



UNITED FINANCE LIMITED

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INTERNSHIP REPORT ON

CREDIT OPERATIONAL PROCESS



INTERNSHIP REPORT

Submitted to:

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Date of Submission: July 29, 2015

Letter of Transmittal

July 29, 2015

Md. Mahmudul Huq

Associate Professor

BRAC Business School, MBA

BRAC University

Subject: Submission of Internship Report

Dear Sir,

With great pleasure I am submitting my Internship report on “Credit Operational Process of United Finance Limited”. I have found this report as of informative, beneficial as well as insightful. I have tried my level best to prepare an effective & creditable report.

The report contains detail description about the functional activities of UFL. Here I have gathered information through different sources such as annual reports, websites and actual interviews from personnel of UFL”.

I hope that, this assessment will articulate the function of UFL and also their position in the industry. Therefore I hope you will find this report worth all the effort I have put in it.

Sincerely yours,

Sheikh Asimuzzaman

ID – 12264006

MBA

BRAC University

Acknowledgement

This internship report has been prepared through continuous study during my internship period for three months. This work would not be possible without the cooperation and assistance of some generous hands.

I would like to thank my honorable supervisor **Sabiha Jahan**, Head of Credit for her proper direction and supporting regarding my internship report. She has given a lot of assistance and guidelines in coordinating the whole report. Without her time and guidelines it would not be possible to prepare such analytical report.

Managing director of UFL, **Syed Ehsan Quadir**, also deserved special thanks for allowing me to do internship in his organization. I also thanked to all the personnel's of UFL for their special care, cooperation and assistance.

I am grateful to the Credit Risk Management team at the Head Office of UF for providing me with all the necessary and required information to prepare this report. I could not have done this work without the lots of help I received cheerfully from the whole UF. The work culture and environment in UF really motivated me to work there as one of their own.

Executive Summary

The non-bank financial institutions (NBFIs) constitute a rapidly growing segment of the financial system in Bangladesh. The NBFIs have been contributing toward increasing both the quality and quantity of financial services and thus mitigating the lapses of existing financial intermediation to meet the growing needs of different types of investment in the country.

Today all NBFIs are playing a vital role for the growth of the nation's economy with the best of their ability. During the world recession period NBFIs in Bangladesh act in a stringent manner so that their financial systems as well as the economy do not collapse. 30 NBFIs are now contributing to the growth of national economy. UF Limited as a leading and pioneer NBFIs started their operation in 1989 and still they are dominating the NBFIs sector as well as contributing to the prosper of economic development. Their success in this industry has inspired others to invest their capital in a profitable way.

The report represents the three months working experience in the United Finance Company Limited (UF). I was assigned to the Head Office at Camellia. This report will present a study of the credit operational process of UF and how does the structure of credit plays an important role in the process. The focal point of the study is to give a clear idea of how UF manages the credit, to analyze the processes being followed in their credit operation. I have used the available data and gathered the knowledge particularly on the credit operation structure of the Credit Administration Department where I worked as an intern.

During the short span of its operation, the company has successfully positioned itself in business community, from small businessmen or entrepreneurs to large traders and industrial conglomerates, including the top rated corporate borrowers for forward looking business outlook and innovative financing solutions. After that the products and SWOT analysis of UF is also presented. From SWOT analysis it is found that UF has huge opportunity in the non-banking sector to shine and can establish a strong pillar in the market.

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Chapter 1

Introduction



1.1 Introduction

A new breed of financial institutions known in the banking era as non-banking financial institutions (NBFI) is imperceptibly taking on an increasing important role in the field of financial intermediation in Bangladesh. Significantly, leasing Industry represents one of the most important segments of the financial system of Bangladesh and plays a very important role in mobilizing and channeling resources. In the present day socio-economic scenario, the leasing companies have been continuously playing an important role in financing industry, trade and commerce and housing, thereby contributing significantly to the economic development of the country. The leasing sector has contributed significantly over the years, despite several constraints. With the challenges of time, the overall growth of the leasing business achieved through diversification of products and services and aggressive marketing with special focus on the SME sector, is indicative of the industry's contribution to our national economy.

The report basically deals with "Credit Operational Process of United Finance Company Limited." The policy of UF Limited is prepared in line with the guidelines of Bangladesh Bank in Credit Risk Management and for the guideline of the officers or executives in handling affairs relating to credit in a disciplined way. Credit department plays a very important role in non – bank financial institution as they evaluate the risk and take decision about giving loan to the customers. In this report I have tried to study the literatures statements about credit risk management and also the credit operation of UF Limited.



1.2 Origin of the Report

Since practical orientation is an integral part of the MBA degree requirement, I was deputed by, BRAC University to United Finance Company Limited to take real life exposure of the activities of the organization as a financial institution. During my internship at UF Limited, I have come across with different functions of the company. I was assigned to the Credit department to learn credit operations. I decided to give special emphasis on Credit Operation and how it helps to achieve organizational goal. This report has been originated as the course requirement of the MBA program.

1.3 Objectives of the Report

The report is prepared for the purpose of acquainting the general functions of the company, UFL. As well as I here tried to articulate extensively the financial performance of UFL.

The broad objectives of UFL are as follows:

- To make an introduction of the ground of NBFIs in Bangladesh and specifically UFL and its service offering.
- To introduce the functional departments of UFL as well as functions of each department and brief idea about lease operational procedure.
- Specifically to articulate the nature of Job and different aspects of Job performance in UFL.
- Evaluating financial performance of UFL.
- To bring out the position of UFL in the industry.



1.4 Scope of the Report

This report mainly analyzes United Finance Company's practices about credit operations by emphasizing the dispersion of the credit among various sectors and individual customers, that is, basically the how risk is mitigated and managed by the CRM department. This report consists of the observations and on the job experiences during the internship period in the credit department of Camellia House, Head Office. This report emphasizes the sequential activities involved in credit management system and the ways by which risks are minimized. Finally it recommends some measures to further strengthen its credit management.

This report has been prepared through extensive discussion with the employees of UF. While preparing this report, I had a great opportunity to have depth knowledge of all the credit activities practiced by the UF. It also helped me to acquire a firsthand perspective of a leading non-bank financial institution (NBFI) in Bangladesh. The scope of this report is limited to the overall description of the company, its services and credit approval process of the Credit Department.

1.5 Methodology

The report has been made on the basis of the objectives mentioned before in the context of "**Credit Operational Process of UF**". This report is prepared on the basis of information collected from primary and secondary sources.

- I. Primary Data –The primary data of this report is the information, which is gathered from UF Limited while I worked with them. The primary sources are:
 - Practical Deskwork
 - Face to face conversation with different officials
 - Observation

- II. Secondary Data - The secondary data of this report are collected from UF Annual report, and some reports from which I got an idea about the way of writing a report. The sources of collecting secondary data are:



- Previous Annual report of UF
- Different manuals, books, journals published
- Guidelines of UF
- Publications obtained from different libraries and from internet
- Prospectus
- Website of UF, different companies & other required sites

1.6 Limitations

To make a report, various aspects and experiences are needed. While preparing this report, I have faced some barriers for making it a complete and perfect report. The major limitations are as follows: -

- Insufficient time to collect and understand the insights of an extensive credit granting process of UF Limited.
- Some policy does not permit to disclose various data and information related to their management policy.
- Difficulty in accessing data of its internal operations
- Non-Availability of some preceding and latest data
- Since Annual report of 2015 yet to be published almost of all companies so I was in trouble to select time period for financial data analysis.
- Limited Knowledge: Limited knowledge on the subject may hamper the understanding of the process within the given time frame.



Chapter 2

The Organization



2.1 United Finance Limited - Background

United Finance Company Limited (UF), an associate company of Duncan Group, commenced business in 1989 as a first generation lease financing company in Bangladesh. The company incorporated as a public limited company under the Companies Act 1913. UF was also granted license under the Financial Institutions Act, 1993. The shares of the company are quoted on the Dhaka Stock Exchange since 1994.

United Finance Company Ltd, a leading financial institution of the country was established in 1989 as a public limited company, to cater the investment needs of our economy. Leasing Company Limited is a non-bank Financial Institution engaged mainly in lease finance business and bills discounting. It was incorporated on 27 April 1989 as a public limited company under the Companies Act 1994 with an authorized capital of BDT 1,000 million. From the beginning, UF managed to grow rapidly with an average operational growth of above 30%. In April, 1994 the company issued 10.71% of its shares for public subscription at 50% premium and was oversubscribed. Now it is listed on the Dhaka Stock Exchange (DSE) and from the date of listing, its shares are enjoying high price.

Since inception UF has maintained prudent investment policies and has successfully positioned itself among the frontrunners in an increasingly competitive financial service sector. Building a diversified pool of assets spread across almost all sectors of the economy and serving a wide spectrum of customers in the process. The Company's customers include most of the top corporate groups in the country including some of the multinationals. However, the Company's major and most profitable business segments are leases to the small and medium enterprises. Continuing its journey, UF will invest its resources to expand their customer base and better serve their existing customers by diversifying their asset and liability portfolios. UF has the financial strength, management capability and committed human resources to ensure sustainable growth.



2.2 Company Profile

Name of organization	United Finance Company Limited
Form of Organization	Public limited company
Nature of Business	Non – bank financial institution
Commencement of Business	September 12, 1989
Number of Branches	19
Chairman	Mr. Imran Ahmed
Managing Director	Mr. Syed EhsanQuadir
Registered Office	Camellia House, 22 Kazi Nazrul Islam Avenue, Dhaka-1000
Website and Email	Website: www.unitedfinance.com.bd Email: webmail@unitedfinance.com.bd

Table 1: Company Profile

2.3 Shareholding Structure

Particulars	Taka
Authorized Capital	3,000 million
Paid-up Capital	1,402 million

Table 2: Shareholding Structure



Shareholdings of Associated companies and other related parties:

Name of Shareholders	No of Shares	Shareholding
United Insurance Co. Ltd.	28,947,606	20.64%
Lawrie Group Plc, U.K.	28,052,640	20.00%
Surmah Valley Tea Co. Ltd.	11,604,912	8.27%
Duncan Brothers (Bangladesh) Ltd.	1,402,632	1.00%
Macalms Bangladesh Trust	1,352,310	0.96%
Octavius Steel & Co. of BD Ltd.	1,001,864	0.71%
The Lungla (Sylhet) Tea Co. Ltd.	813,572	0.58%
Camellia Duncan Foundation	160,391	0.11%
The Chandpore Tea Co. Ltd.	98,077	0.07%
Amo Tea Co. Ltd.	86,070	0.06%
Chittagong Warehouses Ltd.	83,519	0.06%
The Allynugger Tea Co. Ltd.	83,414	0.06%
The Mazdehee Tea Co. Ltd.	83,352	0.06%
Duncan Products Ltd.	83,307	0.06%

Table 3: Shareholdings of Related Companies



2.4 Guiding Principles

2.4.1 Objectives of the Organization

The main objectives of the company are to assist the development of productive private sector industries particularly in their balancing and modernizing programs. The company mainly extends lease financing for machinery, equipment to the industries & vehicles for commercial purpose. In addition, it also provides project finance for expansion of business. The primary activity of the company is to provide leases to different commercial organizations. It provides lease for all sorts of manufacturing equipment and for vehicles.

2.4.2 Vision

To be the leading high quality service providers in the markets we serve.

2.4.3 Mission

- Devote continuous effort to improve products and services for sustaining competitive edge.
- Ensure service excellence by leveraging motivated human resource and technology.
- Manage risks and costs to ensure sound, financial performance and adequate return on all investments.

2.4.4 Goals

- *Customers:* Ensure that our service quality exceeds customer expectation in terms of timely delivery, fairness in treatment and value addition.
- *Risk Management:* Proactively manage risks and adhere to international best practices.
- *Shareholders:* Maximize growth in earning per share.
- *Employees:* Provide a stimulating and challenging yet congenial work environment, invest in training to harness full potential and compensate on performance basis.



2.5 Classification of Target Market

United Finance Company Limited provides services and offers products to certain segments of markets. The markets are diversified and identifiable for the customers and clients as well. Thus the markets are classified into parts and the classification is as follows:

- Small and medium scale companies
- Low profile good and potential performers

Main target customers are:

- Companies who have potentiality, sincerity, and devotion
- Companies who are badly in need of investment in equipment to grow
- Companies who wants to finance equipment without straining the existing credit line
- Sister concerns of well reputed large companies



2.6 Organizational Structure

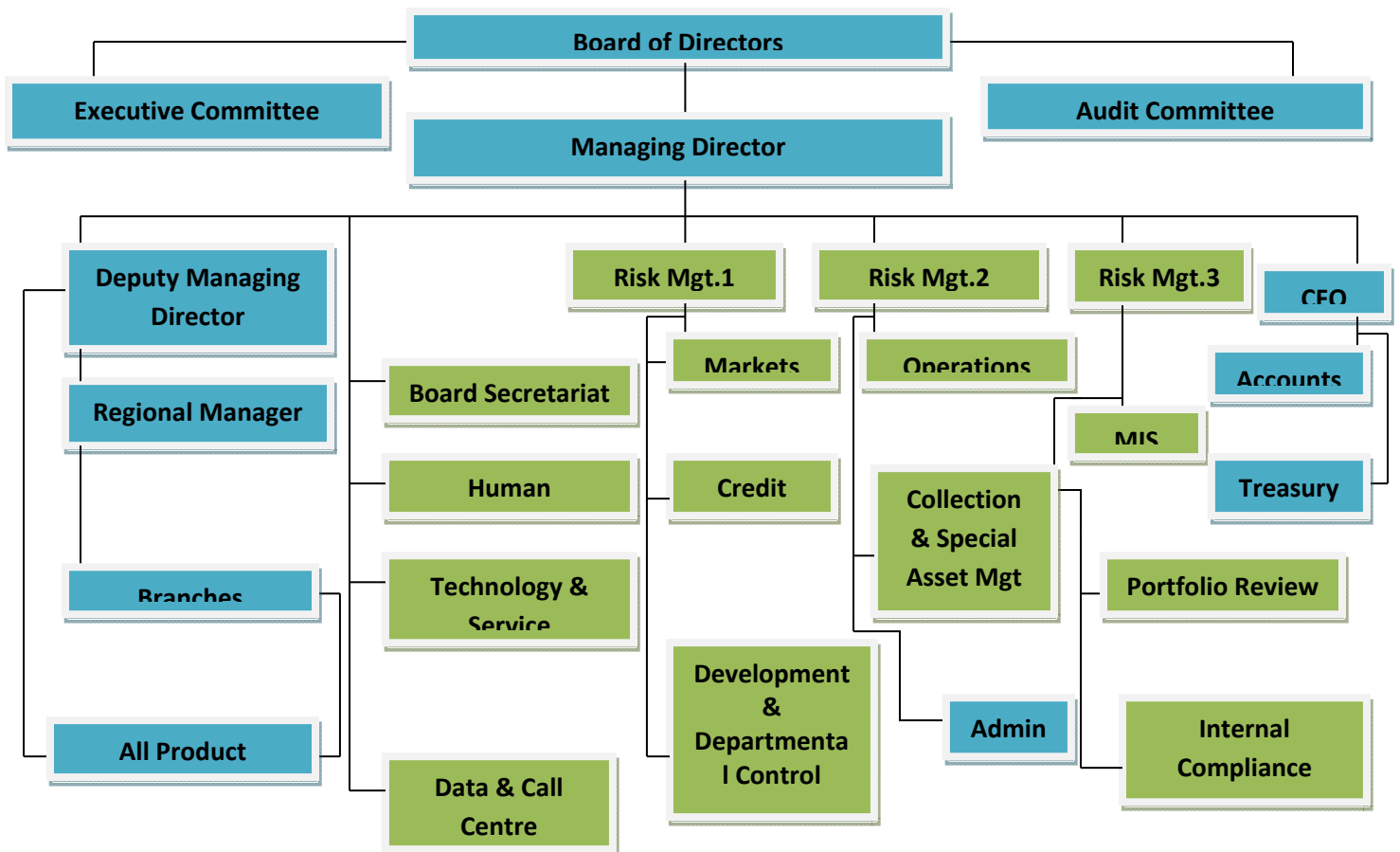


Figure.1: Organizational Hierarchy



2.7 Products/Services

United Finance Company, like any other companies, also offers different products and services which can be classified into two parts:

- Asset Products
- Liability Products

Asset Products:

Under asset financing products, they offer:

- Lease against vehicle or various equipment
- Affordable home loan to individuals to purchase, construct or renovate home or apartment

Under working capital solutions, they offer:

- Credit sale financing for creditworthy suppliers to free working capital tied up in receivables
- Distributor financing for distributor's procurement of inventory

Liability Products:

Liability products refer to the products which provide customers with deposit opportunities that are helpful for them in many ways. It includes products such as term deposit, earner schemes, insured schemes, etc.

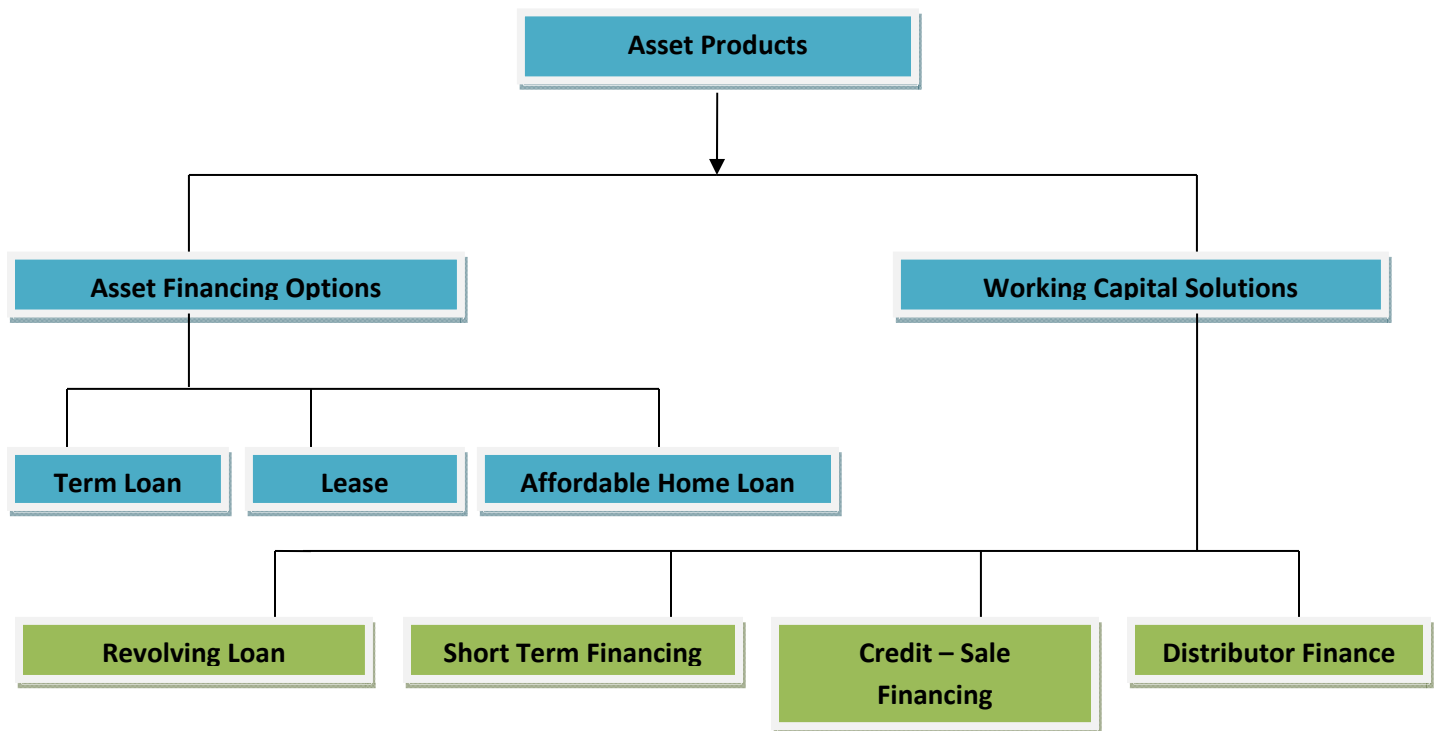


Figure.2: Asset Products

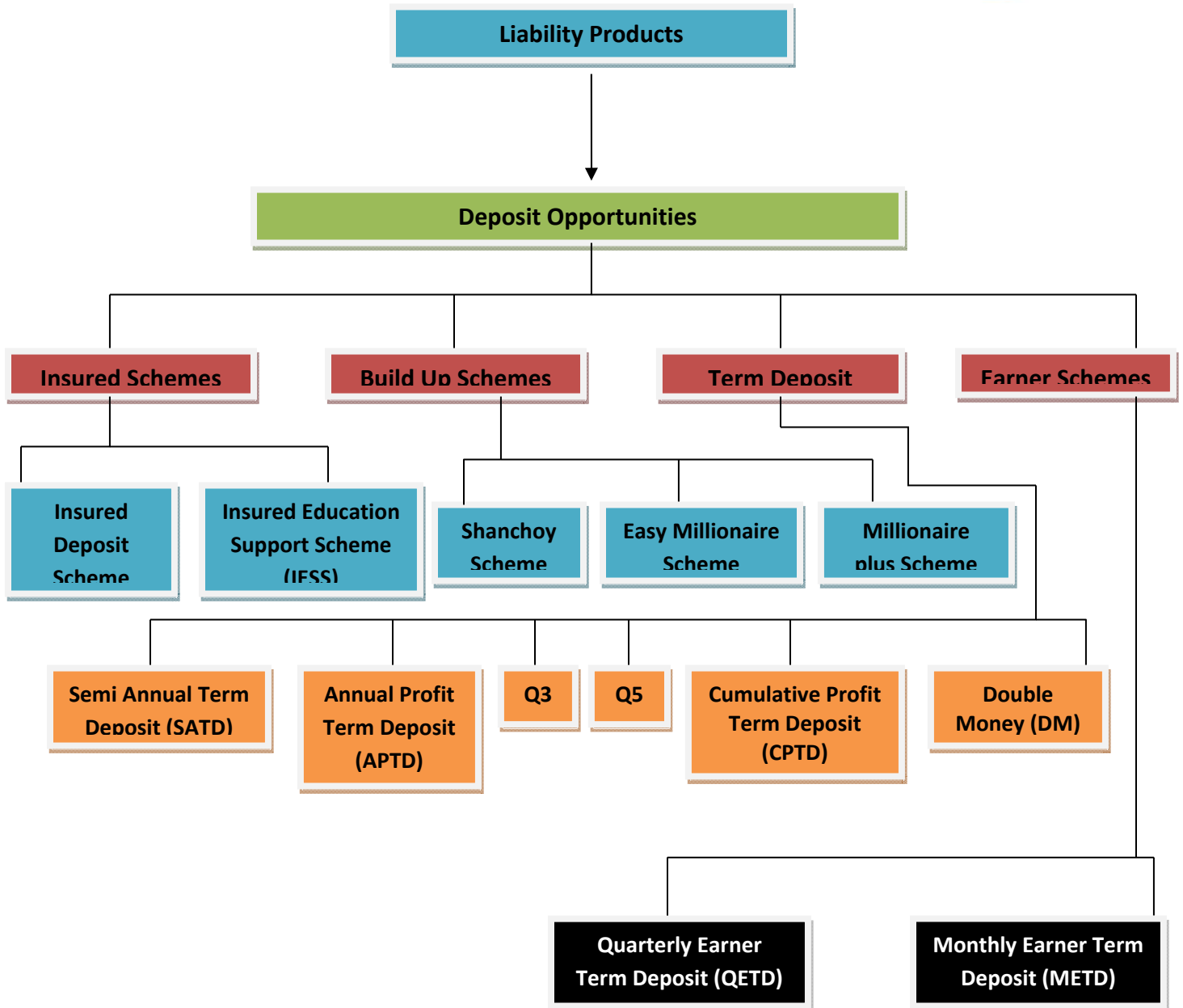


Figure.3: Liability Products



2.8 SWOT Analysis

SWOT analysis is a tool that identifies the strengths, weaknesses, opportunities and threats of an organization. Specifically, SWOT is a basic model that assesses what an organization can and cannot do as well as its potential opportunities and threats. SWOT analysis determines what may assist the firm in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results.

Strengths:

- UF has very high skilled, energetic, hard working and motivated human resources.
- UF has a very strong client base among the other leasing companies.
- UF do not comply undue political influence.
- With its diversified business, UF is better equipped to compete in an ever changing and challenging business environment.

Weaknesses:

- One of the major weaknesses is that, lack of marketing activities comparing to other competitors.
- Lengthy recruitment system.
- Unattractive salary and bonuses.
- Other branches are not well organized, except Head Office (Camellia House).
- Poor customer service.
- Unstable networking system.
- Insufficient employees.
- Unfavorable working environment.
- Lack of IT infrastructure and software system.
- No personal vehicle for the company.
- Backdated business policy and guidelines.

**Opportunities:**

- With growth in our corporate sector, demand for lease financing is also growing and consequently, the lease financing industry.
- By introducing new products such as home loan and small enterprise financing, UF can expand its market.

Threats:

- Continuously increasing deflation rate results into a less disbursement of fund.
- There is a clear trend of increasing competition in the lease market with the entry of more leasing companies and leasing by commercial banks.
- UF is the second largest in terms of credit portfolio. But the list of financial services UF is offering is shorter compare to other NBFIs.



Chapter 3

Credit Operational Process



3.1 Credit – An Introduction

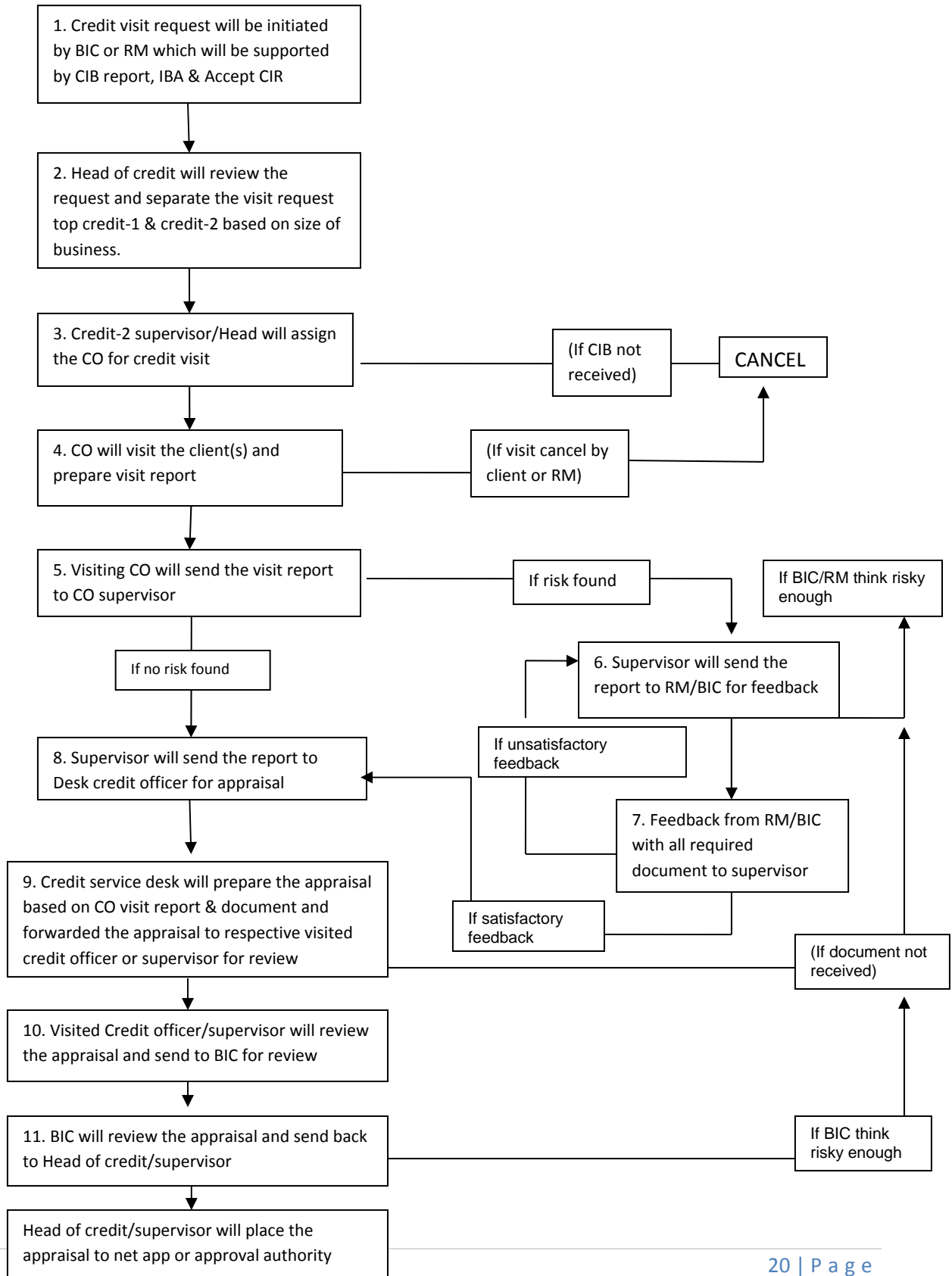
To understand credit, a basic idea of the term is needed. Credit is the amount of money available to be borrowed by an individual or a company because it must be paid back to the lender at some point in the future. Credit is basically the granting of loan and the creation of debt.

It is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately and thereby generating a debt. The resources provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. consumer credit). Credit encompasses any form of deferred payment. Credit is extended by a creditor, also known as a lender, to a debtor, also known as a borrower. Credit does not necessarily require money. Credit is in turn dependent on the reputation or creditworthiness of the entity which takes responsibility for the funds.

Credit department of UF mainly comprises of two different departments, Credit – Corporate, Enterprise financing & Channel financing (CEC) and Small Enterprise Credit (SEC). Credit (CEC) works in order to ensure that at the time of credit origination, risks are acknowledged and mitigated so that credit losses and collection costs are minimized. It also recommends appropriate methodologies in order to minimize lending risk for the quantifiable financial risks. It also ensures effective exercise of all credit principals and adherence to all regulatory requirement and company policies in all lending activities. On the other hand credit (SEC) ensures effective execution of credit principles are in place and exercised while maintaining best credit approval processing time for all small enterprise clients at the time of credit origination so that risks are acknowledged and mitigated to minimize credit losses and collection costs.



“Credit Operational Process”





Over the years, UF has established its line of products and tentative conditions (client specification) for different financing modes. The company is rather conservative in its selling approach, but that does not keep the company away from its customer base. As one of the major players in the leasing industry, the company has adopted a practice for appraising prospective clients and their purpose for credit request. Credit risk management process should cover the entire credit cycle starting from the origination of the credit in a financial institution's books to the point the credit is extinguished from the books. It should provide for sound practices in:

- Credit processing/appraisal;
- Credit approval/sanction;
- Credit documentation;
- Credit administration; and
- Monitoring and control of individual credits

3.1.1 Credit Appraisal in UF

Credit processing is the stage where all required information on credit is gathered and applications are screened. Credit application forms should be sufficiently detailed to permit gathering of all information needed for credit assessment at the outset.

Next is the credit appraisal where the financial institution assesses the customer's ability to meet his obligations. Institutions should establish well designed credit appraisal criteria to ensure that facilities are granted only to creditworthy customers who can make repayments from reasonably determinable sources of cash flow on a timely basis. Credit appraisal fits into the workflow, as a part of marketing and marketing service activities. Actually, credit appraisal begins in the marketing department of UF, right from the time of customer contact. Credit appraisal is done for different financing modes such as Lease and/or Sale and Lease Back, Hire Purchase and Bill Discounting.



People from the Credit department prepare credit appraisals of clients. There is a sanction of lease money for existing and new clients. If existing/new clients wish to borrow within the amount sanctioned by the MD, a **short appraisal** is prepared and duly approved by the MD of UF. However, if the client wants to borrow above the sanction limit, an **executive summary** is prepared and is recommended by MD. It is then send to Executive Committee and they may then give their approval or rejection for the appraisal.

Relationship Managers (RM) of all business units are free to seek businesses of all sizes irrespective of their business unit. Also the branches have target to build asset portfolio across all business size or product – large/medium, small and factoring. UF has two different credit departments to identify risks of different businesses classified by size:

- **Small Enterprise Credit (SEC):**
 - A Credit of small enterprises engaged in trading, services and manufacturing businesses.
- **Corporate and Enterprise Credit (CEC):**
 - A Credit of medium and large size companies in trading, services and manufacturing sector.
 - Credit of all revolving products (revolving loan, factoring) for clients of all sizes.

Companies registered as “Public Limited Company” should be treated as large, irrespective of the size of its net fixed asset. It is important to keep SEC and CEC separate because of the two different segments. For SEC , it is important to have person to person relationship as most of the time their business documents are not organized. Whereas on the other hand for CEC, organizations are more document-based and one can easily get necessary information who wants to check the credit worthiness of a particular client.



3.2 Credit Assessment Process - Credit Worthiness

Checking the credit worthiness of a client is an important process to gain necessary knowledge to make an informed decision on their level of credit risk. The decision process should be undertaken for new clients before work commences and for existing clients before a new matter is commenced. Periodic reviews are also required. The process of assessing credit can be complied into three stages:

1. Gathering the required information
2. Analyzing, reviewing and assessing the information
3. Making an informed decision

3.2.1 Information Gathering

The first stage credit assessment process is to collect the required information about a potential client. The important information that should be obtained from a prospective client includes:

- Certificate of Incorporation
- TIN certificate
- Articles of Association
- Shareholders' details
- Incorporation date or time in business
- Number of employees
- Financial data

Financial Data:

Analysis of recent historical financial data will provide a good indication of the financial strength of a business, and when the credit amount granted is significant, this information should be there.

Other information from credit rating agencies will include:

- Parent and associated companies
- Line of business
- Directors names, background
- Registered charges
- Number of trade reference and other inquiries



3.2.2 Analysis, Review and Assessment

When all the required and necessary information have been gathered, it is analyzed and then assessed.

The following points regarding the collected information should be noted:

1. Complete and accurate data: At first it should be confirmed that the information that has been provided is complete and accurate. If any data is not matched, the application of the credit proposal should be held until the status of the information being accurate is clarified.
2. Commencement of business: The date of incorporation or the start date of the business is a good example. This commencement date of the business can be used to calculate the years and form a part of the decision making data.
3. Size of the business: The number of employees will help in evaluating the size of the business.
4. Business experience: The age of individuals gives a guide to their years of business experience.
5. Trade references: These are an effective way to ascertain an entity's payment history and patterns with other credit providers.
6. Assessing financial data: The financial data of a business is the best source of information on its financial strength. Information such as the growth in turnover, profitability, and the asset base are good indicators of financial strength and can be measured using financial ratios.
7. Adverse information: If there is any adverse information such as court actions or insolvency notices, then the credit risk is high.

3.2.3 Decision Making

Based on an accumulation of the information, one should be able to make a judgment. If all the information is positive, the company accepts the client and grant credit. If most of the information is negative, then decline credit. If there is some negative information, the decision maker should assess its impact on the creditworthiness of the client and then a decision will be made.

Taking control of the information and building a database of one's own clients will deliver the best assessments. Credit risk evaluation is an ongoing process. The company also sometimes profiles their existing clients so that credit assessments can be carried out. Understanding the credit risk of each client will enable the company to increase fee income safely.



3.3 Credit Approval Process of Credit-Small Enterprise (CSE)

United Finance Company has a strong position in the financial sector of Bangladesh in terms of services provided. Development in the Small Enterprise Financing field has forced the top echelon of UF management to think away from traditional financial products and concentrate more in the Small Enterprise Financing products. Looking at the prospect of Small Enterprise Financing, UF established a separate department for Small Enterprise at the end of 2005. Before the formation of this department, there was no special attention given to Small Enterprise Financing. UF defines small and medium enterprise to differentiate each of them. Both the small and medium enterprises are those enterprises which are not public and each follows a certain criteria regarding assets and employees. Credit for small and lower medium sized clients are dealt with Credit Small Enterprise (CSE). They are trained and equipped to understand and identify the risks associated with small businesses.

Objectives of Credit Department (CSE) is to ensure effective credit principles are in place and exercised while maintaining best credit approval processing time for all small enterprise clients at the time of credit origination so that risks are acknowledged and mitigated to minimize credit losses and collection costs. Responsibilities of Credit Department (CSE) are:

- Visit all prospective clients before preparing the credit appraisal report.
- Prepare credit appraisal report of all proposals of Small Enterprise (SE).
- Verify whether the client's finance requirement is justified.
- Verify whether client has the repayment capability.
- Verify whether the client meets all credit criteria of UF

The credit approval process for small businesses is as follows:



3.3.1 Preparing Client Inspection Report

This is the first step of credit approval process. The relationship manager (RM) completes a client inspection report (CIR) for a prospective client. To prepare a CIR, some documents are required and they are as follows:

- Application for proposal and quotation
- Memorandum and articles of association of the applicant/ partnership deed and board resolution
- Copy of trade license
- National ID photocopy/ Passport photocopy.
- Copy of TIN (Tax Identification Number) certificate
- Bio-data and photograph of directors
- Net worth statement of the guarantors
- Bank statement for 1(one) year
- Accounts for last 3 (three) years.
- Company profile
- Sanction letters of others loan
- Corporate guaranty

After preparing, RM uploads that CIR in the National Foot Print (NFP), database of UF. After reviewing that report, branch in charge accepts or rejects that proposal. If accepted, CIR is uploaded and then the CIR comes to CSE.



3.3.2 Collecting CIB Report:

In order to strengthen credit discipline and improve the recovery position of loans and advances, a financial institution needs to have strong control on the overall operation of credit. All types of leases and loans of UF fall into following four scales as prescribed by Bangladesh Bank:

- **Unclassified:** Repayment is regular. This includes standard and special mention account (SMA).
 - *Standard:* Duration of due is 1-89 days or three months.
 - *Special Mention Account:* Duration of due is 90-179 days or three to six months.

- **Classified:** Repayment is not regular. This includes substandard
 - *Substandard:* If it is a continuous or demand loan, and if it is irregular for more than 6 months but less than 9 months then it will be classified as substandard. If it is a term loan, and if it is irregular for more than 6 months but less than 12 months then it will be classified as substandard.
 - *Doubtful:* If it is a continuous or demand loan, if it is irregular for more than 9 months but less than 12 months then it will be classified as doubtful. If it is a term loan, and if it is irregular for more than 12 months but less than 18 months then it will be classified as doubtful.
 - *Bad & Loss:* If it is a continuous or demand loan and if it is irregular for more than 12 months then it will be classified as bad & loss. If it is a term loan and if it is irregular for more than 24 months then it will be classified as bad & loss.

If the CIB report is mentioned as classified (substandard, doubtful or bad & loss) by Bangladesh Bank, the client will not be financed.



3.3.3 Receiving CIR and Credit Visit Request:

After the acceptance of CIR by head of SEF, RM sends a mail request for credit visit to Credit department. Credit department receives an automatic Generated mail in case of every accepted CIR. After getting the mail, credit person review that report. There are two parts in a CIR. One part contains general information about the client and the business. Another part contains three years accounts of the client. In case of existing clients, credit person checks the present condition of payment behavior of that client and find out the purpose of previous finance. On the other hand, if the client is new then credit person makes a brief list of matters that must be checked to analyze the client depending on the information regarding client's business and personal details. Client person also tries to get an overview of sales, assets, inventory etc. from the provided accounts.

3.3.4 Credit Visit

CSE downloads the CIR and initiates visit. RM forwards a visit schedule after discussion with client. Credit visit is an important part to accomplish the targeted task of the department. After reviewing the CIR, credit person goes to visit with a brief idea about the client and his/her business. Credit person tries to match that information and also seek for new information that can affect the finance decision.

Sometimes credit visit becomes a great challenge. Credit person tries to know about the client's background, family, reason for coming in the business, future plans for the business. He also observes the location of the business, current capacity of the picture of the business premises, factory premise, proposed machineries (if lease) etc. After the visit, credit person prepares a visit report and send to the head of credit. Head of credit discusses issues regarding the client and takes decision about the amount and tenure of the proposed finance facility. Credit visit helps the credit person to fill up the CRG (Credit Risk Grading) form.



3.3.5 Preparation of Appraisal:

After credit visit, credit person makes the appraisal for the client. If the client is accepted, scanned copies of all required documents are forwarded to credit for appraisal preparation. The appraisal is reviewed both by Head of Credit (CSE) and Branch in charge. Then it goes to DMD (Deputy Managing Director) for another review. At the end MD (Managing Director) gives the final approval.

3.3.6 Approval and Documentation

The credit officer of CSE obtains approval of the appraisal. The approved appraisal is forwarded to Operations for preparation of documents as per approved terms. Operations department then sends the original appraisal to respective branch.



Chapter 4

Credit Risk Management



4.1 Identification of Risks

The risk identification is the main task of Credit Risk Management (CRM) in United Finance and is done by one of the three risk managements in the company. The task is prepared by Risk Management 1 and is done very thoroughly and carefully. The CRM department tries to mitigate future risk of investment exposure by analyzing the current market situation, client's market specific and business specific risks. They also apply different kinds of risk assessment analysis and appropriate risk management tools in order to assess and find the level of client's exposure to different types of risk, vulnerability of clients to the specific risks and their capability to effectively survive those risks.

Before approving a credit proposal of a borrower, a client or credit review is done for preparing a credit appraisal report and later will be submitted to the approving authority. Credit review is prepared to ensure the following risk areas of a potential borrower:

- Borrower Risk
- Industry Risk
- Business Risk
- Financial Risk
- Facility Risk – Additional risk

4.2.1 Borrower Risk

The client, who may be an individual or group or affiliate of companies need to be assessed. Any issues regarding lack of management depth, complicated ownership structures or any other related risks will be mitigated. Certain standards have been set by UF which is basically seen by a Relation Manager (RM). The criteria on which a borrower is assessed are nationality, age, residence, experience, employment status, etc.



4.2.2 Industry Risk

The key risk factors of the borrower's industry also need to be assessed. Issues regarding the borrower's position in the industry, overall industry performance or competitive forces are to be addressed. The strengths and weaknesses (i.e. SWOT analysis) of the borrower relative to its competitors are identified as well. These data can be collected either from the statistical yearbook, public report/newspaper, journals and etc.

4.2.3 Business Risk

All the risk factors regarding the business of the borrower (if any) should be assessed in this analysis as well. Any information about the business should be collected and assessed for minimizing this risk in amount. Concerns like the nature of the business, age of business, profit/loss earned, and sales amount.

4.2.4 Financial Risk

An analysis of minimum 3 years historical financial statements of the borrower need to be presented. The analysis addresses the duality and sustainability of earnings, cash flow/projected cash flows, debt equity ratio, profit, and turnover. Loan is not granted if projected cash flow is insufficient to repay debts.

4.2.5 Facility Risk

The key risk factors of the facility given to a borrower should also be analyzed. Criteria used for grading the facility risk are tenure of business, location of business, management and successor plans of the business. Basically this risk analysis is an additional package risk that is done based on security issues and default risk. A RM is assigned for the physical verification of the facilities.



4.3 Factors Affecting Risks

It is the Company's policy to optimize return to shareholders while maintaining a strong capital base and credit rating to support business growth and meet regulatory capital requirements at all times. Every company recognizes that effective risk management is fundamental to good banking practice. So the company has continuously analyzed major risk factors which could affect its financial operations, revised its organizational structure and improved its processes for managing relevant risks. This is to ensure that its risk management system will be in line with international standards. Major risk factors that may affect the operations of United Finance include:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

4.3.1 Credit Risk

Credit Risk is the risk that the borrower may be unable or unwilling to repay the debt owed to the company, or to honor other contractual commitments. Credit risk corresponds to potential financial loss as a result of customers' inability to honor the terms and conditions of credit facility. Credit risk is the risk arising from the possibility that the Company will incur losses from the failure of customers to meet their obligations.



4.3.2 Market Risk

Market Risk is the risk that arises from fluctuations in interest rates, exchange rates and the prices of instruments used in the money and capital markets, all of which may affect the financial performance of the company. Market risk is defined as the risk of loss resulting from adverse changes in risk factors such as interest rates, and equity prices together with related factors such as market volatilities. The Company is exposed to market risk because of positions held in its trading portfolios and its non-trading businesses.

4.3.3 Liquidity Risk

Liquidity Risk is the risk that the Bank may not be able to meet cash flow obligations within a stipulated timeframe. Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. The Company's liquidity policy is designed to ensure that it can at all times meet its obligations as they fall due.

4.3.4 Operational Risk

Operational Risk is the risk of loss from failed or inadequate internal processes, people and systems or from external events. This includes legal risks, but does not include strategic risks and reputational risks. It is the risk of potential losses from a breakdown in internal processes and systems, human error, or management or operational failure arising from external causes. Operational risk arises from inadequate process, misuse of process, from human or system error or from external factors.



4.4 Risk Management – Monitoring & Controlling

The Company's Risk Management Committee plays a significant role in prescribing the risk management policy, reviewing the sufficiency of the risk management policy and systems, defining the strategy for risk management, and monitoring the company's risk to an appropriate level, in compliance with the company's risk management policy which has been approved by the Board of Directors based on the Risk Management Committee's recommendation. The objectives are to manage the relevant risks within designated parameters while managing the business in such a way as to achieve an appropriate rate of return. The important part of the process in the risk management system comprise the monitoring of risks to an appropriate level under the company's policy, and the reporting of the status of each type of risk to relevant parties so as to enable them to manage and/or handle the risks in a timely manner.

4.4.1 Credit Risk Management

The Company has segregated duties for the officers involved in credit related activities. Credit evaluation, credit administration and credit monitoring and recovery functions are segregated and delegated to credit evaluation department, operations department, collection and special assets management department respectively. Risk Review department is entrusted with the task of managing the internal risk rating model. This Internal Rating Based (IRB) approach, recommended by the Basel-II committee and also by the Bangladesh Bank in its Supervisory Review Process, coupled with the data integrity management process of monthly credit audit, helps manage asset quality and establishing a prudent credit culture within the company that is efficient and transparent. Credit Risk Management faced a challenge to support the increasing volume of credit visit requirement, which grew as a result of increased marketing efforts. They were successfully able to meet the challenge through achieving better efficiency.



4.4.1.1 Credit Risk Grading (CRG)

The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects underlying credit risk for a given exposure. It is the basic module for developing a credit risk management system. Grading systems measure credit risk and differentiate credits and groups of credits by the risk they pose. This process allows bank management to manage risk to maximize returns. Credit Risk Grading is an important tool for credit risk management as it helps the company to understand various dimensions of risk involved in different credit transactions. It is vital to take decisions both at the pre-sanction stage as well as post-sanction stage. At the pre-sanction stage, credit grading helps the sanctioning authority to decide whether to lend or not, what should be the pricing for a particular exposure, what should be the extent of exposure, what should be the appropriate credit facility and the various risk mitigation tools. At the post-sanction stage, the company can decide about the depth of the review, frequency of review, periodicity of the grading and other precautions to be taken.

Two factors are considered while grading a proposal:

1. Qualitative factors
2. Quantitative factors

Basically a company can consider both the qualitative and quantitative factors (5c's of Credit) which include:

- Character – refers to a borrower's reputation
- Capacity – measures a borrower's capability to repay loan
- Capital – the lender will consider any capital the borrower puts toward a potential investment since a large contribution by the borrower will lessen the chance of default.
- Collateral – such as property or large assets, helps to secure the loan.
- Conditions – this refers to the conditions of the loan, such as the interest rate and principal amount, will influence the lender's desire to finance the borrower.



4.4.1.2 Credit Risk Grading in UF

The credit risk grading in UF is done with two basic scales. UF uses borrower risk grading and facility risk grading. The grading is given on the basis of the criteria that are discussed above.

The grading is done on some criteria given on a financing proposal. The criteria are:

- Client
- Purpose of the proposed facility
- Proposed facility
- Background of the company
- Credit investigation
- Business & market
- Impact of finance
- Financial data and key indicators

When all these factors are considered, the proposal is given a facility risk grade and a borrower risk grade. On the basis of those two grades, a combined risk grade is given to a particular proposal.



4.4.2 Market Risk Management

Interest rate risk is a major factor in determining the company's interest income from assets and interest expenses on liabilities. The company is exposed to interest rate risk as interest rates for its assets and liabilities may vary at times. Thus this risk arises from the Company's treasury activities and lending businesses due to mismatches between the future yields and funding cost that is managed daily by the Treasury department and monthly reviewed by Asset Liability Committee to monitor the interest rate movement and devise a number of alternative options to mitigate possible interest rate risks. Equity positions can result in changes in the Company's non-trading income and reserves arising from changes in equity prices/income. Such exposure may take the form of listed and unlisted equity. The type, nature and amount of equity exposure held by the Company is not significant. The market value of the equity assets held by the Company at the balance sheet date is much higher than cost price.

4.4.3 Liquidity Risk Management

Liquidity management focuses on overall balance sheet structure and the control, within prudent limits, of risk arising from exposure to the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations. The management of liquidity risk is carried out by Treasury department under approved policy guidelines. Compliance is monitored and coordinated by Treasury both in respect of internal policy and the regulatory requirements. The liquidity management is monitored by Asset Liability Committee (ALCO) on a regular basis. A contingency plan is in place for managing extreme situation. The risk of short term mismatch can be met by the undrawn commitment and expected renewal of deposits. Asset Liability Management Committee (ALCO) continued their contribution through effective fund management and played a major role in keeping the Company's fund cost competitive and making available the required fund during the entire period of liquidity crunch.



4.4.4 Operational Risk Management

The Operation Risk Management Committee is responsible for identifying operational risks and take steps to mitigate such risks. The Committee comprises of the Head of Development, Head of Human Resources and the Head of Information, Communication and Services. The Committee reviews operational processes and evaluates the process in terms of efficiency and adequacy of the process to ensure adequate control. Processes are reengineered to improve efficiency without diluting the control/risk. The re-engineered process is documented and imparted among the stakeholders of the process to ensure the process delivers as expected. To prevent misuse, 'maker and checker' concept is implemented in every step of operational processes. Also appropriate trainings are arranged regularly to reduce human errors. New products are also designed with internal risk mitigating features.

4.4.5 Contemporaneous Risk Management

Operations department improved their efficiency and adequately supported the increasing volume generated by marketing. The collection, recovery and litigation teams were effective in keeping collection rate high and their recovery efforts yielded tangible results.

4.4.6 Post-facto Risk Management

There has been further development in portfolio risk analysis and early warning system. Innovative analytical system has been developed that allows us to understand probable future risks and take pre-emptive measures to mitigate them. Internal Compliance Department continued evaluating the performances and effectiveness of the control mechanisms through audits of all departments and branches of your Company. Additionally, the team evaluated policy documents and audited operating procedures to ensure the effectiveness of the risk control systems. As usual, the audit and inspection reports were regularly placed to the Audit Committee of the Board for its review and recommendations. The Management Information Systems department improved the reporting quality. This helped the senior management team to better direct the operations of the Company and enabled the mid-level managers to better supervise their resources.



Chapter 5

Recommendation & Conclusion



Recommendation

Throughout my internship I have found that, United Finance Limited has the opportunity to improve more in the following sector:

- First of all an uninterrupted network system should be ensured. It will save the officials from much hassle and will save time.
- Relationship manager (RM) should be more sincere and careful in collecting and uploading the data in Client Inspection Report (CIR).
- RM should be provided more flexibility in required documents collection so that the process is not stopped on that point due to required documents.
- The credit approval process should be made quicker since competition is very hard in today's business world. Clients do not want to wait to get a lease or loan which is even protected by security.
- They should increase salary to motivate employees to work for the organization.
- For the smooth credit operation, existing employees should be trained properly to carry out this job more efficiently. Besides, some experienced and skilled people can be recruited.
- Decision making process should be made more decentralized to gain prompt and effective result.



Conclusion

Financial institutions play an important role in the economic development of the country. Being a financial institution UF also plays an important role in lease financing. United Finance Company is much satisfactory. UF should improve their strategy and service quality. They should also concentrate in minimizing the credit approval process time which in turn will give more quick service to its clients. The market still has huge opportunities for the leasing and financing business. Throughout my internship I have tried to show the overall operational process of this company. Here I have used my theoretical knowledge which I have achieved in my educational period and also I have used what I have learnt throughout my internship program regarding the facts. So finally it can be said that, United Finance has the brightest future in the non banking financial sectors in Bangladesh.



Appendix

ABBREVIATIONS

- ALCO= Asset Liability Committee
- BS= Balance Sheet
- CEC= Corporate Enterprise Credit
- CRG= Credit Risk Grading
- CRM= Credit Risk Management
- CSE= Credit Small Enterprise
- CO= Credit Officer
- CH= Credit Head
- CIF= Customer Information Form
- CIB= Credit Information Bureau
- CIR= Client Inspection Report
- DF= Distributor Finance
- ECC= Exception Credit Committee
- DIF= Debtor Information Form
- IADA= Interest Adjusted Deposit Account
- IBA= Initial Borrower Amount
- IRB= Internal Rating Based
- NBFI= Non Banking Financial Institution
- NID= National Identity Card
- PG= Personal Guarantor
- PPG= Product Policy Guidelines
- PL= Profit & Loss Account
- PL= Party Ledger
- PDC= Post Dated Cheque
- RM= Relationship Manager
- SEC= Small Enterprise Credit
- SM= Service Manager
- SDA= Security Deposit Account
- SL= Sales Ledger
- TC= Target Customer
- TCC= Tax Clearance Certificate
- TL= Term Loan
- TIN= Tax Identification Number
- TL= Trade License
- WCF= Working Capital Finance



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