

INTERNSHIP REPORT

ON

**SELECTION OF CREDIT CUSTOMERS
AND
ASSESSMENT OF WORKING CAPITAL
CREDIT NEEDS**

UNITED COMMERCIAL BANK LIMITED

United we achieve

UCB

Submitted To:

Riyashad Ahmed

Assistant Professor

BRAC Business School

BRAC University

Submitted By:

Nahian Zaman

ID: 11204023

BRAC Business School

BRAC University

Date: 24th September 2016

Letter of Transmittal

Date: 24. 09. 2016

Riyashad Ahmed
Assistant Professor
BRAC Business School
BRAC University

Subject: Submission of Internship Report on Selection of Credit Customers and Assessment of Working Capital Credit Needs.

Dear Sir,

It is truly an honor for me to be able to take this opportunity to submit my internship report to you on **Selection of Credit Customers and Assessment of Working Capital Credit Needs.**

The experience I attained during my three-month long internship program working with United Commercial Bank Ltd., one of the leading private commercial banks in Bangladesh, has truly broadened my knowledge spectrum while widening my curiosity for learning on various aspects. I hope my hard work and determination towards the program would reflect on this report as to being informative.

I am eternally grateful to you for your guidance and support which kept me motivated throughout these three months to present my findings and analysis at an extensive level; without your continuous generosity it would not have been possible to establish the foremost requisites of the report.

With best regards,

Nahian Zaman
ID: 11204023
BRAC Business School
BRAC University

Acknowledgment

I want to start by acknowledging all the people for whom I was able to complete my internship report. I want to express my heartfelt gratitude to my honorable advisor for the term, Mr. Riyashad Ahmed, Assistant Professor, BRAC Business School, BRAC University, for his enduring guidance and inspiration throughout the semester, from suggesting the organization till the completion of the report.

I would like to extend my gratitude to my respective line manager, Mr. Md. Saiduzzaman Khan and all the employees at United Commercial Bank Limited, Gulshan Branch, for their constant cooperation and encouragement throughout my entire tenure.

To conclude, I wish to express my appreciation to Mr. Md. Tamzidul Islam, Assistant Professor, BRAC Business School, BRAC University, and to BRAC University for administering such an academic platform with such resourceful opportunities and facilities.

Executive summary

The paper captures my experience of working in the credit department of United Commercial Bank Limited, a privately owned commercial bank in Bangladesh. It provides a detailed description of the bank's organizational structure, business plan, products and services, credit management, process of selecting of credit customers, sources of information for credit investigation, principles of sound lending, credit risk grading, credit granting and approval process, the assessment of working capital for credit needs, whilst including the entire set of responsibilities that were assigned to me. The key highlight of the paper however tries to dissect the two most important functions of the bank- *Analyzing the creditworthiness of a customer* and *Forecasting the working capital of businesses for credit needs*. The paper emphasizes on the techniques, methods and steps needed to assess one's credit rating. It further tries to deliver a comprehensive view of the entire *Credit process* by touching on various topics such as credit ratings, classification of different kinds of loans whilst providing a detailed step-by-step description of the total documentation process. *Forecasting the working capital of businesses using various methods for the need of credit* was another topic that this paper deeply addresses. It aims to provide a complete picture of how working capital needs are forecasted by describing the techniques and methods used to carry out the forecasting process. Various aspects such as the usage of the financial statements, the importance of forecasting tools such as financial ratios (most importantly the operating cycle ratio and its components) are all mentioned here. It also incorporates other factors that are considered in carrying out the forecasting process such as the importance of analyzing the current and future outlook of the economy. The inclusion of all these topics were intended for one purpose only which is to properly illustrate how a commercial bank carries out two of its most vital functions.

Table of Contents

<u>THE ORGANIZATION</u>	1
<u>Introduction:</u>	1
<u>Vision and Mission Of UCBL:</u>	2
<u>Strategic priority of UCBL</u>	3
<u>Corporate Profile</u>	4
<u>Group Corporate Structure:</u>	6
<u>Organogram of Corporate Office:</u>	7
<u>Board of Directors and its Committee:</u>	8
<u>UCB's Products & Services:</u>	9
<u>The Report</u>	13
<u>ORIGIN:</u>	13
<u>SCOPE:</u>	13
<u>OBJECTIVE OF THE REPORT:</u>	13
<u>SPECIFIC OBJECTIVES:</u>	13
<u>METHODOLOGY:</u>	14
<u>Primary data:</u>	14
<u>Secondary:</u>	14
<u>LIMITATIONS:</u>	15
<u>SELECTION OF CREDIT CUSTOMERS</u>	16
<u>Credit Management:</u>	16
<u>Distinctions among Loan, Advances and Credit:</u>	16
<u>The general concept classifies credit as:</u>	17
<u>FUNDED & NON-FUNDED CREDIT PRODUCT</u>	18
<u>SOURCES OF INFORMATION FOR CREDIT INVESTIGATION</u>	20
<u>Primary source:</u>	20
1. <u>Personal Interview:</u>	20
2. <u>Loan Application Form:</u>	21
3. <u>Physical Visit:</u>	21
<u>Secondary Source:</u>	21
<u>Preparation of Credit Report:</u>	22
<u>PROCESS OF CUSTOMER SELECTION</u>	24
<u>Principles Of Sound Lending:</u>	24
<u>Basic Principles of Lending:</u>	24
<u>6 Cs of qualification of loan applicants:</u>	26
<u>National Interest:</u>	28
<u>CREDIT RISK GRADING</u>	29
<u>Areas of Credit Risk Grading:</u>	29
<u>CREDIT GRANTING PROCESS</u>	33
<u>Credit Analysis:</u>	33
<u>CREDIT APPROVAL PROCESS</u>	37
<u>Post-sanction Documentation:</u>	40
<u>Required Post Sanction Documents:</u>	40
<u>Disbursement:</u>	41
<u>ASSESSMENT OF WORKING CAPITAL</u>	42
<u>Working Capital Finance:</u>	42
<u>Components of Working Capital:</u>	42

<i>Purpose of working capital:</i>	43
<i>Factors affecting WC Requirements:</i>	43
<u>Working Capital Assessment Methods:</u>	43
i. <i>Operating Cycle Method:</i>	43
ii. <i>Drawing Power Method</i>	46
iii. <i>Cash Budget Method:</i>	46
<u>ANALYSIS AND RECOMMENDATION</u>	47
<u>CONCLUSION</u>	49
<u>REFERANCES</u>	50
<u>BIBLIOGRAPHY</u>	50
<u>APPENDIX</u>	51

THE ORGANIZATION

Introduction:

United Commercial Bank (UCB) began its journey in 1983 in Bangladesh and established itself as one of the largest first generation banks, with a healthy commitment to economic and social development of the country.

With its emergence to a diverse range of segments, such as corporate, SME, retail banking and many more, the bank has been able to contribute to the growth of the economy of Bangladesh by exporting and importing loans through an increased earning of foreign exchange. UCB has been able to attain a reputed position in the private sector banking industry with its distinctive and dynamic approach, innovative practices and proactive management system covering a network of 158 branches across the country.

The Board Members of the bank come from well-recognized professional backgrounds as industry, financial and operational, each one of them with acclaimed expertise in their respective fields. There are 20 members at the Board level along with three independent directors and managing director. Following the Board, there are three additional committees namely Executive Committee, Audit Committee, and Risk Management committee.

The bank has performed as an effective channel for the inflow and outflow of remittance services by successfully dedicating its effort in cultivating towards the advancement of the SME sector. The bank is firmly involved in trade development and all sort of general and corporate banking activities availing itself to vast network expansion and new technology adoption in order to gain its desired competitive advantage.

With a network made of number of branches including off-shore banking unit and facilities, mobile financial services, remittance services, priority banking, credit card business and most importantly involving a highly committed and devoted human asset team of 3837 members the bank generated itself a stature of a firmly professional and

well settled financial services institution. The bank primarily emphasizes on import-export, SME sector, retail business as well as agriculture with a focal aim put in action to move forward as the leader of financial inclusions nationwide, which includes green-banking initiatives as well. As a whole, the bank has two wholly owned subsidiaries as of UCB Capital Management Limited (brokerage services) and UCB Investment Limited (merchant banking activities).

Over the past few years, the bank has gone through remarkable policy changes, with a view to building continuous positive and solid outcome strategically while embracing its focus on the people, planet and profit in a sustainable manner.

Vision and Mission Of UCBL:

Vision: “To be the bank of first choice through maximizing the value for our clients, shareholders, and employees and contributing to the national economy with social commitments”

Mission: “To offer financial position to create, manage, and increase our clients’ wealth while improving the quality of life in the communities we serve.”

Strategic priority of UCBL

To make all the stakeholders happy and to make the entire banking process an **enjoyable experience** for everyone

To be **compliant** with all the rules and regulations applicable in Bangladesh

to foster creativity, **innovation and diversity** with the view to sustainable business growth

continuous development without comprising **needs of future generation**

to ensure satisfaction of all the UCB's customers through delivering services with the implementation of **world class IT infrastructure**

to establish **good governance**

ensuring effective **risk management** system within entire phase of activities

Focusing on **Corporate Social Responsibilities** (CSR) in a responsible manner

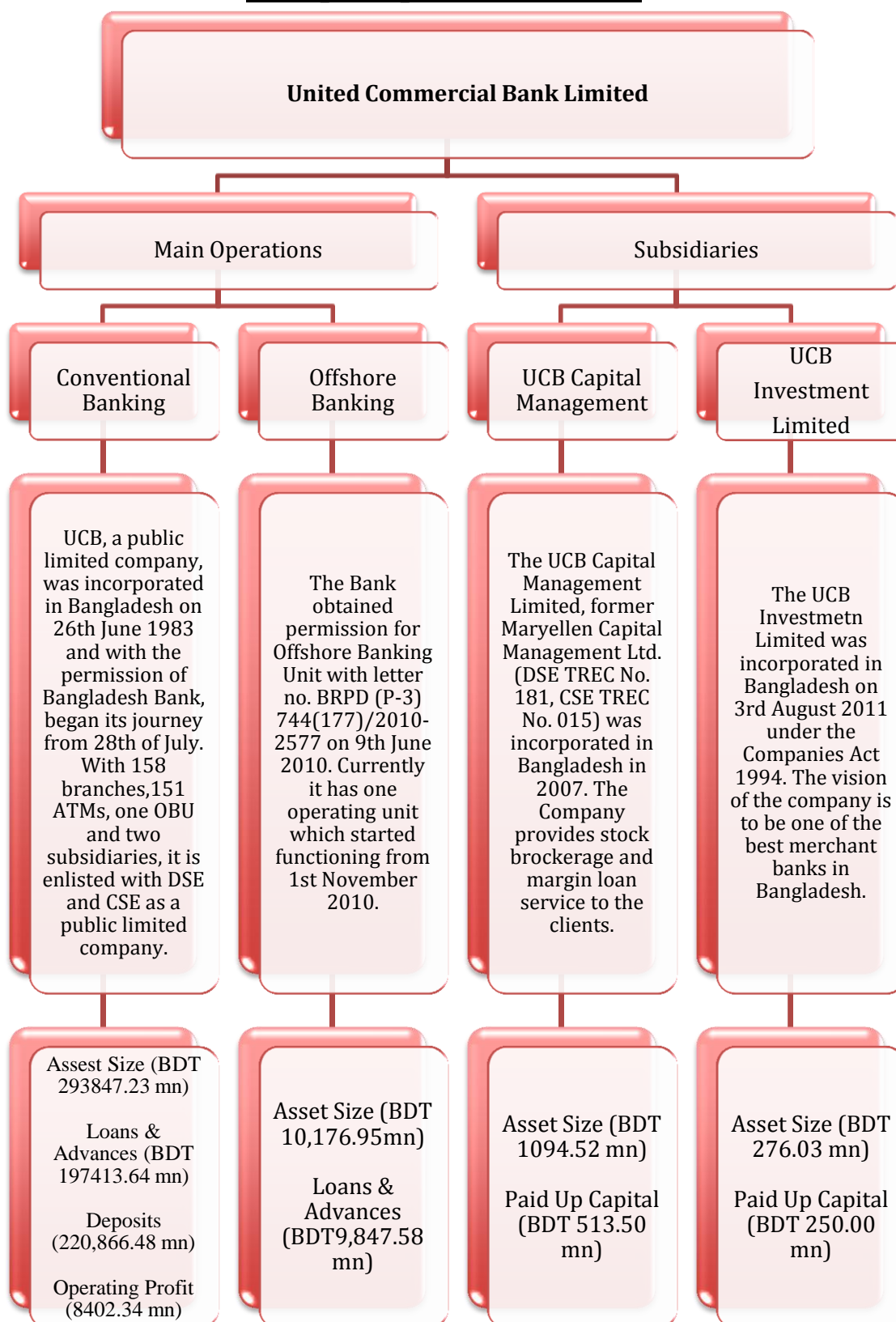
To build and enhance brand **image**

Corporate Profile

Registered Name	United Commercial Bank Limited
Legal Status	Public Limited Company
Date of Incorporation	26 June 1983
Date of Commencement of Business	27 June 1983
Chairman	M.A. Hashem
Vice Chairman	Ahmed Arif Billah
Chairman, Audit Committee	Anisuzzaman Chowdhury
Chairman Risk Management Committee	M.A. Sabur
Managing Director	Muhammed Ali
Company Secretary	ATM Tahmiduzzaman FCS
Chief Financial Officer	Mohammad Habibur Rahman Chowdhury FCA
Date of Listing with DSE	30 November 1986
Date of Listing with CSE	15 November 1995
Authorized Capital	BDT 15,000 million
Paid up Capital	BDT 10,039.34 million
Total Manpower	3837
Number Of Branches	158
Number of AD Branches	28
Number of Agri. Branches	02
Number of ATM Booths	
Auditors	Hoda Vasi Chowdhuri & Co. BTMC Bhaban (8 th floor), 7-9 Kawran Bazar Commercial Area, Dhaka- 1215, Bangladesh

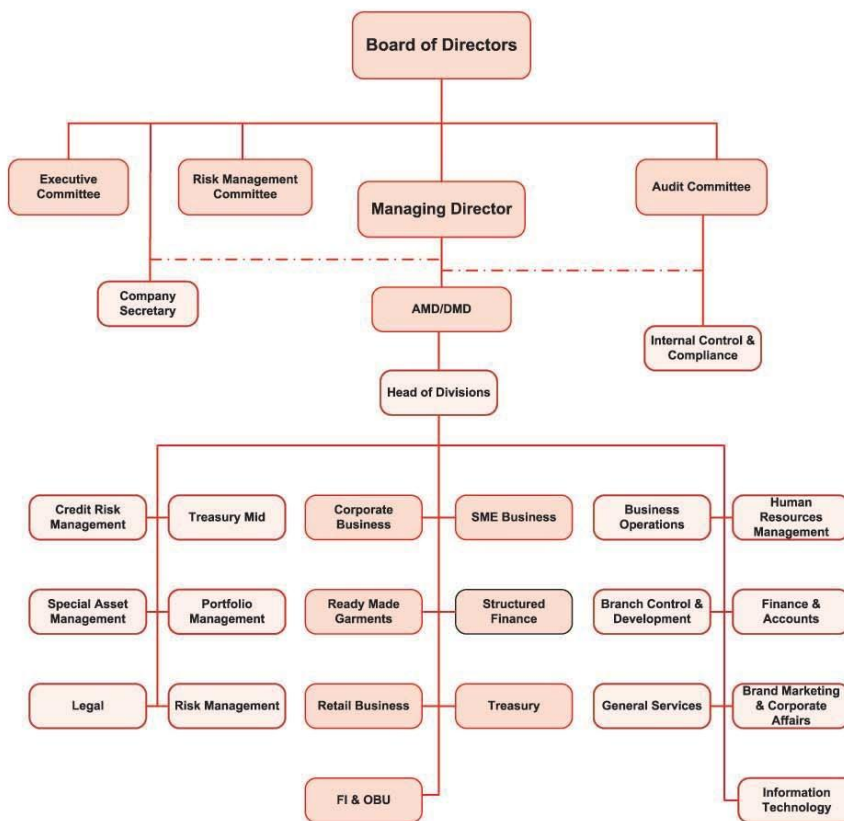
Tax Consultant	Md. Mosharrof Hossain, Advocate 28A, Kakrail (3 rd floor), Room No- 20, Dhaka
Legal Consultant	T.I.N Nurun Nabi Chowdhury
Rating Agency	Emerging Credit Rating Ltd. Shams Rangs, Level A1, A2 & A5 House 104, Park Road, Baridhara, Dhaka 1212
Registered Office	CWS(A) – 1, Gulshan Avenue, Dhaka 1212, Bangladesh
Telephone	008809611999999
Email	info@ucb.com.bd
Website	www.ucb.com.bd
SWIFT	UCBL BDDH

Group Corporate Structure:



Organogram of Corporate Office:

Organogram of Corporate Office



Board of Directors and its Committee:

Board of Directors & it's Committees

Board of Directors	Status
M.A. Hashem	Chairman
Ahmed Arif Billah	Vice-Chairman
Anisuzzaman Chowdhury	Chairman-Executive Committee
Lt. Gen ATM Zahirul Alam, rcds, psc (retd.)	Chairman-Audit Committee
M.A. Sabur	Chairman-Risk Management Committee
Sharif Zahir	Director
Showkat Aziz Russell	Director
Md. Jahangir Alam Khan	Director
Hajee Yunus Ahmed	Director
Hajee M.A. Kalam	Director
Abdul Gaffar Chowdhury	Director
Md. Tanvir Khan	Director
Asifuzzaman Chowdhury	Director
Sultana Rezia Begum	Director
Shabbir Ahmed	Director
Rukhmila Zaman	Director
Nurul Islam Chowdhury	Director
Syed Mohammed Nuruddin	Independent Director
Dr. Salim Mahmud	Independent Director
Muhammed Ali	Managing Director
Executive Committee	Status
Anisuzzaman Chowdhury	Chairman
M.A. Sabur	Member
Md. Jahangir Alam Khan	Member
Hajee Yunus Ahmed	Member
Hajee M.A. Kalam	Member
Showkat Aziz Russell	Member
Sharif Zahir	Member
Audit Committee	Status
Lt. Gen ATM Zahirul Alam, rcds, psc (retd.)	Chairman
Md. Tanvir Khan	Member
Shabbir Ahmed	Member
Nurul Islam Chowdhury	Member
Dr. Salim Mahmud	Member
Risk Management Committee	Status
M.A. Sabur	Chairman
Md. Jahangir Alam Khan	Member
Hajee Yunus Ahmed	Member
Showkat Aziz Russell	Member
Asifuzzaman Chowdhury	Member
Managing Director	Company Secretary
Muhammed Ali	ATM Tahmiduzzaman FCS

UCB's Products & Services:

UCB's Products & Services

Deposit Products	Loan Products	Other Services
Current Deposit	Trade Finance	Western Union Money Transfer
Savings Deposit	Industrial Finance	SMS Banking Service
Special Notice Deposit	Import Finance	Online Service
Fixed Deposit	Export Finance	Inward & Outward Remittances
Foreign Currency Deposit A/C	Loan Syndication	Traveler's Checks
UCB Multi Millionaire	Working Capital Finance	Underwriting & Bridge Financing
UCB Money Maximizer	Packing Credit	Locker Service
UCB Earning Plus	Transport Loan	Offshore Banking
UCB DPS Plus	Lease Finance	Loan Syndication
UCB Youngsters Savings	Higher Purchase Loan	UCash (Mobile Financial Service)
UCB Youngsters DPS	House Building Loan	Internet Banking
UCB Savings Plus	Home Loan	
UCB Women's Savings	Consumer Credit Scheme	
UCB Women's DPS Plus	Auto Loan	
UCB NRB Savings	Doctors Loan	
UCB NRB DPS Plus	Marriage Loan	
UCB RMG DPS Plus	Education Loan	
	Hospitalization Loan	
	Travel Loan	
	CNG Conversion Loan	
	Home Mortgage	
	House Hold Durable Loan	
	Credit Card	

UCB's Products & Services:

- ❖ VISA Debit card: Enables withdrawal of money, minimum of Tk.100, free of charge from any UCB and Dutch Bangla Bank ATM 24/7. The card also allows transferring and withdrawing money from different personal account and provides access to the largest network of VISA POS terminal.

- ❖ VISA & MasterCard Credit Card: Discounts offered for UCB VISA & MasterCard Credit card for shopping, dining and travelling. Waiver of annual fees with just 18 transactions provided with 3 supplementary.

- ❖ Youngsters Savings Account: Condition free Savings Account, which offers daily product, based interest with no conditions applied on transaction and amounts.

- ❖ Youngsters DPS: This is a monthly savings scheme for youngster students of any school/institution. It is a monthly savings plan to created to facilitate small savings into larger amount of a certain period of student life.

- ❖ Car Loan: 30% loan of the total value of a car is provided with the option of 60 installments.

- ❖ NRB Savings and DPS: Monthly savings scheme for Non-Resident Bangladeshi citizens to designed to turn small NRB savings into large amount of money over a certain period.

- ❖ Women's Savings and DPS: It is designed with a special interest rate to encourage women to develop savings habit, turning small savings into larger amounts over a certain period of time, for a better future.

- ❖ Travel Loan: Offers a repayment period of 36 months.

- ❖ RMG DPS Plus: This scheme is designed to provide an opportunity to the Ready Made Garments workers to turn their small savings into a large amount after a certain period of time.
- ❖ Money Maximizer: This amount of deposit here ranges from Tk. 25,000 to 250,000, with the amount being doubled just after 6 years and with the benefit of loan facility up to 90% immediately.
- ❖ DPS Plus: This deposit layout allows the client/customer to save Tk. 500 to 25,000 for the period of 5 to 10 years and earn/obtain a profit at the time of maturity. It also provides the benefit of loan facility up to 90% of the deposited amount immediately.
- ❖ Multi-Millionaire Scheme: This deposit scheme is designed to provide a generous amount, ranging from Tk. 100,000 (10 lac) to 1,000,000 (1 crore) within a period of 5 to 10 years and enables the loan facility of 90% of the deposited amount.
- ❖ Earning Plus: It enables to deposit Tk. 50,000 or its multiple for 3 to 5 years' term and obtain the extra amount monthly or quarterly. It also provides the loan facility up to 90% instantly.
- ❖ Remittance: Effective/efficient delivery of money to the clients from the Centralized Foreign Remittance Centre, located at the central branch of UCB. UCB Remittance has extremely competitive exchange rate, fastest delivery time and online banking facilities.
- ❖ Offshore Banking: Enables navigation of international trade across the globe.
- ❖ UCash: It is the Mobile Financial Service offered by the bank. It enables customer the usage of mobile phones as a bank account such as depositing money, transferring funds to other UCash accounts and withdrawing money



United Commercial Bank Limited

from any of the agent point. The service revolutionized the mobile financial service sector by being the first to offer interest on customer deposits.

The Report

ORIGIN:

As a student of BRAC Business School, this report was prepared for acquiring the credits needed for the completion of Bachelors of Business Administration Program at BRAC University. The report and the topic was assigned and accepted by my academic supervisor, Mr. Riyashad Ahmed. The three-month long internship program at UCBL (Gulshan Branch) was obligatory for construction of the report.

SCOPE:

Credit is one of the most crucial sources of income for commercial bank. The report attempted to illustrate the methods used to assess the credit customers/clients and to determine the credit needs of working capital in an organization.

OBJECTIVE OF THE REPORT:

The report attempted to cover the selection procedure for credit customers and an evaluation of working capital credit needs.

SPECIFIC OBJECTIVES:

- To understand what credit is and how it is an important source of income for commercial banks.
- To analyze and determine the sources for credit investigation
- The selection procedure for credit customers
- To evaluate Credit Risk Grading
- Assessment of working capital for credit needs.

METHODOLOGY:

In order to fabricate my learning from the internship program into this report, I relied on both primary and secondary sources of data.

To consider primary source, I essentially focused on the work environment at my designated banking branch and occasionally conducted casual conversation sessions with various representatives of the bank, most importantly my line manager, Mr. Md. Saiduzzaman, who contributed to my experience by giving me resourceful insight into how various kinds of operations work within the bank and how they align the banking programs to their general company practices and legal policies. However, to compress any sort of information gap, I took further help from the proficiently constructed Annual Report (2015) and official website of the bank.

Primary data:

- Observation
- Discussion with employees from several departments
- Data input

Secondary:

- Annual report 2015
- Website
- Official documents
- Other published papers/documents

LIMITATIONS:

- Time – Credit analysis requires more time to obtain information about various types of customers.
- Confidentiality – Information regarding credit policy and actual organizations (such as name of an organization and amount of loan taken) are strictly internal and confidential.
- Interns do not have access to the data of the actual process.
- Respecting the client's privacy, interns do not have the chance/opportunity to communicate directly with the customers to obtain information regarding any credit transactions.
- With stature like UCBL, it is highly unexpected for them to operate a corporate branch with such limited space. During rush banking hour or before a special occasion like Eid, the lack of space creates an overcrowded atmosphere in the branch.
- The inadequacy to step into the future, that is, there is no advanced or high tech tool or accessories, no automation facilities installed. Being one of the high profile Bangladeshi banks, the environment for UCBL should be upgraded to modern facilities.
- Though unlike many organizations in Bangladesh, UCBL's intake for interns is very limited in number. The very problem each and every intern faces is that there is no seating arrangement or a desk for interns. It very difficult to believe the bank's inability to notice such a big flaw. It makes it very difficult for interns to work being seated at one place and not being disturbed.

SELECTION OF CREDIT CUSTOMERS

Credit Management:

The word “credit” is derived from the Latin word “Credere” which means to trust. Whether it is for products/goods or services or transaction money, the fundamental nature of credit states an element of trust that exists between a buyer and seller. Credit management is one of the most important functions of any commercial bank. It acknowledges as one of the main sources of income for a bank and constitutes most portions of the bank’s assets. On the contrary it is also the most risky feature of the bank’s activities, if not prudently managed, it may lead to a financial loss or an overall halt to the bank’s operation. This conflicting characteristic of credit provides all the significance/implementation/understanding of credit management. For a financial intermediary like a bank, the core objective of credit management is to maximize profit for the bank within an organized and legal framework.

Commercial banks such as UCBL sell credit products and services in market. It needs to either design new form of these products and services or re-design them time-to-time to gain competitive advantage.

Distinctions among Loan, Advances and Credit:

Loan: In general, the term ‘loan’ means to lend or borrow money. Types of loan:

- a. *Demand Loan* – This type of loan requires a complete repayment by the borrower when the lender demands the money irrespective of prior notice.
- b. *Term Loan* – Loan that is repaid in regular/routine payments over a set period of time. It usually involves an unfixed interest rate that adds up to the actual amount to be repaid. Some examples of loan are:
 - House building loan
 - Loan against import merchandise (LIM)

- Payment against documents (PAD)
- Packing Credit (PC)

Advances: It means payment of money/money paid for work before it has been completed or done. Some examples:

- Overdrafts
- Cash Credit (Hypothecation)
- Cash Credit (Pledge)

Credit: It is the conviction that the borrower has, that is the ability and the willingness to repay the debt to the lender as per the schedule for/of repayment. It consist direct lending as well as the commitment to pay in the future and includes all Funded and Non-Funded facilities extended to or in favor of the client/customer. Therefore, Loan, Advances, Letter of Credit, Bank guarantee are all considered as components of credit.

The general concept classifies credit as:

- Rural Credit
- Agricultural Credit
- Micro Credit
- Retail Credit
- Consumer Credit
- Personal Loan
- Small and Medium (sized) Enterprise
- Lease Finance
- Corporate Credit
- Industrial Credit
- Working Capital Loan
- Bridge Loan
- Hire Purchase Loan
- Project Loan
- Micro Credit
- Small Entrepreneurship Fund

FUNDED & NON-FUNDED CREDIT PRODUCT

Types Of Credit Product: Funded

<u>Name</u>	<u>Description</u>	<u>Purpose</u>	<u>Tenor</u>
SOD(FO)	Secured overdraft (100% cash covered)	General purpose	12 months
PC (RMG & other than RMG)	Packing Credit against Export L/C & Export Order	To finance against Export L/C To finance against Export Order Pre-shipment Finance	120 days
ECC	Export Cash Credit	Financial accommodation to a customer for export of goods under export LC and allowed a certain percentage of Export LCs/Contract Liquidated out of export proceeds	LC validity/180 days
TRL	Transport Loan	To finance commercial Transport	36-48 months
HBL (Com)	House Building Loan - Commercial	To finance commercial house/apartment	36-96 months
HBL (Res)	House Building Loan - Residential	To finance residential building /apartment	60-120 months
LTR	Loan against Trust Receipt	To finance import L/C	180 days
HBL (S)	House Building Loan – Staff	To finance personal house/apartment	15 years
CC	Cash Credit against hypothecation of Inventory and Book Debts	To finance Inventory Other Business operations General purpose	12 months
Loan General	Loan General	Short term, medium term loans allowed for specific purpose for definite period and repayable by installments.	12-36 months
LCPS (S)	Loan under Personal Loan – Staff	To finance personal consumable items	36 months
CL (S)	Car Loan – Staff	To finance personal car	5 years
FL (S)	Furniture Loan – Staff	To finance personal furniture	72 months
Term Loan	Term Loan against fixed assets	To finance fixed asset	Over 1 year max 7 years
Time Loan	Time Loan against Other Security/Collateral/Support	To finance business operations/work order/Industrial working capital To finance fixed asset To finance duty/tax General purpose	12 months

OD	Overdraft against Other Security Collateral	To finance business operations/Industry operations Misc. purpose	12 months
CP (Local)	Cheque Purchase (Local)	To purchase/discount Cheque, Bank Draft, and Payment Order	30 days
CP (Foreign)	Cheque Purchase (Foreign)	To purchase/discount foreign currency Cheque, Bank Draft, and Payment Order	45 days
Consumer Credit Scheme (CCS)	Consumer credit provided to middle class income group	To finance purchase of consumer durable by the fixed income group to raise their standard of living.	Over 12 months Max 60 months
Hire Purchase	Hire purchase	To finance capital machinery, equipment and vehicle Installment credit Borrower agrees to take the goods on hire at a stated rental Repayment is inclusive of Principal as well as Interest for adjustment	Over 12 months Max 60 months
Lease Financing	Lease finance	To finance capital machinery, equipment and vehicle Exclusive right to use the asset by the leaseholder for an agreed period against payment of rent.	Over 1 year max 5 years
OD	Overdraft against work order	Advance against assignment of work order/bill for execution of contractual works Not a continuous credit rather time loan	06 months to 36 months

Types Of Credit Product: Non-Funded

Name	Description	Purpose	Tenor
BFC (Local)	Bills for Collection – Local	Collection of local outstanding Cheque / Drafts/ Documents	As per rules/terms
BFC (Foreign)	Bills for Collection – Foreign	Collection of foreign Cheque/ Drafts/ Documents	As per rules/terms
LG (Local)	Letter of Guarantee - Local	For contractual obligation (Bid-Bond, Payment Guarantee, Advance Payment Guarantee, Performance Guarantee, Customs Guarantee, Shipping Guarantee)	Specific period
LG (Foreign)	Letter of Guarantee – Foreign	For contractual obligation and others	Specific period
SLC (Local)	Sight Letter of Credit – Local	For local procurement Recourse on title to local document	As per LC Terms
SLC (Foreign)	Sight Letter of Credit – Foreign	For foreign procurement under sight L/C Recourse on title to import document	As per LC Terms
SLC (A/G/B)	Sight Letter of Credit (Aid/Grant/Barter)	For Importation under (A/G/B)	As per LC Terms
Forward FX	Forward Contract	Cover exchange risk against Letter of Credit Performance Risk	180 days

SOURCES OF INFORMATION FOR CREDIT INVESTIGATION

Primary source:

1. Personal Interview:

The most essential information that is to be obtained from the borrower by personal interview in the following manner:

- a) **Refreezing** – An informal approach of introduction with the intention of creating a personal relationship with the entrepreneur.
- b) **Assessing achievement need** – this is where the assessor should be interested in asking about the borrower's past life experiences, his achievements during and after his academic life. This helps to comprehend the borrower's characteristics and mark the enthusiasm regarding his/her success. It also enables the assessor to determine the extent of optimism and pessimism present in the borrower's characteristics. Finally the assessor can make notional rating (e.g. positive, neutral, negative) about the potential client's achievement needs.
- c) **Assessing the attitudes of the borrower** – At this stage the interviewer tries to note the borrower's responses indicating his inclination to literature, business, economics, history etc. that gives an assurance or a clear image to the interviewer, whether the interviewee has a proper attitude towards business management. The responses are examined and the borrower is ranked (high/average/low) based on the attitude he has shown.
- d) **Assessing overall knowledge about the project** – This part is more like an evaluation of the borrower's knowledge about the project that he has proposed, which is obtained through thorough discussion on the

proposal and the information available to the interviewer from the profile.

- e) **Assessing management skill** – At this stage the interviewer tries to analyze the borrower's skills with regard to managing people, material resources and financial resources, also his knowledge about the product/service, the competitors, market where his product is likely to be marketed, the price, consumer group and consumer behavior, and overall management skills based on these mentioned factors.

2. Loan Application Form:

Borrower's Loan Application - Borrower's loan application involves detailed questions via which borrowers answers provide some basic information enclosed with other relevant documents such as the Financial Statement of the applicant with a comparison of the current and previous financial position of the potential borrower and other papers like Income tax statement, report from CIB etc.

3. Physical Visit:

Physical visit refers to personal visit made by the respective Relationship Officer or Relationship Manager or a designated representative of the originating banking branch. It can be categorized as the following for UCBL:

- a. Spot verification
- b. Trade checking
- c. Personal visit to the applicant's business premises

Secondary Source:

To attain an in depth understanding about the borrower and his/her business ideology the bank looks into the borrower's all kinds of past business and legal involvement which allows them to establish a detailed comparison of the previous reputation of the borrower with the current. Collecting and analyzing

various kinds of government reports, legal reports, as well as previous banking reports make all of it fit together in a systematic framework of information and documentation, which also enables to maintain a healthy track record of the credit benefit applicant for future usage. Reports from secondary source can be of various the forms; some of the most important reports are named below:

1. Financial Report;
2. Account Statement;
3. CIB Repot;
4. Industry/Market Report;
5. Feasibility Report;

As a whole, Credit Investigation combines collection of basic information of the potential borrower and based on this information the creditworthiness of the borrower is determined. Following so, the appropriate authoritative members of the bank make further suggestions and recommendations on the application. This is then forwarded to the other respective bankers. Finally, all of the information collected and recommendations made by the designated members are all retained for future use.

Preparation of Credit Report:

On the basis of credit investigation, bankers prepare a credit report for the applicant usually as per pro-forma used by the respective bank. The report generally includes the following under different ownership:

- Name
- Worth
- Date
- Registered Office
- Address (present, permanent and business)
- Nature of business
- Constitution of the firm
- Date of establishment
- Incorporation and Commencement certificate



United Commercial Bank Limited

- Associates and allied concerns with details of assets and liabilities
- Manufacturing and Trading Account
- Profit & Loss Account
- Analysis of Balance Sheet
- Facilities requested
- Ability to furnish equity and collateral
- Other bank report
- Manager's opinion

PROCESS OF CUSTOMER SELECTION

Principles Of Sound Lending:

Banks are financial intermediaries with an aim to generate profit through various investments of their funds. These earnings are mainly obtained from interest charged on loans and discounts. They also considers/confronts the risk of default in repayment of credit. To minimize the risk, commercial banks are required to acknowledge the lending process from certain perspective:

- *Basic principles of lending*
- *6 Cs of qualification of loan applicants*
- *National interest*

Basic Principles of Lending:

- i. *Safety - Safety depends upon the valuation of security offered by the borrower, and the capacity and willingness of the borrower to pay off the loan.*

Safety means the assurance of repayment of distributed loans. Bank is in business to make money but safety should never be sacrificed for profitability, to ensure the safety of loan, the borrower should be chosen carefully. He should be a person of good character & capacity as well as bank must have to maintain eligible number of security from borrower.

- ii. *Liquidity- Liquidity is the potentiality of assets to be converted into cash without depletion within a short period time to meet depositor's demand for cash or such other obligations.*

Liquidity means the availability of bank funds on short notice. The liquidity of an advance means it will be repaid on demand on due date or after a short notice. Therefore, the banks must have to maintain sufficient liquidity to repay its depositors and trade off between the liquidity and profitability is must.



- iii. ***Profitability***- *A bank must utilize its assets in a manner that they will bring satisfactory return for the bank, which ought to be more than cost of the asset or fund.*

Banking is a business aiming at earning a good profit. The difference between the interest received on advances and the interest paid on deposit constitutes a major portion of the bank income, besides, foreign exchange business is also highly remunerative. The bank will not enter into a transaction unless a fair return from it is assured.

- iv. ***Purpose***- *The purpose should be productive and must fit within the legal framework.*

Another significant principle, which is to be kept in view when advancing, is the Purpose. The purpose for which lending is made should be productive as to ensure definite source or repayment. The Banker must closely scrutinize the purpose for which the money is required, and ensure as far as he can, that the borrower applies the money borrowed for a particular purpose accordingly.

- v. ***Spread***- *Diversification of risks.*

The security consciousness of a Banker and the integrity of the Borrower are not adequate factors to keep the Banker on safe side. What is more important is the diversification of Risk. This means, he should not lend a major portion of his funds to any single Borrower or to an Industry or to one particular Region. In fact, the entire Banking business is one of taking calculated risks and a successful banker is an expert in assessing such risks. He is keen on spreading the risks involved in lending over a large number of Borrowers, over a large number of Industries and Areas, and over different types of securities; the advances must not be in one particular Industry.

6 Cs of qualification of loan applicants:

- i. **Character:** It is the borrower's integrity, honesty and intention to repay the total amount of loan taken from the bank. To assess the characteristic of the borrower, the banker must investigate the following:
- CIB report (Credit report)
 - Past Payment records
 - Trade Checking
 - Purpose of the loan
 - Credit-rating

Sometimes a co-signer or a guarantor of the loan is present (or needed) for the assurance of repayment of the loan amount.

- ii. **Capacity:** This is referred to as the borrower's ability to do business, in simpler words, the borrower's ability to generate profit. To determine the capacity of the borrower, the banker must investigate the following:

Authority:

- Identity of client (borrower/customer) and guarantors.
- Copies of resolution, partnership agreements and other legal documents.

Ability: Adequate cash flow from sales or income to repay the loan.

- iii. **Capital:** The financial strength to cover a business risk. It is measured by the general financial condition of a borrower as indicated by an analysis of financial statements. It is important to state the net worth of the business (or the individual applicant of the loan) as well as to emphasize the risk ratios such as *Debt to asset ratio, Debt to equity ratio, Current ratio etc.*

- iv. Collateral: The borrower's ability to produce additional securities. A further evaluation for collateral needs the banker to examine the following:
- Ownership of the assets.
 - Liquidation value of the assets.
 - Degree of specialization of the assets.
 - Liens, encumbrances and restrictions against property held.

It is essential for the lender (banker) to ensure that the collateral should not be the driving force behind the lending decision, as per the experts opinion, the collateral should be the last option to be considered for credit.

- v. Condition: The general condition of the business environment including the economy and the industry that the business operates in. The following points are important to analyze the condition:
- Customer's current position in industry and expected market share.
 - Total group exposure with different Banks/FIs and asset their against.
 - Total credit line with different Banks/FIs compared to their business need.
 - Customer's performance vis-à-vis comparable firms in the same natures of business or industry.
 - Competitive climate for customer's product.
 - Sensitivity of customers and industry to business cycle and changes in technology.
 - Labor market conditions in customer's industry or market area.
 -
- vi. Control: It consists of relevant banking laws and regulations regarding the characteristic and quality of acceptable/legitimate loans. It should have adequate documentation prepared for auditing the loan. Lastly, it also composed of inputs/information from "non-credit" personnel such as an economist or a political person, on the external factors that might put an effect/affect the repayment of loan.

National Interest:

Banks are significantly important for a society. Consequently it plays a massive, sometimes a determinant role for an economic growth of a country. It has the ability to facilitate commercial changes to different regions leading to the development of a nation.

Some Major Reason for Loan Default:

1. Wrong information in Project Profile/proposal.
2. Inefficient Management.
3. Lack of supervision, tracking & monitoring
4. Inadequate legal framework.
5. Ignorance of knowledge for proper analyzing of loan proposal by credit officers.
6. Negligence of the credit officers.
7. Personal Interest of bank officials.

CREDIT RISK GRADING

Credit Risk Grading is an essential tool for credit risk management for its effectiveness in identifying the various risks involved in various credit transactions, which is done using a pre-specified scale - Matrix, that reflects the credit risk for a certain subsection. Credit Risk Grading is the basic component for formulating a Credit Risk Management System.

Importance:

A bank's assets quality is primarily measured by calculating its risk grading. When and where risk is lessened, a borrower's assigned risk grade should be altered and adjusted accordingly.

Usage:

By applying CRG a bank can set uniform standards to credits in order to maintain a standard approach to the examine the quality and determine the individual credit-risk for a particular client, line of business, credit portfolio of a unit, or the bank as a whole. Furthermore, its significance is highlighted in matters price fixing or various other terms and conditions of the credit facility.

Areas of Credit Risk Grading:

<u>Criteria</u>	<u>Weight %</u>
Financial Risk	50
Business/Industry Risk	18
Management Risk	12
Security Risk	10
Relationship Risk	10
Total	<u>100 %</u>

Summary of Financial Risk

<u>Criteria</u>		<u>Weight %</u>
Leverage – 10	Debt – Equity Ratio	5
	Debt – Total Asset Ratio	5
Liquidity – 10	Current Ratio	5
	Quick Ratio	5
Profitability Ratio – 20	Operating Profit Margin	5
	Net Profit Margin	5
	Return on Asset	5
	Return on Equity	5
Coverage – 10	Interest Coverage	5
	Debt Service Coverage	5
Total		<u>50%</u>

Summary of Business/Industry Risk

<u>Criteria</u>	<u>Weight %</u>
Size of Business	4
Age of Business	3
Business Outlook	2
Raw Material Availability	2
Industry Growth	3
Market Competition	2
Entry /Exit Barrier	2
Total	<u>18%</u>

Summary of Management Risk

<u>Criteria</u>	<u>Weight %</u>
Experience	5
Track Record	2
Second Line /Succession	3
Team Work	2
Total	<u>12%</u>

Summary of Security Risk

<u>Criteria</u>	<u>Weight %</u>
Security Coverage	4
Collateral Coverage	4
Support (Guarantee)	2
Total	<u>10%</u>

Summary of Relationship Risk

<u>Criteria</u>	<u>Weight %</u>
Account Conduct	5
Utilization of Limit	2
Compliance of Covenants	2
Personal Deposit	1
Total	<u>10%</u>

Score Summary:

<u>Score</u>	<u>Respective Grade</u>	<u>Short Name</u>	<u>Numeric Grade</u>
Fully Cash covered, Secured by Government/International Bank Guarantee	Superior	SUP	1
85 ⁺	Good	GD	2
75 – 84	Acceptable	ACCPT	3
65 – 74	Marginal/Watch List	MG/ WL	4
55 – 64	Special Mention	SM	5
45 – 54	Substandard	SS	6
35 – 44	Doubtful	DF	7
Less than 35	Bad /Loss	BL	8

CREDIT GRANTING PROCESS

The major steps that take place while approval & the repayment of a certain credit benefit provided to a client are described in the following points:

Credit Analysis:

The credit analyst analyses a credit proposal in order to secure the benefit on the basis of various factors as discussed below:

- ***Identification of the purpose of the credit:*** the analyst first identifies the reason behind the credit, the borrower's field of interest where he is willing to invest, the timing and amount of cash inflow for the investment, the repayment source and method as well.
- ***Structure of the borrower (Knowing exactly to whom we are lending):*** The analyst determines the legal entity of the client (e.g. individual/partnership business/a subsidiary of a holding business).

If client is perceived to be a subsidiary of a bigger group of companies, it is given much careful attention as such cases involve complicated transactions with other companies in the group. Also, to get hold of necessary information to carry out the procedure, the bank must know the key decision makers of the borrowing company.

- ***Business Analysis:*** before granting the credit the analyst must get a good grasp of the borrower's business environment and the business itself to identify the sources of repayment.

First, the macro environment of the business is thoroughly studied by the analyst; that involves the overall industry condition, also the designated rules & regulations for the set by the policymakers for the business type.

Next concern that comes under light is the firm itself the bank is going to finance. This highlights the product & services the borrower is going to offer



following market demand as well as the competitive situation of the firm following the available core competencies of the borrower.

- **Financial Analysis:** In this crucial stage the analyst has to quantify how worthy the borrower is for the credit benefit. This worth is measured in numeric forms with the application of various ratios. Those are as follows:

Income Statement Analysis/Profitability: the analyst usually starts with the most critical element of the financial ground of a business, profit, following the profitability ratio, as it is positively correlated to assets and negatively related to debt and interest.

Balance Sheet Analysis: the next factor of concern is the borrower's leverage that is the amount of debts and liabilities relative to the net worth. High leverage indicates high risk but it could be acceptable in case the firm is in good financial position to cover the debts.

The quality of the assets of the borrower- the market value and liquidity- also needs to be considered in this stage. As because, these assets are the last resort for the bank to recover the loan amount by selling them off that we call security. Usually securities can be divided into two broad categories. Such as-

Primary Security: primary security is directly related to justification behind the credit (e.g. Goods imported through an L/C).

Secondary Security: Any security that is not directly related to the justified purpose of the credit (e.g. A sole proprietors land mortgaged for loan sanctioned for development of his grocery shop).

Cash Flow Analysis: In finance an important factor of repayment is cash flow. Cash flow can be constructed directly or indirectly. All sorts of cash inflows and outflows from operating, investment and financing activities are recorded in direct method. In case of indirect method, cash flow is accumulated by adjusting non-cash inflow and out flow with the net income as a whole.

Perspective: All the ratios applied by the analyst also need to be analyzed from different perspectives. Primarily, the borrower's current performance with previous performance has to be compared over a particular period of time. While doing so, the current performance is to be compared with the industry benchmarks.

Accounting: The analyst must be aware of the accounting method used by the borrower for whichever accounting method is to be applied must match the requirements and should not be misleading either of the parties. The analyst also should consider and keep a track of the off-balance sheet items that have not been disclosed.

Pre-sanction documents:

Before the credit proposal is put on the tables of the granting authority, the initial part of documentation is to be complete. During the time of initial documentation, the following documents are collected and studied thoroughly:

1. Bank's loan application duly filled in, required for Public Limited Company only
2. Certificate of commencement of business for Public Limited Company only
3. Certificate of Incorporation
4. Certified copy of memorandum and articles of association, both for Public & Private Limited Company
5. Certified copy of Form XII of Joint Stock Company, if there is any change in the directors
6. Up to date Trade License – for Importers & Exporters
7. Bank's loan application duly filled in
8. Board resolution of the company to create loan
9. Annexure "ka" form of Bangladesh Bank duly signed and sealed for collecting CIB report
10. Up to date Income Tax Clearance Certificate
11. Net Worth of the Directors including Chairman and Managing Director

12. Name & address of the Directors and their number & percentage of shares
13. Name & address of sister concerns
14. Global liabilities of the company and sister concerns
15. Last three year's audited balance sheet (For old company)/Three years projected balance sheet(For new company) of the borrower company
16. Projected cash flow statement
17. Production Plan
18. Stock Report (Hypothecation & Pledge) report of the Borrower Company, applicable for old companies
19. Bio-data of the directors and other key personnel with two passport size photographs of each
20. Organization Chart
21. Name & address of the of the warehouse owner and up to date rent receipt, for rented warehouse
22. Name & address of five large customers and their purchasing percentage
23. Last audited balance sheet of two similar companies
24. Last three year's industry Turnover (National) of this type of company
25. List of aged debtors
26. For Manufacturing company, Environmental Certificate duly signed by the authority
27. Clearance Certificate of electricity, gas and water supply authority
28. Project Profile for Project loan
29. List of machineries with description and price list
30. Partnership deed for Partnership Firm
31. CIB report for any amount of credit

Risk Analysis, along with all the information and documents, is mandatory if the loan amount is Tk. 1 crore or above. The bank must not invest more than 50% of its paid up capital (in form of both funded & non-funded loan) in a single loan, in which, the funded loan must not be more than 25%, regarding financing heavy amounts.

CREDIT APPROVAL PROCESS

Step-1:

Primarily a potential borrower collects the required Credit Application form from the Relationship officer. Then the borrower submits the filled in form along with other required documents back to the relationship officer

Step-2:

Upon receiving the application and other relevant documents from the potential borrower the Relationship Officer scrutinizes it and makes preparatory assessment on the creditworthiness of the respective borrower. If the officer finds the application worthy enough the officer will forward all the necessary papers and forms attaching his comment on it to the designated Relationship Manager, to add all of this are done within a fixed duration set by the credit policy of the bank by the Credit Department. However, if the Relationship officer finds the credit application to be unsatisfactory it will be turndown and in that regard a letter will be sent to the client shortly.

Step-3:

The Relationship Manager, either alone, or with the Relationship Officer, visits the potential client's business premises, and inspects it thoroughly in order to secure proper understanding of the external and internal business environments and subsequent factors- business position, reputation of the borrower, purpose, actual credit requirement, sources of repayment etc. Alongside, the parties negotiate with one another about the structure of the potential credit benefit to keep the risk factor manageable. After so, the manager personally assesses the value of the security that is to be offered and constructs a Valuation Report. Finally the Relationship Manager draws up all the assessed information in the Pre-sanction Inspection Report as per the bank's authorized format and recommends for a specific credit benefit for the client. On the other hand, the initial bank contact, the Relationship Officer attains duly filled up "CIB Inquiry Form" from the client and forwards it to the Credit Administration Department of Head Office to get hold of the latest CIB Report from Credit Information Bureau of Bangladesh Bank.

Step-4:

Pre-sanction Inspection Report is then sent to corporate division at the head office. The credit proposal is assessed there by the Head of Corporate Division or designated executives. During the on-going process they contact Relationship Manager or the client directly for any further query. Eventually following duly formalities Corporate Division of Head Office pass on their final decision to the Relationship Manager.

Step-5:

Upon the receipt of the request letter from the Branch, Credit Administration Department sends the 'CIB Inquiry Form' to Bangladesh Bank, then Credit Administration Department would forward the latest CIB report to the concerned Relationship Officer immediately. If the CIB report is found adverse on any ground the process will be stopped right at that point and a refusal letter will be sent to the credit benefit applicant.

Step-6:

However, upon receiving a clean CIB report, the Relationship Officer constructs a Credit Proposal in official format following the rules and additionally, the recommendations made by the Relationship Manager is attached to the proposal with the manager's signature on it. Then accumulating all, it is sent to the Corporate Banking Division and Credit Risk Review Department of Credit Risk Management Division.

Step-7:

After altering and renewing the proposal, Corporate Banking Division puts down the proposal before the Credit Committee along with the recommendations made by the Head of Corporate Banking Division. Head of Credit Risk Review Department of CRMD or his authorized representative report on the observation either in written format or orally before the Credit Committee.

Step-8: Credit Committee will dissect the proposal and if found suitable recommend for endorsement to the designated authority. If the Credit Committee endorses the proposal, Corporate Banking Division will construct a Memo identifying the risk

factors and adding on suggestions of the authoritative bodies- Credit Risk Review Department and Credit Committee. Upon receiving the Memo, it distributed to the respective credit officer by Head of Credit Risk Review Department in order to scrutinize it further in relation to business plan and overall credit norms of the bank. After assessing the credit information and risk factors, Credit Officer will attach his observation on it and forward it to Head of Credit to find his agreement in opinion, furthermore, the Head of Credit may also communicate with the Head of Corporate Banking to gather any additional information or to clarify it henceforth. Finally, if the Memo is accepted in accordance with the total credit facility and risk tolerance, the Credit Risk Management Division will put it forward for approval. The suitable respective then approve the credit benefit or may look for further clarification if they find necessary or can even decline it entirely if found not viable. On the off chance that the proposal surpasses Managing Director's authoritative power, it is passed on to the Executive Committee of the Board of Directors or the Board itself.

Step-9:

Corporate Banking Division will pass on a copy of the approval memo only if the concerned authority, to the Credit Risk Management Division, approves the prior provision. Upon receiving the approval, Sanction Advice is issued to the initial banking branch attaching a checklist of documentation, specifying the date of disbursement for the requirements. Copy of the Sanction Advice is then forwarded to Credit Administration Department and Corporate Banking Division.

Step-10:

A sanction letter to the client is then issued having authorized signatures. Usually the sanction letter issued for the client contains signatures of the Relationship Manager and Credit Administration Officer of the respective originating branch.

Post-sanction Documentation:

Following the final approval received by the branch, the client is informed about the approval of the credit benefit highlighting the approved credit amount, the rate of interest payable, repayment procedure etc. once the proposal is accepted by the client, the extensiveness (major part) of the documentation is started. In this part the Charge documents are brought in, it can either registered or unregistered, and are signed by both the borrower and guarantor.

Required Post Sanction Documents:

1. Accepted Advice Letter - the received copy of the sanction letter by the customer
2. Acknowledged Assignment of Receivables/Contract Proceeds if the borrower has agreed to assign receivables/contract proceeds to the bank
3. If Mortgage being taken the Agreement to Mortgage
4. Biana Deed, that shows whom the land is bought from
5. Board Resolution for Corporate Guarantee, if corporate guarantee taken
6. Board Resolution of Borrowing Authority - standard document taken in all cases
7. Central Bank Approval – applicable if the loan is over 15% of paid up capital
8. Continuing Guarantee that is taken if personal guarantee is taken
9. Counter Indemnity, if bank guarantee given
10. Cross Corporate Guarantee, taken when all members of a group of companies provide a guarantee for a particular group member
11. CS Parcha, survey showing history of land during British period
12. Demand Promissory (DP) Note – Charge Document. Promise to pay back a specific amount. Standard document taken in all cases
13. General Loan + Collateral Agreement – Charge Document. Standard document taken in all cases
14. Insurance Policy for Inventory/Fixed Assets – taken If inventory/fixed assets hypothecated
15. Letter of Continuity – Charge Document. Standard document taken in all cases

16. Letter of Disbursement – Charge Document. Standard document taken in all cases
17. Letter of Hypothecation - If Hypothecation takes place
18. Letter of Lien – If a security such as FDR is being taken
19. Letter of Lien and set off for GOB Bonds, If bonds are kept as security
20. List of Project's Machineries, If Machinery is being Hypothecated
21. Memorandum of Deposit of Title Deed, If equitable mortgage taken. Title deed has to be kept with the bank
22. Mouza Map + Site plan – to help identify the land
23. Mutation Parcha. To show the name of the property if land is security
24. No Objection letter from RAJUK if plot is RAJUK's
25. Non-Encumbrance certificate, to show that property has not been mortgaged elsewhere
26. Original Plan of Building, if building is kept as security
27. Personal Guarantee of Owners, if Guarantee being taken as security
28. Registered Hypothecation of Debts & Assets, for Limited Companies if hypothecation done, has to be registered with the RJSC
29. Registered Hypothecation of Fixed Assets, for Limited Companies if hypothecation done, has to be registered with the RJSC
30. Registered Hypothecation of Inventory, for Limited Companies if hypothecation done, has to be registered with the RJSC
31. Registered Mortgage at Sub Registry Office, if this is done, it is not necessary to keep title deed. But bank keeps the title deed in practice

Disbursement:

The disbursement stage is initiated once the credit benefit has been approved and all sorts of documentation formalities have been fulfilled and is carried out in a prescribed format for loan disbursement. Considering the agreement made between the client and the bank, the total amount of loan is disbursed- either in single payment or in installments. If it's done in parts, after each fractional repayment, the bank keeps checking the usage of the credit, and if necessary, the disbursement is rescheduled.

ASSESSMENT OF WORKING CAPITAL

Working Capital: The capital of a business that is required for conducting day-to-day trading operations. It is a measure of a company's financial strength, also helps the investors judge the future prospect and one of many instrument used to evaluate securities/stock of a company. It is calculated as the current assets minus current liabilities. It indicates an organization's ability to cover its short-term debts with its short-term assets.

$$\boxed{\textit{Working Capital} = \textit{Current Assets} - \textit{Current Liabilities}}$$

Working Capital Finance:

Funded:

- Inventory finance
- Bill Finance (Post Sales Finance)

Non-funded:

- Letter of Credit (LC)
- Bank Guarantee
- Payment Guarantee

Components of Working Capital:

The components of Working capital are in several forms of current assets:

- i. Cash
- ii. Raw materials
- iii. Finished goods
- iv. Value amount from debtors
- v. Miscellaneous current assets (e.g. short-term investments and advances)

Purpose of working capital:

- Purchase of Raw Materials (RMs)
- Purchase of stores and spares
- Funds blocked under:
 - Stock in process
 - Finished Goods
 - Receivables
- Advance payments to supplier
- Day to day expenses (e.g. wages, salaries, utility bills, etc.)

Factors affecting WC Requirements:

- i. Nature of enterprise
- ii. Manufacturing/Production policy
- iii. Operations (seasonal demand)
- iv. Market conditions/competition
- v. Availability of raw materials
- vi. Growth and expansion
- vii. Price level changes
- viii. Manufacturing Cycle

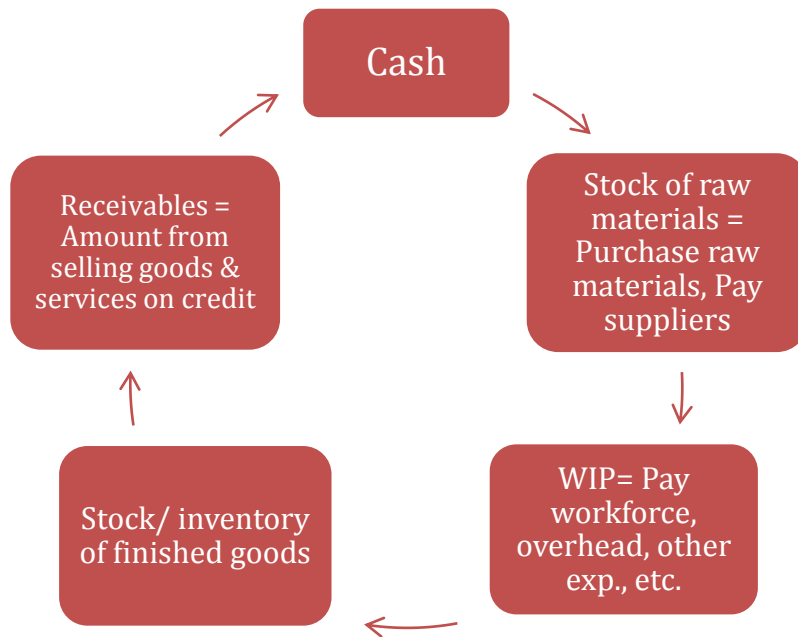
Working Capital Assessment Methods:

i. Operating Cycle Method:

The Operating cycle is made up of four stages. It begins with the acquisition of raw materials for processing. The length of time between the entering into stock by procuring materials, labor, overheads etc. and receiving cash from realizing of receivable and cash sales.

The length of the operating cycle in a year is determined by summing up the number of days needed for a business to complete all four stages. The summation is then used to calculate the number of cycles per year by dividing the total number of days in a year with the length of an operating cycle.

Example:



Assessment for trading concern:

- Stock/Inventory Turnover in days = $(\text{Stock}/\text{cost of good sold}) * 360$
- Receivable Turnover in days = $(\text{Accounts Receivables}/\text{Sales}) * 360$
- Payable Turnover in days = $(\text{Creditors}/\text{COGS}) * 360$
- Cash Cycle = Stock Turnover in days + Receivable Turnover in days - Payable Turnover in days
- Working Capital Requirement = $(\text{Cash cycle in days} * \text{COGS})/360$
- *Length of the cycle =*
Number of days taken for acquisition of raw materials +
number of days taken for work in process +
number of days taken for finished goods to reach customers +
number of days to collect the bills receivable

- *Number of operating circles per year* = $\frac{360}{\text{Length of the circle}}$
- *Working Capital Requirement* = $\frac{\text{Operating Expenses}}{\text{Number of operating cycles per year}}$

A. Length of operating cycle

a. Procurement of Raw Materials	30 days
b. Conversion /Process time	15 days
c. Average time of holding of FG	15 days
d. Average Collection Period	30 days
e. Operating Cycle (a + b + c + d)	90 days
f. Operating Cycle in a year (365days/e)	4 cycle
B. Total Operating Expense per annum	BDT 60 lac
C. Total Turnover per annum	BDT 70 lac
D. Working Capital Requirement = Total Operating Expenses (B) /No. of Operating Cycles (f)	BDT 15 lac

ii. Drawing Power Method

<u>Particulars</u>	<u>Stock value</u>	<u>Margin</u>	<u>DP</u>
Paid stocks (Raw materials-Creditors)	4	25%	3
Semi Finished goods	4	50%	2
Finished goods	4	25%	3
Book debts	4	50%	2
Total	16		10

iii. Cash Budget Method:

The Cash budget method is primarily applicable to industries corresponding to seasonal sales or order based activities. Businesses under these categories are often in crucial need of capital during certain time of the year and the money is generated through sales during a specified time period. Financing these type of businesses requires the bank to forecast monthly cash flows estimated by the borrower. The ideal current ratio for these facilities is often considered to be 1.33:1 and 1.25:1 for medium sized enterprises whereas it mostly depends on the quality of the borrower's current assets and current liabilities.

ANALYSIS AND RECOMMENDATION

- *External Pressure* – The bank should be free from all external pressures such as political influence regarding credit proposals.
- *Credit Proposal Procedure* – The credit proposal procedure is too lengthy. UCBL should look into how such procedures are conducted by simpler and shorter methods by foreign commercial banks or commercial banks abroad.
- *Indifferent/biased banker* – The entire loan process should be segmented and employees should be assigned and limited to each specific segments. When a client brought in by an employee, such as, from the marketing department, if that marketing employee has administrative access, there is a possibility of alteration to the loan process due to self-interest. UCBL should acknowledge this matter and should imply strict limitation for employee accessibility.
- *Lack of banker's discretion* – Due to certain external pressure and biasness, the banker's discretion is often limited. If the entire process was solely based on mathematics and calculations, policies like this would've have been very limited.
- *Flaws of CRG:*
 - a. Industry specific regarding liquidity ratio - Failure to differentiate industries regarding the measurement of CRG could lead to credit default. The same liquidity ratio represents two totally different pictures for a manufacturing business and a departmental store.
 - b. Size specific – The evaluation for CRG should be based on the size of organizations, similar to liquidity ratio, the same amount of money would have different meaning to two different companies varying in size (even if both belong to the same industry).



- c. No Specific rate of Current Ratio is ideal – A business having a current ratio of 2.5 may be considered excellent, but it may not even be close enough for some others.

- d. Misconception of the no upper limit – It is considered a Current Ratio of 2:1 is ideal and anything above is better. That is not always accurate. When a business is rated on its current ratio, the valuation is based on a minimum amount of the current ratio. An overall score is obtained when the ratio is met with the minimum requirement. Since there is no upper limit for obtaining the score, a business with a current ratio of 2.75 will score the same (e.g. 5 out 5) as a business with a current ratio of 15, if the required current ratio is 2.74 to be rated a total 5 out 5.

CONCLUSION

The internship program at the Credit department of United Commercial Bank, Gulshan branch, was an enormous opportunity for me to understand banking operations and experience the practical life of the banking industry in Bangladesh. UCBL is a renowned bank in Bangladesh with remarkable products and service offerings in the banking industry. The banking industry is considered to be the most important financial sector and significantly contributes to the development of the country's economy. Commercial bank as big as UCBL, with certain alterations to their system, with its commitment, the dynamic leadership of management, adequate resources, and customer oriented services and, mostly, the experience over thirty years of banking, has the ability to become the most important commercial bank in Bangladesh.

The functioning of the economy largely depends on the flow of money. This is where banks play such a massive role. Through the issuance of credit, they determine the allocation of resources in an economy. Hence, their ability to do sound risk analysis and due diligence is imperative in assuring that money is flowing into sound investments and thus, the economy is running smoothly.

At UCBL, the issuance of credit is done, taking all of these into consideration, with the bank sparing no lack of effort in this regard. It is because of their stellar credit management history that they have established such goodwill, which in turn, wins it a large consumer base. As confidence is a major factor in the banking industry, UCBL considers maintaining such consumer trust to be essential.

REFERANCES

BIBLIOGRAPHY

Report, A. (2015). *A Better Bank A Better Planet*. Dhaka: United Commercial Bank Limited.

United Commercial Bank. (2016, September 18). Retrieved September 18, 2015, from <http://www.ucb.com.bd/>

United Commercial Bank. (2016). *Board Of Directors*. Retrieved 2016, from United Commercial Bank: <http://www.ucb.com.bd/index.php?page=know-ucb/about-us/board-of-directors>

United Commercial Bank. (2016, September 20). *UCB Profile*. Retrieved September 20, 2016, from <http://www.ucb.com.bd/index.php?page=know-ucb/ucb-profile>

APPENDIX

United Commercial Bank Limited

Appendix - A

Valuation Report

1. **Name & Address of the Client** :

2. **Particulars of the land:**
 - a- Area (Decimal/Katha) :
 - b- Dag No (s) :
 - c- Khatian No (s) :
 - d- Mouza with JL No :
 - e- Thana (P.S.) :
 - f- District/Municipality :
 - g- Holding No. if it is within :
The Municipal area
 - h- Classification (High/Low) :
 - i- Nature (Agricultural/Residential/ :
Commercial/Industrial
 - j- Location (Road link/ :
Communication facilities)
 - k- Name & Address of the owner(s) :
of the property
 - l- Relationship with the borrower :
 - m- Whether the land is under :
Physical possession of the owner(s)
 - n- Present use of the property :

3. **Particulars of the building:**
 - a- Nature of construction (Tin shed/ :
Semi pucca/pucca/R.C.C Frame)
 - b- No. of floors in total :
Floor space (in sq.ft.)
 - c- Year of construction :
 - d- Condition of the building :

4. **Value of the property:**

Land.....Decimal/Katha @.....	Tk.....
Building.....sq.ft.@.....	Tk.....
Other Construction.....sq.ft.@.....	Tk.....
Total	Tk.....

5. Forced Sale value of the property @ % Tk.....

6. General Observation, if any

We submit the above valuation certificate on physical inspection of the site made on.....by the undersigned & we take responsibilities for any over valuation.

(Name of the Officer)

(Name of the Officer)

Note: 1- Separate sheet to be used for each property.
2- Approved plan of the building to be enclosed.
3- Photograph of the property to be enclosed.

Appendix - B

Classified Credit Review (CCR) Form

Branch Name		Relationship Manager	
Borrower's Name		Group Name	
Latest Credit Grade		Immediate Past Credit Grade	
Account Manager		Date of Downgrade (Below 5)	
RU Head		RU Account Manager	

Total Group Exposure		Total Downgraded Exposure	
Related Accounts			
Brief Description of Business			

Reasons for Classifications:

Strategy and Recovery Plan:

Entity	Facility	As At : <current quarter>				As At : <previous quarter>			
		Limits	Off Bal O/S	On Bal O/S	Total O/S	Limits	Off Bal O/S	On Bal O/S	Total O/S
Total									

Interest In Suspense	
Existing Provision	
Net Amount at Risk (Without considering security value)	
Forced Sale Value (FSV) of Security	
Net Amount at Risk (After deduction of FSV)	
Un-drawn Commitments, if any	
Total Borrowings From All Banks and Financial Institutions	
Age of the Relationship	

Security and Documentation Review (Present Status):

Actions of Other Banks/Institutions, if any:

Latest Payment Information

	Date	Comments
Last Payment Received		
Previous Payment Received		
Next Payment Due		
Next Payment Expected		

Comments on Payment History and Payment Forecast:

Ultimate Realizable Value (ULR) Calculation:

Comments on Adequacy of Provisions:

Summary of recent developments:

Current outlook:

Restructuring Possibility:

Account Strategy/Action plan for next quarter:

**Name, Designation & Signature
(Recovery Officer)**

**Name, Designation & Signature
(Head of Recovery Unit)**

Appendix - C

CREDIT RISK GRADING SUMMARY SHEET

Name of the Borrower	:	
Key Person	:	
Industry	:	
Relationship since	:	
Risk Grading & Score (Existing)	:	
Date of Grading	:	
Date of Financials	:	
Originating Officer	:	
Relationship Manager	:	

Grade Summary

Weighted Score	Numeric Grade	Grading	Borrower's Risk Grade as per Grade Score Sheet		
Fully cash secured, secured by Government /International Bank Guarantee	1	Superior			
85+	2	Good	Aggregate Score	:	
75-84	3	Acceptable			
65-74	4	Marginal/Watch list	Numeric Grade	:	
55-64	5	Special Mention			
45-54	6	Substandard	Grading	:	
35-44	7	Doubtful			
≤ 35	8	Bad & Loss		:	

Key Financials

	FY (Previous Past)	FY(Previous)	FY (Current)
Sales			
Net Profit			
Current Ratio			
Operating Profit/Sales (%)			
Interest Coverage			

Reasons for change (if any) in Credit Risk Grading:

Recommended Risk Grade:

Relationship Officer (Originating Officer)

Relationship Manager (Branch Manager)

Grading Approval

Credit Officer (CRM)

Credit Risk Manager (CRM)

Score Calculation Sheet

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
A - Financial Risk	50%				
A-1 Leverage	15%				
Total Debt-Equity (x) - Times Liabilities to Tangible Net worth		< 0.25 x	15.00		
		0.26x to 0.35 x	14.00		
		0.36x to 0.50 x	13.00		
		0.51x to 0.75 x	12.00		
		0.76x to 1.25 x	11.00		
		1.26x to 2.00 x	10.00		
		2.01x to 2.50 x	8.00		
		2.51x to 2.75 x	7.00		
> 2.75x	0.00				
A-2 Liquidity	10%				
Current Ratio (x) -Times Current Assets to Current Liabilities		> 2.74x	10.00		
		2.50x to 2.74 x	9.00		
		2.00x to 2.49 x	8.00		
		1.50x to 1.99 x	7.00		
		1.10x to 1.49 x	6.00		
		0.90x to 1.09 x	5.00		
		0.80x to 0.89 x	4.00		
		0.70x to 0.79 x	3.00		
		< 0.70x	0.00		
A-3 Profitability	15%				
A-3.1 Operating Profit Margin (%) (Operating Profit / Sales) X 100	10%	> 25%	15.00		
		20% to 24%	14.00		
		15% to 19%	13.00		
		11% to 14%	12.00		
		8% to 10%	10.00		
		6% to 7%	8.00		
		3% to 5%	5.00		
		< 3%	0.00		
A-3.2 Net Profit Margin (%) (Net Profit / Sales) X 100	5%	> 15%	5.00		
		13% to 15%	4.50		
		11% to 12%	4.00		
		9% to 10%	3.50		
		7% to 8%	3.00		
		5% to 6%	2.50		
		2% to 4%	2.00		
< 2%	0.00				
A-4 Coverage	10%				
Interest Coverage (x) - Times $\frac{\text{Earning Before Interest \& Tax(EBIT)}}{\text{Interest on Debt}}$		> 2.00x	10.00		
		1.51x to 2.00x	8.00		
		1.25x to 1.50x	7.00		
		1.00x to 1.24x	5.00		
		< 1.00x	0.00		
TOTAL SCORE – FINANCIAL RISK			50.00		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
B - Business/ Industry Risk	18%				
B-1 Turnover of Business (in BDT crore)	4%				
Turnover of the borrower's business measured by the most recent year's total sales. Preferably audited numbers. (If turnover is negative by 10% than previous year, deduct 1 marks from the points achieved)		> 60.00	4.00		
		30.00 – 59.99	3.50		
		10.00 – 29.99	3.00		
		5.00 - 9.99	2.00		
		2.50 - 4.99	1.00		
		< 2.50	0.00		
B-2 Age of Business	2%				
Number of years the borrower is engaged in the primary line of business		> 10 Years	2.00		
		6 - 10 Years	1.50		
		2 - 5 Years	1.00		
		< 2 Years	0.00		
B-3 Business Outlook	3%				
Critical assessment of medium term prospects of industry/business, market share and economic factors.		Long term prospects of industry/business are excellent	3.00		
		Stable	2.00		
		Susceptible to unfavorable changes in the economy	1.00		
		Industry/Business in declining phase/Cause for Concern	0.00		
B-4 Technology/Resource/Goodwill	2%				
		World class technology/ own resource/goodwill and the Company are capable to withstand competition	2.00		
		Existing technology/ goodwill is adequate and sustain competition for sometime	1.00		
		Obsolete technology/ unable to inject fund in the crisis. Unable to withstand competition in the event of moderate fluctuations /recessions	0.00		

B-5 Industry Growth	3%				
		Strong (10%+)	3.00		
		Good (>5% - 10%)	2.00		
		Moderate (1%-5%)	1.00		
		No Growth (<1%)	0.00		
B-6 Market Competition	2%				
Consider market share, demand supply gap etc.		Dominant Player	2.00		
		Moderately Competitive	1.00		
		Highly Competitive	0.00		
B-7 Entry/Exit Barriers	2%				
Technology, Regulatory Support etc.		Difficult	2.00		
		Average	1.00		
		Easy	0.00		
TOTAL SCORE - BUSINESS RISK			18.00		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
C - Management Risk	12%				
C-1 Business Experience (Management & Management Team)	3%				
Experience of the key person and senior management based on the direct involvement in the industry		More than 7 years in the related line of business	3.00		
		4-7 years in the related line of business	2.00		
		1-3 years in the related line of business	1.00		
		No experience	0.00		
C-2 Expertise of the Management	4%				
		Qualified professional in the management/key management is highly competent	4.00		
		Management has moderate professional experience and key management capable	3.00		
		Management has primary experience	2.00		
		No experience	0.00		
C-3 Second Line/Succession	3%				
		Clear succession. Qualified and competent	3.00		
		Succession is ready, educated but not much involved	2.00		
		Succession within 1-2 Years	1.00		
		Succession in question	0.00		

C-4 Team Work	2%				
		Excellent. Working as a cohesive team.	2.00		
		Moderate	1.50		
		Poor and migration of the professional	1.00		
		Regular Conflict	0.00		
TOTAL SCORE –MANAGEMENT RISK			12.00		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
D. Security Risk	10%				
D-1 Security Coverage (Primary)	3%				
		Fully pledged facilities/ Substantially cash covered	3.00		
		Registered Hypothecation (1 st Charge/1 st Pari passu Charge)	2.00		
		2 nd charge/Inferior charge	1.00		
		Simple hypothecation /Negative lien on assets	1.00		
		No security	0.00		
D-2 Collateral Coverage (Property Location)	2%				
		R/M on Municipal corporation/Prime Area property	2.00		
		R/M on Pourashava/ Semi-Urban area property	1.00		
		Negative Lien on Collateral	1.00		
		Vacant Agricultural Property in Rural Area	0.00		
D-3 Collateral Coverage (Forced Sale Value)	3%				
		>1.25 times of the facility	3.00		
		>0.75<1.25 times of the facility	2.00		
		> 0.50<0.75 times of the facility	1.00		
		<0.50 times	0.00		
D-4 Support (Guarantee)	2%				
		Personal Guarantee with high net worth or Strong Corporate Guarantee	2.00		
		Personal Guarantees or Corporate Guarantee with average financial strength	1.00		
		No support/guarantee	0.00		
TOTAL SCORE –SECURITY RISK			10.00		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
E. Relationship Risk	10%				
E-1 Account Conduct	6%				
		More than 3 years Accounts with faultless record	6.00		
		Less than 3 years Accounts with faultless record	5.00		
		Accounts having satisfactory dealings with some late payments.	3.00		
		Frequent Past dues & Irregular dealings in account	0.00		
E-2 Utilization of Limit	2%				
		More than 70%	2.00		
		51% - 70%	1.00		
		Less than 50%	0.00		
E-3 Compliance of Covenants	2%				
		Full Compliance	2.00		
		Some Non-Compliance	1.00		
		No Compliance	0.00		
TOTAL SCORE -RELATIONSHIP RISK			10.00		