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A Study on The Credit Policy of Prime Bank Limited

Report - 9/2

A Study on The Credit Policy of Prime Bank Limited

Internship Report BUS-499

Prepared for

Dr. Tanbir Ahmed Chowdhury
Associate Professor
Department of Business Administration
East West University

Prepared by

Md. Imran Hossain
ID# 2000-2-10-068

Date of Submission

May 10, 2004.

Letter of Transmittal

May 10, 2004
Dr. Tanbir Ahmed Chowdhury
Associate Professor
Department of Business Administration
East West University
Mohakhali
Dhaka.

Dear Sir,

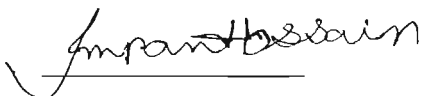
With due respect I would like to inform you that I am Md. Imran Hossain ID# 2000-2-10-068 represent the outcome of my Internship that you proposed as "A study on the credit policy of Prime Bank Limited". I have given my best effort in preparing this report and to make it a worthy one. I assure that all the information and requirements are collected from reliable sources. I expect and hope that you will appreciate.

I would like to inform you that it is my great pleasure to prepare this term paper, as it is required for the Internship Program. Besides, I had lots of experience working with this report, as it is the synthesis between two: the theory and the real world.

I believe that this report will satisfy your requirements.

I would like to thank you for your kind co-operation and support for preparing this report.

Sincerely yours



Md. Imran Hossain

ID# 2000-2-10-068

Acknowledgement

It is inconceivable that I would get sufficient support from various respected persons while completing this report. But it gives me much pleasure that to be grateful to a large number of individuals for their hearty cooperation and incitement who have contributed directly or indirectly in preparing this report.

First I would like to be grateful to Allah who gives me the physical and mental effort to do such kind of hard work.

Then I would like to thank Dr. Tanbir Ahmed Chowdhury, Associate Professor of East West University for his continuous support and cooperation.

I would also like to convey my thanks and gratefulness to Mr. Shamsul Huq (S.A.V.P), Sukdev Das Chowdhury (A.V.P), Fayezur Rahman Talukeder (S.E.O), Dorothy Sultana (S.E.O) etc for their cooperation.

Without their continuous help and cooperation it would not be possible for me to do this report. They have helped me a lot in understanding the bank's work with a great patience which helped me a lot at the at the time of preparing the report.

Executive Summary

Banks are the financial institutions that play a very useful and dynamic role in the economic life of every modern state. Banks support industrial developments, business expansion, job creation etc. banks are the lender of borrowed funds. Bank accepts deposit from public and provides loans to them. The spread between the interest of loan and deposit is bank's profit. There are various types of Bank in our society. These are nationalized, semi-nationalized, private commercial, specialized Bank etc. Now a days private commercial banks are very successful and they are playing significant role in the economic development of the country. Such a private commercial bank is PBL. Prime Bank Ltd has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMEL rating. The services of PBL include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software. PBL have formulated the various Loan Schemes. Those are General Loan Scheme, Lease Finance, House Building / Apartment Loan Scheme, Small & Medium Enterprise (SME), Consumer Credit Scheme, Hire Purchase and Advance Against Share. General loan schemes are allowed to individual/firm/industries for a specific purpose but for a definite period and generally repayable by installments fall under this head. Lease financing is one of the most convenient long-term sources of acquiring capital machinery and equipment. Loans allowed to individual/enterprises for construction of house (residential or commercial) falls under House Building / Apartment Loan Scheme. Loans extended to Small & Medium Enterprise (SME) falls under SME Scheme. In order to provide financial assistance to the limited income group for raising their standard of living by acquiring domestic durables like freez, TV, Computer, Motor Car, etc. Prime bank Ltd has introduced a Consumers Credit Scheme. To purchase capital machineries PBL has also formulated Hire Purchase Scheme. In order to contribute to the development of the Capital Market of the country Prime Bank Limited extends Advance Against Share loan scheme.

PBL has extended TK. 12686.85 million as loans & advances. Loans and Advances are primarily divided into two major groups Fixed term loans and Continuous credit. Fixed term loan can be dividend as short term, medium term and long term. Continuous credits are short term. Loans can also be categorized in sectors. Such as

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Agriculture, Large & Medium Scale Industries, Working Capital, Export Finance, Commercial Lending etc.

PBL follows many credit principles at the time of extending credit. At the time of pricing a loan cost of fund, administrative expense, cost of capital and risk is considered. At the time of extending credit, credit officers go through the customer's financial statement and also do the ratio analysis to see the financial soundness of the customer. After extending credit to a customer the credit officer goes for supervision and monitoring to recover the credit. The loan which cannot possible to recover or has the doubt to be recovered is known as classified loan. Total credit disbursement has increased every year for the last five years. Though total credit disbursement increased every year the amount of classified loans to total loans are very small. At last some problems of existing credit policy have founded and recommendations to improve the credit policy is given.

Chapter One

Introduction

1.1 Introduction

Banks are the financial institutions that play a very useful and dynamic role in the economic life of every modern state. They provide finance to the organizations, entrepreneurs and individual on the basis of their personal demand. Banks are the pivots of modern commerce. Industrial innovations and business expansion become possible through finance provided by the Banks. Thus Banks play the roles to develop the society in the country.

There are various types of Bank in our society. These are nationalized, semi-nationalized, private commercial, specialized Bank etc. Today the nationalized Banks can not make better progress in terms of profit earning, branch expansion and overall the customer services. But private commercial Banks has undoubtedly make significant success during the last ten years. They are committed to high quality financial services/products to contribute to the growth of G.D.P. of the country through stimulating trade & commerce. They are also accelerating the pace of industrialization, boosting up export, and creating employment opportunity for the educated youth. All these are required for poverty alleviation, raising standard of living and socioeconomic development of the country. So private commercial Banks have significant importance in the modern banking system.

Capital formation is the basic requirement of economic development. But the rate of capital formation depends upon the rate of saving. Unfortunately, in under developed country the saving is very low. Private commercial Banks mobilize the idle and dormant capital of the country and make it available for productive purpose. They not only collect the funds from the various sources but also invest it to earn profit and future expansion.

The method of this investment is credit appraisal. It is the systematic thinking of providing credit to the borrower. Total credit management has got some sequential steps. These are: credit planning, portfolio management of credit, preliminary screening of a credit proposal, selection of borrower, appraisal of a project, pricing of loan, analyzing of financial & cash flow of the customer, scoring analysis through, analyzing of financial & cash flow of the customer, scoring analysis through spread sheet, lending risk analysis, sanction of credit documentation of loans & advances, creation of charges over securities, loan classification- provisioning, supervision-monitoring and recovery of credit.

1.2 Origin of the Report

Internship Program/ Project is a compulsory part for acquiring BBA degree in Department of Business Administration of East West University.

Before completion of the degree, a student must undergo the Internship Program. Internship program is a perfect bridge to match the gap between theoretical and practical knowledge. Only curriculum activity is not sufficient to handle the real business situation.

So, it is an urge to arrange an internship program. This program consists of at least three phases:

- Orientation with the organization
- Completing the project work
- Writing the report.

Internship report on "A study on the Credit Policy of Prime Bank LTD" has been supervised by Dr. Tanbir Ahmed Chowdhury (Associate Professor), Department of Business Administration, East West University.

1.3 Objectives of the study

- To present an overview of Prime Bank Limited
- To appraise the credit policy of Prime Bank Limited
- To identify the problems of existing credit policy
- To give suggestions for the development of Credit Policy

1.4 Scope of the study

"A study on the Credit Policy of Prime Bank LTD" covers a wide scope. Here an overview of Prime bank Limited is done, discussion about various credit schemes, credit monitoring & review, lending process of Prime Bank Limited, some drawbacks of existing policy and the recommendations for improving that are also done. Here only data of five years have used.

1.5 Methodology

To prepare this report various information was required. The data have been collected through the following sources:

- a) Primary Sources:
 - Discussion with the personnel of PBL

- b) Secondary Source
 - Annual Reports of PBL
 - Web Site of PBL
 - Published Documents
 - Published Brochures

1.6 Limitations of the study

There were also many limitations at the time of preparing the report. Those are as following:

- The credit officers in the bank were so busy with their task that could not provide much time to analyze the report.
- Budgeted time was not sufficient to know properly about the policy and its problems.
- Some data were not possible to gather as the bank do not main proper MIS system.
- Sector wise credit disbursement was only possible to gather for year 2003 (unaudited), 2002 and 2001.

Chapter Two

An Overview of Prime Bank Limited

2.1 An Overview of Prime Bank Limited

In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs conceived an idea of floating a commercial bank with different outlook. For them, it was competence, excellence and consistent delivery of reliable service with superior value products. Accordingly, Prime Bank Ltd was created and commencement of business started on 17th April 1995. The sponsors are reputed personalities in the field of trade and commerce and their stake ranges from shipping to textile and finance to energy etc.

As a fully licensed commercial bank, Prime Bank Ltd is being managed by a highly professional and dedicated team with long experience in banking. They constantly focus on understanding and anticipating customer needs. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition.

Prime Bank Ltd has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMEL rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation.

Prime Bank Ltd. offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software.

The bank has consistently turned over good returns on Assets and Capital. During the year 2002, the bank has posted an operating profit of Tk. 747.84 million and its capital funds stood at Tk 1664.31 million. Out of this, Tk. 700 million consists of paid up capital by shareholders and Tk. 964.31 million represents reserves and retained earnings. The bank's current capital adequacy ratio of 12.43% is in the market and much above the stipulated line of 8%. In spite of complex business environment and default culture, quantum of classified loan in the bank is very insignificant and stood at less than 1.48%.

Prime Bank Ltd., since its beginning has attached more importance in technology

integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, PBL's strategy is to serve the customers through capacity building across multi delivery channels. Prime Bank's past performance gives an indication of its strength. Prime Bank is better placed and poised to take their customers through fast changing times and enable them compete more effectively in the market they operate.

Prime bank Limited

Vision

To be the first efficient bank in terms of Customer Service, profitability and Technological Application.

Mission

Continuous improvement in their Business policy and procedures, Cost reduction through integration of technology at all level.

Strategies

To have sustained growth Broaden and improve range of Products end services.

Objective:

The main objective of Prime Bank Limited is to maximization of profit by utilizing optimum resources through better customer services.

- ✦ Its main goal is to earn profit. But is also has the social commitment.
- ✦ To build up strong base of capital in the country Prime Bank Limited has been working very systematically.
- ✦ Prime Bank Limited has been working from its very beginning to ensure the best use of its creativity, well disciplined, well managed and perfects growth.

Mission

PBL aims to become one of the leading Banks in Bangladesh by its prudence, flair and quality of operations. PBL's business mission with the slogan "*A Bank with international connection*" is to assist the business development of private sector institutions, industries and household.

- ✚ PBL believes in strong capitalization.
- ✚ It maintains high standard of corporate and business ethics.
- ✚ It believes in disciplined growth strategy.
- ✚ PBL encourages investors to boost up share market.

Commitments:

PBL is committed to provide better services to their customer by the following ways:

- ✚ Their banking service is modern, automated. They use secured computer system for tracking every transaction.
- ✚ PBL encash the cheque of the customer within thirty second.
- ✚ Better customer service is their motto.
- ✚ They believe that their prosperity is for their customer.
- ✚ They treat the business problems of their customer is their own

2.2 Business Description

Name of the Company	Prime Bank Limited
Type of Bank	Commercial Private Bank Limited (Scheduled Bank under banking licensing)
Issued By	Bangladesh Bank
Registration Year	17-04-1995
Registration Act	Companies Act 1994
Registration Office	119-120 Motijheel C/A, Dhaka-10

2.3 The Bank's position in CAMEL Rating:

Under the Financial Institution Rating System, numerical ratings are also assigned based on the examiners judgment of the Capital Adequacy, Asset Quality, Management Quality, Earnings Record and Sensitivity to Market Risk.

The acronym of **CAMELS** is:

C –Capital Adequacy

A –Asset Quality

M –Management Quality

E – Earnings Record

L –Liquidity Position

S –Sensitivity to Market Risk

It is an internationally accepted judging scale of the performance of the Bank. This scale compares the performance of the Bank with other Banks on the basis of the following factors: capital, asset, management ability, Earning capital, Liquidity and Sensitivity to Market Risk.

Prime Bank has been graded as a top class bank in the country through CAMEL rating. The Bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation.

2.4 Performance of PBL At a Glance

The highlights of financial position for the last 5 years are given below:

(TK in Million)

Particulars	1998	1999	2000	2001	2002
Authorised Capital	1000.00	1000.00	1000.00	1000.00	1000.00
Paid-up Capital	200.00	400.00	400.00	500.00	600.00
Reserve Fund	93.70	319.23	573.73	761.43	807.92
Equity Fund	262.51	668.46	895.28	1258.26	1526.41
Deposits	5313.25	7660.02	11168.72	13259.87	16902.29
Loans & Advances	3127.77	5121.03	7707.05	9074.94	12686.85
Investment	604.30	964.81	1524.54	1730.74	1996.23
Foreign Exchange Business	10711.60	15505.50	24029.50	27614.20	31753.70
Import	6223.40	8874.50	11709.60	13427.60	19564.00
Export	4487.90	6731.00	12319.90	14186.60	12189.70
Business Guarantee	754.90	568.30	1386.10	2175.00	3659.30
Income	673.88	1029.24	1515.63	1987.58	2250.96
Expenditure	638.51	668.22	922.43	1231.49	1503.12
Operating Profit	216.94	361.02	593.20	756.09	747.84
Net Profit before Tax	17.39	316.77	526.20	705.09	696.84
Fixed Assets	60.84	99.56	125.18	174.27	218.50
Total Assets	5732.93	8616.17	12845.86	15736.94	20047.70
Dividend: Cash	-	30%	30%	30%	20%
Bonus	-	-	4:1	5:1	6:1
Book value per share (Tk)	146.85	179.86	243.43	221.65	234.81
Earning per Share (Taka)	18.59	51.47	90.11	96.60	69.69
Market value per Share (Taka)	-	-	361.00	409.50	307.51
Number of Employees	362	452	518	613	730
Number of Branches	18	20	21	26	28
Number of Shareholders	22	934	908	1081	1727
Number of Foreign Correspondents	200	240	350	398	422
Capital Adequacy Ratio	9.86%	15.14%	15.18%	17.50%	12.43%
Return on Assets	4.50%	5.30%	4.61%	4.80%	3.73%
Loan as a % of total Deposit	59%	67%	69%	68%	75%
Ratio of Classified Loans to Total Loans	1.78%	1.63%	1.49%	1.13%	1.48%

Table shows the performance of PBL by various years (sources from the annual reports)

2.5 Operational Performance of Prime Bank Limited:

The Bank raised its Paid-up Capital from Tk. 500.00 million to Tk. 600.00 million during 2002 through Public Issue of 1,000,000 Ordinary Shares at per value 100.00. With the increase of Paid-up Capital to Tk. 600.00 million, the capital base of Prime Bank Limited has become one of the strongest. The total Capital Funds of the Bank at the year end 2002 stood at Tk 1407.92 million against Tk. 1358.16 million in the previous year. The Capital Adequacy Ratio is 12.43 % as on 31-12-2002, which is well above the stipulated 8% required for Banks in Bangladesh. Their Classified Loan this year also has been low at 1.48% against 35% of the industry average.

Paid Up Capital:

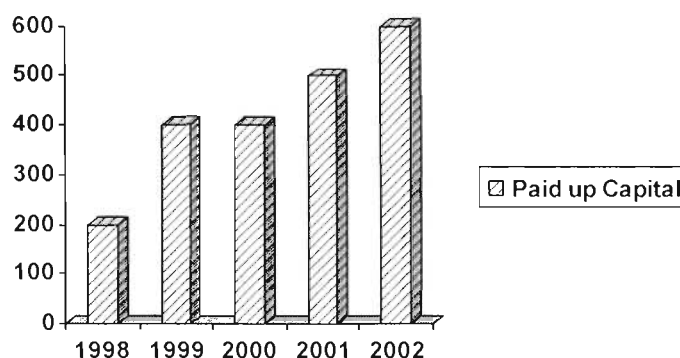
The paid Up Capital of PBL increased in each year which is given below.

Table 2.1 paid up Capital of PBL

(Tk in Million)

Years	1998	1999	2000	2001	2002
Paid up Capital	200	400	400	500	600

Chart 2.1 paid up Capital of PBL



Deposit:

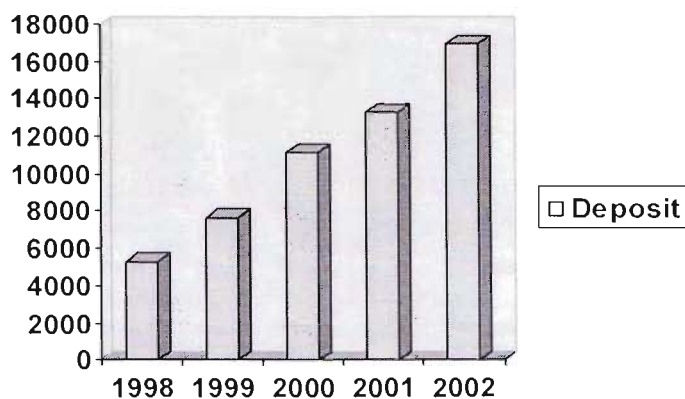
The deposit of Prime Bank Limited has increased by a good amount year after year. It indicates bank now has more money to invest. As a result they can make more profit. The deposit position of PBL is given below:

Table 2.2 the deposit position of PBL

(Tk in Million)

Years	1998	1999	2000	2001	2002
Deposit	5313.25	7660.02	11168.72	13259.87	16902.29

Chart 2.2 the deposit position of PBL



Loans/ Advances:

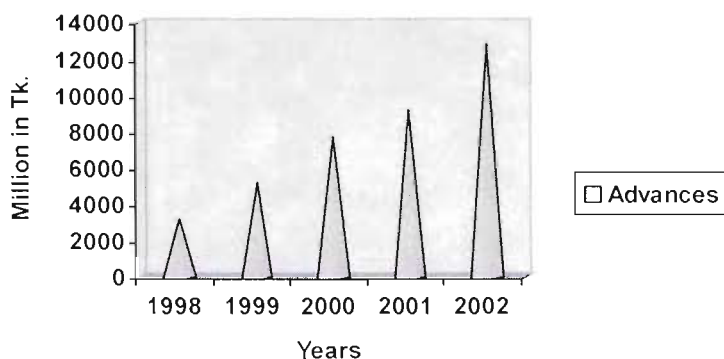
Loans/ Advances have significant importance for the earnings of the profits of a bank. Prime Bank Ltd is not out of this consideration. The deposits are invested through advances. The following graph shows the advance position of PBL which has increased by a good amount over the years.

Table 2.3 the Advances position of PBL

(Tk in Million)

Years	1998	1999	2000	2001	2002
Advances	3127.77	5121.03	7707.05	9074.94	12686.85

Chart 2.3 Advances position of Prime Bank Limited



Investments:

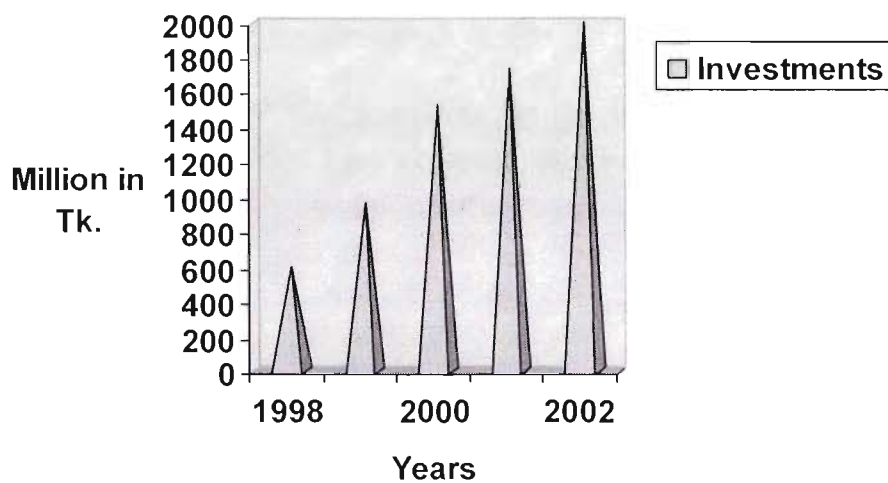
The Investment of PBL has increased each year which indicates bank is investing now more money as a result the capital is utilizing more.

Table 2.4 investments of PBL

(Tk in Million)

Years	1998	1999	2000	2001	2002
Investments	604.30	964.81	1524.54	1730.74	1996.23

Chart 2.4 investments of PBL



Reserve Funds:

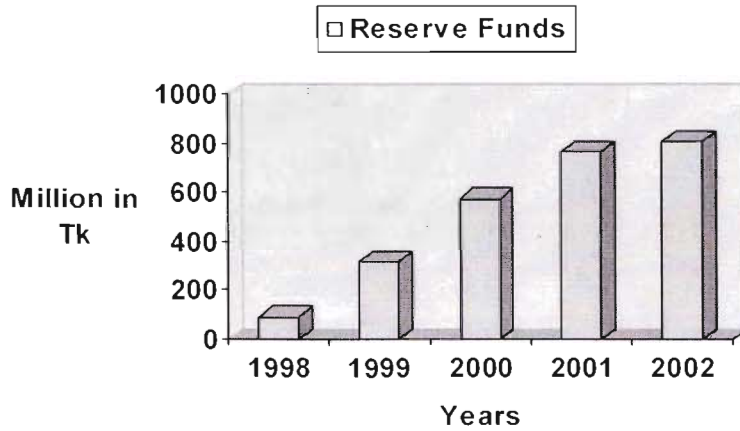
The position of Reserve Fund has significantly increased over the years, which indicates the financial strength of PBL. The position is shown below:

Table 2.5 the Reserve Funds of PBL

(Tk in Million)

Years	1998	1999	2000	2001	2002
Reserve funds	93.50	319.23	573.73	761.43	807.92

Chart 2.5 the Reserve Funds of PBL



Foreign Exchange Business:

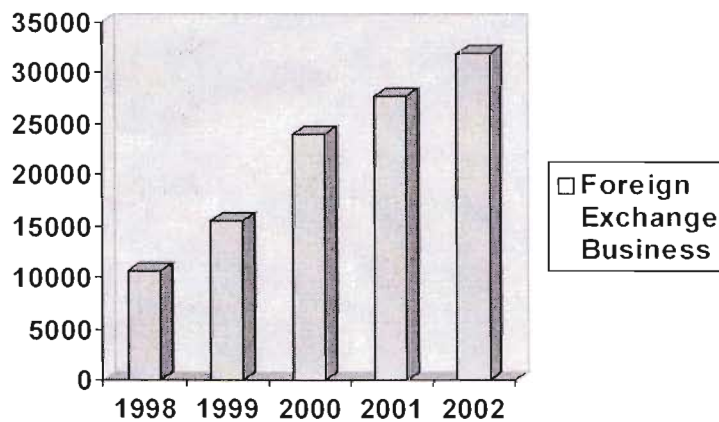
The Bank has also achieved significant success for the increase of its Foreign Exchange Business every year. It indicates the bank’s more involvement in foreign exchange business. The position of PBL’s Foreign Exchange Business is given below:

Table 2.6 the Foreign Exchange Business of PBL

(Tk in Million)

Years	1998	1999	2000	2001	2002
Foreign Exchange Business	10711.60	15605.50	24029.50	27614.20	31753.70

Chart 2.6 the Foreign Exchange Business of PBL



Income:

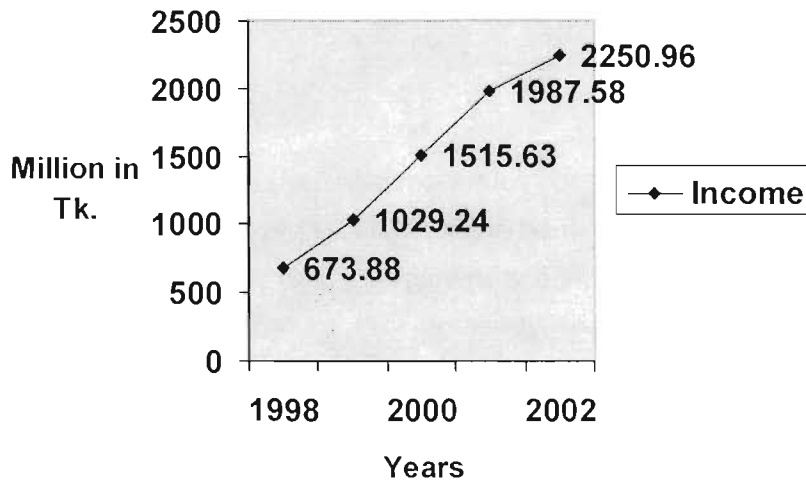
The income of PBL has increased in a satisfactory way in every year as compare to previous years.

Table 2.7 the Income of PBL

(Tk in Million)

Years	1998	1999	2000	2001	2002
Income	673.88	1029.24	1515.63	1987.58	2250.96

Chart 2.7 the Income of PBL



2.6 Divisions & Departments

Audit & Inspection Department

This department is headed by a vice president & works directly under the control of the managing director. The department is responsible to arrange periodical internal audit, conduct special audit, follow up, monitoring the banks overall activities.

Treasury Operation Unit

This unit performs the works of Money Market Operation. They borrow & lend money on call basis. This unit is headed by an Assistant Vice President and work under the direct supervision of the Managing Director.

Administration Wing:

Personnel Department

This Department is assigned to the responsibilities of recruitment, posting, transfer, promotion and development of human resources of the Bank. They also maintain personal file and service record of the employees, take disciplinary action, look for the employees' welfare, salary reconciliation, specimen signature etc. presently the Department is headed by an Assistant Vice President.

Central Accounts Department

This Department maintain all the sorts of accounts of the bank, performs fund management, management information system, expenditure control etc. The Department is presently headed by a Vice President.

Establishment Department

They procure and supply dead stock such as furniture, machinery, equipment, stationary, vehicles, render some other common services and control center dispatch service.

Development Department

This Department is responsible for maintaining and enhancing standard of customer service mobilizes deposits for the bank and deal public relation affairs.

Computer and Engineering Department

This Department is assigned to lead the computerization of the Bank. They procure and maintain computer hardware and software, conducts computer training for the employees.

Branches Control Department

It has the duties are preparing test key arrangement among the branches, maintaining inter branch accounts and overall of the branches.

Operation Wing:

It is the heart of the Bank because the main income generation activities of credit, advance and investment are directed within this wing.

Credit division

All activities relating to the loans and advances of the bank are directed and controlled by this division.

Investment Division

One of the main objectives of the bank is to take part on the capital market & Money market in the country. To achieve this objective the bank established a separate investment division in which several departments are working.

International division

International division of PBL performs the responsibilities of foreign trade & foreign remittance on behalf of its branch.

Import Department

The import department deals with all the issues regarding opening, lodgment and payment of import letter of LC, PAD.LIM.TR etc.

Export Department

This department deals with the matter relating to Export such as advising, negotiation export documents etc.

Training Institution

PRL training institution was set up in July 2,1998 with the aim to build up a strong and skilled work force. This institute is located at 19, Dilkusha C/A, Dhaka-1000.

2.7 Management & Human Resources

An well-educated, skilled and enterprising workforce with wide experience in the banking is a precondition for the continued growth and progress of any bank. PBL's aim is to recruit and retain a competent workforce. In the expectation of continued growth, the bank in 1998 established a training institute for its own staff. Prime Bank recruits experienced bankers as well as fresh graduates and trains them through the Training institute.

2.8 Deposit Schemes of PBL

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

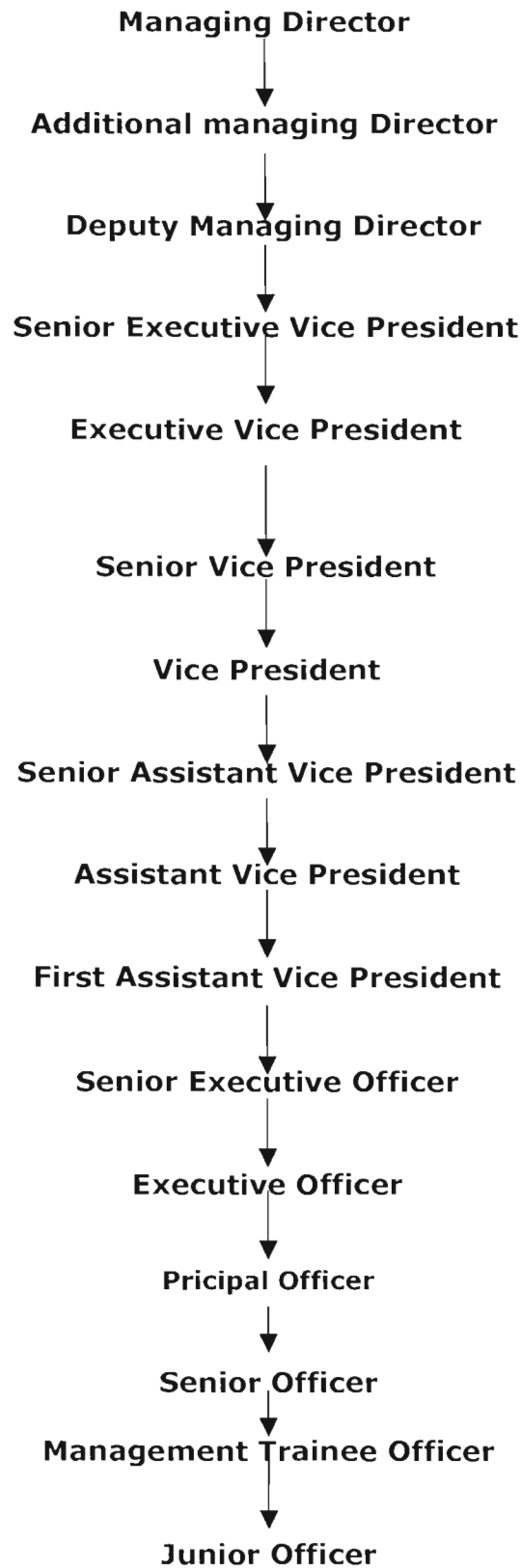
nation.

The savings rate in Bangladesh is one of the lowest in the world rate of domestic saving being 17.78 %. In order to improve the savings rate, Financial Institutions responsible for mobilization of savings should offer attractive Savings Schemes so that the marginal propensity to save increases. The savings do not, of course, depend only on the quantum of income but largely depend on the habit of savings of the people.

PBL have formulated the following Savings Schemes:

- **Contributory Savings Scheme**
- **Special Deposit Scheme**
- **Fixed Deposit Scheme**
- **Prime Bank Insured Fixed Deposit Scheme**
- **Foreign Currency Account**
- **Monthly Benefit Deposit Scheme**
- **Education Savings Scheme**
- **Prime Bank Money Scheme**
- **Current / Savings Account Form**

Management Hierarchy of Position



Chapter Three

Credit Policies of PBL

3.1 Different Loan Schemes

PBL have formulated the following Loan Schemes

- ▶ **General Loan Scheme**
- ▶ **Lease Finance**
- ▶ **House Building / Apartment Loan Scheme**
- ▶ **Small and Medium Enterprise (SME)**
- ▶ **Consumer Credit Scheme (CCS)**
- ▶ **Hire Purchase**
- ▶ **Advance against Share**

These schemes are discussed below:

a) General Loan Scheme

Depending on the various nature of financing, all the lending activities have been brought under the following General Loan:

- ▶ **Short term Loan**
- ▶ **Medium term Loan**
- ▶ **Long term Loan**

The loans are allowed to individual/firm/industries for a specific purpose but for a definite period and generally repayable by installments fall under this head. This type of lending are mainly allowed to accommodate financing under the categories (i) Large & Medium Scale Industry and (ii) Small & Cottage Industry. Very often term financing for (1) Agriculture (2) Others.

b) Lease Finance

Lease financing is one of the most convenient long-term sources of acquiring capital machinery and equipment. It is a very popular scheme whereby a client is given the opportunity to have an exclusive right to use an asset, usually for an agreed period of time, against payment of rent. Of late, the lease finance has become very popular in almost all the countries of the world. An

obvious advantage of the lease is to use an asset without having to buy it. The lessee is obligated to make lease payments until the expiration of the lease agreement, which corresponds to the use full life of the asset.

In a capital scarce economy like ours, Lease Financing is suitable for firms to acquire Capital Machinery, Equipments, Medical Instruments, Automobiles etc. And thereby employ their own resources more advantageously in some other investments. Lease financing also helps a firm to reap significant economic benefit through tax saving and by reducing the risk of the equipments becoming obsolete due to the technological advancement.

Objective:

Prime Bank Ltd. has introduced the lease finance with the following objectives:

01.

Documents & Security: To assist the genuine and capable entrepreneurs for acquiring Capital Machinery and Equipments to undertake enterprises without equity.

The entrepreneur will be required to provide the following securities:

01. The lease items will remain in the name of the Bank i.e., Bank will be the sole owner of the leased items.

02. To encourage the new and educated young entrepreneurs to undertake productive

03. Collateral securities having liquidation value covering at least 100% of the amount of finance. To participate in the industrial development of the country.

03. Deposit of listed Shares, National Savings Certificates, ICB Unit Certificates, Assignment of Life Insurance Policies, Bank Guarantee, Insurance Guarantee etc. will also be acceptable as collateral securities.

Lease Items / Equipments: 04. In case of existing industrial units requiring **BMRE**, charge may be created on the existing Fixed Assets as collateral securities for the finance. In case of existing Automobile enterprises, creation of charge on the existing vehicles will also be acceptable as collateral securities.

Prime Bank Limited offers lease finance for acquiring the use of capital machineries, 05. i) In case of default in payment of lease rental for consecutive 2 (two) months, the Bank equipments, medical instruments, etc. The customers are entitled to decide the specification, price and model of the lease item/equipment. Bank will purchase the item (s) in accordance will take over the lease items without giving any prior notice.

ii) In case of taking over the lease items by the Bank before maturity, the lessee will be

condition that the Bank will depute an officer for close and intensive supervision of the project. In other cases of Lease Finance for amount below Tk. 1.00 crore, an officer of the Bank will supervise a number of projects at a time according to convenience.

Documents & Security:

The entrepreneur will be required to provide the following securities:

01. The lease items will remain in the name of the Bank i.e., Bank will be the sole owner of the leased items.
02. Collateral securities having liquidation value covering at least 100% of the amount of finance.
03. Deposit of listed Shares, National Savings Certificates, ICB Unit Certificates, Assignment of Life Insurance Policies, Bank Guarantee, Insurance Guarantee etc. will also be acceptable as collateral securities.
04. In case of existing industrial units requiring **BMRE**, charge may be created on the existing Fixed Assets as collateral securities for the finance. In case of existing Automobile enterprises, creation of charge on the existing vehicles will also be acceptable as collateral securities.
05. i) In case of default in payment of lease rental for consecutive 2 (two) months, the Bank will take over the lease items without giving any prior notice.

ii) In case of taking over the lease items by the Bank before maturity, the lessee will be liable for the loss, if any, caused to the Bank of such premature taking over.

iii) The Bank will exercise close and intensive supervision of such projects. An Officer of the Bank will be engaged separately for supervision of such projects to ensure proper utilization of the lease items and timely repayment of the monthly rentals.

How to apply?

After having favorable discussion on the various aspects of the Project particularly on the terms and conditions of lease financing, a customer may formally apply in specific **Lease Agreement**.

information on the project and its various aspects. After proper appraisal, if found suitable, Bank will draw terms and conditions of the lease.

Lease Agreement:

After sanction of a proposal for lease finance, a lease agreement will have to be executed between the client and the Bank. The lease rental, lease deposit etc. stated in the lease agreement shall be calculated on the basis of the estimated acquisition cost of the equipment which shall be adjusted on the basis of actual costs and charges at the time of execution. After execution of the agreement, the Bank will purchase the specified items/ equipments and the customer will be under obligation to accept the equipment for the specified lease period.

The customer will be required to make a deposit equivalent to 3 (three) months lease rentals to the Bank on the date of signing of the lease agreement which shall be refunded to the client at the expiry of the lease term.

Procurement and Installation of Lease Equipment:

Bank will place firm purchase order directly to the manufacturer / supplier on the basis of terms and conditions embodied in the agreement between the client and the supplier. The equipment is to be delivered to the selected location of the client. Bank will make full payment after confirmation of the acceptance of the equipment by the client.

In case of imported equipment, Bank will open Letter of Credit in its own name. The Custom clearance and inland transportation of the equipment to the respective locations shall be handled by the client with the co-operation of the Bank. All incidental costs in this regard shall be paid by the Bank and will be included in the acquisition cost of the equipment.

After taking delivery of the equipment, the customer will directly install it at his location as specified in the agreement with the technical assistance of the supplier, if any.

Execution:

On lease execution, the client and the Bank shall enter into an Amendment Lease Agreement reflecting the actual acquisition cost. At the same time the client will issue the certificate of the acceptance of equipment and pay the first lease rentals, insurance

the certificate of the acceptance of equipment and pay the first lease rentals, insurance premium of the 1st lease year as well as any other charge to the Bank.

Acquisition Cost:

The acquisition cost shall be the purchase price and all other incidental expenses incurred by the Bank including financial expenses such as custom duty and other taxes, charges in connection with opening of L/C, insurance premium, freight, transportation, storage charge etc.

Term of Lease and Payments There Against:

The term of lease may be for a period of maximum 5 (five) years during which the lessee will have the exclusive right to use the equipment. On expiry, the lessee may have the option to renew the lease on a year to year basis at a predetermined rental or return the equipment to the Bank. Besides the above options, the lessee may purchase the lease equipment at a reasonable price upon mutual agreement.

Lessee will pay service charge or project examination fee @0.15% on the sanctioned amount subject to a minimum Tk. 3,000 and maximum Tk. 10,000 in case of acquisition of Machinery and Equipments for projects. In case of Automobile, a service charge of Tk. 500 is payable when the acquisition cost is below Tk. 10.00 lac and an amount of Tk. 1,000 is payable when the acquisition cost is Tk. 10.00 lac and above.

The lessee will pay monthly rental in advance starting from the date of execution till end of lease term. Insurance charges are payable by the lessee at actual. 1st year premium is payable on the date of execution.

Risk Fund:

A risk fund shall be built up through compulsory contribution by each lessee on the cost of the lease item (s). The amount will be @ 1% in case of Machinery or Equipments and @ 2% in case of Automobiles.

Supervision and Follow Up:

Bank will engage supervising officers to exercise close and intensive supervision of the projects to ensure satisfactory performance. The assumptions which will be made at the time of appraisal in respect of safety, performance, and use and repayments should be

time of appraisal in respect of safety, performance, end use and repayments should be satisfied through periodical review of the lessee's account and financial statements. Bank will make frequent on the spot inspection of the lessee's operation.

Transport Leasing:

Transport is one of the most widely traded lease items in the developed as well as developing countries of the world. The reasons behind success of transport leasing in many countries could be attributed to tax benefit, efficiency in fund management and above all to the fact that user could exclusively use the leased transport by paying reasonable rental.

The major issues of transport leasing are detailed below:

1. Selection of Vehicle

The customer has the right to decide the brand of vehicle, negotiate the price with the manufacturers of dealers, arrange after sales services with the supplier.

2. Acquisition Cost

The acquisition cost shall be the actual purchase price after bargaining and all other incidental expenses incurred by the Bank including financial expenses.

3. Lease Term

In case of Transport leasing, the term shall be maximum 4 (four) years starting from the date of execution. But when the lease is cancelled for any reason the lessee will have to return the vehicle to the Bank together with the stipulated loss value mentioned in the agreement.

4. Lease Rental

Lease rentals calculated on the basis of acquisition cost and lease term shall be paid monthly.

5. Insurance

The vehicle shall be covered by Insurance throughout the lease term with the coverage decided by the Bank. The premium shall be paid by the lessee.

6. Repair & Maintenance

The lessee shall be obliged to maintain the vehicle for ensuring its normal operation and shall be solely responsible for loss/ damage as long as it is in his possession. Accordingly, repairing and maintenance cost for normal operation during the lease period shall be borne by the lessee.

period shall be borne by the lessee.

7. Registration

The lessee will arrange the registration of the vehicle in the name of the Bank at his own cost and also pay annual taxes and fees payable to the concerned authority. In case of his failure, Bank will do it and recover the cost from him.

Salient Features of Lease Financing:

01. Lease finance is offered for acquiring the use of Capital Machinery, Equipments, Medical Instruments and Automobiles.
02. ~~On expiry of the lease term, the lessee may have an option to purchase the equipment at 5% of the acquisition cost. Besides the above option, the lessee may renew the lease on year to year basis or return the equipment to the Bank.~~
03. The customer will be required to make a deposit equivalent to 3 (three) months lease rentals to the Bank on the date of signing of the lease agreement which shall be refunded to the client at the expiry of the lease term.
04. Bank will purchase the equipment after confirmation of the acceptance of the equipment by the client.
05. On execution of Lease, the client and the Bank shall enter into an amendment lease agreement reflecting the actual acquisition cost.
06. The customer will pay the first lease rental, insurance premium of the 1st lease year as well as any other charge in cash to the Bank on the date of execution of the Lease.
07. The term of lease is maximum 5 (five) years in case of Capital Machinery, Equipment and Medical Instruments but 4 (four) years in case of Automobiles.
08. The Lessee will pay service charge or project examination fee @0.15% on the *sanctioned amount subject to a minimum Tk. 3,000 and maximum Tk. 10,000* in case of acquisition of machinery and Equipments for projects. In case of
09. The Lessee will pay monthly rental in advance starting from the date of execution till the end of lease term. Insurance charges are payable by the lessee at actual.

11. The type of securities acceptable to the Bank will include: (1) Immovable Properties (2) Marketable securities such as FDR, PSP, BSP etc. (3) Bank guarantee. Insurance guarantee and Personal guarantee etc.
12. On expiry of the lease term, the lessee may have an option to purchase the equipment at 5% of the acquisition cost. Besides the above option, the lessee may renew the lease on year to year basis or return the equipment to the Bank.

c) House Building / Apartment Loan Scheme

Loans allowed to individual/enterprises for construction of house (residential or commercial) fall under this type of advance. The amount is repayable by monthly installment within a specified period. Such advances are known as Loan (**HBL-GEN**).

Loans allowed to our Bank Employees for purchase /construction of house shall be headed Staff Loan (**HBL-STAFF**).

Interest Rate: Here the interest rate ranges between 12% to 13.50%.

Prime Bank Limited is committed to play positive role in the overall socioeconomic development of the country. There is also a statement in the objective clause of Memorandum of Association of Prime Bank Limited as under:

To advance or lend money to the unemployed persons for self-employment and rehabilitation in the Society.

To finance the Small and Cottage Industries for Industrialization and also to create employment opportunities”.

It may be mentioned here that as per decision of the Board of Directors in its 78th meeting held on 17.11.1999 a “Small & Medium Enterprise (SME) Cell” has already been established at Head Office under the Credit Division.

In respect of small businesses, an eminent American scholar Mr. John Naisbitt in his book **“Rethinking the Future”** remarked as under:

“Now you can replicate quality anywhere in the world. So, the competitive differentiation comes from swiftness to market and innovation. And in this regard, small companies right down to the individual can beat big bureaucratic companies ten out of ten times. It is the small companies who are creating the global economy, not the fortune-500. 50% of United States exports are created by companies with 19(nineteen) or fewer employees. The global economy of the 21st century will be dominated by Small and Medium sized players.”

If we look at South East Asia, China, Taiwan, Hong Kong, South Korea etc we will find that Small and Medium Businesses are the real engine of growth in those countries.

In view of the above a credit scheme titled **“Small and Medium Enterprise Credit Scheme”** has been formulated as follows. It may also be mentioned that USAID has approved Prime bank to receive their guarantee facility to lend money to Small and Medium business Houses. 50% of losses, if any, be paid by USAID. Brief details are enclosed at Annexure-A.

Objective

01. To provide credit facilities to the small and medium size entrepreneurs located in Urban & Sub-urban areas and easily accessible by our Branches.
02. To encourage the new and educated young entrepreneurs to undertake productive venture and demonstrate their creativity and thereby participate in the national development. To flow credit for creation of employment and generation of income on a

sustainable basis through development of small & medium enterprises.

03. To assist potential entrepreneurs to take part in economic activities so that they can improve their living standard.
04. To reduce dependence on moneylenders.
05. To make the small & medium enterprises self-reliant.
06. To develop saving habit and making acquaintance with banking facilities.
07. To inspire for undertaking small projects for creation employment through income generating activities.

Concepts

Small Enterprise

Small Enterprise refers to those enterprises: -

Where goods are produced, recycled, repaired or traded in traditional way;

Where total bank investment is limited to Tk.250,000;

Where 10 or less workers are engaged on wages or commission basis.

Medium Enterprise

Medium Enterprise refers to those enterprises:-

Where goods are produced, recycled, repaired or traded applying some capital machinery;

Where 20 or less people are engaged on wages or commission basis;

Where total bank investment does not exceed Tk.75, 00,000.

The net fixed assets (excluding land and buildings) of borrowers may not exceed Tk. equivalent of US \$250,000.

Target Group

Initially, Small & Medium Size Entrepreneurs located within the accessible area of PBL's branches will be the target area under this program. The Entrepreneurs should have an existing profitable business or a viable business plan.

Eligibility for Credit Facilities

The following criteria have to be met by the applicant to qualify for a loan from Prime Bank Limited under its SME Credit Scheme:

01. The entrepreneurs must be literate i.e. capable of reading & writing.
02. The entrepreneurs should be skilled in managing his / her business and has experience of successfully managing the business for at least 02(two) years.
03. The age of the entrepreneurs must range between 25 years to 50 years.
04. If the applicant is an individual, he must be a national or permanent resident of Bangladesh. If the Borrower is a company/firm or other business entity it must be registered in Bangladesh and majority shares owned by Bangladeshi's.
05. The applicant must be 100% privately owned, controlled and operated;
06. The applicant's principal place of business must be in Bangladesh;
07. If acceptable collateral security cannot be provided, the borrower should arrange for 02(two) guarantors acceptable to the Bank. The type of guarantors depends on size of the loan and business. In accepting a person as guarantor his social standing, income and asset shall be considered. Any default loanee or unreliable person shall not be accepted as guarantor. However, guarantor will be determined on a case to case basis.
08. The project shall be financially viable and socially desirable.
09. The Sponsor/applicant shall have reputation in the society.
10. There should be some innovation / creativity in the project.
11. Proper utilization and timely repayment of previous loan will be considered as proven track record of the applicant for renewal & enhancement of credit facility.

Restricted Business

01. Production, Marketing, Trading of alcoholic, narcotic and other intoxicating drug or liquor.
02. Production and Trading of any item banned by the Government.
03. Any activity not permissible by the law of the land.

Loan Ceiling

01. For small enterprise: Maximum Tk.2, 50,000/-
 02. For medium enterprise: Maximum Tk.75, 00,000/-
- No loan proposal for less than Tk.1, 00,000/- be entertained.

Purpose

- Working capital
- Capital machinery
- Delivery Van / Transport for business purpose
- Refurbishing office/Business premises.

Mode of Finance

01. Cash Credit (Hypo/Pledge);
02. Hire purchase/ Lease Finance;
03. Term Loan.

Loan Renewal

Successive loans depend on track record of previous loan. Usually, repayment behavior and expansion of business by the borrower are the main considerations for renewal and enhancement of the loan amount.

Interest

8% above Bank Rate. Presently 15%

Penal Interest: If any borrower fails to adjust loan within validity period or to repay consecutive 02(two)-installments, penal interest @0.25% per month shall be charged on the defaulted amount.

Securities

It is a supervisory credit scheme. Tangible security in the form of mortgage may not be available in all the cases. So mortgages will not be mandatory. Security will be stipulated on a case to case basis interalia as under (one or several of the following):

01. Registered mortgage of land & building.
02. Mortgage/Assignment of possession right.
03. Assignment of security money, advance rent, if any.
04. Assignment of Trade Receivables not older than 90 days.
05. Hypothecation of machineries, equipment, vehicles, stock-in-trade, raw materials, work-in-process and finished goods.
06. Personal Guarantee from persons acceptable to the Bank.
07. Post dated checks.

08. Lien on deposits/saving certificates/financial obligations.
09. Any other securities to be deemed suitable by the Bank depending on the situation like Insurance Guarantee, Corporate Guarantee, Assignment of Contract, Security Money etc.
10. Guarantee of USAID for 50% of the exposure.

Period of Loan

- a. If any borrower fails to add up (to the loan) within validity period or to repay his monthly installment then the responsible loan-monitoring officer of the concerned branch will
- b. arrange for adjustment of the overdue installments from the loanee's savings account if there is adequate balance. The officer shall regularly follow up for recovery and take any measure including legal action for recovery.

Mode of Repayment If a borrower fails to repay his consecutive 02(two) monthly installments, then the

01. Branch's loan monitoring officer will investigate into the actual causes of default and report to the Branch Manager, with a copy to SME Cell, Head office for further action and advice for recovery/regularization of the loan.
02. In case of term loan, the loan should be repaid by monthly installments through post-dated checks as per amortization Schedule.

Other Conditions

03. Sale proceeds should be deposited in the account regularly.
01. The borrower shall maintain a non-withdrawal savings account with the concerned branch where he shall make compulsory deposit of @ 0.5% of outstanding loan amount per month for building up his own fund.

Loan Monitoring and Review

02. This is a supervising credit scheme. The success of the scheme depends on the extensive and intensive post disbursement supervision, follow-up & monitoring. It must be ensured that the borrower must not change the nature of business and place of business without prior permission of the Bank.

Allocation for the Scheme

Initially a sum of Tk.10 crore may be allocated for disbursement of loan under the scheme, which will be revised from time to time as per performance of loans under the scheme.

Processing of Credit Proposal Under the Scheme

01. Initially, SME Cell, Head Office shall process the credit proposals under the scheme and Head Office Credit Committee shall approve the same. As per desire of the customer the sanction advice will be sent to the concerned branches for documentation and

Recovery System

- a. If any borrower fails to adjust the loan within validity period or to repay his monthly installment then the responsible loan-monitoring officer of the concerned branch will arrange for adjustment of the overdue installments from the loanee's savings account if there is adequate balance. The officer shall regularly follow up for recovery and take any measure including legal action for recovery.
- b. If any loanee fails to repay his consecutive 02(two) monthly installments, then the Branch's loan monitoring officer will investigate into the actual causes of default and report to the Branch Manager with a copy to SME Cell, Head office for further action and advice for recovery/regularization of the loan.

Other Conditions

01. The borrower shall maintain a non-withdrawal savings account with the concerned branch where he shall make compulsory deposit of @ 0.5% of outstanding loan amount per month for building up his own fund.
02. The borrower must not change the nature of business and place of business without prior permission of the Bank.

Allocation for the Scheme

Initially a sum of Tk.10 crore may be allocated for disbursement of loan under the scheme, which will be revised from time to time as per performance of loans under the scheme.

Processing of Credit Proposal Under the Scheme

01. Initially, SME Cell, Head Office shall process the credit proposals under the scheme and Head Office Credit Committee shall approve the same. As per desire of the customer the sanction advice will be sent to the concerned branches for documentation and disbursement.
02. SME Cell/Branch will work very closely with JOBS program for evaluation of credit proposals.
03. The rules and regulations of USAID must be fully complied with for extending loan to Small and Medium Business Enterprise.

e) Consumer Credit Scheme

In order to provide financial assistance to the limited income group for raising their standard of living by acquiring domestic durables like freeze, TV, Computer, Motor Car, etc. Prime bank Ltd has introduced a Consumers Credit Scheme to improve the quality of life particularly of the fixed income earner of the society.

05. Air Cooler, Air Conditioner, Water Cooler, Water Pump.
06. Personal Computer, Type Writer, Camera, Movie Camera.
07. Washing Machine.

08. Furniture like Dressing Table, Almirah, Khat, Sofa Set, Wardrobe, Show Case etc.
09. Ceiling fan, Pedestal fan.
10. Sewing Machine.
11. Crockery's, Cutleries, Dinner Set, Tea-set etc.
12. Photocopier.
13. Kitchen appliances like Oven, Micro Wave Oven.
14. Pressure Cooker, Blender, Toaster.
15. Telephone Line/Set, Fax Set, Cordless Telephone Set, Cellular phone, Pager etc.
16. Generator.
17. Gold Ornaments.
18. Baby Taxi.
19. Any other item not specified above but considered essential.

Amount of Credit:

Amount of credit shall be keeping in view of the repayment capability of customer. The amount of credit shall be determined in such a manner that monthly installment does not exceed 50% of the disposable income (take home salary) of the customer.

The maximum amount of credit to be allowed to a customer for buying the listed items will be Tk.1.00 lac. The credit for purchase of Gold Ornament shall not exceed one-third of the limit. In case of Car, Station Wagon and Microbus, once the limit will be upto Tk.3.00 lac.

After repayment of 73% of the credit allowed to a customer, he/She will be eligible for fresh credit under the scheme but the total amount of credit shall not exceed the ceiling under any circumstances. But the credit facilities for purchase of Car, Station Wagon and Microbus shall be allowed for one time only.

Rate of Interest: 16.00% P.A. (With monthly rests)

Service Charge payable to Supervising Agency: 2.00% (To be borne by the clients)

Documents & Security:

The customer will execute the following documents:

- | | |
|--------------------------------|---|
| 01. D. P. Note | 06. Letter of Hypothecation |
| 02. D. P. Note Delivery Letter | 07. Loan Agreement |
| 03. Letter of Arrangement | 08. Letter of Guarantee |
| 04. Letter of Undertaking | 09. Letter of Disbursement |
| 05. Letter of Installments | 10. Letter of Authority (if applicable) |

The client will also submit crossed cheques in advance for all the stipulated installments in favour of the Bank towards repayment of loan including interest and service charge. The customer will provide personal guarantee of an officer preferably his reporting officer or any other superior or controlling officer. The guarantee will be duly verified by the competent authority of the respective organizations. The articles procured under the Scheme shall remain hypothecated to the Bank as security.

Loan Amount & Time Limit:

Item	Loan Limit (Lac)	Client's Contribution (Min.)	own Time (Years)	Limit
Car, Station Wagon	10.00	40%	3	
Recondition Car, Station Wagon	7.50	40%	3	
Photocopier	1.00	40%	1	
Others	1.00	20%	2	

Rules for Application:

Intending clients will have to apply for the credit in bank's printed application form which will be available in respective branches on payment of tk.10.00 only. Clients will submit the application form duly filled-in and signed along with quotations for the purchase of desired articles.

f) Hire Purchase

Hire Purchase is a type of installment credit under which the Hire Purchase agrees to take the goods on hire at a stated rental, which is inclusive of the repayment of Principal as well as interest for adjustment of the loan within a specified period.

Interest Rate: Here the interest rate ranges between 12.00% to 13.50%.

Purpose: For purchasing Capital Machineries, Vehicles etc.

Security/ Collateral:

- i) Equipments to be purchased will be in the sole name of the bank duly insured covering risk of Fire and RSD under Bank's Mortgage Clause.
- ii) Ownership of the vehicle will be in the name of the Bank with comprehensive insurance.
- iii) Personal Guarantee of all Directors/ Owner's.
- iv) In case of Company, Corporate Guarantee of all the company backed by full Board Resolution of the company.

g) Advance Against Share

In order to contribute to the development of the Capital Market of the country Prime Bank Limited extends credit facilities against pledge of Shares to the individuals as well as to the Member of DSE & CSE.

Terms & Conditions:

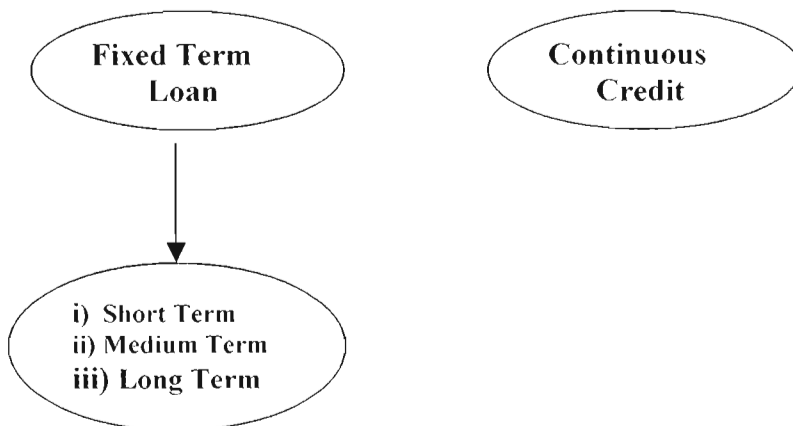
01. For availing of credit facilities against pledge of shares the intending borrowers shall deposit shares of at least three (3) Companies which are preferably registered in his/her name.
02. Credit facilities in the form of Secured Overdraft (SOD) Limit may be allowed up to 50% of the Value of shares pledged calculated on the basis of current market prices or previous 6 months' average market prices, whichever is lower.
03. In case of ICB Unit Certificates SOD limit up to 80% of the face value Certificate may be extended.
04. The Share Certificates must be accompanied by Form -117 containing the signature of the Shareholders duly checked and verified.
05. The maximum ceiling shall be Tk. 20.00 Lac for individual borrowers.
06. The Stock Brokers of DSE & CSE are eligible for availing of the SOD facility against pledge of shares up to Tk.50.00 lac & Tk.15.00 Lac respectively. They will be required to keep lien of the original copy of the License issued by SEC.
07. Interest rate will be charged @ 15% P.A with quarterly rests or as may be amended from time to time.
08. The intending borrowers shall have to open a CD Account with our Motijheel Branch for availing of the SOD facility.
09. Credit facility is extended only against Shares which are in market lots.
10. Borrowers can withdraw or deposit shares and vary their limits/exchange Shares/enhance limits etc. at any time during banking hours. Handling charge of Tk.100.00 is realized per transaction.
11. The loan facilities under this scheme are presently available at bank's Motijheel Branch, Dhaka and Agrabad Branch, Chittagong.

3.2 Types of Credits and Advances of Prime Bank Limited

In achieving the aforesaid objectives of the Bank, credit Operation of the Bank is of paramount importance as the greatest share of total revenue of the Bank is generated from it, maximum risk is centered in it and even the existence of Bank depends on Prudent management of its credit port-folio. The failure of a commercial Bank is usually associated with the problem in credit portfolio and is less often the result of shrinkage in the value of other assets. As such credit portfolio not only features dominate in the assets structure of the Bank but also it is critically important to the success of the Bank.

Prime Bank limited continued to extend its credit facilities to industries trade and commerce, productive & priority sector and to small and medium enterprise within the policy guidelines of the Bank and Bangladesh Bank.

Total Picture of Credit



3.3 Various Forms of Credit and Advances

Loans and Advances are primarily divided into two major groups:

Fixed Term Loan

These are the advances made by the Bank with fixed repayment schedules. The term of the loan are defined as follows:

Short Term	Up to 12 months
Medium Term	More than 12 and up to 36 months
Long Term	More than 36 months

Continuous Credit

These are the advances having no fixed repayment schedule, but have an expiry date at which it is renewable on satisfactory performance.

Further all categories of loans have been accommodated under the 7 prime sectors as under:

Agriculture:

- ✘ Loans to Primary Producers who are engaged in farming, fishing, forestry or livestock.
- ✘ Loans to input dealers/ distributors who are in agricultural sectors.

Agricultural loans may include short, medium and long fixed term loans as well as continuing credits. As such, it may fall under the head "Loan (Gen.)/Hire-Purchase/Lease Financing".

Term Loan for Large and Medium Scale Industry:

Prime Bank Ltd. also provides term loan for large and medium scale industry. This type of loan or advances supply the medium and long term finance for capital structure formation of

new industries or for BMRE of existing units, who are engaged in manufacturing of goods and services.

Term financing to tea gardens may also be include in this category depending on the nature and size. This type of loans has fixed repayment schedule. These loans fall under the head "**Loan (Gen)/Hire Purchase/ Lease financing**".

Term loans to small and cottage industries:

The medium and long term loans which are allowed to small and cottage manufacturing industries.

No short term or continuous credits are to be included in this category. Medium and long-term weaver credits are also included under this category.

Like the large and medium scale industry it is also allowed in the form of "loan (Gen.)/hire-purchase/ lease financing".

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 are usually continuous credits and fall under the head "Cash Credit".

Cash Credit (Hypo)

Advances allowed to individual/ firm for trading as well as wholesale purpose or to industries to meet up the working capital requirements against hypothecation of goods as primary security fall under this type of lending, It is a continuous credit. It is allowed under the categories:

- Commercial Lending when the customer is other than an industry
- Working Capital when the customer is an industry.

Cash Credit (Pledge)

Financial accommodation to individual firms for trading as well as for whole-sale or to industries as working capital against pledge of goods as primary security fall under this head of advanced. It is also a continuous credit and like the above allowed under the categories:

- ❖ Commercial Lending

- ❖ Working Capital.

Export Credit:

Credit facilities allowed to facilitate export of all items against Letter of Credit/and or confirmed export orders fall under this category. It is accommodated under the heads:

- Export Cash Credit (ECC)
- Packing Credit (PC)
- Foreign documentary Bills Purchased (FDBP)
- Local Export Bills Purchased etc.

Commercial Lending:

Short-term loans and continuous credits allowed for commercial purposes other than exports fall under this category. It includes import financing, financing of internal trade, service establishment, etc. Medium and long term loans are accommodated here. This category of advances are allowed in the form of:

- ❖ Loan against imported merchandise (LIM)
- ❖ Loan against trust receipt (LTR)
- ❖ Payment against imported documents (PAD)
- ❖ Secured Overdrafts (SOD)
- ❖ Cash Credit (CC)
- ❖ Loan (Gen) etc. for commercial purpose

Others

Any loan that does not fall in any of the above categories is considered under the category others.

It includes loan to

- ❖ Transport equipment
- ❖ Construction works including housing (commercial/residential)
- ❖ Work order finance
- ❖ Personal loans, etc.

Depending on the various nature of financing all the lending activities have been brought under the following major heads:

Loan (General)

Short term, medium term and long term loans allowed to individual/firm/ industry for a specific purpose but for a definite period and generally repayable by installments fall under this head. This type of lending are mainly allowed to accommodate financing under the categories

- ❖ Large and medium scale industry
- ❖ Small and cottage industry

Very often term financing for

- ❖ Agriculture
- ❖ Others are also included here.

House Building Loan (General)

Loans allowed to individual/ Enterprises for construction of house (residential or commercial) fall under this type of advance. The amount is repayable monthly installment within a specific period. Such advances are known as Loan (HBL-GEN).

House Building Loan (Staff)

Loans allowed to the Bank's employees for purchase/ construction of house is known as staff Loan (HBL- STAFF)

Other loans to (staff)

Loans allowed to employees other than for House Building shall be grouped under head Staff Loan (Gen.)

3.4 credit principles of Prime Bank Limited

The following are the principles to be adopted for lending authority, approval, monitoring and control on a basis consistent with the global operational objectives and business strategies of the Bank. The bank provides effective appropriate credit services & products.

Loans for definite area

The Prime Bank Ltd. usually provides suitable credit services and products for that market in which it operates.

The elementary principle is to provide credit for the definite area. It indicates that the banks must provide the loan for that area in which it is located. This is done for security of the loan. The second reason, the Bank should have the demand from local people. It must meet up their needs. Beside that the clients will have the facility to do the daily transactions regarding the loans. To regularize the client's daily transactions are required. The bank also can investigate about the conditions of the clients business, which will ensure the repayment of the loans.

Loans from the deposits

The bank provides the loans and advances not from other sources but from the customer's deposits. The spread between the interest rate of loan and deposit is Bank's profit.

Credit standard should be maintained

Credit should be sanctioned according to the Bank's standard, so that the clients could not arise questions about the performance of the Bank.

The extension of credit

The extension of all credits must comply with the requirement of Banks Memorandum & Articles of Association. Banking Companies Act 1991 amended from time to time according to the Bangladesh Banks instruction and other application rules and regulation.

Structural

The authority structure for extension of credits should enable effective adaptation to changes in the economic, technological, regulatory and competitive environment within which the Bank operates.

Performance

The conduct and administration of the loan portfolio should contribute within defined risk limitation, to the Banks achievement of profitable growth and superior return on the Banks capital.

Credit advancement shall focus on the development and enhancement of customer relationships and shall be measured on the basis of the total yield for each relationship with a customer (on a global basis) though individual transactions should also be profitable.

Credit facilities will be extended to those companies/ persons who can make best use of them. Thus helping to maximize bank's profits as well as economic growth of the country. To ensure achievement of these objectives the bank will base their lending decision mainly on the borrowers ability to repay.

If credit facilities are granted on a transaction/ one-off basis the yield from the facility should be commensurate with the risk.

3.5 Loan Pricing

Pricing of loan is a great important element in banking business. Because through pricing, bank usually creates margin/ profit. So it is to be determined carefully. Credit officer considers some points while determining the price of loan.

The factors are:

- ↳ **Interest expense or cost of fund.**
- ↳ **Administrative cost.**
- ↳ **Cost of capital.**
- ↳ **Risk premium.**

Interest on various lending categories will depend on the level of risk and type of security offered. The rate of interest is the reflection of risk in the transaction. The higher the risk, the higher is the interest rate.

Interest is reviewed at least once in six-month and more often when appropriate. The credit officer discourages fixed interest rate. All rates should vary with cost of funds fluctuation based on a spread for profit.

Effective yield can be enhanced to the extent the borrowers are required to maintain deposits to support borrowing activities. Commitment fee and service charges should further improve yield where possible. All pricing of loan have relevance with the market condition and the Executive Committee/ Managing Director approves it from time to time.

Loans are priced after considering the above four factors cost of Fund, Cost of Administrative Expenses, Cost of Capital and Risk Factors. The Bank also considers what the market situation is, what the government regulations are etc. But one of the most important principles of the bank is that it will not lose a customer.

3.6 Various stages of credit appraisal

i) Opening an account

When the applicant comes to the bank for loan the credit officer first asked him to open an account by his name in the bank. By this process the credit officer wants to determine the character of the client, whether he is maintaining the account regularly or not.

ii) Request for credit limit from the client

At the first stage of the credit the customer apply to the Bank for the credit. Bank provides credit facilities to the people who are credit worthy to the bank.

Credit worthiness depends on the credibility, financial capability and feasibility of the project and management ability of the credit to earn profit. The credit applicant must give an interview to the credit officer of the Bank. If the officer is satisfied about the information that the applicant provides, then he asked to submit an application and to fill up a form with specific details. He also has to submit the correct picture of his business and the photographs of land, properties or the organization where it is situated.

ii) Collection of information about customer

The credit officer collects the information about the customer. The information which he has to collect, are as follows:

- ↓ Borrower's name
- ↓ Present status of the borrower business
- ↓ Borrower's total assets and liabilities
- ↓ Relationship of borrower with his suppliers
- ↓ The amount of sales of the products
- ↓ The demand of the products in the market
- ↓ The goodwill of the borrower's business
- ↓ Financial statement
- ↓ Income tax statement
- ↓ Liabilities with other bank

- ↓ Borrower's own mode of dealing
- ↓ The real value of his assets
- ↓ Regularity of the accounts which he opens in the Prime Bank Limited.

Inquiry about the truth

The credit officer should justify the information that the borrower provides. So the inquiry about the truth has got significant importance. The credit officer must go practically the related field and area to identify the truth. The officer may talk with the customer of the borrower's organization. He can examine the quality of the products. Credit officer may determine the characteristics and honesty of the client by identifying the relationship with other bank. He also needs to go to the lawyer to justify the authentication of various documents relating land and other properties the customer provides. Because Bank will use them, as the securities of the advances and in case of default by the customer the Bank will sell the collateral assets.

Collection of CIB Report

CIB means *Credit Information Bureau*. By CIB report the credit officer can easily identify whether the client is liable or not to any other bank in Bangladesh. This report is gathered from Bangladesh bank. The credit officer sent the information regarding the client and his business and collects the CIB information. Now a days collecting CIB report is mandatory for bank before granting a good amount of credit.

Preparation of credit proposal as per Bank's format

Credit division of Prime Bank Limited has a specific credit proposal format. To present a proposal either in Branch or Head office Credit Committee or in the meeting of Higher Authority, each & every credit officer has to use that specific format.

3.7 Responsibility of Branch Manager

It is very importance to safe guard Bank's investment as a Bank mainly invests out of public deposit. But it is the hardest work to bring back the investment from the customer's purse after disbursement of fund in favour of the customers. At the same

time, it is also a complicated job if some one abides by the rules, regulations and sound lending policies of the bank.

Bank is the custodian of public money and as such manager must be judicious, selective, careful and take all necessary steps while lending money to customers out of public deposit. Managers should think that they are lending their money to third parties and take precaution accordingly.

For sound lending the following points are followed by the branch manager:

- Judicious selection of Customers
- Purpose of the Loan
- Liquidity
- Adequate Return
- Supervision & Follow up
- Primary Security
- Collateral Security
- National/ Social Objective
- Credit guidelines of Bangladesh Bank.

Branch Manager is primarily responsible for all advances at his Branch. His responsibility for the proper conduct and safety of the advances of his branch is enormous. So he exercises common sense, wisdom, prudence and judiciousness in the use of powers delegated to him and in recommending proposals to Head Office for sanction. In all cases, he ensures that Bank's interests are fully safeguarded. The fact that an advance sanctioned by Head Office does not, in no way, lessen the responsibilities of the Manager as proposals are initiated and recommended by him. The Branch Manager is responsible and accountable to do due diligence in respect of Credits irrespective of whether the Credits were sanctioned/ recommended by the Manager or his/her predecessors.

Selection of the prospective borrower is the most vital point. The Branch Manager sees that the selection of borrowers is judicious, the accounts of the borrowers are properly conducted, the security is sufficient and in order, effective and constant follow-up and supervision is made and the position of the borrowers and co-obligates have not deteriorated. He supervises the end-use of the credits.

The Manager makes a preliminary study of the affairs of the intending borrower by consulting the followings:

- ✚ Borrowers application
- ✚ Reports in confidence collected through all feasible means regarding the state of the business of the intending borrower
- ✚ Borrower's own mode of dealing
- ✚ Statements of assets and liabilities.
- ✚ Financial statements for the last 3 years.
- ✚ Income Tax statement
- ✚ Trade and other reports.

If the manager becomes satisfied with the above statements and papers, he arranges an interview with intending borrower to know the following points:

- ✚ Present and future prospect of the customer's business.
- ✚ Total investment required in the business.
- ✚ Amount of Advance required
- ✚ Experience of the borrower in that sector
- ✚ Purpose
- ✚ Period of which the Advance is required
- ✚ Source of repayment
- ✚ Customer's previous bankers
- ✚ Present liabilities (If any) with other bank or people.
- ✚ Securities offered as collateral
- ✚ Proposed margin
- ✚ Type of charge to be created against the proposed security
- ✚ Terms of repayment
- ✚ Rate of interest

Before finally selecting a borrower for disbursing credit facilities the manager ensures/satisfies that:

- ✚ The customer possess (6 C's) properly. Those are Character, Capacity, Cash, Collateral, Conditions and Control.

- ✚ The account is remunerative one.
- ✚ Dealing items and primary security of the customer possess the quality of easy marketability, durability and storability
- ✚ Collateral securities offered by the customer has easy marketability, it is not encumbered and its valuation is judiciously assessed so as to leave sufficient margin after covering the advance and belongs preferably to the borrower
- ✚ Repayment arrangement is satisfactory
- ✚ Means, standing and respectability of the applicant and the guarantor are satisfactory
- ✚ Credit worthiness of the customer is acceptable
- ✚ Location of the business is good.

After considering and studying all the above statements, factors, conditions the manager decides whether a customer should be given credit or not. If he thinks that a customer fulfills the requirements given by the bank, he recommends the customer for sanctioning credit.

3.8 Sanction of credit by higher authority

Branch credit committee

Branch credit committee to be headed by the branch Manager. Other members to be selected by the manager in consultation with Head office high officials.

Head Office Credit Committee

Head office credit in accordance with authority established and delegated by the Board of Directors.

- ✚ Reviewing, analyzing and approving extension of credit in accordance with authority established and delegated by the Board of Directors.
- ✚ Evaluate the quality of lending staff in the bank & take appropriate steps to improve upon.

- Recommending credit proposal to the Executive committee/ Board of Directors that are beyond the delegated authority.
- Ensuring that all elements of credit application i.e. Forms, analysis of statements and other papers have been obtained and are in order.

Executive Committee

The tasks of Executive Committee are: Approving credit facilities as delegated by the Board of Director, Supervising the implementation of the board of Directors, Reviewing each extension of credit approval by the Head office Credit Committee Managing Directors, keeping Board Directors informed covering all these aspect.

Board of Directors

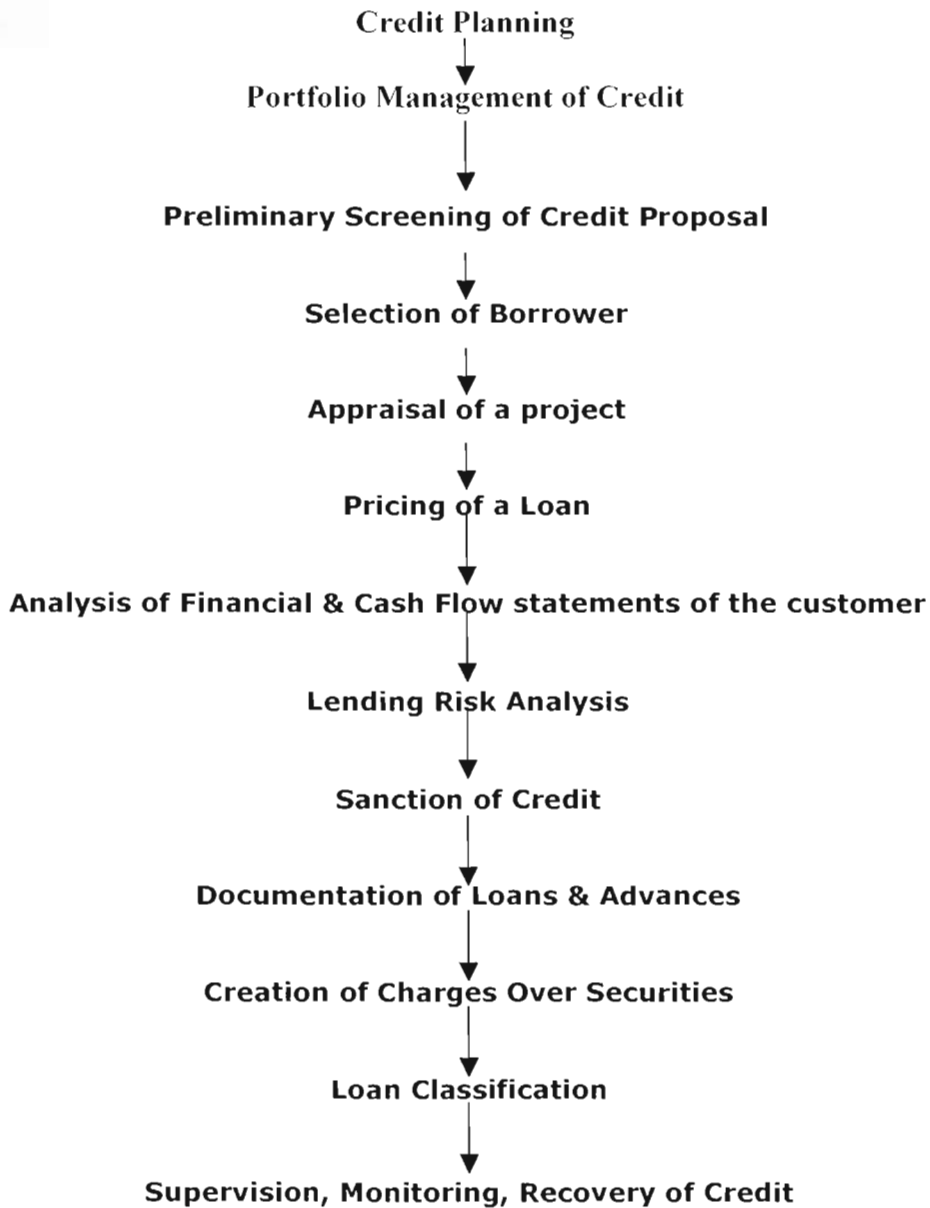
Establishing overall policies and procedures for approving and reviewing credits, Delegating authority to approve and review credits, Approving credit for which authority is not delegated, Not approving all extension of credit which is contrary to bank's written credit policies.

3.9 Recovery of Credit

Recovery of credit is the last important part of credit policy. Banks can earn maximum amount of profit when their recovery rate is highest. The recovery of credit depends on the borrower. So to ensure proper recovery the credit officer should select borrower very carefully. Prime Bank is very careful about borrower selection. So the recovery rate of this Bank is highest. The rate of total classified loan is 1.48% in year 2002.

Credit Proposal & Credit Appraisal of Prime Bank Limited

(At a Glance)



3.11 Credit Policy (Global Credit Portfolio limits)

The nature of credit portfolio is governed according to the guidelines, which are set down by Head Office. Criteria for exposure to customers are set out below:

a) Total Facilities

The aggregate of all cash facilities does not exceed 80% of customer deposits.

b) Term facilities

Aggregate long-term facilities do not exceed 20% of the total credit Portfolio. Facilities do not allowed for a period exceeding 5 year. Any exceptions will require the approval of the Board of Directors.

c) Country/ Cross border Exposure

Limits to be established by the Board for individual Country as well as for aggregate Bank Credit exposures to different countries. These limits are to be reviewed from time to time with due regard to the political and economic environment in each country. The country exposure limits may be utilized up to maximum amounts for different maturities as follows:

- For maturities up to one year: 100% of the limit
- For maturities up to two years: Maximum 50% of the limit
- For maturities upon three years: Maximum 25% of the limit
- For maturities beyond three yours: Maximum 10% of the limit
- For exceptions, approval is required from the Board of Directors.

d) Sector wise allocation

Sector-wise allocation of credit is made annually with the approval of Executive Committee Board of Directors. This is reviewed from time to time.

e) Security

Security accepted against credit facilities is properly valued and is effected in accordance with the laws of the country. An appropriate margin of security will be taken to reflect such factors as the disposal costs or potential price movements of the underlying assets.

f) Borrower selection

Selection of borrower is a very significant part of credit decision. Degree of risk has a negative relation with the selection of borrower. Selection of right borrower reduces the risk of nonpayment of the loan. On the other hand, degree of risk of nonpayment increases with the selection of wrong borrower. In our country, the huge volume of non-performing loan is mainly the result of failure in selecting right borrower. There are some parameters for selection of borrower is popularly known as 6C's such as:

- Character
- Capacity
- Capital
- Collateral
- Control
- Condition
- Character: Market reputation, morality, family background, & promptness in repayment.
- Capacity: Ability to manage the business efficiently, ability to employ the fund in the right way, ability to overcome unforeseen problems.
- Capital: Equity strength, assets & properties.
- Collateral: The easy marketability of the property given as security.
- Control: Applicable banking laws and regulations regarding the character and quality of acceptable loans, adequate documentation for the examiners who may review the loan.
- Condition: Overall business condition.

g) Analysis of financial cash flow of the customer

The lending officer also analyzes the following financial statements of the borrower business:

- Profit & loss A/C

- Manufacturing A/C (in case of manufacturing Co.)
- Balance sheet
- Fund flow statement
- Cash flow statement

3.12 Examination of financial statement and the lending banker

Whenever a banker advances money to partnership firms and limited companies, he has to study their balance sheet before an advance is sanctioned. This is because the study of the balance sheet will enable the banker to know the financial position of a potential borrower. It also would enable the banker to know whether the money is to be repaid in course of time or not. The study of the balance sheet also reflects the nature of management of the concern whose balance sheets are scrutinized. This is more important because a banker would always like to advance money to concerns that are managed efficiently on the basis of sound principles of company management or financial management.

There are certain points those are very important at the time of studying a balance sheet:

The bankers study the balance sheet not of one year but the balance sheet of 3 to 5 years. This is because the balance sheet of one year may not give a correct picture of the financial affairs of a concern.

To identify the true picture of the company the banker also sees to it that the balance sheets that are being studied are for a full of 12 months.

The banker also see that the balance sheet is certified as true and is duly signed by the auditors of the company.

The credit officer not only se the balance sheet but also their other financial statement such as profit and loss account, trading account etc. They also go for ratio analysis to understand the condition of the business more effectively. The analyzed ratios are:

1. Profitability ratios: These ratios include

- a) Gross Profit Margin (%)
- b) Net Profit Margin (%)
- c) Return on Asset (%)
- d) Return on Equity (%)

2. Liquidity Ratios: These ratios include

- a) Current Ratio
- b) Quick Ratio

3. Asset Utilization Ratios: These ratios include

- a) Sales to Fixed Asset (times)
- b) Sales to Total Asset (times)
- c) Sales to Working Capital (times)
- d) Receivable turnover in days
- e) Inventory Turnover in Days
- f) Payable Turnover in days.

4. Debt Utilization ratios: These ratios are

- a) Debt to Equity (%)
- b) Debt to total asset (%)

These ratios show the accurate picture about the profitability, liquidity position, asset utilization and debt utilization of the business.

Financial viability

Different techniques are applied for judging the financial viability which are discussed as follows:

- ✦ Cost the project and means of finance
- ✦ Investment profitability analysis through Capital budgeting Techniques. These are classified as following:

1. Non Discounted cash flow method:

- Payback period
- Accounting Rate of Return (ARR)

2 Discounted Cash flow method:

- Net Present Value (NPV)
- Internal rate of Return Method (IRR)
- Break Even Analysis
- Sensitivity analysis

3.13 Various documents of Credits and advances:

General documentation as required for different kinds of advance are enumerated below.

LOAN

- D.P Note
- Letter of partnership (in case of partnership concerns) or resolution of the Board of Directors (in case of limited companies)
- Letter of arrangement
- Letter of disbursement
- Letter of Pledge (in case of hypothecation of goods)
- Trust Receipts (in case of LTR facility)
- Letter of lies and ownership/ share transfer form (in case of advances against share)
- Letter of lien for packing credits (in case of Packing credits)
- Letter of lien (in case of advance against FDR)
- Letter of lien and transfer authority (in cam of advance PSP, BSP ere.)
- Legal documents for mortgage of property (as drafted by legal Adviser)
- Copy of Sanction letter mentioning detail of terms & conditions duly acknowledges by the borrower.

Overdrafts

- D.P Note
- Letter of partnership(in case of partnership concerns) or resolution of the Board of Directors (in case of Limited Companies)
- Letter of arrangement
- Letter of continuity
- Letter of lien (in case of advance against FDR)
- Letter of lien and ownership share transfer firm (in case of advance against shares)
- Letter of lien and transfer authority (in case of advance against PSP, BSP etc.)
- Legal documents for mortgage of property (as drafted by legal adviser)

Cash Credit

- D.P. Note
- Letter of partnership (in case of Partnership concerns) or Resolution of the Board of Directors (in case of limited Companies)
- Letter of arrangement
- Letter of continuity
- Letter of hypothecation (in case of cash credit hypo)
- Letter of acceptance, where it calls for acceptance by the drawee

3.14 Credit file maintenance:

The next important work is maintaining the credit files. It is a chronological work. These files contain all necessary information which can provide the monitoring facility. It should contain through history of the customer relationship to:

- Help credit officers track any problems
- Assist a newly assigned credit officer in understanding the customer
- Make the lending process transparent

The maintenance of credit files shall be disciplined to force the lending officer to obtain all relevant documents and encourages him to consider all relevant information when analyzing customer risk.

Complete credit files help prevent loan losses resulting from imperfect security documentation.

The primary items in credit files will include:

- Credit application
- Credit approval notes/ analysis
- The analysis contains information about borrower
- Credit purpose
- Credit repayment sources
- Details of collateral security with valuation and guarantee.

It contains an assessment of the competence and quality of the borrower's management, the general economic and competitive environment of the borrower's industry and any other pertinent factors, which may affect the borrower's ability to repay the facility.

Evidence of credit approval and data upon which approval was granted together with any comments, if appropriate. Copy of sanction letter & loan agreement. A checklist along with copies of all legal and banking documents is obtained.

Details and 6 monthly updated information of all related facilities to the same customer group (group liability information).

All supporting data such as financial statements and analysis there of, reference, credit investigation results, CIB & other Bank reports and notes of all discussions with the borrower and other relevant parties with paper clipping.

Correspondences call reports, site visit reports, stock report etc. Each credit file shall be maintained in a secured location and access restricted to the authorized personnel. Copies of the information may be kept where regular access is required.

3.15 Loan classification

The loans which cannot be possible to recover or has the doubt to be recovered are treated as classified loans. There are three types of classified loans. These are:

a) Sub- Standard Advances:

This classification contains accounts where irregularities have occurred but where such irregularities are considered to be either "technicalities" or temporary irregularities no loss is expected to arise. These accounts will require close supervision by management to ensure that the situation does not deteriorate further.

Provision is @ 15% of the base is required for debt in this classification where base is the outstanding balance less interest kept in interest Suspense Account less the value of eligible securities.

Doubtful debt:

This classification contains debts where doubt exists over the full recoverability of the principal and/ or interest. Although a loss is anticipated it is not possible at this state to quantify the exact extent of that loss. Management always tries to avoid the loss or minimize the loss.

Provision is 50% of the basis is required for debts in this classification.

Bad debt:

These facilities are considered to be uncollectable or worthless even after all security has been exhausted and shall be provided for @ 100% of the bases.

Factors which ensures the classification

1. Past due interest or other receivable payment for 6 months or more or as prescribed by Bangladesh Bank.
2. Past due principal repayment for 6 months or as prescribed by Bangladesh Bank.
3. Significant decreases in the value of collateral/ securities.
4. Weakening in Bank's position as a creditor due to any reason whatsoever.
5. Significant change in the environment lending to a weakening of the credit.
6. Diversion of funds to uses other than what the facility was approved for.
7. Incorrect information supplied by the borrower, which affects his credit standing.
8. Bankruptcy of the borrower
9. Unfavorable Bank/ trade reports (from reliable source) of the borrower
10. Any information which may force a future problem or affects the borrower's credit worthiness.

Provision

If any account is classified the account will be put at an accrual basis. Interest will be debited to the customer account but should not be taken to income account but credited to interest suspense account.

Payments received for a classified loan will be applied against interest first. The account will be reclassified as current when all due amounts have been paid.

3.16 Total & Sector wise Loan Disbursement of PBL

With a view to improving the quality and soundness of the loan portfolio, credit risk management methods were updated in 2002. The Bank is now applying a new system of credit risk assessment and procedures by stricter separation of responsibilities between risk assessment and lending decisions and monitoring functions. The bank monitors its exposure to particular sectors of economy on an ongoing basis.

As at the end of 2002, Loans and Advances amounted to Tk. 12,686.94 million increased by 40% compared to Tk. 9,074.94 million in 2001. As before, the bank continued to extend credit facilities to Trade Finance, Project Loans, Working Capital and Consumer Credit etc. The bank has all along encouraged small business group and supported Small and Medium Enterprises (SME). Agriculture and IT sector both got priority from the bank in line with national interest. The bank had also extended long-term loan to a number of projects under syndicated financing arrangement with banks and financial institutions.

Sector wise Portfolio of loan and advances for year 2003, 2002, 2001 are given below:

No	Sector	2003		2002		2001		2000	1999	1998
		Tk in million	% Of total loans	Tk in million	% of total loans	Tk in million	% of total loans	Tk in million	Tk in million	Tk in million
1.	Agriculture	470.64	2.85%	58.99	0.46%	33.37	0.37 %	Not available	Not available	Not available
2.	Large and Medium scale industry(Term Loan)	3511.51	21.29 %	2832.55	22.33 %	1418.69	15.63 %	Not available	Not available	Not available
3.	Working Capital	2528.72	15.33 %	1604.13	12.64 %	1482.91	16.34 %	Not available	Not available	Not available
4.	Export Finance	2422.46	14.69 %	1675.55	13.22 %	2472.76	27.25 %	Not available	Not available	Not available
5.	Commercial Lending	5023.60	30.46 %	4244.05	33.45 %	1843.64	20.32 %	Not available	Not available	Not available
6.	HBL	548.13	3.32%	392.12	3.09%	353.79	3.90 %	Not available	Not available	Not available
7.	Small and Medium Scheme	142.53	0.87%	114.70	0.90%	60.15	0.66 %	Not available	Not available	Not available
8.	Consumer Credit Scheme	465.34	2.82%	473.57	3.73%	Not available	Not available	Not available	Not available	Not available
9.	Others	1379.27	8.37%	1291.19	10.18 %	1409.63	15.53 %	Not available	Not available	Not available
	Total	16492.20	100%	12,686.85	100%	9074.94	100 %	7707.05	5121.03	3127.77

(Source- Annual Reports of Prime Bank Limited)

From the chart we can see that in the last five years, the total volume of Credit has increased in each year. The credit for some sector has increased whereas some other has decreased from one year to another. For Agriculture sector, the total credit disbursement in 2003 was Tk. 470.64 million, in 2002 it was Tk. 58.99 million, in 2001 it was Tk.33.37 million. So we see that Agricultural loan is increasing every year. For Large and Medium Scale Industries the total credit allocation was Tk. 3511.51 million in year 2003, Tk. 2832.55 million in year 2002, Tk. 1418.69 million in year 2001. So here also we can see that the total credit disbursement has increased. In case of disbursement of credit for Working Capital sector, it was Tk. 2528.72 million in 2003, Tk. 1604.13 million in 2002, Tk. 1482.91 million in year 2001. Though here the total amount has increased but percentage of total loan has decreased. The highest percent was in 2001, which was 16.34%. Then it became 12.64% in 2002. Again the percentage has increased in 2003. For Export Finance, the total amount of credit was Tk. 2422.46 million in 2003, Tk. 1675.55 million in 2002, Tk. 2472.76 million in year 2001. Though here the total amount has increased, percentage of total loan has decreased. For Commercial Lending, the total amount of disbursement in 2003 was Tk. 5023.60 million, in 2002 it was Tk. 4244.05 million, in 2001 it was Tk. 1843.64 million. Here the percentage was increased by 13.13% from year 2001 to 2002. But again it was decreased in 2003. For House Building Loan, The total amount was Tk. 584.13 million in 2003, Tk. 392.12 million in 2002, Tk. 353.79 million in 2000. And the percent was highest in 2001 then it decreased in 2002 and again it increased in 2003. For SME sector, the total amount of loan was Tk. 142.53 million in 2003, Tk. 114.70 million in 2002 and Tk. 60.15 million in year 2001. The percent of total loan was 0.66% in 2001. Then it was increased by 0.90% in year 2002, again it became 0.87% in year 2003. For Consumer Credit Scheme (CCS), the total amount was Tk. 465.34 million in year 2003, Tk. 473.57 million in 2002. Here both the amount and the percentage has decreased.

From the above analysis we have found that both in year 2003 and 2002 the highest amount of loan was disbursed in Commercial Lending sector. But in year 2001 the highest amount of loan was disbursed in Export Finance Sector.

The second highest amount of credit was disbursed in both year 2003 and 2002 in Large and Medium Scale Industries. But in 2001 it was in Working Capital sector.

So we see that almost all types of credit has increased in total amount but in percentage some has decreased.

3.17 Ratio of Classified Loans to Total Loans

This ratio tells that among the total loan what percentage of loan is classified. The lesser the ratio is the better the performance of the bank is. Prime Bank Limited is very successful in this regard because their ratio of classified loans to total loans is very low. In year 2002, the ratio was only 1.48%. It means that only 1.48% of the total loans are bad loans whereas industry average is about 20%. So we see that they have managed their loans/ advances activities very efficiently.

The Ratio of Classified Loans to Total Loans of PBL for last five fiscal years are given below:

Table 3.1 Ratios of Classified Loans to Total Loans

(Tk in Million)

Years	1998	1999	2000	2001	2002
Ratio of Classified Loans to Total Loans	1.78%	1.63%	1.49%	1.13%	1.48%

Ratio of Classified Loans to Total Loans

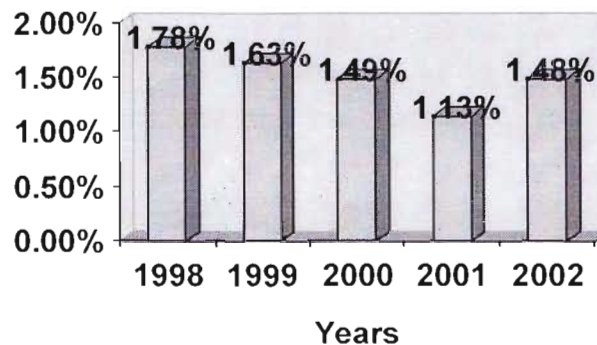


Chart 3.1 Ratios of Classified Loans to Total Loans

From this ratios we can see that the credit recovery rate of Prime bank Limited is very high. Though every year their advances or lending activities are increasing, the ratio of classified loans to total loans are not increasing. They have proved themselves very successful in managing their loan portfolio and holding their position.

Now we will see the amount of Credit extended by PBL for five years:

Table 3.2 advances extended by PBL

(Tk in Million)

Years	1998	1999	2000	2001	2002
Advances	3127.77	5121.03	7707.05	9074.94	12686.85

In year 1998 the total loan disbursement was Tk. 3127.77 million and the recovery rate was 98.22%. So their recovery rate was very high. In year 1999, the total loan disbursement was Tk. 5121.03 million and the recovery rate was 98.37%. This year their performance was better because the recovery rate was increased. In year 2000, the total loan disbursement was Tk. 7707.05 million and the recovery rate was 98.51%. Here we see in 2000 their performance was better than the previous year. Their recovery rate was increased by 0.14%. In year 2001, the total loan disbursement was Tk. 9074.94 million and the recovery rate was 98.87%. This year their performance was best among the years because in this year Prime Bank was able to recover the highest amount of credit extended. In year 2002, the total loan disbursement was Tk. 12686.85 million and the recovery rate was 98.52%. In 2002 their recovery rate was decreased than the previous year. From the above analysis we can see that as the amount of credit extension of Prime Bank Limited is increasing every year their recovery rate is also increasing. This is very difficult task to maintain such thing. It proves that the management of PBL is very careful and efficient at the time of extending credit. That's why they have been able to hold the top position for several years. Though the industry average of classified loans to total loans was very high their position was very low in this regard.

Chapter Four

Drawbacks of Existing Credit Policy

4.1 Drawbacks of Existing Credit Policy

Prime bank is defined as a leading bank in the private sector. This is also known as the top graded bank in the private sector. This is because of the efficient management of Prime Bank, successful entrepreneurs, taking appropriate action with the changing environment, strict administrative policy, very high credit recovery rate and obviously good credit policy. Because credit is the main source of a bank's income. When a Bank gets into serious financial trouble, its problem usually arises from bad loans. Though the bank's credit policy is good there are some problems. The bank should give more concentration on those areas to become more successful. Those drawbacks are:

- ✚ It requires a long time to disburse credit to the client. When a customer applies for the credit facilities, the branch prepares a proposal, which is signed by the branch credit committee. Then it goes to Head Office for sanction. If the Head Office credit committee sanctions it then it again returns to the branch for approval. So the total process is very lengthy which may create irritation to the customer. As a result they may become discourage of taking loan from the bank.

- ✚ The Human Resource in the bank is not very sufficient. One employee has to work under huge pressure. Due to over responsibility it is very difficult for him to work efficiently.

- ✚ For the term loan, customer repays the total amount (Principal+ Interest) through an annuity basis. The bank calculates this annuity amount. Sometimes it is seen that for a large amount of loan the annuity amount is very high. As a result many times the customer fails to repay the amount and eventually becomes a loan defaulter. This might not happen if loan repayment period extended and installment amount decreased.

- ✚ In case of CCS Loan, the percentage of loan disbursement is very low as compare to total loan disbursement. But there exists a potential very big market for that. In the developed country the banks main focus is now shifting on Consumer Loan.

- ✚ CCS Loan is mainly taken for purchasing luxuries items e.g. Car, computer etc. But it is not yet popular for purchasing other household items.

↓ The risk and default rate is high in CCS Loan as the main collateral is personal guarantee.

↓ The interest rates are very high for almost all the loan schemes. So after having the willingness to take loans many potential entrepreneurs are not coming ahead, which is affecting a lot in our economy as well as the bank, so they are losing many customers. As a result economic development of the country is not coming properly.

↓ The charge of various formalities at the time of extending credit is very high. So the customers may become demotivated to take loans from PBL.

↓ Prime Bank Limited does not go for extensive marketing program for their credit /loan schemes. Whereas Dhaka Bank Ltd, Dutch Bangla Bank Limited, Standard Chartered Bank, HSBC etc. put much emphasis on this. As a result we as a general customer are able to know about their products. So when a customer wants to take loan from a bank he/ she would prefer those banks rather than Prime Bank Ltd as they do not know much about PBL's product.

↓ PBL does not offer Educational Loan Scheme, Marriage Loan Scheme etc. whereas now a days there exists a huge market for these schemes. Many other banks like HSBC, Dutch Bangla Bank Limited are offering these schemes and getting many customers. PBL is not taking this opportunity.

↓ In case of CCS loan, the interest rate is highest among all the loan schemes. So after having the willingness many customers may not come to take loan from the bank. As a result the bank will lose many customers, whereas other banks may grab them by offering lower interest rate. This high interest rate also leads to loan default by the customers.

↓ Now a days in modern countries like U.S.A bank use Credit Scoring system to evaluate Consumer Loan Application. Credit Scoring is a statistical equation that assigns points to potential borrowers based upon their characteristics to determine if they are qualified for a loan. It reduces personal judgment from the lending process and reduces bank's decision from hours to minutes or from weeks to one or a few days. If PBL follows this system their efficiency will increase a lot but they don't have such facility.

Chapter Five

Recommendations

5.1 Recommendations

Prime Bank Ltd is very successful in Bangladesh banking sector. They are ranked as the top bank in the country. Though their credit policies are very good there exist some problems in those policies. As a leading bank in the country and to hold their position in this competitive business environment Prime Bank Ltd. must overcome their weaknesses. Here some recommendations are given which I believe will really be beneficial for Prime Bank Limited. Those are:

- ⊕ The credit disbursement process must be short so that customers do not feel irritate to take credit from PBL. The process can be made shorter by enhancing the credit sanctioning limit in the branch and giving the branch more authority for sanctioning credit.
- ⊕ The human resources in the credit department should be increased so that due to over pressure an employee does not make any mistake.
- ⊕ The annuity amount calculated by the bank should be lower and the loan repayment period should be extended so that customers feel relax to pay the loan.
- ⊕ The percentage of CCS loan should be increased, as there exists a big potential market for this sector.
- ⊕ CCS loan should be made popular for purchasing daily household items. Only then this scheme will contribute strongly in the profitability of the bank.
- ⊕ In case of CCS loan, the collateral should be increased other than personal guarantee to minimize the risk. E.g. Real Property.
- ⊕ The spread between the interest for loan and interest for deposit is very high in Bangladesh. So to encourage more entrepreneurs and to mobilize the economic development of the country the interest rate for loan should be lower.
- ⊕ To attract more customers and to retain existing customers, PBL should lower the charge of various formalities at the time of extending credit.

✦ Prime Bank Limited should go for extensive marketing program for their credit /loan schemes so that customers know about their schemes and come to them.

✦ PBL should start offering Educational Loan Scheme, Marriage Loan Scheme etc. as there exists a huge market for these schemes.

✦ The interest rate for CCS loans should be decreased so that more customers come to PBL and take loan from them. This will also lower the possibility of default by a customer.

✦ To increase the efficiency of the bank and to serve more customers in the shortest time PBL should follow Credit Scoring System.

Chapter Six

Conclusion

6.1 Conclusion

Prime Bank Limited started its business in 1995. By this short period of time the bank has made significant progress in case of its overall performance. Now it is graded as the top class bank among the nationalized, semi-nationalized and private commercial banks in the country. The bank provides better customer services by using updated technology. The main income-generating source for any bank is credit. At the same time it involves high risk, the bank is very careful while sanctioning credit facilities. By taking various important steps and following good credit policy the bank has reached such a glorious position. The bank's ratio of classified loans is very low which proves the efficiency of the bank's management. The bank has some drawbacks in their credit policy. If they are able to overcome it they will be able to attract more customers and hold their position. In spite of having some problems, other private commercial banks can follow PBL's credit policies and can overcome their present crisis in banking. At last it can be said that Prime Bank Ltd is not only a bank of difference but also a bank of example.

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