

An
INTERNSHIP REPORT
On
CREDIT MANAGEMENT Of
RUPALI BANK LIMITED

Submitted To:

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Date of Submission Date : 21.12.2015

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TABLE OF CONTENTS

Chapter No.	Particulars	Page No.
1	<i>Introduction:</i>	
	1.1 Intents of the study	1
	1.2 Origin of the report	1
	1.3 Justification of the study	2
	1.4 Objectives of the study	2
	1.5 Scope of the study	3
	1.6 Limitation of the study	3
	1.7 Methodology of the study	4
2	<i>An overview of Rupali Bank Limited:</i>	
	2.1 Background	6
	2.2 Company Profile	7
	2.3 Rupali Bank Ltd. at a glance	9
	2.4 Number of employees	10
	2.5 Deposit	11
	2.6 Loans & Advances	11
	2.7 Investment	12
	2.8 Call money and FDR held in other Banks	12
	2.9 Profit	12
	2.10 foreign exchange Business	12
	2.11 Rural development Program	13
	2.12 Other Banking Activities	14
	2.13 Human Resources	14
	2.14 Legal Activities	15
	2.15 Rupali Bank Training Institute	15
	2.16 Computer operation & Application of other Technology	16
	2.17 Corporate Social Responsibility	17
	2.18 Social Services	17
	2.19 Empowerment of Poor	17
	2.20 Banking Service for the Disadvantaged group	17
	2.21 Disaster Relief	17
	2.22 Geographical Location Wise Segments Report	18
	2.23 Segment Report By Nature of Operation	18
3	<i>Financial analysis</i>	
	3.1 Position of the Bank At a glance For the Last 5 Years	19
	3.2 Challenges of the Bank	20
	3.3 Future Plan	21
	3.4 Common Size Statement	23

4	<i>Credit Policy of Rupali Bank Ltd.:</i>	
	4.1 Credit Policy	24
	4.2 Lending Criteria of Rupali Bank	25
	4.3 Pricing of Loan	34
	4.4 Credit Planning	34
	4.5 Portfolio Management of Credit	36
5	<i>Credit Appraisal System of Rupali Bank:</i>	
	5.1 Selection of Borrower	37
	5.2 Credit Application	38
	5.3 Scrutinizing And Collection of Information	38
	5.4 Preliminary Screening of Credit Proposal	
	5.5 Credit Appraising And Presentation of Credit Proposal For Approval	
	5.6 Approval of Credit by Higher Authority	
	5.7 Sanction of Credit	
	5.8 Credit Administration And File Maintenance	
	5.9 Disbursement of Credit	
	5.10 Credit Monitoring of Follow up	
6	<i>Project Appraisal Practices at Rupali Bank:</i>	
	6.1 Managerial Aspect	41
	6.2 Technical Aspect	43
	6.3 Marketing Aspect	
	6.4 Financial Aspect	
	6.5 Socio-Economic Aspect	
7	<i>Supervision And Recovery of Loans And Advance of Rupali Bank Ltd:</i>	
	7.1 How to Supervise And Follow up of Loans And Advances	45
	7.2 Recovery of Loan And Advances	46
8	<i>Credit Risk Management Practices of Rupali Bank Ltd:</i>	
	8.1 Risk Management	49
	8.2 credit Risk Management	49
	8.3 Foreign Exchange Risk Management	51
	8.4 BASEL-2 Implementation	52
	8.5 Asset-Liability Management	53
	8.6 Earning Per Share	53
	8.7 Statement of Risk Weighted Assets	54
	8.8 Principles for the Management of Credit Risk	
	8.9 Credit Assessment and Risk Grading	
8.10 Approval Authority		

	8.11 Segregation of Duties	
	8.12 Internal Audit	
	8.13 Key Responsibilities	
	8.14 Procedural Guidelines	
	8.15 Credit Monitoring	
	8.16 Early Alert Process	
9	<i>Operational Result of Rupali Bank Ltd.:</i>	56
	<i>9.1 Loans And Advances</i>	
	<i>9.2 Non-performing Loan</i>	
	<i>9.3 Deposit</i>	
	<i>9.4 CAMEL Rating</i>	
	<i>9.5 Financial Ratios Indicating Bank's Financial Performance</i>	
10	<i>Findings:</i>	58
11	<i>Recommendation And Main Theme:</i>	
	<i>11.1 Recommendation</i>	
	<i>11.2 Conclusion</i>	
	<i>Bibliography</i>	

Letter of Transmittal

December 20, 2015

To
Mr. Shamim Ehsanul Haque
BRAC Business School
BRAC University

Subject: **Submission of internship paper on Rupali Bank Limited**

Sir,

It is my real pleasure to submit this paper titled "**Internship paper on Rupali Bank Limited**" to you as per the requirement under BRAC Business School, BRAC University.

The broad and overall objective of this paper is to provide the reader with an overview of "**Internship paper on Rupali Bank Limited**" Preparing this report has been extremely challenging, interesting and rewarding experience to me and I would like to express my deepest gratitude to you for providing me with such an opportunity.

Thank you for your consideration.

Sincerely yours,

.....
Md. Golam Samdani
MBA Program
Reg No: **13164135**
BRAC Business School
BRAC University

Acknowledgement

Preparation of this report required assistance, guidance and also took valuable time of many important and prestigious personalities. As I am working at Rupali Bank as an Senior Officer of Ramna Corporate Branch. It is a bit easy for me to make the report. I want to express my gratitude to Mr. Md Nuruzzaman Mondol (S.O) Loan and Advance Officer of my branch.

I would also like to thank Mr. Debal Kumar Das (Deputy General Manager) the branch manager of Ramna Corporate Branch and other officials who helped me a lot to complete my report.

Then I would like to give special thanks to my course supervisor Mr. Shamim Ehsanul Haque who guided me with his kind help to complete this report.

Finally, appreciation is extended to my parents and family members and also grateful to “All Mighty Allah” for making me able to complete this task.

Executive Summary

Rupali Bank Ltd. (RBL) was constituted with the merger of 3 (three) erstwhile commercial banks i.e. Muslim Commercial Bank Ltd., Australasia Bank Ltd. And Standard Bank Ltd. operated in the then Pakistan on March 26, 1972 under the Bangladesh Banks (Nationalization) order 1972 (P.O. NO. 26 of 1972), with all their assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings and obligations. Rupali Bank worked as a nationalized commercial Bank till December 13, 1986. Rupali Bank Ltd. Emerged as the largest Public Limited Banking Company of the country on December 14, 1986. At present Rupali Bank Ltd. Operates through 550 branches. It is linked to its foreign correspondents all over the world. The Corporate Head Office of the bank is located at DHAKA with one local office (main branch), six corporate branches at Dhaka, one in Chittagong and twenty-five zonal offices all over the country. The Board Of directors is composed of eight members headed by a chairman and the directors comprise representatives from both public and private sectors and shareholders. The Bank is headed by the Managing Director (Chief executive) Mr. Md. Farid Uddin who is a reputed professional Banker. The Bank has an authorized capital of TK. 7000 million with a paid up capital of TK. 1650 million. GOB owns 90.19% of its share while the private share constitutes only 09.81%.

As an employee, I had the opportunity to do the different types of tasks under Rupali Bank Limited. To make this report, I have used my observations about various banking functions and day-today operations. Rupali Bank Limited provides different types of services to its customer's like-

- Foreign exchange.
- General banking etc.

I segmented my report into eleven chapters. First covers the Introduction about the report, second chapter covers the Organizational overview of Rupali Bank Limited. Third chapter consists of Financial Analysis of Rupali Bank Limited. Fourth chapter is for the Credit Policy of Rupali Bank Limited; Fifth chapter includes Credit Appraisal System of Rupali Bank

Limited, Sixth chapter is for Project Appraisal Practices of Rupali Bank Limited and remaining chapter consists of Supervision and Recovery of Loans and Advances, Credit Risk management Practices, Operational Result, Findings, Recommendation and Conclusion. This report will provide a view regarding the products and performance of the Rupali Bank Limited.

Financial institutions of a country play an important role in mobilizing the unutilized savings and guiding their way through to useful investment projects. The financial institutions go a long way in building the financial backbone of the country's economy. Through capital rising, loan providing, lending supports to venture new entrepreneurs with their concerns, the financial institutions are driving the nation towards financial solvency. In a developing country such as Bangladesh, the role of financial institutions is imperative. Here the financial institutions mostly comprise commercial banks, that is, the major portion of financing for businesses and a majority of the core financial banks provide services. By the nature of their business, banks are very good at mobilizing savings and providing payment services and liquidity. As such they facilitate economic growth for the country. A major source of the revenue's is the varieties of loan products that they offer.

Loan products are one of the key components of the banks' assets. Most of the revenues generated by banks are generated through the loan products. One of the market leaders of the banking sector of Bangladesh, Rupali Bank Ltd. is no exception in this regard. Through their strong brand image and affiliation with a large parent company, they are able to provide innovative services to the consumers of a developing country such as ours. Among its various products, one of the key products is the "Personal loan for Consumers" which we have selected as the area for our study.

CHAPTER- 01

INTRODUCTION

1.1 INTENTS OF THE STUDY:

The prime objective of the study is to examine the performance of Rupali Bank Ltd.

However, the specific objectives are the followings:

- ❖ To have a revelation on the banking environment of Bangladesh.
- ❖ To review the consumer banking services and operating system of Rupali Bank Limited.
- ❖ To evaluate the factors affecting performance of the bank.
- ❖ To suggest the better ways of enhancing the performance of the bank.
- ❖ To know how Bank fixes profit rate and distribute/ allocate the profit.

1.5: SCOPE OF THE STUDY

The study has many dimensions and covers a broad spectrum. The subject matter of the study includes the analysis of the product in the three consecutive fiscal years from 2012 to 2014. If a larger time period was covered then a more comprehensive understanding of the study would've been possible.

The study focuses mainly on the performance of one loan product rather than all the consumer credit schemes. In so doing the loan system, loan evaluation criteria along with the loan administration was covered in the study. In order to gain an insight into the progress of the bank the growth of the bank since introduction has already been assessed. The loan products applicants have been segmented and analyzed based on the secondary data provided which could've been conducted on an even broader spectrum. Inclusion of various other topics would have also been helpful.

1.6 LIMITATIONS OF THE STUDY

During the study, I have faced the following limitations:

- ❖ Three months time is not enough for such an extensive study. It is very difficult to collect all the required information in such a short period.
- ❖ As a Banker I have to spend busy time with my own assigned desk job, which leads a little time to consult with.
- ❖ Due to some legal obligation and business secrecy banks are reluctant to provide data.
- ❖ In case of performance analysis secondary data are used.

1.7 METHODOLOGY OF THE STUDY

SOURCES OF DATA

In order to make the report more meaningful, presentable, a complete one and to meet the goal of this report different data and information are required. Those data and information were collected from various sources, such as, primary and secondary which is shown below:

The “*Primary Sources*” are as follows:

- 1) Practical desk work.
- 2) Face-to-face conversation with the respective officers and staffs of the local office.
- 3) Relevant file study as provided by the officers concerned.
- 4) Facing some practical situation related with the day to day banking activities.

The “*Secondary Sources*” of data and information are:

- 1) Annual Report of Rupali Bank Bangladesh Limited
- 2) File study.
- 3) Various books, articles, compilations etc. regarding centralization process.
- 4) Different ‘Procedure Manual’.
- 5) Brochures
- 6) Bangladesh Bank Annual report
- 7) Newspapers
- 8) Internet
- 9) Several kinds of Academic test-book.
- 10) Different publications regarding banking functions and Remittances operation.



Chapter 02

An Overview of Rupali Bank Ltd

2.1 BACKGROUND

Rupali Bank Ltd. (RBL) was constituted with the merger of 3 (three) erstwhile commercial banks i.e. Muslim Commercial Bank Ltd., Australasia Bank Ltd. And Standard Bank Ltd. operated in the then Pakistan on March 26, 1972 under the Bangladesh Banks (Nationalization) order 1972 (P.O. NO. 26 of 1972), with all their assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings and obligations. Rupali Bank worked as a nationalized commercial Bank till December 13, 1986. Rupali Bank Ltd. Emerged as the largest Public Limited Banking Company of the country on December 14, 1986. Rupali Bank Ltd. Operates through 492 branches. It is linked to its foreign correspondents all over the world. The Corporate Head Office of the bank is located at DHAKA with one local office (main branch), four corporate branches at Dhaka, one in Chittagong and twenty-five zonal offices all over the country. The Board Of directors is composed of eight members headed by a chairman and the directors comprise representatives from both public and private sectors and shareholders. The Bank is headed by the Managing Director (Chief executive) who is a reputed professional Banker. The Bank has an authorized capital of TK. 7000 million with a paid up capital of TK. 1650 million. GOB owns 90.19% of its share while the private share constitutes only 09.81%.

2.2 COMPANY PROFILE

Name of the Company	: Rupali Bank Limited
Chairman	: Mr. Syed Monjur Hossain
CEO and Managing Director	: Mr. M. Farid Uddin
Legal Status	: Public Limited Company
Registered Office	: 34, Dilkusha Commercial Area, Dhaka-1000, Bangladesh
Authorized Capital	: Taka 7000 million
Paid-up Capital	: Taka 1650 million
Number of Employee	: 5036
Number of Branches	: 550
Phone-PABX	: 9551525, 9551624, 9551625
FAX	: 88-02-9564148
SWIFT	: RUPBBDDH
Website	: www.rupalibank.org
E-mail	: rblhocom@bdcom.com rblhoid@bdcom.com

2.3 RUPALI BANK LIMITED-At A Glance-

SL	Particulars	31-12-2014	June'14	Target'15	June'15	
01.	Equity	Authorized Capital	700.00	700.00	-	700.00
		Paid up Capital	165.00	165.00	-	125.00
		Share Deposit A/C	7.50	7.50	-	7.50
		Reserve Fund	336.94	358.08	-	336.94
		Capital Shortfall	1250.27	1316.82	-	1194.69
02	Deposits	Total Deposits	7368.24	7764.32	8902.00	8410.22
		(a) Current Deposit	717.21	1096.29	-	850.10
		(b) Savings Deposit	2945.04	2806.74	-	3111.08
		(c) STD	816.74	878.06	-	1111.18
		(d) Fixed & Term Deposit	2453.03	2293.75	-	2824.35
	(e) Other Deposit	436.22	689.48	-	513.51	
03		Interest Suspense	263.43	276.64	-	257.73
04		Investments	1430.30	1307.25	1565.00	1450.32
05	Loans & Advances	Loans & Advances	5234.42	4907.18	6670.00	5656.74
		Fresh Disbursement	-	-	-	-
		SME Disbursement	-	-	-	-
		Non-funded Loans	2858.41	2925.38	-	6757.16
06	Classified Loans & Recovery	Classified Loans (CL)	1094.41	1232.65	-	1199.04
		% of Classified Loans	20.91%	25.12%	-	21.20%
		Recovery of Classified Loans	531.01	368.66	-	27.84
		Recovery By Cash	61.64	28.21	250.00	21.72
		Recovery By Adjustment/Reschedule	469.37	340.45	-	6.12
07	Write Off Loans	Write Off (during the year)	-	-	-	-
		Recovery of Write Off Loans	35.35	27.35	43.00	15.93
08	Provision for Loans	Required Provision	678.45	-	-	763.21
		Provision Maintained	852.69	852.69	-	852.69
		Provision (Shortfall)/Excess	174.24	-	-	89.48
09	Foreign Exchange Business	Import	1953.68	733.71	4330.00	4440.51
		Export	752.71	318.06	1485.00	353.49
		Remittances (Foreign)	2228.76	1077.44	2683.00	975.75
10	Profit & Loss	Operating Profit/ Loss	209.88	104.59	300.00	106.05
		Accumulated Loss	1208.67	1228.89	-	1208.67
11	Commission Income	Income From Local Remittance	10.63	-	15.00	5.02
12	Costing of Fund	Cost of Deposit	4.52%	4.40%	-	4.86%
		Cost of Fund	7.20%	7.00%	-	7.79%
13	Staff Position	No. of Officers	3148	3161	-	3086
		No. of Staffs	1381	1405	-	1350
14	Profit/ Loss Branches	Profit Branches	434	415	-	412
		Loss Branches	58	77	-	80

2.4 NUMBER OF EMPLOYEES

SL NO.	NAME OF DESIGNATION	NUMBER
01	Managing Director	1
02	Deputy Managing Director	2
03	General Manager	11
04	Deputy General Manager	78
05	Assistant General Manager	147
06	Senior Principal Officer	372
07	Principal Officer	465
08	Senior Officer	995
09	Senior Officer (Cash)	0
10	Officer	1412
11	Officer (Cash)	161
Total		3086
12	Drafts man (Junior Officer)	1
13	Junior Officer	53+8
14	A.C Officer grade-1	3+1
15	Junior Officer (cash)	187
16	A.C Officer grade-1 (cash)	17
17	A.C Officer grade-2	2+25
18	A.C Officer grade-2 (cash)	15
Total		312
19	Driver	77
20	Care taker	360
21	M.L.S.S.	130
22	M.L.S.S. (peon)	36
23	Care taker (Guard)	360
24	Guard	13
25	Liftman	10
26	Electrician	3
27	Plumber	3
28	Others	46
Total		1038

2.5 DEPOSIT:

The total deposit of the bank has stood at TK. 7368.24crore as on 31 December 2014 recording an increase of Tk 239.48 crore from Tk 7028.76 crore as on 31 December, 2013 through earnest efforts of high executives, as well as officers and staff of all levels in severe competitive circumstances in the banking sector at present. The rate of increase of deposit becomes 5.16 percent. Efforts for procurement of deposits have been made in different times during the year by organizing some special programmers. Besides this, emphasis is laid to procure no-cost and low-cost deposit keeping the matter of earning profit in view.

2.6 LOAN AND ADVANCES:

As on 31 December 2014 the total loans and advances of the bank has increased by Tk.331.42 crore to Tk. 5234.42 crore as compared to Tk. 4903.00 crore on 31 December, 2013 and the rate of increase was 6.76 percent. In accordance with the “Prudential Guideline for Consumer Financing and small enterprise Financing” as of Bangladesh Bank, financing in 3 (three) projects named Personal Loan, Professional Loan & Small Enterprise Financing has been continued also during the year in question. Besides this, in order to augment the credit flow in rural areas, the activities of lending to the NGOs under the Bank –NGO Linkage credit program have been started.

In 2013, the amount and rate of classified loans were Tk. 1534.24 crore and 31.29 percent respectively. But with the recovery of Tk. 439.83 crore, the amount of classified loans has reduced at Tk. 1094.41 crore, the rate of recovery being 20.91 percent. The success of recovery of classified loans is the outcome of incessant efforts of the officers and staff of all levels of the bank. As on 31 December, 2014 the amount of sector-wise classified loans was Tk. 306.54 crore and that of unclassified loans was Tk. 1227.86 crore i.e. total amount of classified and unclassified loans has stood at Tk. 1534.40 crore.

2.7 INVESTMENT:

The total investment of the bank was Tk. 1254.57 crore in 2013. It has increased by Tk. 175.73 crore to Tk. 1430.30 crore, the rate of increase being 14.01 percent. Investment has been encouraged in order to enhance the profit of the bank.

2.8 CALL MONEY AND FDR HELD IN OTHER BANKS:

The amount of invested money in money market was Tk. 447.47 crore in 2013. It has stood at Tk. 555.41 crore showing an increase of Tk. 107.94 crore in 2014. Such investment comprises Tk. 331.25 crore as FDR in different banks and Tk. 224.16 crore in call money.

2.9 PROFIT:

The bank has earned operating profit Tk. 209.87 crore in 2014, being Tk. 95.36 crore higher than the preceding year. But the bank sincerely expresses its regret for not being able to pay dividend to the esteemed shareholders this year due to previous accumulated loss according to the provision of the Banking Companies act.

2.10 FOREIGN EXCHANGE BUSINESS:

In spite of widespread economic recession throughout the world, Rupali Bank Ltd. Has been proceeding hopefully in foreign exchange business. The bank has made import business for tk.2519.41 crore in 2014 with an increase of Tk. 449.13 crore from Tk. 2070.28 crore of 2013, the rate of increase being 21.69 percent. The main items of import were industrial raw materials, food items, vehicles, petroleum products, cotton, yarn and different consumer items. The volume of export business has increased by Tk. 35.65 crore to Tk. 745.81 crore this year as compared to Tk. 710.16 crore of the preceding year, the rate of increase being 5.02 percent. As to export business, leather and jute sectors have contributed much to bank performance. The foreign remittance has been elevated to Tk. 2231.19 crore in 2014 from Tk. 2164.28 crore of 2013 showing an increase of Tk. 66.91 crore, the rate of increase being 3.09 percent. The Foreign Exchange Dealing

Room of Rupali Bank has made an earning of \$0.207 million with an increase of \$0.049 million in 2014 from \$0.158 million of the last year by handling 1320 speculative deals. The rate of increase of such earning is 31.01 percent. International Division earned Tk. 12.92 crore in 2013; whereas in 2014 it has earned Tk. 23.88 crore with increased earning of Tk. 10.96 crore, the rate of earning being 84.83 percent. At the end of the year in question the number of overseas correspondents including exchange companies raises at 184. The number of NOSTRO accounts abroad is 34 and the number of exchange companies under Drawing Arrangement is 22 among which exchange companies issuing draft in Bangladesh taka are 15 and the number of exchange companies under EFT is 7.

2.11 RURAL DEVELOPMENT PROGRAM:

The activities of disbursement of credit like fishery loan, shrimp cultivation loan, goat/sheep rearing loan, poultry loan, dairy loan, beef fattening loan, loan against corp. storage in godown, poverty alleviation and socio-economic loan, small loan, micro credit for the handicapped and the tree plantation loan are in operation under Rural Credit Division for socio-economic development of the country under the policy pursued by the government. As the volume of agriculture / rural credit disbursement did not reach the expectation level for shortage of manpower at field levels and in order to deliver the agriculture/ rural credit to the hands of the farmers easily as per directives of the Ministry Of Finance and Bangladesh Bank, Bank-NGO Linkage Credit Programme was initiated in 2013.

Agriculture/Rural credit amounting to Tk. 60.58 crore out of allocated amount of Tk. 120.000 crore under annual agriculture/ rural credit program together with Bank-NGO linkage program through approval of the Board has been disbursed in 2014. The outstanding amount of agriculture/ rural credit as on 31-12-2013 is Tk. 120.88 crore.

A program named youth/farmer credit program has been made operative in order to disburse credit against bank account to those farmers who have obtained “Agriculture inputs and Assistance card” and have bank accounts or will open accounts in the bank with a view to assisting in their agricultural works. A preliminary allocation for Tk. 10.00 crore has been made to disburse credit under the above programme during the current year.

2.12 OTHER BANKING ACTIVITIES:

74 branches of our bank are engaged in works relating to the payment of portion of salaries afforded by the government to the teachers and employees of registered non-government educational institutions including teachers of non-government educational institutional, 98 branches relating to the payment of scholarship and stipends to the girl students at primary and secondary levels and 69 branches relating to the payment of stipends to the girl students at primary and higher secondary level. In addition to those, almost all the branches of Rupali Bank are engaged in work relating to the payment of pension bill to the retired government, civil and military personnel and the receipt of utility bills such as PDB, DESA, REB, WASA, GAS & Telephone etc. including other service-related work of the government (such as receipt of Municipal Tax and Land Development Tax, purchase and sale of Prize Bonds, receipt of Hajj money etc).

2.13 HUMAN RESOURCES:

As compared to the preceding year the number of manpower has increased by 260 during the year 2014 in question. As on 31-12-2014 the total number of manpower has stood at 4529 with 3148 officers and 1381 members of staff. During the year in question, 377 employees are on LPR, 10 employees have resigned, 356 persons have newly joined in the post-officer, 168 have joined in the post-officer (cash), 118 persons have joined in the post- senior officer, 1 (one) person has joined in the post- Programmer (PO) and \$ persons have joined in the post- System Analysis (SPO). That means, in total, 647 persons have joined as officer in various posts.

2.14 LEGAL ACTIVITIES:

As regards the recovery of default loans, the number of the suits such as original suits under trial, execution suits, appeal/ others and suits in Bankruptcy Court field by the Bank stood at 4570 with an involvement of Tk. 1603.29 crore. The number of the suits in which the certificates issued for possession and enjoyment of the mortgaged property by the court is 501 involving Tk. 82.03 crore; the suits field against the bank were 156 involving Tk. 327.93 crore; the IRO suits 110; the suits disposed of 294 involving Tk. 222.28 crore. The suits newly filed 42 involving Tk. 89.18 crore and the recovery through suits amounts to Tk. 222.28 crore. The number of lawyers conducting the suits in Dhaka Metropolitan area is 110 and in other areas 236. Besides these, the number of writs arising from Artha Rin Adalat Act, 2003 pending for disposal is 304 at the end of the year in question.

2.15 RUPALI BANK TRAINING INSTITUTE:

Since 2014, as many as 602 officers were imparted training by Rupali Bank Training Institute through 24 courses/ workshops including 10 foundation courses to the newly joined probationary officers throughout the month and the course relating to Fake Note Detection, BACH program, Money Laundering Prevention Act, Core Risk, Foreign Exchange and Computer. As many as 105 trainees have participated in 43 courses in BIBM. In addition to this, 18 trainees took part in 12 courses conducted by Bangladesh Bank and other institutions outside.

2.16 COMPUTER OPERATION AND APPLICATION OF INFORMATION TECHNOLOGY:

Extensive activities on computer technology and their implementation have been undertaken by this bank during the year in question. Till 2014, the number of computerized branches stood at 145. The work relating to change of old computers in previously computerized 31 branches is in progress. Remittance and EFT System have been modernized and arrangement for Money Transfer through Western Union in 71 branches has been made operative. On-line Banking with foreign Exchange Branches at Dhaka and Agrabad Branch of Chittagong has been introduced. The vendor institution has started preliminary activities to introduce On-Line banking operation on test basis in 10 more branches of the bank. The information of 25 Divisions of Head Office are being publicized through Bank's own website (www.rupalibank.org). In order to expedite the flow of information 10 Internet of 64 kbps (shared line) and 10 Internet line of 256 kbps (dedicated line) have been installed in Head Office. The supply and installation of necessary hardware and software including communication link with Bangladesh Bank have been made. SIT (System Integrity Test) with Bangladesh Bank is in completion and prepared to operate in live at any time as per instruction of Bangladesh bank.

2.17 CORPORATE SOCIAL RESPONSIBILITY:

Rupali Bank Limited (RBL) has been rendering various services for attaining greater social goals and objectives. In this process, we aim to the development of the society as a whole and fulfillment of corporate social obligation in particular. To reinforce CSR activities, the bank has undertaken fresh initiatives in line with Bangladesh Bank guidelines in the areas of social service, empowerment of poor, sports & culture, banking for the disadvantaged group, disaster & relief activities.

2.18 SOCIAL SERVICES:

RBL has been rendering social services as per laid down guidelines of the Government. The bank has been disbursing pension of Govt. employees, monthly salary of teachers, govt. and semi govt. officials without charges.

2.19 EMPOWERMENT OF POOR:

RBL has been providing wholesale credit facilities to different micro credit institution who are in turn lending amongst the poor people in different Income Generating Activities (IGA).

2.20 BANKING SERVICE FOR THE DISADVANTAGED GROUPS:

With 493 branches all over Bangladesh RBL could reach the banking services to the disadvantaged group with the aim to encourage them mobilization of their hard earned saving and creation of investment opportunities for them.

2.21 DISASTER RELIEF:

Rupali Bank Ltd always beside the helpless people at the times of natural calamities and extends helping hands to the sufferers. RBL donated Tk.15.00 Lac to help the victims of cyclone 'Ayla' to the relief fund of the Prime Minister.

2.22 GEOGRAPHICAL LOCATION WISE SEGMENTS
REPORT

PARTICULARS	For the year ended December 31, 2014						
	Branches of the Banking entity and Operations in line						with
	Geographical Segments						
	Dhaka	Chittagong	Khulna	Rajshahi	Sylhet	Barisal	Total
No. Of Branch	141	112	53	111	40	35	492
Interest Income on Loans & Advances	118.9	311.81	44.97	65.91	32.29	23.97	497.85
Interest Paid on deposits & Borrowings	150.8	71.98	24.3	39.78	18.17	18.87	323.88
Net Interest Income	-31.9	139.83	20.67	26.15	14.12	5.1	173.97
Investment Income	155.9	-	-	-	-	-	155.9
Commission, Exchange & Brokerage	19.09	15.39	6.62	7.45	10.72	10.92	70.19
Other Operating Income	0.14	0.11	0.02	0.02	-	-	0.29
Total Operating income	143.23	155.33	27.31	33.62	24.84	16.02	400.35
Allocated Expenses	65.24	52.29	20.66	28.43	14.07	9.79	190.48
Operating Profit (loss)	77.99	103.04	6.65	5.19	10.77	6.23	209.87
% of Profit (loss)	37.16%	49.10%	3.17%	2.47%	5.13%	2.97%	100%

2.23 SEGMENT REPORT BY NATURE OF OPERATION

Nature Of Operation	December 31, 2014	
	Amount	In %
Operating Income from Banking Operation	563.18	77.76
Operating Income from Treasury Operation	161.05	22.24
Total Operating Income	724.23	100%

3.1 POSITION OF BANK AT A GLANCE FOR THE LAST 5 YEARS

Sl no.	Description	2010	2011	2012	2013	2014
1	Authorized capital	700.00	700.00	700.00	700.00	700.00
2	Paid up Capital	125.00	125.00	125.00	125.00	125.00
3	Share Deposit A/C	35.24	35.24	35.24	35.24	35.24
4	Reserve Fund	91.31	99.41	113.38	315.00	310.00
5	Dormant liabilities to Government of Bangladesh	232.28	232.28	-	-	-
6	Deposits	6687.05	6783.21	7244.61	7028.05	7391.28
7	Advances	4492.07	4570.95	4708.03	4903.00	5234.42
8	Investments	1290.28	1206.82	1409.06	1254.57	1430.30
9	Gross Income	475.87	483.847	490.09	584.97	724.23
10	Gross Expenditure	394.79	458.37	452.93	470.46	514.36
11	Net Profit/ Loss	81.08	25.47	37.16	114.51	209.87
12	Foreign Exchange Business	611.75	696.00	639.88	710.16	752.71
13	Number of Employees	2165.39	1484.00	1985.67	2070.28	1953.68
		3204	3006	2749	2830	3148
		1804	1747	1681	1439	1381
		5008	4753	4430	4269	4529
14	No. of Zonal Office	25	25	25	25	25
15	No. of Corporate Branches	6	7	7	7	7
16	(Including Local Office)					
17	No. of Foreign Correspondents	160	160	160	160	160
	No. of Branches					
	(A) Domestic	492	492	492	492	492
	(B) Overseas	1	0	0	0	0
	Total	493	492	492	492	492
18	No. of Share Holders	5023	5199	5358	5396	5150

3.2 CHALLENGE OF THE BANK

- ❖ Among the existing manpower, a large portion of new officers were working at branch level without completing the Foundation Course on banking affairs and among the old officers, a good number of them did not have proper training on various matters such as preparation of loan proposals, opening of L/Cs, operations of Foreign Remittance activities etc. as a consequence of which the banking activities in different divisions were being operated with least capacity/proficiency.
- ❖ The activities relating to implementation of BASEL-II and its reporting in accordance with the mandatory instruction of Bangladesh Bank are being hampered due to failure of turning the manpower into efficient one for lack of proper training.
- ❖ Due to mismanagement in postings and transfers, deficit in manpower existed in some of the branches/ divisions while redundancy of the same was visible in some other branches/ divisions, as a consequence of which equitable distribution of work could not be made possible.
- ❖ The sphere of business was limited for having a small number of banking products. Procrastination in the approval of the project.
- ❖ The Bank was being administrated without setting any long term goal because of absence of creative and research-oriented activities and weak marketing system.
- ❖ There was no nice plan contemplating modern banking and more application of modern information technology.
- ❖ Procrastination in making decision in all respects is all respects is acting as impediment in attracting new potential customers.
- ❖ In the absence of any long-term plan on the bank's overall management framework, the bank sustains a loss in all respects

3.3 FUTURE PLAN

- ❖ Change of bank's sign board, holding of motivational meeting with the officers/ staff of all classes, arrangement of discussion meeting zone-wise and topic-wise are mentionable among the measure which the Board has taken in order to develop overall image of the bank, bring about changes in morale and in thought and perception of the officers/ staff of all classes and restore confidence among the customers.
- ❖ To adopt effective measure in realizing the default loans of public and private sectors as well as to dispose of a considerable number of suits through bilateral discussion in order to put an end to accumulated loss as enhance the capital and the management authority has already been empowered for the same.
- ❖ To take initiative to convert goodwill into Intangible Asset which will be materialized very soon. An initiative has been taken to realize money due from the government.
- ❖ To introduce more products with a view to increasing loans, deposits and foreign remittances, particularly, introduction of new Product name RMES (Rupali Monthly Earning Scheme) and also carry on activities regarding signing of agreement with BRAC Bank as to use of Eldorado Software in respect of remittance and use of Omnibus Software to render ATM, Pos services etc. under On-Line banking Networking as well as its implementation thereafter which are under process.
- ❖ To bring 128 branches in 2010 and 493 branches in 2011 under computerization and On-Line Banking for modernization and automation of the bank.
- ❖ To start activities for constructing multistoried Building in Dhaka, Chittagong, Mymensingh, Sylhet and Comilla with a view to best utilization of the bank's own properties in more profitable manner.

- ❖ To launch a number of programs under Corporate Social Responsibilities (CSR) and adopt innovation strategies in respect of marketing including participation in and arrangement of Road Show in order to enhance the image of the bank.
- ❖ To activate the ineffective AD branches as well as procure the licenses of AD branches for the new potential branches from Bangladesh Bank with a view to expanding foreign exchange transactions.
- ❖ To arrange for employment to the vast unemployed masses giving top priority to SME sector in loan-giving activities of the bank.
- ❖ To adopt Rapid Management Review in assessment of accurate volume of manpower together with appointment of efficient and experienced consultants division-wise to boost up the work efficiency in different divisions. An attempt has been made to recast the present framework through a consultant team consisting of 3 members for modernization of the overall framework of the bank.

- ❖ To impart improved training to about 1000 officers in a year on banking Foundation Course, SME and Foreign Exchange and arrange posting of them as well as arrange for more accordance with the instruction of Bangladesh Bank aiming at human resources development through augmenting the work efficiency and inspiration of the employees.

- ❖ To endeavor to develop comprehensive database on the overall activities of the bank including introduction of MIS system centrally in order to facilitate quick procurement and supply of information to the need of the higher authority.
- ❖ To develop a Social Banking for the amelioration of the particular vast masses through intensive monitoring, co-operation and partnership arrangement with other non-government banks and NGOs.
- ❖ Bangladesh Bank has already accorded its approval to form a subsidiary company for introducing Merchant Banking activities.
- ❖ Basic changes are needed in overall management in respect of procurement of deposit as well as disbursement and recovery of loans. For this purpose, evaluation activities will be introduced by determining goal and expectation at all stages.

3.4 COMMON-SIZE STATEMENT (BALANCE SHEET)

PROPERTY AND ASSETS	TAKA	%
Cash	5,286,406,832	6.0361
Cash in hand (Including Foreign Currencies)	1,370,642,112	1.5650
Balance with Bangladesh bank & Sonali Bank (including Foreign currencies)	3,915,764,720	40.4711
Balance With Other Bank's & Financial Institutions	4,182,145	.0048
In Bangladesh	-	-
Outside Bangladesh	4,182,145	.0048
Money at Call on Short Notice	5,554,100,000	6.3417
Investments	14,303,004,404	16.3313
Government	13,633,834,449	15.5673
Others	669,169,955	.7641
Loan & advances	52,344,171,190	59.7672
Loans, cash Credits, Overdrafts etc.	50,078,178,046	57.1799
Bill discounted and Purchased	2,265,993,144	2.5873
Premises and Fixed Assets	2,332,537,980	2.6633
Other Assets	7,755,650,032	8.8555
Non-Banking Assets	-	-
Total Assets	87,580,052,583	100
<u>Capital & Liabilities</u>		
Liabilities		
Borrowing from other banks and financial Institutions and agents	16,468,821	.0177
Deposits and Other accounts		
Current Deposit and other accounts	19,042,377,933	20.4401
Savings deposits	29,450,363,670	31.6121
Fixed deposits	24,496,404,552	26.2944
Bills Payable	923,634,239	.9914
Other Liabilities	19,232,576,344	20.6443
Total Liabilities	93,161,825,559	100
<u>Capital & Share holders Equity</u>		
Paid up Capital	1,250,000,000	1.4273
Share Money Deposit	74,953,800	.08558
Reserve against Receipts of net asset value of Karachi Branch	335,562,500	.3831
Statutory reserve	1,250,231,061	1.4275
Other reserves	3,594,213,893	4.1039
Balance of Profit and Loss Account	(12,086,734,230)	
Total shareholders Equity	(5,581,772,976)	
Total Liabilities & Share holders equity	87,580,052,583	100

Chapter-04

Credit Policy of RUPALI Bank Limited

4.1 Credit Policy

RUPALI was established to provide term loan (including working capital loan) and other financial assistance (including all kinds of banking facilities) to accelerate the pace of development to small industry of Bangladesh. It is mandated in the Memorandum & Articles of Association of Bank to advance a minimum of 50% of the loanable fund to the small industry sector. As a broad policy objective in respect of small industry financing the Bank undertakes the following tasks:

- Extend financial assistance to small industries in private sector.
- Extend financial assistance to micro-enterprises and collaborate with other institutions engaged in financing and developing such enterprises.
- The financial assistance shall include short-term working capital loan, medium term and long-term capital finance to viable new SSI projects and BMRE of SSI.
- Undertake project promotion to identify profitable area of investment.
- Cooperate and collaborate with institutions entrusted with the responsibilities of promoting and aiding SSI sector.

At the time of extending credit RUPALI Bank Limited follows certain principles. Main principles of loans and advances are as follows:

- I. 50% of total loans and advances will be to small industry sector.
- II. All lending will be adequately secured with acceptable security and margin requirements as laid down by the Head Office Credit Committee.
- III. The Bank will not incur any uncovered foreign exchange risk (currency exposure) in the lending of funds.

- IV. No term loans will be approved for the commercial sector. Exceptions will be rare and will require approval of the Head Office Credit Committee.
- V. End-use of term loan and working capital facilities will be closely monitored to ensure that the funds are used for the purpose for which they were advanced.
- VI. Loans and advances shall be normally funded from customers' deposits of permanent nature, and not out of short-term temporary funds or borrowings from other banks or through short-term money market operations.
- VII. The aggregate outstanding loans and advances (excluding loans and advances covered by specific counter-finance arrangements) will be dispersed according to the following guidelines (subject to item 2 above whereby 50% of lending being to small industry section):
 - Short term commercial lending. This category includes working capital to hotel and tourism.
 - Facilities to Shipping and Transport (facilities for the purchase and construction of ships / vessels and other modes of transport both by land and air).
- VIII. Spreads over cost of funds on loans and advances and commissions and fees on other transactions should be commensurate with the rating of the borrower, quality of risk and the prevailing market conditions.

Credit evaluation will include:

- Prevalent credit practices in the market place.
- Credit worthiness, background and track record of the borrower.
- Financial standing of the borrower supported by financial statements and other documents.
- Legal jurisdiction and implications of applicable laws.
- Effect of any applicable regulations and laws.
- Purpose of the loan / facility.
- Tenure of the loan / facility.
- Viability of the business proposition.

- Cash flow projections of the project.
- Quality and adequacy of security, if available.
- Risk taking capacity of the borrower.
- Entrepreneurship and managerial capabilities of the borrower.
- Reliability of the sources of repayment.
- Volume of risk in relation to the risk taking capacity of the Bank.
- Profitability of the proposal to the Bank or company concerned.

IX. No credit shall be extended to a Customer Entity that exceeds in total commitment more than

X. 10% of the Bank's capital and free reserves. Exception will require approval of the Board of Directors.

4.2 Lending Criteria of RUPALI Bank:

The entrepreneurs of small industry concern/project requiring financial assistance from RUPALI need to fulfill the following criteria:

- ❖ In appraisal foremost importance is attached to the capability, earnestness, financial conduct - past, present and expected future.
- ❖ *A project in crowded sector to be avoided. Innovative projects and projects having both domestic and export market shall get preference.*
- ❖ Standard loan application form is issued only after the promoter is found credit worthy and acceptable after evaluation of information submitted in First Information Sheet.
- ❖ Viability of each and every project recommended for financing is subjected to thorough scrutiny and detailed appraisal. The report must cover the basic areas of project viability.
- ❖ Bank shall make out list of preference sectors of investment every year.
- ❖ Project location should have necessary infrastructural facilities and environment aspect shall be carefully examined.
- ❖ Project land should be free and unencumbered, Leasehold land should have sufficiently (at least 15 years) long tenure of lease.
- ❖ Building should be well planned, well laid to withstand weathering condition of Bangladesh.

- ❖ Project should be designed with appropriate and balanced machinery.
- ❖ Technology requirement of the project should be adequate.
- ❖ Technology transfer in case of borrowed know-how should be ensured.
- ❖ Market prospect and potential should be fully assured at competitive prices.
- ❖ Besides, export oriented and import substitution products, certain types of manufacturing/servicing industries (like essential consumer goods, goods based on indigenous raw materials, products for linkage industries, export oriented industries, etc.) may also receive due consideration of the bank.
- ❖ The debt/equity composition should be determined after due consideration of debt servicing capacity of the project, security coverage of term loan, etc.
- ❖ The period of loan should be determined based on cash flow potential and pay back period and shall not normally exceed 5 years.
- ❖ Debt service coverage ratio should be at least 2.5 times at the optimum level of production.
- ❖ Return on Average Capital and Equity at the optimum level of production should not ordinarily be less than 15% to 20% respectively,
- ❖ IRR should preferably be not less than 20%.
- ❖ The project should have satisfactory break-even point and margin of safety.

4.3 Pricing of Loan

Pricing of loan is a great important element in banking business. Because through pricing, bank usually create margin/profit. So it is to be determined carefully. In pricing, four components are to be calculated prudently otherwise pricing of that loan will create a definite loss for the bank.

The components are:

- i. Interest Expense or Cost of Fund: The interest to be given to the depositor and to central banks for borrowing*
- ii. Administrative Cost*
- iii. Cost of Capital: Return expected by the investors for their capital invested in the Bank..*
- iv. Risk Premium*

Addition of the first three elements will provide the "Prime rate" beyond which a bank can never go for lending. Magnitude of the risk premium creates margin for the bank. And this rate of risk premium may vary from person to person and even from sector to sector depending upon the value or importance of the client and the prospective priority of the sector. Once upon a time, it was dictated by the Central bank but now a day, in compliance with the open market operation this power has been delegated to the enlisted commercial banks.

4.4 Credit Planning

Credit planning implies efficient utilization of scarce (loanable fund) to generate earning for the bank. Constituents of credit planning are: forecasting of loanable fund likely to be available in a particular period of time and allocation of the same amongst alternative avenues in a prudent way.

Credit planning has got a serious importance because -

Loanable fund comes out of deposit mobilized from the people. So safety of people's money should be ensured carefully. Unplanned lending may create harm in two ways; firstly, excess lending may create liquidity crisis for the bank. Secondly, too much conservative lending may make the loanable fund idle. Idle but cost bearing fund again incurs operating cost for the bank..

Excess liquidity led by unplanned inadequate lending push the profitability to decline. Planned credit helps to maintain conformity with the national priority. Unplanned credit may upset the total economic stability from macro point of view either by making inflation or deflation.

4.5 Portfolio Management of Credit

Portfolio Management of Credit implies the deployment of loanable fund among alternative opportunities through proper allocation. The objective of portfolio management of credit is the best and efficient management of loan to ensure profitability. Designing the size and pattern of loan portfolio with accuracy is a tough job. Even then, a prudent loan portfolio management can be done by careful consideration of the factors mentioned in the following:

- *Bank's Capital position*
- *Deposit mix (Tenure of deposit)*
- *Credit environment*
- *Influence for monetary and fiscal policies*

- *Credit needs of the respective commanding area*
- *Ability & experience of the bank personnel to handle the loan portfolio*

In designing a loan portfolio, three things should be decided - first, the type of customers the bank wants to serve. Second involvement of risks with various kinds of loans. And finally, the relative profitability of various kinds of loans.

With each and every coin of loan, there is an involvement of risk. So the quantum of risk should be spread over the various types loan through diversification. Diversification of credit can be made by extending credit to different sectors, to different geographical area, to different line of product or business and allocating the loanable fund into different type of credit.

Again the concentration of credit into a particular sector or area, product or business should also be observed carefully. If credit is already been concentrated to a particular streamline mentioned earlier, that should be avoided.

Finally, the type & tenure of deposit should be analyzed carefully in determining the loan portfolio of a bank. How much quantum of fund will be earmarked for long term lending and how much for short term, depends to a large extent on the deposit structure.

4.6 Different Types of Credit facilities in RUPALI Bank

The making of loan and advance is always profitable to a bank. As the bank mobilizes savings from the general people in the form of deposit, the most important task of it is to disburse the said deposit as loan or advance to the mass people for the development of commercial, industrial, who are in need of fund for investment. The profitability of the banks depends on the efficient manner and avenues in which the resources are employed. The RUPALI Bank Limited has made so far efficient use of the deposit and has the classified rates under control. The Bank disburses loan in different form. It varies in purpose wise, mode wise and sector wise. The varieties used by RUPALI Bank are briefly described below with the common terms and condition and performance in each mode. RUPALI offers loans and advances to projects including RMG projects in the following mode:

- **Overdraft (OD):** It is a continuous advance facility. By this agreement, the banker allows his customer to overdraw his current account up to his credit limits sanctioned by the bank. The interest is charged on the outstanding amount not on the sanctioned amount. OD is of two types practiced in RUPALI Bank Limited.
 - **Secured Overdraft (SOD):** RUPALI sanctions SOD against different securities like FDR, Sanchaypatra and Work Orders.
 - **Temporary Overdraft (TOD):** It is given to the valued customers only. It is not that much secured. Usually it forwards without any security or sometimes exercise lien against the instrument, deposited in the bank. It is given by the branch manager discretionary power.

- **Cash Credit (CC):** By this arrangement, a banker allows his customer to borrow money up to a certain limit. CC is a favorite mode of borrowing by traders, industrialists, etc. for meeting their working capital requirements. It is operated like overdraft account. Depending on the needs of the business, the borrower can draw on his cash credit account at different time and when he gets money can adjust the liability. RUPALI Bank charges interest on the daily outstanding balance of the account.

Based on charging securities, there are two forms of cash credit:

- **Cash Credit (Hypothecation):** Hypothecation is a legal transaction whereby goods are made available to the lending banker as security for a debt without transferring either the property in the goods or possession. The banker has only equitable charge on stocks, which practically means nothing. It is given against registered mortgage of land and building, hypothecation of goods and personal guarantee of directors.

- **Cash Credit (Pledge):** Pledge is the bailment of goods as security for payment of a debt or performance of a promise. Transfer of possession in the judicial sense. In case of pledge goods the bank acquires the possession of the goods or a right to hold goods until the repayment for credit with a special right to sell after due notice to the borrower in the event of non-repayment.
- **Loan (General):** It is given against personal guarantee, hypothecation of goods and land and building.
- **Bills Portfolio:** Branch purchases demand bills of exchange that are called 'Draft' accompanied by documents of title to goods such as bill of lading, railway receipt, and truck receipt. The purchase of bill of exchange drawn at an issuance, i.e. for a certain period maturing on a future date and not payable on demand or sight.
- **Term Loan:** RUPALI bank is advancing both short and medium term credit to the industrial sector on the basis of their capital -structure, constitution and liquidity consideration. It is given against land and building along with machinery, personal guarantee of directors and hypothecation of raw materials.
- **Export Cash Credit:** Advance allowed as cash credit for processing goods for export. The advance is usually adjusted form export proceeds. The term PC (Packing Credit) is also used for such advance.
- **Loan Against Imported Merchandise (LIM):** Loan allowed against imported merchandise and storing the same in bank's custody. The bank through its approved clearing agent clears the merchandise. The advance is adjusted by delivering the goods against payment by the importer.
- **Local Bill Purchase (LBP):** Advance allowed against bills drawn under an inland L/C opened and accepted by a local bank. Such local L/C is usually opened as back-to-back L/C against export L/C.

- **Payment against Documents (PAD):** The bank that establishes the letter of credit is bound to honor its commitment to pay for import bills when these are presented for payment, if drawn strictly in terms of the letter of credit. In fact, the amount stands as advance to the importer, which is adjusted by delivery of documents against payment or by allowing post import finance such as LIM or LTR.
- **Foreign Bill Purchase (FBP):** Post export credit allowed against export bills. If the bills are drawn as per terms of the L/C, the bank purchases the same and pay equivalent amount of the bill to the credit of the client's account. The advance is adjusted on realization of export proceeds through foreign agent.

All credit proposals which are in excess of the Branch Managers Credit approval authority require prior approval of the Managing Director / Head Office Credit Committee. If the amount is not within the approval authority the Managing Director / Head Office Credit Committee the proposal required to be placed before the Board of Directors for approval.

CHAPTER-05

Credit Appraisal System of RUPALI Bank

There is no hard and fast procedure of managing credit, yet it should follow the instructions of the Bangladesh Bank, Central Bank of Bangladesh and the Circular of Head Office from time to time. The first step of credit proceedings is the request for credit from the clients. Then scrutinizing and collection of information from primary and secondary sources take place. Credit appraisal and evaluation is the most important part of credit management. On the basis of evaluation approval is given by the higher-authority with certain conditions to be fulfilled. Sanction of credit is done by the sanctioning officer, who has the authority to sanction the Credits. After fulfilling the conditions the credit is disbursed. Credit monitoring and reviewing start at the time of disbursement. Necessary steps should be taken to minimize the risk and increase the return of the Bank.. *Lending risk analysis is also done in case of credit above Tk.50 lac.*

5.1 Selection of Borrower

Selection of borrower is a very significant part of a credit decision. The borrower should be diagnosed prudently. Degree of risk has an inverse relationship with the selection of borrower. Selection of right borrower reduces the risk of non-repayment of the loan. To the contrary, degree of risk of non-repayment increases with the selection of wrong borrower. In our country, the huge volume of non-performing loan is mainly the result of failure in selecting right borrower. So, if it is found that, line of business is prospective and profitable but the potential borrower is not right one, the proposal should not be entertained. There are some parameters for selection of a borrower. Some 'C's' commonly express the parameters. And thus the criteria for selection of a borrower are popularly known as 4 C's such as:

- i. Character: Market reputation, morality, family background, and promptness in repayment*
- ii. Capacity: Ability to manage the business, ability to employ the fund in the right way, ability to overcome unforeseen problems*
- iii. Capital: Equity strength, assets & properties*
- iv. Collateral: The easy marketability of the property given as security*
- v. Condition: Over all business condition*

If the borrower's found satisfactory in terms of all C's only then it is suggested to entertain the borrower.

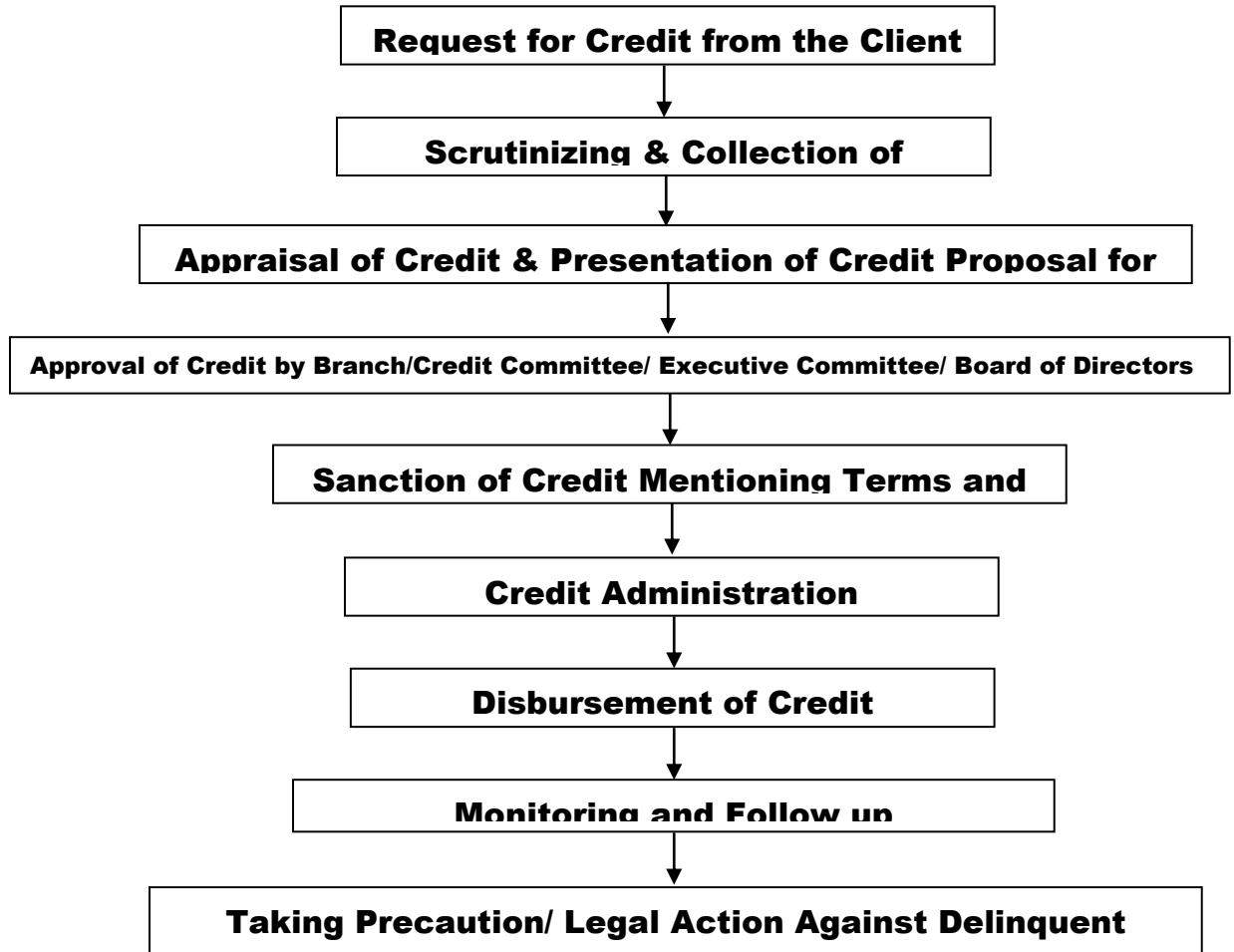


Figure 02 : Flow-chart of Credit Management system of RUPALI Bank Ltd

5.2 Credit Application

Bank provides credit facilities to the people who are credit worthy to the bank. Credit worthiness depends on the credibility, financial capability, and feasibility of the project and management ability of the credits to earn profits. When bank is satisfied with all these then the client is provided with the requested credit. At this point it should be mentioned that the client has to go through an interview where his credit potentiality is justified through critical observation. When credit officer is satisfied with the customer he is asked to submit an application and to fill up a form with specific details.

5.2.1 Guidelines for Submission of Loan Application Form

The borrower is provided with an instruction paper, which help him or her to prepare the loan proposal properly. Information on loan proposal should be furnished in prescribed

Information Sheet (FIS) in triplicate properly typed and each page / set should be duly sealed and signed by the applicants (s) / sponsor (s).

- Complete information should be furnished in respect of each item supported by documentary evidences, wherever necessary, to avoid further reference / delay rejection of the application.
- The Bank reserves the right to reject the application forthwith if the information given in the form is incomplete and not fully documented in all respects.
- Information may be provided in additional sheets of papers, if required. However ensure that all the pages and annexure are signed under official seat. Also ensures that all the facts / evidences have been enclosed properly including three feasibility reports detailed study reports on loan proposal.
- Memorandum and Articles of Association together with the certificates of registration incorporation and commencement of business of the company duly certified by the managing director of the company should be submitted. In case of partnership, the deed duly certified by the managing partners of the firm should be submitted.
- No-objection certification from the appropriate authorities for setting up the project on land, wherever required, should be submitted. Title deed of land, together with non encumbrance certificate from the District Registrar or Sub Registrar should be submitted.
- Certificates from the surveyor for determining the price of land of the proposed project price of adjacent land sold during last 3 years should be submitted. Also to be submitted are site / mouza map.
- Machinery layout plan, price quotation of 3 suppliers' together with illustrated brochures and literatures should be submitted for both imported and local machinery.
- Consent letter from Power Development Board / Rural Development Board / Gas Authority / Pollution Control Board should be submitted wherever required.

- Soil test / water test report (if required).
- Nationality certificate along with attested photographs of the directors / partners proprietor should be submitted.
- Declaration of assets and liabilities of the proposed directors / partners / proprietor. Declaration about payment of income tax should be submitted.
- Letter addressed to the prime banker of the company firm / person should be issued with a copy to the RUPALI as per given annexure.
- Give reasons for seeking additional loan for expansion balancing / replacement / of the existing unit. Also provide information relating to the existing line of products, rated and actual annual production capacity for the past operating years, sales performance and financial position of the company / firm.

5.2.2 Procedure for Processing Loan Application

In setting **up procedures for the evaluation / approval** of small projects the length of processing time becomes a significant factor. Compared to other financial institutions' usual two months average processing time for its medium and large loan program, the processing / approval time for small industry loans remains well below the above processing time because of its lesser detailed studies as well as the bank considers that small entrepreneurs look for their sources of credit at their time of need.

- ❖ The processing / approval time for small industry loan is not more than two months from the date of receiving complete application form.
- ❖ Application in prescribed form is received in triplicate, duly filled in, and sealed and signed by the sponsoring directors along with their attested photographs duly affixed in the space provided for.
- ❖ Draft layout plan of the proposed building and the estimate for construction cost is obtained.
- ❖ For location of industry in other areas, permission / no-objection for setting up the small industry is obtained from the appropriate authorities.
- ❖ Utility agency's letter of consent for providing necessary utility services to the unit to be obtained.
- ❖ Detailed credit report on the sponsors / project is prepared i.e. the bank shall carry out detailed credit investigation on the promoters.

- ❖ Tentative list of machinery / work with detailed specification should be obtained supported by 3 price quotation.
- ❖ The individual project appraisal report for Small Scale and Cottage industry may not be very elaborate and exhausted. However it covers the basic areas of project viability.
- ❖ Joint report between the Bank and the borrower is prepared for informal sector. The bank sometimes seeks advice from a panel of experts whose services may be hired by the bank as and when required in specific cases.

5.3 Scrutinizing and Collection of Information

In case of clients who have previous record of taking credit facilities, their in-file records are examined to see whether the client has a good record of payments in time.

Information gathered through direct inquiry:

Direct inquiry one of the common methods of obtaining information to verify facts presented on the application of during the interview of an applicant for an initial credit transaction. A careful distinction is made between obtaining credit information directly from sources having such facts and between buying somewhat similar credit data in the form of prepared reports from the credit reporting bureaus (CIB , BB) and credit rating agencies.

Information gathered through in-file ledger fact:

In-file ledger facts are one of the most important sources of information available to credit committee whether to accept or reject a larger amount of credit from an established credit customer. From the in-file records, credit analysts have at their disposal the experience of the concern with the customer. They know the customer's payment habits, the complaints registered, the collection efforts, if needed to keep the customer in line with the established terms.

5.4 Preliminary Screening of a Credit Proposal

Screening means critical diagnosis of a credit proposal at the very initial stage. It should be made carefully just after the proposal comes to the bank.

At the time of screening of a credit proposal the preliminary screening should be done on the following premises:

- *Quality of management and the entrepreneurial background of the sponsors*
- *Equity strength i.e., the own capital positions*
- *Position of assets & properties*
- *Line of business, it's future prospects and the existing position of the respective industry*
- *Required technology, machinery, equipment and their availability*
- *Location, whether the infrastructural facilities are available*
- *Potential contribution to the overall economic development of the country*
- *Security proposed to be given and the genuinity of the title of documents*

Analyzing the above matters, it is to be convinced that the credit proposal satisfies all the key elements of a sound lending policy such as:

- i) Safety of fund*
- ii) Security (easy marketability of the property given as security)*
- iii) Liquidity (the tenure of the loan)*
- iv) Profitability*
- v) Diversity*
- vi) National interest*

5.5 Credit Appraising & Presentation of Credit Proposal for Approval

When credit officer is satisfied with his credit worthiness, financial capability, management ability and feasibility of the project through credit appraisal of clients in a prescribed form, he can hope for credit from the bank. Credit appraisal is done through 'credit appraisal form'. Ratio analysis is given importance in case of project finance. But most of the medium quality loans are given on the basis of financial capability of repaying and credit worthiness of the client. Lending risk analysis is done in a prescribed form in case of large amount of loan, above 50 Lac.

Credit officer prepares a credit proposal along with the prescribed 'Credit Proposal Form'. Credit officer measures the risk associated with the credit facility. No credit proposal can be put for approval unless there has been a complete written analysis. It is absolute responsibility of the Proposing Officer to ensure that all necessary proposal documentation have been collected before the facility request is sent to the Sanctioning Officer.

5.6 Approval of Credit by Higher Authority

Branch Credit Committee: Branch credit committee to be headed by the Branch Manager, other members to be selected by the manager in consultation with Head Office.

Head Office Credit committee: Head office credit in accordance with authority established and delegated by the Board of Directors.

- *Reviewing, analyzing and approving extension of credit in accordance with authority established and delegated by the Board of Directors.*
- *Evaluate the quality of tending staff in the bank & take appropriate steps to improve upon.*
- *Recommending credit proposal to the Executive Committee/Board of Directors which are beyond the delegated authority.*
- *Ensuring, that all elements of Credit application i.e. Forms, Analysis of statements and other papers have been obtained and are in order.*

- *Confirming that the transaction is consistent with existing loan policy and Bangladesh Bank guidelines & if not the Committee may prepare a recommendation form an exception to or change in policy for consideration by the Executive Committee/Board of Directors.*

Executive Committee: Approving credit facilities as delegated by the Board of Directors. Supervising the implementation of the directives of the Board of Directors. Reviewing of each extension of credit approval by the Head Office Credit Committee/Managing Director. Keeping Board of Directors informed covering all these aspect.

Board of Directors: Establishing overall policies and procedures for approving and reviewing credits. Delegating authority to approve and review credits. Approving credit for which authority is not delegated. Approving all extensions of credit which are contrary to bank's written credit policies.

The respective credit officer at ICD appraises the project by preparing a summary named "Top Sheet", "Executive Summary" and "Office Note" which contains a brief description of the loan proposal. Then he submits it to the Head Office Credit Committee (HOCC) for the approval of the loan. The Head Office Credit Committee (HOCC) considers the proposal and takes decision whether to approve the project or not.

5.7 Sanction of Credit

Most important step of providing credit facility is the sanctioning of credit. Because sanctioning authority will be held responsible for any discrepancy. In this step all the documentation is completed and the customer is sent an advising letter for the credit facility along with all the terms and conditions.

After getting the **approval from the Head Office, the branch issues the** sanction letter to the borrower. A sanction letter contains the following particulars amongst other details: name of the borrower, managing partner, and nature of facility, amount, and expiry, rate of interest, purpose, security and the following terms and conditions:

- Before availing the loan all documentation formalities must be completed. Registered power of attorney in favor of RUPALI Bank to sell the mortgaged property without the consent of the court or owner of the lender.
- DP note and other usual charge documents / undertakings etc. duly stamped must be signed and submitted to the authority before the disbursement of loan.
- The loan shall be governed by all other terms and conditions as per policy and practices of the bank that will be applicable for the sanction to safe guard the interest of the bank.
- The bank reserves the right to amend, modify or withdraw any or all the terms of the loan at any time without assigning any reason whatsoever or to terminate / call back the loan facility at any time for which bank or its official cannot be held responsible for any loss for such cancellation of the loan.
- The borrower receives the letter and returns a copy of this letter duly signed by him as a token of having understood and acceptance of the terms and conditions above.

Norms maintained in sanctioning of credits are described below:

- *Credit will be sanctioned and disbursed strictly in terms of the approved Credit Operational Manual of the Bank and Head Office Circulars issued from time to time.*
- *All norms informed through the Circulars of Credit Division in particular and all other relevant circulars in general, which are to be followed meticulously while exercising power.*
- *Credits will be subject of Bangladesh Bank restriction.*

- *The party to whom credit will be allowed should be as far as possible within the command area i.e. Area of operation of the Branch. Deviations, if any are to be explicitly explained in the proposal.*
- *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 the Head Office.*
- *All Sanctioning Officers maintain a Sanctioned Register for recording serially all the credits sanctioned by him. Sanctioning officer will be accountable for non-recovery due to his injudicious decision.*
- *All approval of credit facilities must be conveyed under dual signature. Ideally both the signatories must have the required lending authority. If however, two lending officers of the required lending are not available, one of the signatories must have the required authority.*

5.8 Credit Administration and File Maintenance

5.8.1 Credit File Maintenance

The credit file for each facility shall contain all information necessary to facilitate ready monitoring of that facility. It should contain a through history of the customer relationship to help credit officer: track any problems, assist a newly assigned credit officer in understanding the customer and make the lending process transparent. Primary items in Credit File include:

- *Credit application and Credit approval notes/analysis. Evidence of credit approval and data upon which approval was granted together with any comments, if appropriate.*
- *Copy of sanction and loan agreement. A checklist along with copies of all legal & banking documents obtained / to be obtained. Details and 6 monthly updated information of all related facilities to the name customer group,*
- *All supporting data such as financial statements and analysis, references, credit investigation results, **CIB** & other Bank reports and notes of all discussions with the borrower and other relevant parties with paper clipping.*

- *Correspondences call reports, site visit reports, stock report etc. each credit file shall be maintained in a secured location and where access restricted to authorized personnel's only. Copies of the information may be kept where regular access is required.*

5.8.2 Facility Evidence Maintenance:

All charge documents should be maintained in a place of utmost security. All charge documents as prescribed by the bank & local laws, for the relevant credit facility, Signed credit agreement, Signed guarantees or other evidence of credit security or collateral agreement shall be kept in fire proof safe under the custody of Branch manager or his designate alternative and another officer. A register of charge and security documents should be maintained under the supervision of the Branch Manager.

5.8.3 Documentation of Loans and Advances

In spite of the fact that banker extends credit to a borrower after inquiring about the character, capacity and capital of the borrower, he obtains proper documents executed from the borrower to protect him against willful defaults. Documents contain the precise terms of granting loans and they serve as important evidence in the law courts if the circumstances so desire. The documents for loans and advances can be classified into two categories: *Charge documents and Security documents.*

Mode of Charging Securities: RUPALI Bank practices following 2 types of securities.

- Primary Securities - Cash or cash equivalent that is easily liquidated or convertible into cash. Example-FDR, Sanchaypatra, DP Notes, etc.
- Secondary Securities - These securities are tangible securities that can be realized from sale proceeds or transfer of property. Example- immovable properties.

The modes of charging securities are as follows:

Lien:

Lien is the right to retain possession and not right of ownership. Bank's lien is general lien over its own financial obligation to clients. Property under lien cannot be sold without notice to the owner and sometimes without court's order.

Hypothecation:

This is mortgage of movables by an agreement and here neither possession nor ownership is transferred. Hypothecated goods cannot be sold out / disposed off without notice and court's order. However, if a special power of attorney is taken in that case can be disposed off without going to the court.

Pledge:

Pledge is the bailment of goods as security for payment of a debt or performance or promise. Here, title and ownership are not transferred. Pledge goods may be sold out and proceeds thereof may be appropriated towards adjustment of Liability in case of failure of the borrower to repay or fulfill the terms and conditions.

Mortgage:

Mortgage is the transfer of interest in **immovable property to secure the** repayment of money advanced. Ownership remains with the mortgagor. In case of equitable mortgage, Court Order is necessary and in case of registered mortgage court's order is not necessary for sale / disposal of the mortgaged property for adjustment of advance.

5.9 Disbursement of Credit

A proper disbursement procedure is essential for implementing a project, small or big, within the estimated time and cost. However constant monitoring of the projects on the one hand and timely mobilizing the equity on the other hand can not be under estimated for efficient implementation of a project. The following factors are taken into account.








- After machinery contract is finalized the Bank will open irrevocable letter of credit on behalf of the borrower in the joint names of the Bank and the borrower.
- Disbursement of foreign currency loan is made automatically as soon as irrevocable letter of credit for import of machinery is established and the foreign suppliers make shipment of machinery.
- The local currency loans are to be made available to the project after satisfactory and full utilization of equity by the borrowers by creating required physical facilities (tangible assets) for the project.
- The sponsors have to request for release of local currency loan to the Bank supported by papers like progress report, statement of account, documents.
- The local currency loan of the Bank to be disbursed in one or more installment according to nature of the project.
- The borrower must use the loan for the purpose for which **the advance** is extended.
- *The borrower shall* apply the proceeds of the loan exclusively to finance the cost of the goods and services required to carry out the project. Foreign currency shall be disbursed only for goods and services that have neither been paid for in Bangladeshi currency nor were produced.
- If the completion of the project or its successful operation is hindered or delayed because the funds available are inadequate to ensure its completion, it shall be the responsibility of the borrower to make prompt arrangements in accordance with financial plan approved by the bank to provide the necessary funds.

Disbursement of credits presupposes observance of all norms and procedures, which are conveyed through different Circulars of Head Office, issued from time to time.

5.10 Credit Monitoring and Follow up

Monitoring is tracking the risk aspect of the loan and advance portfolio to be sure that the portfolio is complying with the criteria set down in the credit policy. For analyzing and monitoring the loan portfolio branch manager is the main responsible authority.

Periodic Review and Follow-up should aim at ensuring:

-  *Terms of approval has been maintained.*
-  *Conduct (turnover, regularity of repayment etc.) of the borrowing accounts during the period under the review has been satisfactory or as expected.*
-  *Continuing value of the collateral is adequate.*
-  *There are no adverse trends in market, economic and political conditions which may endanger the reliability of the facility.*
-  *Business reciprocity offered and received is commensurate with the facilities allowed.*
-  *Earning from the account is cost effective (i.e. adequate to meet business cost of funds and leave sufficient margin for adequate risk reward, overheads and profits).*
-  *Borrowers business is being satisfactorily conducted as reflected through a review and analysis of the financial and operating statements.*

5.10.1 Factors Analyzed in Loan Monitoring

Credit policy of the RUPALI Bank Limited has set forth the guidelines that must be followed in the time of loan review. After getting the review of the loan portfolio from the branch level the assigned officer of the head office credit department starts analyzing and preparing the report. The following factors are taken into consideration at the time of monitoring the loan and advance.

- The account is not having excess over limit
- The terms and condition of the sanctioned letter are strictly followed.
- The value of the collateral security is adequate.
- There is not any unfavorable situation in market, economy and political conditions, which may endanger the reliability of the borrower account.
- The analysis of the borrowers' business performance and comparison of the projected and actual to find any deviations.

5.10.2 Supervision Procedure

The supervision of projects includes adequate control procedures in the disbursement of loan and the continuous monitoring of project operations during its period of construction and implementation through report requirement as well as plant visits. A project under implementation is visited every month and progress report is submitted to the management. Bank official on project supervision keeps watch over the estimation made and notes the deviation for taking quick remedial measures.

An entrepreneur is encouraged to come to the Bank and talk about his project and problems. It is emphasized for taking up comprehensive insurance policy covering the properties of the project. All sorts of papers, reports, received from the borrowers is promptly reviewed / scanned for some signals that may need special close attention of Bank Management. Branches of the bank are effectively utilized for project supervision including disbursement of local currency loan in their respective areas.

Recovery is the recurring worry for the bank officials. Moreover, recycling of advances is important, without which the bank's liquidity is in jeopardy, besides that the community doesn't get benefit unless new advances and new borrowers are encouraged. Strategic supervision of the loan and advance can ensure the timely recovery of the loan and advances along with the interpersonal relationship with the client. In the time of my attachment in the BASIC Bank Limited, it was observed that the credit officers are timely preparing the report and taking the following supervision techniques:

1. Loan account statement check to find out:

- Whether the limit is within that has been sanctioned.
- Satisfactory transaction has been made.
- Whether the borrower has sustained a loss of capital.
- Significant decrease in the value of the security.
- Weakening of bank's position due to any reason.
- Uses of the credit other than the purpose for which it was approved.
- Incorrect information supplied by the borrower or bankruptcy of the borrower.
- Credit is rescheduled frequently or the rules of rescheduling are violated.

2. Collection of the financial statements of the client and analyzing them and comparing the actual performance with that of projected. If actual is less than projected then the credit officers take the following measures:

- Meet the owner and discuss to identify the reason.
- Analyze the business strategy regarding the price, quality, and competitors.
- Whether the amount disbursed was used properly
- Whether the management has given its full effort in managing the business.

No banker wants the loan to be turned into bad; at least they are not bad at the time they are made. However, banks find that invariably a small portion of the loan become delinquent and eventually must be written off. The loan review process is a crucial tool in reducing losses and in monitoring loan quality. It consists of a periodic audit of the ongoing performance of some or all of the active loans in a bank's loan portfolio. Other than its basic objective of reducing loan losses, some intermediate objectives of the loan review of RUPALI Bank are as follows:

- To detect actual or potential bad loans as early as possible.
- To ensure that the loan policy is followed.
- To inform management and the board of directors about the overall condition of the loan and advance portfolio.

At the time of loan review RUPALI Bank follows the Bangladesh bank guidelines and its credit policy set by the board of directors. The frequency of the review of individual loans is determined by the size and quality of the loan; large and poor loan is reviewed frequently than others.

All the schedule banks in Bangladesh are required to submit the loan review report and the state of the loan portfolio to the Bangladesh Bank credit cell. For maintaining this schedule RUPALI has set forth a due date for its all branches to send the loan review report to Industrial Credit Division, The concerned officer sends the report to the Bangladesh

Bank Credit department. The schedule is given below:

Reporting schedule

Loan Amount	Review Period	Reporting Time
Tk 0.1 to 1 million	Quarterly	By next month 30 th day
Tk 1 to 10 million	Quarterly	By next month 30 th day
More than Tk 10 million	Monthly	By next month 30 th day

Source: ICMCD, Head Office

It is the responsibility of the Manager to monitor the overall profile and risk aspect of the credit portfolio in accordance with the criteria set down in the Bank Credit Policy. Such monitoring shall be evidenced from the comments of the Manager in monthly Call/Visit Report and be kept in the Credit File with a copy to the Head Office. This Review shall be formally performed at intervals prescribed by Head Office but it is the responsibility of the Manager to ensure at all times that the credit portfolio meets the standard set forth by the Bank.

5.11 Taking Precaution/Legal Action against Delinquent Clients

When a problem loan is detected the responsible loan officer takes the corrective action and tries to minimize the loan losses by allowing different facilities to the client. The steps followed by RUPALI Bank to manage the delinquent clients are:

Persuasion

This is the first step practiced at RUPALI Bank to manage the problem loan. This step involves:

- Open discussion with the borrower about the problem he is facing.
- Discussion with third party to find out the underlying reasons.
- Issuing "First Reminder" letter to inform the due date and due installments.
- If the party doesn't respond issuing "2nd Reminder" and then "3rd Reminder" letter.

Negotiation:

If the persuasion failed, the loan officer negotiates a plan of action with the borrower to save both the bank and the borrower from possible loss. This calls for certain sacrifices on the part of the bank and borrower in their mutual interest. The plan of action in RUPALI Bank consists of the following:

- Revise loan agreement
- Concession of interest (if the client is difficult to manage)
- Rescheduling of the loan and giving installment facility to **repay the overdue amount** beside the regular installment.

Litigation

If the client fails to repay the loan even after rescheduling the loan, **RUPALI Bank** goes for taking legal action against the delinquent client to recover the loan. The branch manager sends a letter to the head office credit department informing the borrower's reluctance to repay the loan. Following measures are taken:

- Filing case against the client
- Assigning the loan officer for assisting the lawyer.

Loan sanctioning, disbursement and documentation are the key job that has to be performed very carefully. A marginal mistake in any stage of the same could jeopardize the banks interest. To avoid the said mistakes and to ensure better credit management some steps should be taken which has elaborately discussed earlier. The procedures followed in RUPALI Bank limited for sanction, disbursement and documentation is time tested. But continuous up gradation is also required to make the process error less. Proper communication and cooperation among the Head Office and Branch officials could help a lot on the said. As such any problems regarding the same should be discussed, exchanged and communicated to all involved.

Chapter-06

Project Appraisal Practices at Rupali Bank

Commercial banks and financial institutions intermediate between lenders and borrowers. The loan and advance should be given to them who has certain and predicted cash flow to repay the credit. If the credit officer fails to analyze the clients' viability of repaying the loan and the project's cash flow, possibility of default may arise. In a word it can be said that the purpose of appraisal is to be sure that the proposed advance will be safe, liquid, and profitable and covered by adequate security. At the time of credit proposal the bank has to come to an acceptable compromise between over caution and under caution.

RUPALI was established to provide term loan and other financial assistance including all kinds of banking facilities to accelerate the pace of development to small industry. The financial assistance includes short term working capital loan, medium term and long term capital finance to viable new small scale industry (SSI) projects and BMRE of SSI projects which will fulfill the banks criteria of viability and acceptability. Project appraisal in the banking sector is needed for the following reasons:

- To justify the soundness of an investment
- To ensure repayment of bank finance
- To achieve organizational goals




Project is an investment activity from which benefit is expected to be generated over a period of time. Appraisal of project implies the critical analysis of a project from various angles. It is a comprehensive study to see whether the project is commercially profitable, economically viable and socially desirable. An appraisal covers the feasibility study of the following aspects:

1. Managerial aspect
2. Technical aspect
3. Marketing aspect
4. Financial aspect
5. Socio-economic aspect

6.1 Managerial Aspect

This is another important aspect of the appraisal. Managerial feasibility refers to the assessment of ability of management personnel in managing a project efficiently.

The management personnel should have-

	<i>Technical skill to use knowledge, method and Techniques (acquired</i>
<i>from</i>	<i>experience, education and training) to perform the job.</i>
	<i>Human skill to maintain interpersonal relationship within or outside</i>
<i>the</i>	<i>organization.</i>
	<i>Conceptual skill to understand the complexities in overall organization.</i>

6.2 Technical Aspect

In this part, the factors those are more or less technical in nature are examined. Examination of the technical factors enables us to know whether the project is technically feasible. The Points of observation in this area are:

- i. Location or site of the project*
- ii. Availability of infrastructural facilities such as: roads & transport, school, college etc.*
- iii. Availability of raw materials.*
- iv. Availability of utilities such as: electricity, gas water etc.*
- v. Availability of required machinery*
- vi. Climatic position in the project area.*
- vii. Availability of required labor.*
- viii. Nearness of market for the product*
- ix. Political factors such as Govt. Patronage, industrial policy of the Govt.*
- x. Proximity to complementary projects,*

6.3 Marketing Aspect

Marketing aspect is the most significant aspect. Whether a project will be able to generate profit depends largely upon the market position. The market demand for the product of the project is analyzed in this part of appraisal. The following assessments are made under marketing feasibility test:

- i. *Past & present demand for the product.*
- ii. *Past & present supply of the product.*
- iii. *Expected future demand for the product.*
- iv. *Demand and supply gap*

Existence and impact of complementary goods and the distribution channel or marketing mechanism is critically analyzed in this part of project appraisal.

6.4 Financial Aspect

It is another significant part of appraisal. Financial viability of a project is examined in this part. Various financial tools & Techniques are used in testing the financial viability such as:

- | | |
|----|----------------------|
| a. | Capital Budgeting |
| b. | Break Even Analysis |
| c. | Sensitivity Analysis |
| d. | Ratio Analysis |

a) **Capital Budgeting Technique:**

A process of analyzing or evaluating an investment decision. The Capital budgeting tools used for evaluating an investment opportunity are:

i. **Non-discounted Method (time value of money not adjusted):**

Accounting Rate of Return (ARK):

Arithmetic expression of expected return from the investment. The higher the rate, the more is the financial viability of the project.

Payback Period:

The period within which the volume of investment is expect to be returned from the project. The "period" should be < the maximum acceptable pay back period.

ii. Discounted Method (Time value of money adjusted):

Net Present Value (NPV):It is the difference between present value (Time adjusted value) of expected inflow or benefit and that of outflow or investment.

Under this method expected future benefits are being converted into present value using reasonable rate of discount. In case of a single project, the project can be accepted present value of inflow is higher than the present value of outflow. But incase of a mutually exclusive decision, the project having higher NPV should be accepted.

Internal Rate of Return (IRR):

It is a rate at which the present value of inflow equates the present value of outflow. IRR tells the minimum required rate of return from an investment. Acceptable IRR is being determined by considering the opportunity cost, cost of capital, the prevailing maximum return in the economy etc. IRR is a trial and error method. Under trial & error process two discounting rate-one, at which NPV is negative and another one, at which NPV is positive are used in calculating IRR.

Profitability Index:

PI is calculated by dividing present value of inflow with the present value of outflow. A project can be accepted if $PI \geq 1$.

b) **Break Even Analysis:**

Break-Even Analysis is commonly known as the Cost-Volume-Profit (CVP) analysis. Break-even analysis shows the relationship between cost and revenue with respect to profit. By showing the break-even point, this analysis says the minimum level of output or sales that is required to equate the cost. More over, break-even analysis provides a clear idea about the required volume of sales to earn a target profit. Thus break-even analysis helps the decision criteria.

$$BEP = \frac{\text{Fixed Cost}}{\text{Sale per unit} - \text{Variable Cost per unit}}$$

c) **Sensitivity Analysis:**

Sensitivity analysis provides the picture of relative changes in overall profitability due to change in any variable. Usually changes (increase) in material and other variable cost or changes (decrease) in selling price are being taken into consideration for making sensitivity analysis.

d) **Ratio Analysis:**

Ratio analysis is the analysis and interpretation of data given in the financial statement such as: Balance Sheet, Income statement etc. Ratio is the quantitative expression of relationship between two accounting figures. Ratio analysis gives a clear picture about the strength and weakness of a firm, its historical performance and current financial condition. The common ratios that are being used in the analysis are:

Liquidity Ratio:

- i. Current Ratio
- ii. Acid test etc.

Solvency Ratio:

- i. Debt-Equity ratio
- ii. Debt to total asset ratio
- iii. Debt service coverage ratio etc.

Activity Ratio:

- i. Inventory turnover Ratio
- ii. Debtors/Receivable turnover Ratio
- iii. Total asset turnover Ratio etc.

Profitability Ratio:

- i. Profit Margin
- ii. Return on Investment
- iii. Return on Equity etc.

6.5 Socio-economic Aspect

The observation of this aspect is to see whether the project is socially desirable. How much contribution will be made by the project to the G.D.P. and how many numbers of employment will be generated by the project should be ascertained.

Chapter-07

Supervision and Recovery of Loans and Advances of Rupali Bank Limited

A banker while sanctioning any loan should ensure that the credit facility is allowed to the genuine borrowers, for genuine economic purposes, money lent is properly used for generation of income through increased economic activities and borrowed money is repaid in time. All these can be ensured through an effective supervision and follow up system of the advances.

The two terms- supervision and follow up- are closely related. Supervision gives more emphasis on proper end-use and follow up gives more emphasis on timely recovery of advances. Supervision keeps track of the end-use of fund lent. It includes adequate arrangements by bank for maintaining close contact with the borrower and its activities in order to remain well informed about the position and progress of the purpose financed and to offer appropriate guidance to the borrower, where necessary. Follow up includes efforts to ensure that the terms and conditions of the advance at pre-disbursement, disbursement, post disbursement and recovery stages are complied with and money lent is repaid as per schedule of repayment. It also includes efforts to regularize the irregular advances. Recovery of advances largely depends on effective follow up.

The basic objective of supervision and follow up system is to ensure that the advances granted by the bank are safe as the fund lent by the banks belong to the depositors and bank management has tremendous responsibility in safeguarding the interests of millions of depositors. They cannot invest fund for indefinite period of time and expiry date for repayment of loan is al-ways fixed while sanctioning any proposal of loan.

7.1 How to supervise and follow up of loans and advances

Supervision and follow-up of advances are the direct responsibilities of the branch. Branch is the unit wherefrom the proposal is made for any advance, disbursements are made. The borrower maintains his account with the branch, operations are conducted through the account, reports and returns are submitted by the borrower to the branch. So, successes depend on how effectively the branch ensures supervision and follow up of the advances.

In conducting supervision and follow up, branches have to follow the under noted common methods:

- i) Keep watch over the ledgers and accounts to ensure that operations are regular and as per procedure. Particular care should be taken when the balance in the account remains very near or goes beyond the drawing limit or there is no good turnover.
- ii) Ensure that inputs/materials are purchased/procured as per procedures/terms of sanction and are used properly and outputs are sold properly.
- iii) Keep watch over the inflow and outflow of Rind.
- iv) Collect periodical reports, returns and information about the borrower and examine the activities of the project/enterprise financed.
- iv) Ensure that security/co I laterals have been obtained as per terms of sanction and valuation has been assessed correctly and security is maintained properly.
- v) Ensure that security has been properly insured where required as per policy, procedure and practice.
- vii) Ensure that the documents have been obtained as per terms of sanction and as per procedure for such type of advances. If not, get the documents regularized.
- viii) Keep regular contact with the borrower both formally and informally and pay regular visits to the project/enterprise financed.
- ix) Keep watch over the repayment trend and see that the advance does not turn up as irregular or stuck up and becomes time-barred.

- x) Ensure that appropriate actions are taken in time to regularize the irregularities and recover the loan as per schedule.
- xi) Obtain periodical balance confirmation from the borrower and where a necessary fresh document is obtained as per procedure/practice.

RUPALI Bank Limited has been following a series of measures, both in Head Office and branch level, to follow up and supervision of loans and advances to avoid and minimize non-performing loan of the bank.

7.1.1 At Branch level

In order to ensure an effective supervision all branches are instructed to take care of the following factors:

- i) **End-use of fund:** To see that the funds lent to the **borrower** are used for the purpose for which they have been given. Any diversion of funds and deviation by the borrowers from the terms and conditions stipulated by banks, have to be noticed and timely action to be taken. In case the funds lent are allowed to be directed for the purposes other than those stated in the loan application, the very purpose of providing finance to the borrower would be defeated. If end-use of funds is proper, there is good chance of the borrower's operation being viable, other things being equal. As such, branch in-charges are instructed to be cautious and guard against any misuse of credit facilities.

The funds may be lent either in the form of term loan or working capital advance. In order to ensure end-use of term loan funds, it will appropriate to disburse the money directly to the dealer who has supplied the fixed asset and not to the borrower. On the other hand in case of working capital advance the objective to acquire current assets, supervision of end-use of fund is comparatively difficult and possibility of diversion of funds in case of cash credit hypothecation system is more. This can be checked to great extent by ensuring that the borrower computes his working capital requirements and furnish a statement regarding inventory and book debts as shown in monthly

statements submitted by him. Moreover, the borrower should be required to maintain the proper current ratio.

- ii) **Monitoring of borrower's account:** All branches are advised to keep the borrower's account under close watch as it is helpful for effective credit management. Branches should obtain in advance a list of usual suppliers of goods of the borrower. This will help in ensuring that payments to the parties from cash credit or overdraft account are made directly to the supplier for approved purposes. All movements in stocks should be reflected in borrower's ledger account by way of payments and receipts. If banks constantly monitor the account by keeping a watch over the utilization of limits and inventory build-up, the purpose of credit management would be served to a large extent.

In case of term finance, value of current asset of a unit should always be more than the quantum of current liabilities including cash credit borrowings from banks. Bankers are not fully backed by current assets at all times, the concerned enterprise would face liquidity trap which could ultimately threaten the very existence of the unit. So, the deal solution would be for the business to have adequate cash at all times to meet fully current liabilities.

- ii) **Security:** Though the banks are now expected to lay greater emphasis on the purpose for which the borrower needs money rather than security he can afford to give, security continues to be one of the most important factors which determines to a significant extent the bank's willingness to lend money. As such, the branches are instructed to see that the security offered is safe and continues to remain available for repayment of loan. Security may be in the form of i) Fixed Assets ii) Goods iii) Bills etc.

Other instruction:

- a) **Maintaining diary:** Branches are advised to diarized all important dates in regard to an account, e.g., due to date of insurance policies, date of collection of interest on Government securities, date of expiry of sanctioned limits, limitation period, date of when the next balance sheet of a borrowing company is due.
- b) **Follow of law:** All branch In-charges are also directed to ensure that an advance does not breach any provision of law, any directive of Bangladesh Bank of the lending policies laid down by the Head Office.
- c) **Review of advances:** All advances are to review every six month or once in twelve months. Before expiry of limit sanctioned to a borrower, branch manger submits a report showing the position of the borrower and operations on the account and prepares proposal under bank's standard format and submits proposal with recommendation to the appropriate authority, either for continuing the account with the same limit, reduced or increased limit, or for canceling the facility.

7.1.2 At Head Office level

Head Office exercises its control in variety of ways. Proposals, reports and day-to-day correspondences after proper security by the Advance Department are placed before the Departmental Head along with details of inspection report about the borrower and the branch for his comment before it passes to the General Manager through him to the chairman and the Board of Directors for final decision about the proposal. The exact method of dealing with day-to-day problems varies with from bank to bank.

In order to control and supervise credit, Head Office prepares a consolidated statement of loans and advances every month to indicate bank's exposure in each types of loans and advances on the basis of risks involved and sectoral distribution for purposes of controlling excessive exposure in unwanted portfolios.

Head office effectively monitors all loans and advances through inspection to the branch (including surprise visit), examine different periodical statements (weekly, fortnightly, monthly, and quarterly and half-yearly).

a) Periodical Inspection: Branches are periodically inspected by internal auditors/inspectors by Head Office and external auditors. During each inspection, the inspector -makes a comprehensive and detailed examination of all advances including documents, security and turnover of the account and whether the terms and conditions of the sanction have been complied with.

Spot inspection is also conducted by **vigilant team from** Head Office by a surprise visit when specific and urgent information are needed by the management. This report will be short and cover specific area.

b) Periodical Statement: All branches are instructed to submit different statements relating to loans advances in weekly, monthly, quarterly, half-yearly basis. These statements provide information to identify whether the branch has allowed drawings excess over limit and whether any loan has been disbursed/ sanctioned without approval of proper authority. If anything found adverse against any branch, Head Office instantly asks the branch to clarify its position. Head Offices takes necessary measures against the branch which is found committed irregularities and damaged bank's interest.

c) Arranging meeting with branch In-charge: Besides regular meetings of the Branch Managers with Head Office for overall review of loans and advances of each branch is arranged under the chairmanship of Managing Director of the bank for guidance in reducing overdue loans and recovering classified loan and sanction of new loans.

7.2 Recovery of loans and advances

As earlier stated, it is easy to lend money but difficult to recover the same. The most serious problem that affects the entire banking industry today is the problem of recovery of bank advances. Banker has to keep a close watch on borrower and to take adequate follow up measures for ensuring that recovery of advance is smooth and timely. A systematic plan of repayment of Loan should be arranged for each borrower depending upon the nature of loan. It is very much needed for a sound lending system.

Recovery of loans should be prompt and according to repayment schedule to facilitate the bankers to recycle the scarce resources for best use of more and more customers for social benefit. Banker should keep a close watch on all their advances to ensure that timely action is taken in each case for adjustment of the account or its renewal should the banker decide to continue the facility. At the time of review of the advance and renewal of sanction, necessary amendments, modifications in terms and conditions are made and the advances are allowed to continue on the amended or modified terms and conditions. If the advances do not run on the sanctioned terms and conditions or if bank find any undesirable feature in the borrower's account by which recovery of advance becomes difficult and nursing the account is not considered workable, bank recalls such advances.

Bank generally recalls its advances under the following cases:

- i) If death occurs either of the borrower or the guarantor.
- ii) If the borrower is reported to have committed an act of insolvency or has filed application for his insolvency.
- iii) Dissolution of the partnership.
- iv) Liquidation of the borrowing company.
- v) Failure to renew the documents sufficiently before the expiry of the limit.
- vi) If there is any serious deterioration in the security charged to the bank and want of satisfactory turnover in the account.
- vii) There has been deterioration in the financial position of the party. If the banker comes to know that his client has committed a fraud or indulged in speculation, it will be invisible to continue the advance.

- viii) Failure to adhere to the terms and conditions of the sanction in spite of repeated reminders to the borrower.
- ix) If the borrower fails to maintain the stipulated margin and does not restore the shortfall in spite of repeated reminders.
- x) Change in the bank's policy of certain types of advances.
- xi) The policy of 'Selective Credit Control' by Bangladesh Bank.
- xii) Detection of any undesirable features in the account.
- xiii) 'There may also be other reasons for withdrawing the facility, i.e., the law and order situation at a certain place is such that it may be risky to continue the advance.

Procedure for recovery

If a borrower fails to make repayment of dues the bank has to consider what steps need to be taken to recover the debt. Banker will eventually have to take the following steps to recover the stuck-up advances.

- i) **Exerting moral pressure:** The banker will visit the borrower's place of business and find out the cases of non-payment of the bank's dues. The banker may also request some influencer customers of the area to exert pressure on the borrower to clear bank's dues. If there is a guarantor, he is also called upon to adjust the account or have it adjusted by the principal.
- ii) In case the borrower does not adjust the account as desired, the only course left open to the bank would be to send a notice by registered post to the last known address of the borrower and guarantor, if any, preferably through a lawyer. In that notice, it has to state the undesirable character of the advance and recall it and ask the party to liquidate it within a stipulated period, say 30 days, failing which the securities will have to be disposed off without further reference to him at the best possible market rate either in public auction or by private negotiation according to the convenience of the bank. The notice should also state that the borrower as well as guarantor, if any, would be liable for any balance that might remain due, after

the security has been sold and bank shall resort to legal action to recover the dues. If no favorable response is made by the borrower/guarantor after serving notice, the bank has to dispose of the securities and adjust the account. Presently, banks are empowered to dispose off the security without intervention of the court under the '**Artha Rin Adalat Act 2003**'.

- iii) **Filing a suit:** If the advance is not fully secured and where there is a shortfall to adjust the advance after disposal of securities, the decision has to be taken by the bank whether to keep the borrower in business or file a suit against him for recovery of bank's dues. It is well known that once the suit is filed, the borrower ceases to be co-operative.

RUPALI Bank Limited has been followed a series of measures to recover the default amount of loans and advances both in Branch and Head Office level. All branches are kept under serious pressure through circular, circular letter, verbal instruction etc in regular basis to take necessary precautions to avoid new default loan in the branch. Besides, branches have been given yearly target to recover dues from the existing default borrower to reduce the classified loans and advances up to minimum level. Head Office monitors each branch whether it is performing in accordance

Chapter -08

Credit Risk Management Practices of RUPALI Bank Limited

8.1 RISK MANAGEMENT

The risk of Rupali Bank Limited have been defined as the possibility of losses, financial or otherwise. The risk Management of the bank covers 5 (five) crore Risk Areas of Banking i.e; Credit Risk Management, Foreign exchange Risk Management, asset liability Management, Prevention of Money Laundering and establishment of Internal control and compliance. The prime objective of the risk management is that the bank takes well calculative business risks while safe guarding the Banks capital, its financial resources and profitability from various risks. In this context, the bank has implemented various steps as per the guidelines of Bangladesh bank.

8.2 CREDIT RISK MANAGEMENT

Credit Risk is one of the prime risks of the Bank. It indicates the potential loss arising from contractual failure of the borrower with the Bank. The failure may be resulted from unwillingness of the borrower or due to decline of the financial conditions. Therefore, Bank's Credit Risk Management activities have been designed to address all these issues. On the basis of Bangladesh Bank's Credit Risk Management (CRM) policies, Rupali Bank has formulated a Manual of Credit Risk Management policies which have been approved by Bank's Board of Directors already in force. These help to bring the credit operation of the Bank to the level of international standard.

The organizational structure of Bank's Head Office has been designed in line with CRM guidelines. The duties of the officers/ executives, working in credit areas, have been segregated for smooth functioning. Credit approval administration, monitoring and recovery function function have segregated and functioning accordingly. Credit risk Management activities ensure maintaining asset quality, assessing risks in lending to particular customer, sanctioning credit, formulating policy/ strategy for lending operation, etc.

QUALITATIVE DISCLOSURE REGARDING CREDIT RISK:

Credit risk is the risk of Financial Loss. If a customer or counterparty fails to meet his payment obligation under a contract. RBL has standards, policies, and procedures dedicated to controlling and monitoring credit risk.

The standardized approach is applied for risk weighting of exposure as per directive of Bangladesh bank. It requires bank's to use risk assessments prepared by External Credit Assessment Institutions (ECAIs) to determine the risk weightings applied to rated counterparties. RBL has taken step for rating of its exposures.

RBL's credit policy is based on the customer's need to operating business and also on security, earning capacity of recipient, the business repayment ability to mitigate, and follows conservative approach in valuation of collateral. The principal collateral types are as follows:

Lien of financial Instruments, Mortgage over immovable properties, Charges over business assets such as stock and debtors.

Special attention is given to problem loans and appropriate action is initiated to protect the Bank's interest on a timely basis. The objective of credit risk management is to minimize the probable losses and analysis to maintain credit risk exposure within acceptable limits.

Bank also looks after Loan Review Mechanism and also helps in ensuring credit compliance with the post sanction/ procedure laid down by the Bank from time to time. Maximum counterparty/ group exposure are limited to the extent of maximum ceiling of the Bank's capital based as stipulated by Bangladesh Bank.

Past dues and impaired exposures are defined in accordance with the relevant Bangladesh Bank regulation

8.3 FOREIGN EXCHANGE RISK MANAGEMENT:

The risk of foreign exchange transaction has been streamlined to earn a potential gain through the Treasury Department i.e. Fund Management Division which is run by a group of structured manpower. Although the global economic scenario was very much alarming because of the crises in all economic phenomena, still the bank has faced it prudently leading to higher profit compared with the previous record of the bank. It has become possible by Treasury Department through optimum use of open position limit fixed by Bangladesh Bank with a view to generating maximum revenue.

There is active participation in inter bank exchange market, the foreign exchange risk of the Bank is minimal as majority of the transaction are carried out on behalf of the customer's requirement of various trade finance & remittance activities. The bank did not conduct any speculative deal in foreign currency for the year. To minimize any potential loss arising from currency fluctuation, the Bank does not conduct cross currency activates to consolidate its currency position into a single foreign currency by converting its inflow of various currencies due to customer's export activities and remittances from abroad.

In compliance with the Bangladesh bank Guidelines, Rupali Bank Ltd. Has prepared Foreign Exchange Risk Management Manual covering the Foreign Exchange Risk and Policy related with Foreign Exchange dealings. As per terms and conditions of the Manual Treasury Front Office and Mid Office have been established under separate management.

8.4 BASEL-2 IMPLEMENTATION

Rupali Bank has arranged a good number of workshops on BASEL-2. The BASEL committee on banking supervision has issued a proposal relating to banking laws and policies. The aim of BASEL-2 is to maintain an international standard in formulating the policy of the banking control and assess how much capital is required to be kept in reserve in order to face financial and operational risks encountered by the banks. The seconders of BASEL-2 believe that such a policy of an international standard may help stave off the collapse of any large bank or a great many banks in multifarious problems of international financial system. In fact, BASEL-2 endeavors to accomplish this by determining necessary matters of high risk and capital management.

DISCLOSURE UNDER BASEL-2

The following detailed qualitative disclosure are provided in accordance with Bangladesh Bank rules and Regulations on risk based capital adequacy under BASEL-2 issued through circular on 31 December 2008 and its revised circular no. 10 dated 10-03-2010 regarding partial modification of Minimum Capital Requirements. The purpose of these requirements is to meet the capital adequacy requirements and the pillar II supervisory review process. These disclosure are intended for stake holders to access key information about the Bank's espouser to various risks and to provided a consists & understandable framework for easy comparison among peer banks operating in the market. The Bank is following the disclosure requirements set.

The major highlights of the Bangladesh bank regulations are:

- To maintain capital adequacy ratio (CAR) at a minimum of 8% of risk weighted assets.
- To adopt the standardized approach for credit risk for implementing BASEL-II
- To adopt standardized approach for market risk and basis indicator approach for operational risk, and to submit returns to Bangladesh Bank on a quarterly basis.

8.5 ASSET-LIABILITY MANAGEMENT

ASSET AND Liability management is one of key essentials of managing a Bank's balance sheet efficiently. In line with the ongoing reform and modernization program, Rupali Bank Limited has retooled its ALM to deliver modern, dynamic, vibrant & futuristic process through the adoption of international best recognized practice.

Considering all risk factors Rupali Bank Ltd. Has established an effective ALM process for assigning, analyzing and reviewing various kinds of risk exposures arising from the composition and dynamics of the balance sheet. Asset Liability Committee (ALCOM) of the Bank regularly reviewing these risk exposures and advised for both the opportunities and threats to its liquidity and balance sheet positions as well as positions of maturing assets and liquidity contingency plan. The bank maintained its liquidity at satisfactory level to meet the requirements of all types of customers.

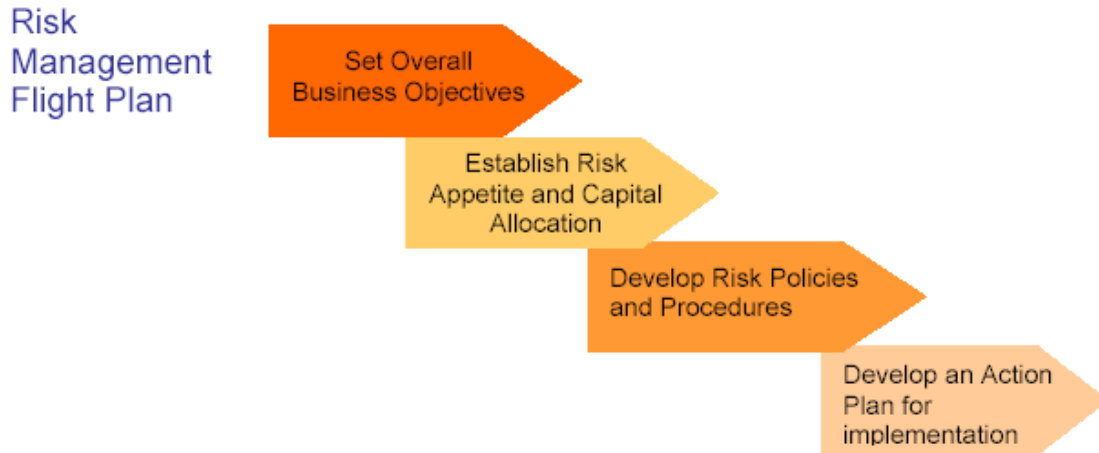
8.6 EARNING PER SHARE:

Basic earnings per share has been calculated in accordance with BAS 33 "Earning Per Share" which has been shown on the face of the profit and loss account. This has been calculated by dividing the basic earnings by the weighted average number of shares outstanding during the year.

8.7 STATEMENT OF RISK WEIGHTED ASSETS:

PARTICULARS	TOTAL ASSET	0% RWA	20% RWA	50% RWA	100% RWA
Cash in Hand	137.06	137.06	-	-	-
Cash at Bank	382.19	382.19	-	-	-
FDR	185.41	22.41	163.00	-	-
Money at Call on Short notice	370.00	370.00	-	-	-
Foreign Currency balances held	9.80	9.80	-	-	-
Export and other foreign bills	39.44	-	-	39.44	-
Foreign investment	36.33	-	-	36.33	-
Import and Inland Bills	187.17	0.01	-	-	187.16
Loan & Advances	5007.82	475.30	22.51	542.95	3967.06
Investment	1393.97	1358.41	9.02	-	26.54
Inter branch Adjustments	100.95	100.95	-	-	-
Other Assets (net)	907.87	-	-	220.32	687.55
Off balance sheet items	672.96	-	-	672.96	-
Total	9430.97	2856.13	194.53	1512.00	4869.31
Total Risk weighted Assets	5663.22	-	38.91	756.00	4868.31
Required capital	566.32	-	3.89	75.60	486.83

Risk Management Flight Plan:



8.8 Principles for the Management of Credit Risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of the bank, including in the banking book and in the trading book, and both on and off the balance sheet.

The sound practices set out here specifically address the following areas:

- (i) Establishing an appropriate credit risk environment;
- (ii) Operating under a sound credit granting process;
- (iii) Maintaining an appropriate credit administration, measurement and monitoring process; and
- (iv) Ensuring adequate controls over credit risk.

Principles for the Assessment of Banks' Management of Credit Risk (Adopted from Basel Committee on CRM, 2000)

8.8.1 Establishing an appropriate credit risk environment

Principle 1: The board of directors should have responsibility for approving and periodically (at least annually) reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Principle 2: Senior management should have responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in the bank's activities and at both the individual credit and portfolio levels.

Principle 3: Bank should identify and manage credit risk inherent in all products and activities. Bank should ensure that the risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.

8.8.2 Operating under a sound credit granting process

Principle 4: Bank must operate within sound, well-defined credit-granting criteria. These criteria should include a clear indication of the bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

Principle 5: Bank should establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet.

Principle 6: Bank should have a clearly-established process in place for approving new credits as well as the amendment, renewal and re-financing of existing credits.

Principle 7: All extensions of credit must be made on an arm's-length basis. In particular, credits to related companies and individuals must be authorized on an exception basis, monitored with particular care and other appropriate steps taken to control or mitigate the risks of non-arm's length lending.

8.8.3 Maintaining an appropriate credit administration, measurement and monitoring process

Principle 8: Bank should have in place a system for the ongoing administration of their various credit risk-bearing portfolios.

Principle 9: Bank must have in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.

Principle 10: Bank is encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

Principle 11: Bank must have information systems and analytical techniques that enable management to measure the credit risk inherent in all on- and off-balance sheet activities. The management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

Principle 12: Bank must have in place a system for monitoring the overall composition and quality of the credit portfolio.

Principle 13: Bank should take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and should assess their credit risk exposures under stressful conditions.

8.8.4 Ensuring adequate controls over credit risk

Principle 14: Bank must establish a system of independent, ongoing assessment of the bank's credit risk management processes and the results of such reviews should be communicated directly to the board of directors and senior management.

Principle 15: Bank must ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. Banks should establish and enforce internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

Principle 16: Bank must have a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations.

8.8.5 The role of supervisors

Principle 17: Supervisors should require that banks have an effective system in place to identify measure, monitor and control credit risk as part of an overall approach to risk management. Supervisors should conduct an independent evaluation of a bank's strategies, policies, procedures and practices related to the granting of credit and the ongoing management of the portfolio. Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counterparties.

8.9 Credit Assessment & Risk Grading

8.9.1 Credit Assessment

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the

relationship manager/account officer (“RM”), and is approved by Credit Risk Management (CRM). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the bank’s Lending Guidelines and should conduct due diligence on new borrowers, principals, and guarantors.

It is essential that RMs know their customers and conduct due diligence on new borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. All banks should have established **Know Your Customer (KYC) and Money laundering guidelines which should be adhered to at all times.**

Credit Applications should summaries the results of the RMs risk assessment and include, as a minimum, the following details:

- Amount and type of loan(s) proposed.
- Purpose of loans.
- Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangements

In addition, the following risk areas should be addressed:

- **Borrower Analysis.** The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed, and risks mitigated.
- **Industry Analysis.** The key risk factors of the borrower’s industry should be assessed. Any issues regarding the borrower’s position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.

- **Supplier/Buyer Analysis.** Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.
- **Historical Financial Analysis.** An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed.
- **Projected Financial Performance.** Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.
- **Account Conduct.** For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) should be assessed.
- **Adherence to Lending Guidelines.** Credit Applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of Credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank's Lending Guidelines.
- **Mitigating Factors.** Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion;

management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

- **Loan Structure**. The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.
- **Security**. A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.
- **Name Lending**. Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

8.9.2 Risk Grading

All Banks should adopt a credit risk grading system. The system should define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be

immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications.

The following Risk Grade Matrix is provided as an example. The more conservative risk grade (higher) should be applied if there is a difference between the personal judgments and the Risk Grade Scorecard results. It is recognized that the banks may have more or less Risk Grades; however, monitoring standards and account management must be appropriate given the assigned Risk Grade:

Risk Rating	Grad	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 documentation should be in place.
Good – Satisfactory Risk	2	The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow and have an unblemished track record. All security documentation should be in place.
Acceptable – Fair Risk	3	Adequate financial condition though may not be able to sustain any major or continued setbacks. These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. A borrower should not be graded better than 3 if realistic audited financial statements are not received. These assets would normally be secured by acceptable collateral (1 st charge over stocks / debtors / equipment / property). Borrowers should have adequate liquidity, cash flow and earnings. An Aggregate Score of 75-94 based on the Risk Grade Scorecard.
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 Rating	Grad	Definition
		risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Facilities should be downgraded to 4 if the borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.
Special Mention	5	Grade 5 assets have potential weaknesses that 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.
Substandard	6	Financial condition is weak and capacity or inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans. Loans should be downgraded to 6 if loan payments remain past due for 60-90 days, if the customer intends to create a lender group for debt restructuring purposes, the operation has ceased trading or any indication suggesting the winding up or closure of the borrower is discovered. Not yet considered non-performing as the correction of the deficiencies may result in an improved condition, and interest can still be taken into profits. 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, liquidation procedures or capital injection, the asset is not yet classified as Loss. Assets should be downgraded to 7 if loan payments remain past due in excess of 90 days, and interest income should be taken into suspense (non-accrual). Loan loss provisions must be raised against the estimated unrealizable amount of all facilities. The adequacy of provisions must be reviewed at least quarterly on all non-performing loans, and the bank should pursue legal options to enforce security to obtain repayment or negotiate an appropriate loan

Risk Rating	Grad	Definition
		rescheduling. In all cases, the requirements of Bangladesh Bank in CIB reporting, loan rescheduling and provisioning must be followed. An Aggregate Score of 35-44 based on the Risk Grade Scorecard
Loss (non-performing)	7	Assets graded 7 are long outstanding with no progress in obtaining repayment (in excess of 170 days past due) or in the late 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 basically worthless asset even though partial recovery may be effected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of 35 or less based on the Risk Grade Scorecard

The Early Alert Report should be completed in a timely manner by the RM and forwarded to CRM for approval to affect any downgrade. After approval, the report should be forwarded to Credit Administration, who is responsible to ensure the correct facility/borrower Risk Grades are updated on the system. The downgrading of an account should be done immediately when adverse information is noted, and should not be postponed until the annual review process.

8.10 Approval Authority

The authority to sanction/approve loans must be clearly delegated to senior credit executives by the Managing Director/CEO & Board based on the executive's knowledge and experience. Approval authority should be delegated to individual executives and not to committees to ensure accountability in the approval process. The following guidelines should apply in the approval/sanctioning of loans:

- Credit approval authority must be delegated in writing from the MD/CEO & Board (as appropriate), acknowledged by recipients, and records of all delegation retained in CRM.
- Delegated approval authorities must be reviewed annually by MD/CEO/Board.
- The credit approval function should be separate from the marketing/relationship management (RM) function.
- The role of Credit Committee may be restricted to only review of proposals i.e. recommendations or review of bank's loan portfolios.
- Approvals must be evidenced in writing, or by electronic signature. Approval records must be kept on file with the Credit Applications.
- All credit risks must be authorized by executives within the authority limit delegated to them by the MD/CEO. The "pooling" or combining of authority limits should not be permitted.
- Credit approval should be centralized within the CRM function. Regional credit centers may be established, however, all large loans must be approved by the Head of Credit and Risk Management or Managing Director/CEO/Board or delegated Head Office credit executive.
- The aggregate exposure to any borrower or borrowing group must be used to determine the approval authority required.
- Any credit proposal that does not comply with Lending Guidelines, regardless of amount, should be referred to Head Office for Approval
- MD/Head of Credit Risk Management must approve and monitor any cross-border exposure risk.
- Any breaches of lending authority should be reported to MD/CEO, Head of Internal Control, and Head of CRM.
- It is essential that executives charged with approving loans have relevant training and experience to carry out their responsibilities effectively. As a minimum, approving executives should have:

- At least 5 years experience working in corporate/commercial banking as a relationship manager or account executive.
- Training and experience in financial statement, cash flow and risk analysis.
- A thorough working knowledge of Accounting.
- A good understanding of the local industry/market dynamics.
- Successfully completed an assessment test demonstrating adequate knowledge of the following areas:
 - Introduction of accrual accounting.
 - Industry / Business Risk Analysis
 - Borrowing Causes
 - Financial reporting and full disclosure
 - Financial Statement Analysis
 - The Asset Conversion/Trade Cycle
 - Cash Flow Analysis
 - Projections
 - Loan Structure and Documentation
 - Loan Management.
- A monthly summary of all new facilities approved, renewed, enhanced, and a list of proposals declined stating reasons thereof should be reported by CRM to the CEO/MD.

8.11 Segregation of Duties

Banks should aim to segregate the following lending functions:

- Credit Approval/Risk Management
- Relationship Management/Marketing
- Credit Administration

The purpose of the segregation is to improve the knowledge levels and expertise in each department, to impose controls over the disbursement of authorized loan facilities and obtain an objective and independent judgment of credit proposals.

8.12 Internal Audit

Banks should have a segregated internal audit/control department charged with conducting audits of all departments. Audits should be carried out annually, and should ensure compliance with regulatory guidelines, internal procedures, and Lending Guidelines and Bangladesh Bank requirements.

8.13 Key Responsibilities

The key responsibilities of the above functions are as follows.

8.13.1 Credit Risk Management (CRM)

- Oversight of the bank's credit policies, procedures and controls relating to all credit risks arising from corporate/commercial/institutional banking, personal banking, & treasury operations.
- Oversight of the bank's asset quality.
- Directly manage all Substandard, Doubtful & Bad and Loss accounts to maximize recovery and ensure that appropriate and timely loan loss provisions have been made.
- To approve (or decline), within delegated authority, Credit Applications recommended by RM. Where aggregate borrower exposure is in excess of approval limits, to provide recommendation to MD/CEO for approval.
- To provide advice/assistance regarding all credit matters to line management/RMs.
- To ensure that lending executives have adequate experience and/or training in order to carry out job duties effectively.

8.13.2 Credit Administration

- To ensure that all security documentation complies with the terms of approval and is enforceable.
- To monitor insurance coverage to ensure appropriate coverage is in place over assets pledged as collateral, and is properly assigned to the bank.
- To control loan disbursements only after all terms and conditions of approval have been met, and all security documentation is in place.
- To maintain control over all security documentation.
- To monitor borrower's compliance with covenants and agreed terms and conditions, and general monitoring of account conduct/performance.

8.13.3 Relationship Management/Marketing (RM)

- To act as the primary bank contact with borrowers.
- To maintain thorough knowledge of borrower's business and industry through regular contact, factory/warehouse inspections, etc. RMs should proactively monitor the financial performance and account conduct of borrowers.
- To highlight any deterioration in borrower's financial standing and amend the borrower's Risk Grade in a timely manner. Changes in Risk Grades should be advised to and approved by CRM.
- To seek assistance/advice at the earliest from CRM regarding the structuring of facilities, potential deterioration in accounts or for any credit related issues.

8.14 Procedural Guidelines

The following procedural guidelines are circulated by Bangladesh Bank and subsequently complied by RUPALI Bank as it is a compliance requirement.

8.14.1 Approval Process

The approval process must reinforce the segregation of Relationship Management/Marketing from the approving authority. The responsibility for preparing the Credit Application should rest with the RM within the corporate/commercial banking department. Credit Applications should be recommended for approval by the RM team and forwarded to the approval team within CRM and approved by individual executives. Banks may wish to establish various thresholds, above which, the recommendation of the Head of Corporate/Commercial Banking is required prior to onward recommendation to CRM for approval. In addition, banks may wish to establish regional credit centres within the approval team to handle routine approvals. Executives in head office CRM should approve all large loans.

The recommending or approving executives should take responsibility for and be held accountable for their recommendations or approval. Delegation of approval limits should be such that all proposals where the facilities are up to 15% of the bank's capital should be approved at the CRM level, facilities up to 25% of capital should be approved by CEO/MD, with proposals in excess of 25% of capital to be approved by the EC/Board only after recommendation of CRM, Corporate Banking and MD/CEO.

8.14.2 Credit Administration

The Credit Administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of loan facilities. For this reason, it is essential that the functions of Credit Administration be strictly segregated from Relationship Management/Marketing in order to avoid the possibility of controls being compromised or issues not being highlighted at the appropriate level.

8.14.3 Disbursement:

- Security documents are prepared in accordance with approval terms and are legally enforceable. Standard loan facility documentation that has been reviewed by legal counsel should be used in all cases. Exceptions should be referred to legal counsel for advice based on authorisation from an appropriate executive in CRM.
- Disbursements under loan facilities are only be made when all security documentation is in place. CIB report should reflect/include the name of all the lenders with facility, limit & outstanding. All formalities regarding large loans & loans to Directors should be guided by Bangladesh Bank circulars & related section of Banking Companies Act. All Credit Approval terms have been met.

8.14.4 Custodial Duties:

- Loan disbursements and the preparation and storage of security documents should be centralised in the regional credit centres.
- Appropriate insurance coverage is maintained (and renewed on a timely basis) on assets pledged as collateral.
- Security documentation is held under strict control, preferably in locked fireproof storage.

8.14.5 Compliance Requirements:

- All required Bangladesh Bank returns are submitted in the correct format in a timely manner.
- Bangladesh Bank circulars/regulations are maintained centrally, and advised to all relevant departments to ensure compliance.
- All third party service providers (valuers, lawyers, insurers, CPAs etc.) are approved and performance reviewed on an annual basis. Banks are referred to Bangladesh Bank circular outlining approved external audit firms that are acceptable.

8.15 Credit Monitoring

To minimize credit losses, monitoring procedures and systems should be in place that provide an early indication of the deteriorating financial health of a borrower. At a minimum, systems should be in place to report the following exceptions to relevant executives in CRM and RM team:

- Past due principal or interest payments, past due trade bills, account excesses, and breach of loan covenants;
- Loan terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow-up.
- Timely corrective action is taken to address findings of any internal, external or regulator inspection/audit.

Computer systems must be able to produce the above information for central/head office as well as local review. Where automated systems are not available, a manual process should have the capability to produce accurate exception reports. Exceptions should be followed up on and corrective action taken in a timely manner before the account deteriorates further.

8.16 Early Alert process:

An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention by management.

Early identification, prompt reporting and proactive management of Early Alert Accounts are prime credit responsibilities of all Relationship Managers and must be undertaken on a continuous basis. An Early Alert report should be completed by the RM and sent to the approving authority in CRM for any account that is showing signs of deterioration within seven days from the identification of weaknesses. The Risk Grade should be updated as soon as possible and no delay should be taken in referring problem accounts to the CRM department for assistance in recovery.

Despite a prudent credit approval process, loans may still become troubled. Therefore, it is essential that **early identification** and **prompt reporting** of deteriorating credit signs be done to ensure swift action to protect the Bank's interest.

Moreover, regular contact with customers will enhance the likelihood of developing strategies mutually acceptable to both the customer and the Bank. Representation from the Bank in such discussions should include the local legal adviser when appropriate.

An account may be reclassified as a Regular Account from Early Alert Account status when the symptom, or symptoms, causing the Early Alert classification have been regularized or no longer exist. The concurrence of the CRM approval authority is required for conversion from Early Alert Account status to Regular Account status.

Chapter-09

Operational Result of Rupali Bank Ltd

9.1 Loans and Advances:

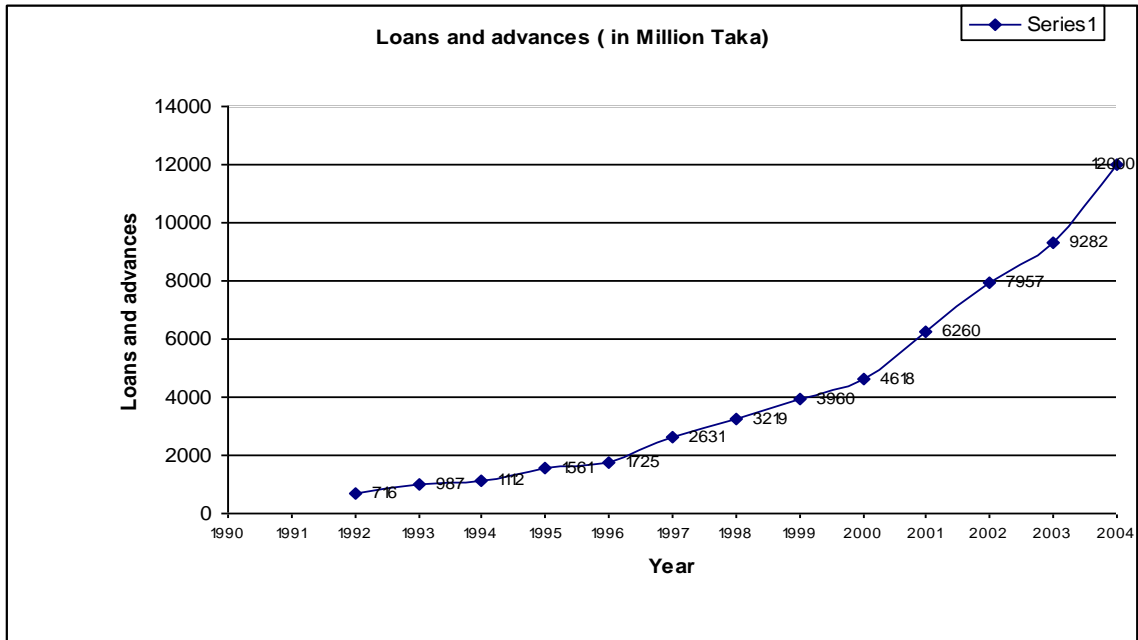
Increasing Trend of loans and advances indicates the expanding business scenario of the Bank and the profitability growth.

Table .04 consolidated Loans and Advances

Amount in Million
Taka

Year	Total Loans and Advances
1989	66.45
1990	200
1991	433
1992	716
1993	987
1994	1112
1995	1561
1996	1725
1997	2631
1998	3219
1999	3960
2000	4618
2001	6260
2002	7957
2003	9282
2004	12000

Fig: 3 Loans and advances growth scenario



The Bank's loans and advances comprised of industrial loans, micro credit, commercial loans and bills portfolio increased by 29.28 percent to Taka 12000.15 million in 2004 compared to Taka 9282.20 million in 2003.

9.1.1 Regression Analysis of Loans and Advances :

Regression is conducted on the basis of Second Degree Polynomial.

Regression Equation:

$$Y = 66.73 X^2 - 265,753.26 X + 264,592,624.40 \text{ -----(1)}$$

$$R^2 = 0.99$$

Here Y = Total Loans and Advances in million Taka

X = Year

From Equation 1, if X = 2005 Then , Y = 13006 million Taka

So the projected loans and advances in 2005 is 13,006 million Taka which is quite a steady growth.

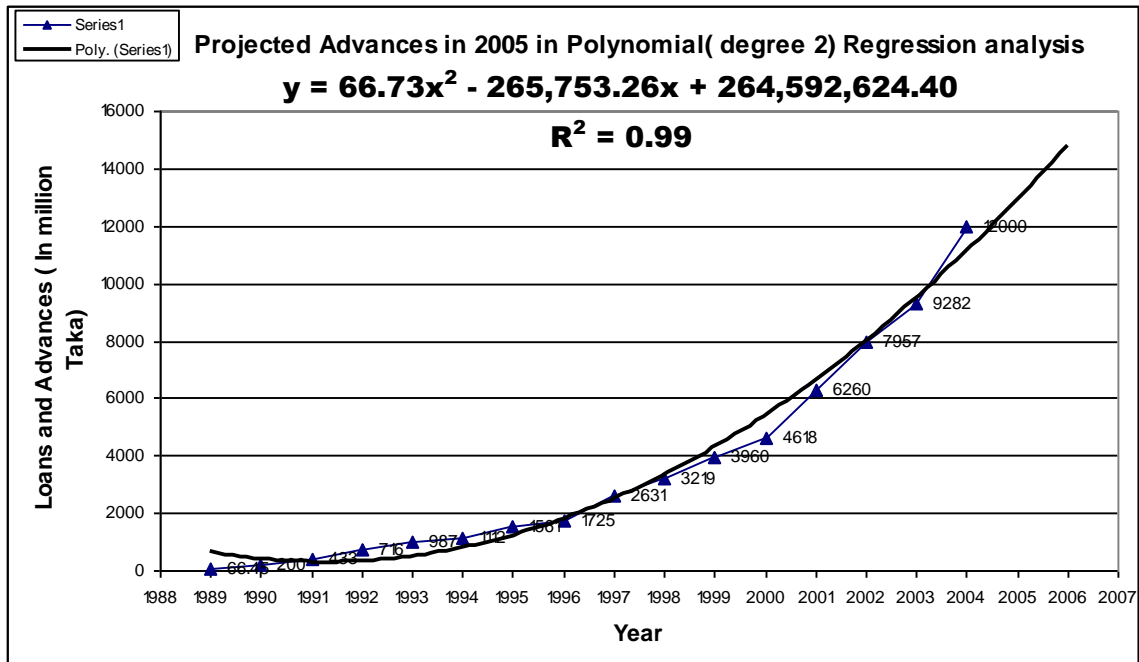


Fig :04 Projected Figure on Loans and Advances

9.1.2 Loan Portfolio:

RUPALI is facing increasing growth both in industrial and commercial loans. Industrial loan volume is very high as the Bank is contributing towards project financing. Commercial loan volume growth is steady. On the contrary, Micro credit is in static condition.

Fig 05 : Loan Portfolio Trend of Rupali Bank

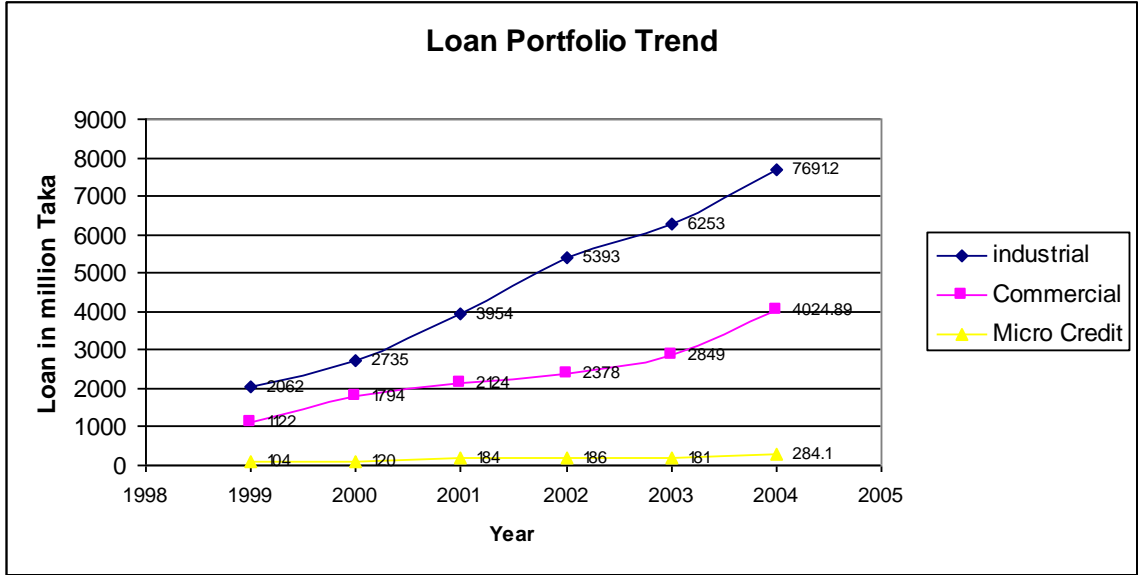
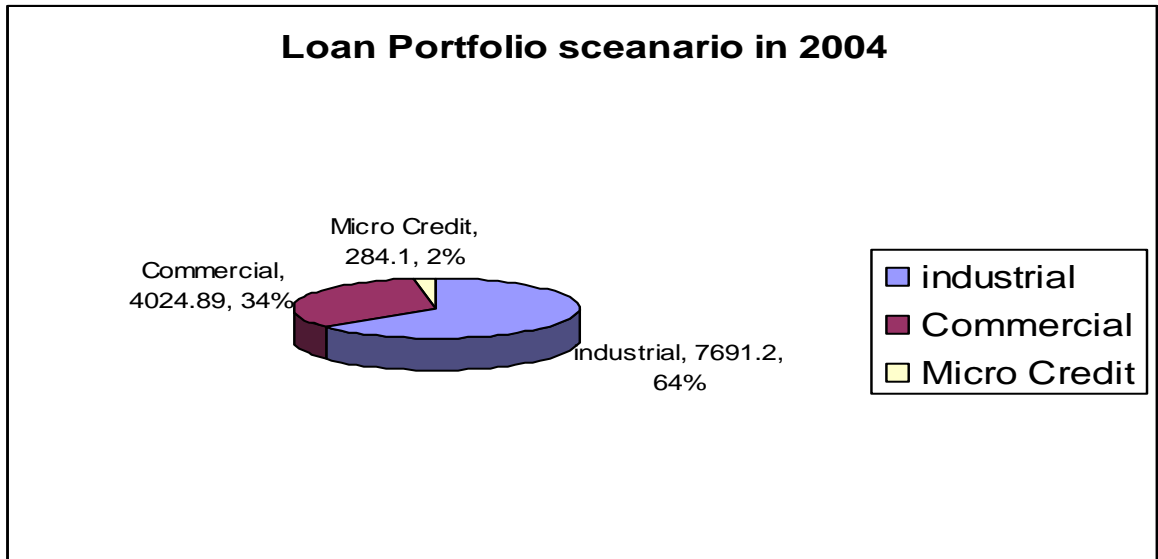


Fig 06 : Loan Portfolio scenario in 2004

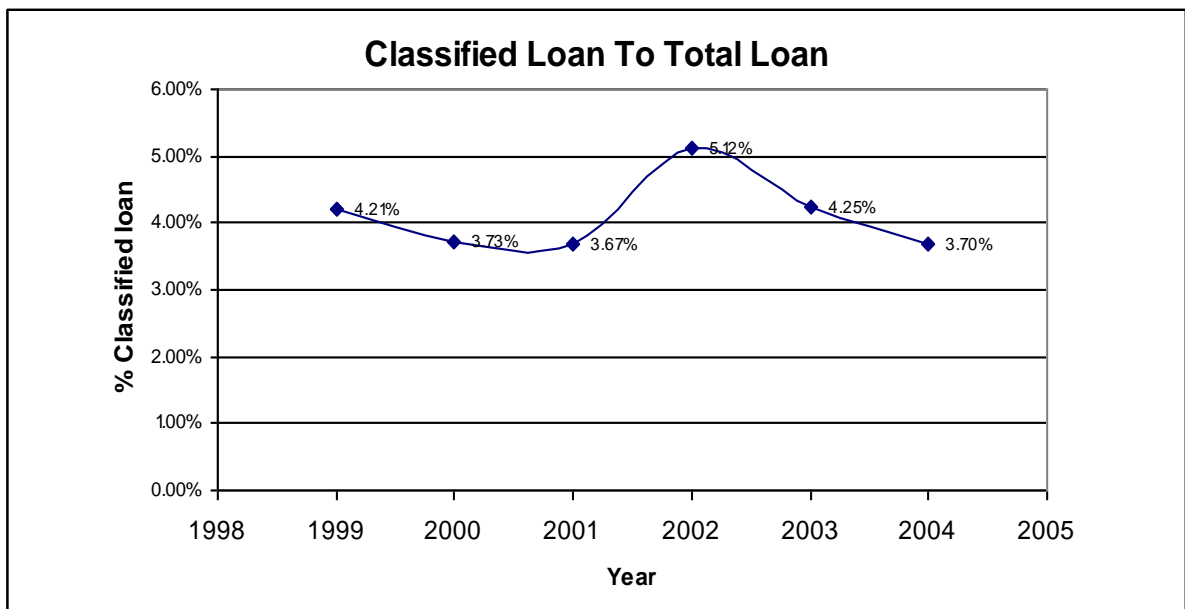


From the above table and graph, we see that the Bank gaining Advances & Investment day by day. It has the positive trend in gaining Advances & Investment. So, we can say that it is financially a strong Bank.

9.2 Non-performing loan

Classified (non -performing) loans and advances decreased to 3.70 percent at the end of the year under discussion (2004) from 4.25 percent in the year 2003. In absolute term classified loans and advances stood Taka 443.85 million in 2004 from Taka 394.92 million in 2003. Additional provision made in 2004 was Taka 160.00 million against classified (non- performing) and unclassified loans and advances. Total cumulative provision made for loans and advances amounted to Taka 305.39 million as on December 31.12. 2004. The outstanding recovery of loans and advances of the Bank contributes the better ranking in Bangladesh Bank offsite supervision (CAMEL rating).

Fig 07: classified loan to total loan trend of RUPALI Bank



9.3 Deposit

The increasing trend of deposit holding indicates the Bank's fund mobilization opportunity and investment opportunity in suitable sectors. Over the last three years, the deposit has been increased substantially.

Deposit constitutes the core of RUPALI Bank's fund mobilization. Total deposit of the Bank of the end of 2004 stood at 15509.18 million (79.79% of total liabilities) compared to Taka 1,1266.54 million (76.30% of total liabilities) in 2003. The growth was 37.66 percent compared to previous year's growth o 12.43%. During 2004, the fixed deposit Increased to Taka 12984.12 million from Taka 9193.81 million in 2003.

Table 05 : Trend Analysis of Deposits

year	Total Deposit	loan to Deposit Ratio
2004	15509.18	77.37%
2003	11,267	82.39%
2002	10,021	79.40%
2001	7,513	83.34%
2000	5845	75.62%
1999	5648	66.71%
1998	4551	66.81%
1997	3541	69.86%
1996	3357	47.82%
1995	2773	54.17%
1994	2241	49.62%

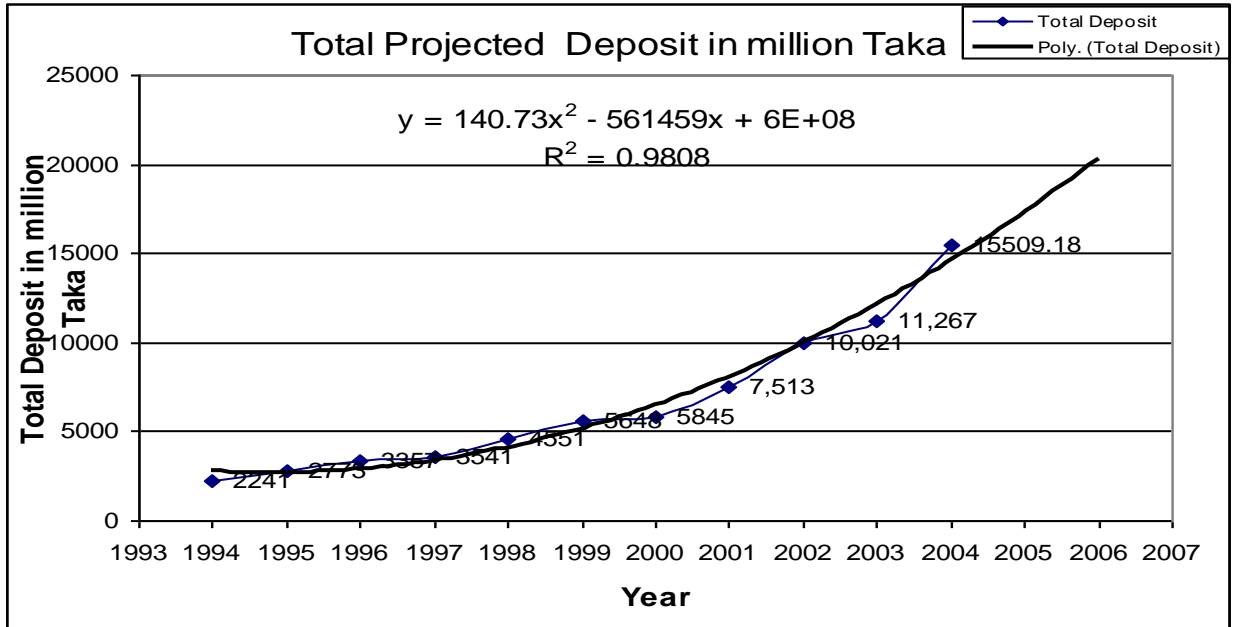


Fig : 08 Trend analysis of Deposit

- The projected deposit in 2005 is 17000 million Taka

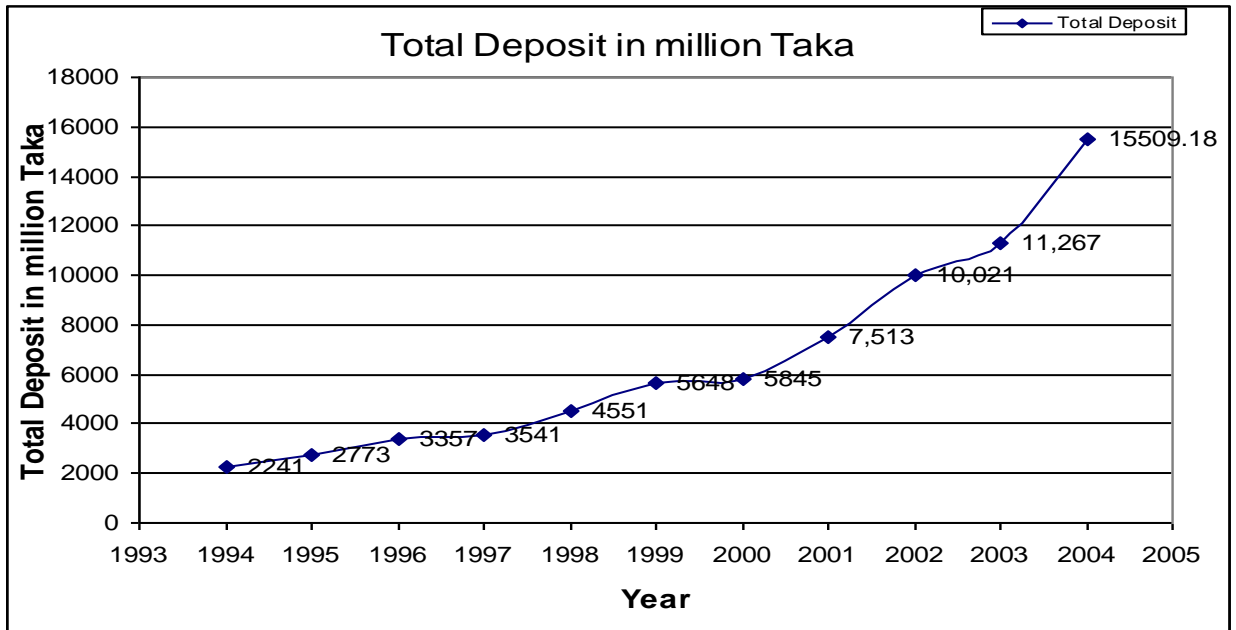


Fig 09 : Deposit growth pattern of RUPALI Bank

From the above graph we see that the Bank consolidate its deposits day by day in a increasing fashion. So, we can say that it is financially a strong Bank.

9.4 CAMEL Rating

The CAMEL rating standing of RUPALI Bank has been analyzed below following the guidelines given by Bangladesh Bank.

1) Capital Adequacy Ratio:

Particulars	Amount in million Tk.
Total Risk Weighted Asset	13001.11
Required Capital @ 9%	1,170.10
Actual Capital Held:	1,623.73
Core Capital	1,491.27
Supplementary Capital	132.46
Capital Adequacy Ratio	12.49%

Benchmark:

Capital Adequacy Ratio is strong, as it is greater than 10%

Rating = 1

2) Asset Quality:

Particulars	Amount in million Tk.
Total Non-performing Loan	443.85
Total Loans and Advances	12,000.15
Non-performing Loan to Total Loans	3.70%

Benchmark: Asset Quality is strong as the ratio is less than 5%

Rating = 1

3) Earning Performance:

Particulars	Amount in Tk.
Net Income	291,484,207
Total Assets	19,436,566,270
Return on Asset	1.50%

Benchmark:

Earning performance is strong, as the ratio is greater than 0.85%

Rating = 1

4) Liquidity Position:

Particulars	Amount in Tk.
Liquid Assets	4,880,863,120
Total Demand and Time Liabilities	17,945,296,936
Liquid Assets to Total Demand and Time Liabilities	27.20%

Benchmark:

Liquidity Position is satisfactory as the ratio is greater than 20%

Rating = 2

5) Management Efficiency:

This is the average of other four

$$M = (1+1+1+2)/4$$

=1.25

Composite Rating:

$$\begin{aligned} \text{CAMEL} &= (1+1+1.25+2+1)/5 \\ &= 1.25 \end{aligned}$$

As the composite rating is less than 1.40 financial position of RUPALI Bank LTD. is strong according to CAMEL Rating.

9.6 Financial Ratios indicating Bank's financial performance:

- **Return on Equity**

$$\begin{aligned} &= \text{Net Income} / \text{Total Equity} \\ &= 291,484,207 / 1,491,269,334 \\ &= 19.54\% \end{aligned}$$

- **Interest Income to Total Loans and Advances**

$$\begin{aligned} &= \text{Interest Income} / \text{Total Loans and Advances} \\ &= 1,355,585,790 / 12,000,145,123 \\ &= 11.29\% \end{aligned}$$

- **Spread**

$$\begin{aligned} &= (\text{Interest Income} - \text{Interest Expense}) / \text{Total Asset} \\ &= (1,355,585,790 - 816,981,026) / 19,436,566,270 \\ &= 2.77\% \end{aligned}$$

- **Burden**

$$\begin{aligned} &= (\text{Non Interest Expense} - \text{Non-Interest Income}) / \text{Total Asset} \\ &= (339,136,658 - 413,267,797) / 19,436,566,270 \\ &= -0.77\% \end{aligned}$$

- **Net interest Margin**

$$\begin{aligned} &= (\text{Interest Income} - \text{Interest Expense}) / \text{Total Earning Asset} \\ &= (1,355,585,790 - 816,981,026) / 18,992,256,072 \\ &= 2.84\% \end{aligned}$$

- **Deposit to Total Asset**

$$\begin{aligned} &= \text{Total Deposit} / \text{Total Asset} \\ &= 15,509,176,960 / 19,436,566,270 \\ &= 79.80\% \end{aligned}$$

All financial ratios discussed above dictates the company's overall financial strength. Negative burden is an interesting figure as it is usually positive for most of the banks which depicts the operational efficiency in terms of non interest expenditure control of the bank.

CHAPTER-10

FINDINGS

The role of credit is imperative in a financial institution. These credit schemes serve as the major source of revenue generation for the bank and as such needs to be handled with a lot of care. Successful loan application will have positive impact in attaining corporate mission and vision and ultimately to capitalize the wealth maximization objectives of the corporation. This report deals with the personal loan for consumers of Rupali Bank Ltd. Here, we have focused on different aspects of the program that are crucial for the management and for the best interest of the stakeholders.

“Personal Loan for Consumers” is one of the key products of Rupali Bank Ltd. The study mainly focuses on the performance of the product relying on the secondary data collected. During the course of the study a broad spectrum of topics within the loan product was covered.

The consumer credit schemes of the Rupali Bank Ltd. have helped a great deal to achieve the high performance of the bank. The bank has been able to retain its high performance through loan products such as SME loan, Youth/Farmer loan,, business installment loan, mortgage and personal loan for consumers.

During the course of the undertaken study, several findings have been stumbled upon with which have been summarized and discussed below,

I. Rupali Bank Ltd. superior customer service providing is due largely to its affiliation with a large parent company and strong brand image.

II. The bank is constantly expanding and improving its performance.

III. The loan administration of the Rupali Bank Ltd. enables it to ensure a smooth loan system.

IV. The empirical evidence of the product suggests that it is performing quite well and contributes a good portion to the overall profitability of the bank.

V. Over the years the loan applications received, approved have all seen an increasing trend while the number of loan declined has a decreasing trend.

VI. The segmentation analysis further suggests that among the loan takers, the salaried employees are the highest. The salaried employees are safe for the bank and they have almost no default risk scenario.

VIII. Although the current offering for the personal loan is a lucrative one, there is still scope for further improvement which would be beneficial for the bank as well as the customers.

Financial institutions have always played an imperative role in strengthening the economic infrastructure of the country. Banks such as the Rupali Bank Ltd have been at the forefront on this role. Among its various products, personal loan for consumers plays an important role in maintaining its profit. Although right now the products contribution in comparison to the other products is not that high, it can certainly be hoped that with proper modification and policy change it will surely become a large profit earning sector for the bank. The different features of the product identifies it as a convenient way for the consumers to avail loan for a variety of purposes and the loan evaluation criteria's also help to assess the different aspects of the products applicant.

The performance of the product also shows clear indication about the increasing trend of the products customer base. Day by day the number of loan applicant is increasing for the product and the recent acquisition of the banks such as Arif Habib Bank Ltd Bank can only help to increase and raise the performance of the product.

Finally it can be argued that personal loan for consumers credit program of Rupali Bank Ltd has been operating more or less in the desired direction. However, we have identified some loopholes of the program which needs special attention. We hope that if the existing problems are addressed properly the bank will be able to expand the program as per their target and it will continue to provide more revenues in maximizing the wealth of the bank in the years to come.

Chapter-11

Recommendation and Main Theme

11.1 Recommendations

- Credit Risk Management Practices should be compiled. Different circulars have been issued for branches for compliances. The circulars and the credit risk manual of Bangladesh Bank can be a useful source of information for preparing credit risk management Manual.
- Online Banking is the demand of today's dynamic world. To facilitate the credit operation system online Banking contributes radically in increasing efficiency. BASIC should establish full fledged online banking as soon as possible.
- From personal observation in Branch level banking, loans are deteriorating due to lack monitoring and supervision activities. There should be a separate unit in Loans and advances section named as "Monitoring and Supervision Unit". Exclusive job responsibilities should be delegated to RM and feed back from his activities should be communicated on daily basis to the Branch in-charge. As a matter of fact, he/she is the Relationship Manager who oversees disbursement of credit to Monitoring and Follow up.
- RUPALI is practicing the concept of "**Project based lending rather traditional security based lending approach**". Technical team is essential in assessing Engineering aspects of a Project. Most of the project is typically capital intensive and engineering supervision prior to approval of credit is a prerequisite. Head Office should have a technical team under Industrial Credit Division whose exclusive job is to assess the technical matters such as Process know how, specification of Machinery, knowledge of vendors of industrial machinery, installation of machinery, factory layout, and environmental impact assessment etc. The project proposal submitted by the borrowers can be judged from technical point of view effectively if a technical team exists in Head Office. Technical team will supervise all the projects of different branches on need basis.

- RUPALI should prepare a comprehensive “**Credit Operations Manual**” which should be practiced in every sphere of credit activities. A team constituting key individual from different divisions of the Bank will prepare the Manual under direct of supervision of General Manger, Operations and Administration of the Bank. The report will then be sent to Managing Director for further review. Finally, Board of Directors will finalize the Credit Manual. The Credit operation manual should be sent to every Branch for implementation of standard practices set out there. Credit Manual will be updated continually by issuing circulars to Branches.

11.2 Conclusion

As a bank Rupali Bank Limited has to do a lot of things for the betterment of the country. The Bank is strongly positioned in the market and with its core strengths it can match shareholders’ expectations and thus raise their wealth in future through ethical banking and best pricing. Thus, it has to take initiative so that it can fulfill the desire of the govt. as well as people. It will enhance more public services and build up working teams to provide the best services to its valuable customers. It must be run in organized way and discipline must be ensured in all sphere of its performance. Efficient export team, import team and remittance team must be formed and perform duties properly. More training, computerization, data collection, market analysis and swiftness in servicing are essentially required. To do these the recommended suggestions can be used. Although it is theoretical suggestions, it is not valueless. It has great impact on the banking business and other sectors of the economy. For this, govt. help is essential and it is expected that govt. will broaden its hand for implementing the recommendations for the welfare of the people of Bangladesh.

RUPALI is unique in terms of constitution, its mandate, its objectives and modus operandi. Through this The Bank has in the mean time found its own special position in the sector at the higher rack of the self. RUPALI Bank is expected to continue to maintain strong competitive edge in banking sector in Bangladesh in the years ahead. Through Bank's specialization and integrated approach, The Bank aims to build a strong position in the industrial development of Bangladesh. The Bank also plans to maintain its focus on managing capital and costs to maximize shareholders' value. In this environment, The Bank expects to make further gains in revenue, income and return on capital.

Recent Bank's performance in different arena of banking strongly suggests that Rupali Bank is one of the soundest banks operating in the country. Although Government of Bangladesh is the sole shareholder of this Bank and the way thinking ahead is quite inspiring. RUPALI is a trend setter in banking industry. Continual improvement in different segment with a proactive attitude can make a difference in the banking business. Online Banking is the demand of today's dynamic world and RUPALI is heading towards implementation of Online Banking within two years from now.

RUPALI is redefining the traditional banking concepts and transforming it into relationship banking .RUPALI considers the Borrower as clients. The mutual relationship is the essence of long term success in the banking industry. The ever increasing competitive nature of banking business determines the direction of the bank. Sustainability in better performance is the prime focus in RUPALI Bank.

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