing activities**

DBL currently don't have any strong marketing activities through mass media e.g. Television. TV ads play vital role in awareness building. DBL has no such TV ad campaign. Although they do a lot of CSR activities compared to other banks.

- **Not enough innovative products**

In order to be more competitive in the market, DBL should come up with more new attractive and innovative products. This is one of the weaknesses that DBL is currently passing through but plans to get rid of by 2010.

- **Diversification**

DBL can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify it to leasing and insurance. As DBL is one of the leading providers of all financial services, in Bangladesh it can also offer these services.

- **Lack of Proper Motivation**

The salary at DBL is very decent, but it lacks other sorts of motivation. Incentives such

as bonuses are given for acquiring a particular figure, but all in all these are the only motivational factors.

- **High Cost for maintaining account**

The account maintenance cost for DBL is comparatively high. Other banks very often highlight this. In the long run, this might turn out to be a negative issue for DBL.

Opportunities

- **Distinct operating procedures**

Repayment capacity as assessed by DBL of individual client helps to decide how much one can borrow. As the whole lending process is based on a client's repayment capacity, the recovery rate of DBL is close to 100%. This provides DBL financial stability & gears up DBL to be remaining in the business for the long run.

- **Country wide network**

The ultimate goal of DBL is to expand its operations to whole Bangladesh. Nurturing this type of vision & mission & to act as required, will not only increase DBL's profitability but also will secure its existence in the long run.

- **Experienced Managers**

One of the key opportunities for DBL is its efficient managers. DBL has employed experienced managers to facilitate its operation. These managers have already triggered the business for DBL as being new in the market.

- **Huge Population**

Bangladesh is a developing country to satisfy the needs of the huge population, a large amount of investment is required. On the other hand, building EPZ areas and some Govt. policies easing foreign investment in our country made it attractive to the foreigners to invest in our country. So, DBL has a large opportunity here.

Threats

- **Upcoming Banks/Branches**

The upcoming private, local, & multinational banks pose's serious threats to the existing banking network of DBL: it is expected that in the next few years more commercial banks will emerge. If that happens the intensity of competition will rise

further and banks will have to develop strategies to compete against and win the battle of banks.

- **Similar products are offered by other banks**

Now-a-days different foreign and private banks are also offering similar type of products with an almost similar profit margin. So, if all competitors fight with the same weapon, the natural result is declining profit.

- **Default Loans**

The problem of non-performing loans or default loans is very minimum or insignificant. However, this problem may rise in the future thus; DBL has to remain vigilant about this problem so that proactive strategies are taken to minimize this problem.

- **Industrial Downturn**

Bangladesh is economically and political unstable country. Flood, draught, cyclone, and newly added terrorism have become an identity of our country. Along with inflation, unemployment also creates industry wide recession. These caused downward pressure on the capital demand for investment.

- **Financial Crisis**

Although people have recovered a bit from the shock, it may still pose as a threat. People are still hesitant to take loans or even deposit them.

3.7 Effects of Management of Credit Risks in Dhaka Bank Ltd.:

Financial performance DBL it is observed that the after Tax Earnings' per Share (EPS), Net Assets per Share (NAS) turned improved significantly over the last year in compare to last year and also the deposit and credits portfolio, total Income, operating profit, number of branched increased during the said period.

The Bank also pursues an effective internal control system by establishing systems and procedures for scrutinizing the transactions periodically encompassing key back up supports and cornice regular contingency plan.

3.8 Methods Used to Mitigate Credit Risk:

- Based on the policies strategies are developed by the bank to mitigate credit risk.
- Credit risk is mitigated by appropriate credit appraisal systems before lending and proper collateral or guarantees are taken to hedge the risk.
- Risk management system is put in place for better management of credit risk and a risk rating is installed which is in compliance with BB guidelines.
- The risk management function is reviewed periodically usually every quarter.
- The rating system for term loans is annual.
- Investment is made in different sectors to diversify risk. Disclosure on Risk Based Capital (Basel-II)” (December 2014) shows Industry or counterparty type distribution of exposures:

So in short, the bank’s board of directors and senior management are responsible for ensuring that the banks have appropriate credit risk assessment processes and effective internal controls. Banks have a system in place to reliably classify loans on the basis of credit risk. Bank’s credit risk assessment process for loans provides the bank with the necessary tools, procedures and observable data to use for assessing credit risk, accounting for impairment of loans and for determining regulatory capital requirements.

CHAPTER 4

CONCLUSION AND RECOMMENDATION

4.1 Discussion of Major Findings

The credit department is a vital department of the bank. If this department is efficient, the project is supposed to run successfully and loan amount is supposed to be recovered. But for this smooth recovery, many other things need to be modified in time of loan sanctioning. The Results (findings) of this study are summarized below:

- 1) To analysis credit risk, Bank formulated a well-defined credit policy approved by Board of Directors. The senior management developed policies, systems and procedures and established an organizational structure to measure, monitor and control credit risk, which has also duly approved by the board. They also put in place a well-designed credit risk management setup commensurate with the size and complexity of its credit portfolio.
- 2) Bangladesh bank credit management policies requires bank to set lending guideline which DBL does and reviews on annual basis.
- 3) DBL follows the BB guideline regarding discouraged lending activities.
- 4) DBL is much strong in capital adequacy along with good management of liquidity but the asset quality is not so good.
- 5) Both interest rate on deposit and loan are lower compared to other strong participants of the market.
- 6) Governments orders like account opening for 10 taka, etc. increases cost. SME loans for farmers without collateral not only increases credit risk but also costly for banks But return on these services are low.
- 7) Filing procedure is not maintained in a definite and clear manner. It is difficult to locate the documents in a chronological and sequential manner. A definite practice, though mentioned in the credit policy is not always maintained by the credit officials.
- 8) Corporate loan sanction and disbursement procedure is quite lengthy.

4.2. Conclusion

Proper financial system of a country can contribute towards the development of that country's economy. In our country Bangladesh, banks have a leading power to its financial system. For this reason, the banks should have a potential role to make our financial system. In this arena, private commercial banks are playing a vital role in the development of our economy. But Govt. and Bangladesh Bank play a crucial role to the private commercial banks through imposition of deposit restriction, lending role and other banking operations. In recent years of banking business, Dhaka Bank Limited has shown better performance comparing with other first generation banks.

We expect the Dhaka Bank Limited may hold its prospect in future and can contribute a vital role in the socio-economic prospective. It is a great pleasure for me to have practical exposure to Dhaka Bank limited, Dinajpur Branch. Without practical knowledge, it is not possible for me to compare the academic Knowledge and practical knowledge. Since the time is very limited to learn the all the sectors of a bank. If the duration of internship can be increased, then it is possible to learn the entire banking activities mere properly.

To complete in the environment of advancing technology and faster communication the DBL should depend more heavily on the quality service and information technology. DBL should be connected through wide area network. So that all the informational and service can be accessed from any branch of the country.

No doubt about it that DBL achieved superior position in our banking industry but to cope with customer DBL should think how to make its service proactive. To compete with other Banks operation in Bangladesh, DBL should introduce easier way for faster processing of credit analyses.

As a leading bank Bangladesh, DBL contributes in the business with promising future. I can hope so that DBL can spread their business with increasing various scheme and other utility services.

4.3 Recommendation

A banker cannot sleep well with bad debts in his portfolio. The failure of commendable banks occurs mainly due to bad loans, which occurs due to inefficient management of the loans and advances portfolio. Therefore any banks must be extremely cautious about its lending portfolio and credit policy. In the light of the above findings, following recommendations are proposed:

- 1) Should develop more customized parameters for credit approval process under the general guideline of BB to increase its market.
- 2) To mitigate credit risk, DBL should focus on strong collateral based lending and ensure to generate better cash flow from lending.
- 3) To maintain good asset quality DBL should ensure recovery of long standing non performing loan (NPL) particularly bad and loss loan.
- 4) The DBL should support its corporate culture in order to ensure proper Management of Credit Risk.
- 5) The credit sanction procedure should be made quicker since competition is very hard in today's business world. People do not want to wait for three to four weeks on an average to get a loan which is even protected by security.
- 6) The DBL should emphasize on reducing the classified and non-performing credits by concerted efforts. In the credit department, strict supervision is necessary to avoid loan defaulters. Bank official should do regular visit to the projects.
- 7) Politically influenced lending or project finance should be checked.
- 8) More research and innovative ideas should be made. Continuous improvement should be made in the lending procedure which would reduce the default risk of the bank and increase profitability.
- 9) Bank has taken step to sue default borrower.
- 10) To attract more clients DBL has to create a new marketing strategy, which will increase the total export import business.
- 11) Effective and efficient initiatives are necessary to recover the default loans.
- 12) Long term training very much required for the credit officer.
- 13) Bank can provide foreign market reports, which will enable the exporter to evaluate the demand for their products in foreign countries.
- 14) Segregation of international trade transaction from the existing situation i.e. Credit aspects to be looked after by credit analysis department

- 15) DBL can expand their export business in the frozen fish, fish, and jute sector.
- 16) Effective Management Information System must be evolved by DBL so that correct decisions may be taken at correct time at policymaking level.
- 17) Proper communication needs to establish with clients.
- 18) Proper incentive system should be introduced to motivate bank employees for rendering better services.
- 19) DBL should open more ATM Booth.
- 20) All out efforts may be in place to reduce overhead costs as minimum as possible.
- 21) They should increase the number of AD Branches in all over the country with the permission of Bangladesh Bank. Thus, the clients in every city can enjoy their foreign trade from their own city.
- 22) I believe these steps will be helpful to improve the performance of Dhaka Bank Limited and the financial sector of Bangladesh.

REFERENCE

To prepare this report I have collected data mainly from annual reports of Dhaka Bank Limited, different books regarding information collection, the websites of Bangladesh Bank and Dhaka Bank Limited and others websites. The references are given below:

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List of Abbreviated Words

ATM	-Automatic Teller Machines
BB	- Bangladesh Bath
CIB	- Credit Information Bureau
CR	- Credit Risk
CRM	-Credit Risk Management
CSR	-Corporate social Responsibility
CRG	-Credit Risk Grading
DD	-Demand Draft
EVA	-Economic Value Added
ES	- Earning Per Share
FDR	- Fixed Deposit Receipt
GDP	- Gross Domestic Product
KYC	- Know Your Customer
MIS	- Management Information System
NAV	- Net Asset Value
NPL	- Non performing Loan
NBR	- National Board of Revenue
OD	- Over Draft
RM	- Risk Management
DBL	- Dhaka Bank Limited
SME	- Small and Medium Enterprise
TP	- Transaction Profile
VAT	- Value Added Tax