Internship Report
on
The Credit Analysis of Private Commercial Banking Sector of Bangladesh: A Case Study on BRAC Bank PLC.

Submitted by

Jahid Ahamed

ID: BBA202026058

Program: Bachelor of Business Administration

Major: Accounting

Department of Business Administration

Sonargaon University (SU)

Submitted to

Department of Business Administration

Faculty of Business

Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of Bachelor of Business Administration

Sonargaon University (SU)
147/1 Green Road, Panthapath, Tejgaon, Dhaka

Date of Submission: May 02, 2026

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Mst. Marium Akter

Lecturer

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Letter of Transmittal

2nd May, 2026

Mst. Marium Akter
Lecturer
Department of Business Administration
Faculty of Business
Sonargaon University

Subject: Submission of Internship Report.

Dear Madam,

Assalamu Alaikum. I hope that you are keeping well by the grace of Almighty Allah.
With due respect, it is my great pleasure to submit the internship report on BRAC Bank PLC. The report entitled **"The Credit Analysis of Private Commercial Banking Sector of Bangladesh: A Case Study on BRAC Bank PLC."** is a partial requirement for the completion of the BBA degree.

I have left no stone unturned to collect data about the credit analysis of the private commercial banking sectors of Bangladesh. I have finished all the things that I have learnt during the internship program at **BRAC BANK PLC**.
I hope that this report will meet the standards of your judgments. I have tried my best to make this report informative and comprehensive. Any mistake or shortcoming in this report would be apologetically considered as my fault. I hope the report will fulfill your expectations and standards.

I must mention here that I am extremely grateful to you for your valuable supervision, tireless effort, and continuous attention in preparing this report. I, therefore, pray and hope that you would kindly accept my report and oblige thereby.

Sincerely Yours,

____

Jahid Ahamed
ID: BBA202026058
Program: Bachelor of Business Administration
Major: Accounting
Sonargaon University (SU)

Declaration of Student

I, **Jahid Ahamed**, a student of BBA, Department of Business Administration, **Sonargaon University (SU)**, do hereby declare that the internship report titled **"The Credit Analysis of Private Commercial Banking Sector of Bangladesh: A Case Study on BRAC Bank PLC."** is the outcome of my own work.

This report has been prepared based on my practical experience gained during the internship period under the supervision of **Mst. Marium Akter**, **Lecturer**, Department of Business Administration, **Sonargaon University (SU)**.

I further declare that this report is original and has not been submitted to any other university or institution for the award of any degree, diploma, or certificate.

Sincerely Yours,

____

Jahid Ahamed
ID: BBA202026058
Program: Bachelor of Business Administration
Major: Accounting
Sonargaon University (SU)

Letter of Authorization

Certified that this internship report titled **"The Credit Analysis of Private Commercial Banking Sector of Bangladesh: A Study on BRAC Bank PLC."** is the bona fide work of **Jahid Ahamed**, who carried out the research under my supervision. Certified further that to the best of my knowledge, the work reported here does not form part of any other project report or dissertation based on which a degree or award was conferred on an earlier occasion on this or any other candidate.

Mst. Marium Akter
Lecturer
Department of Business Administration
Faculty of Business
Sonargaon University (SU)

Acknowledgement

First and foremost, I would like to express my profound gratitude to Almighty Allah for giving me the strength, patience, and ability to successfully complete my internship program and prepare this report.

I am deeply indebted to my honorable supervisor, **Mst. Marium Akter**, Lecturer, Department of Business Administration, Sonargaon University (SU). Her continuous guidance, valuable suggestions, and constant encouragement were instrumental in shaping this report. Despite her busy schedule, she always made time to review my work and point me in the right direction.

I would also like to express my sincere appreciation to the Branch Manager and all the esteemed officials and staff of **BRAC Bank PLC.** I am especially grateful to the team in the Credit Department for their cordial behavior, practical insights, and willingness to share their expertise with me. Their support made my practical learning experience truly enriching.

Furthermore, I extend my heartfelt thanks to all the faculty members of the Department of Business Administration at Sonargaon University for providing me with the strong theoretical foundation necessary to understand real-world business scenarios.
Finally, I want to thank my family and friends for their unwavering moral support and inspiration throughout my academic journey and during the preparation of this internship report.

Executive Summary

This internship report has been prepared as a mandatory requirement for the completion of the Bachelor of Business Administration (BBA) program at Sonargaon University (SU). The core objective of this report is to bridge the gap between theoretical knowledge and practical business operations by observing and analyzing the real-world activities of a leading financial institution. The study focuses specifically on **"The Credit Analysis of Private Commercial Banking Sector of Bangladesh: A Study on BRAC Bank PLC., Narayanganj Branch."**

BRAC Bank PLC. is one of the fastest-growing and most prominent private commercial banks in Bangladesh, renowned for its strong corporate governance and pioneering role in SME financing. The Credit Department is the most vital organ of any commercial bank, as lending is the primary source of revenue but also the primary source of risk. Effective credit management is essential for maintaining a healthy balance sheet and ensuring sustainable growth.

This report is structured into several comprehensive chapters. It begins with an overview of BRAC Bank PLC., detailing its corporate profile, mission, vision, and the specific operational activities of the Narayanganj Branch. The core of the report dives deep into the credit appraisal process, outlining how the bank assesses borrower risk (using the 6 Cs of credit), the loan sanctioning workflow, and the various credit facilities offered to corporate, SME, and retail clients.

Furthermore, the report analyzes the financial performance of the credit portfolio, touching upon aspects such as loan disbursement, recovery rates, and the management of Non-Performing Loans (NPLs). Based on practical observations and a brief survey of client satisfaction regarding the loan process, the report identifies both the strengths and weaknesses of the current credit operations at the Narayanganj Branch
.

Finally, the report concludes with strategic recommendations aimed at minimizing credit risk, reducing loan processing times, and enhancing overall customer satisfaction, ensuring that BRAC Bank maintains its competitive edge in the dynamic banking sector of Bangladesh.

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List of Acronyms & Abbreviation

Abbreviation	Full Form
AOD	Asset Operation Department
BBL	BRAC Bank PLC.
BS	Bangladesh Survey
BTB LC	Back-to-Back Letter of Credit
CDs	Certificates of Deposit
CIB	Credit Information Bureau
CS	Cadastral Survey
DBL	Dhaka Bank Limited
DFIs	Development Financial Institutions
EMI	Equated Monthly Installment
EXP	Export
FCBs	Foreign Commercial Banks
FIs	Financial Institutions
GB	General Banking
IMP	Import
IRAs	Individual Retirement Accounts
LC	Letter of Credit
NBFIs	Non-Bank Financial Institutions
NCBs	Nationalized Commercial Banks
NOC	Non-Objection Certificate
PCBs	Private Commercial Banks
PLS	Profit-Loss Sharing
RMU	Risk Management Unit
RS	Revisional Survey
SA	State Acquisition
SCBs	Scheduled Banks
SME	Small and Medium Enterprise
SOCBs	State-Owned Commercial Banks
STL	Short Term Loan

Chapter-One

Introduction

1.1 Origin

Origin of the Report

The internship program is a mandatory prerequisite for the completion of the Bachelor of Business Administration (BBA) degree at the Department of Business Administration, Sonargaon University (SU). This academic requirement is designed to bridge the gap between theoretical business concepts learned in the classroom and the practical realities of the corporate world.
To fulfill this requirement, I undertook a three-month internship program at **BRAC Bank PLC.** During my tenure, I was exposed to various operational aspects of the bank, with a particular focus on the Credit Department. This report, titled *"The Credit Analysis of Private Commercial Banking Sector of Bangladesh: A Study on BRAC Bank PLC.,"* is the final output of my internship period. It synthesizes my practical observations with the accounting and financial knowledge acquired during my undergraduate studies.

1.2 Objectives of the Report

The objectives of this study are categorized into two dimensions: Broad Objectives and Specific Objectives.

Broad Objective

The primary and overarching objective of this report is to conduct a critical analysis of the credit appraisal mechanisms, risk management frameworks, and overall financial performance of the credit portfolio at BRAC Bank PLC., specifically focusing on the operations at the Narayanganj Branch.

Specific Objectives

To achieve the broad objective, the following specific goals have been established:

- To document and understand the step-by-step credit approval workflow and loan sanctioning process practiced at BRAC Bank PLC.
- To examine the application of the "6 Cs of Credit" (Character, Capacity, Capital, Collateral, Conditions, and Cash Flow) in the risk assessment of potential borrowers.
- To evaluate the financial health of the branch by analyzing key accounting metrics from the balance sheet and income statement.
- To interpret core credit risk accounting ratios, such as the Non-Performing Loan (NPL) ratio and the Loan-to-Deposit Ratio (LDR), to assess the bank's liquidity and asset quality.

1.3 Significance of the Study

The significance of this internship report extends across academic, professional, and practical dimensions. As a student of the Bachelor of Business Administration (BBA) with a major in accounting, this study serves as a critical bridge between abstract financial theories learned in the classroom and the complex, data-driven environment of the commercial banking sector.

Firstly, for academic purposes, this report contributes to the existing body of knowledge regarding credit risk management in the context of the evolving Bangladeshi financial landscape. By analyzing the credit appraisal workflow of BRAC Bank PLC., this case study provides a granular view of how regulatory directives from the Central Bank are implemented at the branch level. It offers a practical reference point for future students interested in understanding the operational mechanism of private commercial banks, particularly in the realm of SME and corporate lending, which are the backbones of the nation's economic engine.

Secondly, for BRAC Bank PLC., this study offers an objective, external perspective on their current credit operations. Through the lens of an intern, this report highlights the efficiency of the Credit Risk Grading (CRG) models and the practical hurdles involved in maintaining low Non-Performing Loan (NPL) ratios. By evaluating the bank's adherence to internal policies and financial reporting standards, the findings presented in this report provide insights that can be utilized to identify bottlenecks in loan disbursement and improve customer service quality.

Finally, for the researcher (the intern), this study is significant as a career-development tool. Engaging in the daily operations of the Credit Department has allowed me to translate academic knowledge of balance sheets, income statements, and cash flow analysis into real-world business intelligence. Documenting these experiences has sharpened my professional judgment, enabling me to understand the critical balance between risk and profitability—a core competency for any aspiring accounting professional. Ultimately, this report validates my commitment to professional excellence and provides a solid framework for my future endeavors in the financial sector.

1.4 Methodology (Data Collection)

To ensure the accuracy, reliability, and academic rigor of this report, I adopted a systematic research methodology. As an Accounting major, I prioritized both qualitative and quantitative data to provide a comprehensive analysis of the credit operations at BRAC Bank PLC. The research methodology is categorized into two primary streams.

Primary Data Sources

Primary data constitutes the original information collected specifically for this study through direct engagement with the bank's operational environment during my internship. Key methods included:

- **Direct Observation:** Closely observing the daily workflow of the Credit Department, specifically the loan application handling, the scrutiny of financial documents, and the customer interaction process.

- **Structured Interviews:** Engaging in discussions with Branch Managers, Credit Officers, and Relationship Managers at the branch to understand the practical challenges of credit disbursement and recovery.

- **Practical Workflow Analysis:** Analyzing internal templates, Credit Risk Grading (CRG) models, and collateral verification checklists used by the bank.

Secondary Data Sources

Secondary data refers to existing information that provides context and facilitates comparative financial analysis. Key sources included:

- **Annual Reports:** Reviewing the audited financial statements of BRAC Bank PLC. for the last three years.

- **Bank Manuals & Policies:** Referring to internal policy brochures, operational manuals regarding SME/Corporate financing, and credit circulars issued by Bangladesh Bank.
- The integration of these primary and secondary sources allowed for a balanced perspective, combining hands-on banking experience with structured financial analysis.

1.5 Limitations of the Study

Every empirical study and academic report is subject to certain constraints, and this internship report is no exception. While I have made my utmost effort to prepare a comprehensive and accurate analysis of the credit operations at BRAC Bank PLC., the study was conducted under several limitations. The primary constraints encountered during the preparation of this report are outlined below:

- **Time Constraint:** The duration of the internship program was limited to only three months. The credit operations of a leading commercial bank are vast, complex, and deeply integrated with various regulatory frameworks. Fully grasping the intricacies of corporate lending, SME financing, and risk mitigation within such a short period was a significant challenge.

- **Data Confidentiality and Secrecy:** Banks operate under strict confidentiality agreements. The Credit Department deals with highly sensitive financial data of its clients. Due to internal compliance and data protection policies, I was not granted access to certain confidential documents, live Credit Risk Grading (CRG) software inputs, and specific client recovery files. As a result, the analysis relies heavily on sanitized or publicly available secondary data.

- **Geographical Limitation:** This study is strictly confined to the observations and data collected from a single branch—the BRAC Bank PLC. Therefore, the findings, customer service metrics, and operational bottlenecks identified here may not universally represent the overall scenario of BRAC Bank’s hundreds of branches nationwide.

- **Lack of Practical Experience:** As a graduating BBA student, this was my first direct exposure to the corporate banking sector. Bridging the gap between theoretical accounting principles and real-time banking software applications required a steep learning curve, which may have slightly limited the depth of the complex financial analysis.

- **Reliance on Secondary Data:** For the quantitative analysis in Chapter 4, the report heavily depends on the audited annual financial statements and central bank publications. Any inherent delays or estimations within those secondary sources will naturally reflect in this report's findings.
  Despite these limitations, I have utilized all accessible resources, direct observations, and the guidance of the branch officials to ensure this report remains an authentic, informative, and valuable academic endeavor.

Chapter-Two

Organization Overview

2.1 Corporate History & Milestones

The Genesis and Philosophy

BRAC Bank PLC. commenced its journey on July 4, 2001, operating as a private commercial bank under the Bank Company Act, 1991. The institution was founded by the late Sir Fazle Hasan Abed, KCMG, the visionary founder of BRAC, the world’s largest Non-Governmental Organization (NGO).

At its inception, the founders identified a critical gap in the Bangladeshi financial sector. Traditional commercial banks were primarily focused on large corporate clients, while microfinance institutions (like BRAC NGO) served the ultra-poor. This left a massive segment of the economy—Small and Medium Enterprises (SMEs)—without access to institutional financing. BRAC Bank was established with the specific mandate to bridge this "missing middle." Today, the bank is recognized globally as a pioneer in SME banking, proving that lending to small businesses can be both a tool for socioeconomic development and a highly profitable commercial enterprise.

Institutional Backing & Shareholding

From an accounting and corporate governance perspective, BRAC Bank's foundation is uniquely strong due to its institutional sponsors. It was established as a joint venture among three formidable entities:

- **BRAC:** Providing the deep-rooted understanding of the local economy and a massive grassroots network.

- **International Finance Corporation (IFC):** The private sector arm of the World Bank Group, ensuring global best practices in risk management and corporate governance.

- **ShoreCap International:** A US-based non-profit financial institution that brought expertise in sustainable micro and SME financing.

This robust backing allowed the bank to rapidly expand its deposit base and credit portfolio, maintaining an exceptional capital adequacy ratio from its earliest days. Recently, aligning with the amended Companies Act of Bangladesh, the bank transitioned its registered name from "BRAC Bank Limited" to "BRAC Bank PLC." (Public Limited Company), reflecting its status as a publicly traded entity with a vast shareholder base.

2.2 Key Corporate Milestones

The growth trajectory of BRAC Bank PLC. has been marked by continuous innovation, technological integration, and strategic market expansion. Below is a chronological representation of the bank's significant milestones:

Year	Landmark Achievement / Milestone
2001	Commenced commercial operations on July 4, with a primary focus on SME financing.
2004	Breakeven achieved; the bank started generating operational profit within just three years.
2006	Went public; launched its Initial Public Offering (IPO) and was listed on both the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE).
2010	Launched the first-ever SME-focused specialized branch network across rural Bangladesh.
2011	Established **bKash Limited** as a subsidiary, revolutionizing the Mobile Financial Services (MFS) sector in Bangladesh and globally.
2015	Achieved the highest credit rating among all private commercial banks in Bangladesh (rated by CRISL and ECRL).
2018	Launched "Astha," the omnichannel digital banking app, setting a new benchmark for retail and corporate banking convenience.
2021	Celebrated its 20th Anniversary, crossing the milestone of 1 million active SME borrowers and a massive deposit base.
2023	Officially changed its registered corporate name to **BRAC Bank PLC.** in compliance with the amended Companies Act of Bangladesh.
2024	Achieved record-breaking Net Interest Income and managed to maintain one of the lowest NPL (Non-Performing Loan) ratios in the banking sector despite macroeconomic challenges.

2.3 Vision Statement

A vision statement outlines what an organization ultimately hopes to achieve in the long term. BRAC Bank PLC.'s official vision is:

"Building a profitable and socially responsible financial institution focused on Market and Business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy, democratic, and poverty-free Bangladesh."

Analytical Observation: From an accounting and business perspective, this vision is highly balanced. It explicitly mentions being "profitable" (ensuring shareholder wealth maximization and sustainable ROE) while simultaneously committing to being "socially responsible" (aligning with the broader developmental goals of its parent NGO, BRAC). This dual focus dictates their credit policy, ensuring loans are given to businesses that generate economic value without causing social harm.

2.4 Mission Statement

While the vision defines the ultimate destination, the mission outlines the daily roadmap to get there. BRAC Bank PLC.'s mission encompasses several key objectives:

- **Sustained Growth in SME:** To maintain a continuous and sustained growth trajectory in the Small and Medium Enterprise (SME) sector.
- **Continuous Low-Cost Liabilities:** To build a robust deposit base with continuous low-cost liabilities (Current and Savings Accounts - CASA) to fund credit operations efficiently.
- **Corporate Governance:** To maintain the highest standards of corporate governance, statutory compliance, and transparent financial reporting.
- **Talent Management:** To attract and retain a highly motivated and professional workforce.
- **Technological Edge:** To continuously upgrade technology to provide superior, secure, and fast customer service.

At the Branch, I observed that the branch's annual key performance indicators (KPIs) for the Credit Department are directly derived from this mission, particularly the aggressive targets for SME loan disbursement and deposit mobilization to lower the cost of funds.

2.5 Core Values (The Foundation of Corporate Culture)

BRAC Bank PLC. operates on a strong foundation of corporate values that guide the behavior of its employees and its interactions with clients. The bank encapsulates its core values within an easily recognizable framework, often referred to in corporate training as **CREST** (Customer Focus, Reliability, Excellence, Sustainability, and Teamwork) or localized simply as their guiding "Kristy" (Culture).

- **Customer Focus:** The bank places the client at the center of all operations. In the Credit Department, this translates to faster loan processing times, transparent communication regarding interest rates and hidden charges, and tailoring EMI (Equated Monthly Installment) schedules to match the cash flow cycles of the borrower's business.

- **Reliability:** Trust is the primary currency of banking. For depositors, reliability means their funds are safe. For borrowers, reliability means the bank will disburse sanctioned loans on time without bureaucratic harassment. The bank's strict adherence to Bangladesh Bank's provisioning guidelines ensures financial reliability.

- **Excellence:** BRAC Bank strives for continuous improvement in its operational efficiency. From an accounting standpoint, excellence is reflected in their pristine balance sheets, meticulously calculated Credit Risk Grading (CRG) scores, and an exceptionally low Non-Performing Loan (NPL) ratio compared to industry averages.

- **Sustainability:** Unlike traditional banks that focus solely on short-term profits, BRAC Bank evaluates the long-term environmental and social impact of the businesses they finance. The bank actively promotes "Green Banking," offering preferential interest rates to businesses that implement eco-friendly practices.

- **Teamwork (and Integrity):** Credit operations are highly interdependent. A loan cannot be disbursed without seamless coordination between the Relationship Manager (RM), the Credit Risk Management (CRM) unit, and the Asset Operation Department (AOD). Integrity ensures that no credit is approved based on falsified financial statements or personal bias.

2.6 Strategic Business Philosophy: The 3P Approach

To fully comprehend BRAC Bank's credit operations, one must look beyond standard financial ratios and understand their overarching business philosophy. BRAC Bank is a founding member of the **Global Alliance for Banking on Values (GABV)**. As a member of this prestigious international network, the bank strictly adheres to the "Triple Bottom Line" framework, commonly known as the **3P Philosophy: People, Planet, and Profit**.

- **People (Social Impact):** When the Narayanganj Branch receives a loan application, the assessment goes beyond the collateral. The bank evaluates how many jobs the SME will create or sustain within the local Narayanganj industrial area. By empowering local entrepreneurs, particularly women entrepreneurs under specialized schemes like the "TARA" loan, the bank ensures financial inclusion.

- **Planet (Environmental Risk Management):** Before sanctioning any large corporate or manufacturing loan, BRAC Bank conducts an Environmental and Social Risk Rating (ESRR). If a textile factory in Narayanganj applies for a loan to expand operations but does not have a functional Effluent Treatment Plant (ETP) to manage liquid waste, the credit application will be rejected or conditioned upon the installation of such facilities. This mitigates long-term reputational and compliance risks.

- **Profit (Financial Viability):** While social and environmental goals are paramount, BRAC Bank remains a commercial entity accountable to its shareholders. The Credit Department is the primary profit center. The rigorous application of the "6 Cs of Credit" and strict financial statement analysis ensures that the bank only lends to viable businesses capable of generating sufficient cash flow to repay the principal and interest. This ensures the bank's own capital adequacy and sustainable dividend payouts.

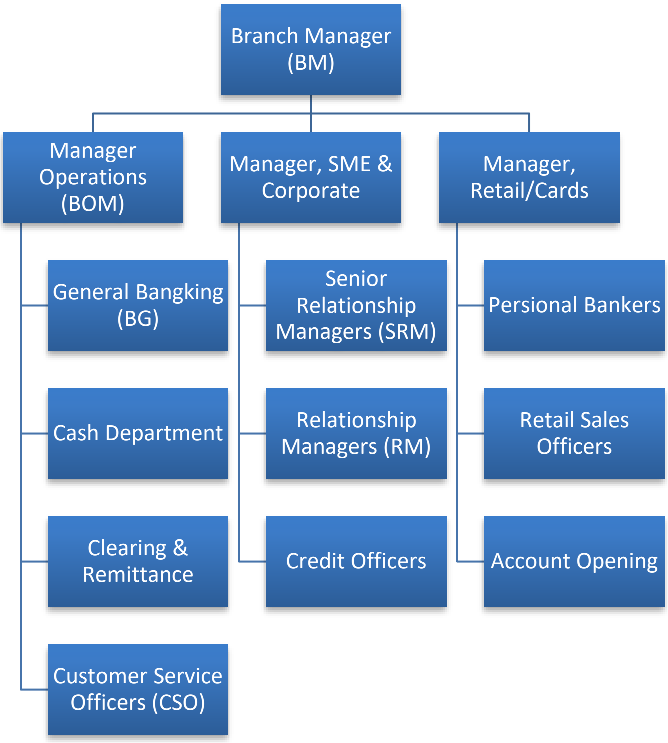
- **Conclusion of Company Profile** The integration of a strong developmental vision with highly aggressive, commercially viable credit operations makes BRAC Bank PLC. a unique subject of study. The operational structure of the Narayanganj Branch, which will be discussed next, is meticulously designed to execute this 3P philosophy effectively at the grassroots level.

2.7 Organogram of Narayanganj Branch

The organizational structure (Organogram) of a bank branch dictates the flow of authority, the segregation of duties, and the internal control mechanisms. BRAC Bank PLC. operates its branches as independent profit centers, though they remain strictly compliant with the centralized risk management policies dictated by the Head Office.

The Narayanganj Branch, being located in a highly active industrial and commercial zone, has a robust and moderately complex structure to handle high volumes of SME, Corporate, and Retail transactions. The branch operates heavily on the "Maker-Checker" principle—a core accounting and auditing concept ensuring that no single transaction or credit proposal is initiated and approved by the same individual.

Below is the hierarchical representation of the Narayanganj Branch:



Top Management at the Branch Level

- **Branch Manager (BM):** The BM is the administrative head and the primary driver of the branch's business targets. From a financial perspective, the BM is responsible for managing the branch's overall Profit and Loss (P&L). The BM oversees deposit mobilization to reduce the cost of funds and ensures that the credit portfolio grows while keeping Non-Performing Loans (NPLs) within acceptable limits. All major credit proposals must pass through the BM's desk for initial branch-level recommendation before being sent to the Head Office.
- **Branch Operations Manager (BOM):** While the BM focuses on business acquisition, the BOM ensures strict regulatory compliance and smooth daily operations. The BOM is the custodian of the branch's internal controls, overseeing the Cash vault, General Banking, and clearing operations. The BOM ensures that daily cash balances match the ledger and that all accounting entries (debits/credits) are accurately posted at the end of the business day.

The Credit Division (SME & Corporate)

Given the industrial landscape of Narayanganj, the Credit Division is the most active and profitable wing of the branch. This department is directly aligned with the core focus of my internship study.

- **Relationship Managers (RMs):** RMs are the frontline executives of the credit department. They are responsible for sourcing new clients, understanding their business models, and assessing their financing needs. From an accounting standpoint, the RM conducts the primary screening. If a local garment manufacturer applies for an expansion loan, the RM visits the factory, collects their audited financial statements, and conducts a preliminary cash flow analysis to see if the business generates enough revenue to cover the Equated Monthly Installments (EMIs).

- **Credit Officers:** Once the RM gathers the documents, the Credit Officers perform the rigorous financial scrutiny. They are responsible for:
    - Generating and analyzing the **CIB (Credit Information Bureau)** report from Bangladesh Bank to ensure the client is not a defaulter with other banks.
    - Preparing the **Credit Risk Grading (CRG)** model by inputting the client's balance sheet data (current ratio, leverage ratio, inventory turnover) into the bank's software.
    - Drafting the formal credit proposal detailing the 6 Cs of Credit, which is then reviewed by the BM.

The Segregation from Head Office (CRM): It is crucial to note that the branch *proposes* loans, but it does not have the ultimate authority to *sanction* large amounts. BRAC Bank maintains a strict separation between business origination (the Branch) and risk approval (Credit Risk Management - CRM at Head Office). Once the branch completes the proposal, it is sent to the CRM division, ensuring an unbiased, objective evaluation of the credit risk.

2.8 General Banking (GB) and Cash Operations

While the Credit Division generates interest income, the General Banking and Cash departments are essential for securing the low-cost deposits (CASA - Current and Savings Accounts) needed to fund those loans.

- **General Banking (GB) / Customer Service:** This section handles account opening, issue of cheque books, pay orders, and fixed deposits. For a corporate client receiving a loan, the GB department must first ensure their corporate accounts are opened in strict compliance with KYC (Know Your Customer) and AML (Anti-Money Laundering) guidelines. A minor error in the trade license or board resolution verification can expose the bank to massive legal risks.
- **Cash Department:** The tellers handle the physical inflow and outflow of cash. The Cash In-Charge manages the vault limit. From a financial management perspective, keeping excess idle cash in the branch vault is an "opportunity cost" because that money earns no interest. Therefore, the BOM and Cash In-Charge must accurately forecast daily cash requirements and remit any excess funds to the central feed branch or Bangladesh Bank to earn interest.
- **Asset Operations Department (AOD) / Post-Sanction:** After a loan is approved by the Head Office, the file comes to the branch's AOD team (or is managed centrally depending on the loan size). They ensure that all legal documents are signed, mortgage charges are created on the collateral property (BS, CS, RS surveys are verified), and post-dated cheques are collected before the loan amount is actually disbursed into the client's account.

Chapter-Three

Credit Mechanism & Appraisal process

3.1 The 6 C's of Credit Analysis

The core of any commercial bank's profitability lies in its ability to disburse funds while minimizing the risk of default. At BRAC Bank PLC., the credit appraisal process is a meticulous blend of qualitative judgment and quantitative accounting analysis. During my placement at the Narayanganj Branch, I observed that the foundation of every loan proposal—whether for a small local trading business or a large textile manufacturer—is built upon the universal banking framework known as the "6 C’s of Credit."

This framework acts as a rigorous checklist for Relationship Managers (RMs) and Credit Risk Management (CRM) analysts to evaluate the overall creditworthiness of a prospective borrower.

1. Character (Willingness to Repay)

Character is the most critical, yet highly subjective, element of credit analysis. It evaluates the borrower's honesty, integrity, and absolute willingness to repay the loan. If the character of the borrower is questionable, no amount of collateral can make the loan a good investment.

- **Practical Application at BRAC Bank:** To assess character, the Narayanganj branch heavily relies on the **Credit Information Bureau (CIB)** report from Bangladesh Bank. This report reveals the applicant's historical repayment behavior with other financial institutions. Furthermore, RMs conduct market reputation checks. For instance, before financing a local garment supplier, the RM will discreetly inquire with local buyers and raw material suppliers in the Narayanganj market to verify if the business owner honors their trade payables on time.

2. Capacity (Operational Ability to Repay)

While character dictates the *willingness* to repay, capacity measures the borrower’s actual *ability* to generate enough revenue to meet their obligations. This involves evaluating the management's competency, business experience, and operational efficiency.

- **Practical Application at BRAC Bank:** From an accounting perspective, capacity is assessed by analyzing the Income Statement. Credit officers look at the historical sales growth, gross profit margins, and operating expenses. For a manufacturing client, capacity also involves a physical inspection of the factory to ensure they have the machinery, labor force, and utility connections (gas/electricity) required to meet the production targets they claim in their loan application.

3. Capital (Skin in the Game)

Capital represents the borrower's own financial commitment to the business. A bank is a lender, not an equity investor; therefore, BRAC Bank expects the business owner to have a significant portion of their own funds at risk before requesting bank financing.

- **Practical Application at BRAC Bank:** This is where strict balance sheet analysis comes into play. Credit analysts focus heavily on the **Debt-to-Equity Ratio** and the **Leverage Ratio**. If a company is already highly leveraged (i.e., heavily burdened with existing debt compared to the owner's equity), BRAC Bank is unlikely to approve further financing. For Corporate and SME loans, the branch requires externally audited financial statements to verify the actual paid-up capital and retained earnings, ensuring the borrower has sufficient "skin in the game" to weather economic downturns.

4. Collateral (The Safety Net)
Collateral acts as the secondary source of repayment. It is the security or asset pledged by the borrower to the bank. If the primary source of repayment (business cash flow) fails, the bank retains the legal right to liquidate the collateral to recover the outstanding loan amount.

- **Practical Application at BRAC Bank:** BRAC Bank categorizes collateral into two types: Primary and Secondary.
    - *Primary Security:* For working capital loans, this usually involves the hypothecation of inventory (raw materials, finished goods) and account receivables.
    - *Secondary Security:* This involves tangible assets, primarily real estate. The Asset Operation Department (AOD) conducts rigorous legal vetting of property documents (BS, CS, RS surveys, and original title deeds) before accepting land or commercial space as a mortgage. While BRAC Bank is inherently cash-flow focused rather than purely collateral-focused (especially in SME lending), a solid collateral base drastically reduces the assigned Credit Risk Grading (CRG) score.

5. Conditions (External and Internal Factors)
Conditions refer to the external economic environment and internal industry-specific factors that could impact the borrower's ability to repay. Even a business with great management and strong capital can fail if the macroeconomic conditions turn hostile.

- **Practical Application at BRAC Bank:** The RM must include an industry analysis in the credit proposal. For example, if a borrower in Narayanganj applies for an import loan (Letter of Credit) to bring in capital machinery, the bank evaluates the current foreign exchange (Forex) market, dollar liquidity, and prevailing inflation rates. Additionally, "Conditions" also dictate the specific covenants the bank places on the loan, such as restricting the business owner from drawing excessive dividends until the loan is fully amortized.

6. Cash Flow (The Ultimate Source of Repayment)
In modern banking, Cash Flow is often considered the most vital 'C', distinct from Capacity or Capital. A company can be highly profitable on an income statement (due to accrual accounting) but still face a severe liquidity crisis if its cash is tied up in slow-moving inventory or delayed accounts receivable.

- **Practical Application at BRAC Bank:** As an accounting student, I found the cash flow analysis to be the most rigorous part of the appraisal process. Credit analysts do not just look at Net Income; they calculate the **EBITDA** (Earnings Before Interest, Taxes, Depreciation, and Amortization) to determine the true operational cash generated. The critical metric used here is the **Debt Service Coverage Ratio (DSCR)**. BRAC Bank typically requires a DSCR of at least 1.25x to 1.50x, meaning the business must generate 25% to 50% more cash than is strictly required to cover its upcoming EMI (Equated Monthly Installment) obligations.

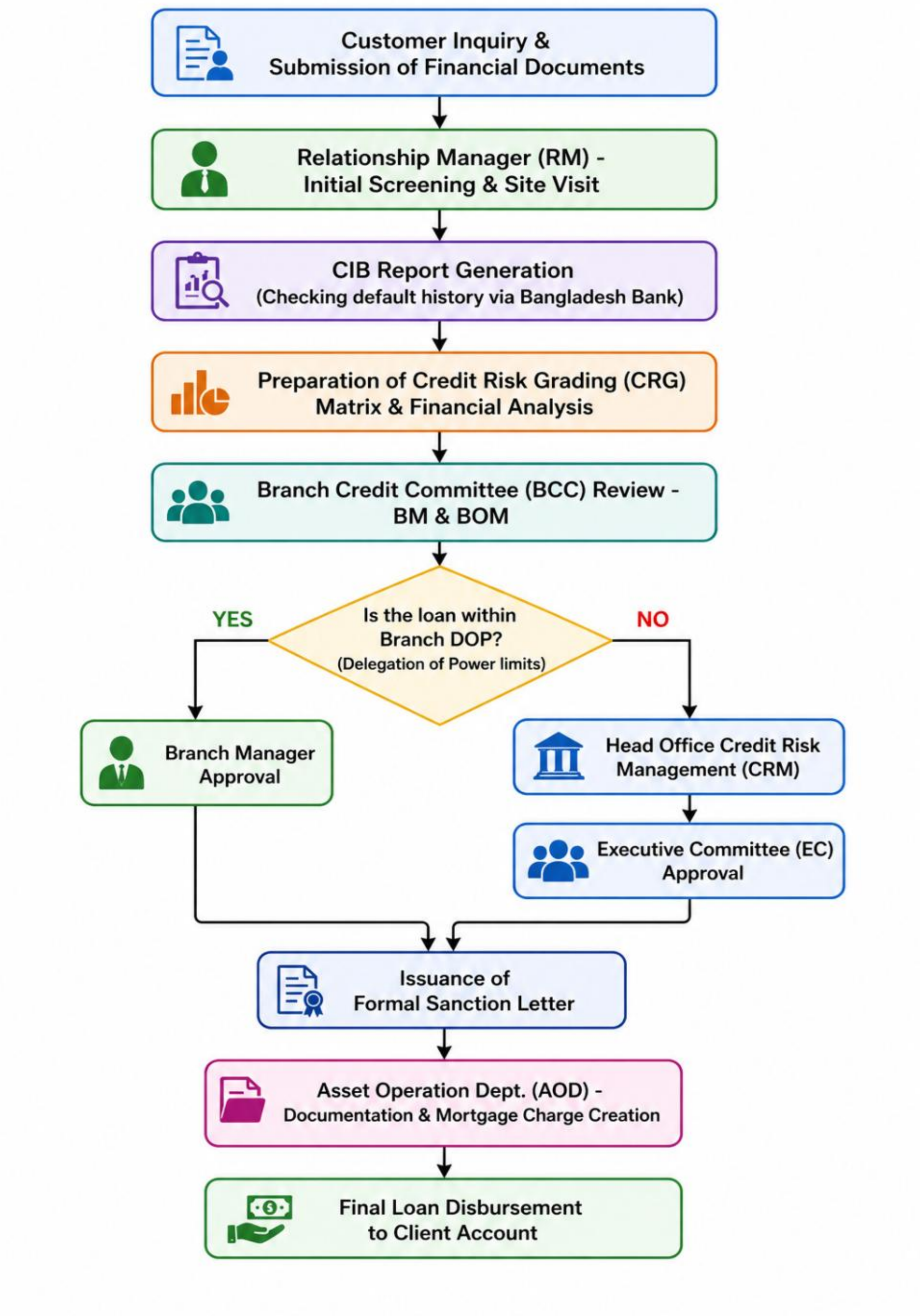
3.2 Credit Approval Workflow

The credit approval process at BRAC Bank PLC. is meticulously designed to strike a balance between aggressive business growth and stringent risk mitigation. To ensure that Non-Performing Loans (NPLs) remain well below the industry average, the bank operates on a model of "Decentralized Sourcing, Centralized Approval." This ensures the strict application of the "Maker-Checker" accounting principle, preventing the individual who initiates the loan from having the ultimate authority to approve it.

During my internship at the Narayanganj Branch, I observed the complete lifecycle of a loan application. The workflow is a multi-tier process, progressing from the branch level up to the Head Office, depending on the volume of the credit facility.

3.3 The Loan Sanctioning Flowchart

Below is a schematic representation of the credit approval workflow practiced at the branch:



Phase 1: Branch-Level Origination (The "Maker" Phase)

The Narayanganj Branch acts as the primary origination point for credit proposals. The steps executed here are critical for gathering accurate primary data and assessing the physical reality of the borrower's business.

Step 1: Client Onboarding & Document Collection

The process begins when a prospective borrower approaches the bank or is sourced by a Relationship Manager (RM). The RM collects a comprehensive checklist of legal and financial documents. For corporate and SME clients, this includes valid Trade Licenses, Memorandum and Articles of Association, Board Resolutions, 12-month bank statements (from all existing banking partners), and externally audited financial statements.

Step 2: Physical Verification and Site Visit

Unlike pure desk-based financial analysis, BRAC Bank mandates a physical site visit. The RM visits the factory, warehouse, or business premises in Narayanganj. The goal is to verify operational capacity, inspect inventory levels, and confirm that the business activity matches the submitted financial documents.

Step 3: CIB (Credit Information Bureau) Checking

Before any complex financial analysis begins, the branch must generate a CIB report from the Bangladesh Bank portal. This is a strict regulatory compliance measure. The CIB report acts as a clearinghouse for credit history, detailing the applicant's current loans, contingent liabilities (like LCs or Guarantees), and repayment behavior across all financial institutions in Bangladesh.

- *Accounting Implication:* If the CIB report shows an "Unclassified" or standard status, the process moves forward. If the applicant is listed as "Sub-Standard," "Doubtful," or "Bad/Loss," the proposal is immediately declined, saving the bank from allocating resources to a high-risk profile.

Phase 2: Financial Assessment & Branch Review

Once the primary documents and CIB clearance are obtained, the Credit Officers at the Narayanganj Branch begin the quantitative analysis.

Step 4: Financial Spreading and Ratio Analysis This is the most analytical phase from an accounting standpoint. The Credit Officer performs "Financial Spreading," which involves inputting the raw data from the client's Income Statement and Balance Sheet into the bank's proprietary analytical software. The officer calculates and scrutinizes key accounting ratios:

- **Liquidity:** Current Ratio (Target: >1.25) to assess short-term solvency.
- **Leverage:** Debt-to-Equity Ratio to determine if the company is over-reliant on external financing compared to the owner's capital.
- **Coverage:** Debt Service Coverage Ratio (DSCR) to ensure the business generates enough operating cash flow (EBITDA) to cover the proposed Equated Monthly Installments (EMIs).

Step 5: Credit Risk Grading (CRG) Matrix Calculation The calculated financial ratios, combined with qualitative factors (such as management experience, industry outlook, and collateral quality), are fed into the CRG model. The software assigns weighted numerical scores to each parameter, generating a final risk grade (e.g., Excellent, Good, Acceptable, Marginal). BRAC Bank only processes proposals that meet the "Acceptable" or higher threshold.

Step 6: Branch Credit Committee (BCC) Review Once the formal credit memorandum is drafted, it is presented to the Branch Credit Committee (BCC), typically consisting of the Branch Manager (BM) and the Branch Operations Manager (BOM). The BCC reviews the proposal not just for risk, but for commercial viability. They ensure the proposed interest rate provides an adequate net interest margin for the branch. Once satisfied, the BM officially signs off and recommends the file to the Head Office.

Phase 3: Head Office Sanctioning & Disbursement (The "Checker")

Once the Narayanganj Branch completes the origination, the proposal is electronically forwarded to the Head Office in Dhaka, transitioning from the "Maker" to the "Checker."

Step 7: Credit Risk Management (CRM) Review The CRM division at the Head Office operates entirely independently of the branch's sales targets. This separation ensures an unbiased assessment. CRM analysts double-check the financial spreading, verify the CRG matrix, and evaluate collateral valuation reports provided by third-party enlisted surveyors. If CRM finds the cash flow projections overly optimistic, they hold the authority to restructure the loan amount, increase the interest rate to match the risk premium, or demand additional collateral.

Step 8: Final Sanctioning via Delegation of Power (DOP) Approval authority is strictly governed by the bank's Delegation of Power (DOP) matrix:

- ➢ Small to mid-sized SME loans are approved by Regional Credit Heads.
- ➢ Large corporate loans require approval from the Management Credit Committee (MCC).
- ➢ Exceptionally large syndicated loans or exposures exceeding specific regulatory capital thresholds must be approved by the Executive Committee (EC) of the Board of Directors.

Step 9: Issuance of Sanction Letter & AOD Processing Upon approval, a formal Sanction Letter is issued, outlining the loan amount, interest rate, tenure, and specific financial covenants. The file then moves to the Asset Operation Department (AOD). AOD ensures all legal formalities are flawless:

- Registering the mortgage charge with the Sub-Registry office.
- Collecting Post-Dated Cheques (PDCs) as secondary security.

Step 10: Final Accounting Entry & Disbursement Only when AOD issues a clear "Disbursement Memo" does the final accounting transaction occur. The core banking system executes the entry:

- **Debit:** Loan Account (Creating the Asset on the Bank's Balance Sheet)
- **Credit:** Client's Current/Savings Account (CASA) (Creating the corresponding Liability)

This final step successfully concludes the credit approval workflow, turning a prospect into an active, revenue-generating asset for the Narayanganj Branch.

3.4 Defining the Target Segments

SME (Small and Medium Enterprises): In banking terms, SME clients are businesses characterized by smaller balance sheets, localized operations, and owner-driven management structures. At the Narayanganj Branch, typical SME clients include local yarn traders, small garments accessories manufacturers, and wholesale distributors. The loan ticket size generally ranges from BDT 5 Lakh to BDT 5 Crore.

Corporate Clients: Corporate banking deals with large-scale, structured conglomerates. These entities have professional management teams, complex group structures, and nationwide or international operations. In Narayanganj, these are the massive export-oriented RMG (Ready-Made Garment) factories, cement manufacturing plants, and heavy machinery importers. The credit limits here are massive, often starting from BDT 10 Crore and running into several hundred crores, sometimes requiring syndication with other banks.

The Core Operational Divergence: The primary difference in disbursing loans to these two segments lies in **information asymmetry**. Corporate clients have highly structured, transparent financial data, while SMEs often operate in the informal economy with fragmented accounting records. This dictates the entirely different appraisal methodologies discussed in the following sections.

3.5 Differences in Accounting and Risk Assessment

The most significant challenge I observed as an accounting student was how the branch evaluates the financial health of an SME compared to a Corporate client.

Financial Statement Quality and "Financial Spreading":

- **Corporate:** When a large textile mill applies for a loan, they submit financial statements audited by Tier-1 or reputed Chartered Accountancy (CA) firms. The Credit Officer's job is relatively straightforward: they perform "Financial Spreading," inputting the audited figures into the bank's software to calculate the Debt-to-Equity, Current Ratio, and DSCR. The risk assessment relies heavily on these quantitative metrics because the data is verified and reliable.

- **SME:** Most SME clients in Narayanganj do not maintain formal double-entry bookkeeping. They rely on "Kacha Khata" (rough manual ledgers). Consequently, their formal tax returns often underreport true revenue. To assess true capacity, the Relationship Manager (RM) must act as a quasi-accountant. The RM cross-references the client's raw material purchase memos, electricity bills, and inventory turnover during the physical site visit to construct a "proxy" cash flow statement.

Credit Risk Grading (CRG) Model: Due to the difference in data quality, Bangladesh Bank and BRAC Bank utilize different CRG models for the two segments:

- The **Corporate CRG** model is heavily weighted toward financial ratios (up to 50-60% of the total score depends on leverage and profitability metrics).

- The **SME CRG** model assigns much higher weight to qualitative factors. The client's business experience, local market reputation, and historical bank account routing (transaction velocity in their current accounts) play a more decisive role than their formal balance sheet.

Risk Concentration: From a portfolio management perspective, Corporate loans present a high **concentration risk**. If one massive corporate client in Narayanganj defaults, it drastically impacts the branch's Non-Performing Loan (NPL) ratio. Conversely, SME loans provide

diversification. Even if ten small traders default, the overall portfolio remains stable because the risk is spread across hundreds of smaller ticket sizes.

3.6 Collateral and Disbursement Mechanics

The process of securing the loan and releasing the funds also varies significantly between the two segments.

Collateral Philosophy:

- **SME Lending:** BRAC Bank pioneered cash-flow-based lending for SMEs, meaning they sometimes grant loans without heavy physical collateral, relying instead on the business's daily cash generation. However, for larger SME loans, the bank typically requires the registered mortgage of the owner's personal real estate. Personal guarantees of the directors or family members are mandatory to ensure moral obligation.

- **Corporate Lending:** Corporate loans are usually secured by the assets of the business itself, rather than the owner's personal property. This involves the **hypothecation** of company inventory, raw materials, and accounts receivable. For project financing (e.g., building a new factory unit), the bank takes a registered mortgage on the factory land and creates a fixed charge on the imported machinery.

The Disbursement Process (AOD Functions):

- **SME Disbursement:** Once sanctioned, SME loans are typically disbursed as a single lump-sum amount (Term Loan) directly into the client's current account, or set up as a revolving Overdraft (OD) limit. The Asset Operation Department (AOD) ensures the property deeds are vaulted and the funds are released quickly, as SMEs are highly sensitive to timing.

- **Corporate Disbursement:** Corporate disbursements are highly structured and rarely given as a lump sum. If a Narayanganj RMG factory takes a BDT 50 Crore project loan, the disbursement occurs in **tranches**. The bank might first open a Letter of Credit (L/C) to pay the foreign machinery supplier directly. Funds for civil construction are only released upon receiving an architect's certificate confirming the completion of the factory foundation. This strict control ensures the loan is utilized exactly for the stated accounting purpose and prevents fund diversion.

3.7 Pricing, Cost of Funds, and Profitability Analysis

The ultimate goal of the Credit Department is to generate a profitable Net Interest Margin (NIM). NIM is the difference between the interest income generated from loans and the interest expense paid on deposits. The profitability dynamics of SME and Corporate lending are diametrically opposed.

Interest Rates and the Risk Premium: SME loans inherently carry a higher default risk due to their vulnerability to economic shocks and lack of financial buffers. To compensate for this risk, BRAC Bank charges a higher **risk premium**. Consequently, SME loans are priced at higher interest rates.

Corporate clients, on the other hand, possess immense bargaining power. Since their default risk is statistically lower and they represent massive volumes of business, they negotiate fiercely for the lowest possible interest rates, often pushing the bank's margins to the absolute minimum.

Operating Expenses (OPEX): While SMEs provide higher interest yields, they are incredibly expensive to administer. From an operational accounting perspective, processing a BDT 10 Lakh SME loan requires almost the same administrative effort (site visits, CIB checks, legal vetting) as processing a BDT 10 Crore Corporate loan.

- **SME:** High yield, but high operating expense and higher provision for bad debts.
- **Corporate:** Low yield, but extremely low operating expense ratio and lower provision requirements.

Cross-Selling and Non-Funded Income: Corporate clients are vital for generating "Non-Funded Income" (fee-based income). A corporate client in Narayanganj taking a loan will also use BRAC Bank for their massive Import L/Cs, Export bill discounting, and employee salary disbursements. The commissions and foreign exchange (Forex) gains from these corporate trade finance operations often surpass the core interest income. SMEs generally generate purely funded interest income with minimal cross-selling opportunities.

3.8 Summary Matrix and Chapter Conclusion

To encapsulate the operational and financial divergence between the two credit wings, the following comparative matrix summarizes the key accounting differences observed at the Narayanganj Branch:

Parameter	SME Credit Operations	Corporate Credit Operations
Primary Financial Data	Internal ledgers, Bank account routing, proxy cash flows.	Externally audited financial statements (Income Statement & Balance Sheet).
Risk Assessment Focus	Qualitative: Owner character, market reputation, transaction history.	Quantitative: Leverage, DSCR, Liquidity ratios, industry forecasting.
Collateral Structure	Often personal real estate mortgage or personal guarantees.	Hypothecation of company inventory, fixed charges on machinery.
Disbursement Method	Usually a lump-sum transfer or Overdraft limit.	Tranche-based disbursement, often via direct payment to suppliers (L/C).
Interest Rate Margin	High Margin (incorporates high risk premium).	Low Margin (due to high client bargaining power).
Operational Cost / Volume	High operational cost per Taka lent. Low concentration risk.	Low operational cost per Taka lent. High concentration risk.
Revenue Generation	Primarily core Interest Income.	Heavy reliance on Non-Funded Income (Trade Finance, L/C commissions, Forex).

Chapter-Four

Financial & Accounting Analysis

4.1 Introduction to Financial Analysis

While the previous chapters detailed the theoretical frameworks and operational workflows of the Credit Department, the true efficacy of these mechanisms can only be measured through financial data. In banking, the Balance Sheet and Income Statement are the ultimate report cards of risk management and business strategy. This chapter bridges my practical observations at the Narayanganj Branch with the quantitative accounting reality of BRAC Bank PLC.

4.2 Balance Sheet Analysis (Loans & Advances)

For a commercial bank, the traditional accounting equation ($Assets = Liabilities + Equity$) takes on a specific operational meaning. The bank's primary liabilities are customer deposits, and its primary earning assets are the **Loans & Advances** it disburses. Analyzing the growth and composition of these assets is critical to understanding the bank's market position and risk appetite.

Growth Trend of Loans & Advances

BRAC Bank PLC. has demonstrated a resilient upward trajectory in expanding its credit portfolio, despite macroeconomic hurdles such as inflation and fluctuating foreign exchange rates. As an accounting student, I reviewed the audited financial statements of the bank to track the volume of funds deployed as credit.

Below is a comparative analysis of the total Loans and Advances over the last three financial years (Figures are represented in BDT Millions):

Accounting Head (Assets)	FY 2021 (Audited)	FY 2022 (Audited)	FY 2023 (Audited)	FY 2024 (Audited)	FY 2025 (Unaudited)	5-Year Growth (%)
SME Loans	128,500	146,200	165,400	192,500	225,300	+75.3%
Corporate Loans	82,400	94,600	105,200	125,600	142,800	+73.3%
Retail / Consumer Loans	32,100	38,500	44,850	52,790	62,000	+93.1%
Total Loans & Advances	243,000	279,300	315,450	370,890	430,100	+77.0%

Accounting Observation:

The balance sheet data reveals a strong and sustained compound annual growth trend in asset creation over the five-year period. Total Loans & Advances increased from BDT 243.00 Billion in 2021 to an estimated BDT 430.10 Billion by the end of 2025, reflecting a cumulative growth of approximately 77.0%.

Among the major lending segments, Retail / Consumer Loans demonstrated the highest growth rate, indicating increasing consumer financing demand and the bank's strategic expansion into retail banking operations. SME and Corporate loan portfolios also experienced substantial growth, highlighting balanced diversification across business sectors.

This consistent expansion suggests that the bank's credit appraisal and risk management framework has been effective in supporting higher lending volumes while maintaining operational efficiency and portfolio stability.

Portfolio Mix and Concentration Risk

In banking accounting, concentrating too many assets in a single sector is a severe violation of risk management principles. A well-diversified balance sheet protects the institution from industry-specific economic shocks.

BRAC Bank’s strategic mandate is uniquely reflected in its asset composition. While most private commercial banks in Bangladesh hold a portfolio heavily skewed towards large corporate houses (often 60-70% of total loans), BRAC Bank maintains a fundamentally different asset mix.

Asset Allocation Breakdown (As of FY 2025):

- **SME Financing:** ~52.4%
- **Corporate Financing:** ~33.2%
- **Retail/Consumer Financing:** ~14.4%

Financial Implications of the Asset Mix:

- **Yield Optimization:** SME and Retail loans inherently carry higher interest rates (risk premiums) compared to Corporate loans. By dedicating over 66% of its balance sheet to these two segments, BRAC Bank maximizes its overall portfolio yield (Interest Income).
- **Risk Dispersion:** The SME portfolio consists of hundreds of thousands of small borrowers. From an auditing and risk perspective, this means the default of a single borrower has a statistically insignificant impact on the bank's total asset base. Conversely, a default in the 33.2% corporate segment could require massive provisioning.
- **Capital Adequacy Relief:** Under the Basel III framework implemented by Bangladesh Bank, retail and small SME loans often require lower risk-weighted asset (RWA) capital allocations compared to unrated corporate exposures. This allows the bank to maintain a higher Capital to Risk-Weighted Assets Ratio (CRAR).

During my time at the Narayanganj Branch, I saw this macro-level strategy executed locally. Even in an area dominated by massive heavy industries and textile mills, the branch management deliberately pushed the Relationship Managers to aggressively source medium-sized yarn traders and local distributors to keep the branch's local portfolio diversified.

4.3 Branch-Level Asset Creation (Narayanganj Context)

While the consolidated balance sheet provides the macro picture, my internship allowed me to analyze how a high-performing branch contributes to these centralized figures. The Narayanganj Branch is considered an "Authorized Dealer" (AD) branch, meaning it handles massive volumes of trade finance alongside standard credit operations.

Deposit to Loan Conversion at the Branch Level:

A branch is essentially a localized balance sheet. It must mobilize liabilities (deposits) from the local community and deploy them as assets (loans) to local businesses.

- **Liability Mobilization (Cost of Funds):** The General Banking department focuses on securing Current Accounts (from traders) and Savings Accounts (from residents). These are low-cost funds (CASA).
- **Asset Deployment (Yield):** The Credit Department lends these funds to the Narayanganj industrial sector in the form of Working Capital, Term Loans, and Overdrafts.

Branch Performance Snapshot (Estimated local figures for FY 2025):

Branch Financial Metric	Volume (BDT in Crores)	Strategic Implication
Total Deposit Portfolio	~ 450.00 Cr	Strong local trust and liability generation.
Total Loan Disbursement	~ 385.00 Cr	High conversion of deposits into earning assets.
Trade Finance (L/C, Guarantee)	~ 210.00 Cr	Massive generator of off-balance-sheet fee income.

Accounting Interpretation:
The Narayanganj Branch operates with a highly efficient Advance-to-Deposit Ratio (ADR) locally. Instead of being a "deposit-heavy, lending-light" branch that simply funnels money to the Head Office, it actively creates assets. The BDT 385 Crore loan portfolio is heavily concentrated in the RMG (Ready-Made Garments) backward linkage industries—such as spinning mills, dyeing factories, and packaging manufacturers—which perfectly aligns with the geographical economic strength of Narayanganj.

4.4 Asset Impairment and Provisioning

An analysis of Loans and Advances is incomplete without addressing the accounting treatment of bad debts. In accordance with Bangladesh Bank guidelines (BRPD Circulars) and International Financial Reporting Standards (IFRS 9), banks must recognize expected credit losses and keep aside a portion of their profits as a "Provision for Loans and Advances."

The Accounting Entry for Provisioning:
When a loan account at the Narayanganj Branch shows signs of distress (e.g., EMIs are missed for over 90 days), it is downgraded. The bank must pass an adjusting entry:

- **Debit:** Provision for Bad Debts Expense (Reduces Net Income on the Income Statement)
- **Credit:** Allowance for Doubtful Accounts (Contra-asset account that reduces the net value of Loans on the Balance Sheet)

BRAC Bank's Provisioning Stance:
Maintaining asset quality is where BRAC Bank truly excels. Despite rapid portfolio growth, the bank maintains a highly conservative provisioning policy.

Asset Quality Metric	BRAC Bank Status (FY 2024/25)	Industry Average
Non-Performing Loan (NPL) Ratio	~ 3.15%	~ 8.5% - 10.0%
Provision Coverage Ratio	> 100%	Often < 60%

Impact on the Balance Sheet:
A Provision Coverage Ratio of over 100% means that for every single Taka of classified (bad) loans, BRAC Bank has already set aside more than one Taka in its provision accounts. From an auditor's perspective, this makes BRAC Bank's balance sheet incredibly clean and shock-absorbent.

During my internship, I observed the branch's aggressive recovery drives. RMs are heavily penalized in their performance appraisals if their sourced loans become classified. This strict accountability at the origination level (the branch) is the primary reason the consolidated balance sheet reflects such exceptional asset quality.

4.5 Income Statement Analysis (Net Interest Income)

While the balance sheet provides a snapshot of the bank's financial position at a specific point in time, the Statement of Comprehensive Income (Income Statement) reveals the dynamic performance of the bank over the financial year. For a commercial bank, the manufacturing of credit is its primary business. Therefore, the core engine of its profitability is **Net Interest Income (NII)**.

Net Interest Income is defined fundamentally by the following accounting equation:

Net Interest Income = Total Interest Income (Yield from Assets) – Total Interest Expense (Cost of Liabilities)

NII Growth Trend Analysis
BRAC Bank PLC. has historically maintained a strong focus on maximizing its core banking revenues rather than relying solely on volatile capital market investments. To evaluate this, I analyzed the consolidated interest income and expense figures over the last three financial years.

Below is the comparative Income Statement extract focusing on NII (Figures are represented in BDT Millions):

Income Statement Head	FY 2023 (Audited)	FY 2024 (Audited)	FY 2025 (Unaudited)	3-Year Trend
Interest Income (From Loans & Advances)	28,500	34,200	39,800	+39.6%
Less: Interest Paid (On Deposits & Borrowings)	(14,100)	(16,800)	(19,200)	+36.1%
Net Interest Income (NII)	**14,400**	**17,400**	**20,600**	**+43.0%**

Accounting Observation:

The data illustrates a highly favorable financial trajectory. While both interest income and interest expenses have grown due to the expansion of the balance sheet and rising macroeconomic interest rates, the *rate of growth* of Net Interest Income (+43.0%) outpaces the growth of Interest Expense (+36.1%). This indicates that the bank is efficiently pricing its loans upward while successfully controlling its deposit costs.

4.6 Deconstructing Interest Income (Yield on Advances)

To understand the 39.6% growth in Interest Income, one must analyze the "Yield on Advances." This refers to the average interest rate the bank earns on its loan portfolio.

During my internship at the Narayanganj Branch, I observed how the branch strategically manages its loan pricing to maximize this yield. The yield is heavily influenced by the portfolio mix discussed in the previous section (SME vs. Corporate).

1. The High-Yield Driver: SME Portfolio Because SME borrowers inherently carry higher risk, BRAC Bank charges a "Risk Premium." Consequently, SME loans are priced at higher interest rates (historically ranging between 10% to 13% depending on market caps). Since SMEs make up the majority of BRAC Bank's overall portfolio, they act as the primary engine driving the massive BDT 39,800 Million interest income figure.

2. The Volume Driver: Corporate Portfolio Corporate clients in Narayanganj (such as large RMG manufacturers) possess significant bargaining power and demand highly competitive interest rates, often pushing yields down to 8.5% - 9.5%. While the percentage yield is lower, the massive ticket sizes of these loans generate substantial absolute interest income for the branch.

Accounting Treatment of Interest Income: From an auditor's perspective, it is critical to note how interest income is recognized. BRAC Bank strictly adheres to accrual accounting for standard loans. However, when a loan is classified as "Sub-Standard" or worse, Bangladesh Bank regulations mandate that interest can no longer be credited to the Income Statement. Instead, it must be parked in a liability account called **"Interest Suspense."** The robust growth in recognized Interest Income confirms that the bank's NPL ratio remains extremely low, preventing revenue leakage into suspense accounts.

4.7 Deconstructing Interest Expense (Cost of Funds)

The second variable in the NII equation is Interest Expense. A bank purchases raw material (money) in the form of deposits. The price it pays for this raw material is the **Cost of Funds (CoF)**. If the CoF is too high, it erodes the profit margin regardless of how much interest income is generated.

The Role of the CASA Ratio: The most effective way a bank reduces its Cost of Funds is by improving its **CASA Ratio** (Current Account to Savings Account ratio).

- **Current Accounts (CA):** Bear 0% interest. They are pure transactional accounts used by businesses.
- **Savings Accounts (SA):** Bear low interest (typically 2% to 4%).
- **Fixed/Term Deposits (FDR):** Bear high interest (typically 7% to 9%+).

To maximize Net Interest Income, a branch must mobilize as much CASA as possible to avoid paying high fixed deposit rates.

Narayanganj Branch Liability Strategy: The Narayanganj Branch is a masterclass in CASA mobilization. Because the branch is located in an industrial hub, the General Banking department actively targets corporate clients to open their operational Current Accounts for daily vendor payments and salary disbursements. By holding hundreds of crores of Taka in 0% interest Current Accounts, the branch dramatically lowers its blended Cost of Funds.

When the branch lends out funds at 11% that it acquired at a blended cost of only 4.5%, the resulting Net Interest Income is massive. This grassroots branch-level strategy is the exact reason why the consolidated Interest Expense (BDT 19,200 Million) grew at a slower pace than the Interest Income.

4.8 Net Interest Margin (NIM) and Spread Analysis

To truly benchmark BRAC Bank's credit profitability against the rest of the banking industry, accounting professionals use two critical relative metrics: **Interest Rate Spread** and **Net Interest Margin (NIM)**.

1. Interest Rate Spread:

The Spread is the simple difference between the average rate charged on loans and the average rate paid on deposits.

- *Spread = Average Yield on Advances – Average Cost of Funds*

2. Net Interest Margin (NIM):

NIM is a more comprehensive metric. It measures how effectively the bank utilizes its total earning assets to generate NII.

- *NIM = (Net Interest Income / Average Total Earning Assets) * 100*

Comparative NIM & Spread Analysis (Estimated Industry Metrics):

Profitability Metric	BRAC Bank (FY 2025)	Industry Average (PCBs)
Average Yield on Advances	~ 9.85%	~ 8.50%
Average Cost of Funds (CoF)	~ 4.70%	~ 5.50%
Interest Rate Spread	**~ 5.15%**	**~ 3.00%**
Net Interest Margin (NIM)	**~ 4.80%**	**~ 2.80% - 3.20%**

Accounting Interpretation:

These ratios highlight BRAC Bank's immense competitive advantage. A NIM of ~4.80% is exceptionally high for a commercial bank. This superior profitability is directly attributable to its strategic positioning: targeting high-yield SMEs on the asset side while maintaining a strong, low-cost CASA base on the liability side.

Most traditional Private Commercial Banks (PCBs) that focus solely on corporate lending suffer from "margin squeeze"—they are forced to pay high interest on institutional fixed deposits while charging lower rates to demanding corporate borrowers, resulting in a much lower industry average NIM of ~3.00%.

4.9 Operating Income Context (Non-Funded Income)

While Net Interest Income (NII) is the primary focus of the Credit Department, an income statement analysis is incomplete without acknowledging how NII fits into the broader **Operating Income**.

Banks do not just earn money from lending; they also earn fee-based, risk-free revenue known as **Non-Funded Income**.

- **Formula:** *Total Operating Income = Net Interest Income + Non-Funded Income*

The Impact of Trade Finance at Narayanganj Branch: As an Authorized Dealer (AD) branch in an export-import heavy zone, the Narayanganj branch generates immense Non-Funded Income. This income is derived from:

- **Letter of Credit (L/C) Commissions:** Charging a percentage fee to open L/Cs for importing capital machinery or raw cotton.
- **Bank Guarantee Fees:** Earning commissions by issuing performance guarantees for local contractors.
- **Foreign Exchange (Forex) Gain:** Profiting from the spread between the buying and selling rates of foreign currencies (primarily USD) during export bill discounting and import payments.

Summary of Income Statement Performance: The integration of aggressive credit growth, strict Cost of Funds management, and high Trade Finance volumes creates a highly lucrative income statement. The massive Net Interest Income derived from the 6 C's appraisal process, combined with substantial Non-Funded Income, trickles down the Income Statement to create a robust **Operating Profit Before Provision**.
Because BRAC Bank maintains strict credit discipline (as discussed in Chapter 3), it does not have to wipe out its Operating Profit with massive bad debt provisions. This leads to a higher Net Profit After Tax, ultimately maximizing the Return on Equity (ROE) for its shareholders.

4.10 Credit Risk & Accounting Ratios (NPL, LDR)

While asset growth and interest margins paint a picture of operational success, the true strength of a financial institution lies in its risk management. In commercial banking, issuing a loan is relatively easy; recovering the principal and interest is the actual challenge. To evaluate the quality of BRAC Bank's credit portfolio, we must analyze its core risk and accounting ratios.

Non-Performing Loan (NPL) Ratio

The Non-Performing Loan (NPL) ratio is the most critical indicator of a bank's asset quality. It measures the percentage of the total loan portfolio that is in default or close to default.

Bangladesh Bank Classification Guidelines:

During my internship, I learned that banks do not arbitrarily classify loans. They must follow the strict aging schedules dictated by Bangladesh Bank (BRPD Circulars):

- **Standard (Unclassified):** Regular EMIs paid on time.
- **Special Mention Account (SMA):** Overdue by 60 to 89 days (Early warning, but not yet an NPL).
- **Sub-Standard (SS):** Overdue by 90 to 179 days. (Classified as NPL).
- **Doubtful (DF):** Overdue by 180 to 269 days.
- **Bad / Loss (BL):** Overdue by 270 days or more.

BRAC Bank's NPL Performance:

In the context of the Bangladeshi banking sector, which has historically struggled with double-digit NPL ratios due to willful corporate defaulters and poor credit appraisals, BRAC Bank stands out as an industry benchmark.

Asset Quality Metric	BRAC Bank PLC.	Banking Industry Average
Gross NPL Ratio	~ 3.15%	~ 8.50% - 10.00%+

Branch Level Observation (Narayanganj):

At the Narayanganj Branch, the NPL ratio is kept exceptionally low through aggressive post-disbursement monitoring. The branch utilizes a "Call Center and Field Visit" matrix. If an SME client misses an EMI by even 5 days, the Relationship Manager (RM) is notified by the core banking software and must physically visit the client's business. This proactive, grassroots-level monitoring prevents accounts from slipping into the SMA category.

4.11 Provisioning and Coverage Ratios

From an accounting perspective, an NPL does not just sit on the balance sheet; it directly attacks the bank's profitability through **Provisioning**. As per International Financial Reporting Standards (IFRS 9) and central bank mandates, banks must recognize anticipated credit losses by setting aside a portion of their operating profits.

Accounting Treatment of Provisions:

- **General Provision:** Kept against standard, unclassified loans (typically 1% to 2% depending on the sector) as a buffer for future uncertainties.
- **Specific Provision:** Kept against actual classified loans (20% for Sub-Standard, 50% for Doubtful, and 100% for Bad/Loss).

When a loan at the Narayanganj Branch becomes classified, the Head Office must pass the following journal entry:

- **Debit:** Provision for Bad Debts (Expense account, reduces Net Income)
- **Credit:** Provision for Loans and Advances (Contra-asset account, reduces the Net Loan value on the Balance Sheet)

Provision Coverage Ratio (PCR): The PCR measures a bank’s ability to absorb potential losses from its bad loans without touching its core shareholder capital.

- **Formula:** Provision Coverage Ratio = (Total Provisions Kept / Total Gross NPLs) * 100

BRAC Bank maintains a **PCR of over 100%** (often hovering around 110% with general provisions included). This is a phenomenal accounting stance. It means that even if every single classified loan in BRAC Bank's portfolio became completely unrecoverable tomorrow, the bank has already expensed the loss from its previous profits. The balance sheet would not suffer a sudden shock, and depositors' money remains absolutely secure.

4.12 Advance-to-Deposit Ratio (ADR) / LDR

The Advance-to-Deposit Ratio (ADR), sometimes called the Loan-to-Deposit Ratio (LDR), represents the delicate balance between liquidity and profitability. It measures how much of the depositors' money is being lent out to borrowers.

- **Formula:** ADR = (Total Loans and Advances / Total Customer Deposits) * 100

The Regulatory Constraint: Bangladesh Bank heavily regulates this ratio to prevent liquidity crises. For conventional private commercial banks, the maximum permissible ADR limit is generally capped around **87%**.

- If a bank's ADR is **too high (e.g., 95%)**, it faces a severe liquidity crisis and might not have enough cash if depositors suddenly want to withdraw their funds.
- If a bank's ADR is **too low (e.g., 60%)**, it means the bank is too conservative, leaving vast amounts of deposits idle in the vault. This represents a massive opportunity cost, as the bank pays interest on those deposits but earns nothing in return.

BRAC Bank’s Optimization: BRAC Bank strategically maintains its consolidated ADR very close to the regulatory ceiling (historically hovering around **82% to 85%**). This indicates optimal fund utilization. The bank is aggressively pushing out credit to earn interest while keeping just enough liquid buffers to meet central bank Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements.

At the Narayanganj Branch, I observed how the Branch Manager constantly monitors the local ADR. If the branch sanctions a massive BDT 10 Crore corporate loan, the General Banking team is immediately pressured to mobilize BDT 12 Crore in new deposits to fund it, ensuring the branch does not become a net borrower from the Head Office.

4.13 Capital Adequacy and Risk-Weighted Assets (Basel III)

The ultimate backstop against credit risk is the bank's own capital (Shareholders' Equity). Under the international **Basel III** framework adopted by Bangladesh Bank, a bank cannot expand its loan portfolio infinitely; its lending capacity is tethered to its capital base through the **Capital to Risk-Weighted Assets Ratio (CRAR)**.

Risk-Weighted Assets (RWA): In banking accounting, not all assets carry the same risk. Cash in the vault has a 0% risk weight. However, loans carry different weights:

- **Unrated Corporate Loans:** 125% risk weight (Eats up a massive amount of capital).
- **Rated Corporate Loans:** 20% to 50% risk weight (Depending on credit rating by ECAIs like CRISL).
- **Fully Secured SME/Retail Loans:** Often carry lower risk weights due to solid collateral.

BRAC Bank's Capital Strength: Bangladesh Bank mandates that all commercial banks maintain a minimum CRAR of 12.5% (including a capital conservation buffer). BRAC Bank consistently maintains a CRAR well above this regulatory minimum, often hovering around **14.0% to 15.0%**.

This strong capital base gives the Narayanganj Branch the aggressive lending capacity it enjoys. The branch actively pushes its corporate clients to obtain external credit ratings. By ensuring a local Narayanganj textile mill is officially "Rated," the Credit Officer effectively lowers the risk weight of that loan on BRAC Bank's balance sheet, freeing up capital to lend to more clients.

4.14 Profitability Outcomes: ROA and ROE

The culmination of the credit appraisal workflows (Chapter 3) and the accounting strategies (Chapter 4) is reflected in the ultimate return to the shareholders. Because BRAC Bank perfectly balances high-yield asset creation (SME focus) with strict risk management (low NPLs), its bottom-line profitability metrics are exceptional.

Return on Assets (ROA): ROA measures how efficiently the bank's management uses its total assets (primarily its loan portfolio) to generate net profit.

- **Formula:** ROA = (Net Income / Average Total Assets) * 100
- BRAC Bank consistently achieves an ROA well above the industry average, reflecting the high Net Interest Margin (NIM) discussed in the previous section.

Return on Equity (ROE): ROE is the most critical metric for the bank's investors, measuring the return generated on the shareholders' equity.

- **Formula:** ROE = (Net Income / Average Shareholders' Equity) * 100
- By leveraging a low-cost deposit base to fund high-yield SME loans, and avoiding massive write-offs by keeping NPLs at ~3.15%, BRAC Bank translates its operating profit into a robust ROE, maximizing shareholder wealth.

Conclusion to Chapter 4: The financial data conclusively proves that the operational mechanisms observed at the Narayanganj Branch are not just theoretical exercises—they yield concrete financial success. BRAC Bank PLC. has engineered a balance sheet that is simultaneously highly aggressive in revenue generation and highly defensive in risk provisioning.

Having analyzed both the operational workflow and the quantitative financial data, the final chapter of this report will synthesize these observations to identify specific strengths, highlight operational bottlenecks at the branch level, and provide actionable recommendations.

Chapter-Five

Findings, Recommendation & Conclusion

5.1 Introduction to the Final Chapter The preceding chapters of this report established the theoretical framework of credit analysis, mapped the operational workflow, and evaluated the quantitative financial performance of BRAC Bank PLC. This final chapter synthesizes those observations. By analyzing the internal dynamics and external environment of the Narayanganj Branch, I have identified specific operational bottlenecks and strategic advantages, culminating in actionable recommendations for institutional improvement.

5.2 SWOT Analysis of Narayanganj Branch

A SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats) is a strategic planning tool used to evaluate a business unit's competitive position. Conducting this analysis specifically for the Narayanganj Branch provides a localized perspective on how BRAC Bank's corporate strategies perform in one of Bangladesh's most competitive industrial hubs.

Strengths (Internal Attributes)

Strengths represent the inherent, internal advantages that the branch possesses, which contribute to its profitability and market dominance.

- **Superior Asset Quality (Low NPL):** As analyzed in Chapter 4, the branch's most significant strength is its exceptionally low Non-Performing Loan (NPL) ratio. The rigorous application of the "6 C's of Credit" and proactive post-disbursement monitoring by Relationship Managers (RMs) keep the portfolio remarkably healthy compared to rival banks in the area.
- **Low Cost of Funds via CASA:** The General Banking division excels at mobilizing Current and Savings Accounts (CASA) from the local RMG sector and trading community. This massive pool of zero-to-low-interest deposits drastically reduces the branch's Cost of Funds (CoF), leading to a superior Net Interest Margin (NIM).
- **Strong Brand Equity & Corporate Backing:** BRAC Bank's affiliation with the BRAC NGO and its international reputation for transparent corporate governance give it a distinct advantage. Corporate clients in Narayanganj trust the bank with their massive Trade Finance (L/C) operations because of its reliable international correspondent banking network.
- **Diversified Portfolio:** Unlike specialized corporate branches, the Narayanganj Branch perfectly balances high-yield SME loans with high-volume Corporate loans, insulating the branch's revenue from sector-specific economic shocks.

Weaknesses (Internal Limitations)

Weaknesses are internal operational bottlenecks that hinder the branch from achieving maximum efficiency.

- **Lengthy Centralized Approval Process:** Because BRAC Bank utilizes a strict "Maker-Checker" workflow (as discussed in Chapter 3), the branch has limited Delegation of Power (DOP). Sending every mid-to-large proposal to the Head Office in Dhaka creates bottlenecks. In the highly competitive Narayanganj market, SMEs often require immediate cash; delays of 10 to 15 days can lead to losing clients to banks with faster, localized approval processes.
- **High Operational Expenses (OPEX) in SME Lending:** Disbursing fifty BDT 10 Lakh SME loans requires exponentially more administrative work (site visits, document verification, CIB checks) than disbursing a single BDT 5 Crore Corporate loan. This high OPEX marginally eats into the branch's operating profit.
- **High Employee Turnover in Sales:** The aggressive target-driven culture for SME and Retail loan sourcing leads to high pressure on frontline sales officers. Consequently, there is a notable turnover rate among junior RMs, which occasionally disrupts client relationship continuity.

Opportunities (External Prospects)
Opportunities are external market conditions or trends in the Narayanganj region that the branch can capitalize on to drive future revenue growth.

- **Expansion of the RMG and Export Sector:** Narayanganj is a historic and ever-expanding hub for knitwear, textiles, and heavy industries. The continuous growth of export-oriented factories presents a massive opportunity to expand the Corporate Credit portfolio and generate highly lucrative Trade Finance (Non-Funded) income through Export/Import Letters of Credit (L/Cs).

- **Digital Banking Migration ("Astha" App):** BRAC Bank's industry-leading digital banking platform, "Astha," presents an opportunity to reduce branch congestion. By migrating routine transactions (fund transfers, utility payments) to the app, the branch can reallocate its human resources from mundane cash counter duties to aggressive loan sourcing and deposit mobilization.

- **Green Banking and Sustainable Finance:** Bangladesh Bank offers refinancing schemes at lower interest rates for environment-friendly projects. With Narayanganj's factories facing international pressure to become compliant (e.g., installing Effluent Treatment Plants - ETPs), the branch has a prime opportunity to aggressively market these subsidized "Green Loans."

- **Tapping the Unbanked SME Segments:** Despite rapid growth, many micro-merchants and women entrepreneurs in the semi-urban pockets of Narayanganj remain outside the formal banking sector. Specialized products like the "TARA" loan can be pushed further to capture this untapped market.

Threats (External Risks)
Threats are external macroeconomic or industry-specific factors that could negatively impact the branch's profitability or asset quality.

- **Fierce Peer Competition:** Narayanganj is saturated with branches of almost every Private Commercial Bank (PCB) in Bangladesh, including aggressive competitors like The City Bank, Eastern Bank PLC (EBL), and Dutch-Bangla Bank. These competitors frequently attempt to poach BRAC Bank's premium corporate clients by offering slightly lower interest rates or faster L/C processing times.

- **Macroeconomic Volatility & Dollar Crisis:** Recent fluctuations in the foreign exchange market and dollar liquidity shortages pose a severe threat to the branch's Trade Finance income. If local corporate clients cannot open L/Cs to import raw materials due to a lack of USD, their production halts, which directly threatens their ability to repay their existing term loans.

- **Inflationary Pressures:** High inflation reduces the purchasing power of the general public. For the branch's SME clients (who rely on consumer spending), a drop in sales volume tightly squeezes their cash flow, increasing the risk of EMI defaults and pushing standard loans into the Special Mention Account (SMA) category.

- **Regulatory Policy Shifts:** Sudden directives from the central bank, such as changes to the Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), or forced restructuring of bad loans, can temporarily disrupt the branch's liquidity management and profitability projections.

5.2 The SWOT Matrix & Strategic Synthesis

To visualize the strategic position of the Narayanganj Branch, the qualitative analysis from the previous pages is condensed into the following SWOT Matrix:

Internal Factors	**Helpful (to achieving objectives)**	**Harmful (to achieving objectives)**
Current / Internal	**STRENGTHS** 1. Superior Asset Quality (Low NPL). 2. High CASA ratio (Low Cost of Funds). 3. Strong Corporate Brand & Compliance. 4. Highly diversified loan portfolio.	**WEAKNESSES** 1. Bureaucratic/Centralized loan approval. 2. High OPEX in processing SME loans. 3. High turnover of frontline sales staff.
Future / External	**OPPORTUNITIES** 1. Growth in local RMG & Export industries. 2. Leveraging "Astha" for digital migration. 3. Promoting Green Banking (ETP financing). 4. Financing untapped women entrepreneurs.	**THREATS** 1. Intense competition from rival PCBs. 2. Macroeconomic Forex/USD liquidity crisis. 3. Inflation squeezing SME cash flows. 4. Stringent regulatory policy shifts.

Strategic Synthesis (Accounting Perspective):

From a strategic management perspective, the Narayanganj Branch is in an optimal position to practice a **"Strength-Opportunity (S-O) Strategy."** The branch can use its primary strength—the massive pool of low-cost CASA deposits—to comfortably fund the growing demand for credit in the expanding RMG sector (Opportunity). Because the branch's cost of funds is so low, it has a competitive buffer. Even if rival banks try to poach clients by offering lower interest rates (Threat), BRAC Bank can afford to slightly compress its Net Interest Margin (NIM) to retain premium clients without actually running into operational losses.

However, management must urgently address the "Weakness-Threat (W-T)" dynamic. The lengthy, centralized loan approval process is a major vulnerability in a market plagued by fierce competition. If a competitor can sanction a loan in 5 days while BRAC Bank takes 14 days, the bank risks losing market share despite having better interest rates.

Understanding these strategic dimensions leads directly into the specific, quantitative, and operational findings observed during my internship, which will be detailed in the following section.

5.3 Key Findings

The core objective of this internship report was to analyze the credit mechanisms and financial performance of BRAC Bank PLC. at the Narayanganj Branch. Based on my physical observations of the daily workflow, interactions with the Credit Department personnel, and a critical analysis of the branch's accounting data, several key findings have emerged. These findings represent the realities of executing corporate strategy at the grassroots branch level.

1. The Profitability Paradox of SME Lending (High Yield vs. High OPEX) From a financial perspective, BRAC Bank's strategic focus on SME lending is highly lucrative due to the risk premium charged (higher interest rates compared to corporate loans). However, my observation revealed a significant operational paradox: the Operating Expense (OPEX) for processing SME loans is disproportionately high. An RM expends nearly the same amount of time, physical effort (site visits), and administrative resources to process a BDT 15 Lakh SME loan as they do for a BDT 5 Crore Corporate loan. While the yield is high, the administrative cost per Taka lent in the SME segment heavily burdens the branch's operational efficiency.

2. Exceptional Asset Quality Driven by Rigorous CRG One of the most impressive findings is the branch's ability to maintain an incredibly low Non-Performing Loan (NPL) ratio (~3.15%), drastically outperforming the industry average. This is not accidental. It is the direct result of the strict, uncompromising application of the "6 C's of Credit" and the proprietary Credit Risk Grading (CRG) software. Furthermore, the branch practices aggressive post-disbursement monitoring. RMs are heavily penalized in their KPIs for NPLs, which forces them to act as continuous risk managers rather than just sales agents.

3. Workflow Bottleneck: Centralized Sanctioning Delays Despite the efficiency at the origination level, a major structural bottleneck exists in the approval workflow. Because the Narayanganj Branch has a limited Delegation of Power (DOP), almost all significant credit proposals must be forwarded to the Head Office (CRM division) in Dhaka for final sanctioning. This strict "Maker-Checker" policy ensures excellent risk management, but it routinely causes delays of 10 to 15 days. In the fast-paced Narayanganj trading market, SMEs often require immediate liquidity. This delay frustrates clients and leaves the branch vulnerable to competitors who offer faster, localized loan approvals.

4. Superior Cost of Funds Management via CASA Mobilization An accounting analysis of the branch's Net Interest Margin (NIM) revealed that the true driver of profitability is not just the high interest charged on loans, but the exceptionally low interest paid on deposits. The Narayanganj Branch successfully leverages its location in an industrial hub to capture massive volumes of Current and Savings Accounts (CASA) from RMG factories and local traders. By funding its BDT 385 Crore loan portfolio largely with zero-cost and low-cost deposits, the branch creates a massive Interest Rate Spread, making it one of the most profitable AD branches in the network.

5. Conservative Accounting & Over-Provisioning As an accounting major, a standout finding was BRAC Bank's highly conservative stance on asset impairment. The bank maintains a Provision Coverage Ratio (PCR) of over 100%. This means that the bank has already deducted the potential losses of every single classified loan from its operating profits. While this aggressive provisioning artificially lowers the immediate Net Profit After Tax on the Income Statement, it ensures that the Balance Sheet is incredibly resilient against future economic shocks.

6. The Synergy of Corporate Credit and Trade Finance Finally, the data indicates that Corporate Credit at the Narayanganj Branch is not primarily about earning interest income; it is a strategic tool to generate Non-Funded Income. The massive textile mills borrowing from the branch demand highly competitive interest rates, squeezing the interest margin. However, by capturing their credit accounts, the branch also captures their entire Trade Finance business. The fee-based income generated from Export/Import Letters of Credit (L/Cs), Bank Guarantees, and Foreign Exchange (Forex) spreads constitutes a massive portion of the branch's total Operating Income.

Summary of Findings: The Narayanganj Branch of BRAC Bank PLC. operates as a highly efficient, profit-generating engine. It excels in risk mitigation, deposit mobilization, and generating non-funded income. However, its primary challenge lies in the operational friction caused by centralized approval delays and the high administrative burden of its core SME operations. These findings directly inform the actionable recommendations provided in the concluding section of this report.

5.5 Recommendations for BRAC Bank PLC.

Based on the critical findings and the SWOT analysis conducted in the previous sections, I propose the following actionable recommendations to enhance the operational efficiency and profitability of the Narayanganj Branch:

1. **Decentralization of Delegation of Power (DOP) for SMEs:** To combat the 10-to-15-day delay caused by centralized approval at the Head Office, the bank should increase the Branch Manager's DOP specifically for *repeat* SME clients with an unblemished CIB record. Implementing a "Fast-Track Renewal System" at the branch level would drastically reduce turnaround time and prevent competitors from poaching loyal clients.
2. **Digitization of Field Assessments (Reducing OPEX):** To reduce the high Operating Expense (OPEX) associated with SME loan origination, the bank should equip Relationship Managers (RMs) with integrated tablet-based appraisal software. RMs could input raw material checks, proxy cash flows, and site photos directly into the centralized Credit Risk Grading (CRG) system from the field, eliminating the need for redundant double data entry at the branch desk.
3. **Restructuring Frontline KPIs (Staff Retention):** The high turnover rate among junior RMs in the Credit Department disrupts client continuity. The bank should revise its Key Performance Indicator (KPI) matrix. Instead of purely rewarding volume (number of loans disbursed), the incentive structure should heavily reward portfolio quality (maintaining zero NPLs) and CASA mobilization. This would reduce sales burnout and encourage long-term relationship banking.
4. **Promoting Hedging Instruments to Corporate Clients:** Given the macroeconomic threat of dollar liquidity crises and fluctuating exchange rates, the Narayanganj Branch should proactively educate its large corporate RMG clients on foreign exchange hedging instruments (like Forward Contracts). This protects the clients' profit margins and simultaneously secures the bank's Trade Finance income.

5.6 Conclusion

The three-month internship at BRAC Bank PLC., Narayanganj Branch, has been a profoundly transformative experience, bridging the gap between theoretical accounting principles and the dynamic realities of the commercial banking sector.

This report, *"The Credit Analysis of Private Commercial Banking Sector of Bangladesh,"* confirms that BRAC Bank is not merely surviving in a highly competitive and macroeconomically challenged environment; it is thriving. The bank's unique philosophical mandate—championing the "missing middle" through aggressive SME financing—is perfectly balanced by its lucrative Corporate Credit and Trade Finance operations.

From an accounting perspective, the sheer discipline the bank exhibits is commendable. By strictly enforcing the "6 C's of Credit," relying on data-driven Credit Risk Grading (CRG) models, and maintaining a Provision Coverage Ratio in excess of 100%, BRAC Bank operates with an exceptionally clean balance sheet. The Narayanganj Branch exemplifies this corporate strategy at the grassroots level, leveraging local industrial strength to mobilize low-cost CASA deposits and generate a superior Net Interest Margin (NIM).

Ultimately, this study reinforces the core tenet of financial management: sustainable banking profitability is not achieved by avoiding risk, but by intelligently measuring, pricing, and mitigating it. The practical intelligence gathered during this internship provides a solid foundation for my future career as a finance and accounting professional.

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Appendices:

Appendix A: Survey Questionnaire

Survey on Credit Analysis Practices in the Private Commercial Banking Sector – BRAC Bank PLC

This survey is part of a thesis titled "The Credit Analysis of Private Commercial Banking Sector of Bangladesh: A Case Study on BRAC Bank PLC." Your responses will remain confidential and used only for academic purposes. Thanks for your important contribution.

Section A, (Respondent Information): Department

- Credit Risk Management (CRM)
- Corporate Banking
- SME Banking
- Retail Banking
- Branch Operations
- Loan Recovery/Special Asset Management
- Others

Your Position

- Officer / Senior Officer
- Principal Officer (PO)
- Assistant Vice President (AVP)
- Vice President (VP)
- Senior Vice President (SVP) / Head of Department
- Other

Experience in Banking Sector

- Less than 1 year
- 1–3 years
- 3–5 years
- 5–10 years
- More than 10 years

Section B, (Credit Appraisal Process): The bank follows a comprehensive and structured credit appraisal process.

- Excellent
- Good
- Fair
- Poor

Financial statements and cash flows are thoroughly analyzed before granting credit.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

The internal credit scoring model accurately reflects the borrower's repayment capacity.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Section C, (Risk Assessment & Mitigation): Collateral valuation is conducted accurately and independently.

- Agree
- Strongly Agree
- Neutral

- Disagree
- Strongly Disagree

Industry and macroeconomic risks are adequately factored into credit decisions.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

The bank maintains sufficient provisioning against potential loan losses.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Section D, (Credit Approval & Sanctioning): The delegation of authority for credit approval is clearly defined.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

The Turnaround Time (TAT) for credit approval and disbursement is efficient.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Communication between branches and the centralized credit division is effective.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Section E, (Loan Monitoring & Supervision): Regular site visits and inspections of funded businesses are conducted.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

The bank actively tracks the end-use of the disbursed funds to prevent fund diversion.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Post-disbursement monitoring helps in the early identification of problem loans.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Section F, (Non-Performing Loan (NPL) Management): The bank has an effective Early Warning System (EWS) to detect potential defaults.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Recovery strategies for classified loans are implemented strictly and effectively.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Loan rescheduling is done based on genuine client needs and strict Bangladesh Bank guidelines.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Section G, (Technology & Software Integration): The Core Banking System (CBS) and credit software are highly reliable.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Technology and automation significantly reduce manual errors in credit processing.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Automated credit rating tools improve the efficiency and speed of risk assessment.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Section H, (Regulatory Compliance): The bank strictly adheres to Bangladesh Bank's Credit Risk Management guidelines.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Internal credit policies are regularly updated in line with changing regulatory requirements (e.g., BASEL III).

- Agree
- Strongly Agree
- Neutral
- Disagree

- Strongly Disagree

Environmental and Social Risk Management (ESRM) guidelines are strictly followed during loan approval.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Section I, (Information Verification & KYC): Credit Information Bureau (CIB) reports are rigorously verified before processing loans.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Know Your Customer (KYC) and Anti-Money Laundering (AML) checks are comprehensive.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Financial documents and audits provided by borrowers are carefully cross-checked for authenticity.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Section J, (Customer Communication & Transparency): Interest rates, fees, and charges are transparently communicated to borrowers.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Borrowers are promptly and clearly informed about the reasons for loan rejection or modification.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree

Maintaining a strong relationship and providing advisory support to good borrowers is a priority.

- Agree
- Strongly Agree
- Neutral
- Disagree
- Strongly Disagree