



# PERFORMANCE ANALYSIS OF BANK ASIA LIMITED

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AN INTERNSHIP REPORT

*Prepared for:*

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ID # 2003-2-14-027

**EAST WEST UNIVERSITY  
DHAKA**

*August 09, 2007*

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**Dr. Tanvir Ahmed Chowdhury**  
Chairman of the Department of the BBA  
& Coordinator of the MBA & EMBA program  
East West University  
Dhaka

Subject	: Submission of Internship report on “ <b>Performance Analysis of Bank Asia Limited</b> ”.
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Dear Sir,

I would like to submit the report on “**Performance Analysis of Bank Asia Limited**” that you assigned me as partial fulfillment of my BBA degree requirement. In preparing the report I collected and analyzed all the pertinent information. I have tried my best to analyze the information as comprehensively as possible and if you need any further information, please feel free to call me.

Thank you,

Sincerely yours,

*Md. Mahadi Hasan*  
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Finally, I convey my sincere thanks to my parents, brother, friends and relatives who in different ways inspired me in completing the report.

## Executive Summary

Financial sector in Bangladesh comprises of mainly banking sector, insurance companies, stock market, non-bank financial institutions and micro financing institutions. Out of these, banking sector dominates the financial system, accounting for more than 95% of its total assets. Banking system of Bangladesh has gone through three phases of development --Nationalization, Privatization and Financial Sector Reform.

Like in many other emerging market economies, commercial banks in the Bangladesh economy are to face an increasing competition for their business in the coming days. Their business will no longer remain easy as they had earlier. In the beginning of 1990's, seven more private commercial banks were permitted, of which of course, two were reconstituted in new names after their collapse. These banks have become known in our economy as the second-generation banks. In a third wave, a dozen more banks are permitted by the Bangladesh Bank and a number of new foreign banks entered into our economy. These banks have become known in our economy as the third-generation banks. Now, we can say, our commercial banking business, which is an important segment of the financial sector, consists of two dozen private commercial banks, fourteen foreign banks, four NCBs. The other segment of the financial sector is represented by about two dozen insurance companies, six non-banking financial institutions, few leasing companies and twenty newly permitted merchant banks. Bank Asia Limited is one of the few banks permitted by the Bangladesh bank in the late 90s; the other banks permitted earlier are Mercantile Bank Limited, Standard Bank Limited, One Bank Limited, EXIM Bank Limited, Premier Bank Limited, Mutual Trust Bank Limited, First Security Bank Limited, The Trust Bank Limited, Jamuna Bank Limited, BRAC Bank Limited and Shahjalal Islami Bank Limited. These banks are known as the third generation banks and fortunate to remain immune from the bad loan culture. However, the performance of these banks are not the same, the Bank Asia Limited remained as one of the top performers among them.

# PERFORMANCE ANALYSIS OF BANK ASIA LIMITED

AN INTERNSHIP REPORT

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## Chapter 1: Introduction

### **1.1 ORIGIN OF THE STUDY:**

This report has been prepared after three month's Internship program in the Dhanmondi Branch. I going to describe the various day to day activities that I have observed in the various departments of the branch.

### **1.2 METHODOLOGY OF THE STUDY:**

The information, required to prepare the report, has been collected from primary as well as secondary sources.

Primary information regarding the Bank Asia Limited has been obtained through face to face conversation with some of the officials of the branch and by own observation.

Annual reports, bank's records, leaflets, corporate newsletters, branch manuals, bank's website, various publications of the bank are the sources for collecting the Secondary information.

### **1.3 LIMITATIONS OF THE STUDY:**

Although I have obtained whole hearted co-operation from all employecs of Dhanmondi Branch, in some departments such as customer service and cash , they were extremely busy. So they were not able to give much time as there should be. Besides, total duration of job rotation program was not sufficient to give me complete understanding of the functioning of the various departments I was rotated through.

#### 1.4 COMPANY BACKGROUND:

Bank Asia Limited is a scheduled Bank under private sector established under the ambit of bank Company Act, 1991 and incorporated as a Public Limited Company under Companies Act, 1994 on September 28, 1999. The Bank started commercial banking operations effective from November 27, 1999. During this short span of time the Bank had been successful to position itself as a progressive and dynamic financial institution in the country. The Bank had been widely acclaimed by the business community, from small entrepreneur to large traders and industrial conglomerates, including the top rated corporate borrowers for forward-looking business outlook and innovative financing solutions. Thus within this very short period of time it has been able to create an image for itself and has earned significant reputation in the country's banking sector. Presently it has twenty seven branches in operation.

Bank Asia Limited is one of the few banks permitted by the Bangladesh bank in the late 90s. the other banks permitted earlier are Mercantile Bank Limited, Standard Bank Limited, One Bank Limited, EXIM Bank Limited, Premier Bank Limited, Mutual Trust Bank Limited, First Security Bank Limited, The Trust Bank Limited, Jamuna Bank Limited, BRAC Bank Limited, and Shahjalal Islami Bank Limited. These banks are known as the third generation banks and are fortunate to remain immune from the bad loan culture. However, the performance of these banks are not the same, the Bank Asia Limited remained as one of the top performers among them.

The Company Philosophy – **“For A Better Tomorrow”** has been preciously the essence of the legend of bank's success.

Bank Asia Limited has been licensed by the Government of Bangladesh as a Scheduled Bank in the private sector in pursuance of the policy of liberalization of banking and financial services and facilities in Bangladesh. In view of the above, the Bank within a period of less than 7 years of its operation achieved a remarkable success and met up capital adequacy requirement of Bangladesh bank.

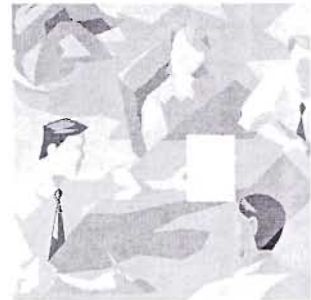
### 1.5 The Mission of Bank Asia is noted below:

- To assist in bringing high quality service to the customers and to participate in the growth and expansion of the national economy.
- To set high standards of integrity and bring total satisfaction to the clients, shareholders and employees.
- To become the most sought after bank in the country, rendering technology driven innovative services by the dedicated team of professionals.



## 2.1 CUSTOMER SERVICE & REMITTANCE

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## CUSTOMER SERVICE & REMITTANCE:

One of the building blocks of competitive advantage of an organization is its customer responsiveness. To achieve superior customer responsiveness an organization must be able to do a better job than competitors of identifying and satisfying the needs of its customers. Customers will then place more value on its products, creating a differentiation-based competitive advantage. In this respect, the department of customer service is very important as a way of creating greater customer responsiveness.

Customer service is the department in which the first interaction between the customer and the bank takes place. Since the first impression is the long lasting impression, the quality, customization and response time of this department is very important. Different types of activities are conducted here. The main activities are:

- Meeting customer inquiry
- Opening new accounts
- Issuing pay-order, demand-draft, TT etc.
- Others

### 2.2 Meeting customer inquiry:

This is primary task of customer service department. Any person can come to this department and make inquiries about any bank related matters. These persons can be either existing customers or potential customers. They can make different types of inquiries such as inquiries about their account balances, changes in interest rates, bank's new services-offerings and so on.

### 2.3 Opening new accounts:

The relationship between the bank and its customer starts with opening an account. There are different types of accounts considering different customer types and requirements.

- Savings account
- Current account

- Short Term Deposit (STD) account
- Fixed Deposit Receipt (FDR) account

#### **2.4 Savings account:**

Savings deposit accounts are suitable for savers who want to save for meeting the future social, economic, educational and religious needs. These deposit accounts are for people who do not want to withdraw frequently or who do not want to keep money for fixed and long period. It is a midway between current deposits and fixed deposits.

So savings accounts are intended for individual savers and not suitable for business concerns who require frequent withdrawals.

Savings accounts are interest bearing deposit accounts. The drawings are restricted in respect of both the amount of withdrawal and the frequency thereof during a week. But no restriction is imposed in case of deposit of money.

**Interest rate: 8%**

#### **2.5 Current account:**

A current account is running and active account which may be operated upon any number of times during a working day. The depositor can freely deposit/withdraw money as many times as he feels necessary in a working day. Account can be drawn upon by cheque, without any prior notice and without obtaining permission. The current deposits functionally are deposits having highest amount of liquidity. The bank, therefore, do not pay any interest on current deposits. On the other hand, bank imposes service charge for such types of accounts. From this point of view, current accounts yield negative return to account holders.

The current deposit holders enjoy certain privileges compared to a savings deposit account holder. These facilities are as follows:

- Overdraft facilities are given to a current deposit account holders only.
- The loans and advances are normally sanctioned by the banks through current accounts. These are not given in cash but are credited to the current accounts.

A current account may be opened by an individual, firm, company, club or an association after duly meeting all the formalities.

## 2.6 Fixed Deposit Receipt (FDR) account:

There are people who have surplus funds which will not be required by them in near future. Such people want to keep funds in a bank for a specific and long period to earn more interest. The duration of these accounts varies. For different duration interest paid is also different. As the duration increases, rate of interest also increases. Fixed Deposits are kept with the bank for a fixed amount of time and the depositor gets a certain amount of interest from it. After the period is over, the depositor can encash the deposit and take the whole amount or may again open another FDR..

Fixed deposits are important sources of funds to the bank. These add to the stability and growth of the bank's deposit structure.

### Interest rate:

For 1 month period:	8.50%
For 3 months period:	10.75%
For 6 months period:	11.00%
For 1 year period & above:	11.50%

## 2.7 Short term deposit:

There are people and organizations that want both liquidity and return on their deposits. They want to keep funds in a bank so that it can be withdrawn without any restriction.

But they want to earn some interest meanwhile. For them neither current account is suitable, nor savings and fixed deposit.

The rates of interest on such types of deposits are lower because the bank holds the fund for a short period only.

Interest rate:	6.50%
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Now-a-days under the strict monitoring of Bangladesh Bank, there are several criteria that a client must fulfill as he/she/an organization wishes to open an account. The basic criteria are discussed below:

- Account Opening Form ( AOF)duly filled & signed
- Signature cards properly signed
- Applicant introduced by an authorized person such as account holder or employee of Bank Asia or by a respectable person acceptable to the bank
- 2 copies of passport sized photographs which are attested by the introducer
- Name of nominee written and photograph of the nominee(s) attested by the applicant
- Photocopy of passport(attested) or letter of introduction by the employer or certificate issued by chairman of Union Parishad or Ward commissioner
- TIN (if available)
- Customer transaction profile form properly filled in and signed.
- KYC profile form (properly filled in ,signed and approved) for high net worth customers falling under the following criteria:
  - i) New customers whose initial deposit is more than Tk.50.00 lac (initial means within one month of A/C opening)
  - ii) Existing customers whose total AUM (Asset under Management) grow to more than Tk. 50 lac for three consecutive months.

#### **2.7 For individuals:**

- Nationality certificate or copies first few pages of passport or copies of previous two month's electric bill, telephone bill of the person's residence.
- 2 copies of photograph of the applicant & 1 copy of photograph of the nominee.

#### **For Proprietor Enterprise:**

- Trade License
- T.I.N. Certificate

## 2.9 For Limited Companies:

- Certified true copy of Memorandum and Articles of Association
- Certified true copy of Certificate of Incorporation
- Certified copy of Certificate of Commencement of Business
- Copy of the Resolution of the Board of Directors authorizing for opening account and specimen Signatures for operation of the Account duly attested by the Chairperson
- Latest Audited Balance Sheet
- Trade License
- T.I.N Certificate

## 2.10 For Partnership Enterprises:

- Certified Copy of the constitution of the firm
- Registered Partnership Deed/duly Notarized Partnership Deed at Will (In case of Unregistered firm)

## 2.11 For Association/Club/Society/Charity etc:

- Minutes of the Committee meeting authorizing the opening of an account with the Bank duly certified by the Secretary and the Chairperson
- A copy of the resolution of Committee authorizing specific Signatories to operate the account
- Certificate of Registration; where applicable

Being fulfilled the above requirements; a new account is opened through the software “Stelar”. An ID is created for the account holder (In case of Individual’s account or Organization’s), or one ID each for each of a joint account. One person/organization can have only one ID using which he/it can have several accounts.

## 2.12 Issuing pay-order, demand-draft, TT etc.:

The Customer Service & Remittance Desk Issues Pay Orders (PO) , Demand Drafts (DD)& Telegraphic Transfers (TT) to remit fund within the country.

**DD:** Demand Drafts are used to send money within and outside of the clearing house area. That means somebody can send money within Dhaka city as well as outside of Dhaka City with DDs. A DD is drawn on another Bank of Branch & the payment is also made by it. Somebody willing to issue a DD fills up the DD application form and deposits money in the cash desk with the cash deposit slip (In case of cash payment, equivalent to the DD amount and service charge). For account holders, debit vouchers are used to debit the account.

**PO:** A PO is also used to remit fund like a DD. The main difference is that unlike DD the issuing bank branch itself pays the amount of a Pay Order. At the same time, PO is used to send money within the clearing area only. The basic process of issuing a PO is same like issuing a DD.

**TT:** In a TT, the sender can remit the fund almost instantly. As the payment is made instantly, it does not require presenting the instrument at the time of payment. The receipt process in case of issuing a TT is almost same as issuing a DD or PO. In issuing a TT, for security purpose, Test Key numbers are used. In test key, many information regarding the TT (Date, recipient, sender, branch etc.) are coded and sent to the other bank branch that is making the payment. That branch decodes the Number and ensures that it has received

### Others:

Beside these above mentioned tasks, the customer service department provides some other important services to the customers. These services are discussed billow:

### **2.13 Issuing New Cheque book:**

When all the pages of a cheque book are finished, the customer needs a new book. The Customer Service & Remittance Desk provides new book to the customer. Upon receiving the new book requisition slip duly signed by the customer, a new book is issued. The number of pages of the new book may be different depending on the type of account and the customer request. Before delivery, all the pages of the new book are signed by the authorized signatory of the bank.

#### **2.14 Issuing deposit slip:**

A deposit slip is needed to deposit money in an account. The customer service department provides deposit slip to the customer.

#### **2.15 Providing Account Statement:**

Time to time, Account holders may need to know the status of their accounts as well as the transactions through those accounts. In such case, an account holder asks at the customer service desk to provide him/her an account statement. The personnel at the desk print the account statement from the Stellar with the account number.

#### **2.16 Providing Bank Solvency Certificate:**

A client who is doing transactions satisfactorily with the bank may need Bank Solvency Certificate for various purposes and asks for it at the customer service desk. The certificate is given stating that the person has been doing transaction at a satisfactory level and has a good deposit. At the same time, a statement of the account is also attached with the certificate.

### **2.17 CLEARING:**

Clearing house is an arrangement for the banks to mutually settle their claims over each other arising out of deposit transfer from one bank to another by their respective customers. In the clearing house, all scheduled banks have their accounts. They mutually settle their claims by simply 'debit and credit' without physically transferring those funds. This is a convenient system in the sense that it does not involve traveling and cash handling by customers. Branches of other banks where cheques and drafts are not to be visited by the customers. Simply by depositing those into the accounts, the customers get those collected by their banks.



### **2.18 Procedure:**

- 1) An account holder of Bank Asia Ltd. Come with a cheque of another bank. He fills a deposit slip with the cheque's amount and places them to the teller section.
- 2) The cash officer verifies the cheque and deposit slip and put clearing seal of them and send them to the clearing section.
- 3) The clearing officer enters the name and figures of the cheque into "Nikash" ( a software provided by the Bangladesh Bank) and copy it into a floppy disk. A printout of list of the cheques is made. Then the list along with the cheques are placed to the sub manager for signing. Then the floppy is entered into another computer and the data are loaded into the "Software" and a list of these cheques is created. Then the cheques are sent to the clearing house.
- 4) In the next morning, the list generated by "Stelar" with deposit slips and debit voucher is verified by the sub manager. Debit voucher is created on the Principal branch General A/C. In the afternoon, the representatives of the bank come from the clearing house with honored and dishonored cheques. Then the accounts are actually credited by "Stelar".

### **2.19 CASH:**

Any service providing organization has two parts: front-end and back-end. Front-end part deals directly with the customers and the back-end part creates the base on which the front-end tasks are performed, For the effective operation of the organization, both the front-end and back-end parts have to be operated effectively. Therefore, both the parts are important. The cash or teller section is a front-end part which deals with the customers of the bank directly. Since, the quality of service is very important for a service providing organization, cash section of the bank should provide high quality service to the customers.

Different types of tasks are conducted in the cash section, such as:

- Cash withdrawal
- Cash deposit
- Cheque deposit
- Transfer of funds from one account to another
- Receiving GrameenPhone, Banglalink, Rankstel bills
- Receiving cash deposits for PO/DD/TT

These tasks are described below:

## **2.20 Cash withdrawal:**

The cash section receives cheques from the clients for cash withdrawal.

After receiving the cheques, the teller has to carefully verify the validity of the cheque. In order to do that four corners of the cheque are checked:

1. Bank & branch name
2. Date
3. Signature of the account holder
4. Amount of money written in words and in figure

Beside these four corners, the teller should also notice that whether the payment is made to the right person mentioned in the cheque. If the person presenting the cheque is not the account holder, the teller may verify the person if felt necessary (In such a case, any authorized person of the bank may verify the person presenting the cheque).

The person presenting the cheque has to make two signatures on the back of the cheque. One for placing the cheque and the other for receiving the money.

Different seals are used cash withdrawal. At first ,the first seal is given for signature confirmation after matching the signature on the cheque with the signature given at the time of account opening which is kept in the Stellar software, the second seal is for payment( Cash Paid) and the last seal is for posting (POSTED) with signature of the teller & transaction number. Then the teller puts a big sign to cancel the cheque.

### **2.21 Some important points to be noticed while receiving a cheque:**

- Each cheque has its own date .A cheque cannot be placed before that date.
- A cheque is for six months from the date written on the cheque.
- A cheque where the payment must be made to any particular person (Not to pay in cash or to bearer) is an order cheque. With an order cheque, only the person designated can draw the amount
- Specially crossed cheques may contain instructions like depositing the cheque to any particular bank or branch. The teller must not accept any cheque/DD of other banks that has special cross instructing it to be deposited in any other bank.
- If the account payee only seal is on the cheque, cash withdrawal is not possible. In that case, fund can be transferred to another account only.

### **2.22 Cash deposit:**

A customer can come to the bank to deposit cash. In order to deposit cash ,he or she has to fill a deposit slip with the amount he or she wants to deposit He also has to write the date, the denomination of the amount and put a signature. The teller puts the “Cash Received” seal on the slip after receiving the money. Then he and an authorized officer sign on the slip and carbon copy of the slip is given to the depositor. Then the teller credits the depositors account by the amount deposited in the ‘Stelar’ software.

### **2.23 Cheque deposit:**

A customer can come with cheque of other banks .Then the bank collects the proceeds for its customer. If the cheque is issued by or drawn on any bank within Dhaka city then a clearing seal is given. On the other hand ,if the cheque is issued by or drawn on any bank outside Dhaka city then a collection seal is given. These cheques must be account payee only otherwise the teller should not accept them. First the cheque is crossed with the bank seal. The issuing bank name, branch name, cheque no. & date is written on the deposit slip. It is then sent for clearing or collection depending on the issuing bank branch.

#### **2.24 Transfer of funds:**

A client who has more than one account in the same branch or different branches, can transfer funds between these accounts. In order to do that the client has to fill and palace a cheque with a deposit slip. Then the teller checks whether the client has sufficient fund to transfer by 'Stelar' and if there is sufficient fund ,the amount is transferred. A client can transfer maximum Tk.50000 in this way.

#### **2.25 Receiving cash for pay order, demand draft etc.:**

Bank gets a commission for issuing pay order, demand draft etc. this commission plus the amount transferred through PO,DD are received in the cash section.

#### **2.26 Determining Daily Cash Position:**

It is a regular task of this department. The daily cash position covers the day's opening balance, total transactions (received & paid) in local and foreign currency as well as the closing balance.

#### **2.27 Maintaining Late Register:**

When a client deposits or withdraws money after closing the cash , this transaction cannot be posted on that very day. But the cash department may sometimes have to handle such transactions. In a case like that, the transaction is recorded in the late register. Later, they are recorded as transactions made in the next working day.

#### **2.28 Receiving GrameenPhone/Banglalink/Rankstel bills:**

Bills of GrameenPhone/Banglalink/Rankstel bills can be deposited in the cash section. Different deposit slips are used for different companies.

At the end of each day the whole day's transactions are cross checked with the report generated by 'Stelar' with the records of all the transactions.

# 3.0 CREDIT

# 3.0 CREDIT



# CREDIT:

Credit can be termed as the gainful employment of deposits received. In banking, a bank receives various types of deposits that it has to employ somewhere for further benefit. That is why a bank lends that fund to people or organization under certain terms & conditions for repayment with an additional amount or benefit. As we know that a bank lends money that it has borrowed, we can assume that creation of credits is a very important task of a bank and a major source of its income. In the following section, we shall focus on the process & steps in creation & extension of credit.

Bank Asia offers Credit facilities in 3 categories. They are:

- Corporate credit
- Consumer / retail credit
- Small & Medium Enterprise (SME) credit

Bank Asia extends both Funded and Non-funded credit facilities. Among all the funded and non-funded facilities Bank Asia does not provide all but those which are commensurate with the Bank's policy and strategy. The various funded and non-funded credit facilities that Bank Asia provides to its borrowers are:

## 3.1 FUNDED FACILITIES:

The funded credit facilities are those which involve direct cash. In other words any type of credit facility which involves direct outflow of Bank's fund on account of borrower is termed as funded credit facility. The following funded credit facilities are provided by Bank Asia Ltd.

**Cash Credit:** Cash credit is a Continuous loan facility usually provided for working capital fund requirements purpose of the customer. Cash credit is generally given to traders, industrialists for meeting up their working capital requirements. Cash credit can be given on Hypothecation or pledge of goods but Bank Asia only practices Cash credit on Hypothecation.

**Overdraft:** overdraft facility is also a continuous loan arrangement on a customer's current account permitting him/her to overdraw upto a certain approved limit for an agreed period. Here the withdrawals of deposit can be made any number of times at the convenience of the borrower, provided that the total overdrawn amount does not exceed the agreed limit. Customer can return any amount at any time within the pre-fixed time of the facility. Turn over of an over-draft facility is the most important phenomenon on which renewal of the facility depends.. over draft facility is given to the businessman for financing working capital requirement and high net worth individual to overcome temporary liquidity crisis.

**Secured Overdraft:** this is a type of overdraft facility given to the borrowers keeping sufficient collateral from the customer in most liquid form. This facility provides specific right to a client to over draw within a pre-fixed limit for a certain period of time.

Secured Overdraft is normally granted against the security of tangible asset such as Lien of Fixed Deposit Receipt (FDR), Bonds, and Sanchaypatra. But currently Secured Overdraft is given only against Fixed Deposit Receipt (FDR) because Bangladesh Bank has recently prohibited Secured Overdraft against Bonds, and Sanchaypatra. Interest charged on the Secured Overdraft is calculated on the basis of the security liened.

**Term Loan:** Term Loans are given to finance of capital assets. Loan agreements often contain restrictive covenant and loan is repayable in accordance to amortization schedule. Collateral is must for term loan.

Under term loan there are three categories:

- Short term loans – loans having maturity less than one year falls under this category.
- Midterm loan- this loan facility is extended for loans having maturity more than one year but less than three years.
- Long term loan- tenure of long term loans is more than three years.

**Personal Credit:** Bank Asia Ltd. also offers personal credit facility to its customers for buying household appliances. No securities are kept for such type of credit facility but a guarantee from third party is required who ought to be a prominent person or government service holder. Anyone with continuous employment for reasonable length of time in an organization is entitled to enjoy this facility. A quotation needs to be submitted on the office pad from where the goods to be purchased.

Limit of Personal Credit range from Tk. 50,000 to 3,00,000 and interest rate is 17.00% which is subjected to change.

**Loan Against Trust Receipt (LTR):** loan against trust receipt given on good faith on the importer. This is a loan facility up to a satisfactory limit to the traders/customers by Bank Asia against security of the value of the imported goods. Customer holds the goods or their sales proceeds in trust for the bank for certain period of time till the loan allowed against such trust receipt is fully paid. The duration of LTR ranges from thirty (30) days to three hundred and sixty (360) days.

### **3.2 NON-FUNDED FACILITIES:**

Non-funded facilities are also known as contingent facilities are those where bank's fund is non required directly. A non-funded facility can be turned to a funded facility as per situation creates. Bank receives commission rather than interest income by providing Non-funded facilities. Following non-funded facilities are provided by Bank Asia Ltd.

**Letter of Credit (L/C):** A Letter of Credit can be defined as a Credit Contract whereby the buyer's bank is committed ( on behalf of the buyer) to place an agreed amount of money at the seller's disposal under some agreed upon condition. Since the agreed upon conditions include amongst other things the presentation of some specified documents, the letter of credit is called Documentary Letter of Credit. the Uniform Customs and Practices for Documentary Credit (UCPDC) published by International Chamber of Commerce (ICC 1993) Revision, Publication No. 500 defines Documentary Credit :



Any arrangement however named or described, where by a bank (the “issuing bank”), acting at the request and on the instruction of the customer (the ‘applicant’) or on its own behalf,

1. Is to make a payment or to the order of third party (the Beneficiary), or is to accept and pay such bills of exchange (Drafts) drawn by the Beneficiary, or
2. Authorized another bank to effect such payment, or to accept and pay such bills of exchange (Drafts).
3. Authorizes another bank to negotiate, against stipulated document (s), provided that the terms and conditions are complied with.

Bank Asia provides only irrevocable letter of credit (L/C) facility.

**Guarantee:** Bank Asia offers guarantee for its reliable and valuable customer as per requirements. This is also a credit facility in contingent liabilities.

**Loan Syndication:** A bank can lend up to 15% of its paid-up capital without any approval of Bangladesh Bank. If the loan amount exceeds 50% of the paid-up capital then bank goes for syndicated loan. Lead bank makes the arrangement and lead office makes the facility agreement by the Banker’s lawyer. All terms and conditions such as security sharing, mode of creating charges, mode of repayment, covenants of the loan are written on the facility agreement.

It can be a Corporate credit or a consumer credit, even an employee house building loan or a car loan. Whichever the credit is there are several common steps to follow for granting & recovery of a credit when a borrower makes the first approach for a credit (Or the bank itself may go to the borrower with the offer of a credit if the borrower seems attractive to the bank).

### 3.3 STEPS IN CREDIT GRANTING

The following are the major steps that take place while approval & the repayment of a certain credit provided to a client:

#### 1. Credit Analysis:

In the very first line we said that credit is to gainfully employ deposits received by a bank. The very important phrase “gainfully employ” means securing the certain benefit from the credit approved. To secure the benefit, the credit analyst has to analyze a credit proposal from various perspectives which are discussed below:

- ***Identification of the purpose of the credit:*** First the analyst has to determine what the credit is for – which field the borrower is willing to put the money in, what is the tenure, what is the timing of cash inflow of the investment in which amount & what can be the repayment source and method.
- ***Structure of the borrower (Knowing exactly to whom we are lending):*** We have to know what is the legal entity of the client – is it an individual, a partnership business or a subsidiary of a holding company.

Careful attention has to be given if the client company is a subsidiary of a group that makes complicated transactions with the other companies in the group – that may transfer the fund to sister companies. At the same time, the bank should look to grant loan in favor of the subsidiary rather than to the holding company.

The bank must also know who are the key decision-makers of the borrowing company, which can provide the necessary information.

- ***Business Analysis:*** The analyst must gather enough idea of the borrower’s business and the environment in which it is going to play to identify future sources of repayment.

First of all, the analyst has to know the macro environment of the business, what is the overall industry condition of the business along with the rules & regulations set by the policymakers.

The second concern is the firm itself that the bank is going to finance. What type of product & service is the borrower going to offer with what kind of demand. At the same, the analyst must consider the competitive situation of the firm along with the core competencies of the borrower.

▪ **Financial Analysis:** This is a very important stage where the analyst has to determine/quantify how worthy the borrower is for the credit. This worth is measured in numeric terms with the help of various ratios. Those are as follows:

**Income Statement Analysis/Profitability:** A credit analyst may start with the profitability as it is the most critical single element in a firm's financial condition as it is directly positively related with asset & negatively related with debt & interest.

**Balance Sheet Analysis:** The first thing to analyze in the liability structure is the borrower's leverage (i.e. the amount of debts & liabilities relative to net worth). At the same time, the analyst must consider how well the firm's earnings cover the principal repayment obligations of debt. High leverage indicates high risk but may be acceptable if the firm is earning enough to cover its debts.

On the other hand, the quality of the assets of the borrower has also to be analyzed. The focus should be on the market value and liquidity of the assets. This is important because these assets may be the last refuge for the bank to recover the loan by selling them what we can call the security. In common we can divide securities into two broad categories. Those are:

**Primary Security:** The Security directly related with the purpose of the credit (Example: Goods imported through an L/C).

**Secondary Security:** Any security not directly related with the purpose of the credit. (Example: A sole proprietors land mortgaged for loan sanctioned for development of his grocery shop).

**Cash Flow Analysis:** Cash flow is an important source of repayment. Cash flow can be constructed directly or indirectly. In the direct method, all cash inflows

and outflows from operating activities, investment activities and financing activities are recorded. In the indirect method, cash flow is generated by adjusting non-cash inflow and out flow with the net income

**Perspective:** Not only the ratios from Income statement, balance sheet and the cash flow has to be calculated and analyzed, those has to be compared from different perspectives. First, the borrower's trend over the time period has to be compared – that means comparison of current performance with previous performance.

While the past & previous performance of the borrower has to be compared, the recent performance has to be also compared with the industry benchmarks.

**Accounting:** The accounting method followed by the borrower may mislead the analyst because of following any particular method. The analyst must keep an eye on which accounting method has been followed by the borrower while preparing the financial statements. At the same time the analyst must also look for the off-balance sheet items that have not been disclosed.

After calculating all the above factors, the credit department of the branch prepares a credit proposal to be sent to the loan granting authority through the Zonal Head. Typically, the proposal contains the following topics:

- Background of Organization/borrower
- Applicant's Name
- Address (Office/Factory)
- Name of Business
- Constitution (formation)
- Date of Establishment
- Capital Structure (Authorized Capital, Paid Up Capital, Retained Earning)
- Bank Checking (CIB report result)
- Particulars of Directors
- Brief Description of the management
- Sister concerns

- Relationship officer for the client
- Account Turnover
- Business performance with the bank & bank's earnings from the business
- Business performance with other banks
- Liabilities with the bank
- Liabilities with other banks, group liabilities, if applicable
- Major information from the financials and comment on them
- Estimate of requirement of the borrower
- Particulars of the proposed facility
- Projected earnings for the bank by providing the facility
- Branch's visit report, if applicable
- Documentation status
- Comments & recommendation

#### **3.4 Pre-sanction documents:**

In fact the first part of documentation for granting a credit is done before the credit proposal is placed before the granting authority. In the initial documentation, the following documents are scrutinized & collected:

1. Bank's loan application duly filled in, required for Public Limited Company only
2. Certificate of commencement of business for Public Limited Company only
3. Certificate of Incorporation
4. Certified copy of memorandum and articles of association, both for Public & Private Limited Company
5. Certified copy of Form XII of Joint Stock Company, if there is any change in the directors
6. Up to date Trade License – for Importers & Exporters
7. Bank's loan application duly filled in
8. Board resolution of the company to create loan



9. Annexure “ka” form of Bangladesh Bank duly signed and sealed for collecting CIB report
10. Up to date Income Tax Clearance Certificate
11. Net Worth of the Directors including Chairman and Managing Director
12. Name & address of the Directors and their number & percentage of shares
13. Name & address of sister concerns
14. Global liabilities of the company and sister concerns
15. Last three year’s audited balance sheet(For old company)/Three years projected balance sheet(For new company) of the borrower company
16. Projected cash flow statement
17. Production Plan
18. Stock Report(Hypothecation & Pledge) report of the Borrower Company, applicable for old companies
19. Bio-data of the directors and other key personnel with two passport size photographs of each
20. Organization Chart
21. Name & address of the of the warehouse owner and up to date rent receipt, for rented warehouse
22. Name & address of five large customers and their purchasing percentage
23. Last audited balance sheet of two similar companies
24. Last three year’s industry Turnover (National) of this type of company
25. List of aged debtors
26. For Manufacturing company, Environmental Certificate duly signed by the authority
27. Clearance Certificate of electricity, gas and water supply authority
28. Project Profile for Project loan
29. List of machineries with description and price list
30. Partnership deed for Partnership Firm
31. CIB report for any amount of credit

Along with the above analysis and documentation, doing the Lending Risk Analysis is a must if the loan amount is Tk. 1 crore or above. At the same time, in case of any large

loan, the bank must not invest more than 50% of its paid up capital (in form of both funded & non funded loan) in a single loan, in which, the funded loan must not be more than 25%.

For Equitable Mortgage, simply the original deed of the mortgaged property is taken against Memorandum of Deposit of Title Deed. In Equitable Mortgage, the bank must make sure that the documents of the property are authentic and are the main deeds. In case of new land, the certified deed may be considered the main documents. At the same time, the “Daag” number, Ledger number & Mouza number of the land will be also traced to locate the land.

For registered Mortgage, the deed of the property is not kept with the bank. Instead, the property is registered from the sub-registrar’s office. Here, the bank must confirm the ownership of the applicant on the property. Bank appointed surveyor certifies the ownership while the banker may physically visit the site or obtain a certificate from the A/C land regarding the ownership of the land. The banker must also check the chain of ownership and the possession of the borrower over the property. For Registered Mortgage, the borrower needs bank’s sanction letter and TIN certificate.

### **3.5 Approval:**

There are two different panels that approve credit proposals sent from different branches. The authority of the panels is not the same. The panels are:

- Management Committee: The management committee can approve credits not exceeding amount by Tk. 1 crore & tenure less than or equal to 1 year.
- Board of Directors: Any credit proposal exceeding the limit of the authority of Management committee needs the approval of the Board of Directors.

Besides these two panels, the branch can approve credits covered by cash (or quasi cash) collateral like liquid cash, FDR, shares (of blue chip companies).

After considering all the analysis & statements as well as the recommendations, the panel approves the loan if it finds it feasible for the borrower as well as for the bank. When approved, the Head office informs the branch of the approval of the loan.

### **3.6 Post-sanction Documentation:**

After the branch has got the approval, it informs the client of the approval of the credit through a letter that contains the amount approved, the rate of interest payable, repayment procedure etc. As the client accepts the proposal, the major part of documentation begins. This part of documentation includes the Charge documents (Whichever is applicable) that are signed by the borrower and/or the guarantor. The charge documents may be registered or unregistered. If registered, the registration has to be done with RJSC (Registrar of the Joint Stock Company).

### **3.7 Required Post Sanction Documents:**

1. Accepted Advice Letter - the received copy of the sanction letter by the customer
2. Acknowledged Assignment of Receivables/Contract Proceeds if the borrower has agreed to assign receivables/contract proceeds to the bank
3. If Mortgage being taken the Agreement to Mortgage
4. Bia Deed, that shows whom the land is bought from
5. Board Resolution for Corporate Guarantee, if corporate guarantee taken
6. Board Resolution of Borrowing Authority - standard document taken in all cases
7. Central Bank Approval – applicable if the loan is over 15% of paid up capital
8. Continuing Guarantee that is taken if personal guarantee is taken
9. Counter Indemnity, if bank guarantee given
10. Cross Corporate Guarantee, taken when all members of a group of companies provide a guarantee for a particular group member
11. CS Parcha, survey showing history of land during British period
12. Demand Promissory (DP) Note – Charge Document. Promise to pay back a specific amount. Standard document taken in all cases



13. General Loan + Collateral Agreement – Charge Document. Standard document taken in all cases
14. Insurance Policy for Inventory/Fixed Assets – taken. If inventory/fixed assets hypothecated
15. Letter of Continuity – Charge Document. Standard document taken in all cases
16. Letter of Disbursement – Charge Document. Standard document taken in all cases
17. Letter of Hypothecation - If Hypothecation takes place
18. Letter of Lien – If a security such as FDR is being taken
19. Letter of Lien and set off for GOB Bonds, If bonds are kept as security
20. List of Project's Machineries, If Machinery is being Hypothecated
21. Memorandum of Deposit of Title Deed, If equitable mortgage taken. Title deed has to be kept with the bank
22. Mouza Map + Site plan – to help identify the land
23. Mutation Parcha. To show the name of the property if land is security
24. No Objection letter from RAJUK if plot is RAJUK's
25. Non-Encumbrance certificate, to show that property has not been mortgaged elsewhere
26. Original Plan of Building, if building is kept as security
27. Personal Guarantee of Owners, if Guarantee being taken as security
28. Registered Hypothecation of Debts & Assets, for Limited Companies if hypothecation done, has to be registered with the RJSC
29. Registered Hypothecation of Fixed Assets, for Limited Companies if hypothecation done, has to be registered with the RJSC
30. Registered Hypothecation of Inventory, for Limited Companies if hypothecation done, has to be registered with the RJSC
31. Registered Mortgage at Sub Registry Office, if this is done, it is not necessary to keep title deed. But bank keeps the title deed in practice

### **3.8 Disbursement:**

Once a loan has been granted and documentation has been finished, the disbursement stage starts. The branch uses a given format for loan disbursement (For Bank Asia Limited there is a format in the Stellar system which generates disbursement schedule as input is given into it regarding the total amount of loan, repayment method etc.). As per the financing need of the client the branch disburses the total amount of loan – it can be in one single payment or in parts. Even after one partial payment, the bank continues monitoring the implementation of the loan, and if needed, the bank reschedules its disbursement schedule.

### **3.9 Supervision:**

Supervision is very important in the aspect of loan sanctioning and disbursing process. Because, if the bank is failed to identify the real borrower there may be possibility of classification of loan. As a result, bank will incur the total loss.

The bank continuously monitors the usage of the loan in the disbursement phase. But that does not suffice the responsibility of the bank. Continuous monitoring is needed for the safety, security & repayment of the loan provided to the client. For that purpose, the bank makes time to time monitoring in formal and even informal visits to ensure the proper utilization of the loan.

### **3.10 Recovery:**

Advance is such kind of arrangement that its clients are repayable this either on demand at the expiry of fixed period or as per repayment schedule agreed upon while granting the facilities.

The last but a very important step is the recovery of the loan disbursed. The borrower may repay the whole amount at once or part by part depending on the type of the loan. If the investment is in a seasonal inventory, the payments may come at the end of the season. In a longer-term inventory and receivables financing, the repayments would be made from profit margins or from refinancing and in parts. If it is a Project loan, the repayment comes from the sale of resource and also usually in installments.

The sale of the security is actually not the ultimate solution if the credit is classified as bad. But in some cases, the bank has to take that last refuge and recover its investment. The bank follows these procedures as per the Money Loan Court Act 2003, which is enacted from May 1, 2003.

### **3.11 Credit Risk Grading (CRG):**

One of most significant risks a bank is exposed to is, what is generally termed as, '*credit risk*'. Since the largest slice of income generated by a bank and a major percentage of assets is subject to this risk, it is obvious that prudent management of this risk is fundamental to the sustainability of a bank.

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

Credit Risk Grading system is a dynamic process and various models are followed in different countries & different organizations for measuring credit risk.

Credit risk grading is an important tool for credit risk management as it helps the Banks & financial institutions to understand various dimensions of risk involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a bank or a branch. The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage.

### Definition of Credit Risk Grading:

- The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure.
- A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure.
- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

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

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

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

a) **Evaluation of Financial Risk:**

Risk that counterparties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. analysis of leverage, liquidity, profitability & interest coverage ratios. To conclude, this capitalizes on the risk of high leverage, poor liquidity, low profitability & insufficient cash flow.

b) **Evaluation of Business/Industry Risk:**

Risk that adverse industry situation or unfavorable business condition will impact borrowers' capacity to meet obligation. The evaluation of this category of risk looks at parameters such as business outlook, size of business, industry growth, market competition & barriers to entry/exit. To conclude, this capitalizes on the risk of failure due to low market share & poor industry growth.

c) **Evaluation of Management Risk:**

Risk that counterparties may default as a result of poor managerial ability including experience of the management, its succession plan and team work.

a) **Evaluation of Security Risk:**

Risk that the bank might be exposed due to poor quality or strength of the security in case of default. This may entail strength of security & collateral, location of collateral and support.

e) **Evaluation of Relationship Risk:**

These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

**3.12 BASIS FOR LOAN CLASSIFICATION**

<b>Loan category</b>	<b>Non repayment period</b>	<b>Status</b>
1. Continuous	<u>After expiry date:</u> 3 months or more but less than 6 month 6 months or more but less than 9 month 9 months or more but less than 12 month 12 months or more	Special Mention Account Substandard Doubtful Bad/loss
2. Demand	Same as continuous loan	
3. Term loan for a) 5 years maturity  b) More than 5 years maturity	<u>Installment failure:</u> 3 installment 6 installment 12 installment 18 installment  6 installment 12 installment 18 installment 24 installment	

### 3.13 Maintaining Provision:

The bank has to maintain provision against its classified loans (Continuous, Demand & term loans):

- Standard 1%
- Special Mention Account 5%
- Substandard 20%
- Doubtful 50%
- Bad 100%

After deducting the value of eligible security and interest, provision has to be maintained at the above mentioned rate against outstanding classified loans. A general provision has to be maintained against unclassified loans also at a rate of 1%.

### 3.14 Additional Tasks of the Credit Department:

In addition to disbursement & recovery of credit, the credit department has to perform some other tasks. The following statements are required to be submitted to Bangladesh Bank in time to achieve good rating for the Bank as well as for Bangladesh Bank's statistical purpose. Those statements are mentioned below:

1. Monthly CIB statement of Tk. 1 crore and above
2. Monthly statement of credit (Rescheduled/Increased/Newly sanctioned)
3. Monthly statement of Deposit held by the government
4. Monthly statement of Bank Loan & Advances held by the Government Sector
5. Monthly statement of loan in Agro-based industry
6. Quarterly statement of Industrial Credit
7. Quarterly statement of Loans disbursed irregularly
8. Quarterly statement of Outstanding and Classification status of loans disbursed during last 5 years
9. Quarterly statement of SBS-3
10. Quarterly statement of Loans to the Bank Directors
11. Quarterly statement of Loans to Director of other Banks
12. Quarterly statement of Branch Summary of loan classification and provision

13. Quarterly CIB statement of Tk. 1 lac to below 1 crore
14. Quarterly statement regarding sanction of large loan
15. Quarterly statement of Loan under Agricultural credit
16. Quarterly statement of recovery against classified loan
17. Quarterly statement regarding write off
18. Half-yearly statement regarding loans disbursed in ternary sector
19. Half-yearly statement regarding suit filed and settled in Artha Rin Adalat & others
20. Half-yearly statement regarding Loans disbursed in jute sector
21. Half-yearly statement of sector wise Advance
22. Half-yearly statement regarding Loans & Advances of Tk.1 crore and above

## 4.0 FINANCIAL PERFORMANCE





## 4.1 Performance of Bank Asia Limited at a Glance

Particulars	2004	2003	2002	2001	2000
Authorized Capital	1,200.00	1,200.00	800.00	800.00	800.00
Paid-up Capital	744.00	600.00	235.44	218.00	218.00
Capital-Core	1,183.47	889.72	375.23	282.81	219.80
Capital-Supplementary	117.62	83.56	57.01	33.43	12.76
Capital Surplus/(Deficit)	253.86	314.95	9.41	34.58	67.03
Total Assets	17,810.53	12,599.81	8,457.85	4,721.76	2,122.82
Total Deposits	13,470.98	10,431.38	7,008.47	3,848.81	1,512.17
Loans and Advances	11,861.20	8,189.82	5,449.13	3,012.69	1,114.06
Total Contingent Liabilities & Commitments	6,376.52	4,147.07	1,999.31	1,401.08	1,155.12
Classified Loans	391.55	142.95	81.59	0.43	0.31
Provision held against Classified Loans	186.53	24.56	12.25	0.14	0.03
Investments	3,240.52	2,496.69	1,337.54	380.30	130.23
Foreign Exchange Business	26,045.90	20,552.59	13,097.34	5,089.61	1,783.07
i) Import Business	18,942.40	14,556.11	7,761.09	3,953.75	1,520.47
ii) Export Business	7,103.50	5,996.48	5,336.25	1,135.86	262.60
Interest Earning Assets	16,212.10	11,253.60	7,616.12	4,135.61	1,985.87
Non-Interest Bearing Assets	1598.43	1346.20	841.72	586.12	136.85
Income from Investments	202.79	129.62	50.54	18.43	4.99
Total Income	1,867.75	1,498.48	931.27	480.44	152.58
Total Expenditure	1,209.05	1,079.38	701.60	354.74	133.21
Operating Profit	658.70	419.09	229.66	125.70	19.37
Profit before Tax	460.55	380.86	206.17	106.57	8.24
Profit after Tax	293.75	215.86	114.22	63.94	6.21
Loan Deposit Ratio (%)	88.04%	78.51%	77.75%	78.27%	73.67%
Classified Loans to Total Loans & Advances	3.30%	1.75%	1.50%	0.01%	0.03%
Cost of Fund	7.11%	8.16%	8.83%	7.90%	6.90%
Return on Investment	6.26%	5.19%	3.78%	4.85%	3.83%
Return on Assets	2.58%	3.32%	2.71%	1.35%	0.29%
Earning per Share (Taka)	39.48	35.97	48.51	29.33	2.86
Return on Equity (ROE)	24.82%	24.26%	30.44%	22.61%	2.84%
Price Earning Ratio	18.53	-	-	-	-
Dividend	25.00%	24.00%	28.00%	18.00%	-
Book Value per Share	159.07	148.29	159.37	129.73	100.82
Market Value per Share	731.75*	-	-	-	-
Number of Employees	331	273	214	137	92
Capital Adequacy Ratio	11.18%	13.31%	8.20%	9.02%	11.27%
Number of Shareholders	2,200	2,920	22	22	22
Number of Branches	17	14	12	7	5

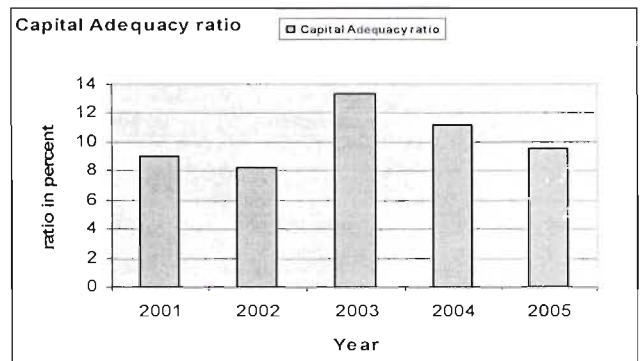
\* As on 30-12-2004 (The share price has fluctuated thereafter) Source : Annual Reports

#### 4.2 Operations of Bank Asia:

The asset and liability growth has been remarkable. By Dec 2005 the total asset of the Bank grew to Tk 23,380 million, increase of almost 31% comparing to 2004. Bank Asia has been actively participating in the local money market as well as foreign currency market without exposing the Bank to vulnerable positions. The Bank's investment in Treasury Bills and other securities went up noticeably opening up opportunities for enhancing income in the context of a regime of gradual interest rate decline.

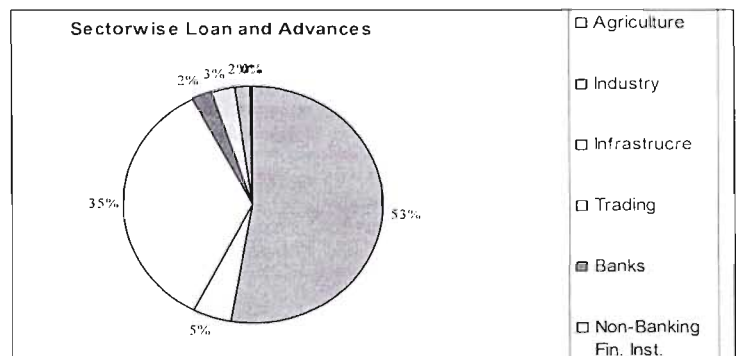
#### 4.3 Capital Adequacy:

In the end of the year 2005, the authorized and paid up capital was Tk 1200 million and Tk 930 million respectively. The value of the equity was Tk 1567 million where the capital adequacy was 9.53 percent which was 0.53 percent higher than the required ratio.



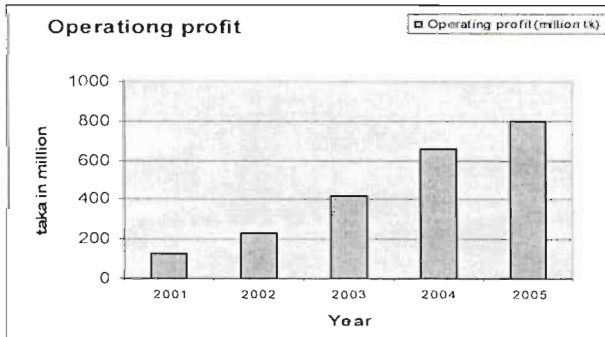
#### 4.4 Loan and Advances:

The bank maintained a substantial increase in the percentage of loan disbursed compared to the previous year. In the year 2005, a variety of personal loans has been introduced-



Auto loan, Motorbike loan, Housing finance, Emergency Medical support, Professional loan. The total loan increased from BDT 11861.20 million to BDT 17869 million. This is 51 percent higher than that of the previous year. They have formulated the following Loan Schemes:

1. Local Discounted Bill for Purchase (LDBP)
2. Term Loan Industrial,
3. Term Loan Others,
4. Loan General,
5. Transport Loan,
6. Loan Against Packing Credit,
7. Staff House Building Loan,
8. Staff Loan against Provident fund,
9. Staff car loan,
10. Loan Against Trust Receipt(LTR),
11. Loan of Money++ Scheme,
12. Demand Loan,
13. Loan Against Import Merchandize,
14. Micro Group Credit,
15. Micro credit Enterprise,
16. Loan Against Cash Incentive,
17. Payment Against Document cash,
18. Payment Against Document Force,
19. Loan Against Foreign Bill (FDBP).



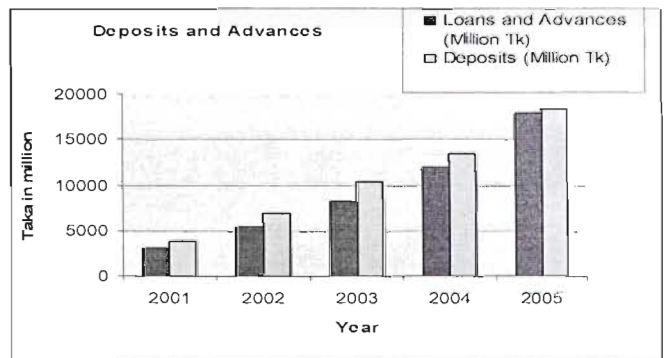
**4.5 Operating profit:**

The operating profit of the bank also shows a substantial increase over that of the previous year. The operating profit was Tk 801 million in 2005 compared to 659 million of the year 2004. This reflect

a 22 percent increase.

**4.6 Deposits:**

At the end of 2004, the total deposit was 13,471 million which increased to Tk 18,500 million at the end of year 2005. This reflects an increase of 37%. This is undoubtedly a remarkable progress considering volatile price for acquiring the deposits.



#### 4.7 Poverty Alleviation & Social Responsibility of Bank Asia

Bank Asia remains ever conscious of their social responsibility as an integral part of corporate culture. As a new initiative to help the handicapped and the underprivileged the bank signed an agreement with the Bangladesh Eye Hospital on May 12, 2005. The agreement is for treatment of all born-blind children of Bangladesh, where Bank Asia will provide all necessary financial support including surgery costs, medicines and other expense, and Bangladesh Eye Hospital will provide all required institutional and professional support. During the year around 200 eye operations have been performed and the bank donated about tk 1.34 million for the purpose. Budget for the year 2006 is Tk 2.00 million. During the year the bank also arranged a program with the Islamia Eye Hospital to provide free eye examination to school children Munshiganj and Kishoreganj. Our poverty alleviation scheme **"Palli Shahnirvor"** and **"Kormoshangsthan Prokolpo"** operating through the rural branches are financially benefiting the poor. The Bank recently provided financing through its Tarail and Ashulia branch to the NGOs Bandhan society, Kishoreganj which is working on different socio economic and environmental development projects and to BURO, Tangail which is providing sustainable financial services for the economic development of the landless and disadvantage poor people mainly to women. The Bank also introduced a Scholarship program for poor meritorious students of rural areas. Undertaking the responsibility for beautification and maintenance of one of the prime roads of Dhaka City is testimony to our environmental consciousness and commitment

## 4.8 Ratio Analysis

Generally the ratio analysis is the first step of a firm's financial analysis. Here, I calculate the five years (2001 to 2005) ratios of Bank Asia and then evaluate those ratios in relation to the peer groups averages.

### 4.8.1 Return on Equity (ROE):

This ratio indicates the degree to which the firm able to convert operating income and after tax income that eventually can be claimed by the shareholders. ROE is the measure for the stockholders' benefit from their investments. In a sense, investors' cause to place their funds is increasing its value in terms of earning an apposite return.

ROE= Net income/ Total equity

Net profit margin= net income after taxes/ Total operating revenue

Assets utilization= Total operating revenue/ Total assets

Equity multiplier= Total assets/ Total equity

Bank Asia's ROE are as below:

Year	Net profit margin (1)	Assets utilization (2)	Equity multiplier (3)	ROE 1*2*3	Industry Average
2001	28%	0.05	16.70	22.61%	
2002	28%	0.05	22.54	30.44%	
2003	32%	0.05	14.16	24.26%	
2004	31%	0.05	15.05	24.82%	
2005	33%	0.05	14.92	24.47%	

From the above figures, it is evident that ROE is gradually changing and an increase of ROE from 2001 to 2002 is almost 8%. After 2002, the ratio falls at 2003 and that trend quite stable rest of the years. There is no significant change on ROE of 2003 to 2005 and in those years change in ROE is in between 1%. From the ratio of 2003, 2004, and 2005 we can say that their change in ROE is quite stable. But, the stable ROE of Bank Asia reflects the returning capability of bank to the shareholders has not increasing from last three years and it's won't be acceptable for the share holders cause they actually want to

*have a high return from their investment and the management should take action to increase the return on equity. For increasing the return, management should call attention to manage their expenses adequately and need to increase their net income.*

Compare to industry average, we see that the ratio of Bank Asia is below average.....

#### 4.8.2 Return on Asset (ROA):

ROA is particularly an indicator of management efficiency. It indicates how capably the management of the bank has been converting its assets into net income.

ROA is estimated by

$$\text{ROA} = \frac{\text{Operating income}}{\text{Total assets}}$$

2001	2002	2003	2004	2005	Industry Average
1.35%	1.35%	1.71%	1.65%	1.64%	

The ROA was low in 2001 and 2002 compare with rest of the years. The lower operating income mainly responsible for that. As their income rises from year to year consequently the ratio also rises but the rise in those ratio are slower then the rise of income. Actually that is happening for the reason of high rise operating expenses each year. From the Financial Statement it is evident that there Total Assets & Revenue rises from year to year as well as they able to decrease there operating expenses comparing to previous years but the total amount of provision for bad loans increases leads to decrease net income. So, the ROA of 2004 and 2005 is lower than year 2003. If this trend continues that proves that the management is not utilizing there assets in an efficient way to generate more income.

Comparing with industry average it is clear that.....

### 4.8.3 Net Operating Margin

The net operating margin, net interest margin, and non-interest margin are efficiency measures as well as profitability measures, indicating how well management and staff have been able to keep the growth of revenues ahead of rising costs.

Net interest margin=Net interest revenue\Total assets

Net Interest revenue=interest income-interest expenses

Net non-interest. margin= Non interest revenue\Total assets

Non interest revenue= Non interest revenues-Non interest expenses

Net operating margin=operating income\Total assets

Year	Net interest margin(1)	Net non interest margin(2)	Net operating margin (1+2)
2001	2.26%	2.57%	4.83%
2002	2.17%	2.59%	4.76%
2003	2.13%	3.24%	5.37%
2004	2.09%	3.24%	5.33%
2005	1.90%	3.08%	4.98%
<b>Industry Average</b>			

Compare with 2001 performance it is clear that the performance goes down every year in case of net interest margin. From the income statement it is evident that their interest income was rising every year and the interest expense also increasing. But, the growth rate of interest expense increasing faster than their interest income. This is the reason for the decreasing trend of their net interest margin which proves that they were not managing their interest expenses properly.

Net operating margin of the bank was highest at year 2003 because of the increase of their net non-interest margin though their net interest margin falls at that year compare with year 2001 and 2002. Net interest margin has fallen from year to year, therefore net operating margin roared back. It proves that they are using more debts which increased their interest expenses. But, the positive trend of net non-interest margin of the bank

proves that the management team is quite successful to minimize there non interest expenses as well as increasing non interest income. So, if they want to increase the net operating margin they must have to minimize there interest expenses and maximize interest income. Otherwise it is likely that their net operating margin will fall again.

#### 4.8.4 Earning Per Share (EPS)

EPS measures the returns to the banks to the stockholders. Earnings per Share is calculated by the following equation

$$\text{EPS} = \frac{\text{Net income}}{\text{No of Ordinary shares outstanding}}$$

2001	2002	2003	2004	2005	Industry Average
29.33	48.51	35.98	39.48	41.24	

It is seen in the table that the performance of the bank from the viewpoint of profitability increases its profit hugely over the years. Therefore the performance of the bank is very much satisfactory. Nevertheless, there performance level decline after 2002 because of the slower growth rate of net income due to increase in the provision against loans and advances every yeas. But, still there EPS would able to attract their investor.

#### 4.8.5 Earning Spread

One of the traditional measures of the earning efficiency with which a bank managed is called earning spread, calculated from,

**Formula:** (total interest income/total earning assets) – (total interest expanses/total interest bearing liabilities)

Intermediation function of a bank can be measured by earnings spread that includes borrowed and lent amount. Competition within the market can results in decline the spread of a bank.

2001	2002	2003	2004	2005	Industry Average
5.96%	5.33%	6.04%	5.14%	5.37%	

The spread of Bank Asia was not steady enough. The ratio of 2003 was the highest one comparing with other years ratios. The fall of ratios after year 2003 is a sign of weaker



intermediation performance. Nevertheless, the fact remains that competition in the market is highly concentrated among 52 commercial banks resulted in the spread turning down. Bank Asia can take additional measures to surmount this erosion such as fee income replicated from new services.

#### 4.8.6 Equity Margin

The equity margin reveals the proportion of bank total assets and total equity.

Formula:  $\text{Equity margin} = \frac{\text{total assets}}{\text{total equity}}$

2001	2002	2003	2004	2005	Industry average
16.70	22.54	14.16	15.05	14.92	

The equity margin started to decline from 2003. It again raised at 2004 and fall at 2005. That means that this bank is a bit dependent on the outside debt rather than their own sources.

#### 4.8.7 Operating Efficiency

It is a sign of how efficiently banks are managing its operating expenses keeping in mind that employees are satisfied. If this ratio increases it effects net operating margin, net profit margin and ROE in particular.

Formula:  $\text{Operating efficiency} = \frac{\text{Total op. expenses.}}{\text{Total op. revenue}}$

2001	2002	2003	2004	2005	industry Average
0.45	0.43	0.38	0.31	0.31	

From our analysis, it is found that the company is incapable of meeting its mission of cost reduction. It is likely that bank's stockholders can be discontented from its performance. From our previous analysis, we find net operating margin, net profit margin and ROE ratios have turned down. We can recommend that the bank can lessen this problem by trimming down their operating expenses.

#### 4.8.8 Capital Adequacy:

Capital adequacy ratio refers to the extent to which net worth (current assets- current liabilities) is satisfactory for safe and sound operation. The higher the bank's capital, the better the prospect for the banks survival in case of adverse conditions. Capital provides a cushion against unexpected losses. The bank's capital adequacy is determined by the lending activities the bank, that is, by the assets held.

**Formula : Capital adequacy ratio= Total capital / risk- weighted Assets**

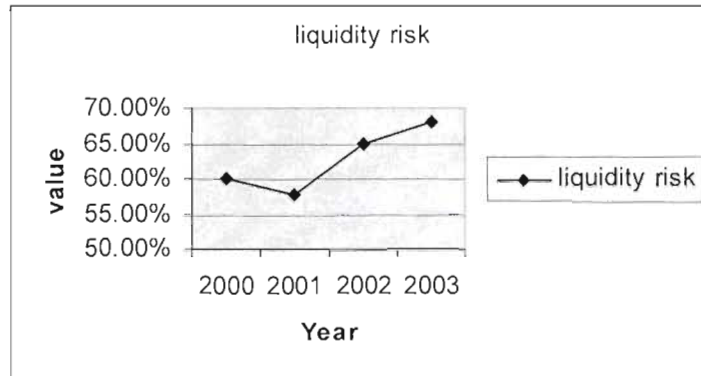
2001	2002	2003	2004	2005
9.02%	8.20%	13.31%	11.18%	9.53%

The table reveals that the capital adequacy ratio is decreasing from year 2003. The capital fund of Bank Asia is increased by TK. 518 million during 2004. On the other hand the total risk weighted assets increased by 6595 million in the year 2004. That means, Bank Asia is depending on more outside liabilities (Debt) rather than inside liabilities. It is better for stock holders. It also enhances the risk amount.

### 4.9 Risk Measurement of Bank Asia

**4.9.1 Liquidity risk:** Bank should be concerned about the danger of not having sufficient cash and borrowing capacity to meet deposit withdrawals, net loan demand and other cash needs. More common is shortage of liquidity due to unexpectedly heavy deposit withdrawal, which forces a bank to borrow funds at a high interest rate.

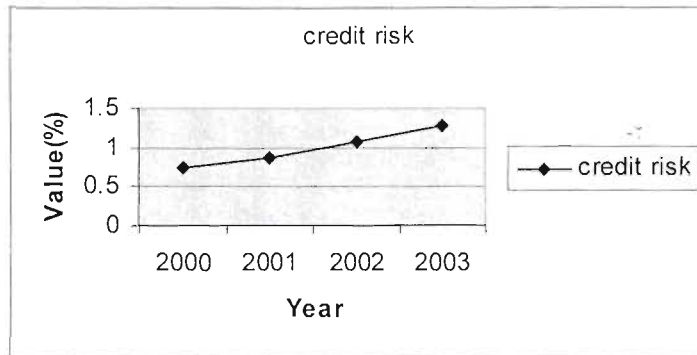
Formula	2001	2002	2003	2004	2005
Net loans/total assets	76%	59.9%	57.6%	65%	68%
Cash & Due From Banks/Total Assets	4%	1%	1%	1%	2%



From the close observation of liquidity position, we can state that Bank Asia maintains a minimum 30% liquidity against their all kinds of deposits. The liquidity of the bank is strong enough. That means, the bank has no possibility to fall into “cash-out” situation.

**4.9.2 Credit Risk:** The probability of substantial losses on loans and other assets due to borrower default.

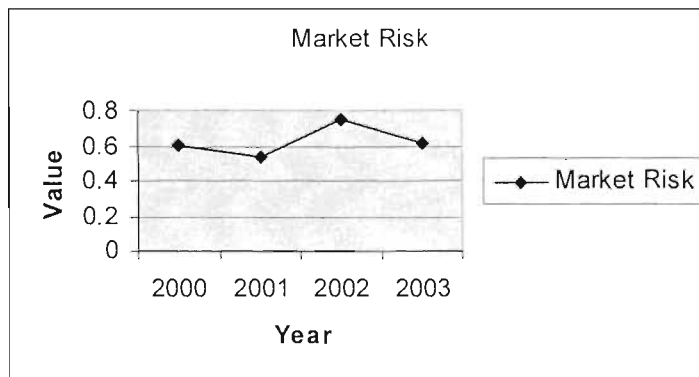
Formula	2001	2002	2003	2004	2005
Total bad loan/Total loan					
Total Loans/Total Deposit	78.28%	77.75%	78.51%	88.05%	96.59%
Provision for loan losses/Total Loans	0.64%	0.43%	0.47%	1.66%	1.10%



The above ratio is increasing gradually, which indicates the amount of total bad debts is increasing. The above ratio rise, the bank's exposure to credit risk grows, and the bank may fail if the ratio consistently rises. Therefore, the management needs rework to distributing the loans. Some percentage of bad loans can push the bank into brink of failure.

**4.9.3 Market Risk:** It can be determined by the ratio of book value per share to the market value per share.

Formula	2001	2002	2003	2004	2005
Book value/share: Market value /share					



Economic condition can alter the risk perceptions of investors. Besides, interest rate fluctuation manipulates the market value of shares held by investors. From our analysis, we found that Bank Asia has pulled through itself from its market risk.

## 4.10 Du-Pont Analysis

Actually the company's managers developed this approach for evaluating performance of the company as well as to find out the reason behind the increase/decrease of a firm's ROE. We can divide DuPont Analysis by two parts- DuPont Equation and DuPont Chart.

- **DuPont Equation:** A formula that gives the rate of return on assets by multiplying the profit margin by the total assets turnover.
- **DuPont Chart:** A chart designed to show the relationships among return on investment, asset turnover, the profit margin, and leverage.

## 4.11 Evaluation of Bank Asia based on CAMEL rating (2005)

**Capital adequacy:** A bank capital adequacy ratio determined by the K/A ratio.

Here, K= Capital

A= Assets

9% and above: strong	1
8% to 8.99%: satisfactory	2
7% to 7.99%: fair	3
6% to 6.99%: Marginal	4
5.99% and lower: unsatisfactory	5

According to annual report the Bank Asia's capital adequacy ratio is 9.53%, which indicates the bank is staying at strong position with the ranking of 1. Therefore, banks has more chance to survive in the market because their loss absorb power is very high.

### **Assets quality:**

It is determined by the ratio of total classified loans to total capital & reserve.

Total Classified Loan / Total Capital & Reserve [Classified Loans include Standard, Sub-Standard and Bad Loans]

1% to 5% and above: strong	1
5.01% to 10.00%: satisfactory	2
10.01% to 15.01%: fair	3
15.01% to 20.00%: Marginal	4
Above 20%: unsatisfactory	5

Total Classified Loan / Total Capital & Reserve=34%. This measure reminds that the bank is in unsatisfactory level with a ranking of 5.

### **Earnings Records:**

Earning is assessed by ROA of a bank:

Net income at the previous calendar year / Total asset (as per the same calendar year)

.85%: strong	1
.65%: satisfactory	2
.45%: fair	3
.35%: marginal	4
Net loss: unsatisfactory	5

The calculation shows that result is 1.26% which proves that Bank Asia is in strong position by holding rank 1.

### **Liquidity position:**

The banks whose are dependent on more outside source, such banks are more likely to experience a liquidity crisis because they are forced to borrow excessive amounts of funds from outside sources. We can measures the liquidity position by the following two ratios

- 1) Liquid assets/ total demand and time liabilities
- 2) Total loans/Total deposits

1) In case of first one

Strong: 30%	1
Satisfactory: 20%	2
Fair: 19%	3
Marginal: 15%	4
Unsatisfactory: 10%	5

In case of first one, the ratio is 39.7 percent, which indicates the Bank Asia is staying at strong position with a rating of 1.

2) In case of second ratio

Strong: 60%	1
Satisfactory: 80%	2
Fair: 85%	3
Marginal: 90%	4
Unsatisfactory: 91%	5

In case of second ratio, the Bank Asia ratio is 96.59 percent, which reveals that it is not in strong position. Nevertheless, the liquidity position is in unsatisfactory level.

For next analysis, we can add the above two ratio and take the average.

That means, Strong=1

Satisfactory=2

Liquidity position=  $(1+2)/2=1.5$

Finally, we can conclude that the bank liquidity position is in satisfactory. It means the Bank Asia does not depend more on outside funds. The bank is not facing liquidity crisis that is good sign for the bank.

### Management Quality:

Management quality can be determined by the average of the ratings of above four ratios. Here the regulators verify whether the management is efficient enough to handle any unfavorable situations or economic inflation or deflation. We can calculate the management ratio by the following formula

$$(C+A+E+L)/4.$$

$$\begin{aligned} \text{Management Quality} &= (1+5+1+1.5)/4 \\ &= 1.4 \end{aligned}$$

Here we consider the total rating of these four sub-factors. The ranking of management are as follows

1 to 1.49: strong	1
1.5 to 2.49: satisfactory	2
2.5 to 3.49: fair	3
3.5 to 4.49: marginal	4
4.5 to 5 : unsatisfactory	5

Management administrative skill and ability is very high since the relation falls under the category of strong and can be ranked 1.

### Composite rating:

It is determined by the average of rating of all five components of CAMEL as follows:

$$\begin{aligned} \text{Composite rating} &= (C+A+M+E+L)/5 \\ &= (1+5+1+1+1.5)/5 \\ &= 1.3 \end{aligned}$$

Composite rating is classified as bellow:

1 to 1.4: strong	1
1.5 to 2.4: satisfactory	2
2.5 to 3.4: fair	



# 5.0 FOREIGN TRADE

REIGN TRADE

# 5.0 FOREIGN TRADE



# FOREIGN TRADE:

Foreign Trade Department of a bank deals with a view to legal form of transfer of funds for the purpose of business or non business activity over the boundary of a country. Foreign Trade is directly conducted by Authorized Dealer (AD) Branches. Since Dhanmondi Branch is not an AD Branch it has to conduct its Foreign Trade through Corporate Branch.

## 5.1 THE MAJOR CONTROLLING BODIES OF FOREIGN TRADE IN BANGLADESH:

- a. Bangladesh Bank Guidelines for Foreign Exchange
- b. UCPDC (Uniform Customs & Practices for Documentary Credit) – 500
- c. Foreign Exchange Regulation Act – 1947
- d. Ministry of Commerce & Ministry of Finance
- e. CCI & E (Chief Controller of Imports and Exports)
- f. Time to time circulars by Bangladesh Bank

## 5.2 THE MAJOR TASKS OF FOREIGN TRADE DEPARTMENT:

The Functions of Foreign Trade dept. mainly covers the following areas:

1. Import
2. Export
3. Remittance

To facilitate Export and Import, L/C (Letter of Credit) is a very commonly used financial Instrument. First, let's know what an L/C is:

**5.3L/C (Letter of Credit):** L/C is a promise/undertaking of a bank (Issuing Bank) on behalf of the importer in a trade in favor of the exporter to pay a certain sum of money under some specific terms and conditions.

So, an L/C is a negotiable instrument (A form of documentary credit) that carries a promise of payment with the fulfillment of certain conditions. An L/C can be used in foreign trade as well as for local payments. We can divide L/Cs into two broad categories. Those are:

- a) *Revocable L/C*: It is a promise of payment that can be revoked by the issuing bank. In Bangladesh, revocable L/Cs are not used.
- b) *Irrevocable L/C*: As the name implies, once such an L/C is issued, the issuer cannot revoke the promise of payment of the value of an irrevocable L/C. In the following discussion, we shall talk about only irrevocable L/Cs.

On the **basis of types of payment**, we can divide L/Cs into two major types. Those are:

- a) *Sight Payment*: The payment is made as soon as the L/C is presented
- b) *Deferred Payment*: The L/C has a maturity date after which is over, the payment is made (Usually, the duration is 30, 60, 90, 120 or 180 days). Such an L/C is also called USANCE L/C.

Another special type of L/C is issued in Bangladesh that is called Back-to-Back (B to B) L/C where the applicant opens an L/C against another export L/C. These B to B L/Cs are USANCE L/Cs.

In an L/C cycle, the following are the common parties:

- **Importer**: The party that imports goods, also known as applicant, buyer, consignee
- **Exporter**: The party that sells/export goods, also known as seller, beneficiary
- **Issuing Bank**: The Importer's bank that issues the L/C
- **Advising Bank**: The bank that the L/C is issued on and that advises the exporter about issuance of the L/C – the issuing bank must have a BKE (Bilateral Key Exchange) arrangement with the advising bank
- **Negotiating Bank**: The bank that the Exporter after receiving the L/C, negotiates it along with other documents for receiving the proceeds from the issuing bank.
- **Confirming Bank**: Being suspicious about the payment, sometimes the exporter may ask for confirmation of the payment from a bank of his own

country – a bank giving such confirmation is called confirming bank that takes a confirmation charge from the issuing bank.

- Reimbursement Bank: This is the bank that the L/C issuing bank maintains its nostro account with. Upon instruction from the Issuing Bank, the reimbursement bank makes transfer of funds to the negotiating bank

### **5.3.1 IMPORT:**

The following are the criteria that have to be fulfilled by an importer when opening an L/C for importing:

- a. First of all, the Importer has to be a client of the bank
- b. Have to submit a formal request (Usually an application) for opening an L/C
- c. Duly filled up L/C and signed L/C application form and Letter of Credit Authorization form (LCAF) by the importer
- d. Have a Import Registration Certificate (IRC) that is renewed to the current period as well as VAT and TIN certificate
- e. Copy of Proforma Invoice/ Indent that has been accepted by the importer
- f. CIB report from Bangladesh Bank that is clean
- g. Supplier's credit report from credit rating agency or from supplier's bank - usually the bank itself performs this task while the importer is required to bear the costs of obtaining such reports
- h. IMP form properly signed by the importer
- i. Insurance cover note along with the money receipt
- j. Charge documents as per the bank's requirement

Now the bank calculates the required balance that the applicant will have to maintain with the bank. The bank asks the applicant to maintain an L/C margin (A certain percentage of the total L/C value) as a security – in other words, the risk coverage. The margin depends on the relationship of the client with the bank, govt. policies and also on the marketability of the goods being imported. The bank asks the applicant to maintain

that certain percentage of balance at its account with other charges like commission of .5%, VAT (15% on commission), SWIFT charge, LCA fee & Cost for stamps.

When all of the above requirements/documents are met/submitted properly, the bank officially issues an L/C on a bank that it has BKE with. A SWIFT message is sent to the advising bank that includes the terms & conditions of the L/C. the other documents are sent by courier service. An L/C contains various information from which few important fields are given below:

- a. L/C number
- b. The Importer & his Bank name (Issuing bank)
- c. The Exporter & his Bank name
- d. Value of the L/C
- e. L/C Issuing date
- f. Date of Maturity
- g. Description of Goods
- h. Revocable/Irrevocable
- i. Transshipment & Partial Shipment permitted/not permitted

When the advising bank advises the exporter about the L/C, the exporter collects the L/C from the advising bank paying only the advising commission. After that, the exporter prepares documents asked in the L/C (The list of these documents is given in the lodgment part). As the exporter gets the guarantee of payment, he/she makes arrangement to export the goods. After the goods have been shipped, the exporter submits the complete set of documents to the negotiating bank. The negotiating bank may be the advising bank or another bank. The negotiating bank sends the set of documents to the issuing bank for the L/C claim.

### **5.3.2 Documents Required for Lodgment:**

- a. Commercial Invoice
- b. Original Bill of Lading (B/L)
- c. Packing List
- d. Country of Origin Certificate
- e. Pre-shipment Inspection (PSI) Certificate

- f. Compliance Certificate
- g. Certificate by the Beneficiary that the goods are brand new

The L/C issuing bank carefully scrutinizes the documents that are sent by the exporter through his/her negotiating bank. If there is no discrepancy, within 7 days of receipt of documents, the issuing bank sends acceptance of the L/C & asks the reimbursement bank to make necessary payment to the negotiating bank's account. This is called PAD (Payment Against Documents). If any discrepancy is found in the documents, the negotiating bank and the importer is informed about the discrepancies. At the same time the importer is also asked if he accepts the discrepant documents. If there is no discrepancy in the documents or the importer agrees to accept those discrepant documents, the bank delivers the documents to the importer upon payment in cash or against LTR/LIM. If the Importer does not respond, then the document is retired by creating forced LTR.

The final closing of an Import L/C is done as soon as the Bill of Entry is collected.

### **5.3.3 EXPORT:**

In the export desk, L/C is issued upon the bank for advising. When such an L/C is sent to the bank by any issuing bank, the bank scrutinizes the documents and advises the exporter/beneficiary.

The exporter collects the documents from the advising bank, arranges exports and then prepares documents as per requirement in the L/C. The exporter negotiates the documents by submitting the documents to a bank. The negotiating bank claims the export proceeds to the issuing bank and sends the documents for acceptance. As the documents are accepted, the issuing bank asks its reimbursement bank to make the payment to the negotiating bank as per the terms of payment in the L/C (Instant payment for L/C at sight or deferred payment for USANCE L/C – if there is no discrepancy). If there is a late in payment from the L/C issuing bank, the negotiating bank reminds it of the payment in favor of the exporter.

The following are the documents that are required in an export:

- k. Letter to the bank for submission of documents for negotiation
- l. EXP Form
- m. Commercial Invoice
- n. Packing List
- o. PSI Certificate
- p. Bill of Lading (B/L)
- q. Letter for acceptance of documents negotiated
- r. Bill of Exchange
- s. Scrutiny sheet for Export Documents (For internal use)

In case of an USANCE L/C, if the exporter wishes to get some financing from the upcoming L/C payment, the bank may buy the documents as IFDBC (Inward Foreign Document Bill for Collection).

#### **5.3.4 REMITTANCE:**

The Foreign Trade department is also involved in foreign outward remittances. This Department issues Traveler's Cheque in favor of people who want to go abroad. There are limits for remitting money out of the country for difference purposes. The following are some limits:

- Maximum \$ 3000 is allowed to remit outward without declaration in one year if a person travels by road in a country other than SAARC countries. But at best 50% of the amount may be carried in cash.
- For the same purpose, if a person is traveling in any SAARC Country will be allowed to remit \$ 1000 without declaration within year.
- For treatment purpose, the maximum limit to remit fund with the permission of medical board's permission is \$ 10000 through foreign DD or TT.

### 5.3.5 LOCAL BILLS FOR PURCHASE & COLLECTION:

The foreign trade department also issues and advises local L/Cs. In such case, there is not much complicated documentation as needed in the export L/Cs. In case of USANCE local L/C, the bank may purchase the L/C before its maturity if the beneficiary needs financing. There are two major ways of doing such that are discussed below:

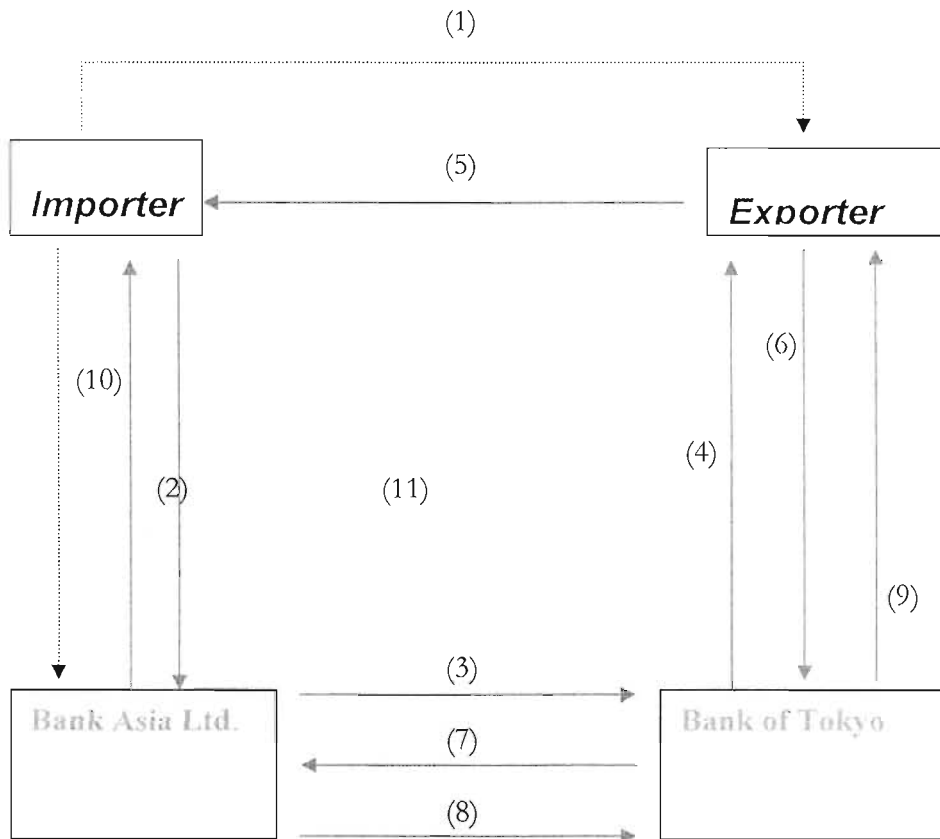
**LDBP (Local Documentary Bill Purchase):** LDBP is an Interest based loan where the beneficiary can take upto 90% of the value of the L/C as loan and the rest after collection of the L/C proceed. The beneficiary pays interest for the days he took the loan.

**IBP (Inland Bill Purchase):** IBP is non interest based where the bank actually buys the L/C and assumes the exchange rate risk. Because there is higher risk, the bank gets exchange gain at a high rate in IBP.

**L/C Transfer:** The beneficiary may ask the advising bank to transfer the L/C to a new beneficiary. In such a case, the advising bank takes a transfer charge as per bank's schedule. The first beneficiary takes a certain benefit (fixed upon bargaining with the new beneficiary) when the proceeds come. The new beneficiary collects the documents, upon payment of the transfer fee, from the advising bank to negotiate at any bank.



**5.3.6 EXAMPLE OF LETTER OF CREDIT FINANCING**



.....> Process preceding creation of L/C  
 —————> Process after creation of L/C

1. Purchase order
2. L/C application
3. L/C delivered
4. L/C notification
5. Goods shipment
6. L/C ,draft, and shipping documents
7. L/C ,draft, and shipping documents delivered
8. Draft accepted and funds remitted
9. Payment
10. Shipping documents forwarded
11. L/C paid at maturity

### 5.3.7 Main parties involved in a letter of credit transaction:

**Buyer:** Who request his bank to issue the letter of credit (L/C) in terms of the Arrangement with the seller. Also known as importer, applicant, consignee etc.

**Seller:** The party that sells/export goods, also known as exporter, beneficiary.

**Issuing bank (Buyer's bank):**The bank agrees to the request of the applicant and issues its letter of credit in terms of the instructions of the applicant is called issuing bank.

**Advising bank (Seller's/Beneficiary's bank):** The bank that the L/C is issued on and that advises the exporter about issuance of the L/C – the issuing bank must have a BKE (Bilateral Key Exchange) arrangement with the advising bank.

**Negotiating Bank:** The bank that the Exporter after receiving the L/C, negotiates it along with other documents for receiving the proceeds from the issuing bank.

**Reimbursement Bank:**This is the bank that is nominated by the issuing bank to pay (it is also known as paying bank) or to accept drafts.It can be situated in another country. Habib American Bank , HSBC ,Natwest Bank ,City Bank NA, Standard Chartered Bank etc. act as reimbursing banks of Bank Asia Ltd.The account which maintains Bank Asia Ltd. with Habib American or City Bank NA is called “Nostro Account” and in reverse the account which is maintained by Habib American and City Bank NA with Bank Asia Ltd is called “Vostro Account”. Upon instruction from the Issuing Bank, the reimbursement bank makes transfer of funds to the negotiating bank. **Confirming Bank:**Sometimes , the issuing bank requests advising bank or another bank to add confirmation to the letter of credit .When that bank does this then such bank is called confirming bank. It takes a confirmation charge from the issuing bank.

The following are the criteria that have to be fulfilled by an importer when opening an L/C for importing:

- t. First of all, the Importer must have an account in the bank
- u. The importer has to submit a formal request (usually an application) for opening an L/C
- v. Duly filled up and signed L/C application form and Letter of Credit Authorization form (LCAF) by the importer
- w. Have a Import Registration Certificate (IRC) that is renewed to the current period as well as VAT and TIN certificate
- x. Copy of Proforma Invoice/ Indent that has been accepted by the importer
- y. CIB report from Bangladesh Bank that is clean
- z. Supplier's credit report from credit rating agency or from supplier's bank - usually the bank itself performs this task while the importer is required to bear the costs of obtaining such reports
- aa. IMP form properly signed by the importer
- bb. Insurance cover note along with the money receipt
- cc. Charge documents as per the bank's requirement

At the time of opening L/C The following set of papers are given to the client:

- a) DP
- b) TR (Trust Receipt)
- c) IMP form (Two Copies)
- d) LCA (Letter of Credit Authorization) form
- e) Application form

Now the bank calculates the required balance that the applicant will have to maintain with the bank. The bank asks the applicant to maintain an L/C margin (A certain percentage of the total L/C value, usually 10%) as a security – in other words, the risk coverage. The margin depends on the relationship of the client with the bank, govt. policies and also on the marketability of the goods being imported. The bank asks the applicant to maintain that certain percentage of balance at its account with other charges

like commission of .5%, VAT (15% on commission), SWIFT charge, LCA fee, handling charge, stationary cost & cost for stamps.

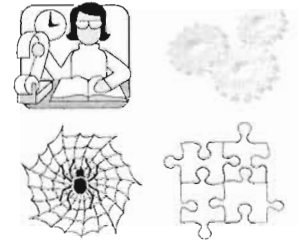
When all of the above requirements/documents are met/submitted properly, the bank officially issues an L/C on a bank that it has BKE with. A SWIFT message is sent to the advising bank that includes the terms & conditions of the L/C. the other documents are sent by courier service. An L/C contains various information from which few important fields are given below:

- j. L/C number
- k. The Importer & his Bank's (Issuing bank) name and address
- l. The Exporter & his Bank's (Advising bank) name and address
- m. L/C Issuing date
- n. Date of Expiry
- o. Value of the L/C
- p. Tolerance percentage
- q. Port of shipment and port of destination
- r. Last date of shipment
- s. Description of Goods
- t. Revocable/Irrevocable
- u. Transshipment & Partial Shipment permitted/not permitted
- v. Additional conditions

If any change is required in the L/C ,amendment is made. In the amendment ,the changes are mentioned. The bank charges TK.500 plus stationary cost, stamp cost etc. for each amendment.

When the advising bank advises the exporter about the L/C, the exporter collects the L/C from the advising bank paying only the advising commission. After that, the exporter prepares documents asked in the L/C (The list of these documents is given in the lodgment part). As the exporter gets the guarantee of payment, he/she makes arrangement to export the goods. After the goods have been shipped, the exporter submits the complete set of documents to the negotiating bank.

## 6.0 ACCOUNTS



# ACCOUNTS:

Accounts Department is at the central position of any Banking operation that controls and monitors all the transaction in the form of check and balance. This is the desk of a banking system that works in background to make sure that all the operations are being performed correctly. This is basically back end activities and performed at the end of every transaction. Any deviation in proper recording may hamper public confidence and the bank has to suffer a lot otherwise. Improper recording of transactions will lead to the mismatch in the debit side and the credit side. To avoid these mishaps, the banks provide the separate department - Accounts department, whose function is to check the mistakes in passing vouchers or wrong entries or fraud or forgery.

## 6.1 CHART OF ACCOUNTS:

Generally a chart of accounts is maintained in any transaction record. There are five major head of Chart of accounts:

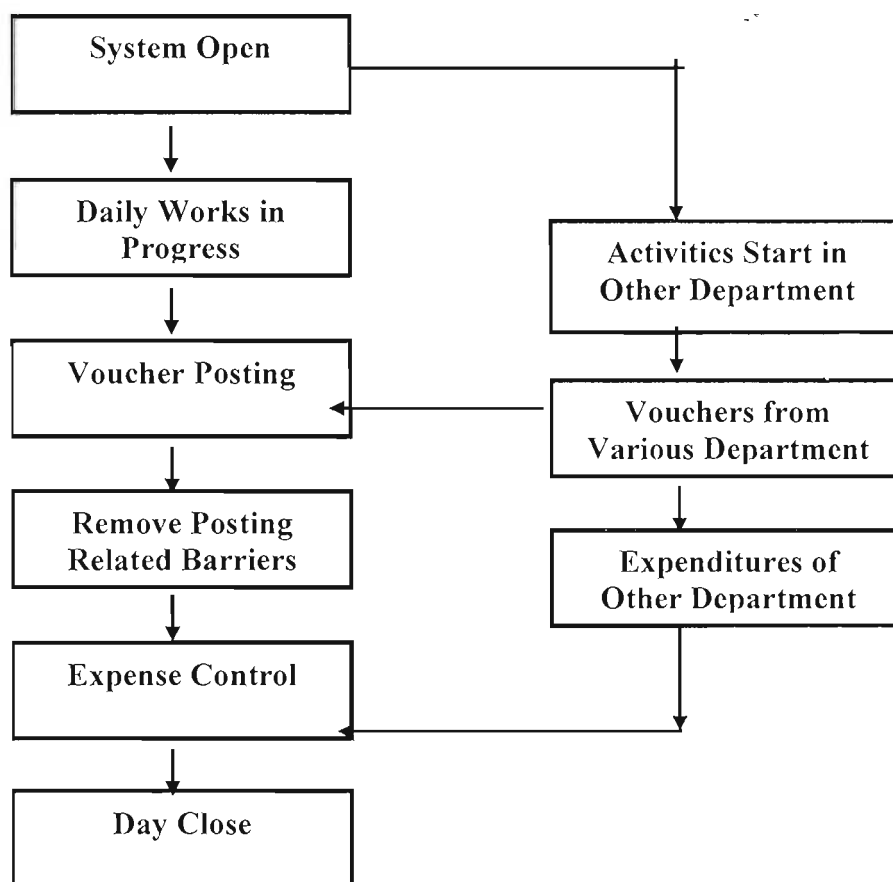
- Asset
- Liability
- Capital
- Income
- Expense

All the transaction regarding loans and advances goes under liability head and any sorts of transaction of deposits goes to asset head. These are usually party accounts.

Actually any effect of asset is reflected in income, which can be interest income, or non-interest income. On the other hand any effect of liabilities goes under expense account. Any transaction related to income and expense within a branch is posted under *General Ledger account* and any inter branch transaction posted under *Bank Asia General Account*

As per the function of Accounts department we can divide the whole work under two categories:

- Daily job
- Periodical job



**Figure: Daily Function of Bank Asia Ltd.'s Accounts department**

### 6.1.1 Day Beginning & Ending:

Day Beginning and Ending are software operations that are used to differentiate among transactions of different days and record them accordingly. At the very beginning of a day, the accounts department begins the day. At this stage, all the transactions that are entered into the system in the previous day are processed. If all the accounts are found correct, then the previous day is ended and the new day is begun. Similarly that day is closed in the next day morning and a new day is begun.



### **6.1.2 Statement Preparation:**

Accounts department prepares statement on daily, weekly, monthly, quarterly, semi-annually and annually. These statements are prepared comprising all the accounts existed in the banking operation. All types of assets, liabilities, incomes & expenses are the components of the statements. Asset & Liability are the items of Balance Sheet and Income & Expenditure are the items of Profit & Loss Account. From the accounts balance statement, position of the bank in terms of the above account can be found.

The accounts department also prepares statement for the Bangladesh Bank Statistical purpose. Those are SBS 1, 2 & 3. SBS 1 is a monthly statement while SBS2 & 3 are sent quarterly.

### **6.1.3 Inward & Outward Bill for Collection (IBC & OBC):**

Cheques of different branches of Bank Asia are presented to the cash counter. These cheques are sent to the respective banks for collection with OBC slip attached with them for. Accounts department performs these tasks and makes necessary entries.

### **6.1.4 General Accounts Reconciliation:**

Everyday, a lot of inter branch transactions take place in the form of Demand Drafts, Telegraphic Transfers, Pay Orders etc. Such Inter-branch transactions by any particular bank involve the general account maintained with that particular branch. To reconcile the accounts, IBCA & IBDA are sent. Responding bank responds to those instruments and final transaction is settled.

### **6.1.5 Check & Balance of Every Account:**

This is one of the prime tasks of the accounts department to check every transaction posted in a day. This can be performed by checking the Stellar output with the respective voucher. Error may take different forms like error of omission, commission, cross error etc. accounts department checks carefully those transactions and finally rectifies them.



The output of every transaction found in the Stellar in General Ledger modc. Trial Balance summary & details are selected to get those data.

#### **6.1.6 Accounts Department Related Voucher Preparation:**

Generally establishment related expenditures are controlled by the accounts department. Different types of bill payments are made through this department. The payments may be for the house rent, plantation or office security. These payments are made in pay orders.

#### **6.1.7 Provisioning:**

The accounts department keeps provisions for some expenditure & income. Interest payable, bills payable, etc are some examples of provisioning. These provisions can be categorized as Expense Provision & Income Provision. Expense provision includes provision on different types of deposit account in terms of interest. Depreciation calculation and making appropriate provision is another field. Income provision includes interest receivable from the loan account.

#### **6.1.8 Extract:**

Extract is a statement of all originating and responding transitions among inter branches through inter branches debit and credit advice. Actually extract shows the balance of general account of the branch. The objective of preparing it is to know how many transitions have been originated and responded by the respective branch per day. Branch has to send it its Head Office keeping one copy.

Problems

## 7.1 RECOMMENDATION

### Problems of Bank Asia

- One of the major problems Bank Asia Limited is facing is its small market share in deposit. This is because of its limited branch network. Therefore, BAL should expand its branch network not only in urban areas but also in metropolitan areas of the different zone of the country.
- BAL should also be aware of its gradual recession of liquidity position. However, though its liquidity position has been squeezed but BAL follows front-end investment strategy that does not provide high return.
- It is evident from the analysis that BAL follows a high concentration of deposits. In this regards, it is suggested that the bank should establish a back up fund for meeting upcoming large deposit due.
- The world today is a world of Information Technology that gave rise to the concept of on-line and any branch banking. Though, BAL follows the online banking, but there is a limitation in the amount that can be transacted. This deprives the customers to enjoy the true benefits of the real time online banking services. This limitation should be eliminated to enable the customers enjoy the benefits of real time online banking services.

### **Recommendation:**

#### ▣ **Formulation of MMP - Model Marketing Plan**

The management of the Bank should work for the creation of conceptual framework covering the core elements of a developed “Model Marketing Plan – (MMP)” of Bank Asia Limited. This would help them to face the competition and the changes in the banking industry into the new millennium for a sustainable

growth of business / profitability of the bank. To accomplish the tasks of formulation of “MMP” focus should be made on the following issues:

- a.* Business philosophy that identifies current and future opportunities, defines magnitude and quantum, determines target markets and cluster, and decides on products, services and programs to secure entry to markets for economic and financial gains were made. The aim of planned marketing efforts is to understand customers and to ensure that offered products and services adapt to targeted customers’ needs perfectly. The marketing plan to be designed to perform tasks of stimulating demands for Bank’s products and services to influence the level timing and composition of demand help customers’ consummate their business objectives.
- b.* Ideas of satisfying the customers’ needs by means of products and the entire cluster of action as associated with creation / delivering and finally consuming the products and services.
- c.* Process to be employed to interpret markets, customers’ needs and transformation: defining mission / objectives and goals, portfolio plans and new business plans. The plans were structured in 3 (three) operational levels : corporate level, business level and product level. The marketing mission was converted into specific objectives for each level targeted at: profitability, market-share, positioning, risk-diversification and innovation. The objectives to be made quantifiable, realistic and consistent towards useful implementation of the marketing action plan. The portfolio plan involved in reviewing of the current portfolio of businesses and deciding on new businesses and potential thrust sectors.
- d.* Selection of target markets including dividing the markets into major market segments sharing common properties, evaluation, selecting and targeting segments and deciding on ways of positioning in each market.
- e.* Identification of market opportunities through analysis of subjective issues, concepts, strategies and techniques of penetration to create market along with efforts to integrate actions based on collected data to fit into real banking solution

having operational linkages with the marketing plan “Model Marketing Plan -- (MMP)” of Bank Asia Limited.

- f.* Natural inducement of the target groups to Bank Asia Limited is that customers must perceive greater degree of satisfaction from the offered services. The qualitative improvement and development of cutting-edge products precipitate in higher degree of customers satisfaction and Bank Asia Limited to plan for improvement of services, adding flair to the products like introduction of ATM / On-line banking / Credit Card / Debit Card / introduction of relationship Manager and Customer-friendly deposit schemes.

■ **Preparation of performance budget should focus on the following issues:**

In the context of the current local a global economic scenario the Performance Budget of the Bank should be drafted particularly keeping in view the rationales as under:

- a.* In the current deregulated regime the fierce competition continues in the Banks for mobilization of new liabilities (deposits) will tend to push up the prices of deposits (Time / Term deposits)
- b.* The shortfall of the government revenue collection compounded with the present recession in the economy is likely to have negative impact on the economic recovery / the expected expansion of the economy may be slowed down.
- c.* The governments (GoB) as evident from the track have become increasingly dependent on banking systems / domestic savings towards meeting the revenue expenditures / local components of the ADP.
- d.* The disbursement of Infra structural Project Loans (Foreign) / Foreign Aid / Loan and FDI are on decline and the size of ADP are being slashed / limited.
- e.* The inflationary pressures on the economy are building up and the replacement costs of goods and services are on constant rise because of depreciation of the Taka. The growth of exports has slumped because of the poor infrastructural support as required to gear up the export productions / shipments.
- f.* The bankers have been experiencing increased difficulties to mobilize new deposits and the costs of liabilities (ACF) are on constant increase. And, nevertheless because

of the short supply of financially / economically viable businesses / good clientele : loan prices cannot and perhaps be renegotiated in the upper direction.

#### ▣ ***Improvement of the IIR***

The HR department of the bank is one of the weakest areas and many of the human resource development policies and practices are not being followed or implemented. Though, there has been performance appraisal for the employees but still it is lying idle and no action has been taken. The management should immediately apply the performance appraisal system and take appropriate actions on the basis of that appraisal. All sorts of promotions or other benefits should be based on the report of the performance appraisal. The traditional method of considering years of work experience as the criteria should be changed and rather the new method of looking at the output, productivity and quality of the work should be considered. The HR wing has to be more active rather than maintaining administrative duties. Other than the head of this division, the staffs in this wing are incompetent for this position. More qualified and skilled HR professional should be recruited for this department for the future growth of the HR in BAL. The IIR department should be gradually extended at the branch level as the bank is expanding so that each branch has a HR official.

#### ▣ **Formulation of Recruitment / remuneration policy:**

##### ***a. Better recruitment***

BAL must pursue a strong and an effective recruitment system so that the right people are recruited at the right job. As already mentioned earlier, Management Trainees there are major flaws in the recruitment of the staffs from other banks during the emergent stage. But now as the bank is expanding, it must focus on attracting, getting and retaining qualified personnel for filling up its positions. It is worth spending more on attracting qualified human resources rather than getting the wrong people in the wrong positions.

##### ***b. Stop Reference Appointment***

BAL management and particularly the Board of Directors must change the system of appointing people by giving their reference. It has been deeply observed that most of the

reference appointees are not up to the standard and have a poor performance. For the sake of the bank's future and further strengthening the quality of work force, this tendency to appoint people on reference must be stopped. It may not be absolutely possible to eliminate the reference appointment system as it is a local private company. But still the tendency can be reduced to a certain extent if bold steps are undertaken by the management and the Board of Directors.

**c. Disguised Employment**

Currently this has become a major problem at BAL. The situation of too many heads but few hands must be eliminated for the future of the bank. In order to enhance the productivity of the work force at BAL, the management must consider the appropriate amount of work force requires and must assess the productivity of each employee. It must ensure that the right jobs are being carried out at the right time and none of the employees are having a free ride. Stern action must be taken against the disguised employee and any form of overstaffing must be eliminated.

**d. Enhancement of remuneration package**

A remuneration package does not only include the regular monthly salary – rather it's a combination of different benefits provided by the organization. The present compensation package at BAL - in terms of monthly salary - is quite impressive. But comparing with the other benefits like car loan, staff house building loan etc. of other banks – Bank Asia Limited is a bit behind of many other banks. This leads to some dissatisfaction of the employees and the bank faces difficulty to retain those personnel.

Many skilled and devoted officers of the bank are depressed with their compensation package. The bank must redesign its compensation package to attract quality human resources particularly qualified MBA's for the bank. Since the foreign banks pay 1.5 times of that of BAL and few other local private banks also have a higher scale than BAL, it is high time that the management should consider revising the remuneration package in order to attract quality human resources.

#### ▣ **Improvement of quality of service:**

Service industry has no point of perfection – rather has a target of continuous improvement. Like in many other emerging market economies, commercial banks in the Bangladesh economy are to face an increasing competition for their business in the coming days. Having a reputation of providing good customer service must not be a point of satisfaction for the bank. The business would no longer remain easy as they had been earlier.

#### ▣ **Branch Expansion:**

Both the first generation and second generation banks already have a vast network within the country. At the same time, the third generation banks also are not sitting idle to spread the network. Therefore, for expanding the network geographically, the bank should open up new branches in strategically important places. We would suggest that the bank can open branches in Mirpur, Malibag, Kakrail, New Elephant Road, New Eskaton of Dhaka City, Narayanganj, Savar, Khulna, Jessore, Barisal, Bogra, and Dianajpur. Some of its rivals already entered in some of these regions and some are on the way, so the bank should expand in these regions without making any delay. Before entering into a new market the bank should do extensive market survey.

#### ▣ **Put emphasis on corporate clients:**

BAL should provide sophisticated services to big corporate clients and should introduce many innovative and enterprising schemes to support the corporate clients. Now the bank should increase its investments in sectors like real state, consumer loans, health care etc. in order to make adjustment in its credit portfolio. BAL can also pursue promotional campaigns with its customers particularly the corporate clients in order to build up a stronger rapport with them.

#### ▣ **Reduction of Expenditure:**

Each branch of Bank Asia Limited, with gorgeous interior and exterior looks, starts with a huge burden of setup cost. This ultimately results in regular heavy overhead cost that the branch has to bear. The bank may consider ways to minimize such costs to prove its efficiency in controlling such costs.

## 8.1 Conclusion

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This report is the result of three months internship program in the of Bank Asia Ltd. During this three month period, I have got twenty two working days. Therefore, for five departments, we got little more than twelve days on average. This period is certainly not enough for understanding the various functions of the bank in depth.

In my report, I have tried to reflect my understanding and experience that I have gathered as correctly as possible. In spite of this, there may be some imperfections.

From the practical point of view I can declare boldly that I really have enjoyed my job rotation program here from the very first day.

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