

**INTERNSHIP  
REPORT  
ON  
LOAN  
ADVANCEMENT  
PROCEDURE  
OF  
IFIC BANK  
LIMITED**



**LOAN ADVANCEMENT PROCEDURE OF IFIC BANK LTD.**

**SUBMITTED TO**

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**LETTER OF TRANSMITTAL**

17<sup>TH</sup> DECEMBER, 2012

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Course Instructor, BBS

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Dear Sir,

Here I present my Internship report titled “Loan And Advance Operation of IFIC Bank Limited” with due gratitude and appreciation. As per partial fulfillment of the requirements for the BBA Degree, I have completed the internship from IFIC Bank Limited, Federation Branch, Motijheel, Dhaka.

The internship program has given me the opportunity to learn about different aspects of this well reputed organization. Before facing the corporate world, I have gathered general idea about the organization culture and activities.

However, I have gathered all the facts that I could within this short period and have tried my level best to exert all the things as much presentable as possible.

Yours faithfully,

.....

Mst. Nazmun Farzana

ID: 09104103

## **Acknowledgement**

At the beginning, I would like to express my sincere gratitude to Almighty, the most merciful and beneficial for empowering me to prepare the report within the scheduled time.

I also want to thank especially to my internship supervisor Mahmudul Haq Sir for his inspiring guidelines, valuable suggestion, constructive criticism and constant help throughout the work and in preparation of this report

I also express my warm gratitude and cordial thanks to the management and officials of IFIC Bank Limited, Federation Branch who have given me the opportunity to work with them and helped a lot by providing the information and enabling me to prepare this report. I have received their generous help and support.

I would like to take the opportunity to express my wholehearted gratitude to my fellow friends, near and dear ones who offered encouragement, information, inspiration and assistance during the course of constructing this report.

## Table of Contents

<b>Serial No.</b>	<b>Contents</b>	<b>Page no.</b>
A	Cover page	-
B	Letter of Transmittal	-
C	Acknowledgement	-
D	Table of contents	-
E	Executive Summary	1
1.	<b>Chapter 1: Introduction</b>	<b>2-4</b>
	1.1 Introduction	3
	1.2 Objective of the report	3
	1.3 Methodology of the study	4
	1.4 Limitations of the study	4
2.	<b>Chapter 2: Company Background</b>	<b>5-12</b>
	2.1 About IFIC bank	6
	2.2 Bank's Mission	6
	2.3 Milestones	7
	2.4 Credit Rating	8
	2.5 Management Structure	8
	2.6 Organization Hierarchy	9
	2.7 Organogram	10
	2.8 IFIC at a glance	11
	2.9 Main services of IFIC bank	11
3.	<b>Chapter 3: Job Description</b>	<b>13-14</b>
	3.1 Description of the job	14
	3.2 Specific responsibilities	14
	3.3 Different aspects of job performance	14
	3.4 Critical observation	14
4.	<b>Chapter 4: Description of the report</b>	<b>15-57</b>
	4.1 General Banking	16-23
	4.2 Credit Department	23
	4.2.1 Lending principles of IFIC Bank	25
	4.2.2 Sound Principles of lending	26
	4.2.3 Credit department function	28
	4.2.4 Direct Facilities (Funded)	29-36
	4.2.5 Indirect facilities	36
	4.2.6 Business analysis	38
	4.2.7 Procedure for giving advance	39
	4.2.8 Credit Assessment	46
	4.2.9 Feasibility report	46
	4.2.10 Credit line proposal	47
	4.2.11 Project Appraisal	47
	4.2.12 Risk Management	51
	4.2.13 Loan Classification	52
	4.2.14 Legal Framework for loan recovery	54
	4.3 Foreign Exchange Department	55-57
5.	<b>Chapter 5: Performance and Ratio Analysis</b>	<b>58-61</b>
6.	<b>Chapter 6: Findings Recommendations and Conclusion</b>	<b>62-67</b>
7	<b>Chapter 7: Appendix, Reference and Bibliography</b>	<b>68-69</b>

## **Executive Summary:**

Banking system of Bangladesh has through three phases of development Nationalization, Privatization and lastly Financial Sector Reform. IFIC Bank Limited has started its journey as a private commercial bank on June 24, 1983.

The whole working process of Federation Branch, IFIC Bank is divided into three sections-1) General Banking Section 2) Credit Section 3) Foreign Exchange Section. I was assigned on credit Sections for three (03) months. So my report is based on Credit, its risk and assessment system.

General banking is the starting point of all the operations. It is the department, which provides day-to-day services to the customers. It opens new accounts, remit funds, issue bank drafts and pay orders etc. provide customer through quick and sincere service is the goal of the general banking department.

Foreign exchange department plays significant roles through providing different sorts of L/C services like L/C opening, quicker delivery of goods L/C through SWIFT to the advising bank.

Bank credit is an important means for bringing about economic development in a country. IFIC Bank Limited, being one of the private commercial bank of the country, has some prejudice to finance directly on priority basis to agriculture, industry and commerce sector. Hence, it is very clear that IFIC Bank plays an important role to move the economic wheel of the country.

# CHAPTER 1: **INTRODUCTION**

## **1.1 INTRODUCTION:**

The financial system of Bangladesh consists of Bangladesh Bank (BB) as the central banks, 4nationalized commercial banks (NCB), 5 government owned specialized banks, 30 domestic private banks, 10 foreign banks and 28 non-bank financial institutions. The Financial system also embraces insurance companies, stock exchanges and co-operative banks. In our country Bangladesh Bank (BB), as the central bank, has legal authority to supervise and regulate all the banks. It performs the traditional central banking roles of note issuance and of being banker to the government and banks. Commercial banks and domestic private banks are the profit-making institution that holds the deposits of individuals & business in checking & savings accounts and then uses these funds to make loans. Both general public and the government are dependent on the services of banks as the financial intermediary. We have chosen IFIC Bank Limited as a representative of other private banks. We have learned so many things in our course and here we tried to relate the theories with real life situation and also find out the similarities.

## **1.2 OBJECTIVE OF THE REPORT**

The main objective of education is to acquire knowledge. To acquired knowledge ultimately we must do some practical application in addition to theoretical knowledge. Through this report, I tried my level best to present my practical knowledge as well as to find out-

### **General:**

- To observe the general banking and advance operation of IFIC Bank Limited, and their services.
- How a bank operates their activities in different areas being a single organization.
- What a bank is doing for Bangladesh to develop national economy.
- To get an overall practical knowledge concerning banking activities as a financial institution.

### **Specific:**

- Presentation of an introduction to the organization- IFIC Bank Limited as a whole
- To get overall idea about the credit and general banking of IFIC Bank Limited.
- To recommend necessary steps to overcome such problems faced by the IFIC Bank Limited
- To identify the major areas of inefficiency.



## **1.3 METHODOLOGY OF THE STUDY**

For the implementation of the study I have worked on “IFIC Bank Limited (IFICBL)”.

In order to make the Report more meaningful and presentable, two sources of data and information have been used widely.

The “Primary Sources” are as follows-

Face-to-face conversation with the respective Executives & Officers of the Bank.

- Informal conversation with the clients.
- Practical work exposures form the different desks of the various departments of the Branch covered.
- Relevant file study as provided by the officers concerned.

The “Secondary Sources” of data and information are-

- Annual Reports of Standard Bank Limited.
- Periodicals published by Bangladesh Bank.
- Various books, articles, compilations etc. Regarding general banking functions, foreign exchange operations and credit policies.

After collection of data, a list of table was prepared on the basis of aims and objectives of the study and processing, editing and coding of the data were done simultaneously. The tabulated data were then analyzed and condensed to obtain the result / objective.

## **1.4 LIMITATIONS OF THE STUDY:**

There are some limitations in the study. I have been faced some problems during the study which I am mentioning them. The time period of the study is very short. I had only 3 (three) months in my hand to complete this report, which was not enough. So I could not go in depth of the study.

To prepare this report I have faced the following limitations:

- Most of the time IFICBL’s employee was very busy. So they can’t provide enough time to get information for preparing this report.
- IFICBL is very new Bank, so it’s impossible to make comparison with others. So the study is limited only on SBL.

# CHAPTER 2: COMPANY BACKGROUND

## **2 OVERVIEW OF IFIC BANK:**

### **2.1 About IFIC Bank**

International Finance Investment and Commerce Bank Limited (IFIC Bank) is banking company incorporated in the People's Republic of Bangladesh with limited liability. It was set up at the instance of the Government in 1976 as a joint venture between the Government of Bangladesh and sponsors in the private sector with the objective of working as a finance company within the country and setting up joint venture banks/financial institutions abroad. In 1983 when the Government allowed banks in the private sector, IFIC was converted into a fully fledged commercial bank. The Government of the People's Republic of Bangladesh now holds 32.75% of the share capital of the Bank. Directors and Sponsors having vast experience in the field of trade and commerce own 8.62% of the share capital and the rest is held by the general public.

### **2.2 Bank's Mission**

Our Mission is to provide service to our clients with the help of a skilled and dedicated workforce whose creative talents, innovative actions and competitive edge make our position unique in giving quality service to all institutions and individuals that we care for.

We are committed to the welfare and economic prosperity of the people and the community, for we derive from them our inspiration and drive for onward progress to prosperity.

We want to be the leader among banks in Bangladesh and make our indelible mark as an active partner in regional banking operating beyond the national boundary.

In an intensely competitive and complex financial and business environment, we particularly focus on growth and profitability of all concerned.

### **2.3 Milestones in the development of IFIC BANK**

- 1976**-Established as an Investment & Finance Company under arrangement of joint venture with the Govt. of Bangladesh.
- 1980**-Commenced operation in Foreign Exchange Business in a limited scale.
- 1982**-Obtained permission from the Govt. to operate as a commercial Bank, Set up its first overseas joint venture (Bank of Maldives Limited) in the Republic of Maldives (IFIC's share in Bank of Maldives limited was subsequently sold to Maldives Govt. in 1992)
- 1983**-Commenced operation as a full-fledged commercial bank in Bangladesh.
- 1985**-Set up a joint venture Exchange Company in the Sultanate of Oman, titled Oman Bangladesh Exchange Company (Subsequently renamed as Oman International Exchange, LLC)
- 1987**-Set up its first overseas branch in Pakistan at Karachi
- 1993**-Set up its second overseas branch in Pakistan at Lahore
- 1994**-Set up its first joint venture in Nepal for banking operation, titled Nepal Bangladesh Bank Ltd.
- 1999**-Set up its second joint venture in Nepal for lease financing, titled Nepal Bangladesh Finance & Leasing Co. Ltd. (Which was merged with NBBL in 2007)
- 2003**-Set up a new Bank in Pakistan, NDLC-IFIC Bank Ltd. (Subsequently renamed as NIB Bank Ltd.) and the Overseas Branches of IFIC and a local leasing company, NDLC were amalgamated with and into it.
- 2005**-Acquired MISYS solution for real time online banking application  
-Core Risk Management implemented
- 2007**-Launched VISA branded Credit Card (completed full range of Cards i.e. Debit, Credit & Prepaid by 2010)
- 2010**-Set up Offshore Banking Unit (OBU)
- 2011**-Established a fully owned subsidiary exchange company named IFIC Money Transfer (UK) Ltd.
- 2012**-Inauguration of 100th Branch at Tejgaon-Gulshan Link Road in Dhaka

### **2.4 Credit Rating of IFIC Bank**

<b>2010</b>	<b>2011</b>	<b>Definition of Rating</b>
Long Term: AA3	Long Term: AA2	Have very strong capacity to meet their financial commitments. They differ from their highest rated commercial banks only to a small degree. AA2 is judged to be of very high quality and is subject to very low credit risk.
Short Term: ST-2	Short Term: ST-2	Have strong capacity for timely repayment and characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative success of funds.

### **2.5 Management Structure:**

The thirteen members of the Board of Directors are responsible for the strategic planning and overall policy guidelines of the Bank. Further, there is an Executive Committee of the Board to dispose of urgent business proposals.

Besides, there is an Audit Committee in the Board to oversee compliance of major regulatory and operational issues.

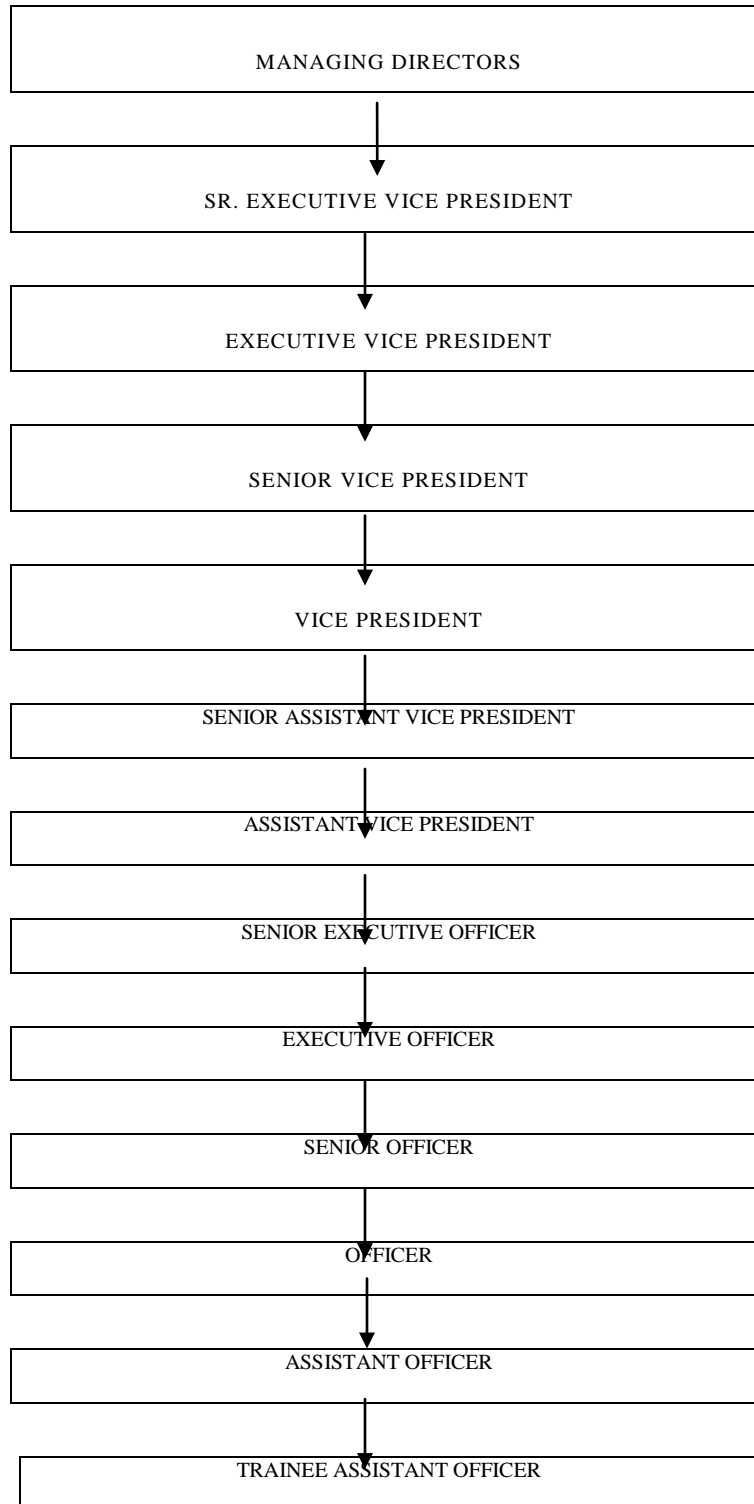
The CEO and Managing Director, Deputy Managing Director and Head of Divisions are responsible for achieving business goals and overseeing the day to day operation.

The CEO and Managing Director are assisted by a Senior Management Group consisting of Deputy Managing Director and Head of Divisions who supervise operation of various Divisions centrally and co-ordinates operation of branches.

Key issues are managed by a Management Committee headed by the CEO and Managing Director. This facilitates rapid decisions.

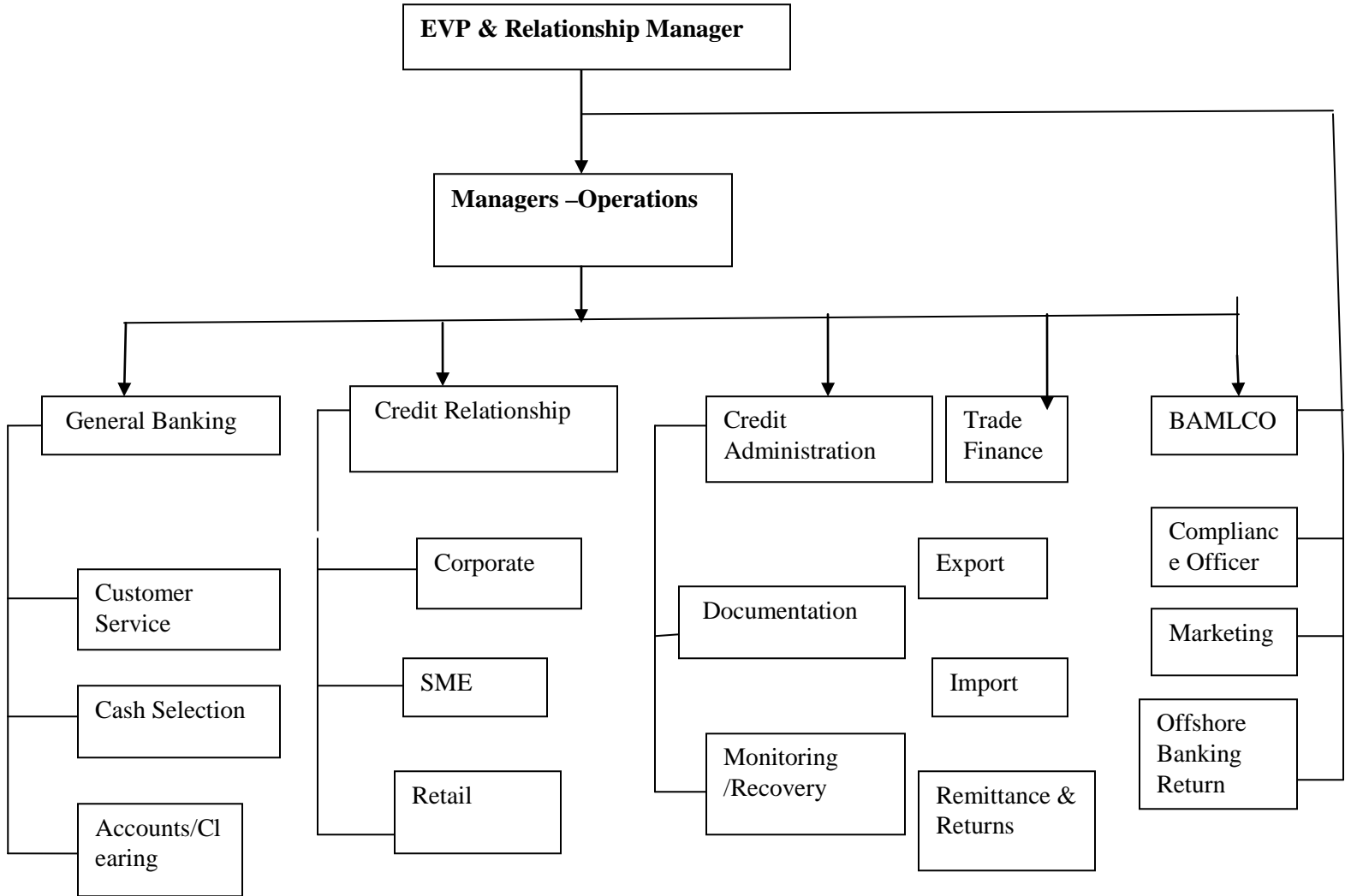
There is an Asset Liability Committee comprising member of the Senior Executives headed by CEO and Managing Director to look into all operational functions and Risk Management of the Bank.

## 2.6 Organization Hierarchy:



**Fig. 01: Organization Hierarchy:**

**2.7 ORGANOGRAM**



**Fig. 02 Organization Organ gram**

## **2.8 IFIC Bank at a glance:**

### Financial highlights

As at December 31, 2011

Serial no.	Particulars	2010 taka in million	2011 taka in million
01.	Paid up capital	2179	2768
02.	Total capital	6714	7784
03.	Total deposits	54660	73106
04.	Total loan & advances	47563	63558
05.	Total liabilities	63817	84940
06.	Provision of classified loan against loans & advances	1323	1002
07.	Profit after tax & provision	1647	715
08.	Provision kept against unclassified loans	614	793
09.	Return on equity	33.12%	11.60%
10.	Return on assets	2.37%	0.89%
11.	Income from investment	1313	1649
12.	Earnings per share	7.63	2.58
13.	NAV per share	26.37	23.72
14.	Price earnings ratio(times)	18.81	26.20

## **2.9 Main Services of IFIC Bank**

The main services that are offered by IFIC bank are given below,

### 1) **Corporate Banking:** It includes

- ✓ Working Capital Finance
- ✓ Project Finance
- ✓ Term Finance
- ✓ Trade Finance
- ✓ Lease Finance
- ✓ Syndication Finance

### 2) **Retail Banking:**

- ✓ Consumer Finance
- ✓ Deposit Products
- ✓ Credit Card
- ✓ Debit Cards
- ✓ Pre paid Cards



- ✓ NRB Account
- ✓ Student File
- ✓ SME Banking

### **3) SME Banking**

- ✓ Easy Commercial Loan
- ✓ Retailers Loan
- ✓ Transport Loan
- ✓ Commercial House Building Loan
- ✓ Possession Right Loan
- ✓ Contractor's Loan
- ✓ Bidder's Loan
- ✓ Working Capital Loan
- ✓ Project Loan
- ✓ Trade Finance
- ✓ Muldhan
- ✓ Women Entrepreneur's Loan

### **4) Treasury and Capital Market**

- ✓ Money Market
- ✓ Forex Market
- ✓ Brokerage House

### **5) Agriculture Credit**

- ✓ Krishi sharonjam rin
- ✓ Shech soronjam rin
- ✓ Phasali rin

# CHAPTER 3: JOB DESCRIPTION

### **3. Job Description**

#### **3.1 Description of the job**

As an internee my I have performed numerous activities. My main task was to assist officers and executives in every aspects of their daily work. It includes every activity that the officials performed like dealing with posting customers, computer, document analysis etc.

#### **3.2 Specific responsibilities of the job**

- ✓ Dealing with customers
- ✓ Assisting employees in their day to day operations
- ✓ Maintaining different registers
- ✓ Computer posting of transactions
- ✓ Sorting of Cheque, vouchers

#### **3.3 Different aspects of job performance**

- ✓ It helped me to learn banking activities
- ✓ It has enhanced my knowledge
- ✓ I was able to complete almost every task successfully

#### **3.4 Critical observation**

- ✓ Working environment was excellent
- ✓ Employees were very much helpful
- ✓ I learned a lot of things in a short time

**CHAPTER 4:**  
**DESCRIPTION OF**  
**DEPARTMENTS OF IFIC**  
**BANK**

## **4. Description of the report**

### **Summary**

This section includes a detailed description of the three departments of IFIC Bank. They are

- I. General Banking
- II. Credit, Loan and Advance
- III. Foreign Exchange

### **4.1 General Banking:**

. General banking department is the Heart of all banking activities. It performs the core functions of bank, operates day- to- day transactions .it is the storage point for all kinds of transaction of foreign exchange department, loans and advances department and itself. It also plays an important role in deposit mobilization of the branch. IFIC Bank provides different types of account and special types of saving scheme under general banking

General banking department is divided into various sections namely as follows:

#### **The following things done in this department:**

- Accounts opening section
- Deposit section
- Cash section
- Remittance section
- Bills and clearing section
- Accounts sections
- Check book issue
- Transfer of account
- Closing of account
- Dispatch section

## **1. OPENING OF ACCOUNT:**

When a person want to open an account in IFIC Bank Limited, Federation Branch, needs to communicate with responsible officer. For opening an account a person or company must fill up a bank account opening form and needs to present the following things:

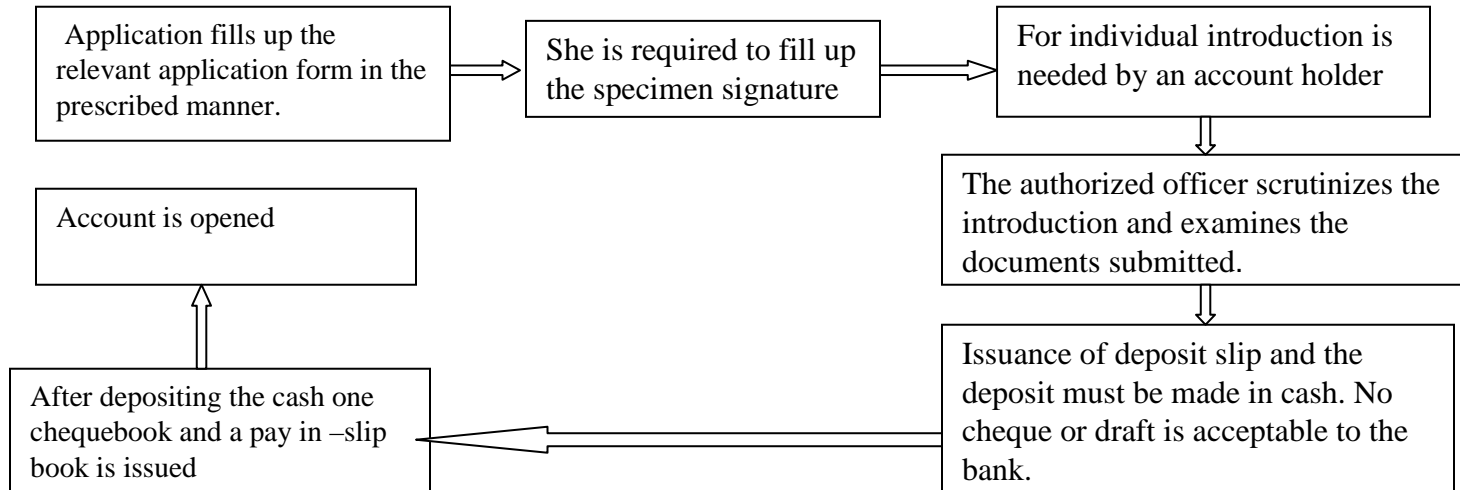
### **The Procedures that the Bank follows to open an Account:**

- Fill up the specific type of form (Savings\Current\Std etc.) that the bank has given to the customer.
- The form should filled up by the applicant himself / herself
- Two copies of passport size photographs have to give to the Bank. In case of partnership account, all partners photograph have to submit.
- Documentation procedures must be fulfilled by the applicants.
- Applicant must sign specimen signature sheet that provided by bank.
- Introducer is mediatory to open any account.
- Introducer's signature and accounts number will verify by authorized officer
- Authorized Officer will accept the application.
- Minimum balance has to deposit to the bank by applicant (only cash is accepted).
- Authorized officer will give entry to the register and open the account.
- After that the officer will give cheque book to the account holder.
- KYC (knowledge about your customer) should maintain.

### **The account should be properly introduced by any one of the following:**

- An existing Current Account holder of the Bank.
- Officials of the Bank not below the rank of an Assistant officer.
- A respectable person of the locality well known to the Manager/Sub-Manager of the Branch concerned.

### Account Opening Procedure in a flow chart:



**Figure: 03**

## **2. DEPOSIT SECTION**

The term deposit of money means, to preserve money. After the consumption people want to save some money for future uncertainty. So they deposit it to the bank. On the other hand bank is a service organization that helps people to deposit their money for future. Bank's main motive is to mobilize the money and gain profit. Banks give loan to other people, they invest it and give interest to the bank, by that the bank earns profit. By mobilizing that sum of money, not only the individuals but also the economy is benefited.

There are four basic types of deposit are mainly used

1. Current Deposit.
2. Savings account.
3. Short term deposit (STD)
4. Fixed deposit (FDR)

### 3. CASH SECTION

Cash section is very much important for any bank. Without cash section, no bank can do their activities properly. Cash section is directly related to the customer. Following tasks are made in cash section:

- Here the customer deposit and withdraw money.
- Customer may receive different type of financial instrument like Prize bonds.
- Here the customers can pay their utility bills.
- The cash payments of any kinds of remittance (Pay order, Demand order etc.) are made here.

### 4. REMITTANCE SECTION

Money transferred from one place to another through banking channel is called remittance. Remittances of funds are one of the most important activities of the Commercial Banks.

The main instruments used for remittance of funds are:

- Payment order (PO):
- Demand Draft (DD)
- Telegraphic Transfer (TT)
- Mail Transfer (MT)

#### ○ **DEMAND DRAFT (DD):**

Demand Draft means money transfer from one branch to another branch of the same bank. It may occur between the two different banks. DD issues and receives is a regular task of this branch. In case of DD issue a branch charges commission. This commission depends on amount, which will be transferred.

#### **Process of DD:**

When anybody want to transfer money from this branch to another branch of IFIC Bank Limited or other bank at first the client needs to communicate with responsible officer and then he/she collects a printed DD form. After filling this form he/she needs to deposit cash with commission



to the cash counter and takes a receipt. In case of DD four (4) copies of vouchers are prepared. Original and duplicate copy is send to the responding branch. Triplicate copy is send to the Head Office with daily schedule. This branch preserves the quart-duplicate copy.

○ **MAIL TRANSFER (MT):**

Mail transfer means money transfer from one branch to another branch of the same bank. It may occur between the two different banks. MT issues and receives is a regular task of this branch. In case of MT issue a branch charges commission. This commission depends on amount, which will be transferred.

**Process of MT:**

When anybody want to transfer money from this branch to another branch of IFIC Bank Limited or other bank at first the client needs to communicate with responsible principal officer and then he/she collects a printed MT form. After filling the form he/she needs to deposit cash with commission to the cash counter and takes a receipt. In case of MT four (4) copies of vouchers are prepared. Original and duplicate copy is send to the responding branch. Triplicate copy is send to the Head Office with daily schedule. This branch preserves the quart-duplicate copy.

○ **TELEPHONE TRANSFER (TT):**

Telephone Transfer (TT) means transfer of money from one branch to another branch of the same bank through telephone message. Telephone transfer is quicker process than mail transfer. In case of TT issue this branch charges commission. This commission depends on amount, which will be transferred.

**Process of TT:**

When anybody wants to transfer money through telephone message from this branch to another branch of the same bank he/she needs to communicate with responsible officer. At first the client collects a printed TT form and after filling the form he/she needs to communicate with Second Officer and then deposits cash with commission to the cash counter and finally takes a receipt. In case of TT issues, this bank prepares three (3) copies of vouchers. Original copy is sending to the

responding Branch and the duplicate copy is sending to the Head Office with schedule. This branch preserves the triplicate copy.

○ **PAY ORDER (PO):**

- Pay Order gives the payee the right to claim payment from the issuing bank
- Payment is made by the Issuing branch only.
- Pay order generally used in the clearing house area.
- Payment is made by the clearing.
- Commission is charged by the issuing branch.
- The deposit may be cheque or cash.

## **5. CLEARING SECTION**

The amount of Cheques, Pay Order (P.O), and Demand Draft (D.D) collection from other banks on behalf of its customer is a basic function of a Clearing Department. Every working day IFIC Bank Limited, Federation Branch, receives about 35-60 cheques that are made on another bank. When IFIC Bank Limited, Federation Branch, receives this type of cheques then it sends these cheques to the Clearinghouse of Bangladesh Bank through the Head Office. The Clearinghouse is formed with the representative of every scheduled bank. IFIC Bank Limited representative gives the cheque to the representative of respected branch on which cheque is made. After one or two days the bank on which cheque is made sends a message about the validity of the cheque that means it provides information about account and deposited money on this account.

### **Procedures of clearing follows**

- Crossing of the cheque.
- Computer posting of the cheque.
- Clearing seal & proper endorsement of the cheque.
- Separation of cheque from deposit slip.
- Sorting of cheque 1st bank wise and then on branch wise.
- Computer print 1st branch wise & then bank wise.
- Preparation of 1st Clearing House computer validation sheet.

- Examine computer validation sheet with the deposit slip to justify the computer posting
- Copy of computer posting in the floppy disk.
- Sent to the local office.

## **6. ACCOUNTS SECTION**

Accounts department is very important department of general banking. There are many transactions are made in every day in bank. Here the transactions are recording properly. If there is any fault made then the accounts section may check it and do action against it. To avoid these mishaps, the bank provides accounts department; whose function is to check the mistakes in passing vouchers or wrong entries or fraud or forgery. If any discrepancy regarding transaction arises, the department report to concerned department.

## **7. TRANSFER OF ACCOUNT:**

- The customer submits an application mentioning the name of the branch to which the account to be transferred.
- The signature card, advice of new account and relevant documents are sent to that branch through registered post.
- The balance standing at credit in customer's account is sent to the other branch through Inter Branch Credit Advice (IBCA).
- No exchange should be charged on such transfer.
- Attention is also given in this connection.

## **8. CLOSING OF ACCOUNT:**

A banker can close the account of the customer under the following considerable circumstances:

- Death of customer
- Customer's insanity and insolvency.
- Order of the court.
- Specific charge for fraud forgery.

## **9. DISPATCH SECTION:**

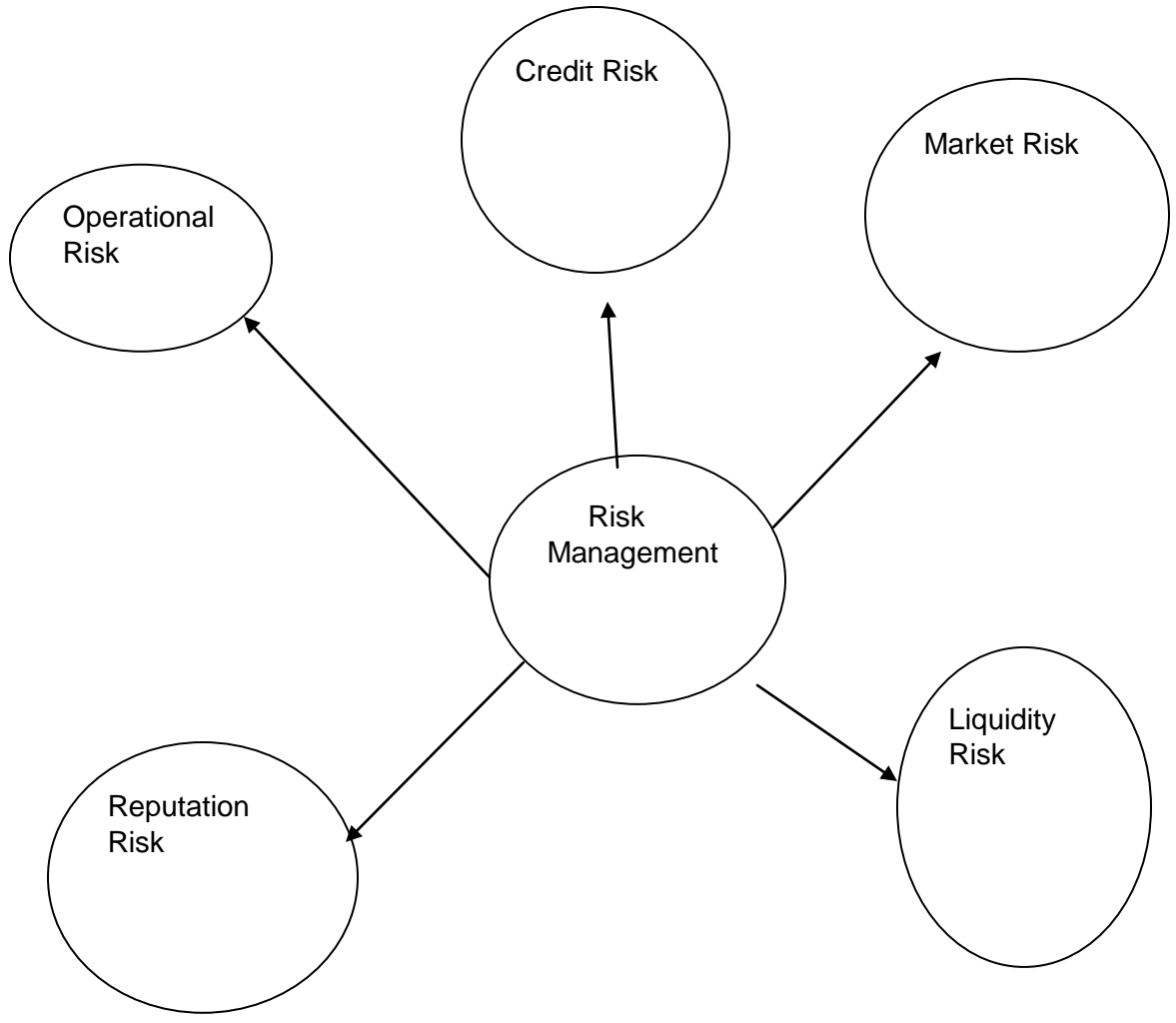
- Keeping records of the documents send to other branches or banks.
- Letters are sending to their respective destination.
- Send those documents safely and correctly.
- Receives documents come through different medium, such as postal service, courier service, via messenger etc.

## **4.2 CREDIT DEPARTMENT**

### **CREDIT RISK MANAGEMENT:**

Loan and advances Credit may be defined broadly or narrowly. Broadly, credit is finance made available by one party (lender, shareholder / owner) to another (borrower buyer, corporate or non-corporate firm). Narrowly, credit is simply the opposite of debt. Debt is the obligation to make future payments. Credit is the claim to receive those payments.

In perspective of IFIC Bank Limited risk is defined as the probability of losses, financial or else. Now a day's risk management plays a vital role to reduce uncertainty of assets and or else. The major areas of risks are Credit Risk, liquidity risk, Market risk, Operational Risk and Reputational Risk due to money laundering risk. Market risks include Foreign exchange risk, Interest rate risk and Equity risk.



**Figure: 04 types of Risk Management of IFIC Bank Limited**

### **4.2.1 Lending principles following by IFIC Bank:**

The principle of lending is collection of certain expected time tested standards, which ensure the proper use of loan fund in a profitable way and its timely recovery. Different authors described different principles for sound lending.

IFIC Bank follows the following seven principles in its lending activity:

- 1. Safety**
- 2. Security.**
- 3. Liquidity.**
- 4. Adequate yield.**
- 5. Diversity.**
- 6. Productive purpose.**
- 7. National interest.**

#### **1. Safety:**

Safety should get the prior importance in the time of sanctioning the loan at the time of minority the borrower may not pay or may unable to [ay the loan amount. Therefore, in the time of sanctioning the loan adequate securities should be taken from the borrowers to recover the loan. Banker should not scarify safety for profitability.

IFIC Bank limited exercises the lending function only when it is safe and that the risk factor is adequately mitigated and covered. Safety depends upon

- The security offered by the borrower and
- The repairing capacity and willingness of debtor to repay the loan with interest.

#### **2. Security:**

Banker should be careful in the selection of security to maintain the safety of the loan. Banker should properly evaluate the proper value of the security. If the estimated value less than or equal to loan amount, the loan should be given against such securities.

#### **3. Liquidity:**

Banker should consider the liquidity of the loan in the time of sanctioning it. Liquidity is necessary to meet the consumer need.

#### **4. Adequate yield:**

The banker should consider the interest rate when go for lending. Always banker should fix such an interest rate for its lending which should be higher than its saving deposits interest rate.

### **5. Diversity:**

Banker should minimize portfolio risk by putting its fund in the different fields. If banker put its entire loan able fund in one sector it will increase the risk. So if it faces any problem in any sector it can be covered by the profit of another sector.

### **6. Productive purpose:**

IFIC Bank exercises its lending function only on productive purpose.

### **7. National or social interest:**

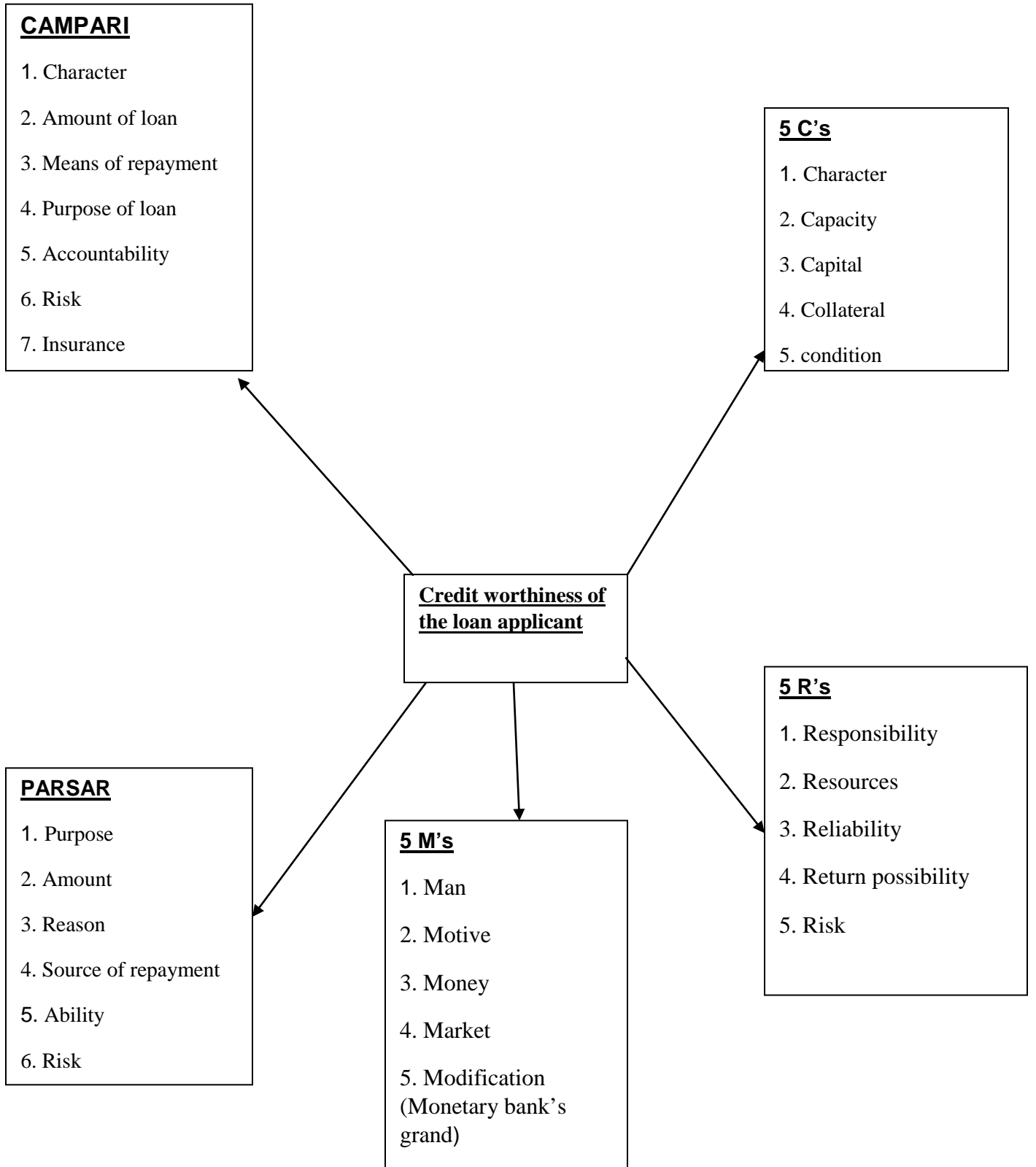
IFIC Bank also considers national aspect of any project while financing .they take utmost care so that the project can't be detrimental to the society as well as to the nation.

## **4.2.2 Sound Principles of Lending:**

Sound principles of lending are obvious to avoid loan default tendency and risk elements to safeguard of public money as well as business of a bank.

So, there must be a principle of advance and efforts should be made to make it a sound one for which in depth study must be made on the following points of the bank:

- ✓ When loan is to be given.
- ✓ Why loan is to be given.
- ✓ How the loan is to be given.
- ✓ What may happen after disbursement of the loan?
- ✓ Generally what happen (from past experience) after disbursement if the loan.
- ✓ It is hopeful that the borrower will repay the loan.
- ✓ Whether the loan should be given only the private sector or also in government sector as well.
- ✓ Whether only secured loan will be extended or provision should be kept for clear loan also.
- ✓ Whether only short term and midterm loan should be considered or long term will be considered.



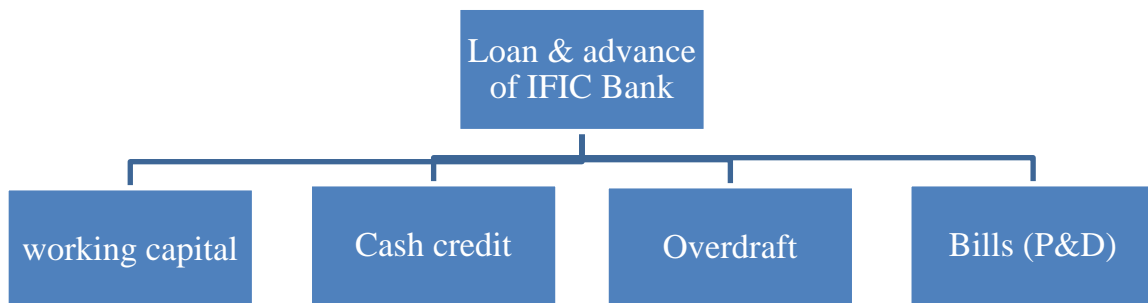


**Fig: 05 Credit worthiness of the loan applicant**

### **4.2.3 Credit Department:**

One of the primary functions of commercial bank is sanctioning of credit to the potential borrowers. Bank credit is an important catalyst for bringing about economic development of a country. Without adequate finance, there can be no growth or maintenance of a stable economy. Bank lending is important for the economy, because it makes possible the financing of agriculture, commercial and industrial activities of a nation. Hence, it is very clear that, IFIC Bank plays an important role to move the economic wheel of the country.

There are different types of loan, which is provided by the bank, but those are the collective form of the following item.



**Figure:06 Types of loan and advance of IFIC Bank**

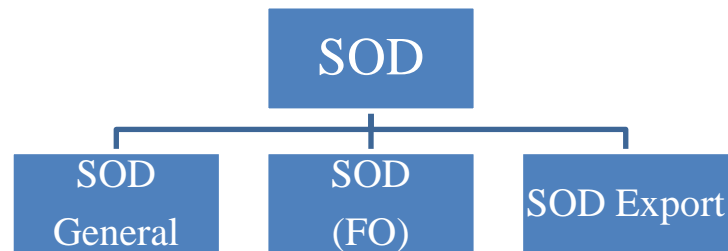
## **4.2.4 Direct facilities (Funded):**

The different types of loans and advance that ICIC Bank offers are as follows

### **1. Secured Overdraft (SOD)**

It is a continuous advance facility by this agreement; the banker allows his customer to overdraft his current account he withdraws, to his credit limits sanctioned by the bank. The interest is charged on the amount, which not on the sanctioned amount. IFIC bank sanctions SOD against different security.

#### **Types of secured overdraft:**



#### **a) SOD (General):**

Advance is granted to a client against the work order of government of departments, corporations, autonomous bodies and reputed multi-national / private organization. The clients' managerial capability, equity strength, nature of the scheduled work is judged to arrive at a logical decision. Disbursement is made after completion of documentation formalities. Besides usual charge, documents like a notarized irrevocable power of attorney to collect the bills from the concerned authority and a letter from the concerned authority confirming direct payment to the bank is also obtained. The work is strictly monitored to review the progress at each interval.

**b) SOD (FO):**

Advance is granted to a client against financial obligations. The security of advance is granted to the person to whom the instrument belongs. The discharged instrument is surrounded to the bank along with a letter signed by holder /holders authorizing the bank to appropriate the proceeds of the instrument on due date towards the repayment of the advance. The bank’s lien is prominently noted face of the instrument under the signature of an authorized bank official. The instrument is issued by another branch of IFIC Bank limited or any branch of some other bank, and then the concerned branch in each intimated to lien mark the instrument.

**c) SOD (Export):**

Advance allowed to purchasing foreign currency for payment against L/Cs (Back-to –Back) where the exporter cannot materialize before the date of import payment.

**2. Cash credit:**

Cash credit (CC) is an arrangement by which a banker allows his customer to borrow a money up to a certain limit. CC is a favorite mode of borrowings by traders, industrials etc. for meeting their working capital requirements.

Cash credit or continuous credit are those, which forms continuous debits and credits up to a limit and have an expiration date. A service charge that in effect of an interest charge is normally made as a percentage of the value of purchases.

Cash credit is generally allowed against hypothecation or pledge of goods. Hence cash credits are two types:

- a. Cash credit hypothecation**
- b. Cash credit pledge.**

<b>30<sup>th</sup> March 2012</b>	<b>30<sup>th</sup> June 2012</b>	<b>30<sup>th</sup> September 2012</b>
1247433446	1306508176	1251594368

**Quarterly Cash Credit of IFIC Bank, Federation Branch**

**a). Cash credit hypothecation:**

Cash credit allowed against hypothecation of goods is known as cash credit hypothecation. In case of hypothecation, borrower retains the ownership and possession of goods on which charge of the lending bank is created.

**b) Cash credit pledge:**

Under this arrangement a cash credit is sanctioned against pledge of goods or raw materials. By signing the letter of pledge, the borrower surrenders the physical possession of the goods under the banks effective control as security for payment of bank dues. The ownership of the goods, however, remains with the borrower.

**3. L I M (loan against imported merchandise):**

When the importer failed to pay payable to the exporter against import L/C, Then IFICBL gives loan against imported merchandise to the importer. This is also a temporary advance connected with import, which is known as post import finance.

**4. Working capital:**

Loans allowed to the manufacturing units to meet their working capital requirement, irrespective of their size big, medium or large, fall under category.

**5. Export credit:**

Credit facilities allowed facilitating export against L/C fall under this category. It includes loan against packing credit (LAPC), Foreign Documentary Bills Purchased (FBDP) ETC.

**6. LTR (LTR)**

This is an arrangement under which credit is allowed against trust receipt and imported or exportable goods remain in the custody of the importer or exporter but he is execute a stamped trust receipt in favor of the bank where a declaration is made the goods imported or bought with the banks financial assistance are held by him in trust for the bank.

### **7. Local Bills Purchased Documentary:**

Payment made against documents representing sell of goods to local export oriented industries, which are deemed as exports, and which are denominated in local currency/foreign currency falls under this head. The bill of exchange is held as the primary security. The client submits the bill and the bank discounts it. This temporary liability is adjustable from the proceeds of the bills.

### **8. Loan against Other Securities:**

Loan against other securities is a 100%secured advance, which requires no sanction from the Head Officer. It is sanctioned by making lien on FDR.ICB Unit certificate etc.

### **9. Term loan:**

IFICBL considers the loans, which are sanctioned for more than one year as term loan. Under this facility, an enterprise is financed from the starting to its finishing like as from installation to its production. IFICBL offers this facility only to big industries. Interest rate is 15.50%.

The loan term as follows:

- a. Short term: up to and including 12 months.
- b. Medium term: more than 12 months up to and including 60 months.
- c. Long term: more than 60 months.

### **10. Overdraft:**

A consumer having current is accommodated by overdraft facility against security. permission is given to overdue current account up to sanctioned limit is continuous revolving credit and the borrower may operate any number of times within sanctioned up to validity period of limit

interest is charged on debit balance of daily products. It is a short –term credit arrangement and renewable.

**11. Consumer Credit Scheme:**

The scheme is aimed to attract consumer from the middle and upper middle class population with limited income. The borrower should have an account with the bank. Minimum 25% of the purchase cost of the product is to be deposited by the borrower with the bank as equity before the disbursement of the loan. The rest 75% is to be kept as cash collateral (FDR) with the bank.

**12. Staff loan:**

Bank official from senior officer and above is eligible for this loan .the maximum amount disbursed for a period of 25 years .The rate of interest is 8% per annual staff loan categorized in two ways:

- a. Staff House Building Loan (SHBL)
- b. Staff Loan against Provident Fund (SPF)

**a. Staff House Building Loan (SHBL):**

- ✓ 150 times of the basic salary is provided as SHBL.
- ✓ 15.50%, interest is charged to the employee.
- ✓ Repayment is adjusted from their monthly salary.

30 <sup>th</sup> March 2012	30 <sup>th</sup> June 2012	30 <sup>th</sup> September 2012
186187638	200818715	215306023

**Quarterly SHBL disbursement of IFIC Bank, Federation Branch**

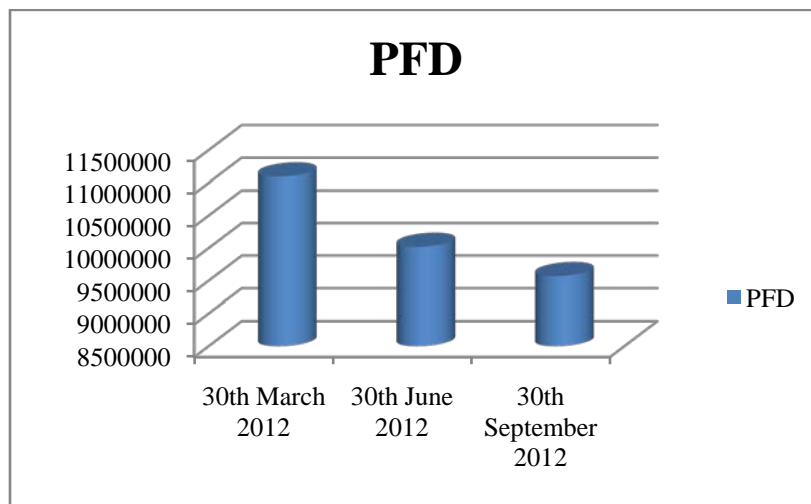


**Graph 01: Quarterly SHBL disbursement of IFIC Bank, Federation Branch**

**b. Staff Loan against Provident Fund (SPF):**

- ✓ 10%, of basic is contributed by employee in every month.
- ✓ 10% of basic is also contributed to the PF by the Bank.
- ✓ Repayment is adjusted from their monthly salary.
- ✓ Maximum sanction from PF.

30 <sup>th</sup> March 2012	30 <sup>th</sup> June 2012	30 <sup>th</sup> September 2012
11092747	10019012	9568295



**Graph02: Quarterly provident fund disbursement of IFIC Bank, Federation Branch:**

**Provident fund contribution:**

1-5 years of confirmed service	50%	Own contribution
5-7 years of confirmed service	60%	Total contribution
7-10 years of confirmed service	70%	Total contribution
Above 10 years of confirmed service	80%	Total contribution

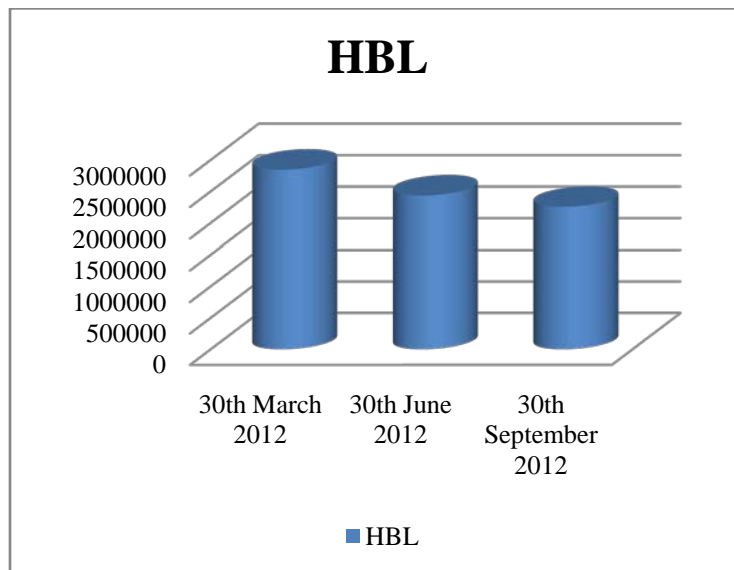
**13. House building loan:**

The loan is provided against 100% cash collateral. Besides, the land and building are also mortgaged with the bank. Rate of interest is 15.50%.

**House building loan (CF):**

This loan is provided against 100% cash collateral. Alongside, the land and building are also mortgaged in the bank. Rate of interest is 15.50%.

<b>30<sup>th</sup> March 2012</b>	<b>30<sup>th</sup> June 2012</b>	<b>30<sup>th</sup> September 2012</b>
2843104	2433429	2253445



**Graph 03: Quarterly HBL (CF) disbursement of IFIC Bank Federation Branch**



#### **14. Bid Bond:**

Generally it issued while dropping tender for work.

#### **15. Performance bond:**

It is issued when customer gets specified work-order .here bank guarantees that his customer is willing and able to complete the required work, and bank takes the responsibilities of completing the contracted work.

#### **16. Loan against PSS:**

Loan against PSS is the loan that is provided against PSS fund that also called DPS by other bank.

- ✓ This loan is provides against PSS fund.
- ✓ 100% are given of the PSS fund.
- ✓ This is 100% secured for the bank.

#### **17. Industries loan:**

- It is a term loan.
- It is given for three years at equal installment.
- Gross period is allowed of these types of loan.
- Gross period is the period that requires earning visible returns.

### **4.2.5 Indirect Facilities:**

#### **1. Guarantee:**

A credit facility provided in contingent liabilities form, extended by the banks to their clients, for participating in development work like supply of goods and services.

**IFIC Bank offers three types of guarantee as follows:**

**a. Tender or Bid bond guarantee:**

The tender guarantee assures the tender that tender shall uphold the conditions of his period of the offer as binding and he will also sign the contract in the event of the order being guaranteed.

**b. Performance guarantee:**

A performance guarantee expires on the completion of the delivery or performance. Beneficiary finds that as a guarantee, the contract will be fulfilled in every respect and can retain the guarantee as per provision for long time. Including a clause stating that the supplier can claim under the guarantee, by presenting an acceptance certificate signed by the buyer can counteract this.

**c. Advanced payment guarantee:**

This type of guarantee is given against work order. This idea can be made clear with the help of an example. Before the beginning of Jamuna Bridge construction, the government collected money from different sources to pay the contractors in advance. But there was a risk for the government that the contractor might not do their construction work even they were paid in advance. So the government asked bank guarantee from them. Then the contractor submits the bank guarantee to the government. This type of guarantee is called advanced payment guarantee

**2. Letter of credit:**

A credit facility in contingent liabilities form provided to the clients by the banks for import / procurement of goods and services.

## **4.2.6 Business analysis:**

Business analysis is done from two angles –term, conditions and collateral securities:

### **Interest rate in Loan and Advance:**

<b>Types of advances</b>	<b>NEW Interest rate</b>	<b>Old Interest rate</b>
Secured Overdraft (SOD)	15%	14%
Loan (General)	15.50%	14%-16%
House Building Loan (Staff)	12	8%-10%
House Building Loan (General)	24	14%-16%
Transport Loan (Staff)	32	14%-16%
Transport Loan (General)	17	14-16%
SOD	16	14%-16%
Industrial Credit	22	12.5%-16%
Cash credit (Hypothecation)	18	13%-16%
Loan against Trust Receipt (LTR)	15	13%-15%

## **4.2.7 Procedure for giving advance:**

### **First step:**

The potential borrower will submit application to SBL for loan by filling up of a specific Application form. The Application form (request for Credit Limit) contains following particulars:

- a) Name of the Borrower-----
- b) A/C No.-----
- c) Bunnies address (with telephone no.) [Residential address and Permanent address]---  
-----
- d) Introducer's name, A/C no. & address-----
- e) Date of establishment/ incorporation-----
- f) Trade license number, date and expiry date (Photocopy of trade license enclosed)----  
----
- g) GIR/TR no. & amount of income tax paid last year-----
- h) Constitution/ Status (Mention whether sole proprietorship/ partnership/ Public Ltd. company/ Private Ltd. company)-----
- i) Particulars of individual/ Proprietor/ Partners/ Directors (Name & Designation, father's/ Husband's name, present & permanent address with Telephone no., % of shares held)-----
- j) Experience and background of Individual/Proprietors/ Partners/ Directors-----
- k) Full particulars of assets in the personal name of Individual/ Proprietor/ Partners/ Directors with valuation-----
- l) Names of Subsidiaries/ Affiliates, percentage of share holding and nature of business-----
- m) Nature and details of business/ products (for which credit facility is applied for), Markets (Present market price per unit, Factory price), Estimated sales for next one year.....

- n) Credit facilities required (type, amount, period, purpose, and mode of adjustment).....
- o) Details of securities offered with estimated value (Primary security, Collateral security, market value of the security).....
- p) Details of liabilities in the name of the client or in the name of any other partners/Directors or Subsidiaries/Affiliates Nature of advance, amount, security and validity of limit).....
- q) Balance Sheet/ Income Statement of Statement of Accounts of the following years attached (Preferably last 3 years).....
- r) Other relevant information.....
- s) Proposed debt/equity ratio.....
- t) Signature of the Applicant.....

### **Step 2:**

After receiving the loan application form, Federation Branch sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Credit information Bureau) report. This report is usually collects this report if the loan amount exceeds Tk. 50 Lac. But SBL usually collects this report if the loan amount exceeds Tk.10 Lac. The purpose of this report is to being informed that whether the borrower has taken loan from any other bank; if 'yes' then whether these loans are classified or not.

### **Step 3:**

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

**Step 4:**

Then comes the processing stage. In this stage, the Bank will prepare a Proposal a proposal contains following relevant information:

- a) Name of the Borrower---
- b) Nature of Limit-----
- c) Purpose of Limit-----
- d) Extent of Limit---
- e) Security---
- f) Margin---
- g) Rate of Interest-----
- h) Repayment-----
- i) Validity-----

Federation Branch has the discretionary power to sanction loan (SOD) up to Tk.25 Lac against financial obligations by taking post-facto approval from Head Office. But in that case, the Branch Manager has to give attention to the following matters:

- ✓ The interest rate of the loan must not be less than prescribed rate of interest or 15.5%
- ✓ The borrower must maintain minimum 20% margin.

Except this case, the branch has to send the proposal to the Head Office. Head Office will prepare a minute and submit it before the Executive Committee (EC). The minute has to be passed by Credit Committee (CC) and the Executive Committee (EC) and lastly to the Board of Directors (BOD) Meeting.

**Step 5:**

After the sanction advice, Bank will collect necessary documents (charge documents). These documents are given below:

**A.) Loan (general):**

- a) Joint Promissory Note
- b) Single Promissory Note
- c) Letter of Undertaking
- d) Loan Disbursement Letter
- e) Debit Figure Confirmation Sheet
- f) Letter of Continuity
- g) Letter of Authority
- h) Letter of Revival
- i) Right of Recall the Loan.
- j) Letter of Guarantee
- k) Letter of Indemnity
- l) Trust Receipt
- m) Hypothecation of Goods
- n) Hypothecation of Vehicles
- o) Counter Guarantee
- p) Letter of Lien
- q) Letter of Lien in case of advance against FDR
- r) Letter of Authority to encase FDR
- s) Letter of Agreement for Packing Credit
- t) Letter of Guarantee for opening L/C
- u) Charges over Bonds or Certificates or shares etc. by third person, firm or company to secure specific and general liability.
- v) Memorandum of Deposit of Title Deeds
- w) Hypothecation of goods to secure a Demand Cash Credit Or Overdraft/Loan amount
- x) Guarantee by Third party.

**Step 6:**

Charge documents as required for the different types of advances, are mentioned below:

**A).Loan (general):**

- D.P note signed on revenue stamp
- Letter of arrangement
- Letter of disbursement
- Letter of partnership
- Letter of pledge
- Letter of hypothecation
- Letter of lien and ownership
- Letter of lien for packing credit
- Letter of lien
- Letter of lien and transfer authority
- Legal documents for mortgage property

**B).Overdraft:**

- D.P note
- Letter of partnership
- Letter of arrangement
- Letter of continuity
- Letter of lien
- Letter of lien and ownership
- Letter of lien and transfer authority



**C).Cash credit (pledge):**

- Letter of pledge
- Letter of authority empowering the bank to deduct / realize warehouse, staff salary and other incidental expense for inspection, maintenance of goods etc.
- Letter of declaration handing over the possession of goods stored or to be stored in the warehouse against the facility.
- Letter of disclaimer in case of Hired go down signed by the owner of the warehouse.

**D).Cash credit (Hypothecation):**

- Letter of hypothecation.
- Letter of authority empowering the bank to inspect goods and possession of the goods in case of duly drafted by the lawyer of the bank.
- Stock report duly signed by the borrower on fortnightly basis or after every deposit in the loan account or before realizing fund against limit.
- Letter of declaration duly signed by the party clearly stating that the goods hypothecated are not in any case encumbered elsewhere.
- Sufficient insurance cover inserting the name of the Bank as mortgage with bank mortgage clause.

**Step 7:**

For withdrawing the loan amount, the customer creates a CD account and the loan is transferred to the CD A/C. Afterwards the customer can withdraw the money.

**Step 8:****Credit disbursement:**

After verifying all the documents, the branch disburses the loan to the borrower. The loan officer disburses the loan to the borrower loan account. A “Loan Repayment Schedule” is also prepared by the branch and is given to borrower.

**Step 9:**

After the disbursement of loan, the bank follows the following manner:

- Constant supervision.
- Working capital assessment.
- Stock report.
- Break Even analysis.
- Rescheduling of repayment.

**Step 10:**

The loans are repaid in installment. This installment is according to bank directives. Some loans are repaid all at a time. If any loan is not repaid then notices are served to the customer. Sometimes legal actions are also taken for recover the loan.

## **4.2.8 Credit assessment:**

A thorough credit and risk assessment should be conducted prior to the granting of a facility, and at least annually thereafter for all facilities. The results of the assessment should be present in a Credit Application that originate from the relationship manager or account officer (“RM”) ,and probable mitigation of risks. The RM should be the owner of the customer relationship, and must be to ensure the accuracy of the entire credit application submitted for approval. Credit assessment includes,

### **a). Borrower analysis:**

The majority shareholders, management terms and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed and risks mitigated.

### **b).Industry Analysis:**

The key risk factors of the borrower’s industry should be assessed. Any issues regarding the borrower’s position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weakness of the borrower relative to its competition should be identified.

### **c).Supplier/ buyer analysis:**

Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability such as:

## **4.2.9 Feasibility Report**

This report is from borrower’s point of view. He prepares this report and submitted to the bank.

### **4.2.10 Credit Line Proposal:**

In this step of the term loan the branch sends a credit line proposal to the head office for approval of the term loan. The credit line proposal contains the following particulars:

- ✓ Fresh/Renewal/Revision of the term loan
- ✓ Borrower name
- ✓ Types of business
- ✓ Capital structure
- ✓ Particulars of previous transaction
- ✓ Existing vis-à-vis proposed credit limits
- ✓ Movement of the accounts
- ✓ Liabilities of sister concerns

### **4.2.11 Project Appraisal:**

It is the reinvestment analysis done by the banker before a project he approved. Project appraisal in the banking sector needed for the following reasons:

- ✓ To justify the soundness of an investment
- ✓ To ensure repayment of bank finance
- ✓ To achieve organizational goals
- ✓ To recommend if the project is not designed properly.

#### **Techniques of Project Appraisal:**

An appraisal is a systematic exercise to establish that the proposed project is a viable proposition. The appraising officer checks the various details submitted by the promoter in first information, sheet credit application form, and feasibility report. SBL considers the following aspects in appraising:

- i. Entrepreneur
- ii. Technical Viability
- iii. Commercial Viability
- iv. Financial viability
- v. Economic Viability
- vi. Management and organizational Viability

**(1) Entrepreneur:**

Entrepreneur/ promoter have to be creditworthy and competent enough to run the proposed industry.

- Preference given for educated / knowledgeable sponsors, who know about their business concern, have technical know and expertise in the field of proposed industry.-Who have own land and building for running project
- Have experience in working abroad
- Sponsors with innovative ideas
- Sponsors must have net worth more than 2.5 time of the equity required for investment in the project
- Who have good dealings with the bankers/ outside parties and has social contacts and standings.
- Have an A/C with SBL
- Sponsors requiring group funding may be given financial assistance provided for each other, etc.

The Project should be viable from organizational, technical, commercial, financial and economic points of view.

**(b) Technical Viability:**

It implies the assessment of various requirement of actual production process. It involves a critical study of following factors:

- Location and site of the project:
  - ✓ Selection of the optimum location, therefore, revolves around the joint consideration and evaluation of the following factors-
  - ✓ Raw materials supplies
  - ✓ Transportation facilities
  - ✓ Power, water and fuel supply
  - ✓ Manpower
  - ✓ Natural and climate factor
    - Size of the plant/project
    - Technology, plant & equipment-the study should consider some important technological factors with regard to plant and equipment, viz:
      - ✓ Adequacy and suitability of the plant & equipment and their specification
      - ✓ Plant layout
      - ✓ Balancing of different sections of the plant
      - ✓ Reputation of the machinery supplies, etc.
      - ✓ Building and layout-the operative efficiency of industrial project also depend on the layout.

**(c) Commercial Viability:**

This study indicates emulation of a project's feasibility in terms of market. The market analysis contains:

- Analysis of past and present demand
- Analysis of past and present supply
- Estimate future demand of the project
- Estimates project's share in the market, etc.
- Marketing channel for the product should accessible to the entrepreneur.

**(d) Financial viability:**

Analysis of financial viability is an essential part of project appraisal. The financial analysis focuses the following for judging this viability.

Cost of the project and means of finance: It is necessary to make a preliminary assessment of the project and the means of the financing it. If the cost of the project is too high that is not possible to mobilize the resources of that magnitude through the available resources, the project is out question.

- Investment profitability analysis: several capital budgeting techniques are used for judging profitability.
- Financial ratio analysis.
- Break-even analysis.
- Debt service coverage ratio should be at least 2.5 times at the optimum level of production.
- IRR should preferably be not less than 20 percent.

**(e) Economic Viability:**

The project should ensure benefit to the national economy and create sufficient opportunity in the following areas:

- Generation of employment.
- Income distribution
- Self-reliance
- Development of small-scale industries & ancillary business
- Improvement of quality of life and well being
- Environmental issues
- Opportunity cost

#### **(f) Management and organizational Viability:**

It is very much important for the success of a project. Because, if the management is incompetent a good project is become failed so it is necessary to evaluate the following things;

- Overall background of the promoter
- Their academic qualification
- Business and industrial experience
- Their past performance

The appraisal generally can cover up to six aspects of a project. The following flow chart may be used for selection of a good project.

## **4.2.12 Risk Management**

### **A) Historical financial analysis:**

Preferably an analysis of minimum 3 years historical financial statements of the borrower should be presented. The analysis should address the quality and sustainability of earnings, cash flow and strength of the borrower's balance sheet.

### **B) Credit risk grading:**

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

### **Function of credit risk grading:**

Well –managed credit risk grading systems promote bank safety and soundness by facilitating informed decision making. Grading system measures credit risk and differentiate individual credits and groups of credit by the risk they pose. This allows bank management and examiners



to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

### **4.2.13 Loan classification:**

Loan classification is a process by which the risk or loss ;potential associated with the loan accounts of a bank on a particular date is identified and qualified to measure accurately the level of reserves to be maintained by the bank to provide for the probable loss on account those risky loan. Like other banks, all types of loans of IFICBL fall into following four scales:

❖ **Unclassified:**

Repayment is irregular.

❖ **Substandard:**

Repayment is stopped or irregular but has reasonable prospect of improvement.

❖ **Doubtful debt:**

Unlikely to be repaid but special collection efforts may results in partial recovery.

❖ **Bad /loss:**

Very little chance of recovery.

<b>Classification stats</b>	<b>1<sup>st</sup> phase</b>	<b>2<sup>nd</sup> phase</b>	<b>3<sup>rd</sup> phase</b>	<b>4<sup>th</sup> phase</b>	<b>5<sup>th</sup> phase</b>
<b>Unclassified</b>	1%	1%	1%	1%	1%
<b>Substandard</b>	10%	10%	15%	15%	20%
<b>Doubtful</b>	50%	50%	50%	50%	50%
<b>Bad/loss</b>	100%	100%	100%	100%	100%
<b>Frequency of classification</b>	<b>Annual</b>	<b>Half yearly</b>	<b>Half yearly</b>	<b>Quarterly</b>	<b>Quarterly</b>

Loan Classification Stats

**Classification procedure:**

The classification procedure is done as per the central bank's instructions in B C D circular No.34 of 1989, B C D circular NO.20 of 1994. The loans are classified based on following criteria.

**Classification criteria:****1. Overdue criteria (OD):**

Term loans became overdue whenever an installment is not received within 3 months of the normal date of repayment for private sector loans and 6 months in case of public sector loans. Continuous type of loans, if not renewed, becomes overdue on the date of expiration of the loan. Classification status of a loan account is determined based on the length of overdue period.

**2. Qualitative criteria:**

In addition to the above mentioned criteria loans

**3. Special condition:**

There are certain special conditions set out in this circular which require classification even though a loan may not be overdue.

**4. Inspecting department instruction:**

Regardless of the above Bangladesh Bank's inspecting department may change the bank's classification of any loan.

#### **4.2.14 Legal framework for loan recovery:**

After being classified, if the borrower unable to adjust the loan then the bank can take following legal actions by filling suit

1. Filling certificate cases under Public Demand Recovery Act-1913.
2. Filling money suit cases under Artha Rin Adalat-1990.
3. Filling Bankruptcy cases under Bankruptcy Act -1997.
4. Filling cases under Negotiable Instrument Act -1881 section 138 to 141 for insufficient fund.  
(In case of term loan).

#### **Some problems of recovery:**

- Exemption of interest by govt. / bank.
- Exemption of loan including interest by govt.
- Political pressure and misunderstanding.

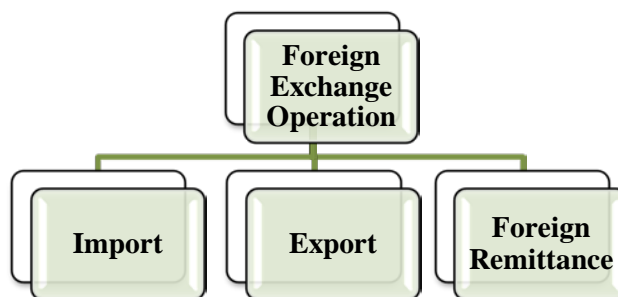
## **4.3 FOREIGN EXCHANGE DEPARTMENT OF IFIC BANK**

One of the largest businesses carried out by the commercial bank is foreign trading. The trade among various countries falls for close link between the parties dealing in trade. The situation calls for expertise in the field of foreign operations. The bank, which provides such operation, is referred to as rendering international banking operation. Mainly transactions with overseas countries are respects of import; export and foreign remittance come under the preview of foreign exchange transactions. International trade demands a flow of goods from seller to buyer and of payment from buyer to seller. In this case the bank plays a vital role to bridge between the buyer and seller.

*Foreign Exchange Department* is an international department of the bank. It deals with globally and facilitates international trade through its various modes of services. It bridges between importers and exporters. Bangladesh Bank issues license to scheduled banks to deal with foreign exchange. These banks are known as Authorized Dealers. If the branch is authorized dealer in foreign exchange market, it can remit foreign exchange from local country to foreign country. This department mainly deals with foreign currency. This is why this department is called foreign exchange department.

Some national and international laws regulate functions of this department. Among these, Foreign Exchange Act, 1947 is for dealing in foreign exchange business, and Import and Export Control Act, 1950 is for Documentary Credits. Governments' Import and Export policy is another important factor for import and export operation of banks

### **Function of Foreign Exchange Department**



#### **4.3.1 EXPORT**

Activities under the export section includes,

- ❖ Pre – Shipment advances
- ❖ Purchase of foreign bills
- ❖ Negotiating of foreign bills
- ❖ Export guarantees
- ❖ Advising/ confirming letters – letter of credit
- ❖ Advance for deferred payment exports
- ❖ Advance against bills for collection

#### **4.3.2 IMPORTS**

Activities under the import section includes

- ❖ Opening of letter of credit (L/C)
- ❖ Advance bills
- ❖ Bills for collection
- ❖ Import loan and guarantees

#### **4.3.3 REMITTANCES**

Activities under the import section includes

- ❖ Issue of DD, MT, TT, etc.
- ❖ Payment of DD, MT, TT etc.
- ❖ Issue and enhancement of traveler's cheque
- ❖ Sale and enhancement foreign currency note
- ❖ Nonresident accounts

#### **DEALINGS**

- ❖ Rate computation

- ❖ Maintenance of foreign currency account
- ❖ Forward contracts
- ❖ Exchange position and cover operations

### **Most Commonly Used Documents in Foreign Exchange**

- ❖ Documentary letter of credit
- ❖ Bill of exchange
- ❖ Bill of Landing
- ❖ Commercial Invoice
- ❖ Certificate of origin of goods
- ❖ Inspection certificate
- ❖ Packing List
- ❖ Insurance certificate
- ❖ Pro-forma invoice/ indent
- ❖ Master receipt
- ❖ GSP certificate

# CHAPTER 5: PERFORMANCE AND RATIO ANALYSIS

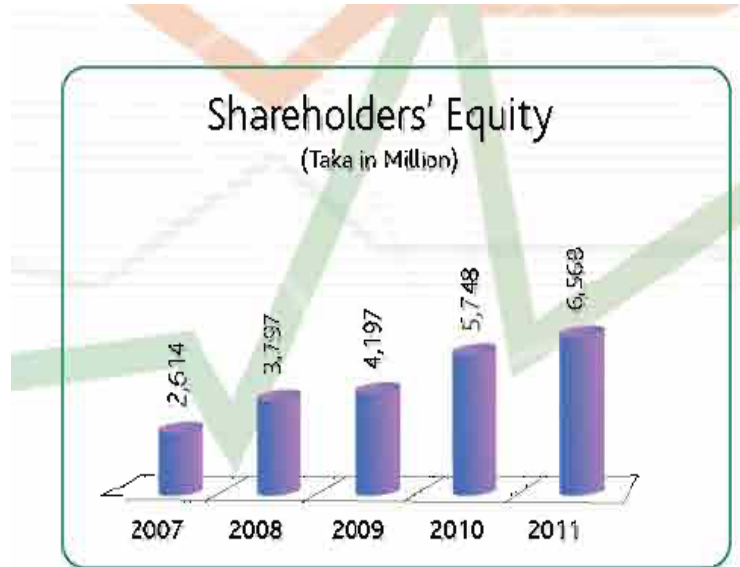
## 5. Performance and Ratio Analysis

<b>1. Financial Leverage</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Total Debt to Asset ratio	84939645093/91507538272 0.9282257	63816731502/69565198532 0.9173658
Total Debt to Equity ratio	84939645093/6567893180 12.932556	63816731502/5748467030 11.101522
Equity Multiplier	91507538272/6567893180 13.932556	69565198532/5748467030 12.101522
<b>2. Liquidity ratio</b>		
Current ratio	0.9256877	0.7095591
<b>3. Shareholder ratio</b>		
EPS	7.68	2.53
Dividend payout ratio	35.39	116.28
Price Earnings ratio	18.81	26.2
<b>4. Return ratio</b>		
ROA	2.37%	0.89%
ROE	33.12%	11.60%



## Performance Graphs

- ✓ Shareholders' equity



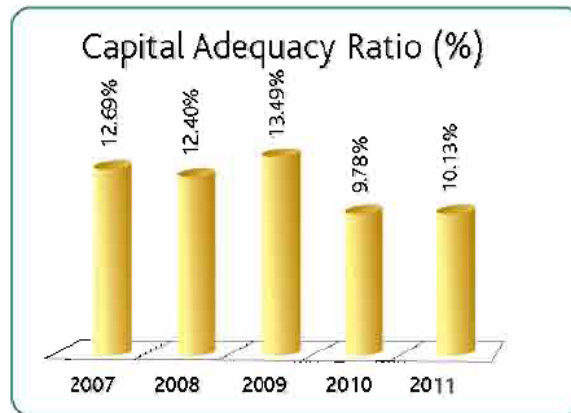
- ✓ Earnings Per share



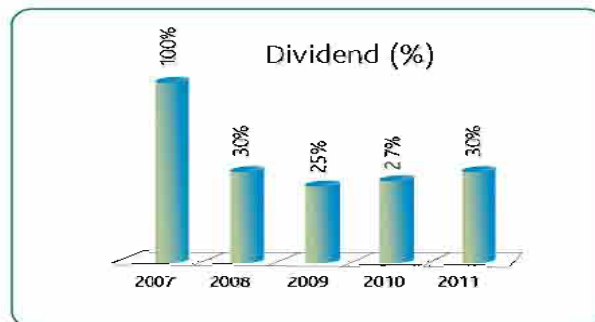
- ✓ Price earnings ratio



✓ Capital Adequacy ratio



✓ Dividend



# CHAPTER 6: FINDINGS, RECOMMENDATIONS, CONCLUSION

## **6.1 Findings**

While working at International Finance Investment & Commerce Bank Limited, in Federation Branch I have attained a newer kind of experience. After collecting and analyzing data I have got some findings and recommendations. These findings are from the personal points of view, which are given below:

- Online banking system is available in IFIC Bank that is very important to compete to others in the electronic world.
- For credit appraisal, the bank some time depends on the client for its authentication.
- All the employees are not professionally trained enough in the computer literacy part.
- It can be said IFIC Bank is much more a businessmen's bank than for the consumers or general public's.
- In case of opening an account, some big parties are come to open accounts in reference with the high officials of the bank. They do not submit all papers that required opening an account and in future they do not feel any urge to submit those papers, but already they become accounts holder. I think in this case the authority is violating the rule.
- Most of the borrower does not pay their payment timely.
- Most of the clients are under graduate and unable to understand the term and conditions, as a result they fail to understand that when they have to repay the loan, even after repeating them again and again the schedule of their repayment.
- Every time the bank has incurred a very big bad debt because of irresponsibility of employees.
- Loans and advance department take a very long time to sanction a loan; as a result they are losing the clients.
- Sometimes the employees overvalued the mortgage property, As a result if the client fails to repay the loan the bank authority cannot collect even the principal money invested by the selling those assets.
- Some times CIB reports are not prepared properly.

## SWOT Analysis

<b>STRENGTHS</b>	<b>WEAKNESS</b>
<ul style="list-style-type: none"> <li>➤ Good position in bank world.</li> <li>➤ Usage of MISYS bank software.</li> <li>➤ Efficient management.</li> <li>➤ Cooperation with each other.</li> <li>➤ Usage of SWIFT technology.</li> <li>➤ Good banker-customer relationship.</li> <li>➤ Strong financial position.</li> <li>➤ Energetic as well as smart force.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Reluctance to marketing campaign.</li> <li>➤ Existing of manual vouchers.</li> <li>➤ Lack of power.</li> <li>➤ Lack of computer skilled manpower.</li> <li>➤ Employee is not professionally trained enough.</li> <li>➤ Existence of classical loan .(about 2.5% of total loan)</li> </ul>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ul style="list-style-type: none"> <li>➤ Launching ATM card.</li> <li>➤ Huge business area.</li> <li>➤ Growth of sales volume.</li> <li>➤ Change in political environment.</li> <li>➤ Offer Money Gram facility.</li> <li>➤ Also offer Customer facility.</li> <li>➤ The management can consider options of starting merchant banking or diversity of leasing and insurance.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Poor economical condition of our country.</li> <li>➤ Entrance of new private commercial banks.</li> <li>➤ Different attractive service offered by some foreign banks.</li> <li>➤ Daily basis interest on deposit offered by some multinational banks.</li> <li>➤ Existing card service of different banks.</li> </ul>

## **6.2 Recommendations**

Banking is a service –oriented marketing, the business profit depends on its service quality. That is why the authority always should be aware about their service.

- Strict Supervision must be adapted in case of high risk borrowers. Time to time visit to the projects should be done by the bank officers.
- The average number of days required for sanctioning and disbursement of credit against specific loan proposal should be reduced.
- The performance evaluation system is not updated. The organization should follow the 360-degree performance evaluation system. In this case, the superior executives will not be much rude to the subordinates because the top-level employees' performance will be evaluated by the subordinates.
- Selection of borrower shall be made as per rules and procedures of the advances and after making proper assessment of business establishment, respectability, creditability, actual requirement of fund repayment capacity etc. Appraisal of feasibility and viability of the projects shall be done in proper manner examining all the factors by an efficient and qualified appraiser so that no difficulties are faced at any stage of the project from construction to production stage.
- The bank should not always be very much sensitive of recovery of loans and will not bring necessary pressures for recovery provided the borrowers are incorrigible and habitual defaulters. The lenders shall not resort to any hasty decision and take legal action against the borrowers if there is any scope for recovery of the dues on compromise terms even by allowing some concession of interest and rescheduling the repayment program by allowing reasonable time to the borrowers.
- Problem of the borrower's projects or business, which have turned sick unavoidable circumstances of unforeseen events, shall be looked into sympathetically by the lending bank. If necessary, bank shall not hesitate to allow further finance to revive the sick unit to ensure safe recovery of the loan in future for which a suitable repayment schedule may be prepared in consultation with borrowers.

- The lenders shall take legal action against the incorrigible defaulting borrowers who are avoiding payment on flimsy grounds without bonafide intention to square up their dues without wasting of time. Money suits & criminal cases filed against the bad borrower shall be closely followed up for early decision of the court and immediate steps shall be taken for satisfaction of the decrees against the judgment debtors.
- Alertness and education amongst the sub-conscious about their obligation to return bank's money in time and utilization of funds of funds only for productive purpose of motivation and education field assistants of the lending bank may play vital role.
- Highly efficient employee should take responsibility for loan and advance section.
- CIB report should maintain properly.
- Documentation about loans should maintain properly.
- The lenders shall sanction and disburse loan to the borrowers in proper time of investment. They will see that no delay is caused in completing formalities and processes which may create problem to the borrowers to divert funds elsewhere or want of scope for investment and thus the funds become stuck up ultimately. So loans should always be sanctioned & disbursed in proper time of investment to ensure recovery of the loan in time from the borrowers.

### **6.3 Conclusion**

Banking sector of Bangladesh consists of several nationalized and private banks. They are doing their activities and highly contribute to the national economy. Among them IFIC Bank Limited also makes significant contribution to the economy. They are performing their activities, as a result not only the bank but also the economy is benefited. The bank is performing general banking, Loan-advance, foreign exchange activities etc, as a result they are mobilizing the money and do well for the economy. Although they have some limitations in their services, they are doing tremendous job for the economy. If they can reduce their limitation and introduce new ideas, they can do better in the banking sector of Bangladesh.



# CHAPTER 7: APPENDIX and REFERENCE

## APPENDIX

**CC (hypo):** Cash credit-hypothecation

**CC (Pledge) :** Cash credit-pledge

**SBL:** Small business Loan

**FDR:** Fixed Deposit Receipt

**STD:** Short Term Deposit

**TT:** Telephonic Transfer

**DD:** Demand Draft

**PO:** Pay Order

**KYC:** knowledge about your customer

**FDD:** Foreign Demand Draft

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