INSIGHT

Delivering to full potential

MARCH 2015 | VOLUME 14 | ISSUE 1

DHAKA BANK LIMITED
EXCELLENCE IN BANKING

www.dhakabankltd.com

Published by Research & Development Unit
Sara Tower, 3rd Floor,
11/A Toyenbee Circular Road, Motijheel C/A, Dhaka 1000
Email: *r&d@dhakabank.com.bd*

Design & Print: Paper Rhyme

CONTENTS

EDITORIAL

The economics of oil is not as black as is painted

The economics of petroleum oil have changed through the sharp fall in the prices of petroleum in the quickest ever pace since June 2014. A barrel was worth amazingly below $60 far less than $115 of June. Bewildered by this sudden change of mood of the liquid gold, consumers find it an unlooked-for gain and respite in their routine life while the producers helplessly see their golden eggs losing their shines; Worse hit is Venezuela, which meets up populist agenda solely from the money of oil along with the OPEC countries, Russia, Nigeria and Iran. To explain the reason, weak economic activity, alternative energy sources, geopolitical risk in Middle East and Russian borders speak volumes. The crux also lies in America becoming the world's largest oil producer. Though it does not export crude oil, it now imports much less, creating a lot of spare supply. The greatest pain is in countries dependent on a high oil price to pay for costly foreign adventures and expensive social programmes. Skip the shadows of grudging producers and the consumer's world is painted bright; the global economy too. Capital Economics while gauging the global lift from lower oil prices found that a $10 fall in the price of oil transfers the equivalent of 0.5 percent of world GDP from oil producers to oil consumers. The study also reports, a $10 fall in the oil price would boost global demand for goods and services by 0.2 to 0.3 percent. If at least the trend lingers for a longer period, it remains awfully motivating for oil importing countries like Bangladesh. Until the market corrects the competitive pricing, the huge trade gain can be translated into wider economic advantage –either to the comfort of consumers or to the benefit of BPC or to the credit of oil reserves to lock future price fluctuation. A transparent disclosure will add conviction to policymakers' choice.

World economic convergence is a long sail

Ten years ago, developing economies were catching up well with the developed world remarkably and quickly. When adjusted for living costs, output per person in the emerging world almost doubled between 2000 and 2009; the average annual rate of growth over that decade was 7.6%, which is 4.5 percentage points higher than the rate found in the rich countries. Given the rate of poverty falling at a galloping speed and all other things being equal, forecast went that income per person in the developing countries would converge with that in America in just over 30 years, hardly a generation. Those hopes are now slipping away. An analysis of data on GDP per person as the best relevant estimate base suggests income convergence has slowed down a lot. Since 2008, growth rates across the emerging world have slipped back towards those in advanced economies. At that pace convergence with rich-economy incomes happens over more than a century than generation. If China is left out, the catch-up is a race of 115 years. Until workers in the developing zone becomes as skillful as the developed, catching up is hard to come by.

Banks at our domain: competitive pressure, delinquent credit and other challenges

The deepening concentration of banks vying for almost homogeneous target group have offered a worrying time when the bankers, though prepared on a best possible footing are able to net a humble gain, due to hopes frustrated by weak infrastructure, low demand of business capital, delinquent credit (NPL ratio 11.60% at Q3-end), frequent scams, absence of political harmony and so on. Besides, easy low-cost foreign loan for local entrepreneurs also narrowed down banks' scope for revenues. Equipped domestic banks saw the foreign currency loans slip away from their hands in an unbeatable term of 4.5% lending rate only. Excess capacity of banks in funds, networks, resources let open competitive pressures not because the economy was shrinking but because bank's credit was more confined to collection of non-performing loans than new loan disbursement. Although the condition is not so worse-off to give in, rumours are buzzing around about forced job-cut in some banks in the fear the cost of human capital. Somewhere the centre of banking forces cannot hold perhaps; banks had better sow the seeds in an enormous horizon of NRBs, mobile telephony, e-commerce, social media, Eid-economics, thriving agriculture, progressing living standard of rural people and other untapped banking population.

Will-of-iron regulations to reign supreme

Bankers are citizens too to abide by the rules. Mere innovative banking models and fast-track technology will burden the bottom line if laws are violated in the name of modernization. Regulators in the global banking system have cemented command to rule with will-of-iron regulations. Among most recent happenings, while carrying out transaction beyond borders, some banks' credibility has been questioned and the confidence frustrated in a variety of regulatory and legal violations. Central banks in US and Europe with firm conviction showered unprecedented penalties worth around billions of dollars in reserves. This might cost a very high price for six large banking groups including JP Morgan Chase, Deutsche Bank, UBS, Citigroup and HSBC. Earlier, the axe of regulations fell on the delinquent chief of Barclays Bank. In local and global context alike, compliance issues on regular banking, money laundering, financial scams and sustainable trails have gathered speed. Banks in Bangladesh have to weather the storm of bulging non-performing loans. Hard facts maintain that standards accounting rules and norms will show no mercy on profitability of banks. Banks indeed need to erect firewall to protect themselves against any looming threat. This is a crucial need. It must not be glossed over, either by default or by design by the management authorities of the country's financial institutions. It is time for all concerned to make concerted efforts for doing the needful in order to enforce proper discipline and take firm and decisive measures at the earliest to remedy the situation. This will go a long way towards averting any possible major future shocks.

Dhaka Bank on the verge celebrating 20 years of success

Celebrating 20th glorious year in the country's banking industry, Dhaka Bank has emerged as a powerful banking brand. To be the admired partner among the provider of banking services today, the path was not so simple rather strewn with changes, challenges and hard competition. So it sounds auspicious as we step into the 20th year of prosperity creating every possible value for our honoured stakeholders. Proudly enough, Dhaka Bank is perched on a stable foothold of capital strength, business growth, asset quality, profitability and dividend payout. The striking facets of our goodwill remained resolute in making banking a pleasurable experience and a safe haven for your financial wishes. We have stuck to that belief and embraced every challenge with a smile to keep our deep-rooted commitment 'Excellence in Banking'.

We mourn

Before we close, we mourn with a heavy heart the sad demise of our Deputy Managing Director Neaz Mohammad Khan. The untimely departure of a man of responsibility, banking prudence and sensible guidance is a great loss for Dhaka Bank, never to be filled in near future. We remember his committed support to the Bank and cherish many worthy moments in our hearts. May the departed soul rest in peace in the life hereafter.

As 2015 stepped in we have already observed International mother language day (Ekushey February) and Independence day (26th March) with national pride and sense of freedom. We also celebrated the biggest national festival Pohela Boishakh with ecstasy and endless joy just after the world cup (Cricket) quarter final success. First ever ODI series win multiplied our celebration with whitewash (3-0), one off T20 series win and a superb draw in first Test against Pakistan. Now it's time to embrace the hot summer with juicy Mango, Lichi and Jackfruit.

As far as world economy is concerned 2015 will be a mixed bag again. As Global Economy Watch suggested US economic growth will be 3.2% in 2015, the fastest growth rate since 2005 may provide with 23% of global GDP growth, its largest contribution in a single year since before the financial crisis. In Russia, GDP will shrink on the back of low oil prices and economic sanctions; and growth is expected to be sluggish in Brazil possibly by only around 1%. Both inflation and growth will remain very low in the Eurozone. After growing at below 6% since 2012, 2015 could be the year that India turns the corner, posting growth of around 7%. In the short-term, low oil prices are likely to increase GDP growth, ease the pressures of India's high current account deficit and help bring down inflation. After 10 billion dollars contract signing with China, dynamic Prime Minister Narendra Modi is hitting serious hope among the Indians about economic turnaround. Meanwhile amid central bank cautious monetary stand, low credit growth and political instability in first quarter suggests Bangladesh economy will find it hard to top up projected 6.1% growth. Yet Bangladesh Bureau of Statistics proclaimed an estimated 6.51% GDP growth for running fiscal year (2014-2015). Government has already eyed staggering 7% growth for upcoming

MESSAGE FROM THE CHAIRMAN

Dhaka Bank continues its journey with new challenges to overstep and horizons to eye. We have declared 24% dividend (14% cash & 10% stock) for the year ended 2014.We always prefer taking new initiatives, changing strategies as and where required to ensure stakeholder's interest along with a hand on eco-stability and concurrent socio-economic development.

2015-2016 fiscal year expecting some sort of political serenity if boosted by ever increasing RMG sector and windy remittance flow! Among all those Dhaka Bank continues its journey with new challenges to overstep and horizons to eye. We have declared 24% dividend (14% cash & 10% stock) for the year ended 2014. We always prefer taking new initiatives, changing strategies as and where required to ensure stakeholder's interest along with a hand on eco-stability and concurrent socio-economic development. Apart from business talks we deeply mourn the sad demise of thousands of people in Nepal hit by earthquake. Also sympathies with those unnumbered natives left homeless with no food and drinking water.

Abdul Hai Sarker
Chairman

FROM THE DESK OF MANAGING DIRECTOR

Apart from profit and loss scaling between national and individual levels another year gone; happily or routinely we had to embrace a new year which already discerned by lot many global and regional happenings. Cricket world cup, Bengali New Year festivities, severe earthquake shattering here and there accompanied by continued recovery in US economy, downfall in oil price and eurozone inflation summed up the first quarter of 2015.

Being not complacent with the previous success we are also keen to address the new challenges and opportunities stay ahead to make sure we can grind out something extra from the competitive market, thus fetch our stakeholders with handsome return.

Amid sluggish credit growth, political unrest, order fall in RMG sector due to lingering Rana Plaza effect surprisingly Bangladesh economy yet held on to reasonable GDP growth over 6%. Albeit the recent inflation rate is on a bit higher side. In February it was 6.14%, in March it was 6.27% and finally in April, it went up to 6.32%; still to be noticed the tolerable level.

Keeping those in concern Dhaka Bank continues its voyage on way of achieving excellence in banking. It secured 5% growth in its Net Profit (Tk. 2,029M), 10% growth in Assets (Tk. 159Bn), 8% growth in Deposits (Tk. 125Bn) and 20% growth in Inward Remittance (Tk. 26Bn) in the year ended 2014. We continued our endeavor to be more focused on SME, Green Finance and Agricultural credit, which has been already recognized by Bangladesh Bank, awarding DBL as the best Manufacturing Sector-friendly Bank of the year under SME Banking Award 2014. Dhaka Bank recorded 22% and 23% growth in SME Customers and SME Financing respectively.
The slogan of our annual report 2014 is Lets Go Green; which was rightly justified by 53 Alternative Delivery Channels, more than 2,30,000 online banking accounts and ever increasing M-banking with 70,000 accounts. Further to add as on 31st December 2014 our total investment on ETP, Bio gas and HHK project was more than Tk. 2,207M.

Dhaka Bank also disbursed more than Tk. 2,130M as agri-loan in the fiscal year 2013-2014. We spent Tk. 62.3M as Corporate Social Responsibility. These are not merely representation of data. We have ensured this trend of growth in the first quarter of 2015.

Being not complacent with the previous success we are also keen to address the new challenges and opportunities stay ahead to make sure we can grind out something extra from the competitive market, thus fetch our stakeholders with handsome return. Our passion for CSR, thirst for SME and Green Banking growth will be seriously attended along with Corporate business.

Within very few days we will enter the most important phase of running calendar year as Holy Ramadan is impending not far distantly, and then the country's biggest religious festival Eid-ul-Fitr. We are very familiar and in likings for the values and beauty of Ramadan and innocent joy of Eid. I wish wholeheartedly just return of those!

Niaz Habib
Managing Director

World Economy approaching mid 2015

In the January 2014 issue Global Economy Watch set out few predictions for 2014. Broadly speaking, They did quite well in predicting correctly at least to some extent like:

- Advanced economies would contribute about 40% to global GDP growth;
- The USA Federal Reserve would taper their asset purchases to zero during the year; and
- The UK would be the fastest growing G7 economy.

Except oil price and football world cup

Obviously they didn't get everything right. Their suggestion that Brazil was favourite to win the World Cup also came up short. Had Brazil won the world cup the experts opined, that would bring serious impetus in Latin American economy.

What will 2015 bring?

Global Economy again place 5 predictions for 2015 as well as 3 key factors for businesses to look out for:

1. **US economic growth expected to be the fastest since 2005**
   US unemployment has fallen during 2014 to below 6%, and combined with lower oil prices, to contribute to rising household consumption, it was projected US economic growth of 3.2% in 2015, the fastest growth rate since 2005. In line with this, further expectation was US to contribute around 23% of global GDP growth in 2015, its largest contribution in a single year since before the financial crisis.

2. **Economic growth in China projected to be the slowest since 1990**
   Global Economy Watch expects China to make the biggest contribution to global growth in 2015. However, its projected growth rate of 7.2% would be its slowest since 1990 and its high debt levels pose some downside risks to that main scenario. But 2 of the other BRICS economies are experiencing more severe problems:
   - o In Russia, GDP will shrink in 2015 on the back of low oil prices and economic sanctions; and
   - o Growth is expected to be sluggish in Brazil possibly by only around 1%.

3. **Low inflation leads to Quantitative Easing in the Eurozone**
   Both inflation and growth will remain very low in the Eurozone in 2015. Therefore it is expected that the ECB to undertake a quantitative easing programme involving the purchase of government bonds, in an attempt to boost demand and head off deflation.

4. **India expected to resume growing at above 6%**
   After growing at below 6% since 2012, 2015 could be the year that India turns the corner, posting growth of around 7%. In the short-term, low oil prices are likely to increase GDP growth, ease the pressures of India's high current account deficit and help bring down inflation. Looking towards the longer-term, the February 2015 budget could see India take a step towards implementing new structural reforms which will boost the economy.

5. **Economic growth in Sub-Saharan Africa (SSA) to outpace global growth for 15th year in a row**
   The combined GDP of Sub-Saharan Africa's (SSA) 4 largest economies (in purchasing power parity terms) – Nigeria, South Africa, Angola and Ethiopia will overtake the economic output of Italy in 2015 when measured in constant 2013 international dollars. For businesses, this is a further sign of the potential of SSA as a region in which to invest.

Three factors for businesses to look out for...

Three possible situations have been identified that businesses should plan for:

01. Falling oil prices:
Oil prices have been falling in recent months due to slowing global demand, the US shale oil boom and steady production from OPEC. Oil prices will average between $60-70 over the course of 2015 and finish the year at around $80.

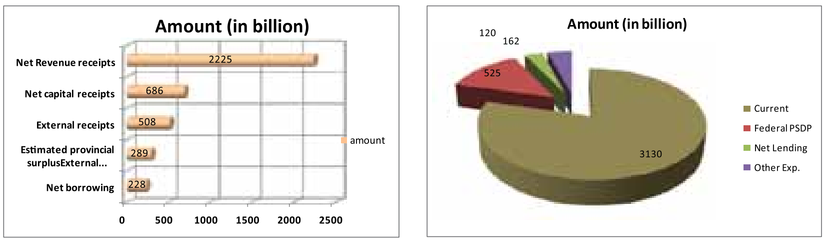
02. A hard landing in China:
The Chinese economy clearly has vulnerabilities given its high total debt level (around 250% of GDP) and estimates by Chinese academic researchers that around $6.8 trillion of the investments made since 2009 may have been wasted on creating ghost towns, unused office blocks and mothballed factories.

So far the Chinese government appears to have this under control, but the downside risks of a hard landing should not be ignored given the history of property investment bubbles bursting as in Japan in the early 1990s or the US in 2007-8. Any such adverse shock in China at some point over the next few years would also have severe adverse effects on the wider global economy.

03. Escalation of geopolitical risks:
An escalation of the geopolitical tensions in Russia and Ukraine and in the Middle East could have a negative influence on business confidence, leading businesses to hold back on investment, which would likely exert downward pressure on global growth.

Asia to lead in 2015

Asian economies will lead world growth in 2015, expanding at a 5.6 per cent pace that is level with last year, as recoveries in India and Japan help to offset the slowdown in China, the IMF said in a report on May. IMF economists expressed concern, however, over the potential for weaker growth if policy makers in the region fail to follow through with needed changes, saying it was a time not for "alarm but it is a time for alert." The IMF's regional economic outlook forecasts that growth in the Asia-Pacific area will moderate to 5.5pc in 2016. Asian growth fell to 5.5pc in 2014 from 5.9pc in 2013, and is bound to shift lower as China's economy, the world's second largest, settles at a more sustainable level than the torrid double-digit pace of the past decade.



Revenue (left) and Expediture (right) budget of USA for the year 2015

Bangladesh Economic Prospect

Insignificant infrastructural development, problem in power and energy sector mingled with political instability and weakened capital market always push Bangladesh economy hard. Still to the prominent economist's surprise Bangladesh has been registering more than 6% growth for last few years. Government wants to push this index toward staggering 7% in upcoming fiscal year. The central bank will maintain its cautious monetary stance to contain inflation, as envisaged in the January 2015 monetary policy statement. The government will raise electricity and natural gas prices to cut subsidies and keep current spending within the budget. It will attain targeted budget revenue and foreign financing and strengthen project implementation. Finally, the weather will be favorable for bumper crop production.

After hectic political turmoil over first half of 2014 the situation started to get better in the second half. Strong remittance inflows boosted consumption, and private investment was rising, as indicated by higher capital equipment imports. Although exports remained subdued, they were gradually improving as export orders picked up. Continued healthy remittance inflows are expected to support consumer spending, however, and sustain economic momentum. Notwithstanding the country's resilience under domestic and external shocks, if political unrest continues, it would further hinder economic growth.

Growth in FY2016 is projected to accelerate to 6.4%, aided by higher remittances and export growth, which is underpinned by the continued economic recovery in the United States and the euro area. Consumer and investor confidence are expected to pick up as the political situation stabilizes, strengthening growth momentum. In addition, infrastructure constraints will likely ease somewhat with the completion of ongoing projects, particularly the opening of new power plants.

RMG:

The RMG sector has long proved itself to be a boon for Bangladesh. It is the mainstay of its economy, facilitating its sustained 6%-plus GDP growth over the years. Despite the epic growth of our RMG industry and its bright prospects, challenges are still there. One of the biggest challenges currently faced by our RMG industry is to ensure workplace safety and better working conditions for the millions of garment workers. While we were embarking on a fashionable dream to export $50bn by 2021, the industry was shaken by the Rana Plaza disaster.

At present, factory owners are more aware than they were earlier. There is some hope that Accord and Alliance have commented that, with regards to safety, Bangladesh's RMG sector has improved a lot. But it has a long way to go in case of ensuring proper work environments and complete safety for employees.

The McKinsey summer report 2014 found that Bangladesh remains at the top of the list of apparel-sourcing markets, and is expected to grow further in importance in the next few years. As per their forecast in 2011, Bangladesh was on the radar of all European and US apparel buyers, and is likely to grow nearly three times by 2020.

Remittance:

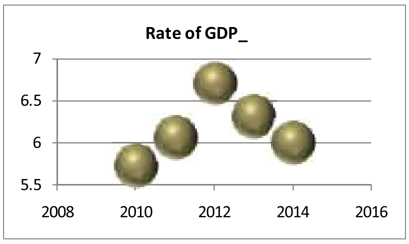
Remittance inflow in Bangladesh is expected to see a record rise this year in the wake of recent reopening of labour market by Saudi Arabia and global economic recovery, says a World Bank report.

However, the country slipped one notch to eighth position, pulling US$15bn from its global migrant workers, among the top most 10 remittance-earning countries in the world, despite its 8% rise in remittances during the period, according to World Bank's Migration and Remittances: Recent Developments and Outlook, which was released last week.

The top remittance recipient countries in 2014 are-India ($70bn), China ($64bn), the Philippines ($28bn), Mexico ($25bn), Nigeria ($21bn), Egypt ($20bn) and Pakistan ($17bn). Other large remittance recipients are Vietnam ($12bn) and Lebanon ($9bn). Migrants' remittances to the developing countries are estimated to have reached at $436bn in 2014, a 4.4% increase over 2013 level and remittances to South Asia rose by an estimated 4.5% in 2014, compared to 2.5% in 2013, driven by sharp increases in remittances to Bangladesh, according to the World Bank study.

In line with the expected global economic recovery next year, the global flows of remittances are expected to be accelerated by 4.1% in 2016, to reach an estimated $610bn, rising to $636bn in 2017.

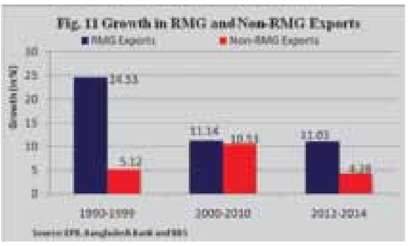
Fall in oil prices does not appear to have reduced remittances from the Gulf Cooperation Council (GCC) members, especially to India, Bangladesh, Nepal, Pakistan, and several countries in the Middle East and North Africa.



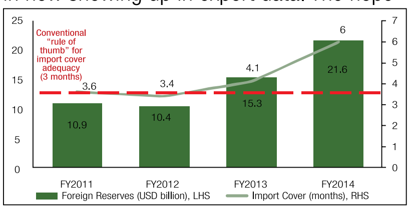
Bangladesh economy: last five year GDP

Challenges

Downside of ballooning reserves:
First, return on foreign exchange reserve is generally much lower than return on domestic assets in developing countries and, in case of Bangladesh, it is less than 1 percent. This implies a significant income loss for the central bank. Second, a rapid reserve buildup complicates monetary management, for every dollar increase in reserves, Bangladesh Bank injects more than Tk 77 of high powered money into the banking system. When reserves accumulate at a faster pace than envisaged under monetary programme, both reserve money and broad money would tend to exceed their targets established under MPS. This would lead to tensions in monetary management and can potentially undermine the inflationary target of the central bank and the government. Finally, if the central bank were to intervene in the money market to sterilize the excess liquidity by issuing treasury bills or bonds, it would incur significant quasi-fiscal costs and reduce central bank profit.

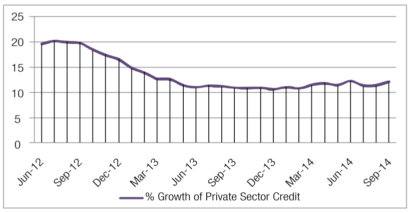


Exports still to show off sparks: Export sector performance entirely driven by the readymade garment (RMG) sector was less lustrous than earlier instances. Whereas the previous fiscal year that ended in June 2014 recording a considerable 13 percent growth on the heels of Rana Plaza episode and political upset, the first four months of the current fiscal year shows no growth at all, for both RMG and non-RMG products. A diversified export basket yet to be developed has amounted to the export setback and sent forth a signal to break away from one product monopoly of export market. Industry sources report that while efforts at meeting international compliance standard are on and buyers are gaining confidence, the lagged effect of some order cancellations or diversions as an immediate fallout of Rana Plaza tragedy coupled with political turmoil in now showing up in export data. The hope



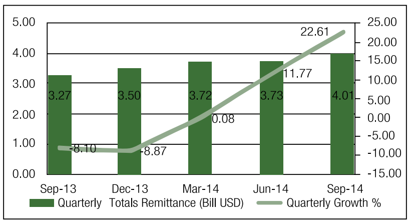
is, as mounted by industry stakeholders, garment exports will a pick in the first half of 2015. Economic data are not as fast as commodities shipping across the seas. A trend takes quite a while to form a shape for a clear view.

Release from GSP suspension unlikely:
2014 closed on a note of harvoured grudge as the GSP facility in US remains suspended. The United States Trade Representative (USTR) has place 16 conditions on Bangladesh, including issues related to worker safety and labour rights, most of them are met as claimed by the government. Despite progress made so far, a formal review and reinstatement of the GSP facility for Bangladesh does not appear in close sight. For now, analysts watching the developments closely see the need for a diplomatic rapprochement with the US as



more pressing than anything else.

Worrisome investment and political outlook: What is most worrying is that investment – which constitutes accumulation of capital that enhances the productive capacity of the economy – appears to have become one of the casualties in this predicament. The current street perception of a stable political environment seems to indicate a limited window. In absence of a long term favourable outlook, businesses do not see the certainty of sustainable return on investment. Bank credit growth, a bellwether of economic activity, slumped in mid 2013and is yet to show signs of picking up, falling well short of Bangladesh Bank's target of 16.5 percent growth. The state of bank credit growth does not reflect an optimistic storyline of current activity level and future productivity from investment. Furthermore, there are major problems in financial intermediation stemming from deep rooted ailments in the banking sectors – scams, insider lending and non-performing loans predominantly in state-owned banks.



Looking forward

Bangladesh has made significant strides in growth, poverty reduction and many indicators of human development. This country has tremendous potential to grow at a much faster pace than what has been achieved. While Bangladesh economy has registered rising and stable growth every decade, other comparator countries have done even better. To name a few are Vietnam, Indonesia and Myanmar. Much of our future economic dream will hinge on our ability to create productive jobs for the two million workers joining the labour force every year and this would have to be through massive expansion of trade and investment sourced from local and foreign investors.

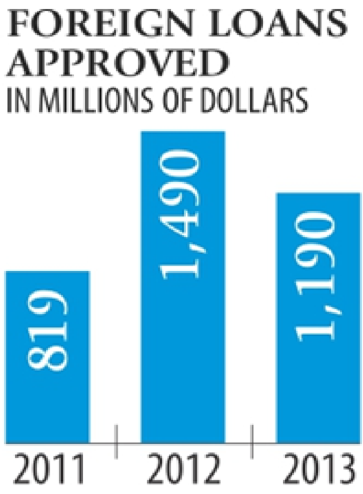
Commercial borrowing from foreign sources:
prospects, concerns & other options

R&D Desk

Of late, Bangladesh Bank has deregulated some sections of its Foreign Exchange rules allowing the members of the country's business community to resort to external sources to borrow directly from Foreign Banks, Foreign FIs, Multilateral institutions and Development Organizations. This is a praiseworthy initiative from the regulatory point of view. In order to obtain loans from these sources a Private Company in Bangladesh needs approval from the Scrutiny Committee of the Board of Investment, which is chaired by the Governor of Bangladesh Bank. Generally, approvals for such FC loans are allowed only to industries that are **Export-oriented and Import substitution.** They are either earning foreign exchange or saving foreign exchange and **have to be rated.** Nowadays it is widely seen that the spree of Foreign Currency Loan has increased significantly. According to Bangladesh Bank study, about 20 private enterprises got approval of US Dollar 936.30 million loans in 2011 which soared to US Dollar 1,579.57 million (among 81 enterprises) in 2012 and further to US Dollar 1,555.33 million (among 116 enterprises in 2013 (pictured in tables below). Same study suggests that the highest amount of borrowings from external sources have been approved in case of Telecommunication Sector, followed by power sector. Together they constituted more than 61 per cent of total approval. The structure of the FC loan can short term, long term or working capital Loan.

Why this clamour

The proponents of direct borrowings from foreign banks always refer to the lower lending rate being applied by such banks, especially in the developed world, in favour of their justification for allowing the country's business community to borrow FCs from the overseas lending companies. This statement is partly true because pure lending rate is low in the international money market but not fully true because overall loan price is not as less as expected. The recent study conducted by Bangladesh Bank suggest that the main reasons for the Private Sector to seek foreign loan is the **Interest Rate Differentials between foreign currency denominated (international) borrowing and taka-denominated borrowing from domestic banks.** In international borrowings, interest that is charged at London inter-bank offered rate (Libor) is relatively cheaper and therefore, the related borrowings are popular all over the world. Interest rates charged on foreign currency-denominated loans provided to the private sector are generally set in the range Libor plus 3.0 to 4.5 %, the spread over Libor (at 3.0 – 4.5%) being the combined mark-up charged by the facilitating domestic commercial banks and counterpart foreign lenders. The domestic lending rates at present vary between 11 – 15% depending on the customer, which is very high and likely to be a deterrent for investment and private sector borrowing. In terms of foreign rates, there are two major contributing variables – the Libor and the expected movement in the exchange rate between US Dollar and Bangladeshi Taka.



The 1 year on October 21, 2014 was 0.55%, and glance at the historical trend for the past couple of months reveals that the rate has been relatively stable. In terms of exchange rate depreciation, during 1990 – 1999 the decadal annual average change in the exchange scenario was about 4%. The average annual rate of depreciation of Taka decelerated during 2000 – 2009 the decadal average was 3%. The exchange rate depreciation decelerated further during 2009 – 2014, the five-year annualized average rate of depreciation is just about 2%. Despite this **enhanced stability of the exchange rate** of Taka against US Dollar in recent years, the market and the borrowers however still continue to expect the annual exchange rate depreciation of about 3.0% while making up their mind to opt for dollar-denominated loans. That said, considering Libor to be 0.55% and a mark-up of 4.5%, additionally accounting for exchange rate risk factor of around 3%, the cost of borrowing in (in Taka equivalent terms) from the foreign lenders would be around 8.0% (Mark-up 4.5% plus Libor 0.55% plus Expectation with respect to exchange rate depreciation of 3% equals cost of borrowing 8%.

Interestingly, this rate is still significantly lower that 11 – 14% imposed to domestic prime borrower by the banks. The main reason behind the exchange rate fluctuations is usually the **inflation rate differential** between Bangladesh and its major trading partners. Clearly, domestic inflation rate in Bangladesh is much higher than those of its trading partners abroad. Additionally, if borrowers are concerned about the uncertainties associated with the exchange rate depreciation induced increase in cost

TABLE 1: SECTOR-WISE DISTRIBUTION OF APPROVED LOAN FROM EXTERNAL SOURCES (2009-2014)

Sector	Number of Companies	Total Sector-wise Approval in Million USD*)
EMG Related Products	98	693.7
Power	22	1028.8
Telecommunication/ISP	11	2356
Agricultural Products/Dairy Products/Food & Allied	11	127.2
Pharmaceuticals/Healthcare	8	140.5
Cement	7	85.5
Shipping, Water Transport Cargo Handing	5	111
Packaging	4	62
Footwear	3	20
Electronic Goods Manufacturing	3	34
Air Transport	3	98.9
Steel	3	232.5
Conglomerate[4]	1	365
Other	24	236.8
Total**	**203**	**5536.25**

of fund, they may hedge their risk in the forward foreign exchange market which would give them additional edge.

Upsides & Impact

Lower international borrowing rates should **stimulate competition** within the domestic banking domain. In terms of domestic private sector credit market, liberalization of access to foreign loans will definitely create pressure on the local banks to resort to downward adjustment of their lending rates in order compete with foreign lenders. Since 2012, there has been a steady decline in private sector growth where the private sector credit growth plunged to a 13 year low of 11 per cent at the end of November 2013 while loan-deposit ratio slipped to 71 per cent in December 2013 in this particular sector. While this deceleration has been a primary caused a slowdown in the economy and a lack of investors' confidence stemmed out of political standoff in the country, the growing presence foreign lender can also be considered a factor. The rise in foreign loans inflow has put pressure on local banks to cut their lending rates as entrepreneurs are being allured to the overseas financiers. Borrowing from sources abroad at lower interest rates made the prime entrepreneurs reluctant to take loan at high rates from the domestic sources. Domestic Banks have reportedly started lowering rates apprehending the trend to continue further. The increase in external borrowings by the private sector has added to the swelling of excess liquidity in the country's banking sector. However, entrepreneurs across the country will become more interested in availing credit facilities in local currency from domestic sources provided the trend of declining rate continues and the interest rate in the international money market move up with the US and Eurozone economy gaining momentum. Domestic lending rates are like to fall owing to downward trend in deposit rates of commercial banks and falling inflation.

Downsides: India & East Asia experience

It is not justifiable and financially viable to borrow local currency and convert the same to purchase foreign currency to meet the business obligations. Similarly, it is not logical to earn foreign currency through exports and convert the same into local currency to repay the loans borrowed from domestic banks. This adverse way of managing funds not only exposes our business to forex risk but also leaves them in an uncomfortable position that may arise out of any mismatch between inflow and outflow of funds. The scopes of direct borrowing from external sources may remove this kind of impediment and pave the way for country's business community with an option to manage fund efficiently, specially to optimize the utilization of both foreign and local currencies. However, direct borrowings from sources abroad have some limitations and concerns which need to be addressed with prudence; otherwise, it may wreck havoc not only to borrowers but also to the business community and economy as a whole.

Direct borrowing from foreign banks are envisaged as the convenient means of availing this facility at a relatively cheaper rate but such loans do also carry some cross-border risk and such call for efficient and proper funder analyses and management thereof. There have been some instances where a country struggled to manage amount of US Dollar required to pay its total foreign borrowing. Such a situation depreciates local currency. The most recent example is India. Following the global economic and financial crisis of 2008, the government as well as private sector took significant amount of short- term credit from the external sources. By the last quarter of 2013, India became liable to repay about 172 billion US Dollar of its short-term credit. During the same time, the country had foreign exchange reserve of about 272 billion dollar. That is the amount of immediate payable debt of India accounted for about 64 per cent of its total foreign exchange reserve. As a result, the value of Rupee against US Dollar declined significantly for some time putting a brake on country's soaring economic momentum. East Asian financial crisis originated from a similar ground. Borrowing cheap money from foreign banks indiscriminately and spending it for development are largely held responsible for East Asian debacle. This opportunity can be used only when the requirements for foreign funds arise for spending in FCs. This source of fund is in no way conducive to project financing with local currency.

According to a study conducted by Bangladesh suggests that the highest amount (61 percent of total approval) of borrowings from external source have been approved to spend on communication sector followed by power sector. Both of these sectors serve the domestic markets and hence do not earn any foreign currency. As a result they have to buy dollar from the reserve maintained by Bangladesh Bank to repay the debts fetched from external sources. In contrast, an export oriented company can repay its loan taken from external sources with its export earnings without creating any additional pressure on the foreign exchange reserve. As the current composition of total private sector borrowings from external sources is not dominated by export oriented sectors, the pressure on country's foreign exchange reserve can potentially increase with the burgeoning growth of private sector borrowing from external fronts. Bangladesh Bank study further identified that due to exchange rate fluctuation some companies which are not export based, confront losses in local currency since they need to pay in dollars.

Other Option: Private Hedge Fund

In recent time the country's foreign exchange reserve have reached new milestone at over US Dollar 24 billion. This has pave the way for creating the country's own forex fund to lend among its business community either through direct means or through the commercial banking channel. Added to that tremendous prospects have now opened up for the expatriate Bangladeshis to introduce a special type of Foreign Currency fund for lending out the same among the business community at home. This kind of fund has a very close proximity to **Private Hedge Fund** which is very popular in the developed world and many emerging economies as well. Funds such as this play a vital role in channeling investible money from surplus units to deficit ones. If appropriate initiatives are taken, some private or institutional hedge funds may easily be created for mobilizing FCs from the expatriate Bangladesh Community. Such funds may ensure steady supply of FC loans at a comparatively cheaper lending rate without the hassles of complex documentation procedures. The possibility of exchange rate depreciation is real and must be taken into consideration by private sectors before contemplating on foreign currency-denominated borrowing. It is reassuring that Bangladesh Bank is closely monitoring the level of foreign borrowing and associated repayment schedule. So far the outstanding amount of such loans at more than US Dollar 2.0 billion is manageable and does not pose any serious payment risk. It is expected that Bangladesh Bank, on their part, shall remain more vigilant to foresee any formidable pressure on country's foreign exchange reserve before it is too late to avoid.

At the end, if the limitations and concerns associated with direct borrowings from external sources are addressed properly and due care can be exercised in availing and utilization of such sources specially in export oriented companies, the source of direct borrowing from foreign banks will immensely help the business community at home to breathe a sigh of relief while maneuvering their requirements for funds.

ACCOLADES

Dhaka Bank Won 3rd Prize in ICMAB Best Corporate Award 2014

Dhaka Bank Limited won the 3rd Prize in 'Best Corporate Award 2014' under the Private Commercial Bank (Traditional Operation) Category. The Bank was given the accolade by Institute of Cost and Management Accountants of Bangladesh (ICMAB) at Pan Pacific Sonargaon Hotel, Dhaka on January 20, 2015. Mr. Niaz Habib, Managing Director of Dhaka Bank received the award along with the citation from the Hon'ble Finance Minister Mr. Abul Maal Abdul Muhith, while other distinguished guests were present in the event. Mr. Darashiko Khasru, CFO & Executive Vice President accompanied the Managing Director in the awarding ceremony.

CSR : Dhaka Bank Donated to SEID Trust

Dhaka Bank Limited recently donated a cheque of Tk. 6 lac to SEID Trust as a part of CSR activity of the Bank. SEID Trust is a school for physical and mental development of the special children. The Chief Guest of the cheque handover program was His Excellency Mr. Tomasz Lukaszuk, designated Ambassador of the Republic of Poland in Bangladesh. The cheque was formally handed over to the Managing Trustee of SEID Trust Ms. Dilara Sattar Nitu by His Excellency Mr. Tomasz Lukaszuk and Director & Former Chairman of Dhaka Bank Limited Mr. Reshadur Rahman. Among others, Madam Maria Lukaszuk, (1st Counsellor, Head of Economic Section), Embassy of the Republic of Poland in India, delegates from Republic of Poland, Dhaka Bank's Former Chairman Mr. A.T.M. Hayatuzzaman Khan, Managing Director Mr. Niaz Habib, Deputy Managing Director Mr. Emranul Huq and other high officials were present.

BRANCH OPENING

Dhaka Bank Limited Formally Inaugurated its 76th Branch (Chatmohor Branch) at Pabna

Dhaka Bank Limited formally inaugurated Chatmohor Branch at Pabna on December 02, 2014 in a befitting manner. It is the 76th Branch of the Bank. Mr. Abdul Hai Sarker, Chairman of Dhaka Bank Limited inaugurated this Branch. Director & Former Chairman Mr. Altaf Hossain Sarker and Former Director Mr. Khondoker Md. Shahjahan were also present in the event. Managing Director of the Bank Mr. Niaz Habib along with other officials of Head Office, Local Representatives of Chatmohor Business community and other distinguished guests were present in the occasion.

Dhaka Bank Limited Formally Inaugurated its 78th Branch Tangail Branch

Dhaka Bank Limited formally inaugurated Tangail Branch on November 27, 2014 in a befitting manner. It is the 78th Branch of the Bank. Former Chairman of the Bank Mr. A T M Hayatuzzaman Khan inaugurated the Branch as Chief Guest. Mr. Abdul Hai Sarker, Chairman of Dhaka Bank Limited graced the program as Special Guest. Directors of the Bank namely Mr. Altaf Hossain Sarker, Mr. Khondoker Md. Shahjahan and Independent Director Mr. Syed Abu Naser Bukhtear Ahmed were present in the event. Managing Director Mr. Niaz Habib and Deputy Managing Director Mr. Emranul Huq of Dhaka Bank along with other high officials and local distinguished guests were also present in the occasion.

BUSINESS REVIEW

Dhaka Bank holds Annual Managers' Conference 2015

Annual Managers' Conference for the year 2015 of Dhaka Bank Limited was held on January 24, 2015 at Rajodarshan Hall, International Convention City, Bashundhara, Dhaka. Mr. Abdul Hai Sarker, Chairman of the Board of Directors inaugurated the Conference as Chief Guest while Mr. Niaz Habib, Managing Director presided over it. Among others, Former Chairmen Messrs Reshadur Rahman, Altaf Hossain Sarker, A.T.M. Hayatuzzaman Khan, Director Mr. Mirza Yasser Abbas, Independent Director Mr. Syed Abu Naser Bukhtear Ahmed, Deputy Managing Directors Messrs Emranul Huq and Khan Shahadat Hossain along with Company Secretary Mr. Arham Masudul Huq were also present on the occasion. Branch Managers, Head of Divisions/Units from Head Office attended the programme. The Conference reviewed overall activities of the year 2014 and chalked out plans for achieving yearly target for 2015 of the Bank.

Dhaka Bank Observed International Women's Day 2015

Dhaka Bank Limited observed International Women's Day 2015 on March 8 at the Head Office of the Bank in a befitting manner. On this special day, the Managing Director Mr. Niaz Habib congratulated each and every female member of the Bank for their continuous efforts towards achieving excellence. On his note, he also acknowledged the role of Women in different sectors of the economy. In addition to that, the Managing Director presented Pens to all the female members of the Bank as a token. The pen was categorically selected as the symbol of Women Empowerment. Deputy Managing Directors Mr. Emranul Huq and Khan Shahadat Hossain, Company Secretary Mr. Arham Masudul Huq, Head of Human Resources Ms. Tahniyat Ahmed Karim along with other senior officials of the Bank delivered separate speeches to glorify the special moment.

TRAINING & LEARNING

Sponsor Shareholder & Former Chairman Mr. A. T. M. Hayatuzzaman Khan addressed a training programme

Mr. A.T.M. Hayatuzzaman Khan, Sponsor Shareholder & Former Chairman of the Bank visited Dhaka Bank Training Institute. On his visit, he addressed a day-long training programme under the banner "Personal Excellence' that aims at grooming bank's female officials with better learning, quality service and continuous focus on career growth. Speaking to the participants, Mr. Khan advised them to acquire customer-care and service knowledge through regular learning habit, training and development which will add immensely to the bank's bottom-line in today's competitive business scenario. He insisted that in the changing horizon of business, bankers have no alternative but to equip themselves with the ability to understand customers' mindset, and then provide services in a way that they like or look for everyday. Ms. Tahniyat Ahmed Karim, EVP and Head of HR, Mr. Md. Abdul Motaleb Miah, FVP & the then In-charge of DBTI and Ms. Farzana Siddique, Senior Management Consultant, Sensei International were also present on the occasion.

Dhaka Bank Limited Received a Crest for Participating in the 3rd Showcase Canada 2015

Dhaka Bank Limited participated the 3rd Showcase Canada 2015: Trade & Education Fair as the Premium Partner. The event took place during February 14-15, 2015 at Ball Room of Pan Pacific Sonargaon Hotel, Dhaka. A crest was awarded to Dhaka Bank by the Hon'ble High Commissioner of Canada in Bangladesh His Excellency Mr. Benoit Pierre Laramee on February 15, 2015 as a token of appreciation for participating in the fair. Mr. Md. Shakir Amin Chowdhury, the then SEVP received the crest on behalf of the Bank. President of Canada Bangladesh Chamber of Commerce & Industry Mr. Masud Rahman was also present in that auspicious moment.

RECOGNITION

An excellent achievement in Import Project Implementation

Dhaka Bank recognized Mr. Muhammad Masud Sajjad Parvez Khan, Officer, Global Trade Services (GTS) for his outstanding contribution to online import transaction report initiated by Online Import Monitoring System of Bangladesh Bank. Assigned to implement a tremendous backlog of reporting online import transaction, Mr. Masud updated a huge pile of 11,428 IMP transactions in the year 2013 employing all his efforts, skill, dedication and strong coordination with the Central Bank. Under the direct supervision of Mr. Md. Shakir Amin Chowdhury, the then SEVP (Foreign Trade), he organized the project works by building liaison between CPC-Trade (Operations) and Dhaka Bank Branches, correcting wrong entries and fine-tuning final online reporting. In recognition of the feat, Mr. Niaz Habib, Managing Director of Dhaka Bank awarded Mr. Masud with a Gift Cheque of Tk 5,000.00 and a Letter of Appreciation. Mr. Faisal Omar, SVP and Head of GTS was also present on this occasion.

Games & Sports

Inauguration Program of Dhaka Bank Cup Golf Tournament 2015

Dhaka Bank Cup Golf Tournament 2015 was formally inaugurated at Army Golf Club, Dhaka Cantonment, Dhaka on January 29, 2015. It was a three-day long golf tournament where more than 500 golfers of the country participated. Major General Md. Masud Razzak, ndc, afwc, psc, President, Army Golf Club and Mr. A.T.M. Hayatuzzaman Khan, Former Chairman of Dhaka Bank Limited formally inaugurated the tournament. Independent Director of the Bank Mr. Syed Abu Naser Bukhtear Ahmed along with the Managing Director of the Bank Mr. Niaz Habib and Deputy Managing Director Mr. Emranul Huq were also present in the inauguration program.

ALLIANCE

Dhaka Bank Credit & Debit Card Holders will enjoy 5% Cash Back from Meena Bazar Outlets

Dhaka Bank Limited signed a Memorandum of Understanding (MoU) with one of the concerns of Gemcon Group namely, Meena Bazar on February 16, 2015 at the Head Office of Dhaka Bank Limited. Mentionable that Meena Bazar is one of largest retail chains in Bangladesh. Currently, Meena Bazar has 18 outlets out of which 16 outlets are in Dhaka. As per the Memorandum, all the Credit and Debit Card holders of Dhaka Bank will enjoy 5% Cash Back facilities on every purchase from any of the Meena Bazar outlets (joint promotional campaign starts from March 1, 2015). Deputy Managing Director of Dhaka Bank Limited Mr. Emranul Huq and Chief Operating Officer of Meena Bazar Mr. Shaheen Khan signed the agreement paper on behalf of the respective organizations. Mr. Niaz Habib, Managing Director of the Bank, Mr. Firoz Alam, GM-Finance & Accounts, Gemcon Food & Agricutural Products Ltd. along with other high officials of both the organizations were present in the event.

Dhaka Bank Held 36th Shariah Supervisory Committee Meeting

Dhaka Bank Limited held 36th Shariah Supervisory meeting on March 1, 2015 at the Board Room of the Head Office of the Bank. Several issues on Islamic Banking, Shariah Operations along with other relevant issues of Islamic Banking of the Bank were discussed in the meeting.
The meeting was presided over by Mr. M. Azizul Huq, Chairman of the Shariah Supervisory Committee where the Managing Director of the Bank Mr. Niaz Habib was also present. Among others, Moulana Mohammad Salahuddin, Member of the Committee & Khatib of National Mosque Baitul Mukarram, Mr. Md.Sirajul Hoque, EVP & Member Secretary to Shariah Supervisory Committee along with other members of the Committee were present.

TEAM BUILDING : IT's day out at 'Jol O Jongoler Kabyo'

Information Technology (IT) Division of Dhaka Bank Limited plays an important role for the smooth banking operations. The continuous team work of different IT experts keeps the system running in every second. Achieving team work through motivational talks or indoor fact-giving sessions might be a painful impossibility when employees face intense work pressures and the heat of deadlines. So we plan and head out for some fun activities each year with our team members along with family which restore our energy and refresh our minds taking off that stress so that our contribution to DBL reaches greater heights.
This year we had selected a day '18 Aug 2014' and a place named "Jol O Jongoler Kabyo" situated at Pubail, Gazipur. The place is a perfect mix of rugged outdoor activities to engage in and a relaxing ambience complete with countryside flavour and river side view. The highlight of this Day outing is the place and the traditional food. Playing football in muddy field, swimming, boat riding, art competition for the kids, entertainment and raffle draw with gifts are the fringes that complete the day making it a success.
At Jol O Jongoler Kabyo, we had a whole lot of fun and exciting games and activities planned out for our team members. These have been specifically designed to motivate and encourage team work and to feel energized and invigorated. This way each member can improve his/her productivity while the entire team will learn how to complement each other and value the bondage.

Processing loan proposals some recipes

Banking is a vibrant sector of economy of Bangladesh. With rapid economic growth in the country, banks have expanded their branch network and business operations. During recent years this sector took some big leaps forward in diversifying their services through innovation and in a rapid pace transcended to automated operation. But achievements such as these are always fraught with many new challenges. Banks have confronted many challenges and succeeded to overcome those in the process. It is potentially a continuous process. New challenges emerge while old challenges reappear with new dimension and magnitude.

Of many, Loan default continues to be the number one problem for our banking sector. It is not a new problem in this sector. It is persisting for more than three decades in succession. Banks of our economy have been increasingly burdened with a staggering amount of Non-performing loans (NPL) posing palpable threat to the health of the country's financial institutions. Nine new commercial banks thrown in the fray have added to the intensity of the competition. This article is fundamentally intended to assist the banker across the country to prudently navigate through the task of handling the prospective borrowers loan application and documentation while could be served as a warning against cavalier attitude in lending money even when competition gets very high.

Processing Loan proposals

As a banker, when we have a loan proposal at our disposal, it should be seen as an opportunity to apply our intelligence and prudence and enrich our knowledge about the borrower and business environment in which he/She operates. If we approach such challenging undertaking of analyzing and evaluating the loan application to reach a conclusion it will benefit our institution and applicant. While discussing a proposal with the applicant, most of us remain so immersed to our own thoughts and biases that we pay heed to him patiently. Failure to listen and appreciate the other's viewpoints is the greatest barrier to effective communication between two people. As a credit manager, we must try to hear precisely what the borrower says and then to understand why he said it and what he exactly meant. Our patient and sympathetic hearing will give us an edge to evaluate the matter fairly. In short, while discussing a proposal with the applicant, we may remember the phrase 'don't cross the bridge before reach it'. Diverting our attention to excessive and irrelevant details (figures, diagrams or charts) of a loan proposal may impair our vision of the overall picture, broad strengths, weaknesses and viability of the loan borrower asking for. Stop for a moment to see that the picture is complete, nothing has been left out, that no loose ends remain untied.

A loan has to be safe and sound. A loan can only be considered safe when repaid within its maturity terms without wrecking hardships or stress on the borrower. Borrowers must not only have adequate strength or security but must have adequate repayment ability. Banks loans are made to be paid, not to remain permanently tied up with the borrower. We should be concerned with the safety and security of the loan but should not forget ask ourselves 'How is the borrower going to pay it back?". Once we make a statement or announce a decision prematurely, we would find ourselves in the embarrassing situation of justifying our stance to the management with arguments that may not stand to rigorous scrutiny. When we have confidence in our judgment, there is no reason to seek guidance from others as we act within our authority. Seek counsel or guidance only when we are unsure, never simply to shift or dilute our responsibility. When we are certain, act. When we have concluded that we are going to grant a loan request and secured the approval of the authority, there is no reason to give an impression to applicant that we are doing a rare favour or that the client has forced us in some way doing something against our better judgment.

Safe Lending

A balance must be maintained between increasing loan volume and the quality of loans. There are practical cost limits on how much investigation, analysis and documentation can be devoted to a loan. On the contrary, a loan with poor credit quality imposes a different kind of cost: loan loss, salary and allowances of officers working on the impaired loans, costs of litigations etc. The key to success is to address these conflicting objectives by maintaining a balance between the perceived risks and potential rewards while dealing with a loan proposal. As a credit dealing officer, we should generally make loans only after ensuring that the anticipated cash flow would enable the borrower repay the loan from his or her business or conversion of other assets. It should not, for example, make home loans to consumers where the bank will have to go through the hassles of foreclosing on the home to collect the dues. Recommendations for the actions on credits should be accurate, clear, concise, candid and complete. Material risks should be identified and highlighted as should be the purpose of the credit. The basis for conclusion should be mentioned clearly so that the approving officers themselves have an analytical task (not a rubber stamp function) but are spared the job of sifting through masses of raw data for important facts. Sometimes influential people refer prospective clients to credit dealing officers as a genuine effort to promote the bank's business but more often for doing a favour to them or as a trade-of for a favour they received from such applicants. These references should be taken into consideration subject to normal scrutiny standards to ensure that the credit decision is prudent.

Five Basic Standards

1. Officers recommending approval of a credit must be satisfied that the credit will be reasonable, free of risk by gathering information on the borrower's business and analysis of the credit risks.
2. The credit officers must ensure that the borrower must be people of integrity and posses relevant business experience. The character of the borrower is the single most important determinant.
3. Ownership equity or net worth of the borrower must be significant in relation to the credit granted.
4. The primary source of repayment should be the reasonably expected cash flow from borrower's operation. Collateral supporting the loan may be considered as an alternative source but it is necessarily not a substitute for a primary source of repayment given the legal and practical difficulties to convert collateral into cash.
5. In loans to individuals, lenders sometimes make the mistake of looking to assets (for example, a large beautiful house) rather than the individual's cash flow. A lender should brand the phrase "Only Cash Repays Loans" on his or her memory.

Analysis: goes beyond the numbers

Creditworthiness is a function of capacity to repay and willingness to repay. The first step in analysis is to understand the environment in which the company operates. Political, Economic, Technological and Sociological trends in the country where borrower operates can have an impact on the borrower's business. The availability of multiple sources of supply and the company's labour relations are also important factors impinging on the long-term success.

Spreadsheet portraying five years of financial figures that include many analytical ratios is beautiful tool in analysis, but it is merely a tool. Realistically, it is not historical cash flow but future cash flow that will repay the loan. Companies that exist or thrive on political clout are particularly vulnerable when the people who dispense those are no longer in government. Therefore, we have to be careful when preparing to provide finance to a project with a political overtone.

A loan must be sanctioned for a productive purpose capable of generating enough cash to service the debt. Repayment of loan shall match the time-frame of the capacity of the venture for which the loan is intended for. The commercial lender's job is not done when the loan is disbursed. The lender should stay in touch with customer and sources of information about the customer so as to understand what is happening in the customer's business. This, moreover, allows the lender to know whether there is some deterioration that requires action to protect the bank's interest.

Bank lends funds to clients having high or acceptable creditworthiness. An effective way of evaluating the creditworthiness of a borrower is to ascertain CAMEL rating. The parameters of CAMEL serve as a handy tool to assess the creditworthiness fairly. For assessing creditworthiness, the most reliable option can be Bangladesh Bank's Credit Information Bureau which maintains BIG DATA on the indebtedness of the borrowers of banks and other financial institutions. There is a saying 'Act in haste, lament at leisure'. A hasty decision may miss vital points affecting the quality of the credit decision. Regardless of how strong the pressure is from the borrower one who walks in the corridor of power, we should take reasonable time to ponder over the merits of the proposal to reach a rational decision. Otherwise, we might really end up lamenting for the rest of life for the decision taken in haste.

Loan documentation: some methods of securing advances

Lending is the income earning function of a Bank. But though it is the profitable side of the banking business, it is also highly risky. Loans and Advances accompany credit risks arising out of borrowers' default in repaying money. A banker should therefore manage the loan business in a profitable and safe manner. As a lending manager we should take all precautions to minimise the risks associated with loan. It is therefore to minimise this lending risk that the loans and advances are given on a secured basis. Security is a cover against loans and advances. It ensures recovery of loans and advances. Though now-a-days greater emphases are put on the purpose of the loan rather than securities, nevertheless, the securities play a crucial role to take a decision.

Types of Security

The type of securities offered varies from place to place. In metropolitan cities, it may be Government Bonds, Shares, assignment of Book Debt, Bills Receivable etc. whereas, in the industrial area Raw Materials and Finished Goods are being offered as securities. Again agricultural produce is the principal securities in the agricultural centers. Furthermore, bank accepts moveable and immovable properties, life insurance policy etc. as securities. Securities can be classified into Primary Security and Collateral Security.

a. Primary Security means the security offered by the borrower himself as cover for the loan. It refers to the asset, which has been bought with the help of the bank. Such as when machinery or some goods have been bought with the help of the bank, such machinery and goods constitute primary security.
b. Collateral Security, on the other hand, is all other additional security other than primary security such as Land, Building etc. which may be offered by the borrower or, by any third party.

Valuation

Valuation of Security is very important for the lending bankers. Therefore valuation of security must be worked out with careful verification sources, in respect of nature of procurement, quality, quantity and considering possible risks.

Margin

Margin is a cushion against any possible shortage. It is a portion of borrowers' contribution. The fixation of margin depends on the nature and type of security and financial stability of the customer and also in taking cognizance of the restrictions imposed by Bangladesh Bank or Bank's Head Office from time to time. In case of goods and produce, reasonable margin should be retained for covering any shortage due to shrinkage, fluctuation of rate, fall in prices and charging of bank interest.

Creation of Charges on Security

The process of creating charge over the assets is called perfection of security. Charging a security means making it available as a cover for a credit. Not only security has to be good but the method of charging should be legal and perfect. Bank should have the right to take the property or asset on which charge is created and should be available to him as security of a debt, by an order of court of law. A charge may be classified as:

a. Fixed Charge: A charge is said to be fixed if it is made specifically to cover definite and ascertained assets of a permanent nature e.g. charge on land and building or heavy machinery. It precludes the company dealing with the property charged without consent of the charge holder.
b. Floating Charge: It is a charge on the property which is constantly changing e.g. stock. The company can deal with such property in normal course of business until it becomes fixed on the happening of an event. Thus it is a charge on the assets of the company in general.

The different securities used and the ways these are charged against loans are specified bellow:

Sl No	Security	Way of charging the Securities
1	Cash Collaterals (FDR, Govt. Securities, Shares) Insurance Policies, Receivable etc.	**PLEDGE, LIEN, ASSIGNMENT**
	Movable Stocks of Goods	**PLEDGE, HYPOTHECATION**
	Immovable Property	**REGISTERED MORTGAGE**
	Goodwill & Trust	**EXECUTION OF PERSONAL GUARANTEE AND LTR**

How Charges on security can be created

The manner by which some articles or commodities are made available to a banker as security is known as charging of securities. There are number of methods by which banker can obtain a charge over the debtors/borrowers property. The method used depends upon the type of property to be charged, the nature of advance and the degree of control over the debtors/borrowers property required by the banker. Unless creation of charges on the securities offered by the borrower Bank will not be able to take possession of the security in case of delinquent borrower. The common ways of charging securities are discussed in the following manner.

Mortgage

Mortgage has been defined in section 58 of Transfer of Property Act 1882. It is the transfer of interest on the property by way of charging immovable property for the security of loan amount. Therefore, for the purpose of securing loan amount when an immovable property is charged for transfer interest on property is termed as mortgage. There are two types of transfer of property – ***Absolute Transfer and Conditional Transfer***. Absolute Transfer is sale while one of the Conditional Transfer is mortgage.

On the basis of transfer of title in the mortgaged property mortgage can be classified as Simple/Registered Mortgage and Equitable Mortgage.

i. Simple/Registered Mortgage: In a legal mortgage the title of the property is transferred in favour of the mortgagee (Bank) by mortgage deed duly vetted by legal adviser/retainer. The deed is registered in the Registrar/Sub-Registrar's office. This method is expensive as it involves registration charge and Stamp duty. After full and final adjustment of the loan the title of the property is to be redeemed.
ii. Equitable Mortgage: An equitable mortgage is created by mere delivery of documents of the title of property to the mortgagee (Bank). It does not require registration. By virtue of The Registration (Amendment) Act, 2004 and Transfer of Property (Amendment) Act, 2004 from 1st July 2005 registration has become mandatory by reducing registration fee. In present day practice Equitable Mortgage is non-existent.

Lien

Lien is the right to hold the securities till the liability is adjusted. For executing the right of lien the following conditions are to be fulfilled.

a. The security over which the right is to be executed must be in possession of the creditor who will exercise it.
b. There must be a lawful debt due to person in possession of the goods by the owner of the goods.
c. There must not be any contract to contrary.

Pledge

Pledge may be defined as the transfer of possession of goods and produce by a debtor to his creditor as security for them payment of a debt or the fulfillment of some obligations by the transferor. The essence of pledge is that possession passes to the pledgee but the legal ownership remains with the pledgor. Only movable property can be pledged.

Hypothecation

Hypothecation is a mode of creating an equitable charge against a property for a payment of a debt which continues to be in the possession of the debtor. It is different from pledge because the asset under pledge remains in the possession of the lender. However, the hypothecation deed usually provides that the banker will have the power and authority to take the goods hypothecated in its possession if the need arises.

Hypothecation is particularly useful in those cases where it is almost impossible or impracticable to give possession of the goods to the lender. For example where money is to be borrowed on the basis of goods lying in a retail showroom or on a motor vehicle which is to be used by the client for the purpose of his business or stock or raw materials etc., it will not be at all advisable to pledge because it may be difficult to run the business without these assets. In such a case hypothecation is the only choice.

Assignment

An assignment means a transfer by one person of a right, property or debt (existing or future) to another person. The person who assigns the right, property or debt is called the assignor. The person to whom the right, property etc. are assigned is called the assignee. The most common examples of assignments are:

a. Contract money due from Government and Semi Government body
b. Supply Bills
c. Book Debt
d. Life Insurance Policy

Set-off

Set-off means the total or partial margining of a claims of one person against another by counter claim by the latter against the former. It is combining of accounts between debtor and creditor, so as to arrive at the net balance payable to one or the other.

Creation of Charge on the Fixed and Floating Asset with RJSC

In case of Loan/advance is allowed to a Limited Company, the charge on the fixed and floating assets of the company is required to be registered with the Registrar of Joint Stock Company in their prescribed form within 21 days of the creation of charge i.e. within 21 days from the date of execution of Letter of Hypothecation and Supplementary Agreement. In case of failure of registration for creation of charge within prescribed time limit of 21 days, the charge will be void against the liquidator in case of liquidation of the company. The Bank, will therefore become an unsecured creditor. The charge can, however, be enforced against the company so long it does not go into liquidation. Further, the second mortgagor will get priority in payment out of the assets of company.

Formalities for Limited Company

a. Form No. XVIII to be filled in duly by the Managing Director of the Company/Authorized person o the company whichever is applicable
b. General Letter of Hypothecation duly filled in and signed by the Managing Director of the Company/ Authorized person of the company whichever is applicable affixing an adhesive stamp of Tk. 100 duly cancelled.
c. Statement of Stock under hypothecation duly filled in and signed by the Managing Director of the Company/ Authorized person of the company whichever is applicable.
d. Supplementary Agreement duly filled in and signed by the Managing Director of the Company/ Authorized person of the company whichever is applicable along with signatures of two witnesses affixing a adhesive stamp of Tk. 100 duly cancelled

On receipt of the application, office of the Registrar of Joint Stock Company will issue a money receipt against the fees received by them for creation of charges. Added to that the Bank should collect "Certificate of Registration Charge" from RJSC.

Types of Documents

Documents related to securing loans and advances are classified in two parts.

1. **Charge or security documents**
2. **Legal Documents**

Charge Documents are generally preformatted and printed documents provided by the bank for execution by the client. Legal Documents, on the other hand, are legal papers provided by the client certifying the legal status of the borrower, their borrowing power, title to goods and property and legal deeds and Power of Attorney connected with charging of securities.

The type of documents to be obtained depends upon three factors:

i. Legal status of the borrower (Proprietorship, Partnership or Limited Company)
ii. Type of Securities
iii. Type of Loan

From whom the documents to be obtained

Documents to be obtained from:

i. Borrower
ii. Holder of the instrument, such as FDR, BSP, PSP, ICB unit etc.
iii. The authorized person in official capacity

Steps of Documentation

Generally there are 6 (Six) steps of documentation:

i. Obtaining of the document or instrument from the borrower/guarantor/mortgagor
ii. Stamping
iii. Execution
iv. Witnessing
v. Registration
vi. Preservation

The Main Documents

Common to all Advances

1. D.P. Note
2. Letter of Agreement
3. Letter of Continuity
4. Letter of Revival

Other Charge Documents

1. Letter of Hypothecation with Supplementary Agreement (Hypothecation)
2. Letter of Pledge with Supplementary Agreement (LIM, Pledge)
3. Letter of Guarantee (Mortgagor, Directors & Partners)
4. Letter of Trust Receipt with Supplementary Agreement (for TR facility)
5. Packing Credit Trust Receipt (Packing Credit facility) with Supplementary Agreement
6. FDR Lien Letter (for loan against FDR)
7. Letter of Disclaimer from landlord (in case of rented godown)
8. General Counter Guarantee (for Guarantee facility)
9. Letter of Indemnity
10. Credit Sanction Advice duly accepted by the borrower.

Legal Documents

1. Memorandum and Articles of Association (for Limited Company)
2. Registered Partnership Deed (Partnership Firm)
3. Trade License
4. Company's Board Resolution and Partner's resolution to borrow (for Limited Company and Partnership Farm respectively)
5. Registered Power of Attorney to sell the mortgaged property
6. Notarized irrevocable Power of Attorney:
   i. To receive payments against bills receivables
   ii. To sell the hypothecated stocks

For Mortgage of Property

1. Original Title Deed or certified copy with original delivery receipt
2. Parcha/Khatian (records of right)
3. Non-Encumbrance Certificate
4. Mutation copy
5. Rent Receipt
6. Municipal Tax Paid Receipt
7. Valuation Certificate
8. Lawyers Clearance
9. Memo of Deposit of Title Deed
10. Registered Mortgage Deed

Other Documents

1. Insurance Policy
2. Government Security Transfer forms
3. Lien on Export LC (for Packing Credit0
4. Duly discharged FDR, Share Certificate, Govt. securities etc.)

Stamping

According to section 17 of the Indian Stamp Act 1899 as amended and adapted in Bangladesh, all documents chargeable with duty and executed by any person shall have to be stamped correctly and adequately before or at the time of Execution.

Types of Stamping

a. Judicial
b. Non Judicial
c. Adhesive
d. Embossed or impressed

Judicial stamps are used for filing suits and judicial noting in the court. These are not used for loan documentation. However, the other three are used for example:

i. Non Judicial – Deed, Agreement, Power of Attorney etc.
ii. Adhesive – Revenue stamps & Special Adhesive stamps for some documents
iii. Embossed – Seal of Notary public, Organizational stamps etc.

Execution

Main points to note:

a. Execution must be done by the borrower or his Authorized representative
b. Documents to be filled in with permanent Ink or typed
c. Documents are to be executed in the presence of the Branch Manager or Authorized Officer
d. No document and no column should remain blank. Also mention of date and place of execution is a must.
e. There should not be any alteration, overwriting etc. in any documents. If any such thing happens, it must be duly authenticated by the execution.

Witnessing

The following documents must be attested by at least 2 (two) witnesses.

a. Mortgage Deed
b. Sale Deed
c. Gift deed
d. Assignment of Life Insurance policy
e. Will

Registration

After stamping, execution and witnessing of documents comes the turn of Registration. All documents do not require registration. The following are the cases where registration is necessary to give legal effects the instrument:

1. The assignment on the body of an Insurance policy
2. A mortgage Deed
3. In case of Advances to Limited Company, charges are to be registered with the concerned Registrars of Companies
4. Power of Attorney to sell immovable mortgaged property.

Preservation

1. Upon completion of all documentation formalities 'Documentation Checklist' to be prepared consisting of the list of documents
2. The Checklist should be duly scrutinized and initiated by an authorized officer
3. Documents are to be kept in safe custody preferably in the vault
4. Separate files to be maintained for each customer
5. Document movement Register should be maintained under the supervision and signature of an authorized officer.

A loan is likely to go bad given inadequate or faulty loan documentation. The scam in our country's banking Sector such as Hall-Mark and Bismillah carry enough testimony to this fact. It is impossible or near to impossible to realize or recover a distressed loan, if the security or collateral arrangement is not perfect. Any humanitarian call or ringing on the conscience of the borrower doesn't actually work here. Even the court of law cannot do much in this regard. Proper documentation of advances allows protection for both lender and the borrower in the court of law in a stressed situation or loan becoming Non-performing. Documentation process failure ultimately results in Credit failure.

The surge of shipbuilding: steel wears gold's glitters

Md. Shaheenul Islam
AVP, Business Operations

It is not long back; Bangladesh, the once throbbing hub of ships and sails lost its pride to ship graveyards globally branded infamous for environment hazards. Every year, scores of container vessels, aging or expired would enter the southern coast of Bangladesh, which used to terminate the journey of seafaring vessels, breaking them into pieces. From inside the country and across the world, peace loving media and dutiful citizens unleashed huge criticism for violating human rights and socio-environment issues in the ship-breaking industry of Bangladesh.

As time passed by, the toxic fruits of ship-breaking gradually dissolved in the growing economic shines of the country. Then came a new turn to swing into action. Bangladesh, committed more-than-earlier to sustainability and enduring economic growth has been able to break out of this gloomy identity. At the quickest pace, just within the last six years, the country made a strong footing as a successful shipbuilding nation credited with exporting small- and medium-sized ships to the highly competitive European market.

Recalling a golden age

In Bangladesh, ship-building has been a century-old practice and of course, one of the earliest industries developed in Bengal that expanded over the oceans from the Indian sea to the Persian Gulf. During the middle of the 15th century, according to the European traveller Caesar Frederick Chittagong was the centre of building ocean-going vessels. That time around, many countries of Asia and Europe would regularly buy ships built in Chittagong. It has been said that Ibn-e-Batuta went back in a wooden ship built in a dock located at Sonargaon, Dhaka. In the 17th century AD, a fleet of ships of the Sultan of Turkey was built in Chittagong. The Royal Navy had many warships built in Chittagong, some of which were also used in the Battle of Trafalgar in 1805. During the first half of the 19th Century, the shipyards in Chittagong built ships that could carry up to 1000 DWT (deadweight tonnage). However, this glory faded with time.

The lost pride comes home with the audacity of hope

Fortunately, the pride of shipbuilding has once again been revived with the initiative of a few businessmen in the country. Yet it is a small beginning when compared to giant shipbuilding economies such as China, Japan and South Korea. But industry leaders say that Bangladesh will continue to grow because it has several advantages over its rivals. Bangladesh has over 100 shipbuilding yards, with most of them serving the domestic market. The brightest side we possess is, we have plenty of skilled manpower and our labour cost is cheaper than many other countries. On average, ship owners can save at least 15 percent of their production cost if they choose to build their ships in Bangladesh, experts say. Just like old times, since 2008, Bangladeshi yards have been manufacturing and exporting ferries, cargo vessels and multi-purpose ocean liners, worth more than $500 million. The vessels were built for countries like Denmark, Germany and Finland. Currently, Chittagong is playing a crucial role in shipbuilding. The shore of the River Karnaphuli has become home to new ships that will soon ply the sea.

The pioneers, the players and their products

At the start of the new millennium, Bangladesh already had a basic shipyard industry as well as availability of skilled workers. According to 'Bangladesh: Diagnostic Trade Integration Study' of the World Bank (2013), the export of commercial ships from Bangladesh in modern times started in 2005. The exporter was Ananda Shipyard and Shipways Limited of Dhaka, which is currently the second largest shipyard of the country.
Following the footsteps of Ananda, the Chittagong-based Western Marine Shipyard started manufacturing ships by building on its experience in ship repair and maintenance of classed vessels. It entered the shipbuilding industry in 2008 and the first orders from Europe arrived very soon. More than 20 vessels were delivered by Ananda and Western Shipyards between 2008 and 2012 with an export value of over $100 million. Western Marine has recently received a go-ahead from the stock-market regulator to raise Tk 157.5 crore. The company will float 4.50 crore ordinary shares worth Tk 10 each with Tk 25 as premium. The shipbuilder will use the fund from the initial public offering to develop infrastructure and repay bank loans, according to Bangladesh Securities and Exchange Commission.

Although Bangladeshi firms demonstrated the capacity to build different categories of vessels, only multipurpose vessels (MPV) and ferries were exported during the period (World Bank, 2013). The other shipyards

which have the capacity for producing exportable ships include Highspeed Shipbuilding & Engineering, Khan Brothers, Khulna Shipyard, Meghna Shipyard and Narayanganj Shipbuilders. The rest lack the infrastructure, reputation and experience to enter the export market.

Made-in-Bangladesh vessels include Multipurpose Vessel (MPV), Container Vessel, Bulk-carrier, Tanker, Passenger Ferries and Tugs, of whom only MPVs and ferries are worth exporting till now. Ananda Shipyard and Slipways is currently handling work orders worth Tk 800 Crores received in the past one year from the domestic market, says its executive director. Orders for eight vessels worth about Tk 700 crore were cancelled because of recession in the last three years, according to Ananda. Most foreign buyers are once again displaying interest to resume their orders, said the company sources adding that Ananda is not taking fresh orders from foreign companies as its shipyard has no free space.

Building capacity to bridge the gap

The steep upturn of the shipping cycle with increasing freight demand and subsequent increase in orders at shipyards across the world during 2008-2009 stretched the capacity of Bangladesh yards both on the commercial and technical sides. Manufacture of export-oriented classed ships adhered to standards which are different from domestic shipbuilding. This skill-up was minimized especially through transfer of knowledge from Bangladeshis who had worked in Singapore and Dubai. Technical assistance in the shipbuilding process was largely provided by the owners, which included training programmes at the yards, hands-on teaching by classification societies and advices from overseas experts. Previous experience with classed vessels through repair and maintenance jobs was the basic enabler, as shipyards were already familiar with many regulations and standards for quality. After the resolution of a dispute with India over the Bay of Bengal, the shipbuilding industry now looks to brighter days ahead as research vessels will be needed to assess ocean resources.

There are 40,000 oceangoing cargo ships in the world fleet. Ships are designed to last 30 years, so 3.3% of this fleet should be replaced every year. In practice, ships last longer than 30 years and only 2.0% of the fleet is replaced every year. To keep pace with world trade, the capacity of the cargo fleet needs to grow by 2.8% a year. Basically, ships get bigger and more efficient and only 2.0% of the fleet is added every year. The number of skilled and semi-skilled workers employed in the shipbuilding industry of Bangladesh is estimated to be between 100,000 and 150,000. In contrast, China employed 400,000 people in 2,000 shipyards and related industries with a production volume of 14 million Gross Ton in 2009, while Vietnam employed 110,000 people for a production of 600,000 GT in 2010. Bangladeshi exporters have relied strongly on the services of foreign experts and local staff with international experience, especially transfer of knowledge.

Despite significant progress in the past decade, shipbuilding industry in Bangladesh is yet to pass the stage of infancy. Output in most Bangladeshi shipyards is still directed towards the domestic market. Total output is estimated at about 250,000 Gross Tons (GT) per year, of which 185,000 GT are for the local market, according to statistics of Department of Shipping, 2011. Around 200 yards of which 124 are registered exist in Bangladesh. The yards which could catch up with the stature of manufacturing export quality vessels of up to 7,000 dwt are only two in number, namely Western Marine and Ananda Shipyard.

Headways versus headwinds

Despite the industry's strengths and promises for the future, it is also facing some external headwinds. The economic crisis in the Eurozone has had an impact on the shipbuilding industry of Bangladesh. Presently, our builders have 17 shipbuilding purchases, worth more than 200 million Euros, listed in their order book. But as the European buyers were suffering from scarcity of bank finance due to economic shock, ship makers here had to bear the brunt of it. The industry had to go through rough times as most of the foreign orders were halted due to global economic slowdown. Orders for eight vessels worth about Tk 700 crore were cancelled in the last three years, according to Ananda. However, times have changed and fortunately, we are receiving more and more orders from Europe, says an industry expert. With the Bangladeshi economy growing at about 6 percent a year, new, smaller ships and cargo carriers are needed to transport goods and other raw materials from the Chittagong port to different parts of the

country. Thus, the domestic market has helped the shipbuilding industry to overcome the global recession. However, with powerful economies like Germany, the Netherlands, Norway and others gradually coming out of recession, local shipbuilders are finally being able to eye good prospects for the revival of the industry in the near future. The ship building sector has the potential to expand the country's export, enabling entrepreneurs to expect a notable share of the $400 billion global shipbuilding business. Consequently, the onrush of shipbuilding activities is fetching much needed foreign currency while also generating employment opportunities within the country. Export of ships rose 7.35 percent year-on-year to Tk 481 crore in fiscal 2013-14, according to Export Promotion Bureau

Competitive edge

Cheap labour and market access: From industry analysts' point of view, shipbuilding is a labour intensive industry. Bangladeshi labourers are still cheaper than Chinese, Korean and Japanese labourers. Cost-effective human resources, simplified import facilities for raw materials and duty-free market accesses to potential countries have encouraged Bangladesh to forge ahead with shipbuilding initiatives and export business. As the global demand for ships is likely to go up from 2015 after a period of stagnation, this is the time for Bangladeshi Entrepreneurs to take preparations for meeting a surge in global need for small- and medium-size ships. According to the World Shipbuilding Statistics, at present nearly 90 percent of the ships are made by China, Korea and Japan. It is believed that since Bangladesh is not capable of making very large ships, it will have to target small and medium size shipbuilding, which has a yearly market of around $200 billion.

World's ships about to end economic life: The pundits of this industry are hopeful that since the global economy is on its way to recovery, the shipbuilding industry too can sense tremendous potential. Experts contend that as more than 50 percent of the world's ships are over 20 years old and need to be replaced, Bangladesh can have a significant role to play in ensuring their replacement.

Moreover, since the shipbuilding giants, Japan, South Korea and China are busy building big, specialised and hi-tech ships, the shipbuilding industry of Bangladesh can be expected to construct smaller vessels and occupy an exclusive position in this area.

Scopes for industry integration: The value chain for forward and backward linkages with the local shipbuilding industry has much potential for broadening. When produced for the domestic market, the share of value creation besides actual building goes up to 25 percent. But this share is only 1.0 percent for exported ships. The main reason why linkage industries have not grown are comparatively small size of the shipbuilding market and dearth of skills and technology. There are potential areas where linkage industries can be developed with the help of foreign manufactures.

Factors inhibiting the progress

A play of mammoth capital and cost: As the shipbuilding industry requires huge capital, Bangladeshi shipbuilders need such financing and that is a major disadvantage for Bangladeshi shipbuilders. Bangladeshi shipbuilders can get loans at an interest rate of 15 to 16 percent whereas their Chinese counterparts can acquire loans at an average of 6 percent interest rate. Besides, the shipyards bear the cost for import L/Cs and bank guarantees. The administrative and managerial efforts for these are significant for both suppliers and yards and affect both export-oriented and domestic segments of shipbuilding. It drives up costs significantly for domestic vessels and reduces the comparative advantage generated by low labour costs elswhere

A narrow circle of infrastructure: The industry insiders report scarcity and high price of suitable sites as major hurdles to developing large shipbuilding yards. Insufficient linkages with roads, railways and power are also major constraints for existing and potential shipyard sites. The yards which export ships possess equipment and shops for computer numerical control (CNC), machining, bending, welding, shot blasting and heavy lifting building ships of up to only 15,000 deadweight tonnage (dwt) is possible now due to the current space constraints in the shipyards.

Absence strategic plan: There is an absence of workable strategic plan in the country relying on stable domestic demand while improving quality and productivity for exports is the most viable strategy for the shipbuilding industry of Bangladesh. Based on the experiences of China and Vietnam as well as other countries, there are five key success factors applicable to shipbuilding industry here. These are:

i. grow the industry during periods of increasing demand
ii. ensure government support
iii. attract FDI and foster joint ventures
iv. broaden the domestic supply industry
v. provide low-cost skilled workforce and proper yard management

Besides, there exists no comprehensive master plan for the shipbuilding industry in Bangladesh, which needs to be prepared on an urgent basis.

Sharpening up the workforce to take on the challenge

Promoting career opportunities through industry linkages for those who complete technical and vocational education is now a reality in Bangladesh. The local shipbuilding industry is thriving with strong growth potential. Currently, the demand for technically skilled workers in Shipbuilding industry is high. The industry is likely to become a major employment provider for the technically skilled workers in Bangladesh. Not surprising, that 55 of the 72 welders who had completed their training from Khulna Shipyard Technical Training Centre (KSYTTC) were absorbed by a private shipbuilding and light engineering firm, Khulna Shipyard Limited (KSY) in August 2014. The same company will hire 30 more in the coming month. The Bangladesh Government is supporting the KSYTTC and other technical and vocational education and training (TVET) institutions through Skills and Training Enhancement Project (STEP). Started in 2009, the STEP project is helping to improve the training quality and the employability of trainees in around 150 public and private technical and vocational education and training institutions, including short course providers like KSYTTC. The project has been an important part of the efforts of the Government of Bangladesh to improve technical and vocational education and training, with about USD $100 million in financial assistance from the World Bank and the Canadian Government.

Need of policy measures and oversight mechanism

The following measures by the government can lead to improved infrastructure and quality in shipbuilding:

a. regulate the number and quality of new shipyards through issuance of 'no objection certificates'
b. formulate and implement shipbuilding policies
c. evaluate shipyards every five years
d. build oversight mechanism on safe work environment and health issues in the interest of workforce
e. introduce measures to prevent environment pollution
f. facilitate connections of electricity, water and gas
g. register all shipyards
h. assist in the establishment of ship design firms and backward/ forward linkages
i. cap the rate of interest below 10 percent to motivate growth of the sector
j. implement an Export Development Fund (EDF) to channel low cost fund to this sector with low cost funds in parallel to the garment sector

Industry potentials

- Demand for additional tonnages from the growing domestic and coastal trades represents scopes for the shipyards to deepen their experience with classed vessels and broaden capacity.
- Through an increase in workload and improved capacity fostered by higher technical inputs, the industry can benefit a lot.
- Expansion of maintenance and repair services will also create opportunities as these are far more labour-intensive than building new ships.
- Rising traffic comprising larger and smaller vessels across inland waters is adding up benefit each passing day.

Closing remarks

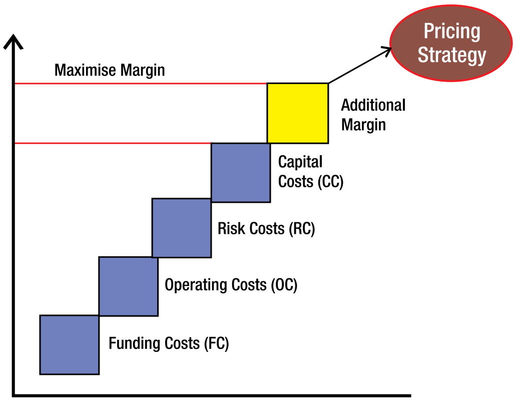
The main strength of the Bangladeshi shipbuilding industry is its long history of maritime activity, the presence of geographical advantages, a low-cost shipbuilding workforce and industry-related educational and training institutes. Significant government focus for granting loans can increase the private initiatives to set up new industries that will contribute to the country's economic growth. The question to ponder is how Bangladesh can further build up its capacity, broaden the shipbuilding value chain and establish the shipbuilding industry as an important contributor to gross domestic product (GDP) and exports. Stable and growing domestic demand would undoubtedly help the sector upgrade its productivity and quality. With improved competitiveness in expanding global market, we can hope to increase the volume and quality of our ships in the long run. If the government wants to reap maximum benefits from the ocean economy, the work of gas exploration should be given to local companies. We have the capacity and expertise to build oil rigs and floating production storage and offloading vessels that are used to explore underwater gas and oil fields.

Risk-based Loan Pricing

Adnaan Jamilee
Principal Officer, Credit
Dhaka Bank Ltd., Dhanmondi Branch

All over the world, risk-based loan pricing (RLP) is a widely-used mechanism to assess borrower's creditworthiness and to provide differential loan offerings. In the simplest form, risk-based loan pricing allows the higher creditworthy borrowers to get the lower interest rates and fees and vice-versa. Typically, banks or financial institutions (FIs) need three basic components to establish risk-based pricing strategy – credit quality, profitability and growth. Risk-based loan pricing is the alignment of expected default risk of a particular borrower and the loan offerings and covenants provided to that borrower. Risk-based pricing builds on the net interest margins calculations by adding to the cost of funds (cost of transactions and account maintenance, cost of expected loss and of capital for the unexpected loss due to the risk of default). In other ways, risk-based pricing can be determined through deriving cost of fund, operating costs, risk costs, capital costs and additional margin or expected return on equity.

In USA, until the mid-1960s, companies relied on loan officers to use their individual judgments in determining creditworthiness and one-size-fits-all interest rates that treated low-risk borrowers the same as higher-risk ones. But this couldn't scale with a growing economy of consumers hungry to buy new cars and household goods on credit or expand their businesses. In response, innovators began collecting credit and financial data and developing statistical models to determine individuals' levels of risk. These credit scores allowed consumer lenders to tailor lending prices (interest rates) to individual risk profiles. In 1988 credit cards issuers in USA started using risk-based loan pricing, auto-lenders in 1992 and mortgage lenders in the mid 1990s.



The major advantages of risk-based loan pricing are:

- Compared to flat-rate pricing adapted by most banks and FIs, RLP allows a fair borrower to characterized as low risk and let them avoid costs imposed by higher-risk borrowers who have more difficulty in making their payments. Because of risk-based pricing, consumers' access to credit and financial services doesn't depend on social connections or the reputation of their family's name. Instead, objective data of an individual's financial situation and payment history expressed as a credit score is used to determine a consumer's credit risk and interest rate.

- Risk-based pricing expands access to credit for previously credit-constrained populations, as creditors are better able to evaluate credit risk, and, by pricing it appropriately, offer credit to higher-risk individuals. Banks and FIs can tailor their prices and offerings to reach to benefit the low risk borrowers.

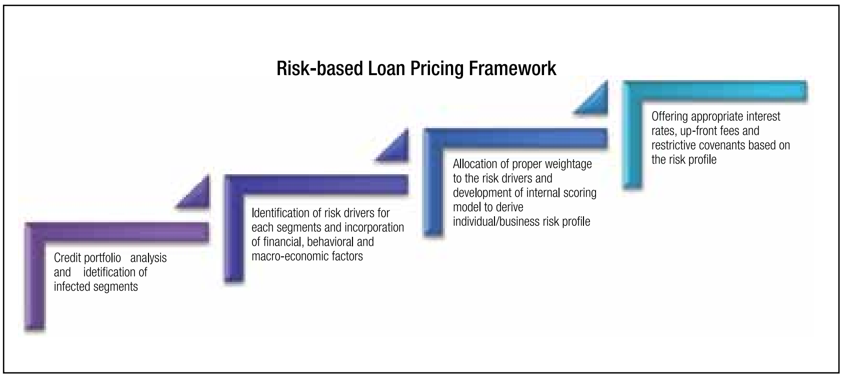
- Improved data analysis, statistical modeling, and risk-based pricing become a competitive edge.

- In the broadest sense, by adapting risk-based loan pricing model would enable the loanable funds in the economy to be allocated among the deficit group in efficient manner.
- It enables the banks and FIs to know early enough what kind of price/fees will satisfy its risk/return preferences. It also enhances shareholders value by ensuring that credit risk associated with the transaction is appropriately measured and priced

Most of the banks and FIs follow flat-rate pricing method where all the customers receive the same rate of interest irrespective of their creditworthiness. Due to lack of technology, superior MIS and database management, banks apply flat-rate pricing to "keep it simple". The inherent problem with this method is the low risk or highly creditable customers are being underrated and pays as the same as the high risk borrowers. Hence, the favorable opportunities are being offset by probable harbingers of adverse selection and moral hazard.

So what do the banks and FIs need to do to apply RLP? First off, as pricing models are dynamic and needs to be updated episodically, a robust database to record, assess and monitor the individual client's repayment pattern and history. The bank must be able to assess how they predicted the loan would perform against how the loan actually performed. Secondly, introducing an internal credit scoring model to assess retail, SME and corporate clients to determine the individual offerings is imperative. Financial, behavioral, macroeconomic and sector exposures are to be considered as parameters to develop the scoring model. Analyzing the infection ratios of different segments or sectors where the banks have faced unfavorable recovery would help to build the categories of the clients. Banks and FIs may use a tier- or segment-based pricing framework that evaluated a category of exposures rather than the individual profile of an exposure. FICO, VantageScore, PLUS Score, Trans Risk, Equifax etc. are the widely-used credit score models in the world.

Segmentation and risk parameters identification are the keyhole issues that can cause problems with a risk-based pricing process. Allocating additional cost of lending to the wrong segment or industries or less-affected areas of portfolio may result in a paradox; or setting the risk parameters in an improper manner while underestimating the risky ventures would drive the portfolio risk and differ significantly from the original forecast. Establishing an accurate RLP framework, the policy-makers, risk analysts, MIS team and the business units' managers need to be amalgamated. It is important to gain acceptances from business units (BUs) to identify the affected ventures or segments of the portfolio to determine the sales strategies of the organization. There might be some exceptions regarding the



"bad investments" which would need to be tracked and negotiated with the BUs to monitor the performance over time. If a risk-based price is right but the BUs have created exceptions to get lower rates for customers, the risk-adjusted return for that BUs will be lower than expected because the spread is too low for the customer risk profile. RLP framework allows the Business units (BUs) to choose between making 10 deals with a 14 percent risk-adjusted return or 15 deals with a 13 percent risk-adjusted return. On the other hand, exceptions allow bank to additional risk exposures. Performance of the exceptions indicates that the bank's sales instincts are on the mark or need to be adjusted.

In the era of financial uncertainty and moral unpredictability, risk-based loan pricing (RLP) methodology can lead the banks and FIs from risk-avoidance mindset to risk-return mindset. To generate ample level of profit and gain capital adequacy, these organizations can start differential price offerings of credit products to stay top of the competition and deliver adequate returns to the shareholders. In the contrast, inappropriate pricing could create risk-return imbalances and result in lost business opportunities and adverse loan selection. Risk-based loan pricing is the cornerstone to reap the benefits growth potentials in volatile markets and gloomy economic climate through managing the loanable funds in an effectual and meaningful manner.

Improving Management Reporting as part of corporate and IT governance

Mahamudunnabi, ACA
SAVP & In-charge of Audit Unit,
Internal Control & Compliance Division

In 1992, a committee set up by the Financial Reporting Council, the London Stock Exchange and the UK accountancy profession, under the chairmanship of Sir Adrian Cadbury, made recommendations on good practice covering the responsibilities of executive and non-executive directors in reviewing and reporting information to shareholders. It recommended a code of best practice based on openness, integrity and accountability to improve standards of corporate behavior, strengthening controls over businesses and their public accountability, while retaining the essential spirit of enterprise.

It identified board responsibilities for governance, including setting strategic aims, providing leadership, supervising management and reporting to shareholders on their stewardship. This marked the start of the international movement toward better corporate governance.

Ten years later, in January 2002, the US Congress passed the Sarbanes-Oxley Act in response to the Enron, WorldCom and other financial scandals that had emerged. In reality, these scandals were corporate governance failures, not just financial scandals. Subsequent trials in the US have found a number of CEOs, CFOs and fellow executives who aided or abetted them guilty of a range of offences. Investors, employees and business organizations were among those that lost money. A far wider group of stakeholders—including the Securities and Exchange Commission (SEC), audit firms and investment advisors—lost credibility based on the systemic failures revealed.

The elements of corporate governance are not directly covered by financial reporting include company character and reputation; quality management to achieve corporate integrity; customer goodwill; brand positioning; competitive ability; clear strategic objectives; effective management of change; simple organization and harmonization with corporate goals; committed people sharing personal, team and corporate goals; openness and trust inwardly and to customers and outside parties; and acceptance of broad responsibilities to shareholders, employees, customers, suppliers, governments and society. These are all about honesty and integrity but are not covered by contemporary accounting frameworks (International Financial Reporting Standards [IFRS] and others), nor by the directions taken by corporate regulators in their quest for legal form compliance as opposed to the substance of corporate integrity.

Stronger Governance a Critical Priority

So, there is a bigger shift coming in corporate governance reporting than Sarbanes-Oxley section 404. The first part is section 302, which requires the CEO and CFO to certify that they have confirmed within the last 90 days that the internal controls within their organization are operating effectively. Given the internal control deficiencies reported from the section 404 process around the world, and the reportedly poor condition of managerial monitoring systems to reliably confirm that internal controls are operating effectively every day, such certifications might be considered high risk to those making them. The assurance process from external auditors is not likely to provide much comfort to CEOs and CFOs if balance sheet substantiation is still being used rather than an interactive monitoring of controls throughout the accounting period. New audit methodologies are urgently needed here. But bigger still, beyond section 302, lays the need for some real corporate governance reporting, covering the fuller span of corporate activities and the integrity with which these are performed.

This article builds on both management and audit committee experience to propose that a picture is indeed worth a thousand words. Broader spectrum reporting is needed for better governance, but only if it is succinct and absorbable in colored pictures. Getting executives or directors to discuss complex reports has caused them to focus on colored overview charts of the context and the issues at hand—not on the mass of text backing up the diagrams. This article continues with selected examples of what can be done and raises some of the broader spectrum of possibilities for managers and those providing governance assurances.

Sources of Issues

What should management reporting cover if the financial part comprises only 20 percent? A start can be made by considering an organization from the CEO's perspective—the sources of issues that come across his/her desk each day and each year.

Sources of issues on the CEO's desk will include some or all of the following:

- Business operations—Domain of the chief operating officer (COO)
- Strategies and their implementation and progress—Domain of the CEO and corporate strategy directors
- Board strategic input and feedback—A primary role for the CEO
- Risk assessment and management—Role and responsibility of all executives
- Solvency and funding levels—Covered in treasury reporting, financial accounting framework reporting, cash flow statements; the domain of the CFO or the corporate treasurer
- Sales and marketing activities that bring in business—Every business unit head's responsibility
- Systems—Responsibility of each business unit head in conjunction with the CIO and the chief knowledge officer (CKO)
- Compliance with legislation—Responsibility of CEO, CFO and each business unit head; monitored by Internal Control and Compliance Division.

- Internal controls in practice—Responsibility of each executive; the CEO and CFO take on personal responsibility for their colleagues' assurances on internal controls functioning (section 302)

Looking at each source of issues in turn, there is a range of possible management reports that can provide better governance if management has confidence in what these reports contain.

Business Operations

Business operations are usually seen by accountants in the context of the organization being a 'going concern'. However the COO has a different perspective: How do we keep our business processes operating every day? Are the infrastructure and systems robust and reliable? Are the supply chains in and working? Do I have the staff I need? Are we achieving the throughput I am required to deliver? Is inventory moving fast enough? Is further capital investment justified? What are the implications on operations of new strategic initiatives? Am I getting meaningful, reliable reports about all these issues?

Strategies

This comprises the implementation and progress of strategies. Are the management reports in place to tell management the actions needed convert strategies to reality? Can these reports be relied upon, and can they be verified by assurance providers? Can management confidently share these management reports with the board?

Board Strategic Input and Feedback

Having decided on organization strategies, how do board members know that these strategies are being implemented in practice? Does the organization have sound project direction and management in place, and does it have the resources needed to convert them to reality on the ground? Are the CEO and his/her management team committed to delivering the strategic outcomes to the board?

Risk Assessment and Management

Besides having a documented risk assessment covering all entity activities and a documented listing of all the management actions proposed to manage the identified risk, does the entity have reports from monitoring systems to tell how each activity is operating 24 hours a day, 365 days a year? Levels of risk management vary by entity; for example, banks need interactive monitoring for business risks, and manufacturing may require similar levels of operating process monitoring. There is also a direct interest as to whether business unit heads own risks within their area of responsibility.

Solvency and Funding Levels

Covered in treasury reporting, financial accounting framework reporting and cash flow statements, this is the domain of the CFO or the corporate treasurer. Useful management reports include cash flow and solvency levels, financial and solvency projections, and comparative costs of sources of funds. These are useful management reports and are not related to exhaustive compliance data required elsewhere in annual reports.

Sales and Marketing Activities

Management reports on the progress of marketing initiatives and sales campaigns are important. Analytical reports on market segmentation and penetration are important to ensure that sales and marketing are correctly focused to bring in business and provide services effectively.

Systems

These include both the system software, which allows the entity infrastructure to function, and the application software, which incorporates most of the entity's business process knowledge with which its activities operate. Management reports as to system uptime are of vital importance to all activities, but particularly to the operations function. Similarly, reports on the condition and reliability of application software are vital to CIOs and to business unit heads. Systems that do not work or are unreliable place the whole entity at risk. Boards have a direct interest in what is being done to build new system functionality or replace obsolete or unreliable software.

Internal Controls in Practice

Management reporting to provide constant assurance that internal control is in place and that they are functioning effectively may be in place in well-governed businesses. The monitoring of internal controls is a Sarbanes-Oxley section 302 requirement, but an organization will get more value if Sarbanes-Oxley compliance is a subsidiary benefit of activities normally carried out to run a good entity. In real life, information as to how it is put together would be sought from business unit heads as well as from the internal audit function.

Conclusion

Effective management reporting allows organization managers at all levels to govern the entity well. Managers who 'own' their management reports and action them well are able to provide justified assurance to CEOs and CFOs on the condition of the enterprise. The reverse—unsuitable or irrelevant management reporting—poses the question as to how the managers manage if they are wholly or partly uninformed. The same question can be directed to the auditing profession: How can one provide believable assurance if one is wholly or partly uninformed?

The answer lies in sound governance being based on management reporting with the necessary integrity and scope of coverage. This article has referred to only some of the options for meaningful management reporting; there is much more that can be considered under each of the categories listed, as they are made relevant to the organization in question.

NEW JOINING & ASSIGNMENT

Mr. Khan Shahadat Hossain
Deputy Managing Director
Effective Date: November 02, 2014

Mr. A K M Shahnawaj
SEVP, Manager Local Office
Effective Date: October 26, 2014

Mr. A. M. M. Moyen Uddin
SEVP, Head IT Division
Effective Date: April 15, 2015

Mr. S. M. Abdullah Hil Kafi
EVP, Head Internal Control &
Compliance Division, HO
Effective Date: April 05, 2015

Mr. Md. Wajed Ali
FVP & Manager In-charge
Faridpur Branch, Faridpur,
Effective Date: September 4, 2014

Mr. Syed Mohammed Tanzim Hussain
SAVP, CPC-Trade Operations, Chittagong
Effective Date: August 31, 2014

Mr. Md. Atique-Ul-Islam
SAVP & Manager In-charge
Pabna Branch, Pabna
Effective Date: September 11, 2014

Mr. Md. Rafikuzzaman
SAVP & Manager In-Charge
Konabari Branch,Gazipur
Effective Date: September 04, 2014

Mr. Khurshid Alam
SAVP, Jubilee Road Branch,
Chittagong
Effective Date: August 14, 2014

TRANSFER & ASSIGNMENT

Mr. Sujit Kumar Podder
SAVP & In-charge
SME Service Centre: CEPZ, Chittagong
Effective Date: August 18, 2014

Mr. Mohammad Zahangir Alam
AVP & Manager In-charge
Chatmohor Branch, Pabna
Effective Date: August 06, 2014

NEW BORN

Wafiah Tayabah Muhat
Parents: Mr. Main Uddin Khondaker Branch: Gohira, Raozan, Chittagong Designation: Officer - Cash & Ms. Mariyom Akter Mukta
Date of Birth: September 15, 2014

Tasnia Kefayet
Parents: Md. Rasel Mamun Officer , CDA Avenue Branch & Mrs.Tausifa Nasrin Chowdhury
Date Of Birth : July 20, 2014

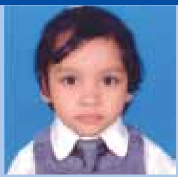
Taseen Araaf
Parents: Muhammad Nazrul Islam, Senior Officer & Cash In-charge, Hathazari Branch,Chittagong. Arifa Sultana (Any)
Date of Birth: August 07, 2014

Sarita Sharif Ayera
Parents : Md. Shariful Islam, SPO & Manager Operations, Dhaka Bank Ltd, Chandaikona Branch, Sirajganj & Salma Surovy
Date of Birth : September 21, 2014

Farhan Ahmad Wafi
Parents: Md. Jalaluddin Boro Bhuiyan, Officer, Dhaka Bank Ltd, Madina Market Branch, Sylhet & Farhana Akther Sonia.
Date of Birth: August 08, 2014

FIRST DAY AT SCHOOL

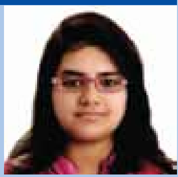
Sanika Umaiza Saleheen
Class: Play Group (Red)
School: Sunbeams School
Parents: Mother: Humaira Halim AVP, Dhanmondi Model Branch Father: Sheikh Asfaq Us Saleheen Assistant Manager **Motijheel Islamic Banking Branch Bank Alfalah Limited**
First Day at school: August 09, 2014



Manha Rahman
Class : Play Group
School: Cordova International School
Parents:
Mr. Muhammed Masudur Rahman, AVP, Internal Control & Compliance Division, Head Office And Mrs. Samia Shafrin Haque
First Day at School: January 15, 2015

ACADEMIC ACHIEVEMENT

Tahir Zaman Umar
Exam: PSC 2014
School: Motijheel Ideal School & College Dhaka
Result: GPA- 5(golden) A+
Parents: Sonia Basher, AVP Gulshan Branch, Dhaka Bank Ltd. & MD. Zaman Mollah A.G.M. Sonali Bank Limited.



Huma Nosaiba Zaman
Exam: JSC 2014
School: Viqarunnisa Noon School & College Dhaka
Result : GPA- 5(golden) A+
Parents: Sonia Basher, AVP Gulshan Branch, Dhaka Bank Ltd. & MD. Zaman Mollah A.G.M. Sonali Bank Limited.

ATTENDING THE FOOD GLOBAL SUMMIT

Thought For Food, Global Summit arranged a global movement comprised over 3000 top caliber university students, mentors and ambassadors from more than 50 countries.
Rahsin Jamil with his team "Butter People" composed of five students were invited to participate as VIP participants as young innovators and to participate in training and discussion workshops from February 12 through 15, 2015 in order to understand the context and complexities of the world's food securities challenges in Lisbon, Portugal.
It may be mentioned that Rahsin & his team travelled Lisbon, Portugal & Zurich, Switzerland during this journey. Rahsin completed his BBA Program from IBA, Dhaka University and meantime he joined Airtel Bangladesh Limited as YOUNG LEADER, Level – Executive. He is the S/O Ms. Dilruba Ahmed & Mr. M A Motaleb, FVP of Dhaka Bank Training Institute.

MATRIMONY

Bridegroom: Md. Asadus Sadeque Talukder, Senior Principal Officer, Research & Development Unit, Dhaka Bank Ltd
Bride: Ms Faria Feroz, Senior Officer, Board Division, Dhaka Bank Ltd
Date of wedding: Sept 12 , 2014

Bridegroom : Shamim Hasan Jupiter, Officer (Cash) Hathazari, Chittagong
Bride : Hazera Khatun Hira,Assistant Teacher Pabna Pre Cadet School, Pabna
Date of Wedding : October 10, 2014

Bridegroom: Tapas Kumar Shaha, Trainee Officer, Dhaka Bank Ltd., Narayangonj branch
Bride: Mame Saha
Date of Wedding : August 14, 2014

A handful of product choices for retail customers