

AN INTERNSHIP REPORT

ON

Credit Risk Management of Agrani Bank Limited: A Case Study

This Report is submitted to the Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University as a Partial Requirement for the Fulfillment of MBA (Evening) Program

By-

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Faculty of Business Studies
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Faculty of Business Studies

HAJEE MOHAMMAD DANESH SCIENCE AND TECHNOLOGY
UNIVERSITY, DINAJPUR-5200

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HAJEE MOHAMMAD DANESH SCIENCE AND TECHNOLOGY
UNIVERSITY, DINAJPUR-5200

May, 2016
Student's Declaration

The discussing report is the terminal formalities of the internship program for the MBA (Evening) program of Business Administration, faculty of business Studies at Hajee Mohammad Danesh Science and Technology University, Dinajpur which is compact professional progress rather specialized. This report has prepared as per academic requirement after the successfully completion of 45 days internship program under the supervision of Dr. Md. Zahangir Kabir, Associate Professor and Supervisor, Department of Management, HSTU, Dinajpur. It is my pleasure and great privilege to submit my report titled "Credit Risk Management of Agrani Bank Limited: a Case study", as the presenter of this report, I have tried my level best to get together as much information as possible to enrich the report. I believe that it was a fascinating experience and it has enriched both my knowledge and experience.

However, after all this, as a human being, I believe everyone is not beyond limitation. There might have problems regarding lack and limitations in some aspects and also some minor mistakes such as syntax error or typing mistake or lack of information. Please pardon me for that mistake and clarify these of my further information on those matters.

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Supervisor's Declaration

I hereby declare that the concerned report entitled titled "Credit Risk Management of Agrani Bank Limited : A Case study" is an original work made by Md. Arif Reza, Student ID: 130502071, MBA Evening (Major in Marketing) 2nd Batch faculty of business Studies at Hajee Mohammad Danesh Science and Technology University, Dinajpur, completed his internship report under my supervision and submitted for the partial fulfillment of the requirement of the degree of Master of Business Administration (Evening) program faculty of business Studies at Hajee Mohammad Danesh Science and Technology University, Dinajpur.

I wish him every success in his life.

Dr. Md. Zahangir Kabir
Associate Professor & Supervisor
Department of Management
HSTU, Dinajpur.

Co-Supervisor's Declaration

I hereby declare that the concerned report entitled titled "Credit Risk Management of Agrani Bank Limited : A Case study" is an original work made by Md. Arif Reza, Student ID: E130502071, MBA Evening (Major in Marketing) 2nd Batch faculty of business Studies at Hajee Mohammad Danesh Science and Technology University, Dinajpur, completed his internship report under my supervision and submitted for the partial fulfillment of the requirement of the degree of Master of Business Administration (Evening) program faculty of business Studies at Hajee Mohammad Danesh Science and Technology University, Dinajpur.

I wish him every success in his life.

Mst. Shahanaz Parvin
Assistant Professor and Co-Supervisor
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To Whom It May Concern

This is to certify that Md. Arif Reza having student ID : E130502071, MBA Evening (Major in Marketing) student of Hajee Mohammad Danesh Science and Technology University, Dinajpur completed his 45 (Forty Five) days internship successfully. During the period of internship his attendance in, performance in connection with his assigned duties and behavior with us are outstanding enough. He adopted all relevant works of different desks within aforesaid period. During his internee period we found his good attitude and sound behavior.

We wish his success in life

For Agrani Bank Ltd.

A handwritten signature in black ink, appearing to be a stylized name or set of initials, located at the bottom left of the page.

Principal Officer/Manager

Table of Contents

CHAPTER 1: INTRODUCTION ..

1-3

1.1 Introduction.....	2
1.2 Objectives of the Study.....	2
1.3 Methodology of the study.....	2
1.4 Limitations.....	3

CHAPTER- 2: OVERVIEW OF AGRANI BANK LTD 4-

13

2.1 Background.....	5
2.2 Objectives of Agrani Bank.....	5
2.3 Activities of Agrani bank.....	6
2.4 Organizational structure.....	9
2.5 Capital Structure of Agrani Bank Ltd.....	9
2.6 Management and Human Resource.....	
10	
2.7 Credit services of Agrani bank Ltd	
10	

CHAPTER 3: CREDIT RISK PRINCIPLES OF AGRANI BANK LTD..... 14-24

3.1 Credit Risk Management Principles.....
14

3.2 Credit guidelines (Eligibility Criteria).....
17

3.3 Guidelines for Lending and Investments.....
18

3.4. Basis for Approval of Loans and Investments.....
19

3.4.1 Leverage.....
20

3.4.2 Security and Protective Requirements
20

3.4.2 Pricing of Financial Assistance
22

3.4.3 Maturity.....
22

3.4.4 Authorization.....
22

3.4.5 Documentation.....
23

3.4.6 Disbursements.....
23

3.4.7 Account Monitoring and Recovery.....
23

CHAPTER 4: ORGANIZATIONAL STRUCTURE OF CREDIT MANAGEMENT.....
.....25-27

4.1 Principles.....	26
4.2 Functional Chart.....	26
4.2.1 Credit Processing.....	26
4.2.2 Credit Operations & Administration.....	27
4.2.3 NPL Recovery.....	27
4.3.4 Credit Risk Management.....	27

CHAPTER 5: OPERATING GUIDELINES FOR RISK CONTROL.....28-39

5.1 Portfolio Directives.....	29
5.2 Product Manuals.....	29
5.3 Credit Process.....	29
5.3.1 Due Diligence Procedures.....	29
5.3.2 Analysis of Small, Medium & Other Retail Loans.....	32
5.4 Approval Procedures.....	33
5.5 Documentation Procedures.....	33
5.6 Commitment and Disbursement Procedures.....	33
5.7 Account Management Procedures.....	34

5.7.1 Relationship Management.....	
34	
5.8 Monitoring of Credit Portfolio.....	
35	
5.9 Risk Grading.....	
35	
5.10 Recovery of Non-Performing Loans & Investments.....	
37	
5.11 Internal Audit & Compliance.....	
38	

CHAPTER 6: FINDINGS, RECOMMEDATION AND CONCLUTION.....40-

45	
6.1 Findings.....	
41	
6.2 Recommendations.....	
43	
6.3 Conclusion.....	
44	

REFERENCES.....	
45	

*DEDICATED TO
MY
BELOVED
PARENTS*

Chapter 1:

INTRODUCTION



1.1 Introduction

Agrani Bank Ltd is a state owned scheduled bank in Bangladesh. It has a vital contribution towards lending and investment in economy because Agrani Bank Ltd. has been participating at all sectors (from industrial sector to microfinance).

Here main purpose of preparing this report to make clear idea about credit risk management of Agrani Bank Ltd and gather enough knowledge to deal with these functions. We know that The Bangladesh Bank (BB) has placed few banks in the category of problem banks. Main reason of this is bankruptcy. Many time borrowers are not conscious about procedure of all activities of loan. A problem bank emerged from its past poor management of loan portfolio and operational inefficiency.

According to the BB requirement Agrani Bank Ltd has been coordinating their procedure for short term or long term financing. I have made this report on credit risk management of this bank. And this is why I named the topic as "Credit Risk Management of Agrani Bank Ltd: A Case Study"

1.2 Objectives of the Study

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

1. To have an exposure on the function of credit risk management of Agrani Bank Ltd.
2. To get significant knowledge about how the effective of loan and sanction procedure are conducted on the evaluation of credit risk management.

1.3 Methodology of the Study

i) Sources of data

The study is based on primary and secondary sources of data. Data have been collected from office records, discussions with employees and from different paper circulars and annual report of Agrani Bank Ltd. For the report preparation, concepts and techniques are gathered from bank manuals and relevant books.

ii) Data collection

Data were collected personally from Agrani bank Ltd, head office and Agrani bank training institute. The authority of Agrani Bank Ltd rechecked these collected data before entering them into data base system.

iii) Fieldwork

As part of the assignment, I visited Agrani Bank Ltd , Head Office and Agrani bank training institute. During data entry phase, 100% data were rechecked with fact sheets and hard copies.

iv) Data entry and processing

Selected actual data were collected, compiled and entered into the system for dummy/ trial running of the system. Corrective measures initiated from trial running were incorporated and redrafted the fact sheets accordingly. For this purpose we have utilized most convenient database platform to safeguard entered data and also to generate different report from the database.

1.4 Limitations

Agrani Bank Ltd is a public bank. So most of the time all staffs of Agrani Bank Ltd are busy. Despite their responsibility, they could not cooperate frequently for their business. On the other hand they are not bound and have no accountability to provide all support with my

demand. For this reason I faced time constraint. Confidentiality also has imposed a huge restriction. That's why I can not disclose any numerical information in this report which I have achieved about our clients.

Chapter 2

OVERVIEW OF AGRANI BANK LIMITED



2.1 Background

Agrani Bank Ltd is a nationalized commercial bank operating since 1972. It was formed under the presidential order no.26 issued on March 26, 1972 by taking over legacy of assets and liabilities and all branches (i.e. 249 working branches together with 37 closed ones) situated in Bangladesh territory of former Habib Bank Limited and Commerce Bank Limited operating in the East Pakistan. Agrani Bank starts its headway in 1972 with authorized capital of Tk. 5 crore and paid up capital of Tk. 1 crore. Agrani Bank, as a nationalized commercial bank, has emphasised a lot more on providing services than on extraction profits conventionally. Keeping this in view the bank's expansion of network and its activity have not been kept confined to urban areas only but also have been spread to pastoral vicinities. Its authorized capital now increased from Tk. 5.00 crore in 1972 to Tk. 800.00 crore in 2002, paid up capital increased from Tk. 1,00 crore to Tk 248.40 crore, total number of branches increased from 249 to 867, officer's increased from 796 to 6597 and staff increased from 1471 to 5534 during the period from 1972 to 2009. Under the vendor agreement, it has become a limited company in 15 November, 2007.

2.2 Objectives of Agrani Bank

Agrani Bank, as a nationalized commercial bank, has the objective of serving the nation. A few of the main objectives are:

To assist the government in development activities by providing finance.

To provide banking service by collecting deposit from people at all strata of life and investing it in productive sector.

To provide advance in agriculture and industrial sector on preferential basis along with finance in general business and trade as well as provide active assistance in development of the economy of

the country through foreign trade transaction, expansion, proper administration.

To expand banking service in rural areas and creation of banking habit among the people. Human resource development through training programmed, Increase loan portfolio diversification and widen the coverage of area of operation.

2.3 Activities of Agrani bank

1. General banking activities,
2. Credit activities.

2.3.1. General banking activities

General banking activities involve collection of different deposits through current account, savings account, fixed deposit account etc., and to issue and pay demand draft, pay order, telegraphic transfer, mail transfer and transfer of other fund it also includes cash operation, clearing house activities, collection and discounting of bills and checks, maintaining accounts with Bangladesh Bank and other concerned banks as well as other various activities.

a) Current Account

A current account is a running and active account. One can involve in transactions as many times as needed during banking hour. There is no restriction on deposits and withdrawals of the amount from a current account. This is a non-interest bearing account i.e. no interest is given on the deposit amount but bank imposes a nominal amount as bank charge on current account. .

b) Saving Account

People with fixed income usually prefer savings account. This account provides them an opportunity to save a portion of their current income and entitle to get interest that can be used to meet future contingencies. Any person can open a savings account in Agrani Bank

by depositing Tk. 100. This is an interest bearing account and Agrani Bank provides 4% interest, based on the' balance interest may be paid monthly or annual or other time intervals, which is higher than short-term deposits but lower than fixed deposits posits account. Bank imposes certain restrictions on the numbers and amount of with withdrawals from a savings account. An advance notice of seven days is needed (i) to withdraw money more than twice in a week or (ii) to withdraw money more than 25% of balance amount, otherwise the account holder will not be entitled to any interest of that particular month. Value Added Tax (VAT) is imposed @ 15% on interest earned amount. Guardian of minor can open a savings account on behalf of the minor.

c) Time Deposit

The deposits that are held by bank and financial institution for fixed period plus other deposits that can be withdrawn by notice only. From the above definition we get two types of time deposit:

- i) Deposit kept with bank or other financial institution for a fixed period (e.g. fixed deposits)
- ii) Other deposits that can be withdrawn by notice only (e.g. special time deposits).

Fixed Deposits: Deposit kept for a fixed period with a bank is called fixed deposit. It is kept in bank once in account. Generally big amount of money is kept in this account. Period of deposit varies from 3 months to 60 months. Advance can be taken against fixed deposit, One can withdraw the amount of fixed deposit before the maturity of period but the person will be entitled the previous ceiling interest. However, one has to deposit the amount for a period of minimum 3 months to become eligible for interest. The interest rates of fixed deposits are as follows:

d) Deposit ceiling Deposit ceiling

3 months and above but less than 6 months 7.50

6 months and above but less than 1 year 8.00

1 year & above 8.5

Special Notice Time Deposit: Generally different types of organizations, institutions like government; autonomous, semi-autonomous organizations maintain this type of account. A notice is to be served before 7 days of withdrawal. Notice amount will be excluded from interest consideration. Present interest rate is 3.5%.

Agrani Bank strives to provide customer services in better way. Agrani Bank has the following arrangement of remittance within and outside the country.

- i. Demand draft
- ii. Pay order
- iii Telegraphic transfer

e) Demand Draft (DD)

A demand draft is an unconditional order of the bankers on branch to another to pay to some person or order the amount maintained there in on demand.

f) Pay Order (P.O)

A pay order is a written order, issued by a branch of bank, to pay a certain sum of money to a specific person or a bank .It may be said as to be a banker's cheque as it is issued by a bank and. payable by itself.

g) Telegraphic Transfer (T.T)

A telegraphic Transfer is a method of remittance, which is effected by the banker through a coded telegram attested by secret check signal, on receipt if which, the paying office pay the amount to the payee by crediting his account.

2.3.2 Credit activities

Agrani Bank Ltd. provides a wide variety of loans and advances to different sectors. Agrani Bank extends credit in agriculture, trade and commerce, industry and other sectors. Bank has identified the following industrial sectors as priority sector and has decided to provide loans and advances at a concession interest rate that is going on:

- i) Agro-based industry like processing and preservation of local fruits
- ii) Computer software and information technology.
- iii) Electronics.
- iv) Artificial flower production.
- v) Frozen food.
- vi) Non traditional exportable agriculture products.
- vii) Presentation items.
- viii) Exportable leather products.
- ix) Exportable jute goods.
- x) Jewellery and diamond cutting and polishing.
- xi) Cultivation of silkworm and silk industry.
- xii) Stuffed toys
- xiii) Textile industry (except RMG).
- xiv) Oil and gas.

2.4 Organizational structure

Agrani Bank Ltd has a board of directors consist of seven members as authority of bank's internal policy making. The government appoints chairman and director of the board. Managing Director is the chief executive of the bank. Board of directors implement administrative, business and financial power and internal policy of bank under the power or authority vested upon board by the government. Organizational structure of the bank is divided into six layers such as:

- (i) Head office
- (ii) Circle
- (iii) Zone
- (iv) Corporate branch
- (v) Branch
- (vi) Head office:

2.5 Capital Structure of Agrani Bank Ltd

Agrani Bank Ltd. is a hundred percent government owned nationalized commercial bank. Agrani Bank had, authorized capital of Tk. 5 crore and paid up capital of tk. 1 crore in 1972, shouldered an uphill task fairly responsibility to materialize government policy stance in matters of recasting country's economic infrastructure, speeding up economic growth and uplifting the financial condition of the nation's people from , all walks of life. Its authorized capital now increased to Tk. 800.00 crore and paid up capital increased to Tk. 248.40crore in 2002.

Year 1972	Year 2002	(in crore)
Authorized capital	5.00	800.00
Paid up capita	1.00	248.40

2.6 Management and Human Resource

Agrani Bank Ltd is a nationalized commercial bank. The Board of Directors play the main role to make policies and guidelines for the

bank. The Board of Directors of the bank consists of 7 directors. The following diagram shows the structure of the Board of Directors of the bank:

The total number of officer is 6597 and staff is 5534 in 2009. Agrani Bank Ltd has a pool of diversified and skilled workforce.

2.7 Credit services of Agrani bank Ltd

Agrani Bank Ltd, as a nationalized commercial bank, has emphasis a lot more on providing services than on earning profits. Most important activities of a bank are deposit collection and disbursement of collected deposit as advance and credit. It has to meet its operational expenses, to pay for the deposits and as well as to earn profit. Nationalized commercial banks are not able run their business profitably though the private commercial banks are doing well. If the nationalized bank faces loss for subsequent years, it is not possible for the government to carry on the bank. Further there is a pressure on the government to hand over the nationalized banks to private sector by the donor agencies like World Bank.. In the view of this to sustain their existence nationalized banks need to perform in better ways. So bank must allow its credit more cautious so that there is minimum number of loan defaulter at the same time bank earns a handsome amount of interest to meet up its expenses. Interest earned on credit is the major source of bank's earnings. But banker should not invest its entire money; it has to keep the required money to meet its operational expenses and withdrawal of the depositors. With regard to deposit and credit of the scheduled bank, it has to abide by some rules and regulation as prescribed by the Bangladesh Bank.

2.7.1. Types of Credit

The different types of advances and loans and of Agrani Bank Ltd :

Term Loan

This category of advances put up the medium and long term financing for capital machinery and equipment of industries and to small and cottage manufacturing industries. This type of credit is generally allowed for more than one year.

Overdraft

Overdraft is a common credit facility by which the banker allows its customer to overdraft his current account up to his credit limits sanctioned by the bank. The interest is charged on the amount, which he withdraws, not on the sanctioned amount.

Cash Credit

Cash Credit is preferred for meeting working capital requirements by traders, and businessmen. Cash credit accounts are opened under prior arrangement with the bank for allowing credit facilities. In case of such advances the borrowers give pledge or hypothecation of the securities and take whole delivery or partly according to his business requirement.

Cash credit (hypothecation): This type of cash credit is made to the individual firm, retailer, wholesaler and the industry. Generally this type of credit is given to the firm to meet the working capital Requirement of the firm against the hypothecation of the goods they traded as the primary security.

Cash credit (pledge). These types of credit are allowed to individual firm, retailer, wholesaler, and also to the industry to meet their

working capital requirement against the pledged of the goods as the primary security.

Working Capital

Loans allowed to the manufacturing units to meet their working capital requirements irrespective of their size, big, medium or small, fall under the category. These usually take the character of continuing credit. Import Credit:

Loan Against Imported Merchandise (LIM): Bank provides loan against imported merchandise to the importer in case of failure of the importer to pay. The importer will bear all the expenses inherent to the goods imported. Bank keeps hold of the ownership of the goods.

Loan Against Trust Receipts (LTR): Advances against a trust receipt are allowed when the documents covering an import shipment are given without prior payment. This type of facility is generally given to the reliable clients. Goods are handed over to the importer with the arrangement that sale proceeds will be deposited to liquidate their advances within a given period.

Local Documents Bills Purchased (LDBP): Payment made against documents representing sell of goods to local export oriented industries, which are seemed as exports, and which are denominated in local currency or foreign currency falls under this head. The bill of exchange is held as the primary security. The client submit the bill and the bank discount it. This temporary liability is adjustable from the proceeds of the bills.

Export Credit

Export credit is a type of financing to a variety of parties of the bank that is required to facilitate export. Export financing is mainly of two types:

- i) Pre shipment financing
- ii) Post shipment financing

Pre- shipment credit facilities are essentially a short form credit, which is to be liquidated by purchasing of export bill covering the particular shipment. Generally the pre shipment credit takes the following forms:

- a) Packing credit
- b) Back to back credit

Packing credit: Packing credit is generally a short-term advance granted by the bank to an exporter for supporting him to buy, process, pack and ship the goods. This credit facility is allowed by way of cash credit with or without any security.

Back to back credit: It is a secondary credit opened by the advising bank in favor of a domestic supplier on behalf of the beneficiary of the original foreign L/C. Generally the post shipment credit takes the following forms:

1. Negotiation of documents.
2. Purchase of foreign bill.

Chapter 3

CREDIT RISK MANAGEMENT PRINCIPLES OF AGRANI BANK LTD



3.1 Credit Risk Management Principles

While developing ABL's Credit Risk Management Policy following principles have been taken into consideration.

Principle 1

The board has responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy reflects the bank's risk appetite and the level of profitability the bank expects to achieve for incurring various credit risks.

Principle 2

Senior management has responsibility for implementing the credit risk strategy approved by the board and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. 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

Bank has to identify and manage credit risk inherent in all products and activities. Bank will 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 (BOD) or its appropriate committee.

Principle 4

Bank will operate under sound, well defined credit granting criteria. These criteria will include a thorough understanding of the borrower or counter party, as well as the purpose and structure of the credit, and its source of repayment.

Principle 5

Bank will establish overall credit limits at the level of individual borrowers, and group of connected counter parties that aggregate

different types of exposures, both in the banking and trading book and on and off balance sheet.

Principle 6

Bank has a clearly established process in place for approving new credits as well as the extension of existing credits.

Principle 7

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

Principle 8

Bank has in place a system for the ongoing administration of their various credit risk bearing portfolios.

Principle 9

Bank has in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.

Principle 10

Bank will develop and utilize internal risk rating systems in managing credit risk. The rating system will be in line with the regulatory instructions and consistent with the nature, size and complexity of the bank's activities.

Principle 11

Bank has information systems and analytical techniques that enable management to measure the credit risk inherent in all on balance sheet and off balance sheet activities. The management information system provides adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

Principle 12

Bank has in place a system for monitoring the overall composition and quality of the credit portfolio.

Principle 13

Bank will take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and will assess their credit risk exposures under stressful conditions.

Principle 14

Bank has established a system of independent, ongoing credit review and the results of such reviews should be communicated directly to the board and senior management.

Principle 15

Bank will ensure that the credit granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. Bank will establish and enforce internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management.

Principle 16

Bank has a system in place for managing problem credits and various other workout situations.

3.2 Credit guidelines(Eligibility Criteria)

The Bank's criteria for loan and investment eligibility, which are strictly maintained, are the following:

3.2.1 If the borrower is an individual, a proprietary entity or otherwise a natural person, he/she/it must be:

A citizen of Bangladesh

Of legal age

Of sound mind

3.2.2 If the borrower is a corporation, a limited company, or similar entity, it must be:
Organized, formed or incorporated under the laws of Bangladesh

In the case of foreign companies, authorized to borrow from local banks under the guidelines of Bangladesh Bank; and Authorized to do so by a resolution from its Board of Directors

3.2.3 The individual or corporate entity must be engaged (or prospectively propose to engage) in a productive enterprise in the manufacturing, agro-based, extractive, export or service sectors.

3.2.4 The Bank neither grants loans for re-financing purposes nor facilities for the following types of entities or purposes:

Bankrupt companies

Companies listed as defaulters per CIB or known chronic defaulters

Military equipment/weapons finance (except for government)

Highly-leveraged transactions

Speculative investments

Logging, mineral extraction/mining or other activity that is ethically or environmentally sensitive

Share lending

Equity stake in borrowers (except in the case of problem loan workouts, and only by converting the non-principal portion of outstanding exposures), and

Bridging loans relying on equity/debt issuance as a source of repayment

3.3 Guidelines for Lending and Investments

The Bank may not be exposed to any single borrower or a group of related borrowers beyond the following prudential limitations, as follows:

3.3.1 Lending and investment limits (Memorandum of Undertaking)

The Bank is currently restricted in its lending activities under a Memorandum of Undertaking with the Bangladesh Bank. This limits annual growth of its Loans and Advances portfolio to five per cent, and also establishes a maximum funded and non-funded exposure limit to a single client or group to five percent of the Bank's paid-up capital (BDT248 crore). Exceptions to the maximum exposure limit are:

- Loans to licensed non-bank financial institutions (NBFIs):
- Loans to government organizations against which government guarantees exist;
- Loans extended under agricultural credit targets fixed by government;
- Loans for government's food procurement program;
- Loans against encashment of Sanchay Patra
- Loans against payment of army pension

3.3.2 Lending and investment limits (BRPD Circular No.5 dated April, 9 and amended on April 26 and November 16, 2005) In accordance with above circular

a) The Bank shall not by any method provide term- or working capital-financing to any single person, enterprise or group exceeding more than thirty-five percent (35%) of its capital as defined under capital adequacy standards, where the funded portion shall not exceed fifteen percent (15%) of said capital.

However, credit exposures to export-oriented entities will be allowed up to fifty percent (50%) of capital, where the funded portion shall not also exceed fifteen percent (15%) of said capital.

b) Notwithstanding the foregoing, the maximum amount of financial assistance to a single entity shall also be further governed by the quality of the Bank's loan portfolio, where:

3.4. Basis for Approval of Loans and Investments

a) Viability

Financial assistance is granted only to those entities whose operations have been evaluated as technically, commercially and financially viable. For this purpose, the Bank requires the use of screening processes with strict pass-fail criteria, as well as a scoring system to determine relative risks for the purpose of pricing and subsequent guidance in the management of loan accounts.

b) Creditworthiness

In addition, applications for financial assistance are granted only when the entities and their principal proponents/management teams are deemed credit-worthy (demonstrated by past repayment performance with the Bank or other financial institutions, capability to absorb debt repayments from sources external to the main business being applied for, and general credit consciousness and responsibility).

c) Sufficiency

No funded or non-funded credit exposures may be granted unless it is sufficient, together with the owners' equity, to fully finance the proposed project or business requirements.

3.4.1 Leverage

The debt-to-equity ratio for organized business entities assisted by the Bank are not exceed 60-40 (or 1.5:1) computed after the assistance.

3.4.2 Security and Protective Requirements

a) In general, all forms of funded financial assistance are extended on a fully-secured basis, where coverage of the Bank's exposure by acceptable tangible assets are not at any time be less than 1.5 times the principal exposure. Exceptions to this policy may be granted only: i) in cases where loan products are designed to be unsecured or ii) by the Board of Directors upon the recommendation of the Crecom.

b) As a matter of principle, the Bank do not participate in credit transactions where it have an inferior security position compared to any other pre-existing or proposed new lenders.

c) In the case of private limited companies, all the directors must execute a joint and several deed of guarantee towards the performance of the terms and conditions of loan and other credit facilities.

d) The Bank requires that its security is fully protected against risk whenever applicable (e.g., fire, riot, strike) by a duly-accredited insurance firm, Furthermore, such risk coverage are always in force until all the obligations are fully discharged.

e) Regular inspections (i.e., monthly, quarterly, half-yearly, and yearly) are to be conducted as to the general state of the securities)

Types of Acceptable Security:

- Well-identified land and landed property located in city corporations, municipalities, pourasava, district and upazila centers, commercial developments, industrial areas and other developed areas, subject to the consent requirements applicable to the type of property.

Verification

All landed property offered as security conduct an official search by and a clean report obtained from the Assistant Commissioner of Lands (ACL), Sub-Registry Office. The purpose of this verification process is to ascertain the Existence or otherwise of encumbrances and/or breaks in the chain of title.

f) Consent Requirements

All liens on offered security are premised on the written consent of the owners or primary lessors of private property as well as the concerned government ministries in the case of public property.

- Buildings (Industrial, Commercial, and developed Residential)
- Machinery and Equipments, provided that the economic life thereof shall be equal to or more than the life of the Bank's facility.
- Vehicles (Industrial, Commercial, and Private), provided that the economic life thereof shall be equal to or more than the life of the facility.

g) Valuation of Security

All types of real or tangible assets offered for security are valued by the Bank at their forced sale value (FSV) for loan purposes. Internal valuations are conducted for all loans. In connection with loan amounts between BDT1 million and less than BDT5 million, appraisals must be verified and counter-signed by the Head of Credit Processing at the Zone level. For loans above BDT5 million, the services of a

Bank-approved chartered surveyor or consultant (e.g., Asian Survey, GK Adjusters, etc.) are obtained by the Bank at the expense of the borrower. The Bank use the lower of the internal or external valuations.

3.4.3 Pricing of Financial Assistance

Funding for project loans may be sourced from either internally-generated funds or from external institutions (both local and foreign). As a general rule, the Bank's lending charges are adequate to cover the cost of funds from these sources, as well as to provide a marginal spread which shall take care of the Bank's administrative / overhead expenses and its profit (net of credit risk premium).

3.4.4 Maturity

The usual tenor for working capital loans are not more than one (1) year, except in the case of permanent working capital where a maximum of three (3) years are allowed. Repayments for medium- and long-term loans shall (depending on the cash flow capability of the project) be made over a period of between three (3) to ten (10) years inclusive of the grace period, provided that the final maturity date is exceed the maximum period provided for under the terms of external lines of credit when these are used.

3.4.5 Authorization

No officer or staff, or operating or non-operating unit of the Bank approve or otherwise commit the Bank to any credit, guarantee, or investment without prior written authorization of the Credit Guidelines. Furthermore, no officer or staff may make or enter into any unauthorized arrangements that would result in the rescheduling, restructuring of existing loan schedules or the postponement of the

recovery of the Bank's loans or investments without similar authorization. Any breach of this policy is treated as a fraudulent and criminal act, and deal with accordingly.

3.4.6 Documentation

All forms of credit, investments or variations thereof, and the security to cover these, require proper documentation in accordance with approved legal forms and formats. Communications with customers concerning their approved facilities should incorporate all standard as well as special conditions that may be imposed from time to time and, in line with best practice, the customers should signify their written conformity thereto. No modifications or deletions of approved terms and conditions will be allowed without specific authorization from the Board of Directors or the appropriate committee.

For monitoring and verification purposes, loan files for each borrower should incorporate a duly-accomplished checklist of credit documents. This checklist is always available for inspection by management and auditors. The Bank maintain a system by which it alerted to the need to renew charges and mortgages which expire during the life of the loans.

3.4.7 Disbursements

It is the strict policy of the Bank to ensure that all documentation and formalities, and in particular those related to large loans and loans to Directors/Officers/ Shareholders / Related Interests are executed in compliance with Bangladesh Bank guidelines and the Bank Company Act PRIOR to disbursements and any other acts of exposing the Bank to financial and other related obligations. Moreover, all financial

transactions should without exception be properly recorded for accounting and monitoring purposes.

3.4.8 Account Monitoring and Recovery

Front offices bear the primary responsibility for monitoring and recovering the Bank's credit exposures, in accordance with the Operating Rules and Procedures. Monitoring and follow-up activities should be intensified when the perceived credit risk of borrowers deteriorate, based on the latest quarterly risk grade/classification.

The Credit Operations and Administration Unit at Head Office, on the other hand, monitor the performance of the various credit portfolios by analyzing the data base on a current basis. Individual exposures in the Bank's portfolio are classified in accordance with Bangladesh Bank guidelines.

The Credit Risk Management unit develop risk grading guidelines and procedures in line with good practice. Together with the Internal Control unit of the Bank, this unit also validate whether or not these guidelines and procedures are working effectively and reflect the actual positions indicated by the ratings.

Chapter 4:
ORGANIZATIONAL
STRUCTURE
of
CREDIT MANAGEMENT



4.1 Principles

The principles are as follows-

4.1.1 The Board is primarily responsible for guiding the Bank's credit strategy, approving policy., and for setting limits for risk exposures related to operations and the attainment of business objectives.

4.1.2 The Credit Committee (Crecom), chaired by the MD-CEO, is responsible for the day-to-day review and oversight of the Bank's policies and procedures, and may have the additional responsibility to approve loans and investments in accordance with delegated authority from the Board.

4.1.3 The Bank's functions and responsibilities are organized on the basis of appropriate segregation in order to assure objectivity in managing credit. Accordingly, responsibilities will be divided as follows:

- Front office: marketing and account management
- Middle office: loan processing and risk management;
- Back office: loan documentation; accounting and classification; credit data base and information management (specifically centered around portfolio and recovery performance)

4.1.4 The Bank will emphasize the recovery of non-performing accounts by establishing a Non-Performing Loan unit that will report directly to the Managing Director-CEO through the Credit Committee (Crecom).

4.2 Functional Chart

The credit structure of the Bank is shown below, in accordance with the modified organization presented to and accepted by the Board in principle in March 2006.

4.2.1 Credit Processing

The principal tasks of this middle office are to determine the creditworthiness based on credit scoring criteria, exposure limits, optimal financial package, risk-based pricing and terms & conditions of all forms of financial assistance. This extends to the grant of counterparty limits for treasury customers as well. Its structure and reporting lines are shown below:

4.2.2 Credit Operations and Administration

The principal tasks of this back office are to provide efficient, common credit-based services, namely: security appraisal, credit checking, documentation & safekeeping, disbursements, loan accounting, and data base management. Its structure and servicing lines are shown below:

4.2.3 NPL Recovery

This is a specialized unit whose principal task is to maximize recovery and/or minimize losses on non-performing assets through extra-judicial workouts, or through litigation and the subsequent sale/lease/operations of physical assets. The structure and reporting lines are diagrammed below:

4.2.4 Credit Risk Management

This is a specialized middle office unit whose principal tasks are to evaluate the magnitude, direction and distribution of risks in credit operations and portfolios, and to recommend to the MD-CEO (through the Credit Committee) the appropriate structures, processes and procedures to control these.

Chapter 5:

OPERATING GUIDELINES FOR RISK CONTROL



5.1 Portfolio Directives

The thrust of the Bank is to diversify its portfolio of loans and investments to avoid undue concentration. Annual plans are geared to select those healthy borrowing segments of the economy that are projected to contribute to the Bank's business growth and profit objectives. The Bank maintain an array of appropriate lending and investment products to meet the needs of these borrowing segments.

5.2 Product Manuals

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
- Consumer Loans
- Vehicle Loans
- Staff Loans

5.3 Credit Process

5.3.1 Due Diligence Procedures

a) Large Loan/Investment Analysis

Applications for facilities in the amount of BDT1 crore and above (or representing 10% of the Bank's capital, whichever is lower) are processed in a limited number of branches in addition to the Head Office, as follows:

Head Office – 1

Corporate Branches (including Principal Branch) – 10

AD Branches – 30

52 Zonal & 7 Circle Offices – 59

Total -100

b) Large Exposure Assessment Framework

these applications require assessments in line with the revised Credit Risk Grading System (CRGS) framework. This is a comprehensive analytical process that examines the following areas for potential risks:

- Borrower -ownership, ownership structure, past financial performance, management capability and depth, credit history & deposit account performance.
- Industry-vitality and prospects (sales volume trends in relation to demand levels), level of competition, buyer-supplier leverages and threats, cost and pricing structure, entry barriers and threats of new entries/substitution
- Financial Package-type and purpose of assistance required, tenor, terms and conditions
- Security-quality and quantity

Furthermore, potential risk exposures and any migrating factors must be disclosed in the analysis. These risks are invariably fall into the following categories:

- Borrower:

Any issues regarding lack of management depth, complicated ownership structure or inter-group transactions are addressed and risk should be mitigate

- Industry:

The key risk factors/of the borrower's industry are assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces are addressed and strengths and weaknesses of the borrower relative to its competition is identified.

- Supplier/Buyer Leverages:

Any customer or supplier concentration are addressed, as these could have a significant impact on the future viability of the borrower.

- Historical Financial Analysis:

An analysis of a minimum of 3 years historical financial statement of the borrower are presented. Cash flow, profitability and leverage trends are analyzed.

- Projected Financial Performances:

A projection of the borrower's future financial performance are provided, indicating the sufficiency or lack thereof of cash flow to service debt repayment, Loans are not granted if projected cash flow is insufficient to repay debts.

- Account Conduct:

For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc.) are assessed.

- Loan structure

The amount and tenors of financing proposed are justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.

- Security:

A current valuation of collateral is obtained and the quality and priority of security being proposed are assessed. Loans are not be granted based solely on security,

Mitigating Factors:

Risk factors (margin, sustainability, leverage /gearing, over-stocking, rapid growth/acquisition/expansion, management changes or succession issues, customer or supplier concentration, lack of transparency or industry issues) are identified in the credit assessment.

Credit Scoring

Credit scoring of large loan applications (i.e., over BDT50 lac) is based primarily on the credit risk grading guidelines of Bangladesh Bank .This is a system with weighted scores assigned to five risk dimensions, namely:

Financial – 50%

Business and industry -18%

Management -12%

Security -10%

Relationship -10%

The resulting aggregate score are determine whether or not a particular application are approved. For this purpose, the cut-off score of 75 has been set as the minimum acceptable score, i.e., no applications may be considered if the aggregate score for a particular application is below 75.

d) Risk-based Pricing

In addition, the resulting aggregate score also determine the risk premium for a borrower, as an input into the pricing of the credit facility being applied for. The schedule of risk premiums is shown below:

Score Risk Grade Risk Premium (%)

Secured by cash or government guarantee Superior 0 to1

85 & above Good 1 to 2.5
75-84 Acceptable 2.5 to 4.0
Below 75 Unacceptable (n. a.)

5.3.2 Analysis of Small, Medium and Other Retail Loans

Exposures that do not fall into the “large” category, provide sufficient information for sound decision-making. These loans usually fall into two broad categories:

- Formally organized businesses (e.g., corporations, limited liability companies, cooperative and partnerships) – this group undergo the normal business background checks, and evaluation should focus primarily on: management capability, market prospects, and cash flow.
- Informal businesses (proprietorships) and individuals – this group will undergo the simplest evaluation routine, with the use of specially designed scorecards. Scorecard variations are developed over time, to conform to product-market segmentation.

5.4 Approval Procedures

All facilities strictly require the approval of designated authorities at least one level higher than the originating branch stations, zones, and corporate branches. Exceptions to this requirement involve loans to micro-enterprises or for rural and crop programs.

5.5 Documentation Procedures

The Bank maintain a standard set of approved documentation forms and formats for all its facilities. While the branches continue to initiate documentation, these are checked one level higher than the

originating branch stations, zones, and corporate branches, as in the approval procedures above.

Custody and Safekeeping of Documents

Custodial responsibility for original transaction documents are the responsibility of the back office administration office. These are retained in a secure manner preferably stored within fire- and burglar-proof premises(e.g. vaults).

Document Checklist

The approved document checklist must be maintained for every credit facility, which contains:

- a) Details of all general and specific requirements
- b) The dates on which these were submitted and complied with
- c) The location of these documents.

5.6 Commitment and Disbursement Procedures

Releases of funds, and the issuance of instruments (e.g. LCs, Letters of Guarantee) that bind the Bank to potential financial and legal obligations, are the final and most critical control stage of the credit and investment process. Accordingly, these may not be undertaken unless and until the following are accomplished;

- Documentation clearances have been issued;
- Treasury has been advised of impending disbursements ahead of time (24-hour notice in the case of BDT 1 up to less than BDT10 crore, and 5 working days in the case of amounts of BDT 10 crore and above);
- Transaction sheets are accomplished, showing sufficient detail (date, amount, promissory note number when used, applicable

interest rate or fee, and payment period/dates for interest and principal/fee) – refer to facsimile in the next page.

5.7 Account Management Procedures

This stage in the credit process has the longest duration, and key components of the Bank's credit risk infrastructure have responsibilities to ensure that risk assets are properly monitored and handled.

5.7.1 Relationship Management

Front offices (i.e., the branch stations and corporate branches) are over-all responsible for account relationships and customer interface. They have the obligation to monitor the accounts' business and performance of credit obligations through client calls (evidenced by call reports) and obtaining periodic financial reports. They have the primary task to recover the Bank's exposures, and to have a proper accounting of all credit-related transactions aside from the normal banking routines related to their deposit business.

a) Pro-active monitoring of accounts is underscored with the introduction of an early alert process under which identification and prompt reporting of deteriorating credit must be reported to the immediately higher level of supervising authorities.

b) Loan Recovery

Loan recovery efforts are undertaken using a tickler system (until a computerized information system is in place) that alert the front office stations in advance of amounts falling due for collection.

c) Reports

Periodic submission of internal and external reports are made on time and with accuracy of information. For this purpose, all reports are

signed off by the Heads of branches, zones, and credit divisions as needed.

5.8 Monitoring of Credit Portfolio

The Credit Administration Division oversee the credit and investment activities of the Bank with a broader portfolio-based outlook (regional dispersal, industry and customer-type segmentation, product performance, portfolio classification, etc.).

- i. The Loan Administration unit of the division will establish and maintain a comprehensive data base on all credit exposures, and monitor consolidated movements as these are reported through copies of transaction sheets and summaries. It conduct portfolio analyses for the purpose of evaluating portfolio performance and detecting any deterioration in the risk exposures. Summary reports and recommendations are submitted to the Credit Committee for appropriate action or policy decisions.
- ii. The credit review unit of the division is responsible for reviewing the credit process to ensure that approved policies and procedures are being effectively being implemented throughout the Bank.

5.9 Risk Grading

The Bank rates it's individual risk exposures continuously until these have been discharged through full payment or otherwise written off. However, actual account performance are an additional consideration in classifying the exposures into one of the following eight categories:

a) Superior – Low Risk (AAA):

Industry/Business & Financials: Strong industry and business performance is indicated on the basis of volume trends and operating margins; the account may be a dominant player in the industry.

b) Account Performance:

Account is cooperative, pays on time, and provides non-loan business.

c) Security:

Facilities are fully secured by cash deposits, government bonds or an unconditional guarantee from a top-tier international bank or financial institution.

d) Good-Satisfactory Risk (AA):

Industry/Business & Financials: The account's performance is strong, having consistently strong earnings within a vibrant industry, good liquidity and low leverage.

Account Performance: Account is cooperative, pays on time and provides non-loan business.

Security: Security is sub-prime but solid real estate. Aggregate score would be 95 or above.

e) Acceptable – Fair risk (A):

Industry/Business & Financials: Financial condition is currently strong but may be unable to sustain any major or continued setbacks. This classification indicates strengths below that of the previous category, but shows consistent earnings and positive cash flow.

Account Performance: Account is paying, but may be delayed by less than one month from time to time.

Security: Security position is satisfactory. Aggregate score would be 75-94.

f) Marginal -Watch list (BBB):

Industry/Business & Financials: These borrowers have an above-average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Account Performance:

Account is paying, but may be delayed by less than one month from time to time.

Security: Security position could be less than satisfactory if default occurs longer than 3 months. An aggregate score would be 65-74.

g) Special mention (BB):

Industry/Business & Financials: These borrowers deserve management's close attention because of consecutive losses over two years with the potential to have negative net worth, excessive leverage.

h) Account Performance:

Account is paying, but may be delayed by less than three months from time to time.

i) Security:

Security position could be less than satisfactory if default occurs longer than 3 months. An aggregate score would be 55-64

j) Substandard (B):

Financial condition is weak, and capacity or inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans. An aggregate score would be 45-54.

k) Doubtful and Bad (Non-performing):

Full repayment of principal and interest is unlikely, and the possibility of loss is extremely high. The adequacy of provisions must be reviewed at least quarterly and the Bank should pursue a loan workout arrangement (e.g. restructuring), failing which legal options

should be explored to enforce security to obtain repayment. An aggregate score would be 36-44.

I) Loss (Non – Performing):

The prospect of recovery is poor after exploring all options. Legal procedures have been initiated. In accordance with Bangladesh Bank guidelines, these accounts should be written off. An aggregate score would be 35 or less.

The deterioration of any loan account is regarded as a serious development that requires the attention of the Credit Committee. For this purpose, any account which is downgraded to “Substandard” should be the subject of a Classified Loan Report.

5.10 Recovery of Non-Performing Loans and Investments

The NPL Recovery Unit are responsible for all accounts assigned to it by the Credit Committee. The unit are staffed by seasoned senior officers who undertake the following activities:

- i. Review the accounts thoroughly and diagnose business prospects; and b) determine the best way to recover the Bank’s exposure with the least possible losses.
- ii. Restructure those accounts which are deemed to be cooperative and in temporary distress, and monitor their performance closely until they have substantially complied with the revised terms including payment of at least six months’ installments; rehabilitated accounts may be returned to the originating front offices for regular monitoring and supervision after this prescriptive period.
- iii. Preparation of accounts with security, whose operations are active but the owners are uncooperative, for legal action; coordinate with the Bank’s legal counsel and/or external lawyers in the filing and prosecution stage; execute final judgment as may be determined by the courts. For these types

of accounts, the NPL Unit may recommend further accounting treatments (such as additional loan loss provisions) depending on the perceptions concerning the Bank's security position. Blacklist the borrowers to ensure they are not entertained for future accommodations in the future.

- iv. Prepare accounts without any security, whose operations are either active or inactive and the owners are uncooperative, for attachment of personal assets through legal means; as above, coordinate with the legal agents of the Bank until the cases are resolved. Recommend write-off for accounts with no hope of recovery, and blacklist the borrowers to ensure they are never entertained in the future. The Board have the sole authority to approve write-offs.

5.11 Internal Audit and Compliance

All front office lending outlets are audited regularly (at least bi-annually) as an independent check of their activities. However, more frequent inspections and audits are conducted if situation is demand. Particular attentions are paid to the corporate and Authorized Dealer (AD) branches which are expected to originate and maintain the bulk of the credit and investment portfolios.

Compliance Requirements:

- i. Bangladesh Bank Circulars and other regulations are maintained and updated regularly.
- ii. Guidelines with regard to CIB reporting, provisioning and write-off of bad and doubtful debts, and suspension of interest accrual are strictly enforced. These require the approval of the Board, as recommended by the MD-CEO.

iii. The performance of all external service providers (e.g. property appraisers, lawyers, insurers, CPAs, etc.) are reviewed on a periodic basis

Chapter 6:

Findings, Recommendations and Conclusion



6.1 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. As per my concern, I observed there are some limitations in credit operation department and some of them relate to Agrani Bank's own institutional strength and weakness and some of them relate to the borrowers.

The findings are as follows:

- In most of the cases, if a client comes to take loan, the questionnaire form filling becomes hard for him and takes a lot of time. The bank's standard questionnaire form is of 16 pages. So this form should be modified and easy for the person filling it.
- Duration of time for preparing appraisal report after submitting and managing all the documents and papers, the loan operation department takes almost three months and in some cases, it cross three months and takes 5 or 6 months. The problem is that within this time period, project that was viable for that time becomes obsolete getting loan and starting business.
- Lack of proper updated technology. This is the age of information technology (IT) all the activities are computerized. As far as I know only cash section is computerized.
- To judge a project accurately, technicians experienced in the particular field should be there. There are some engineers to judge technical viability but is not sufficient for varieties of proposed project.

- Political violence, it is a crucial limiting factor. Since the Agrani bank is 100% government body owned, the government body or the political pressure some time make the department to grant the loan to the project which is not viable and feasible. This creates a lot of problems to recover the loan and the loan deemed to be bad.
- Recruitment, young persons can work with young power, skill and inspiration. New generation is being developing themselves with latest technology, education and world of challenge. So new recruitment should be a part of continuous development.
- Training, all the employees should be upgraded with latest technological development with the changing edge.
- Lack of business experience of the entrepreneurs.
- Dependence on imported technology and non-availability of adequate information about that from local source.
- Lack of adequate, updated and accurate information in the country. Both primary and secondary data are not readily available.
- Inadequate attention to social cost and benefits.
- Unstable tariff and fiscal policy, political instability of the country, resulting in poor project appraisal especially from the economic viewpoint.
- Sometimes inefficient allocations of resources have created a huge amount of bad debt.
- Political interruption in sanctioning loan.
- Lack of co-ordination among the various departments.
- Lack of motivation and team speed.

- Political trade union.
- No use of latest technology and permanent IT specialist.

6.2 Recommendations

Agrani Bank Ltd is one of the first leading banks in Bangladesh. Its major operations are profit, growth, development and welfare oriented. Management system of this bank is fully democratic. It always maintains the rules declared by Bangladesh Bank. Agrani Bank training institute provides training facilities to its medium and junior level officers of the bank and also provides executive development & internship programs. This is my observation that the lecture of credit risk management and negative barriers of sanctioning finance should be discussed widely than before. Because the management of Agrani Bank Ltd has been facing the high involvement of lending risk & procurement of project finance with Bank's growth, profit & future.

- The management functions (from planning to control) are not clearly present in their various activities. Only the cash section of the branch is computerized. But for reducing bankruptcy Agrani Bank Ltd should develop immediately Credit and Project Finance Information System through computer.
- Agrani Bank Ltd should introduce the networking system by which all branches of the bank can be connected easily as a largest commercial bank in Bangladesh. By using computerized networking system Agrani bank could disbursement of services on ATM, Debit card, Master card, Q-Cash facilities.
- Officers who are working on Credit risk management & Project finance procedure, they should give attention on timing of sanctioning finance because demand of any kind of product is being flexible. So if other thing is remaining constant, sanctioning procedure should not be delayed.
- Policy should be distinctive and dynamic which has more acceptability to the borrowers. Policy should be made at the

consideration of regional, financial, continental, demographical, economical, psycho graphical.

- At last Agrani Bank Ltd should develop the proper environment so that borrowers can bargain or negotiate about loan and finance. Because Agrani Bank Ltd must have think about borrowers needs, wants and demands and beside his profitability.
- Political power should not be considered to maintain credit management module and project finance procedure. In our Bangladesh most of the cases procedure is too weak for financing so, ultimate result is being bankrupted.
- Decision maker of credit risk management of Agrani Bank should work for the profitability of bank as well as they should have some unique power than before to sanction for sound return on investment.

6.3 Conclusion

Banking sector is very crucial for any economy. To have understanding of this sector is very vital for any business graduate. I am really glad to be oriented to this sector through the nation's one of the largest commercial bank "Agrani Bank Ltd". This bank performs hundreds of important activities both for the public and for the govt. as a whole. It is doing a outstanding job to develop business sector. It has strong performance on General Banking, Loans and Advances, Industrial credit and foreign exchange. Agrani Bank continues to play its lending role in socio-economic development of the country as a companion of independent Bangladesh. Since the inception of Agrani Bank, it has been rendering its' banking services to meet the needs of the state and the nation and to cope up with the demands of mass people of the country giving priority to service.

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