2009-12-24

A WORKING REPORT ON SME BANKING AND CREDIT RISK GRADING SYSTEM OF AB BANK LIMITED

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Chapter One

1.0.0. Origin and Background of the Report:

This report is being assigned as a part of the Degree BBA 499A, (Internship). To prepare this report under the state of University's requirement, I accommodate my internship program in AB Bank Ltd. For the completion of the course, as an essential part I had prepared Report. This report is being formed on the "A Study on SME Banking & Credit Risk Grading system of AB Bank Limited, Pagla Branch". From the very beginning of my internship I have worked on General banking. After few weeks later I was shift on Credit department. And I worked on SME Banking .For that reason I made my Report on SME Banking & Credit Risk Grading system of AB Bank Limited, Pagla Branch.

1.1.0. Objective of the Study:

The objective of my study can be divided into two segments. These are given below:

1.1.1 Primary Objective:

The primary objective of this report is to meet the requirements of the course, BBA 499A, Internship.

1.1.2 Secondary Objective:

The secondary objectives are:

- To Know the concept of SME and its impact in overall economy of Bangladesh
- Entrepreneurship development situation through SME banking
- Importance of SME banking in context of Bangladesh
- To be familiar with SME loan procedures
- To understand the terms and conditions of SME loan
- To value the disbursement and recovery procedures of SME lo
- To understand the credit risk grading system of AB Bank Limited
- To suggest some recommendations for development of SME loan products

1.2.0. Scope of the study:

The study was limited to the SME banking of AB Bank Ltd. The report covers the SME functions performed by the Credit Division, rules and regulations related to SME Credit, procedure of Sanctioning SME Credit, credit grading system of ABBL, Monitoring, and various analyses related to this particular arena etc.

1.3.0. Data collection:

(i) Primary data- Discussion with the reactive organizations officials

(ii) Secondary data- For the completion of the present study, secondary data has been collected. The main sources of secondary data are:

- ✓ Annual report of AB Bank Ltd.(2008)
- ✓ Data from published reports of Bangladesh Bank
- ✓ Different Books, journals, Periodicals, News papers etc.

1.4.0. Methodology of the study:

In spite of the scarcity of published data, I have been tried to make the report informative and handy. The data used in the report have been complied through different complicated ways- direct questionnaire to executives, Bangladesh Bank publication, working with the organization for a meager period of three month is the main aspect of acquiring data and information to evaluate the culture, working environment and similar sort of affairs of the organization. For gathering concept of SME loan, the Product Program Guideline (PPG) thoroughly analyzed. Beside this observation, I discussed with the employees of the Credit department and Credit administration and mentoring (CAM) department.

1.5.0. Limitation of the study:

To make a report various aspects and experience are needed. But I have faced some barriers for making a complete and perfect report. These barriers or limitations, which hinder my word, are as follows:

- ➢ Difficulty in accessing data of its internal operations.

- Non-availability of some preceding and latest data.
- Some information was withheld to retain the confidentiality of the bank.
- I was placed to this Bank for only 12 weeks of time & working like a regular employee hindered the opportunity to put the effort for the study.

Major limitation to make this report is not availing the Annual report of 2009, which is not yet published. Therefore, it was very difficulty to carry out the whole analyses.

1.6.0. Frame work of the study:

For the internship program, I was taking part my internship at Pagla Branch of AB Bank. My objective was to get a clear idea about the activities of the Bank. I was assigned by my organization supervisor to study different division and mainly focus on to work on credit division. In particular I was mainly work on SME banking of credit division. I had to analyze the different aspects of the loan proposals viz. Company & Management aspect, marketing aspect, Liability with ABBL, Liability with other banks, and liability as per CIB.

1.7.0: Job rotation in ABBL:

Name of the Department	To (Date)	From (Date)	Total Days
Accounts Opening	**02-09-2009**	**20-10-2009**	**18**
Local Remittance	**21-09-2000**	**01-10-2000**	**12**
Financial Control Department	**02-102009**	**17-10-2009**	**16**
Clearing	**18-10-2009**	**01-11-2009**	**14**
Foreign Remittance	**02-11-2009**	**07-11-2009**	**05**
Credit	**08-11-2009**	**31-11-2009**	**22**

Table: 1: Job rotation in ABBL

Chapter Two

2.0. 0. Historical Background of AB Bank Limited:

AB Bank is known as one of leading bank of the country since its commencement 27 years ago. It is the first private sector bank under Joint Venture with Dubai Bank Ltd, UAE incorporated in Bangladesh on Dec 31, 1981. The bank commenced its operations in April 12, 1982.

During the last 27 years, AB Bank Limited has opened 74 Branches in different Business Centers of the country, one foreign Branch in Mumbai, India and also established a wholly owned Subsidiary Finance Company in Hong Kong in the name of AB International Finance Limited. To facilitate cross border trade and payment related services, the Bank has correspondent relationship with over 220 international banks of repute across 58 countries of the World. It is listed on Dhaka Stock Exchange Ltd and Chittagong Stock Exchange Ltd. AB Bank has a branch network of 74 branches in Bangladesh. The overseas operations of the bank are conducted through its Mumbai branch in India and its subsidiary company, the AB International Finance Ltd in Hongkong.

The products and services offered by the company include retail banking, corporate banking, SME banking, project finance, NRB banking, money transfer, Islami banking, investment banking and cards. In the corporate banking segment, the products offered include working capital finance, trade finance, cash management, syndicated finance, equity finance and corporate advisory services. The bank also has drawing arrangements with 14 exchange/money transfer remittance houses all over the globe to facilitate fast, reliable and hassle – free inward remittance.

2.1.0. Organization structure of AB Bank Ltd:

AB Bank Ltd. (ABBL) was incorporated on 31st December 1981, under the company's act-1913 as a pioneer commercial bank in the private sector in Bangladesh with its Head Office in Dhaka. The bank started functioning from 12th April 1982 with the approval of Bangladesh Bank under the guidelines, rules and regulations given for scheduled commercial banks operating in

Bangladesh. It was initially a joint venture commercial bank between Bangladeshi sponsors and Dubai Bank Ltd. Dubai (U.A.E.) having respective share holdings as under:

Bangladesh sponsors	: 20%
Bangladeshi General Public	: 15%
Bangladesh Government	: 05%
Dubai Bank Ltd.	: 60%

Subsequently, the Union Bank of Middle East Ltd. inherited the shares of Dubai Bank Ltd. In 1986 and continued as its shareholder till early 1987, when they decided to offload their investment in Bangladesh. As per provisions of the bank Articles of Associations, with the approval of Bangladesh Bank and the controller of Capital issue Government of Bangladesh, the shares (60%) held by the Union Bank of Middle East (UBME), were purchase by the Bangladeshi Sponsored Directors, raising total shares of holding to 80% of total share capital. However, as desired by the government of Bangladesh the sponsors. Directors, who acquired the 60% shareholdings of Union Bank of Middle East (UBME), unclosed 50% of share purchased by them from UBME to the general public of Bangladesh raising the public share holdings to the 45% of total share capital of the bank. The Objective of the bank is to undertake all kinds of banking and foreign exchange business in Bangladesh as well as abroad through its brandies/correspondents.

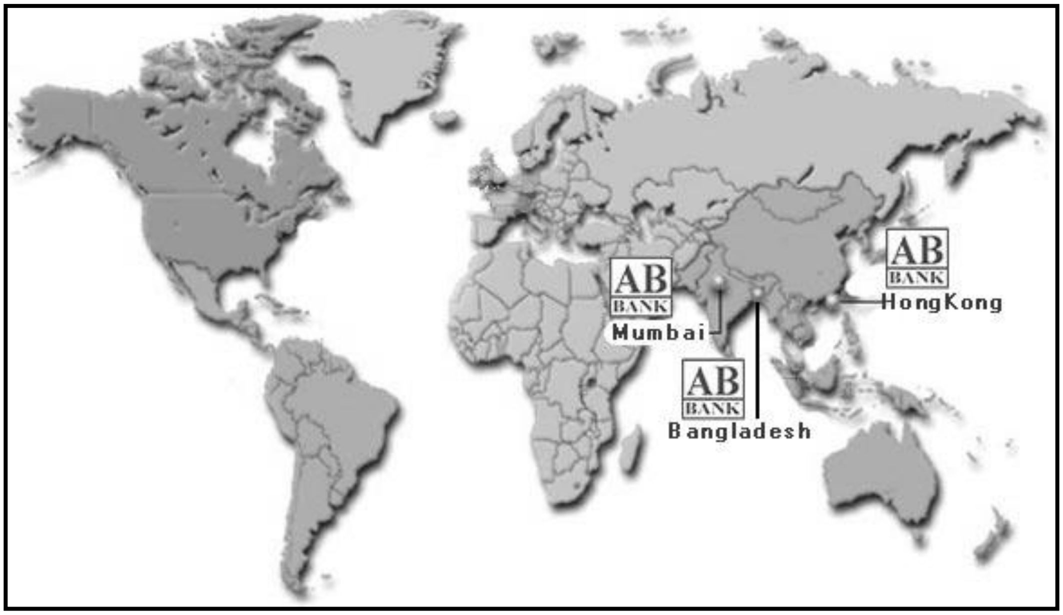
2.2.0. Capital structure of AB Bank Limited:

The authorized capital of AB Bank Ltd. is taka 400.00 crore divided into 4.00 crore ordinary shares of taka 100 each, from the existing Tk. 200.00 crore on 05 march, 2008. The total paid up capital rose to taka 743.00 million at the end of 2008. At present the composition of the existing shareholders of the bank is as under:

1) Bangladeshi sponsors/ Directors: 50%
2) Bangladeshi General Public: 49.43%
3) Govt. of Bangladesh: 0.57%

2.3.0. AB Bank Limited in a Global View:

AB Bank has total 71 branches with in the country as on 29th July 2008. Besides all these, ABBL has its regional office at Agrabad Commercial Area, Chittagong. ABBL has its operation outside the country too. Thus it is providing a prominent role in the growth of foreign trade for the entrepreneurs of the country. ABBL has its overseas branch at Mumbai, India. Subsidiary Company 'AB International Finance Ltd.' at Hong Kong. Representative office in United Kingdom and in Myanmar.



ABBL Mumbai branch's main focus continued to be meeting the needs of Indian exporters to Bangladesh promoting Indo-Bangla trade. Particular attention was given to fee-based business.

2.4.0. Change of Name & Logo of ABBL:

Arab Bangladesh Bank Ltd. was incorporated on 31st December 1981, under the company's act-1913. The bank started functioning from 12th April 1982.It is the first private bank in Bangladesh. Motijheel Branch is the corporate branch of this bank. The branch has enjoyed its 27th anniversary during this year.

Arab Bangladesh Bank Ltd. Changed its name to AB Bank Limited (ABBL) with effect from 14 November 2007 vides Bangladesh Bank BRPD Circular Letter No-10 dated 22 November 2007.

Prior to that Shareholder of the Bank approved the change of name in the Extra-Ordinary General Meeting held on 4 September 2007. Effective 1 January 2008, ABBL changed its Logo as well.

Previous Name & logo :	New Name & logo:
Arab Bangladesh Bank Ltd.	AB Bank Ltd
AB BANK	AB Bank

2.5.0. Objective, Mission & Vision of ABBL:

2.5.1. Objective:

"To exceed customer expectations through innovative financial products & services and establish a strong presence to recognize shareholders' expectations and optimize their rewards through dedicated workforce."

2.5.2. **Mission Statement:**

"To be the best performing bank in the country"

2.5.3. Vision Statement:

"To be the trendsetter for innovative banking with excellence & perfection"

2.6.0. Management hierarchy of AB Bank Ltd:

In AB Bank Ltd. (ABBL) an incumbent has to start his carrier as a provisionary officer. For this, candidate has to seat for a competitive examination. It is under full authority of the Board of Directors. The following figure shows the hierarchy of carrier ladder in ABBL:

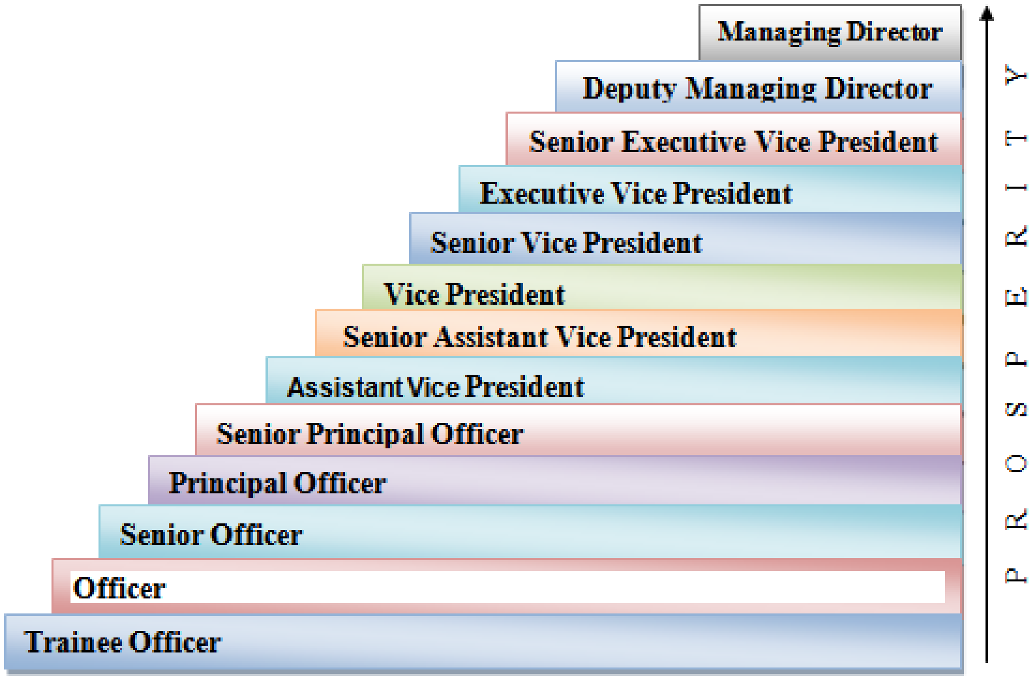


Fig: 2.6: Management hierarchy of AB Bank Ltd

2.7.0. Bank Performance Analysis AB Bank Limited:

(Million taka)

Particulars	2008	% Change	2007	2006	2005	2004
Operating Profit (PBP & T)	4298.39	29.26	3325.29	710.69	755.03	360.07
Net Operating Profit (PBT)	3600.62	27.77	2817.99	532.19	407.45	190.07
Profit After Tax (PAT)	2300.62	20.86	1903.49	532.19	162.45	90.07
Authorized Capital	3000.00	50.00	2000.00	2000.00	800.00	800.00
Paid-up capital	2229.79	200.00	743.26	571.74	519.76	495.01
Reserves	2702.95	30.42	2072.54	1456.47	826.33	623.99

Shareholders Equity	6722.51	49.01	4511.59	2582.76	1526.88	1243.58
Deposits	68560.47	28.25	53375.35	42077.00	27361.44	28299.23
Loans & Advances	56708.77	38.60	40915.35	31289.25	21384.63	17008.50
Investments	11408.54	28.41	8884.60	6271.37	4060.95	6738.15
Fixed Assets	2444.65	2.67	2381.00	1148.46	370.06	276.67
Total Assets	84053.61	32.26	63549.86	47989.34	33065.40	32508.63
Import Business	70041.35	44.59	48441.35	42860.24	23150.85	19266.00
Export Business	28937.24	39.95	20676.61	17876.15	12595.20	10100.00
Guarantee	6578.17	95.16	3370.58	3496.38	2507.91	2353.00
No. of Branches	72	1.41	71	68	67	70
No. of Employees	1804	4.58	1725	1590	1726	1726

Table: 2: Performance Analysis AB Bank Limited

2.8.0. Evaluation of recent performance of AB Bank Limited:

The overall performance of ABBL is increasing gradually. The total authorized capital in 2008 was increase almost 50 % to compare with 2007 and paid-up capital has increased to Tk1486.53 million in the year 2008. Statutory and other reserves have increasing trend. The total asset of the bank increased to Tk. 20503.75 million in 2008 against Tk. 63549.86 million in the year of 2007. The total deposits stood at Tk. 68560.47 million in 2008 against Tk53375.35million in 2007. The total loans and advances have increased to Tk. 56708.77 million in 2008 compared to 40915.35 million in the year 2007. However, the net profit after taxes during the year increased significantly.

2.9.0. About the Branch:

AB Bank Pagla Branch is one of the important branches of AB Bank Limited. is located in Al-Haj Afsar Karim Bhaban, DN Road, Pagla, Narayangonj .It started function in the year 1999 on 18th of May. Presently there are 18 employees in this branch as of 22November 2009 which includes 1 SAVP, 1 AVP, 06 principal officers, 1 management trainee, 5 senior officers, 3 officers, 1 internees and others are messengers, tellers, typist, security guards and drivers. The details information of this Branch is given below:

Name of the Branch	:	**Pagla Branch**.
Location	:	Al-Haj Afsar Karim Bhaban,
		DN Road, Pagla, Narayangonj,
Telephone No	:	7682008, 7682009
Branch Code	:	4024
Fax no.	:	880-02-7682008
E-mail	:	pagl@abbank.com.bd
Relationship Manager	:	Md. Mozibur Rahman Khan (SAVP)
Oparation -Manager	:	Md.Abdul Malek(AVP)

2.10.0. Pagla Branch at a glance:

The figures, which are presenting below are as on Actual 2008:

- Time Deposit :1595(Lac)
- Saving Deposit :151(Lac)
- Demand Deposit : 977(Lac)
- Loans & Advance :4460(Lac)
- Total asset & Liabilities :4588 (Lac)
- Total Import Business :1429(in Lac)
- Total Guarantee :100 (in Lac)
- Total Profit :114 (in Lac)

2.11.0. The Organogram of AB Bank Ltd, Pagla Branch:

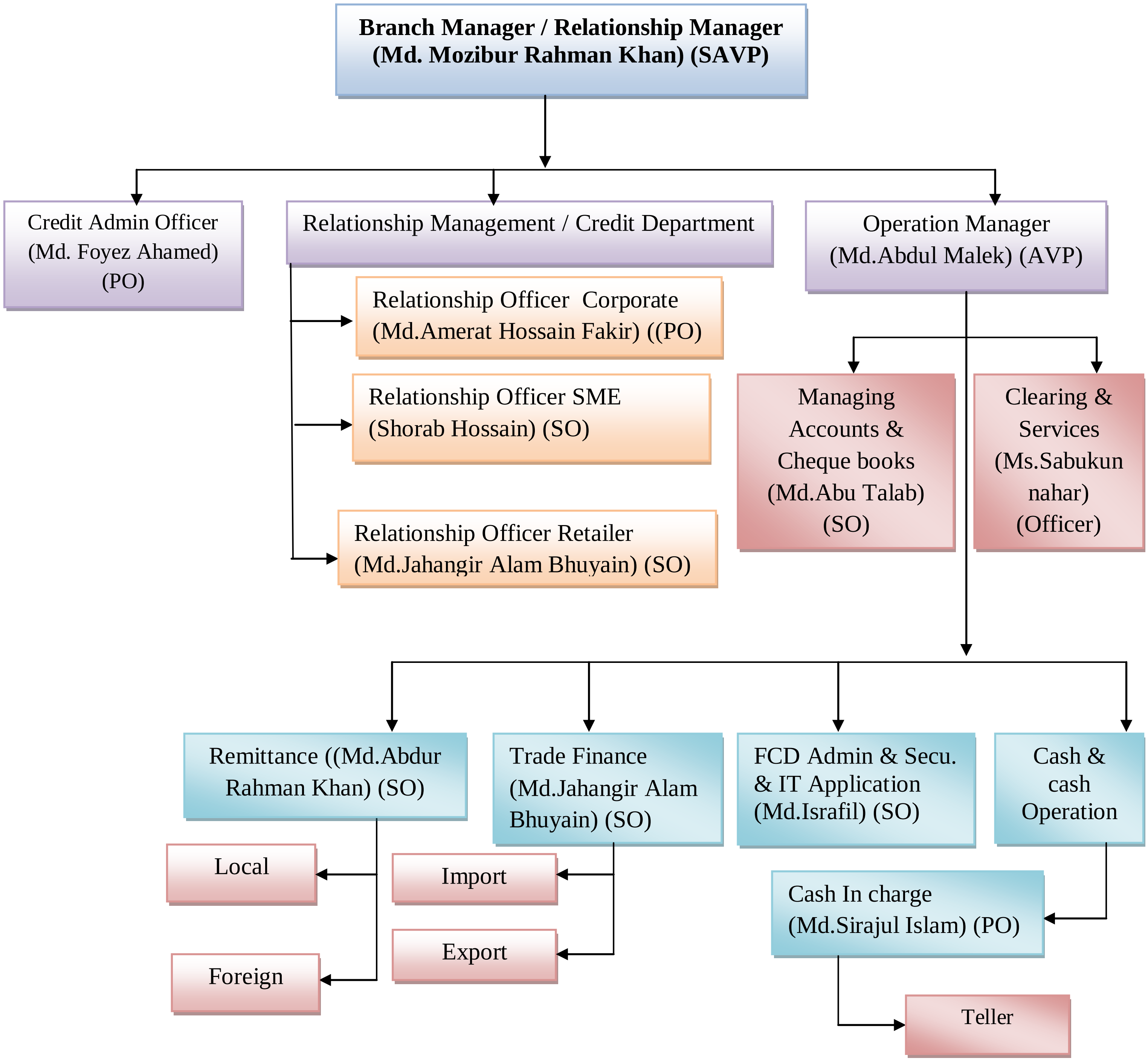


Figure: 2.11**:** Organizational Structure of AB Bank at Pagla Branch

2.12.0 My Jobs & Responsibilities as an Intern at AB Bank Limited, Pagla Branch:

I have been attached as an intern of AB Bank Limited from the month of September 2, 2009 in its Pagla Branch, Narayangonj. In AB Bank Pagla branch, there was no intern before me, so I am the first and only intern in this branch during my internship program. From the first day of my attachment I have been working in different departments including Credit, Remittance, Foreign exchange, Clearing, and General Banking. But during this time period I spent most of the time in Credit Division.

During this internship period I learned various aspects of general banking, foreign remittance, and cash transaction reporting and cash management facilities.Moreover,I also learnt about various aspects of compilation of data, preparation and submission of various returns to Bangladesh Bank in prescribed forms and as per guidelines of Bangladesh Bank.

However, in my internship program last one month I was shifted to the credit department in particular SME section of Credit Department. Where my prime responsibility was to assist the officers of Credit Department in their regular works i.e. a brief description of my job duties are given below:

- Loan documentation for SME Banking
- Preparation of Credit Risk Grading
- Preparation of Charge documents
- Forwarding customer requests e.g. address changes, statements, certificates, etc.
- Answer customer’s queries regarding account balance, receipt of remittance etc.

Chapter Three

SME Banking of AB Bank limited

3.1.0. Definition of SME:

The Small and Medium Enterprises worldwide are recognized as engines of economic growth. In recent days the Small and Medium Enterprise (SME) Financing has become an important area for Commercial Banks in Bangladesh. To align its corporate policy with the regulation of Central Bank, banks have become more concerned about SME and opened windows to conduct business in this particular area. According to the latest circular of Bangladesh Bank (Date – 26/05/2008), the definition of Small and Medium Enterprise sector is given below:

3.1.1. Small Enterprises:

Small enterprises refer to those enterprises which are not any Public Limited Companies and which fulfill the following criteria-

- ***Service Concern:***

-Having an investment of Tk. 50,000 to Tk. 50, 00,000 excluding land & building and / or employing up to 25 workers.

- ***Business Concern:***

- Having an investment of Tk. 50,000 to Tk. 50, 00,000 excluding land & building and / or employing up to 25 workers.

- ***Manufacturing Concern:***

- Having an investment of Tk. 50,000 to Tk. 1, 50, 00,000 excluding land & building and / or employing up to 50 workers.

3.1.2. Medium Enterprises:

– Medium enterprises refer to those enterprises which are not any Public Limited Companies and which fulfill the following criteria:

Service Concern :

- Having an investment of Tk. 50, 00,000 to Tk. 10, 00, 00,000 excluding land & building and / or employing up to 50 workers.

Business Concern:

- Having an investment of Tk. 50, 00,000 to Tk. 10, 00, 00,000 excluding land & building and / or employing up to 50 workers.

Manufacturing Concern:

- Having an investment of Tk. 1, 50, 00,000 to Tk. 20, 00, 00,000 excluding land & building and / or employing up to 150 workers.

3.2.0. Definition by Ministry of Industries (MOI):

SMEs in Bangladesh are also defined for purposes of industrial policies by Ministry of Industries (MOI). Historically, this definition has been in terms of fixed investment brackets, and a dual mode definition is in place, separate for manufacturing establishments, and service establishments. According to the Industrial policy 2005, Small and medium enterprises shall be categorized using the following definitions:

3.2. (A.) Manufacturing enterprise:

Small enterprise

– An enterprise should be treated as small if, in current market prices, the replacement cost of plant, machinery and other parts / components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn key consultancy services, for example), etc, excluding land and building, were to be up to tk. 15 million;

Medium enterprise -

-An enterprise would be treated as medium if, in current market prices, the replacement cost of plant, machinery and other parts / components, fixtures, support utility, and associated technical services by way of capitalized costs (such as turn key consultancy services), etc, excluding land and building, were to be up to tk. 100 million;

3.2. (B.)Non-manufacturing enterprise:

- ***Small enterprise***

– An enterprise should be treated as small if it has less than 25 workers, in full time equivalents;

- ***Medium enterprise -***

-An enterprise would be treated as medium if it has between 25 and 100 employees

3.3.0. Contribution of SMEs in the Economy:

There is a great interest in small and medium enterprises (SME) as a major plank of poverty reduction in Bangladesh In view of present economic development effort in Bangladesh the SME sector plays an important role. These are reflected in the following performance /activities of this sector:

- During the Fourth Five year plan, a total of 0.35 million jobs were created against the target of 0.4 million.
- SME sector employs 25% of the total labour force. As a result, this sector is the present available sector for creation jobs.
- SME sector help alleviate poverty, increase income level of rural people and promote agro-industrial linkage in Bangladesh.
- SME sector requires lower energy supply, lower infrastructure facilities and this sector imposes less environmental risk.
- They contribute towards better utilization of local resources and skills that might otherwise remain unutilized.

- Small industries being labour oriented are capable of generating more employment.
- They are necessary to maintain and retain traditional skills and handicrafts.
- They are the only medium for diversification of rural economy and for peaceful and concurrent socio-economic development of all classes of people.

From the above discussion, we can say that SMEs are playing an important role in our economy in various ways.

3.4.0. SME Financing by Banks in Bangladesh:

The National Commercial Banks (NCBs) are disbursing significant amount of credit under various programs like Small Enterprise Development Project, Self-help Credit Program, and Projects for Small Entrepreneurs, Special Investment Program and Agro-based Supervisory Industrial Credit etc. for the promotion and development of SMEs. The investment of private sector banks in financing SMEs remains insignificant in Bangladesh. Of all the private sector banks, BRAC Bank, AB Bank Limited.(ABBL) Eastern Bank Ltd. (EBL), Prime Bank Ltd, Dhaka Bank Ltd, Mercantile Bank Ltd, Dutch-Bangla Bank Ltd, Islami Bank Bangladesh Ltd, IFIC Bank Ltd. have the leading role in SME financing. Bank of Small Industries and Commerce Bangladesh Ltd. (BASIC) are entrusted with the responsibility of providing medium and long-term loans for promotion and development of small-scale industries. The memorandum and Articles of Association of the bank stipulates that 50% of loan able funds shall be used for financing small scale and cottage industries.

3.5.0. SME Financing by AB Bank Limited:

Considering the volume, role and contribution of the SMEs, in the last two decades AB Bank has been patronizing this sector by extending credit facilities of different types and tenor. As of now 54% of the bank's total loan portfolio is segmented to the SMEs which deserve all out attention in its plans, projections and forecasting. As such the AB Bank has emphasized on the following issues:

- To provide the best services to the SME sector
- To increase the SME portfolio of ABBL significantly
- To improve the quality of ABBL's portfolio

3.6.0. Definition of SME at AB Bank Limited:

The SME definition which was approved by management committee in 13th meeting held on 12th May, 2008 and notified to the Board of Directors 414th meeting, was circulated all Branches though **BBD circular No.02/2008.** Meanwhile, Bangladesh Bank has revised the SME definition though it's ACSPD Circular No.08, dated 26th May, 2008.In context to this revision, the Board of Directors of AB Bank Ltd. has changed the Banks SME definition in its 435th Meeting held on Sunday, March 22, 2009, which is as follow:

For small Enterprise:

	Turnover	**Total Fixed Assets ***	**No. Of Employee**	**Loan Size**
Service / other concern	Up to 500 Lac	0.5 to 50 Lac	Less than 25	Up to 50 Lac
Trading Concern	Up to 500 Lac	0.5 to 50 Lac	Less than 25	Up to 50 Lac
Manufacturing Concern	Up to 500 Lac	0.5 to 150 Lac	Less than 50	Up to 50 Lac

Table: 3: Definition of small Enterprise by ABBL

For Medium Enterprise:

	Turnover	Total Fixed Assets *	No. Of Employee	Loan Size
Service / other concern	Up to 1500 Lac	50 to 1000 Lac	Less than 50	Up to 50 Lac
Trading Concern	Up to 500 Lac	50 to 1000 Lac	Less than 50	Up to 50 Lac
Manufacturing Concern	Up to 500 Lac	150 to 2000 Lac	Less than 150	Up to 50 Lac

Table: 4: Definition of Medium Enterprise by ABBL

Note: *Total Fixed Assets is excluding land and Building

3.7.0. Participation of SME Sector by AB Bank Limited:

Small and medium enterprises (SME) has emerged as the cornerstone of economic development of Bangladesh in terms of job creation, income generation, development of forward and backward industrial linkage and meting local links.SME provide over 87%of total industrial employment and contribute 90% export earning. Thus, SME occupy a unique position in Bangladesh. However, SME Sectors in which AB Bank has participated so far are Agro machinery, Poultry, Animal Feed, Dairy Product, Fruit Preservation ,Hotel & Restaurants, Garments Accessories ,Leather products, Plastic product Furniture : Wooden & Metal ,Ink ,Paint ,Printing & Packaging ,Wire & Cable ,Aluminum Cement and Lime Plaster ,Clinics and Hospitals Engineering & Scientific Instruments.

3.8.0. SME Products offer by AB Bank Limited:

The following Loan schemes under the category of Small & Medium Enterprise (SME) has been introduced:

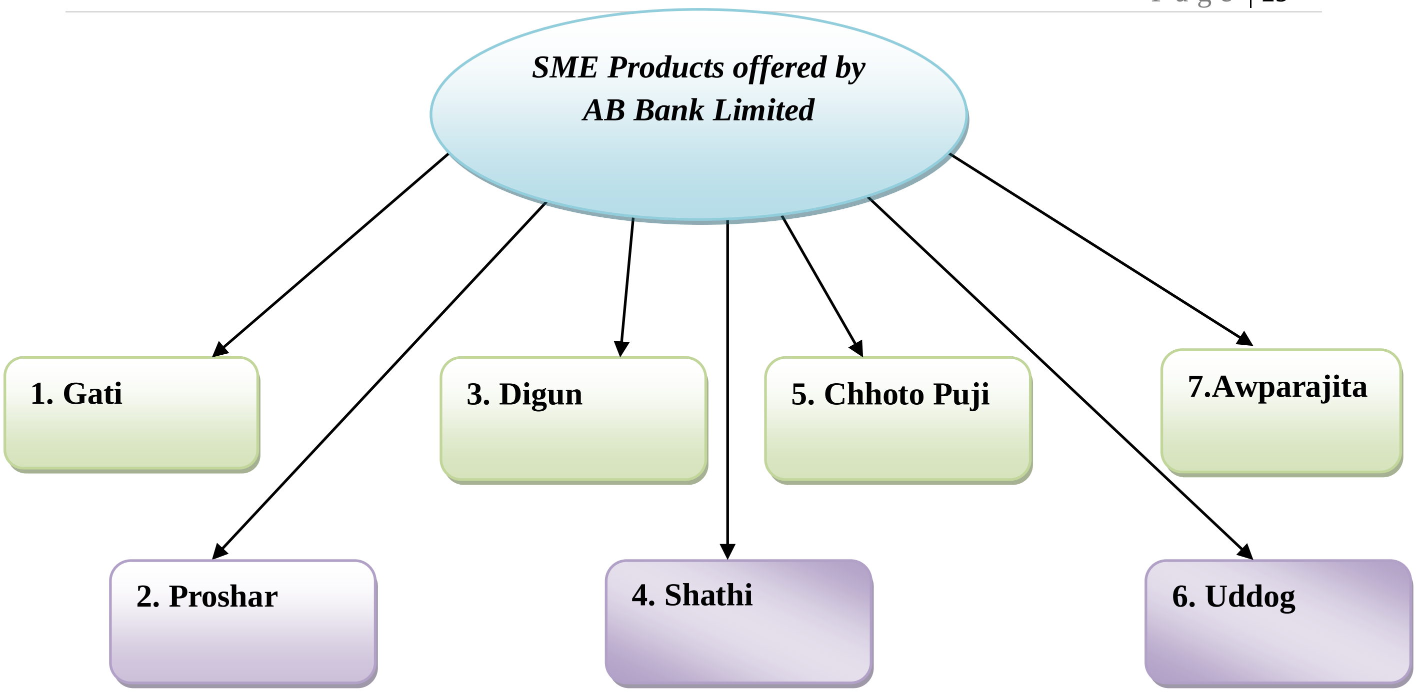


Fig: 4.3.0: Types of SME product offer by AB Bank Limited

3.8.1. Gati:

A Loan facility for meeting regular as well as additional requirements of businesses; i e. it will be part of working capital of the business.

Maximum Loan Amount : Maximum TK. 500 Lac

- Limit will be determined by the stock and/or Volume of sales.
- Maximum 80% of the stock value to be financed.

Interest Rate : 13.00% p, a.to 15.00% p.a.

Service Charge : 1.00%

Tenor : Maximum 3 (three) Years.

Repayment : Through EMI/ Lump sum (No moratorium).

Security and/or Collateral:

- Hypothecation of stock and/or receivables
- Registered Mortgage of Land & buildings and/or tripartite

agreement for shop and/or Business premises and/or any

other collateral

3.8.2. Proshar:

It is long term finance for infrastructure development / capacity building etc: i. e.term loan for expansion. Balancing modernizing Reconstruction Expansion (BMRE)

Maximum Loan Amount	: Maximum TK. 500.00 lac ➢ Loan amount will be maximum 80% of the proposed additional Investment/ expenditure
Interest Rate	: 13.00% p, a.to 15.00% p.a.
Service Charge	: 1.00%
Tenor	: Maximum 5(Five) Years.
Repayment	: Through EMI/ (Moderating Period: Maximum 6 months)
Security and/or Collateral	: ➢ Hypothecation of stock and/or receivables ➢ Registered Mortgage of Land & buildings and/or tripartite agreement for shop and/or Business premises and/or any other collateral.

3.8.3. Digun:

Double amount of loan against value of the savings Instrument (ABBL FDR, DDS etc,) to meet any type of business requirement.

Maximum Loan Amount	: TK, 10.00 lac to TK. 100.00 lac
Interest Rate	: 8.00% above the instrument interest rate p.a subject to minimum Loan interest rate of 13.00% p.a.to 15% P.a.
Service Charge	: 1.00%

Tenor : Maximum 5 (Five) Years.

Repayment : Through EMI/ Lump sum (No moratorium).

Security and/or Collateral :

- Hypothecation of stock and/or receivables
- Lien of savings instrument (ABBL FDR, DDS) Covering minimum 50% of loan size.
- PG of the spouse of the borrower.
- 1 (one) 3rd party guarantee

Condition : Deposit instrument will not be released before adjustment of the loan.

3.8.4. Sathi:

Term loan for CNG Refueling conversion/ Light Engineering/ project finance (package Deal Including Non- founded)

Maximum Loan Amount : Maximum TK.500.00 lac

Interest Rate : 13.00% p. a. to 15.00% p. a.

Service Charge : 1.00%

Tenor : Maximum 5 (Five) Years.

Moratorium Period : Maximum 6 month

Repayment : Through Equal Monthly Installment (EMI)

Security and/or Collateral :

- Hypothecation of Machineries and / or stock and/or receivables
- Registered mortgage of project land and buildings; additional land (If require)
- PG of the spouse of the proprietor / PG of the Director.

3.8.5. Chhoto Puji:

Mortgage free Term Loan for working Capital/ fixed investment requirement.

Maximum Loan Amount	: TK, 10.00 lac
Interest Rate	: 13.00% p. a. to 15.00% p. a.
Service Charge	: 2.00%
Tenor	: Maximum 3 (three) Years.
Repayment	: Through Equal Monthly Installment (EMI)/ Lump sum (No moratorium).
Security and/or Collateral	:

- Hypothecation of stock and/or receivables
- Lien of savings instrument (ABBL FDR, DDS) Covering minimum 50% of loan size.
- PG of the spouse of the borrower.
- 1 (one) 3rd party guarantee

Condition : Deposit instrument will not be released before adjustment of the loan.

3.8.6: Uddog:

Loan for New entrepreneur/ business. (For working Capital as well as fixed capital investment.)

Maximum Loan Amount	: Tk. 50.00 Lac
Interest Rate	: 13.00% p.a to 15.00% p. a
Service Charge	: 2.00%
Tenor	: Maximum 3 (three) Years.
Repayment	: Through EMI
Security and/or Collateral	:

- Hypothecation of stock and/or receivables
- Registered Mortgage of land and building and/ or any other Collateral.

- PG of the spouse of the borrower and / or able family members.

3.8.7: Awparajita:

A loan facility for meeting working capital requirement as well as fixed investment in businesses for women entrepreneurs.

Maximum Loan Amount	: Tk. 50.00lac
Interest Rate	: 14.00% p.a to 16.00% p. a
Service Charge	: 1.00%
Tenor	: Maximum 3 (three) Years.
Repayment	: Through EMI
Security and/or Collateral	:

- Hypothecation of stock and/or receivables
- Registered Mortgage of land and building and/ or any other Collateral.
- PG of the spouse of the borrower and / or able family members.

3.9.0: Special Condition for all the Above Products:

- **Deposit Condition:** The client will build a deposit from cash flow (the amount and nature will be decided by the Relationship Manager (RM) or Relationship Executive (RE) after discussion with the client) of the business.

- **Early Settlement:** Winding Up fee of 1.00% to be realized on the outstanding Term Loan (Incase of EMI based amount in case of settlement of the same earlier than maturity Loan)

3.10.0. Special Note For all above products:

- **Existing Client**: Clients/ Guarantor having mortgage of properties under existing Credit facilities may suffice on case to case basis.

- **Loan for Ltd. Company:** For Credit facility favoring a Limited Companies, Personal Guarantee of all Directors to be obtained

Chapter Four

Procedure for giving SME loans

4.1.0. Initial Steps:

The prospective borrower has to apply to ABBL for loan by filling up of a specific Application for**.** The application form (Request for credit Limit) contains following particulars,

- Name of the Borrower
- A/C no.
- Business address (with telephone no.) [Residential addresses and permanent address] –
- Introducer's name, A/C no. & address-
- Date of establishment/ Incorporation-
- Trade license number, issue date, expiry date (Photocopy of trade license enclosed)
- GIR/TR no. & amount of income tax paid last year
- Constitution/ Status (Mention whether sole proprietorship/ partnership/ Public Ltd. company/ Private Ltd. company)-
- Particulars of Individual/ Proprietor/ Partners/ Directors (Name & Designation, Father's/ husband's name, present & permanent address with telephone no., % of shares held)-
- Experience and background of Individual/ proprietors/ partners/ directors.
- Full particulars of assets in the particular name of Individual/ proprietors/ partners/ directors with valuation.
- A name of subsidiaries/ affiliates percentage of share holding and nature of business.
- Nature and details of business/ products (for which credit facility is applied for), markets (present market price per unit, factory price), estimated sales for next one year.

- Credit facilities required (type, amount, period, purpose, and made of adjustment).
- Details of securities offered with estimated value (primary security, collateral security, market value of the security.).
- Details of liabilities in the name of the client or in the name of any other Individual/ proprietors/ partners/ directors or subsidiaries with ABBL and other banks, if any (name of the Bank, account no., nature of advance, amount, security and validity of limit).
- Balance sheet, Income statement or statement of accounts of the following year attached (preferably last 3 years).
- Other relevant information.
- Proposed debt/ equity ratio.
- Signature of the applicant.

4.2.0. Second Steps:

After receiving the loan application form, ABBL sends a letter to Bangladesh Bank for obtaining a report form there. This is called CIB (credit information bureau) report. The report is essential if the loan is exceeds Tk. 50 Lac. But ABBL usually collects this report if the loan amount exceeds Tk 10 lac. The purpose of this report is being informed that whether the borrower has taken loan form any other bank.

4.3.0. Third Steps:

After receiving CIB report if the Bank thinks that the prospective borrower will be a good borrower, than the bank will scrutinize the documents. In this stage, the Bank will check whether the documents are properly filled up & signed.

4.4. 0.Forth Steps:

Then comes the processing stage, the bank will prepare a proposal. A proposal contains following relevant information-

a) Name of the borrower
b) Nature of limit
c) Purpose of limit
d) Extent of limit
e) Security
f) Margin
g) Rate of interest
h) Repayment
i) Validity

Branch incumbent has the discretionary to sanction loan (SOD) against financial obligations by informing Head Office. But in that case4, the branch Manager has to give attention to the following matters-

- The interest rate of the loan must not be less than 14.5% &
- The borrower must maintain 10% margin

Except this case, the branch has to send the proposal to the Head Office. Head Office will prepare a minute and submit before the Executive Committee (EC). The minute has to be passed by EC.

After passing the minute, it will be sent to Bangladesh Bank for approval in case of followings:-

- If the proposal limit exceeds 15% of Bank's equity
- If the proposed limit against cash collateral securities exceeds 25% of Bank's equity.

After getting the approval of Bangladesh, it will again come to the Head Office.

4.5. 0.Fifth Steps:

After the sanction advice, Bank will collect necessary documents. For withdrawing the loan amount, the customer creates a CD account and the loan is transferred to the CD A/c. Afterwards, The customer can withdraw the money.

4.6.0. General Procedure for Loans and Advance of ABBL:

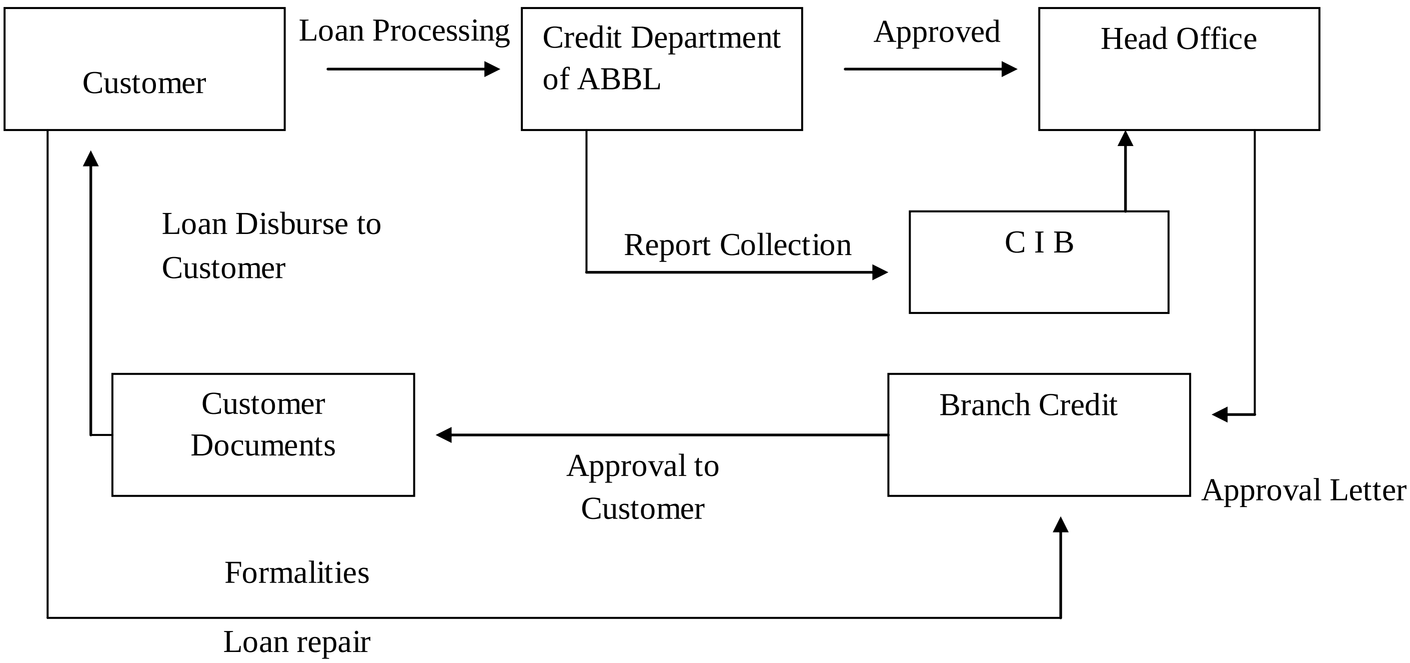


Fig 4.6**:** General Procedure for Loans and Advance of ABBL

Chapter Five

Credit Risk Grading System of AB Bank Limited

5.1.0. Background:

Credit risk is the primary financial risk in the banking system. Identifying and assessing credit risk is essentially a first step in managing it effectively. In 1993, Bangladesh Bank as suggested by Financial Sector Reform Project (FSRP) first introduced and directed to use Credit Risk Grading system in the Banking Sector of Bangladesh under the caption "Lending Risk Analysis (LRA)". The Banking sector since then has changed a lot as credit culture has been shifting towards a more professional and standardized Credit Risk Management approach.

Keeping the above objective in mind, the Lending Risk Analysis Manual (under FSRP) of Bangladesh Bank has been amended, developed and re-produced in the name of "Credit Risk Grading Manual".

5.2 .0.Definition of Credit Risk Grading:

- 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.

5.3.0. Function 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.

5.4.0. Use of Credit Risk Grading:

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.

- 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.
- 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.

5.5.0. Number and Short Name of Grades used in the CRG:

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

Grading	**Short Name**	**Number**
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watchlist	MG/WL	4
Special Mention	SM	5
Sub standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

Table: 5: Number and Short Name of Grades used in the CRG

5.6.0. Credit Risk Grading Definitions:

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

5.6.1. Superior - (SUP) – 1:

- Credit facilities, which are fully 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.

5.6.2. 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 fully covered by the guarantee of a top tier local Bank.
- Aggregate Score of 85 or greater based on the Risk Grade Score Sheet

5.6.3. 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

5.6.4. Marginal/Watch list - (MG/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

5.6.5. Special Mention - (SM) – 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.

5.6.6. 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-standard credit shall apply.
- An Aggregate Score of 45-54 based on the Risk Grade Score Sheet.

5.6.7. 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.

5.6.8. 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.

5.7.0. Computation Credit Risk Grading Of AB Bank Limited:

The following step-wise activities outline the detail process for arriving at credit risk grading.

Step 1 Identify all the Principal risk component:

Credit risk for counterparty arises from an aggregation of the following:

- Financial Risk
- Business/Industry Risk
- Management Risk
- Security Risk
- Relationship Risk

Each of the above mentioned key risk areas require be evaluating and aggregating to arrive at an overall risk grading measure.

Step 2 Allocate weight ages to Principal Risk Components:

According to the importance of risk profile, the following weight ages are proposed for corresponding principal risks.

Principal Risk Components:	Weight:
Financial Risk	45%
Business/Industry Risk	18%
Management Risk	10%
Security Risk	15%
Relationship Risk	12%

Step 3 Establish the Key Parameters:

Principal Risk Components	Key Parameters
Financial Risk	Leverage, Liquidity, Profitability ,Coverage ratio, Stock Turnover days, receivable Turnover
Business/Industry Risk	Size of Business, Age of Business, Business Outlook, Industry Growth, Market Competition, Entry /Exist Barriers.
Management Risk	Experience, Second line / Succession & Team Work.
Security Risk	Security Coverage, Ownership of Collateral, Location of Collateral, collateral coverage and Support.
Relationship Risk	Account Conduct ,Utilization of Limit, Compliance of covenants/conditions & Personal Deposit

Table: 6: the Key Risk Parameters of ABBL

Step 4 Assign weight ages to each of the key parameters:

Principal Risk Components	Key Parameters	Weight
Financial Risk		**45%**
	Leverage	**12%**
	Liquidity	**12%**
	Profitability	**11%**
	Coverage ratio	**5%**
	Stock Turnover days,	**3%**
	receivable Turnover	**2%**

Business/Industry Risk		**18%**
	Size of Business	**5%**
	Age of Business	**3%**
	Business Outlook	**3%**
	Industry growth	**3%**
	Market Competition	**2%**
	Entry/Exit Barriers	**2%**
Management Risk		**10%**
	Experience	**5%**
	Second line / Succession	**2%**
	Team Work	**3%**
Security Risk		**15%**
	Security coverage	**4%**
	Ownership of Collateral	**2%**
	Location of Collateral	**4%**
	Collateral coverage	**3%**
	Support	**2%**
Relationship Risk		**12%**
	Account conduct	**5%**
	Utilization of limit	**4%**
	Compliance of covenants	**2%**
	Personal deposit	**1%**

Table: 7: weight ages to each of the key parameters

Step 5 Input data to arrive at the score on the key parameters:

After the risk identification & weight age assignment process, the next steps will be to input actual parameter in the score sheet to arrive at the scores corresponding to the actual parameters.

Step 6 Arrive at the Credit Risk Grading based on total score obtained:

The following is the proposed Credit Risk Grade matrix based on the total score obtained by an obligor.

Number	Risk Grading	Short Name	Score
1	Superior	SUP	▪ **100% cash covered** ▪ **Government guarantee** ▪ **International Bank guarantees**
2	Good	GD	**85+**
3	Acceptable	ACCPT	**75-84**
4	Marginal/Watchlist	MG/WL	**65-74**
5	Special Mention	SM	**55-64**
6	Sub-standard	SS	**45-54**
7	Doubtful	DF	**35-44**
8	Bad & Loss	BL	**<35**

Table: 8: Credit Risk Grade matrix based on the total score

Chapter Six

6.0. Major Finding, Recommendation, & Conclusion

6.1.0. Major Findings of my Observation in AB Bank Limited:

AB Bank Limited provides the SME loans and advances to the borrower through their different branches in all over the country. Though every branch is not best in all respective area of the program but in a particular area a bank can be best. The major point that I have identified in credit policy in procedure of giving SME loan & advances of AB Bank Limited is given below:

- As of now 54% of the AB bank's total loan portfolio is segmented to the SMEs.
- There are many competitions in the banking sector of our country considering our economic condition. The SME Products provided by the banks are almost same in case of interest rate.
- Lending is one of the main functions of a bank. But lending is a risky procedure, in order to make it less risky AB Bank have different variations such as credit grading and risk grading system.
- Practical procedure is different from the policy that is prescribed by head office.
- Some times situation is a big factor at the time of giving SME loan. Such as-if there is a occurrence in the branch then head office will restricted the % of giving loan. At that time Branch will not sanction more loans.
- The full process of loan sanction is done by the branch official, but the final decision is taken by the head office.
- The procedure of giving SME loan is very complex. That sometimes discourages client from taking loan.
- ABBL's loans and advances are dominated by financing on short-term credit programmers mainly to the trade commerce & processing units rather in any manufacturing unit.

6.2.0. My Recommendation for AB Bank Limited:

I propose some recommendations for AB Bank Ltd. These are given below:

- Rearrange the process of SME loan. This can help to cover large number of people in remote areas.
- AB Bank should use more advertising camping to introduce SME product of them to their prospective customer. All type of media should be encouraged in.
- AB Bank should increase the amount of loan and advance in micro credit sector as the loan recovery rate from micro credit sector is much higher.
- Implement continuous monitoring system in the whole SME loan recovery process.
- Improve the criteria for receiving SME loan.
- Improve the Credit risk management department for avoid possible defaulter.
- To ensure that the borrowers can utilize the loan on the right purpose.
- There are many competitors in banking sector. ATM, online banking, credit card service etc are common in banking sector. They should introduce new features in existing services.
- AB Bank should examine its borrower's Cash flow Statement, Audited Balance Sheet, and Income Statement and other financial statement to make sure that its borrower has the ability to repay the loan.

6.3.0. Conclusion:

The banking sector of Bangladesh is passing through a tremendous reform under the economic deregulation and opening up the economy. Currently this sector is becoming extremely competitive with the arrival of multinational banks as well as emerging and technological infrastructure, effective credit management, higher performance level utmost customer satisfaction and the transactions of foreign exchange. As we all know in the business world things move on the will of impression. In spite of all limitations AB bank still doing better and holding a good percentage of market shares in banking sector, only because of its best impression, performance and trust of its clients.

During the three months internship program at ABBL at Pagla Branch, ,almost all the desks have been observed more or less. This internship program, in first, has been arranged for gaining knowledge of practical banking and to compare this practical knowledge with theoretical knowledge. During the internship, it is found that the branch provides all the conventional banking services as well as some specialized financing activities to the economy. SME credit is very important for any financial institution as it generates profit and gear up economic activities of the country. In other words, SME credit is business and it is input in the production process of the country. Since credit is inherent risk. So proper utilization of use of the loans is very much essential to meet up the requirements of the borrower wants. The loan applied for by the borrower must not be employed for unproductive purpose. So, a purpose-oriented loan must be followed up regularly by the Bank So that the borrower properly uses the fund. AB Bank Ltd airways trying to improve their credit policy for minimizing loss and maximizing profit and various measures are undertaken to develop the credit management system. Recently AB Bank Ltd is going to adopt pure automation system in credit division for proper handling of disbursement and better monitoring reviewing of regular and irregular loan. In addition they are exploring new ideas, implementing new technology to serve the better service to clients.

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