BRAC UNIVERSITY

INTERNSHIP REPORT

SUBMITTED TO

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SUBMITTED BY:

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DATE OF SUBMITION:

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INTERNSHIP REPORT
ON
UNITTED COMMERCIAL BANK

TOPIC

(CREDIT RISK MANAGEMENT)

happy banking | UCB

DATE: NOVEMBER 02, 2011

TO

Rahnuma Ahmed
Lecturer
BRAC Business School,
BRAC University

Subject: Submission of Internship Report.

Dear Madam,

I am very pleased to submit you the following Internship report on "**CREDIT RISK MANAGEMENT OF UNITED COMMERCIAL BANK LTD."** This report has been carried out as a part of my BBA program. I have gladly accepted this topic, because I believe that this experience will help me in my practical life to great extent.

I would like to convey my special thanks and gratitude to honor for patronizing my effort. I expect that, my performance will be at standard level and accepted by my best effort.

I believe that, this experience will greatly help to face challenges in my real life. Because, this work will help me to increase my experience about the overall performance of a Bank. So, I am extremely grateful to you.

Cordially Yours,

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Samiul Shihab Khan

ID: 06304058

Acknowledgment

I feel proud to express my gratitude from the core of my heart to my internal guide, honorable teacher **Ms. Rahnuma Ahmed (**Lecturer BRAC Business School, BRAC University) for stimulating inspiration, proper guidance, valuable criticism and sagacious advice to me in preparing this report.

In this report I have tried to give my best effort and maximum possible concentration. Because I think that, this work will greatly help me in two important ways: Firstly, it is one of the most important parts of our course curriculum for which the honorable teacher has given her most effort and valuable time to me. Secondly, this performance will be largely helpful in my practical life, at the same time it will improve my ability, increase my knowledge and enhance my efficiency as well as experience.

This report owes much to the different personnel's of **United Commercial Bank Ltd**, who have contributed to the thinking and development of this report. Without the co-operation of them it was not possible for me to prepare this report. I take the opportunity to express my sincere gratitude and respect to **Mr. Zaglul Pasha (SVP)** of UCBL, Khulna Branch, Khulna for accepting me to work in this renowned organization. My heartiest thanks go particularly to Mr. **Syed Lutful Haque (FAVP)**, **Mr. Ashfaque Ahmed (AVP, in- charge of credit risk department)**, **Mr. Mahbub Faruquee (AVP)**, **Mr. Mustafa Shakil Hasan (Senior officer), Mr. Ali Hassan (Officer), Mr. Sharafat Ali (Junior Officer) Ms. Sharina Tabassum (Officer)** for their spontaneous help and constant guidance in carrying out the project and supervision on my work in UCBL.

Finally, I would like to thank **Almighty Allah** for best awing me with patience for the completion of this report on internship.

Executive Summary

Practice makes a man perfect. Any academic course of the study has a great value when it has practical application in the real life. Only a lot of theoretical knowledge will be little important unless it is applicable in the practical life. So, we need proper application of our knowledge to get some benefit from our theoretical knowledge to make it more fruitful. When we engage ourselves in such field to make proper use of our theoretical knowledge in our practical life, only then we will be to know about the benefit of the theoretical knowledge.

As a part of this practical experience, I was assigned for preparing a report on "**CREDIT RISK MANAGEMENT OF UNITED COMMERCIAL BANK Ltd.**"

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PART-1 (The Organization)

Due to inefficiency and continuous loss of public sector, The Government of Bangladesh changed its policy in favor of privatizing and a number of banks were launched in private sector. UCBL was one of them. UCBL is one of the oldest and leading commercial banks of the country.

1. Introduction & History of UCBL:

UCBL was incorporated in Bangladesh as Banking Company under the Companies Act.1913. Moreover, commended operation on June 26, 1983 when the Govt. allowed some commercial bank to operate in the private sector. As a scheduled bank of the country, the bank's activities are subject to the effective control, supervision and guidance of the Bangladesh Bank. The bank in primarily oriented towards extending financial assistance in the trade and commercial sector besides lending in the industrial sector.

Sponsored by some dynamic and reputed entrepreneurs and eminent industrialists of the country and participated by the Government, UCB started its operation in mid 1983 and has since been able to establish the largest network of 110 branches as on 30. 06. 2011 among the first generation banks in the private sector.

With its firm commitment to the economic development of the country, the Bank has already made a distinct mark in the realm of Private Sector Banking through personalized services, innovative practices, dynamic approach and efficient Management. The Bank, aiming to play a leading role in the economic activities of the country, is firmly engaged in the development of trade, commerce and industry through a creative credit policy.

1.1Organizational Status of UCBL:

a) The Bank:

It has 110 branches all over Bangladesh and carries out all banking activities through its branches in our country and through international correspondent outside the country.

On December 31, 2010Total assets of the Bank stood at Tk. 129,774,429,670

b) Network:

UCB always considers client service the most vital factor to face ever-increasing competition and challenge in the Banking sector and as such places on it utmost importance. With that end, in view the Bank continued its personalized approach with speed, precision and accuracy. Presently the number of the branches stood at 110 covering almost al the important places of the country. The numbers of authorized dealer branches are 18. Moreover, worldwide international correspondents' network of the Bank has been continuously expanding covering the important countries in all the countries of the world.

Besides the Bank has arrangement with a number of Exchange Houses at Singapore, U.A.E., Oman, Qatar, and Kuwait to facilitate remittances from expatriate Bangladeshis.

To cope with modern banking requirement all the branches are being computerized. To develop expertise on computer operation, regular training program on computer for the officers are continuing. The bank is examining the possibility of introducing new computer programs (ON-LINE BABKING) for improving customer service and has finalized arrangements with other private commercial banks to introduce ATM. SWIFT has already been introduced to speed up international transactions and passing of L/Cs at HEAD OFFICE. SWIFT and introduced all the A.D branches of the Bank.

c) Management

Mr. M Shahjahan Bhulyan is the Managing Director of the Bank. He is a renowned and dynamic banker with more than three decades of banking experience to his credit. Mr. M Shahjahan Bhulyan, a prominent banker. The Management is well supported by an organized team of dedicated executives and officers.

d) Capital and Reserves:

During the year 2010, authorized capital of the Bank was Tk. 9,000 million. The paid-up capital stood at Tk.2910.00 million and reserve fund stood at Tk.3415.00 million on December 31, 2010.

e) Deposit:

Deposit of the Bank increased in the year 2009 than in the year 2010. On December 31, 2010 total deposit of the Bank stood at Tk.113071.00 million against Tk. 77730.00 million in 2009.

f) Credit:

Credit program of the Bank continued to expand satisfactorily during the year 2010. On December 31, 2010 net credit of the Bank rose to Tk93460.00 million as against Tk.61692.00 million in 2009.

g) Investment:

On December 31, 2010, total investment of the Bank stood at Tk. 15046.48 million.

h) Foreign Trade:

The Bank's foreign trade policy is designed to assist development of trade, commerce and industry in the country in consonance with the guidelines of Bangladesh Bank. Total import business handled by the Bank during the year 2010 December was Tk. 86667.00 while export business was Tk.50712.00 million.

I) Human Resources:

Skilled work force is an essential pre-requisite for development of any service-oriented organization. UCB puts all out emphasis for the development of professional work force to meet the challenge of modern banking. Since there is no alternative to training for acquiring the required efficiency and professional excellence, Bank's training institute was busy throughout the year to impart training on different aspects of Banking. During 2010,

73 (Seventy Three) in-house training courses were arranged in which 2346 officers took part. Moreover, a number of executives and officers were sent to Bangladesh Institute of Bank Management {BIBM) and other training agencies. At the end of 2010 total number of employees stood at 2378 comprising of 24 executives, 1811 officers and 703 staffs.

j) Total Profit:

The Bank made more profit in the year 2010 than in the year 2009. On December 31, 2010, Total Profit of the Bank was Tk.4732.46 million

1.2. UCBL Board of Directors

Chairman

Mr. M.A. Hashem

Vice Chairman

Mr. Kazi Enamul Haque

Director

1.Mr. Hajee M.A. Kalam

2.Mr. Hajee Younus Ahmed

3.Mr. Akhtaruzzaman Chowdhury MP

4. Mr. M A Sabur

5. Mr. Hajee M A Kalam

6. Mr. Saifuzzaman Chowdhury

7. Mr. Shabbir Ahmed

8.Mr. Showkat Aziz Russel

9. Mr. Nur Uddin Javed

10.Mrs. Sultana Rezia Begum

11. Mr. Sharif Zahir

12. Mr. Riyadh Zafar Chowdhury

13. Mr. MD Tanvir Khan

14. Mr. Ahmed Arif Billah

15. Mr. Emran Ahmed

16. Mr. Nashim Kalam

17. Mr. Bazal Ahmed

18. Mrs. Qmrun Nahar

19. Mrs. Setara Begum

20. Mr. Nurul Islam Chowdhury

Managing Director

Mr. M Shahjahan Bhulyan

Secretary

Mr. Mirza Mahmud Rafiqur Rahman

Executive Committee of the Board

Chairman

Mr. Hajee Younus Ahmed

Directors

Mr. Md. Jahangir Alam Khan

Mr. M A Kalam

Mr. M A Sabur

Mr. Saifuzzaman Chowdhury

Mr. Showkat Aziz Russel

Mr. Riyadh Zafar Chowdhury

Managing Director

Mr. Hamidul Huq

Audit Committee

Chairman

Mr. Md. Jahangir Alam Khan

Member

Mr. M A SaburMrs.

Mrs. Qmrun Nahar

1.3. Organizational network organ gram

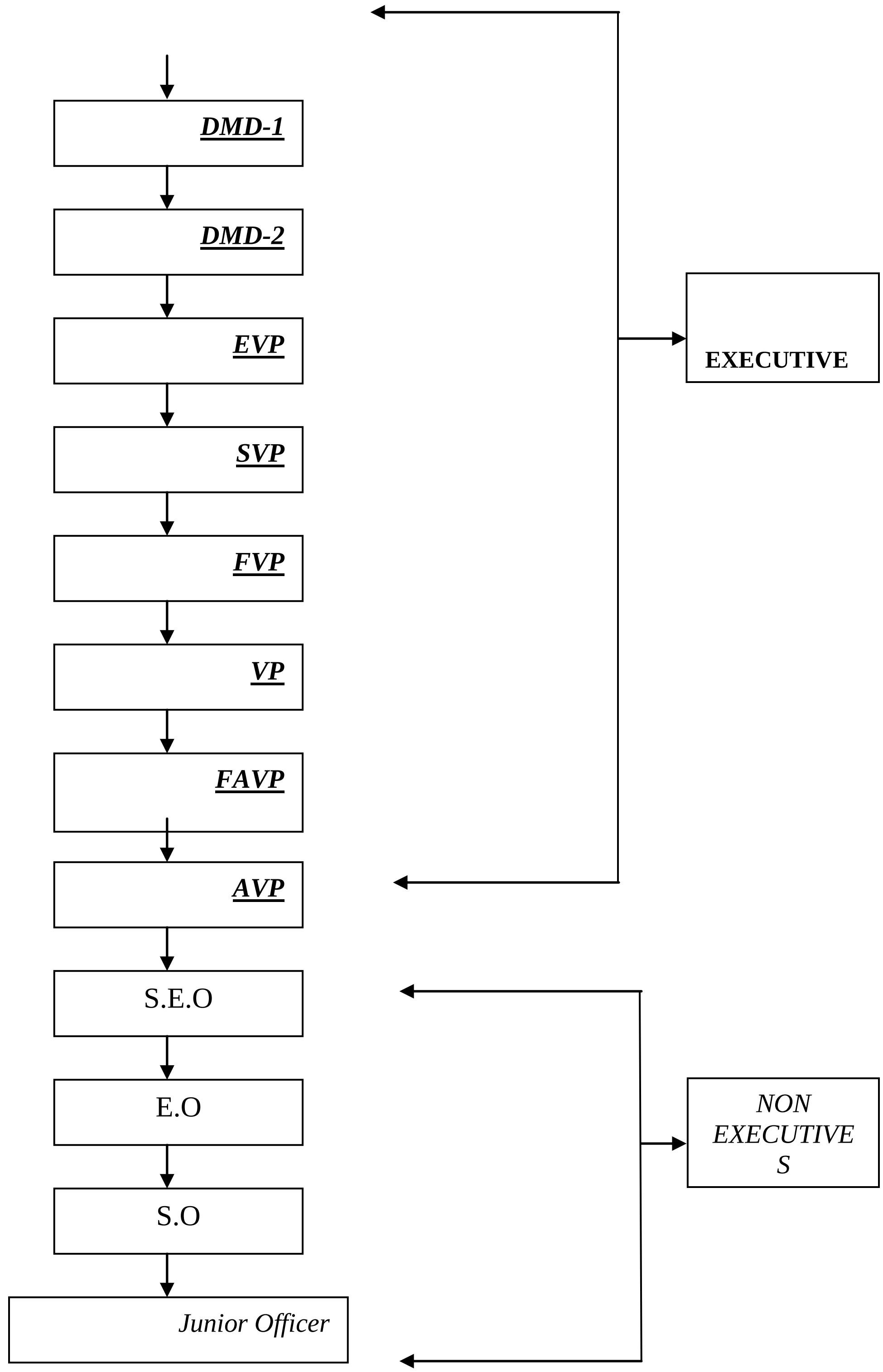


Table1:OrganizationalflowchartofUCBL

1.4Balance Sheet (December 31, 2010):

The following table shows the property & assets as per balance sheet as on December 31, 2010

PROPERTY & ASSETS	December 2005
Cash	1,029,475,236
Cash in Hand (foreign currency)	1,615,750,667
Balance with Bangladesh Bank & Sonali bank (including foreign currency)	8,413,724,569
Balance with Other Bank and Other Financial Institution	1,824,534,662
In Bangladesh	1,278,118,316
Out Bangladesh	546,416,546
Money at Call and Short Notice	1,120,000,000
Investments	15,171,379,647
Government	12,408,114,292
Others	2,762,265,355
Loans & Advances	93,560,701,747
Loans, Cash Credit, Over Draft etc.	91,186,591,801
Bills Discounted & Purchased	2,374,109,943
Premises & Fixed Assets (Less Depreciation)	1,966,349,087
Other Assets	6,101,989,094
Total Assets	129,774,429,670

Table – 2: Property & assets of UCBL as on December 31, 2010

1.5. Position of UCBL (2006 - 2010):

The following table shows last five-year's position at a glance:

LAST 5 YEARS BALANCE SHEET

Last Five Years Position at a Glance (flg in Million)						
		2006	**2007**	**2008**	**2009**	**2010**
1.	Authorized Capital	1,000.00	1,000.00	1,000.00	1,000.00	8,000.00
2.	Paid-up Capital	230.16	299.00	299.00	1194.00	2910.00
3.	Reserve Fund	1262.00	1596.00	1889.00	2818.00	3415.00
4.	Deposits	33016.00	42296.00	54885.00	77730.00	113071.00
5.	Advances	26110.00	37556.00	44446.00	61692.00	93460.64
6.	Investments	6101.00	5518.60	7201.00	9346.00	15046.48
7.	Gross Income	4118.00	6052.00	7850.00	9540.00	13,487.99
8.	Gross Expenditure	2797.00	4043.39	5400.00	6415.00	8755.53
9.	Net Profit(pre-tax)	1321.03	168892	1463.00	1542.00	4732.46
10.	Import Business	39853.90	60329.30	60009.00	58857.00	86667.00
11.	Export Business	20803.30	27230.90	36500.00	38519.00	50712.00
12.	Foreign Correspondents	213	230	257	274	296
13.	Number of Employees	2029	2082	2292	2508	2738
14.	Number of Branches	84	84	84	98	107
15.	Number of Shareholders	4120	7499	10337	10337	72793

Table – 3: Five years comparatives position of UCBL

United Commercial Bank Limited at a glance:

(As on December 31, 2010)

Authorized Capital: 8000 million. Paid-up Capital: 2910 million Reserve Fund: 3415.00million Total Credit: 93460.64million Total Investment: 15046.48 million Total Profit: 4732.46 million

(Source: Published Audited Balance sheet of UCBL)

1.6. UNITED COMMERCIAL BANK LTD: In A Brief

NAME	**UNITED COMMERCIAL BANK**
Address (Head office)	58, Motijheel C/A, Dhaka -1000
Address (Branch of my Internship Program)	Khulna Branch, 47 K.D Ghosh Road, Khulna-9100.
Date of Establishment	June 26, 1983
Number of Branches	110 (One Hundred Ten)

2. UCBL Products & Services:

•One Stop Service

•Time Deposit Scheme

•Monthly Savings Scheme

•Deposit Insurance Scheme

•Inward & Outward Remittances

•Travelers Claques

•Import Finance

•Export Finance

•Working Capital Finance

•Loan Syndication

•Underwriting and Bridge Financing

•Trade Finance

•Industrial Finance

•Foreign Currency Deposit A/C

•NFCD (Non-Resident Foreign Currency Deposit Account)

•Consumer Credit Scheme

•Locker Service

•Credit Card

3. Organizational Structure of UCBL.

Organizational structure looks like the following:

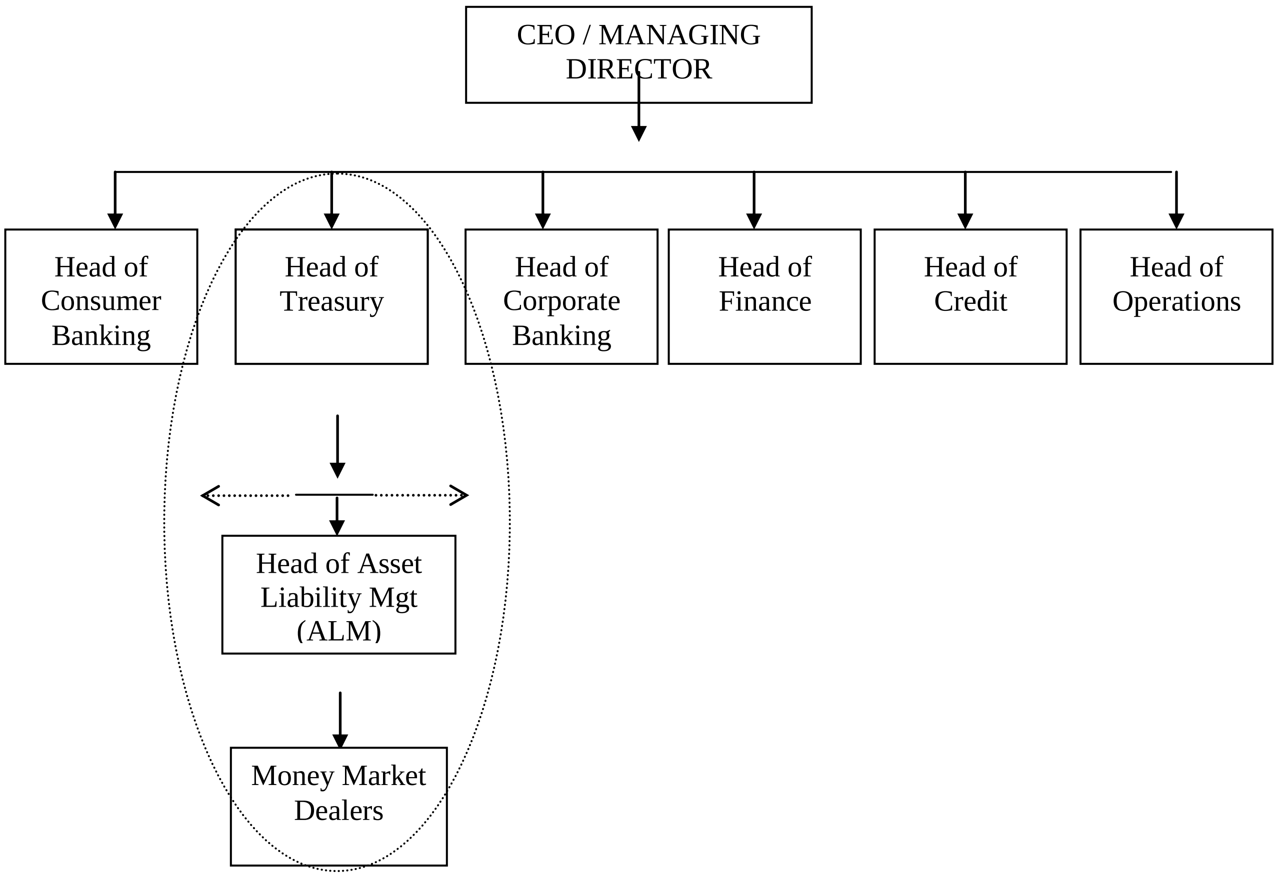


Exhibit: 1; Organizational Structure of UCBL.

4. Vision of United Commercial Bank Ltd

To be the best Private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity.
Delivery of quality service in all areas of banking activities with the aim to add increased value to shareholders investments and to offer the highest possible benefits to the customers.

PART-2 (Job)

1. Description/nature of the job/s

Mainly i have to do 3 months internship program. I was under the supervision of Mr. Zaglul Pasha(FVP) who is the manager and head of UCBL, Khulna Branch. I worked in 4 departments which are General Banking, Remittance, Advance and Card Divisions of the bank. Firstly total duration were divider into total working days that came to total working days of 58 days and were distributed in the following manner

Departments	Duration	In Days
General Banking	From 10th July to 31st July	21 Days
Remittance	From 1st August to 25th August	25 Days
Advances	From 26th August to 25th September	30Days
Card Division	From 26th September to 10th October	15Days

2. Specific responsibilities of the job:

General Banking responsibilities: In general banking I have to do how to make different statements, collection of vouchers, receiving checques preparing salary sheet, finding different vouchers.

Remittance responsibilities: Giving daily transfer in transfer books, filling savings and current account form, crossing checques, preparing demand draft providing checque to the client.

Advance Responsibilities: Observing and participating in doing Over draft loan, Secured Overdraft loan, Temporary Overdraft loan, Transport loan, Home loan, Loan against Trust Receipt, Consumer Credit Scheme, Car loan, Furniture loan etc.

Card Division: Filling and observing debit card form, credit card form, providing debit/ credit card to respected customers, observing debit/ credit card vouchers, and participating with card team to convince consumers.

3. Different aspects of job performance:

- Banking jobs are critical and also need lots of time to perform because bankers have to deal with every aspect in order to satisfy clients and also earn revenue for the bank.

- Manager or head of the branch is in total in charge of the bank to take any decision. Officers mainly follow his instruction to perform their job successfully.
- General banking is mostly responsible for doing different formulation of works such as preparing report, statements, salary sheets, discussing any reports and providing ideas. They also do some sensitive work related to provide money by receiving checques, computerized account information, provide interest on deposit
- Remittance is responsible to give daily transactions, receiving and crossing checques, provide foreign currency which comes from abroad with the support of Western Union Money Transfer. Preparing demand draft and other bill related activities. Open new account like current or saving accounts.
- Advance department mainly do loan related activities, carefully observe each in formations before provide any loan, make loan statements and send the copy to the head office for loan approval. They also check whether the client is giving the payment and interest of the loan and also the condition of each client to loan progress.
- Foreign exchange department deals with opening Letter of Credit and providing support to client through bank guarantees and deal with other foreign banks and institutions from the clients' point of views.
- Card division mainly provides client information related to debit/credit card. The types of benefits the customer will get if he/she have the card. Often they go for clients' office to convince them to have the credit card. They also prepare different statements and voucher related to card.

4. Critical observations and recommendations

- The numbers of employees are not efficient to perform task effectively. For example in general banking or remittance or card division the numbers of employees are more than advance department. So in advance department there is always rushing to perform activities.
- The cash receive and collection booths are fewer in numbers than the clients. Before any festivals the clients need to wait lots of time in line which sometimes create frustrations among clients.
- The officers in charge remain always busy with their works for this they don’t have enough time to provide information even to clients or interns even if they have the intension to do so.
- Advance works are very much critical and sensitive. Because of this it takes long time to perform any task. Officers and in charge always remain very much cautious to perform their activities.
- Some times they give pressure to clients to give interest of loans and other sanctions which sometimes create unpleasant environment.
- Slow internet connection often creates problems because the local broad band connection they use is not always speedy to perform tasks effectively.

PART-3 (Project)

Summary:

Risk is an inherent part of Bank's business and activities. The extent to which the Bank properly and effectively identifies, assesses, measures, monitors, manages and controls each credit risk, is critical to its financial soundness and profitability. In order to establish an effective and efficient Management of the credit risk, each banking organization should have robust credit risk management policies and procedures since the bank earns its major profit from credit operation. As a successful private bank UCBL has a successful credit risk management division. In all business dealings, officers and employees are guided by the principles of honesty and integrity and safeguard the interest of the shareholders and the depositors of the Bank. They also strictly adhere to the Banking Laws, Rules and Regulations of the Govt. of Bangladesh and the instructions issued by the Bangladesh Bank from time to time, which affect the business practices of the Bank. In formulating a credit judgment and making quality Credit Decisions, the lending officer always equipped with all information needed to evaluate a borrower's character, management competence and capacity, capital, ability to provide collaterals and external conditions which may affect his ability in meeting financial obligations

Description of the project:

Credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. Central to this is a comprehensive IT system, which should have the ability to capture all key customer data, risk management and transaction information. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and dis-intermediation, it is essential that UCBL has a robust credit risk management policies and procedures that are sensitive and responsive to these changes. It is pertinent to mention here that UCBL has already in the process of implementing state of the art IT system for integrated credit risk management performance.

The purpose of this document is to provide directional guidelines that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of our Bank's performances. Credit risk management is of utmost importance, and as such, policies and procedures should be endorsed and strictly enforced.

The chapters detail fundamental credit risk management policies where by the guidelines contained herein outline general principles that are designed to govern the implementation of more detailed lending procedures and credit risk management systems applicable for the United Commercial Bank Ltd.

Objective of the report:

The objective behind this study is something broader. Objectives of the study are summarized in the following manner

- To comply with the credit risk management department of UCBL, Khulna Branch
- To make a bridge between the theories and practical procedures of banking day to day operations
- Understand different types of problems regarding credit risk the bank faces.
- To analyze the performance of the branch particularly in the credit risk management department.
- To have some practical exposures in credit risk management that will be helpful for my career.

Methodology

As an internee I had to collect data and information from that busy corporate environment. To prepare this internship report I have collected data and information both from primary sources and secondary sources.

Primary sources:

- Face to face conversation with the bankers
- Taking initial lectures from senior officers regarding credit risk management.
- Consulting with the supervisor.
- Close observation of the tasks done by credit risk management department in Khulna Branch.

Secondary Sources:

- Credit policy and process manual published by United Commercial Bank Ltd.
- Different 'Procedure Manual', published by UCBL
- Different circular sent by Head Office of UCBL and Bangladesh Bank.
- Studying old files.

Limitation:

Like every other studies, I have also faced some constraints during my Internship period which otherwise would have enabled me in making my study more appropriate and logical. The limitation is from both sides the bank as well as myself. The followings are some of the shortcoming, I came across:

- I had to go to almost every Department of United Commercial Bank Ltd. as part of the internship program. There is a very short span of time to get in-depth knowledge about credit department of United Commercial Bank Ltd.
- Officials in credit risk department of United Commercial Bank Ltd. maintain a very busy schedule. So they are not always able to provide enough time to enlighten the internee students every time, even if they had the intention to do so.
- The area covered by the report " Credit Risk Management" of United Commercial Bank Ltd. concerns a huge number of activities and it is very difficult to sketch a total picture of the financial activities in a report of this scale.
- Supply of more practical and contemporary data regarding credit risk was another shortcoming.
- Last but not least; the report would have better and practical, as I too have shortcoming with time, knowledge and capacity.
- The allocated time was not enough for getting a sound knowledge about credit risk management.
- To identify the limitation and shortcoming of online system of UCBL.

Chapter – 1: Credit Policy Framework

1.1 Introduction:

United Commercial Bank Limited (UCBL) is a first-generation private commercial bank established in Bangladesh in the year 1983 under the Companies Act. Since inception, it has committed to provide high quality financial services to the people of this country to accelerate economic development of the nation. As such, it has been working for stimulating trade and commerce, accelerating the pace of industrialization, boosting export, creating employment opportunity, alleviating poverty, raising standard of living of the people etc and thereby contributing to the sustainable development of the country.

At present, the bank has a network of 110 (one hundred ten) branches in both rural and urban areas of the country. Since inception, the Bank has been making significant profit every year and this has been possible due to significant credit growth of the bank. Credit portfolio of the bank has been growing steadily every year. Credit exposure increased by 43% in 2007 than 2006. Half yearly statistics shows that credit has been increased by 11% in first six months of 2008 and stood at Tk. 4,129.33 crore. Since, the lion share of the Bank earnings comes from credit operation and the existence of the Bank depends on quality of asset portfolio, efficient management of credit risk is of paramount importance.

1.2 Credit Risk:

Risk is inherent part of Bank's business and activities. Operating in liberalized and globalised environments, banks are exposed to various kinds of risks. Credit Risk represents the major risk faced by banks on account of the nature of business activity.

Credit risk is most simply defined as the probability that a borrower or counterparty will fail to meet its obligations in accordance with the agreed terms and conditions. In other words, it is the loss associated with degradation in the credit quality of borrowers or counterparties. In a Bank's portfolio, losses stem from outright default due to the inability or unwillingness of the customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio value arising from actual or perceived deterioration in credit quality. Credit risk emanates from a bank's on and off balance sheet dealings with an individual, firm, company, corporate entity, bank, financial institution or a sovereign. Credit risk may take the following forms:

- In the case of direct lending: principal and/or interest may not be repaid;
- In the case of guarantees or letters of credit: funds may not be forthcoming from the constituents upon crystallization of the liability;
- In the case of treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or cease;
- In the case of security trading business: funds/securities settlement may not be effected;

1.3 Credit Risk Management Policy:

Credit Risk Management is more of a proactive approach for ensuring quality rather than reaction approach to management of problem-credit exposures. It is concerned more with the quality of credit portfolio before default rather than the post default situation when recovery proceedings begin. Credit Risk Management is not merely credit management concerned about probability of repayment rather focused on probability of default. It should be a robust process that enables Banks to proactively manage loan portfolio in order to minimize losses and earn an acceptable level of return for Shareholders. Given the fast changing dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that United Commercial Bank has a robust credit risk management policy and procedures that are sensitive and responsive to these changes.

To provide a board guideline for the Credit Operation towards efficient management of its Credit portfolio, a clearly defined, well-planned, comprehensive and appropriate Credit Risk Management Policy is a pre-requisite.

1.4 Purpose:

The credit policy is a statement of basic principles that govern the extension and administration of credit. The main purpose of this policy is to set out yardsticks for and spell out standard practices regarding management of credit risk. As such, it specifically addresses the following areas: (a) establishing an appropriate credit risk environment, (b) setting up a sound credit approval process, (c) maintaining an appropriate credit administration, measurement and monitoring process, (d) ensuring adequate controls over credit risk.

1.5 Scope:

This policy will be applicable for issues related to credit risk with respect to both direct and indirect credit products of traditional banking sector.

1.6 Superseding Power:

This policy should be made which was approved by the Board of Directors. However, if any provision of this policy contradicts with the instruction contained in Credit Operational Manual or any existing circular, the Credit Risk Management Policy will supersede and be held.

1.7 Amendment of the Policy:

In view of the dynamic nature of banking business, the Bank’s credit risk management policy and procedures are evolutionary in nature and should be subject to ongoing review, modification and revision. This Credit Risk Management Policy will be amended, revised as and when warranted to accommodate the changes in the market condition, cyclic aspect of the economy, government policy, industry demand, central bank regulation and experience of the Bank in managing credit risk. For this purpose, the Board of Directors of the Bank will review the Credit Risk Management Policy at least annually and make necessary amendment.

Chapter – 2: General Credit Principle

2.1 General Guidelines:

- In the normal course of conducting business, the Bank will prefer trade financing in the form of short term (up to 12 months) self liquidating cash flow supported and collateralized trade transactions.
- The bank will consider lending short-term working capital finance to well established entities engaged in manufacturing, assembling, processing of goods and commodities for consumption in domestic as well as international market.
- The Bank will selectively, on a case-by-case basis, carefully approve term loans (loans with original tenor exceeding one year) with proper credit risk assessment supported by satisfactory cash flow statement.
- The Bank will, on a case-to-case basis, approve disclosed participations in syndications.
- The bank will consider financing construction contractors. However, all such transactions should be properly analyzed in line with the status of contract proceeds and proper cash flow justifications.

2.2 Product and Services:

The Bank shall sell suitable credit products and services in the market. For this purpose, Bank will design new product from time to time, reengineer the existing ones to keep the same competitive in the market. While designing new products and/or reengineering the existing ones Bank will always take into consideration the customers' demand. Product innovation and/or reengineering shall be a continuous process.

2.3 Loan-Deposit Ratio:

Loans and advances shall normally be financed from customers deposit and sometimes from capital fund of the Bank. However, it will be ensured that Loan-Deposit Ratio should not exceed 90% at any particular point of time and regulatory compliance of CRR/SLR would be maintained. Generally loans and advances shall not be extended out of temporary fund or borrowing from money market.

2.4 Risk Acceptance Criteria:

The Management will review and prepare periodically Risk Acceptance Criteria (RAC) duly approved by the Executive Committee/Board and disseminate to the concerned executives at operational level. In preparation of RAC the following area would be covered with flexibility for deviations by the competent authority:

a) Maximum amount in each type of facility line
b) Maximum limit to a single obligor and group
c) Acceptable Leverage, Current ratio, Interest coverage, Operating margin for an industry.
d) Geographical location
d) Security & Support

United Commercial Bank will extend credit only to qualified borrowers where the amount and intended purpose are clear and legitimate. Credit facilities shall be allowed in a manner that the expansion in credit does not compromise the asset quality of the Bank.

2.5 Compliance:

All credit sanction must comply with the requirements of Bank's Memorandum and Articles of Association, Banking Companies Act, 1991 as amended from time to time, Bangladesh Bank's instruction circulars, guidelines and other applicable laws, rules and regulations, Bank's Credit Risk Management Policy, Credit Operational Manual and all relevant circulars in force. The officer originating a credit proposal shall specifically declare that it complies with all above mentioned rules, regulations, policy etc.

2.6 Deviation:

Any deviation from the Credit Policy of the Bank must be justified in the proposal and well documented. Specially, all credit assessment form shall invariably include the deviations from the policy, if any. Proposal that does not comply with the Credit Risk Management Policy should be approved by Head Office. However, no regulatory regulations shall be compromised.

2.7 Return:

Credit operation of the Bank should contribute return at optimum level within the defined risk limitation. In other words, credit facilities should be extended in such a manner that each deal becomes a profitable one so that Bank can achieve its targets and has a superior return on capital. Besides, Credit extension shall focus on the development and enhancement of customer's relationship and shall be measured on the basis of the total yield for each relationship with a customer.

2.8 Repayment Capacity:

Borrowers should have a source of repayment established at the inception of credit. Credit analyst should also endeavor a secondary source of repayment to protect the interest of the bank. All repayments should be legitimate and consistent with the type of business. Satisfactory security and collateral is required as appropriate. However, bank's main consideration will be Cash Flow Statement of the business rather than on collateral security.

2.9 Name Lending:

Name lending or any loan based solely on the general standing and reputation of the borrower is not permitted. Credit facility shall be allowed absolutely on business consideration after conducting due diligence. In all cases, viability of business, credit requirement, security offered, cash flow and risk level should be professionally analyzed.

2.10 Single Customer Exposure Limit:

An important element of risk management is to establish exposure limits for single obligors and group connected obligors. To spread the risk and to ensure that funds of the Banks are not used for a limited number of clients, Bangladesh Bank has laid down guidelines. As per prevailing regulation, Bank will take maximum exposure (outstanding at any point of time) on a single customer (Individual, Enterprise, Company, Corporate, Organization, Group) for the amount not exceeding 35% of Bank's total capital. However, for single customer of the export sector maximum exposure limit shall be 50% of the total capital subject to the condition that total funded facility shall not exceed 15% of the total Capital of the Bank at any point of time.

United Commercial Bank Limited will follow the ceiling set by Bangladesh Bank. However, size of any credit limit in each case shall be fixed after proper assessment of genuine credit requirement of the customer within the maximum allowable limit.

2.11 Large Loan:

Credit facility to a single customer (Individual, Enterprise, Company, Corporate, Organization, Group) shall be treated as Large Loan if total outstanding amount against the limit at a particular point of time equals or exceeds 10% of the total capital of the Bank. United Commercial Bank's total Large Loan Portfolio exposure shall not exceed 56% of the total outstanding funded loans and advances at any point of time or as per guidelines of Bangladesh Bank.

2.12 Diversification and Sector Allocation:

The portfolio shall be well diversified to reduce the risk of dependence on a particular sector. The management will review periodically the existing sectoral performance, economic trends both local and global with respect to that sector, industry saturation, industry structure, geographical advantage, Government policy, Risks specific to the industry etc. to provide guidelines for annual industry/sector allocation in credit portfolio. At the annual budget, Industry/Sector lending limits/caps will be fixed and approved by the appropriate authority to provide directional guidelines to the Relationship Managers.

2.13 Maximum Tenor:

Maximum tenor for any continuous loan shall be 1 (one) year which is renewable at maturity or within the validity period upon satisfactory performance of the customer. Period of any term loan shall be fixed on case to case basis considering repayment capacity, projected cash flow, pay back period etc.

2.14 Security:

Bank will try to have as much security coverage as possible against each and every credit facility sanctioned to the customers. Security taken against credit facilities shall be properly valued and legally enforceable in accordance with the laws of the country. Security requirement will be determined on case to case basis based on customer's business strength, level of risk bank is undertaking. However, Bank will always prefer to have security equivalent to 1.25 times of the total funded limit. Security may be in the following forms subject to restrictions of regulatory authority:

i) Bank deposit
ii) Gold / gold ornaments
iii) Government Bond
iv) Guarantee given by Government or Bangladesh Bank
v) Bank Guarantee
vi) Land and Building
vii) Share
viii) Stock
ix) Machinery and Equipment
x) Charge on the fixed and floating asset
xi) Pari-passu Charge on fixed and floating assets
xii) Corporate Guarantee of another company backed by Board Resolution.

xiii) Personal Guarantee

xiv) Bill or Receivables

xv) Ownership of vehicles / assets

xvi) Life Insurance Policy.

xvii) Post Dated Cheque

xviii) Trust Receipt

xix) Others as deemed acceptable by the approving authority

2.15 General Covenants:

While sanctioning credit facility, Bank will set some covenants. Some of the covenants will be general and others will be specific to a particular credit facility and/or customer. General covenants may be as follows:

i) All expenses (including legal, professional and out of pocket expenses) incurred in the negotiation, preparation, execution and enforcement of sanction advice and the documents referred to the sanction advice shall be on the account of the Borrower. The bank should be authorized to debit all sort of fees from the Borrowers account without prior permission of the Borrower. Moreover, the bank may debit the account of the Borrower for paying the Insurance Premium on behalf of the Borrower and the Borrower shall have the right to proceeds of such insurance.

ii) Ownership structure of the borrower shall not be changed without prior approval of the Bank.

iii) By accepting the offer of the Bank, the Borrower should confirm and undertake that it is not enjoying any other available lines of credit from any lender, apart from those disclosed in writing to the Bank.

iv) Any repayment whether in part or full, will be attributable first towards servicing interest which has accrued on the facilities and then to the principal.

v) The Borrower should confirm that during the continuance of the facilities by the Bank to the Borrower, it will advise the bank prior to any commitment for availing of any additional line of credit from any other banks.

vi) The customer shall not go for expansion without consent of the Bank.

vii) The customer shall not withdraw profit without consent of the Bank.

viii) The customer shall submit financial statements within 30 days after year ending.

ix) Other covenants as set by the sanctioning authority.

Chapter – 3: Product

3.1 Lending Sector:

As initiated by Bangladesh Bank vide BCD Circular No. 33 dated 16/11/89 different kinds of lending were subdivided into 11 categories w.e.f. 01/01/90 which was subsequently reduced to 9 vide BCD Circular No. 23 dated 09/10/93 and again to 7 prime sectors vide BCD Circular No.8 dated 25/04/94.

Loan and advances have primarily been divided into three major groups:

a) Fixed term loan: These are the non-revolving loans made by the Bank with fixed repayment schedules. Fixed tern loans are categorized into three categories based upon its tenure which is defined as follows:

Short term	:	Upto 12 months
Medium term	:	More than 12 and upto 36 months
Long Term	:	More than 36 months

b) Continuous Loans: These are the revolving loans having no fixed repayment schedule, but have an expiry date at which it is renewable on satisfactory performance of the customer.

c) Demand Loan: These are the non-revolving loans which are neither continuous nor fixed but have to be repaid on demand.

Furthermore all categories of loans are accommodated under the 7 prime sectors which are as under:

3.1.1 Agriculture:

Credit facilities provided to the customers who transact agro business falls under this category. It is divided into two major sub-sectors:

a) Loans to primary producers: This sub-sector of agricultural financing refers to the credit facilities allowed to production units engaged in farming, fishing, forestry or livestock.

b) Loans to input dealers/distributors: It refers to the financing allowed to input dealers and (or) distributors in the agricultural sectors.

Loan to Agriculture sector may include short, medium and long term loans as well as continuous credits. As a product, it may fall under Term Loan/ Time Loan/Hire-Purchase/Lease Finance/Cash Credit/Overdraft etc.

3.1.2 Term Loan to Large & Medium Scale Industry:

This category of advances accommodate the medium and long term financing for capital asset formation of new Industries or for BMRE of the existing units who are engaged in manufacturing of goods and services.

Term loan to tea gardens may also be included in this category depending on the nature and size.

As the financing under this category have fixed repayment schedule it may fall under the heads Term Loan/Time Loan /Hire-Purchase/Lease Financing etc.

3.1.3 Term Loans to Small & Cottage Industries:

These are the medium and long term loans allowed to small & cottage manufacturing industries **[*Regulatory definition of Small Enterprise means an entity, ideally not a public limited company, does not employ more than 50 persons (if it is manufacturing concern) and 25 persons (if it is a trading and service & trading concern with total assets at cost excluding land and building from Tk.50,000 to Tk. 50 lac, manufacturing concern with total assets at cost excluding land and building from Tk.50,000 to Tk. 1.5 crore.*].**

Medium & Long term loans to weaver are also included in this category. Like the Large & Medium Scale Industry it is also allowed in the form of Term Loan/Time Loan/Hire - Purchase/Lease Financing etc.

3.1.4 Working Capital:

Loans allowed to the manufacturing units to meet their working capital requirements, irrespective of their size - big, medium or small, fall under this category.

These are usually continuous credits and as such fall under the head "Cash Credit" or “Overdraft”.

3.1.5 Export Credit:

Credit facilities allowed to facilitate export of all items against Letter of Credit and/or confirmed export orders fall under this category. It is accommodated under the heads "Export Cash Credit (ECC)", Packing Credit (PC), Foreign Documentary Bill Purchased (FBPD), Inland Documentary Bill Purchased (LBPD) etc.

3.1.6 Commercial Lending:

Short term Loans and continuous credits allowed for commercial purposes other than exports fall under this category. It includes import financing for local trade, service establishment etc. No medium and long term loans are accommodated here. This category of advance is allowed in the form of (I) Loan against Imported Merchandise (LlM), (ii) Loan against Trust Receipt (LTR), (iii) Payment Against Documents (PAD), (iv) Overdraft (OD), (v) Cash Credit etc. for commercial purposes.

3.1.7 Others:

Any loan that does not fall in any of the above categories is considered under the category "Others". It includes loan to (i) transport equipments, (ii) construction works including housing (commercial/residential), (iii) work order finance, (iv) personal loans, etc.

3.2 Types of Credit Facilities:

The following are the existing credit products of United Commercial Bank Limited covering term loan, export lending, working capital & commercial lending. The products are subject to review and amendment of the product/launching new product will be carried out on a continuous basis. Depending on the various nature of financing, all the credit facilities have been brought under two major groups: (a) Funded Credit and (b) Non-funded Credit. Under **Funded Credit**, following are the products of UCBL:

Serial No.	Name of the Facility	Description	Purpose	Tenor (Max)
Funded				
1.	SOD(FO)	Secured Overdraft 100% cash covered	General purpose	12 months
2.	TOD	Temporary overdraft	General Purpose Forced Loan	60 days
3.	PAD(Sight)	Payment against Document (Foreign-sight)	Advance against Sight L/C Forced Loan	21 days
4.	PAD(EDF)	Payment against Document (EDF)	Advance against EDF L/C Forced Loan	21 days
5.	PAD (A/G/B)	Payment against documents (A/G/B)	Advance against LC (A/G/B)-Forced loan	21 days
6.	PAD (Local)	Payment against document	Advance against Sight L/C (Local) –	21 days

		(Local- sight)	Forced loan	
7.	PC (RMG & other than RMG)	Packing Credit against Export L/C & Export Order	To finance against Export L/C To finance against Export Order Pre-shipment Finance	120 days
8.	ECC (New)	Export Cash Credit	Financial accommodation to a customer for export of goods under export LC and allowed a certain percentage of Export LCs/Contract Liquidated out of export proceeds	LC validity/180 days
9.	BFL	Bridge Financing Loan	Support Equity	12-36 months
10.	TRL	Transport Loan	To finance commercial Transport	36-48 months
Serial No.	Name of the Facility	Description	Purpose	Tenor (Max)
11.	HBL(Com)	House Building Loan - Commercial	To finance commercial house/ apartment	36-96 months
12.	HBL(Res)	House Building Loan - Residential	To finance residential building / apartment	60-120 months

13.	LTR	Loan against Trust Receipt	To finance import L/C	180 days
14.	HBL(S)	House Building Loan – Staff	To finance personal house/apartment	15 years
15.	CC(Hypo)	Cash Credit against hypothecation of Inventory and Book Debts	To finance Inventory Other Business operations General purpose	12 months
16.	CC(Pledge)	Cash Credit against Pledge of Inventory	To finance pledged Inventory	12 months
17.	Loan General (New)	Loan General	Short term, medium term loans allowed for specific purpose for definite period and repayable by installments.	12-36 months
18.	FBPD	Foreign Bill Purchased & Discounted	To purchase /discount/ negotiate export documents against Sight/Usance Export L/C	As per LC Terms
19.	LBPD	Local Bill Purchased & Discounted	To purchase /discount against local usance L/C	As per LC Terms 180 days
20.	LCPS(S)	Loan under Personal Loan – Staff	To finance personal consumable items	36 months
21.	CL(S)	Car Loan – Staff	To finance personal	5 years

			car	
22.	FL(S)	Furniture Loan – Staff	To finance personal furniture	72 months
23.	LIM (Rename)	Import Loan against Imported Merchandise pledged	To finance imported merchandise under pledge	180 days
Serial No.	Name of the Facility	Description	Purpose	Tenor
24.	Term Loan	Term Loan against fixed assets	To finance fixed asset	Over 1year max 7 years
25.	Time Loan	Time Loan against Other Security/Collateral/Support	To finance business operations/work order/Industrial working capital To finance fixed asset To finance duty/tax General purpose	12 months
26.	OAP	Own Acceptance Purchase	Advance allowed for purchasing foreign currency for payment against LCs (Back to Back) where the exports do not materialize before the date of import payment Forced Loan	90 days
27.	OD(General)	Overdraft against Other Security Collateral	To finance business operations/Industry operations	12 months

			Misc. purpose	
28.	CP(Local)	Cheque Purchase (Local)	To purchase/discount Cheque, Bank Draft, and Payment Order	30 days
29.	CP (Foreign)	Cheque Purchase (Foreign)	To purchase/discount foreign currency Cheque, Bank Draft, and Payment Order	45 days
30.	Consumer Credit Scheme (CCS) (New)	Consumer credit provided to middle class income group	To finance purchase of consumer durable by the fixed income group to raise their standard of living.	Over 12 months Max 60 months
31.	Hire Purchase (New)	Hire purchase	To finance capital machinery, equipment and vehicle Installment credit Borrower agrees to take the goods on hire at a stated rental Repayment is inclusive of Principal as well as Interest for adjustment	Over 12 months Max 60 months

Serial No.	Name of the Facility	Description	Purpose	Tenor (Max)
32.	Lease Financing (New)	Lease finance	To finance capital machinery, equipment and vehicle Exclusive right to use the asset by the	Over 1 year max 5 years

			leaseholder for an agreed period against payment of rent.	
33.	OD (Work Order) (New)	Overdraft against work order	Advance against assignment of work order/ bill for execution of contractual works Not a continuous credit rather time loan	06 months to 36 months
34.	OD(EM) (New)	Over Draft for Earnest Money	To pay earnest money	90 days

Under non-funded credit, there are basically two major products namely Letter of Credit and Letter of Guarantee. Following are the non-funded products of UCBL:

Serial No.	Name of the Facility	Description	Purpose	Tenor
Non –Funded				
1	BFC (Local)	Bills for Collection – Local	Collection of local outstation cheques/ Drafts/Documents	As per rules/terms
2.	BFC (Foreign)	Bills for Collection – Foreign	Collection of foreign cheques/ Drafts/Documents	As per rules/terms
3.	LG(Local)	Letter of Guarantee - Local	For contractual obligation (Bid-Bond, Payment Guarantee, Advance Payment	Specific period

			Guarantee, Performance Guarantee, Customs Guarantee, Shipping Guarantee)	
4.	LG(Foreign)	Letter of Guarantee – Foreign	For contractual obligation and others	Specific period
Serial No.	Name of the Facility	Description	Purpose	Tenor (Max)
5.	SLC(Local)	Sight Letter of Credit – Local	For local procurement Recourse on title to local document	As per LC Terms
6.	SLC(Foreign)	Sight Letter of Credit – Foreign	For foreign procurement under sight L/C Recourse on title to import document	As per LC Terms
7.	SLC(EDF)	Sight Letter of Credit – EDF	For importation under sight EDF L/C Recourse on title to import document	As per LC Terms
8.	SLC (A/G/B)	Sight Letter of Credit (Aid/ Grant/ Barter)	For Importation under (A/G/B)	As per LC Terms
9.	ULC(Normal)	Usance Letter of Credit	For importation under usance L/C Recourse on sales	12 months (Max)

10.	ULC(BB)	Usance Letter of Credit – Back to Back	For importation under back to back usance LC Recourse on export	As per LC Terms
11.	Acceptance (Normal)	Acceptance against Usance Letter of Credit	To finance assets thru banker's acceptance Recourse on sales	As per LC Terms
12.	Acceptance (Back to Back)	Acceptance against Back to back usance Letter of Credit	To finance assets thru banker's acceptance Recourse on export	As per LC Terms
13.	Fwd FX	Forward Contract	Cover exchange risk against Letter of Credit Performance Risk	180 days

Chapter – 4: Pricing Credit Facility

4.1 Credit Pricing:

Credit facilities to the customer are the prime source of the Bank's income. More specifically, interest from loans account forms the lion share of the total revenue of the Bank. On the other hand, the market of our country is very competitive due to presence of **52 (fifty two)** banks in our small financial market. As such, it is quite apparent that pricing is very crucial for the profitability and the continuous growth of the Bank. United Commercial Bank Limited has been fixing/refixing price of different type of credit facilities from time to time considering changes in the market condition.

4.2 Basis of Pricing:

Price of all credit facilities will be fixed by the Bank based on Bank's priorities and market conditions within the guidelines of Bangladesh Bank from time to time. Rate of interest will be the reflection of risk inherent in a particular transaction i.e. the higher the risk, the higher the rate of interest. Price of any credit facility depends on the level of risk and type of security offered. Therefore, loan pricing will be directly correlated with the risk grade of the customer. According to the regulatory guidelines Bank can reduce 1.5% higher or lower than the mid rates circulated. Interest rate for the prime customers (having excellent performance record, resilience, minimum risk and good earning prospect from their non-funded business) may be reduced within the range. However, any change in pricing other than the mid rate should be approved by the Managing Director.

4.3 Types of Rate:

Usually, Bank will charge fixed interest rate which will be subject to changes by the Management. In this respect, all loan contracts will contain a provision to the effect that rate of interest is subject to changes by the Management. Interest rates will be revised as and when a significant fluctuation occurs in the cost of fund of the Bank due to volatility of interest rate in the market. The Bank will charge floating interest only in SOD. In all other cases, fixed interest rate will be applied.

For fixed interest rate, the Board of Directors will fix a Band on recommendation of ALCO for a particular Sector/Industry/Product. Customers will be charged a fixed rate within that band. Any deviation from the approved interest rate should be mentioned in the Credit Assessment Form with proper justification. The Managing Director may sanction a credit facility at a rate within the Band. However, other executives will exercise their delegated authority to sanction credit facility at the highest rate of the approved Band.

4.4 Revision of Rates:

The Management of the Bank will continuously monitor interest rate situation offered by other financial institutions as well as cost of fund and discuss the same in the Asset Liability Management Committee (ALCO) meeting at least once in a month. As per recommendation of the Asset Liability Management Committee (ALCO), the Management of the Bank may approach the Board of Directors to revise rate of interest, commission, charges etc and after approval that will be communicated to all concerned.

Chapter – 5: Credit Risk Assessment

5.1 Risk Assessment:

The primary purpose of a bank is to borrow money from those who have a surplus funds then lend this money out to those who are in need of funds. It is essential that when it lends out money than the bank has a certain confidence that the money will be repaid at the given time, together with interest. Risk assessment or analysis is all about understanding the risk associated with lending money. Until and unless risks are not assessed and measured it will not be possible to control risks. The primary factor determining the quality of the Bank's credit portfolio is the ability of each borrower to honor, on timely basis, all credit commitments made to the Bank. This must be accurately determined by the authorized Credit Officers/ Executives prior to approval. Therefore a thorough credit risk assessment shall be conducted prior to the sanction of any credit facilities. While assessing a credit proposal total emphasis shall be given on repayment potential of loans out of funds generated from borrower's business (cash flow) instead of realization potential of underlying securities. Credit risk assessment process in the Bank shall be governed by the following principles:

5.2 Assessment Frequency:

A comprehensive Credit Assessment (Due Diligence) shall be conducted before sanction of any loan. Thereafter, it will be done annually for all types of credit facilities i.e Demand Loan, Continuous Loan and Term Loan.

5.3 Assessment Documentation:

The result of the Credit Assessment shall have to be presented in the Credit Assessment Form enclosed in. Initially, it will be originated by the Relationship Officer of the Branch and reassessed in Corporate Banking Division. Credit Review Department of Credit Risk Management Division will review the risk factors and facility structure to determine that all the risks have been properly assessed and Risk mitigation measures have been taken and all bank's policy requirements & regulatory requirements have been addressed. All evidences of credit assessment have to be filed properly in the respective Credit File.

5.4 KYC Policy:

Bank's KYC policy applicable for depositors shall also be applicable for borrowing customers. The prescribed credit application form will disclose the information of the client. In addition, before sanctioning any credit facility the concerned relationship officer must physically visit the business premises of the customer, talk with important personalities of the locality, collect information on the borrower from his/her existing banker, if any to know financial status, capacity, competence, experience and summarize all these information in the Pre-sanction Inspection Report. The report serves as preliminary information about the prospective borrower before a detailed evaluation is undertaken.

5.5 Accountability:

The Relationship Manager (presently Head of Branch) shall be the owner of the customer relationship and be held responsible to ensure the accuracy of the entire credit application/assessment form submitted for approval. He/she will be responsible for conducting due diligence on the borrower, principals and guarantors.

5.6 Filling up Credit Assessment Form:

Bank requires sufficient information to enable comprehensive assessment of the true risk profile of the borrower. Hence, Credit Assessment Form must be filled in with accurate information in full. No field in the assessment form should be erased or left vacant. If information is not available, concerned field should be filled in with "Information Not Available" with proper justification.

5.7 Credit Requirement:

Credit requirement of the borrower must be assessed properly. The relationship officer will apply prudence to find out actual credit requirement of the borrower and place his/her findings in the Credit Assessment Form.

5.8 Repayment Source:

Repayment source of the borrower is to be validated in the Credit Assessment Form by cash flow and other financial analysis. For such analysis, at least three years financials are to be reviewed. Loan amount and tenor must commensurate with the repayment capacity of the borrower.

5.9 Risk & Mitigating Factors:

Risks inherent in a credit proposal shall have to be identified and appropriate mitigating factors should be applied. Critical success factors should be analyzed. These are to be summarized in the Credit Assessment Form.

5.10 Collateral:

Collateral offered against a credit facility shall properly be valued and verified by the concerned Relationship Officer and/or Relationship Manager and revalued and re-verified annually in the subsequent period. In addition to the valuation of the Relationship Officer/Manager, the same collateral must be valued and verified by an enlisted surveyor of the Bank if the total credit facility to the concerned customer exceeds Tk 25.00 lac (Taka Twenty Five Lac). Any valuation of collateral must be supported by the photograph and site map, where applicable.

5.11 Insurance Coverage:

Adequacy and extent of insurance coverage must be assessed in the Credit Assessment Form. Customer's preference for not taking required insurance policy must be justified properly and it must be mentioned as deviation. The policy must be obtained from approved insurer of the Bank.

5.12 Adherence to Policy:

It should be clarified whether the customer has agreed to comply with bank's internal policy and external regulatory requirements. Any deviation from the policy or other internal or external requirements must be justified properly and mentioned as Deviation in the Credit Assessment Form. Furthermore, the originating officer will affix a declaration in the Credit Assessment Form that the proposal does not contradict with any rules and regulations of the Bank, Banking Companies Act, any circulars of Bangladesh Bank etc.

5.13 Syndicated Loans:

Proposal for syndicated loans shall be analyzed with respect to risk and return in the same manner as directly sourced loans. In case of participation in a syndication deal, Bank will independently assess the proposal and will not solely depend on the credit assessment of the Lead Arranger.

5.14 Change in Pricing:

Any changes in the pricing of an existing credit facility must be highlighted and to be justified in the Credit Assessment Form.

5.15 Others:

Finally, detailed and complete credit risk assessment for each facility and customer relationship is of paramount importance. The steps that should be followed in carrying out such an assessment are set out in the Credit Operational Manual and in Head Office circulars issued from time to time. No proposal shall be put up for approval unless there has been a complete written analysis. It is the responsibility of the originating officer to collect all necessary documents/papers before the facility request is sent to the competent authority for approval.

Chapter – 6: Credit Risk Grading

6.1 Credit Risk Grading:

While providing credit facility to a customer, Bank undertakes many risks among which credit risk is considered to be the most important one. Bank needs to manage the credit risk inherent in the entire portfolio as well as the risks in individual credit or transaction. One of the strategies employed in managing credit risk is Credit Grading of borrower accounts. Credit Risk Grading framework is essential to avoid the limitations associated with a simplistic & broad classification of loans into "good" or a "bad" category. Credit Risk Grading helps a bank to understand various dimensions of underlying risk involved in different credit transactions.

The Risk Grading framework is used for following purposes:

- Single point indicator of diverse risk factors of a loan portfolio and talking credit decisions in a consistent manner.
- It's a tool for measurement of various risks associated with lending. It provides basis for risk pricing and fixation of rate of interest on lending to different borrowers based on their credit rating.
- Reveals the weak parameters based on the points scored.
- Facilitates the bank to monitor/focus on the weaker areas and follow up with the borrower for bringing improvement.
- To identify the parameters which have improved/deteriorated by comparing with earlier rating.
- Overall health of the advances
- Assessing the aggregate risk profile of a bank.

6.2 Basic Framework:

Bangladesh Bank, as suggested by Financial Sector Reform Project (FSRP), introduced in 1993 "Lending Risk Analysis (LRA)", a systematic approach towards risk analysis. Since then, LRA was conducted before granting of loans in excess of Tk. 10.00 million. However there are some limitations in LRA particularly it was conducted once for a borrower accounts and no grading for unclassified accounts.

Bangladesh Bank vide BRPD Circular No 18 of 2010 intimated all commercial Banks that Credit Risk Grading Manual has replaced "Lending Risk Analysis" and to follow the Credit Risk Grading Manual or develop stricter manual by 15 March 2006.

6.3 UCB's Risk Grading Framework:

Effective risk management requires an accurate and forward looking estimation of the probability of default over the next 12 months. It should be noted that Credit Risk Grading is not a replacement of comprehensive credit appraisal. Credit Risk Grading is a dynamic process for measuring credit risk to help the sanctioning authority in taking decisions. All credit proposals whether new or renewal must be supported by Credit Risk Grading. It will encompass the following two things: (a) Risk Grading Scorecard and (b) Risk Grading Sheet. No proposal will be processed until Risk Grading is completed, submitted for approval and the result is shown in proposal. It is the responsibility of the originating officer to ensure that analysis has been carried out with authentic and reliable information.

6.3.1 Risk Grading Scorecard:

As per instruction of Bangladesh Bank, Risk Grading Score Card has been developed for all exposures of UCBL (irrespective of amount) other than those covered under Consumer and Small Enterprise Financing Prudential Guidelines and also under The Short-Term Agricultural and Micro-Credit. The Score Card will be updated if required. The score of the risk grading scorecard will be weighted one. There are 5 (five) broad head rating components and separate parameters have been set to measure borrower's position against each component. Score Cards are tools to determine a borrower's aggregate score based on assessment of quantitative and qualitative factors. Score Cards shall records the Assigned rating through a combination of the Aggregate Score as well as exercise of judgment. Judgment plays an important role in the scoring of qualitative factors as well as recommendations made to change the risk rating in case of disagreement. It should be noted that Industry volatility is a key driver in the Risk Grading as it has been proved that the probability of default is higher in industries with higher volatility. However, since there is no acceptable industry average of key financials and industry volatility factor is absent, the matter has not been included in the present Risk Grading Score Card. A snapshot of Principal Risk components and corresponding Parameters and weight assigned to each Component is as follows:

Sl. No.	Components	Parameters	Weight (%)
1)	Financial Risk	a) Leverage b) Liquidity c) Profitability d) Coverage	50
2)	Business Risk	a) Turnover of Business b) Age of Business c) Business Outlook d) Technology/Resource e) Industry Growth f) Inventory/Receivables g) Market Competition h) Entry/Exit Barriers	18
3)	Management Risk	a) Business experience b) Expertise of the Management c) Second line /Succession d) Team Work	12
4)	Security Risk	a) Security Coverage(Primary) b) Security Coverage (FSV) c) Security Coverage(Location) d) Support/Guarantee	10
5)	Relationship Risk	a) Account Conduct b) Utilization of limit c) Compliance of Covenants/Conditions	10

The Relationship Officer of the Branch will prepare Risk Grading Scorecard in case of new proposal, renewal and/or enhancement of existing facility, any deterioration in the borrower's business position, any breach of contract by the borrower or as and when he/she feel it necessary. In addition, aggregate weighted score of the customer is to be affixed in the relevant field of the Credit Assessment Sheet.

6.3.2 Risk Grading:

After preparation of Risk Grading Scorecard, concerned Relationship Officer will assign risk grade to the customer within the following definition of Credit Risk Grading:

Risk Grade	Numeric Grade	**Definition**
Superior – Low Risk	1	Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentations are in place.
Good – Satisfactory Risk	2	The repayment capacity of the borrower is strong. The borrower has excellent liquidity and low leverage. The company demonstrates consistently strong earnings and cash flow. Borrower has well established market and very good management skill. All security documentation should be in place. Aggregate Score of 85 or greater based on the Risk Grade Scorecard.
Acceptable – Fair Risk	3	These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. Borrowers have adequate liquidity, cash flow & earnings. Credit is normally be secured by acceptable collateral (1st charge over stocks / debtors / equipment / property). Acceptable management. Acceptable parent/sister company guarantee. An

Risk Grade	Numeric Grade	**Definition**
		Aggregate Score of 75-110 based on the Risk Grade Scorecard.

Risk Grade	Numeric Grade	**Definition**
Marginal - Watch list	**4**	Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. Weaker business credit & early warning signals of emerging business credit detected. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.
Special Mention	5	Grade 5 assets have potential weaknesses due to conditions affecting borrower, industry or economic condition and deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30-60 days, or if a significant petition or claim is lodged against the borrower. Full repayment of facilities is still expected and interest can still be taken into profits. An Aggregate Score of 55-64 based on the Risk Grade Scorecard.

Risk Grade	Numeric Grade	Definition
Substandard	6	Financial condition is weak and capacity or inclination to repay is in doubt. These weaknesses may jeopardize the full settlement of loans. Loans should be downgraded to 6 following Bangladesh Bank criteria of classification. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.
Doubtful and Bad (non-performing)	7	Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation
	7	liquidation procedures or capital injection, the asset is not yet classified as Loss. Bangladesh Bank criteria of classification should apply. An Aggregate Score of 35-44 based on the Risk Grade Scorecard
Loss (non-performing)	8	Assets graded 8 are long outstanding with no progress in obtaining repayment or in the later stages of wind up/liquidation. The prospect of recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for. This classification reflects that it is not practical or desirable to defer writing off this credit and it is basically worthless asset even though partial recovery may be affected in future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of 35 or

Risk Grade	Numeric Grade	Definition
		less based on the Risk Grade Scorecard

6.3.3 Procedural Guidelines:

i) The credit Risk Rating system is to be used by all Credit/Relationship Officer for all exposures except the loans under Retail Credit Division.

The Credit Risk Rating system would be useful in analyzing credit proposal, new or renewal for regular limits or specific transactions, if the basic information on a borrowing client to determine the degree of each factor is:

- Readily available
- Current
- Dependable
- The factors are assessed judiciously and objectively

Therefore, factors are to be evaluated and weighted very carefully, on the basis of most up-to date and reliable information and complete objectivity must be ensured to assign the correct rating.

ii) Risk rating exercise should be originated by Relationship Officer and countersigned by Relationship Manager. The exercise should be an on-going and continuous process. It is to be understood that the objective and effectiveness of the system will be jeopardized if total objectivity is not ensured. Any changes in the risk rating must be promptly identified and reported for remedial actions.

iii) If Credit Risk Grading Form is approved by Credit Risk Management Division, the rating is to be considered final.

6.4 Subjective Grading:

The more conservative risk grade (higher) should be applied if there is a difference between the personal judgment and Risk Grading Scorecard result. This will remain at the absolute discretion of the concerned Relationship Officer of the Branch or Corporate Banking Division, Head Office. Up grade or Down Grade by one level will be approved by Head of Credit Risk Management Division. Up grade or Down Grade by two levels should be approved by Additional Managing Director/Managing Director.

6.5 Downgrading:

The Relationship Officer of particular customer shall continuously monitor the customer and bear the responsibility of rating/grading with surveillance. If any deterioration in risk, whatever may be the reason, is noted or adverse information is received, the Relationship Officer will propose change in the risk grading of the customer and prepare Early Alert Report and forward the same to the Credit Risk Management Division for approval. Changes in the risk grade will be in effect only if it is approved by the Credit Risk Review Department, CRM Division. A downgrade movement in a risk rating implies that the probability of default has increased and appropriate action must be taken. Once a credit facility/customer is downgraded to a lower grade, it will not be postponed until the next annual review process. In case of downgrading, credit facility to the customer may be immediately changed/restructured, if possible.

Head of Credit Risk Management Division may also downgrade /classify an account in the normal course of inspection of a Branch or during periodic portfolio review. In such a event, the Credit Risk Grading Scorecard will then be filled up by the Credit Risk review Department and will be referred to Corporate Banking Division, concerned Branch/Credit Administration Department/Recovery Unit for updating their MIS/records.

6.6 Asset Migration:

Risk Grading Model will be used for assessing / measuring risk in the credit exposure taken on a particular customer. It is the key measurement of Bank's asset quality irrespective of classified and unclassified accounts. Therefore, all facilities will be assigned a risk grade. And, asset portfolio of the Bank will be reviewed quarterly. At each quarter end, Credit Administration Department, CRMD will report summarizing the migration of the assets with respect to risk grade and place before the management for review. The Management will ensure non-concentration of assets in lower grades.

6.7 External Rating:

At least top twenty five clients/obligors of the Bank may preferably be rated by an outside credit rating agency.

6.8 System Review:

Credit Risk Management Division will review a certain percentage of the Risk Grading Scorecard and Risk Grading Sheet of a Branch for effective application of risk rating in Credit operation every year. Furthermore, consistency of the judgment in qualitative factors by the concerned officers/executives will also be reviewed at the same time.

6.9 General Conditions:

Apart from risk rating of the credit exposure done at the time of first sanction, the Risk Grading should be reviewed annually. Below Numeric Grade 3, i.e., Acceptable, the risk assessment is to be undertaken at half yearly intervals and in critical cases, at quarterly basis.

In case an account is rated marginal/watch list/special mention or unacceptable risk as per Credit Risk Grading Score sheet, this may be substantiated and credit risk may be accepted if the exposure is additionally collateralized through cash collateral, good tangible collaterals, strong guarantee or proper structure and covenants.

Chapter – 7: Credit Approval Authority

7.1 Delegation of Approval Authority:

The overall lending authority rests with the Board of Directors within the frame work of the Bank's Memorandum and Articles of Association. It is imperative for a bank to create different tier of approval authority for smooth, prompt and efficient services to its multitude of clients spread far and wide as well as disciplined credit culture within the bank. It is the responsibility of the Board of Directors to ensure proper and orderly conduct of the business by approving the overall lending authority structure, and explicitly delegate approval authority to Chief Executive Officer/Managing Director, Additional Managing Director, Deputy Managing Director and Senior Credit Officers and the Executive Committee.

United Commercial Bank Limited believes in decentralization of powers and credit approval authority has been delegated to different tiers of both the Board of Directors and the Management. Authorities who enjoy delegation of business power i.e credit approval authority are as follows:

1. Board of Directors
2. Executive Committee of the Board
3. Chief Executive Officer/Managing Director
4. Deputy Managing Director

However with an objective to facilitate quick disposal and timely renewal of large number of credit proposals and developing efficient credit officers for future the following approval authority has been framed:

1. Board of Directors
2. Executive Committee of the Board
3. Chief Executive Officer/Managing Director
4. Additional Managing Director
5. Deputy Managing Director
6. Head of Branch

The approval limits for each of the above sanctioning authority level for different type of facilities would be defined in “Credit Approval Authority ” that to be approved by the Board of Directors and reviewed time to time.

7.2.1 The Board of Directors:

The Board of Directors have the supreme authority to sanction any loan for the amount not exceeding the regulatory limit the Bank can provide to a single customer. Besides, all proposals for waiver of interest, rescheduling and principal must be approved by the Board of Directors in line with regulatory restrictions.

7.2.2 The Executive Committee of the Board:

The Executive Committee of the Board of Directors may sanction any loan for the amount not exceeding the regulatory limit the Bank can provide to a single customer as delegated by the Board. Any proposal beyond the delegated authority of the Managing Director will be placed before the Executive Committee of the Board for approval.

7.3 Process of delegating approval authority at management level:

Credit Approval authority will be given to different levels of the Bank duly approved by the Board of Directors. Delegation of credit approval authority to different tiers at management level approved by the Board for various executives forms the upper limit of the authority other than Managing Director and will be treated as the maximum indicative limit. An officer does not automatically get the approval authority by virtue of his functional title. Specified approval authority will be delegated by the Managing Director to various executives duly approved by the Board after taking into consideration his proven credit judgment, knowledge and experience.

Each individual’s lending authority will be delegated to him in writing. Authorities given to an incumbent will not automatically be transferred to a replacement. The latter will have lending authorities delegated to him in writing and amount delegated will depend upon the individual.

7.4 Revision of Credit Approval Authority:

Managing Director may suspend exercise of delegated credit approval authority of any executive through specific or general order with the prior approval of the Board/Executive Committee. In case of emergency, he may also suspend exercise of delegation of credit approval authority subject to obtaining post-facto approval by the Board/Executive Committee within one month from the date of such suspension.

The performance of each individual lending authority is to be reviewed periodically.

7.5 Responsibility of Credit Approval Authority:

Approving executives are expected to make balanced decisions following Bank's Credit Policy and general credit norms, weighing risk against reward, and most importantly must exhibit independence in decision making and have reservations about a credit. Delegated powers shall be exercised by the authorized officials judiciously keeping in view the interest of the Bank, credit restrictions, regulatory requirements and after conducting due diligence. No sanctioning officer can sanction any credit to any of his near relations and to any firm/company where his relations have financial interest. Such cases should be sent to Head Office for consideration.

7.6 Criteria for Individual Credit Approval Authority:

Credit approval authority will be granted to individuals on the basis of experience and nature of their duties and responsibilities, and not on the basis of title/designation. Relationship Managers, although are required to perform the same basic credit functions in addition to marketing and business development, may or may not be delegated approval authority. The delegated approval authority confers a responsibility that has to be exercised judiciously and should reflect the individual's professional credibility and integrity.

Delegated approval authorities are expected to make balanced decisions, weighing risk against reward. Most importantly they must exhibit independence in decision making and have reservations about credit, if any, and at the same time be able to recommend solutions/alternatives to the problem.

The eligibility criteria usually expected when approval authority would be delegated to an individual to carry out their responsibilities effectively are as follows:

- ✓ Basic academic qualification
- ✓ Number of working experience in Credit Division/Corporate Banking Division
- ✓ Advanced credit training
- ✓ Adequate knowledge of credit analysis, negotiation and structuring of facility
- ✓ Understanding the business cycle and it effects
- ✓ A good understanding of the local industry/marketing dynamics
- ✓ Proven track record demonstrating:
  - i) Sound business judgment
  - ii) Ability to identify/anticipate potential problem of credits
- ✓ Ability to make prompt, rational and independent decisions
- ✓ Integrity and honesty

7.7 Reporting Approval:

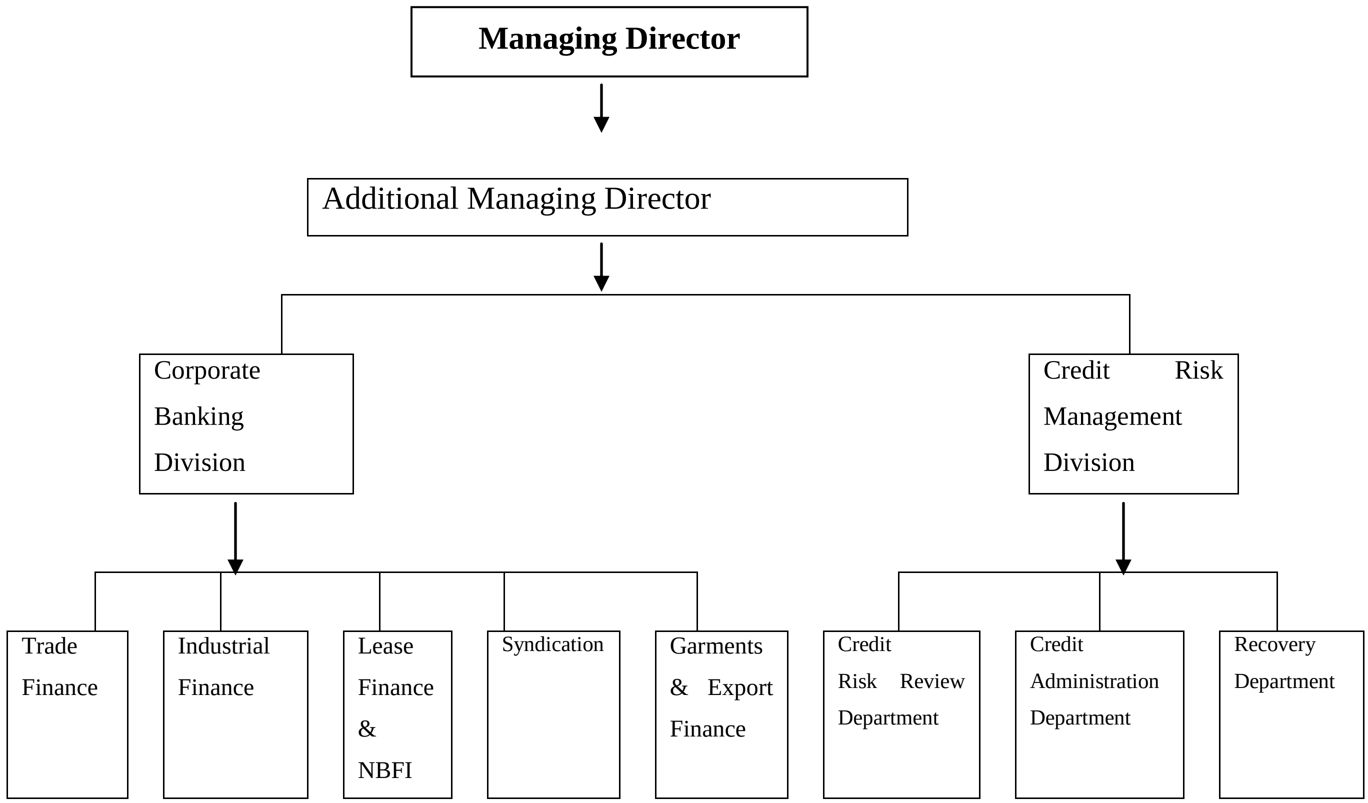
The sanctions made by the branches during the month should be sent to the Credit Risk Management Division, Head Office for reviewing the proposals as well as the competency of the approving authority. Copies of appraisal notes, sanction advice should be attached along with formats. Credit Risk Management Division, Head Office should review al least 10% of such approvals to assess the competency of the approving officers, adherence to Credit Policy and quality of advances.

Chapter – 8: Organizational Structure

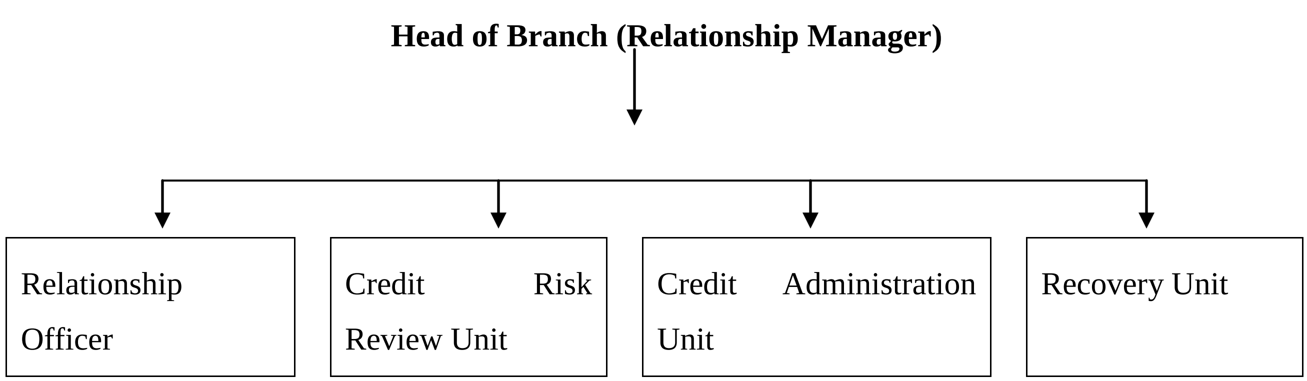
8.1 Organizational Structure:

To maintain bank's overall credit risk exposure within the parameters set by the Board of Directors, the importance of a sound risk management structure is second to none. It is important that organizational structure should facilitate effective management oversight and proper execution of credit risk management and control process. One of the most important aspects in risk management philosophy is to make sure that those who take or accept risk on behalf of the institution are not the ones who measure, monitor and evaluate the risks. In order to ensure smooth and transparent credit operation, segregation of duties of credit related activities e.g credit marketing, processing, approval, documentation, disbursement etc. should become independent of each other. It is preferable that all the above activities rest with separate Units/Divisions for efficient handling of their responsibility. As such, these require some independent departmental set-up both at Branch and Head Office level within the Bank. UCBL has segregated the functions into Corporate Banking Division and Credit Risk Management Division. The former will take the risk and the latter will evaluate the risks.

8.2 Functional Organizational Set-up at Head Office:



8.3 Organizational Set-up at Branch:



At the minimum, one officer shall be placed in the Credit Administration Unit in each A & B Category Branch who shall work independent of the Branch Management under administrative control of Credit Administration Department, Head Office. Credit Risk Administration duties will be performed by an independent officer other than Relationship Department in rural & other category branches with the approval of Head of Credit Risk Management Division duly recommended by Head of Credit Risk Administration Department.

8.4 Segregation of Duties:

The purpose of the segregation is to ensure a check and balance between business & credit. It also intends to improve the knowledge level and expertise in each department, to impose control over the disbursement of sanctioned loan facilities to avoid conflict of interest, compromise and to ensure quality of assets through transparent process. The single most important line of distinction between Relationship and Credit Division is that former group will have primary responsibility of marketing, i.e., developing and sustaining the Bank's business; Credit officers will have no direct responsibility for business generation but will be responsible for ensuring credit quality of Credit portfolio.

i. Business Development /Relationship (Corporate Banking Division);

ii. Credit Risk Management Division
   - Credit Risk Review Department ;
   - Credit Administration Department;
   - Credit Recovery Department;

The functions and responsibilities of both Corporate and Credit Risk Management Division are highlighted below to provide understanding their respective roles in Credit origination, approval and monitoring process.

8.5 Corporate Banking Division

8.5.1 Major Functions:

a) To solicit customers and maintain effective relationship with them.
b) To collect sufficient credit information and process the same to conduct due diligence (Credit Analysis).

c) To prepare comprehensive credit proposal and recommend the same for screening of HOCC and Credit Risk Review Department of Credit Risk Management Division.

8.5.2 Duties and Responsibilities:

Broadly the responsibilities of the division are, but not limited to, the following:

a) To set short, medium and long term business goals and forward the same to the Credit Risk Management (CRM) unit of Credit Division for its ratification.
b) To formulate plans and strategies to achieve specific business goals.
c) To identify target customers, initiate/establish new customer relationships and renew/strengthen existing ones.
d) To study market and competitive position and customize business plans & strategies with changing environment on an on-going basis.
e) To prepare Target Market Document for Corporate clients.
f) To develop new products and formulate means of mobilizing and allocating short, medium and long term resources.
g) To carry out credit analysis with due diligence, assess credit requirement of the customer, structure credit facilities, identify potential credit risks and mitigating factors thereto.
h) To solicit customers and prepare credit information memorandum for specific syndication deal.
i) To appraise and recommend proposals for participation in loan syndications arranged by other banks.
j) Obtaining, reviewing, vetting and submitting all necessary credit information to Credit Risk Review Department for timely and accurate processing of credit proposals.
k) To ensure appropriate implementation of the credit after approval, on going review, renewal and supervising the use of facilities in the designed manner.
l) To ensure compliance of bank’s own policies and regulatory requirements;
m) To coordinate with Credit Administration Unit at Branch level for accomplishment of proper documentation and disbursement.
n) To coordinate with Monitoring & Recovery Unit of Credit Risk Management Division to facilitate effective monitoring of problematic loans.

o) To maintain thorough knowledge of borrower's business and industry through regular contact.
p) To proactively monitor the financial performance and account conduct of borrowers.
q) To minimize credit losses through risk assessment and timely identification of deteriorating credit risk of the customers.
r) To ensure customer satisfaction in all respects.

The Head of Branches shall act as Relationship Manager for his Branch for doing the function of Corporate Division. Officers of Credit Marketing Team of the Branch shall act as Relationship Officer. They shall do marketing of Bank's credit products, explore new business opportunities, negotiate terms and conditions, process credit proposals, maintain effective relationship with customers, and submit proposals to Corporate Banking Division, Head Office for approval of business credit facilities beyond their delegated business power.

The Relationship Managers (RM) should be the owner of the customer relationship and must be held responsible to ensure accuracy of the entire credit application submitted for approval. They will also follow up to ensure timely repayments of loans and inform any deterioration in a proactive manner to the authority.

8.6 Credit Risk Management Division

The Credit Risk Management Division shall perform interalia the following duties:

a) Ensure that credit proposals to any level of authority are complete, correct and consistent with the bank's established policies and procedures.
b) Assess risks inherent in the credit proposal sent by Corporate Division and also evaluate proposed facility pricing based on risks, security, structuring and terms and conditions to suit the business condition and to protect Bank's interest.
c) Compliance to the existing rules and regulations of the Bank and all regulatory authorities and laws of the country and to advise the Corporate Division for rectification, if required.

d) Advise the Corporate Division about changes, if required, in the structure and terms and conditions of the proposed facility.
e) Process credit proposal for approval of the competent authority.
f) Issuance of sanction advice for credit facilities or decline.
g) Maintain Limit Sanction Register.

8.6.1 Major Functions of Credit Risk Management Division:

a) To update Bank's Credit Policy/Lending Guideline, procedures and control mechanisms related with all credit risks arising from corporate/commercial banking etc.
b) To review credit proposal received from Corporate Banking Division and provide observation regarding risks to the Credit Committee
c) Monitor and administer credit extensions at Branches by reviewing the periodical statements.
d) To provide advice/assistance regarding all credit matters to Corporate Division/Branches.
e) Periodical review of different types of credits, maintain effective follow-up and supervision and take all possible measures in time to save from classification.
f) Ensure that approvals are promptly communicated to the originating Branch for implementation.

8.6.2 Duties and Responsibilities of Credit Risk Management Division:

a) Examine/review credit proposals (new/renewal) sent by Corporate Banking Division/Branches to:
    - Process CM for approval on receipt of recommendation of HOCC.
    - Placing observations on credit proposals before the Head Office Credit Committee.
    - Decline credit proposals if they do not meet criteria with reasons.
    - Recommend credit proposal to Deputy Managing Director/Additional Managing Director/Managing Director/EC/ Board for their approval
    - Prepare facility sanction letter and send copies to:

- Corporate Division/Branches
- Credit Administration Department

b) Review on a periodical basis in the light of:

- Structuring
- Adequacy of security
- Pricing and profitability
- Financial analysis &
- Form and content
- Performance
- Turnover
- Repayment

c) Revise and ratify borrower's risk grade developed by Corporate Division/branches.

d) Review delegated credit approval authorities on an annual basis.

e) Review a portion of approved Loan by the delegated approval authority at Branch level.

f) Review and update bank's credit manual and credit operating procedures on an annual basis.

g) Conduct industry analysis and detect risk involved with each industry.

h) Formulate strategy to minimize risk of lending to specific industry.

i) Guide and educate officers of all units of Credit Division and Corporate Division/branches.

8.7 Credit Administration Department

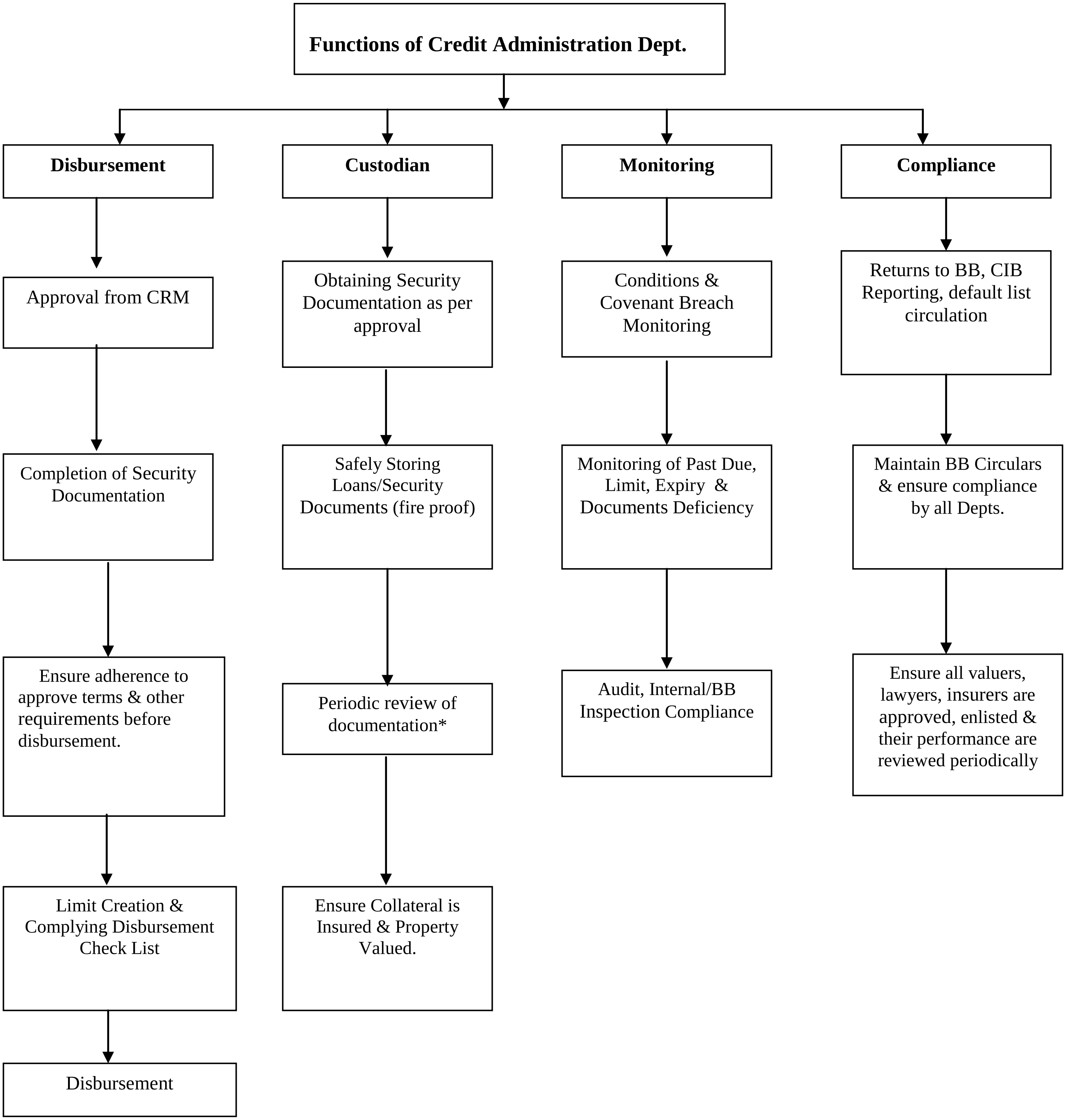
8.7.1 Scope and Objectives:

Ongoing administration of the credit portfolio is an essential part of the credit process. The responsibility of providing administrative support for the lending activities of the Bank, and day-to-day monitoring of credit exposure along with Corporate Banking Division is vested in the Credit Administration Department. Credit administration function is basically a back office that support and control extension and maintenance of credit.

The primary objectives of establishing Credit Administration Department is to ensure the following:

a) To ensure discipline in Credit Management.
b) Sanction letter delivered to customers are exactly in line with the approved credit terms.
c) All loan documentation relating to transactions are scrutinized, verified to be legally enforceable and lodged in the vault.
d) Effective checks and balances are maintained with regard to correct utilization of credit facilities according to the terms and conditions of the credit approval.
e) All customer liabilities are timely and accurately recorded in the books of accounts for monitoring and control purposes.
f) All irregularities and exceptions are recorded and reported as required.
g) Collateral securities and stocks pledged with the bank are effectively controlled and monitored.

Credit Administration Flowchart



8.8 Recovery Department

8.8.1 Objective

The core objective of establishing Recovery Department within Credit Risk Management Division for effective and efficient management of Problem Accounts that has been identified.

Major Functions:

a) Monitoring and controlling of SMA and classified accounts through monthly reporting and quarterly review/update.
b) Whenever a loan is non-performing, the matter will be thoroughly examined to ascertain the reason of being stuck up.
c) Actively follow up with Branch for recovery of Sub Standard accounts.
d) Actively follow up with the borrowers for recovery of Doubtful/Bad & Loss as well as Written Off accounts.
e) To take all sorts of initiative for amicable settlement.
f) Negotiating and restructuring/rescheduling debts whether feasible, on its own and/or in association with the concerned Relationship Manager, Legal Division and Head of Credit Risk Management Division.
g) Loans are rescheduled in conjunction with the Loan Rescheduling Guidelines of Bangladesh Bank which is in force. Any rescheduling should be based on projected cash flow and should be strictly monitored.
h) To take prompt legal action in time, if the borrower is non-cooperative.
i) Actively follow up with Legal Division for recovery of Bad & Loss accounts after failure of amicable settlement endeavor.
j) Court cases are regularly followed-up and necessary steps are taken for early resolution.
k) Follow up of waiver/rescheduled/write-off loans.
l) Preparation of quarterly report on the position of bank’s non-performing loan and trend analysis of non-performing loans to the management.
m) To ensure that adequate provision against classified is maintained as per Bangladesh Bank’s guidelines. Loan loss provisions are taken based on Forced Sale Value (FSV).

Chapter – 9: Miscellaneous

9.1 Renewal Frequency:

All continuous credit facilities and composite limits shall be renewed annually if these are qualified for renewal.

9.2 Title Search:

Title search for collateral securities shall be conducted annually both in Registrar of Joint Stock Companies & Firms (RJSC) and concerned office of the Land Registrar.

9.3 Control of Cash Collateral:

Cash collaterals held against credit facilities shall be under absolute control of the Documentation Officers of Credit Administration Unit stationed at Branch who have custodial duties for the same. He/she will check whether facilities are allowed as per approval.

9.4 Disbursement Record:

The Branch must keep all records of disbursement in the credit file. Other concerned department may also keep the documentation record. But primary responsibility lies with the Branch.

9.5 Registered Mortgage:

In case of taking land and building as security, charge will be created through mortgage duly registered with the competent authority. Furthermore, registered mortgage will be supported by the Irrevocable General Power of Attorney to sell the land and building in question without reference to the court in case of default of the customer.

9.6 Vacant land & third party property as security:

While taking collateral security against credit facility, vacant land and third party property shall be discouraged.

9.7 Release of Collateral or Debt Obligation:

Release of collateral or debt obligation either within the validity period of the limit or after expiry and/or full and final adjustment of the limit/outstanding must be approved by the concerned sanctioning authority. Managing Director may exercise this authority for loans sanction by Board of Directors.

9.8 Insurance Policy:

The customer shall have to take insurance policy as per approved terms of sanction and submit the same to the Bank. The Documentation Officer/custodian shall keep it in the vault. He/she will ensure that insurance policy is current and renewed on a timely basis. Bank will take authorization from the customer to debit his/her account in order to keep the policy in force.

9.9 Diary of Circulars:

Corporate Banking Division, all Units of Credit Division and concerned Units/Departments of Branch shall maintain separate diary of circulars related to credit. Circulars should be properly indexed.

9.10Third Party Service Provider:

The Credit Administration Department will manage all third party service providers e.g Valuers, Lawyers, Insurers, C & F Agents etc. It will circulate separate list of third party service providers having approval of the Board of Directors from time to time. Performance of all listed third party service providers is to be reviewed on an annual basis.

9.11Internal Audit:

Internal Control & Compliance Department will conduct routine audit and ensure compliance of Credit Policy of the bank as well as regulatory instructions. ICCD also inform their observation to the Board of Directors. Credit Administration Department will provide a copy of Loan Documentation Checklist of each facility of a Branch before commencing of audit to Internal Control & Compliance Department.

Analysis:

- ✓ Since banks earning comes from credit operation so banks need to minimize its credit risk to earn maximum profit for the share holders. For this reason as a well established bank UCBL has a well comprehensive structured credit risk policy which includes purpose, scope superseding power to control the policy. **(Chapter 1)**.
- ✓ The bank should consider short term terms loan by introducing new products/loan or by reengineering existing product/loan. However they need to provide large loan in order to earn more revenue. But all of the process of proving loan must be well defined and carefully calculated by calculating loan deposit ratio, risk acceptance criteria, type of clients (such as large corporate clients may need to provide some benefit to create the atmosphere that the bank is with the client), and the possibility to repay the loan and type of securities the client is providing with the bank. **(Chapter 2)**.
- ✓ Before providing any loan UCBL divided the loan into three major categories. (Short, long and medium term loan). They need to provide loan according to the types and the categories. They also need to provide other categories like working capital which is also essential to run a business successfully. **(Chapter 3)**.
- ✓ As credit pricing is the prime source of UCBLs earning, they need to carefully select interest of loans according to Bangladesh Bank rules, and with the market condition. They also need to discuss the rate of interest in the Asset Management Liability Committee in every month. **(Chapter 4)**.

- ✓ As a bank earns its principal revenue from loan interests. It must follow the rules and regulation to make the repayment and the collection of interest more smoothly. Before giving any loan the officer must observe whether every aspects of giving loan is filled and other things such as credit requirement, accountability, prepayment of loans, collections, insurance and other required fields are covered or not. **(Chapter 5)**.

- ✓ In order to maximize profit UCBL categorized different grading according to the types and number of loans based on the risk, possibility of return and other vital things. They put scores on each type of risk. (Formal, Business, management, Security and others). And according to the return they categorized the repayment of loans and interests is in which levels. (Superior-Low Risk, Acceptable Fair Risk, Doubtful and Bad etc). **(Chapter 6)**.

- ✓ The members of credit approval authority need to be more specialized to approve any loan. UCBL credit approval authority is enriched with managing directors, board of directors and other high officials. Before giving any loan this authority check whether every aspect of sanction a loan is followed or not. The principal objective is to carry more revenue by dealing the loan process smoothly. **(Chapter 7)**.

- ✓ As a successful and first generation traditional private bank UCBL has a well established organizational structure where the functional duties of every department are clearly mentioned. Credit risk management division has also highly acceptable organizational structure which makes the department more flexible and highly professional to perform risk/loan related activities. **(Chapter 8)**.

- ✓ Other things such as Renewal Frequency, Registered Mortgage, Insurance Policy, Diary of Circulars, and Internal Audit are also need to supervise carefully by CRM department. **(Chapter 9)**.

Results and Discussion

- Credit Risk Management helps to segregate UCBL assets quality.
- Management can take necessary steps to nursing their assets according to their health quality.
- It helps to prepare improve balance sheet for a financial institution like as UCBL.
- CRM helps to improve the skill of all level of management.
- It helps to forecast the market scientifically.
- Credit Risk Management makes easier all of the management process like planning, organizing, controlling etc.
- It helps to evaluate and facilitate all level of consumer of banks product and service.
- Finally, the implementation of CRM reduces the risk level of individual borrowers; improve the financial culture of the organization as well as the economy of the nation.
- All level of management knowledge is not adequate enough to understand the inner them & the basic of CRM.
- In case of implementation of CRM, UCBL has to relay on the secondary information provided by the borrowers. But there is a little chance to justify the provided information. So in most cases bank has to work with the unjustified information.
- The process of preparation of financial statement of an individual firm is not upgraded. As a result, all relevant correct information is not shown in the financial statement. So, there is a gap in the provided information

Conclusion

UCBL is today's one of the leading private banks in our country. After the establishment it brought lots of new product and services for its clients and the progress of UCBL is really satisfactory in our banking environment. From a mainly feudal agrarian base, Bangladesh has undergone a rapid economic structural transformation towards manufacturing and services. Providing credit to clients is a core business of UCBL. It is also the pioneer in offering world class credit/loan facilities for the people of Bangladesh. It has 110 branches in urban, suburbs and rural areas in the country. This makes possible for the bank to reach to all type of potential clients. Fundamentally most of the revenue comes from credit department of the bank so it is very essential that UCBL has well structured credit risk management department. In this report I have illustrated different aspects of UCBL credit risk management department and try to find out the problems and the process to solve the problems. Although the bank has a very highly structured credit risk management policy they need to be careful about future challenges and obstacles, because eventually they have to deal with future business in this changing world. So their policy should be upgraded and modified in order to face the challenges.

Appendix

United Commercial Bank Ltd.
Khulna Branch
KYC Profile Form
(To be filled by the branch officials)

Customer/ Account Name: **M/S Mahabub Brothers**
Account or Reference number: **71001508**
Name of Account Officer / Relationship Manager/ Office opening the account: **Syed Lutful Haque**
Sources of Fund and Nature of Business: **Business Equity**

1. Who is the actual owner of the account (i.e. account holder acting as an agent or trustee)?

Mr. Sk. Maznu

2. Original passport/ ID sighted and photocopy obtained. **Yes** / No
3. For nonresident and foreigners ensure the reason for opening the account in Bangladesh: **N/A**

Type of VISA (Resident / work)

4. What does the customer do?

Category	Risk Level	Rating
Jewellery / Gems trade	High	5
Money Transmitter / Changer	High	5
Real estate agent	High	5
Construction Promoters of projects/ developer	High	5
Offshore corporation	High	5
Art / antic dealers	High	5
Restaurant owners	High	5
Traders with a turnover of more than tk 1 corer per annum	**High**	**4**
Import and export business	High	5
Cash intensive business (Cash deposit > tk 25 lacks in a month.	High	5
Share and stock broker	High	5
Finance companies	High	5
Auto dealers (new / used /reconditioned cars)	Medium	3
Shop owner (retail or whole sell business	Low	2
Business- Agents ,franchises	Low	2
Small trader (Turnover less than tk. 50lacks per annum.	Low	2
Computer (hardware / software)	Low	1
Manufacturers (other than arms)	Low	1
Retired from services	Low	0
Service	Low	0

Self employed professionals	Low	2
Operation in multiple location	High	5
Corporate customer of repute (irrespective of the category	Low	2
Travel Agents/ Man Power Business	High	4
Transport Operators	Medium	3

5. What is the net worth/sales turnover of the customer?(Per annum)

Amount(tk)	Risk Level	Risk Rating
1-50 Lacs	Low	0
>50-200 Lacs	Medium	1
>2 Crores	**High**	**3**

6. How was the account opened?

Mode	Risk level	Risk rating
Relationship Manager/ Affiliate	**Low**	**0**
Direct sales agent	Medium	1
Internet	High	3
Walk-in/ Unsolicited	High	3

7. Expected Value Number of Transaction on a monthly basis (tk. In lacs)

Value of current account	Number for savings Account	Risk level	Risk Rating
0-10	0-5	Low	0
>10-50	>5-20	Medium	1
>50	>20	**High**	**3**

8. Expected Number of Transaction on a monthly basis (tk. In lacs)

Value of current account	Number for savings Account	Risk level	Risk Rating
0-100	0-5	**Low**	**0**
>101-250	>5-20	Medium	1
>250	>20	High	3

9. Expected value of cash Transaction on a monthly basis(tk. In lacs)

Value for current account	Value for savings Account	Risk level	Risk Rating
0-10	0-2	Low	0
11-25	3-7	Medium	1
>25	>7	**High**	**3**

10. Expected number of cash Transaction on a monthly basis

Number for current account	Number for savings Account	Risk level	Risk Rating
0-15	0-5	Low	0
15-30	6-10	Medium	1

>30	>10	**High**	**3**

Overall Risk Assessment

Risk rating	Risk assessment
>=14	High
13<14	**Low**

Comments: ***Overall risk of the firm is 13 which is less than benchmark of risk level i.e., 13<14, means risk is "Low" so the account may continue their business transaction with the Bank.***

Sd/- Signature of the Account officer/ RM	**Sd/-** Signature of the Authorized officer	**Sd/-** Signature of the Manager

Special Approval Obtained: ………………………………**N/A**…………………………………………………… ……………………………………………………………………………………… ………………………………………………………………………………………

Complete the profile form for High Net Worth Customers falling under the following criterion:

- New customer whose initial deposit is more than tk. 50 Lacs(initial means within 1 month of Account opening.)
- Existing customers whose total AUM (Asset under Management) grow to > tk. 50 Lacs for 3 consecutive months.

List of Questions to be used when obtaining source of wealth

<table>
<tr><td colspan="2">KYC REQUIREMENT FOR HIGH NET WORTH CUSTOMERS</td></tr>
<tr><td colspan="2">A. Source of wealth
Type of wealth:
Business Ownership Investments*
Profession* Inheritance
Top executive Other

Instruction: Please refer to the list of question to be used when obtaining the source of wealth. You may need to choose more than one category for a business owner with inherited wealth.

B. Number of face to face meeting with customers : 03(Three) times

C. Annual Review of Customer Profile : 02 (two) times yearly</td></tr>
<tr><td colspan="2">Profession* Physical, lawyer, engineer etc.
Investment* Some one who buys and sells assets of any type.</td></tr>
<tr><td>Prepared by: Account officer/RM
Name: Syed Lutful Haque
Date July 01, 2006</td><td>Reviewed by: Branch MANAGER/ Branch Operation Head
Name: Ziauddin Ahmed
Date: July 01, 2006</td></tr>
<tr><td colspan="2"><u>Note</u>: This form must be renewed every year

List of question to be used when obtaining source of wealth</td></tr>
<tr><td colspan="2"><u>Wealth generated from business ownership</u></td></tr>
<tr><td colspan="2">*Description and nature of the business and its operations</td></tr>
<tr><td colspan="2">*Ownership type: Private/ public/ firm</td></tr>
<tr><td colspan="2">*Percentage of ownership?</td></tr>
<tr><td colspan="2">*Estimated sales volume?</td></tr>
<tr><td colspan="2">*Estimated net income?</td></tr>
<tr><td colspan="2">*Estimated net worth?</td></tr>
<tr><td colspan="2">*How long in business?</td></tr>
<tr><td colspan="2">*How was the business established?</td></tr>
<tr><td colspan="2">*Other owners and partners (Yes/ No)</td></tr>
</table>

*Name of other owners and partners?
*Percentage owned by other owners /partners?
*Number of employees?
*Number of locations
* Geographic trade areas of business?
*Other family members in business?
*Significant revenues from governments contracts/ license?
Well derived from being a top executive
*Estimate of compensation?
*What does the company do?
*Position held?
*Length of time with company?
*Area of expertise?
*Publicly and privately owned?
*Cline's Past experience?
Primary source of wealth was through inheritance
*In what business was the wealth generated?
*Inherited from whom?
*Type of asset inherited?
*When were the assets inherited?
*How much was inherited?
*Percentage of ownership for a business that is inherited?
Well generated from professions(Physician , dentist…….**)**
*Where is the profession, including area of specialty(Ex: shares, bonds etc.)
Source of wealth? (Dr. running a clinic)
Estimate of income
Wealth Generated From Investment
*Where did the source of wealth comes from? (Ex: investment in shares)
*What do they currently invest in? Ex: stock market…………..)
*What is the size of the investment?
*Cite notable public transaction, if any
*What is the clients role in transaction (ex: middle man)
*Estimated annual Income/ Capital appreciation?
*How long has the client been an investor

References

Books :

1. Block. Stanley. B & Hirt. Geoffrey. A, Foundation of Financial Management, 11th Edition, McGraw-Hill.
2. Gordon. E & Natarajan. K, Banking Theory, Law and Practice, 11th Edition.
3. Prof. Shahjahan Mina, Fianncial Management, 6th Edition, S. N. Publications.
4. Annual Report of United Commercial Bank Limited, 2010.

Website:

1. www.ucbl.com
2. www.bangladesh-bank.org

Reports:

1. Annual Report of UCBL (2010)