

Internship proposal on “Credit Risk Management of Uttara Bank Limited ”



SUBMITTED TO
Dr. Salehuddin Ahmed
Professor of BRAC UNIVERSITY

SUBMITTED BY
Md. Rezaur Rahman
Student ID:09264020
Email:rezaurub11@gmail.com
Finance Department
BRAC UNIVERSITY

Date: 30-11-2017

Letter of Transmittal

November 30, 2017

Dr. Salehuddin Ahmed
Professor
BRAC University

Subject: Submission of Internship Report.

Dear Sir,

With due respect please note that I Submit the internship report on “**Credit Risk Management of Uttara Bank Limited**” as partial requirement of internship program under your direct supervision.

I have tried my best to follow your guidelines in every aspect of planning and preparing my report. I have collected data that I believe to be most important to make my report as specific as possible. This study has provided me an opportunity to increase my understanding about financial management system of a non-government organization.

So, it will be my honor if your kindly accept my internship report. I shall be pleased to answer any queries relating to this submission.

Yours Faithfully,

Md. Rezaur Rahman
Student ID: 09264020

Supervisor's Declaration

I hereby declare that the concerned report on “**Credit Risk Management of Uttara Bank Limited**” is a work done by Md. Rezaur Rahman, ID No: 09264020, a student of MBA program of BRAC University. He has completed his internship under my supervision and submitted the Report for fulfillment of requirement for the degree of Master of Business Administration (MBA) at BRAC University.

I wish him every success for the day to come.

Dr. Salehuddin Ahmed

Professor

BRAC University

Acknowledgement

First and foremost, I would like to pay my gratitude to the almighty, the most Merciful, the Beneficent, for blessing me with good health and tenacity of mind to complete the requirements for the degree.

Many people have extended helping hand in making this report. I would like to extend my most sincere thanks and gratitude to my academic supervisor **Dr. Salehuddin Ahmed**, Professor, BRAC University for the subsequent advice and valuable guidance towards completion of the report.

I most sincerely express my thanks and gratitude to the teaching assistance **S.M Raihan Uddin** for extending his helping and necessary guidance in preparing the report.

I am extremely grateful to my Branch Manager **Mr. Md. Babul Akhter** for giving me the opportunity and for inspiring me to complete my postponed MBA course. I shall ever remember the affectionate care rendered by him and for the constant guidance he provided me for completing my MBA course. I also thankful to my colleagues of Uttara Bank Limited, Ullapara Branch, Sirajgonj for their inspiration and co operation.

I would like to thank from the deep of my hard to my friends of BRAC University for providing necessary co operation. Finally I would like to express my deep gratitude to **BRAC University**, for giving me an opportunity to complete my MBA program and giving me a scope to gather practical experience and enrich my knowledge.

May The ALLMIGHTY bless all of them.

AUTHOR

Executive Summery

This report is basis on the entire process of the credit risk assessment system of Uttara Bank Limited and identifying the positive aspects as well as the shortcomings of that credit scheme. After completing MBA program of BRAC University, I have completed my study on Uttara Bank Limited, one of the largest and reputed private commercial bank in Bangladesh. I am working with some officers and some departments sincerely to gather information regarding bank's credit and recovery policy. The objective was to analyze the criteria of UBL's such as loan distribution sector, interest rate of loan, the Bank's capability to recover loan during stipulated time and the management efficiency regarding classified loan. The primary activities carried out by the credit department of UBL include evaluation of loan application, preparing necessary documents for the loan, monitoring the loan after disbursement and ensuring its repayment and finally initiate classification in case of non-recovery.

Credit proposals are appraised critically by Uttara Bank Limited. The customer at the branch of the bank place credit proposals. When customers come with a credit proposal, the credit department of the Branch makes an open discussion with customer on different issues of the proposal to judge the worthiness of the proposal and the customer. If the proposal seems to be worthwhile in all respects then the proposal is placed before the credit committee of the bank. After threadbare discussion, if the committee agrees in principle the proposal is sanctioned as per the delegated business power of the branch.

The execution of documents in proper form and according to the requirements of law is known as documentation. The documentation does establish a legal relationship between the lending bank and borrower. The terms and condition of loans and advances, the securities charged and the repayment scheduled is recovered in writing proper documentation for safeguard the future interest of the bank.

Credit management is an integral part of banking business. The making of credit and advances has always been prominent profitable function of bank. Sanctioning credit to customer and other out of fund as its disposal is one of the principal services of modern Bank. Advances by UBL made in different forms such as overdraft, cash credit bill purchased and discounted etc. UBL deals with the money from the depositor repayable on the demand. UBL usually grant short – terms advances which are utilized to meet the working capital requirement of the borrower.

The incessant fall –out of international credit market due to world economic meltdown resulting in sluggish growth has put significant pressure on financial performance of banks and financial institutions worldwide. UBL achieved continuous growth almost all arenas of its business amid this economic crisis, facing intensified competition of the industry. The bank remained financially strong by dint of its continued focus on the vision of becoming country’s finest corporate body providing excellent and need-based customer service.

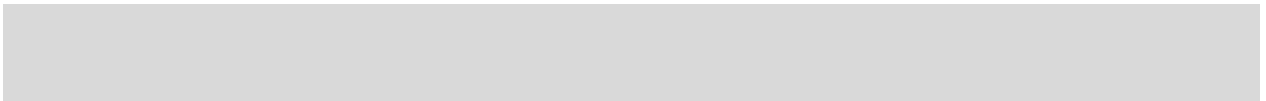
Table of contents

SL	Contents	Page number
	Letter of Transmittal	2
	Acknowledgement	4
	Executive Summary	5
	Table of Contents	7
	List of Abbreviations	8
Chapter 1	Introduction	10
1.1	Origin of the report	10
1.2	Objective of the report	10
1.3	Scope of the report	11
1.4	Methodology	11
1.5	Limitation of the study	11
Chapter 2	Overview of Uttara Bank Limited	13
2.1	Uttara Bank Limited	13
2.2	Historical background of UBL	13
2.3	Objectives, Mission, Vision and goal of UBL	14
2.4	Different Wings of Uttara Bank Limited	16
2.5	Highlights on the overall activities of the Bank for the year ended 2015 and 2016	18
2.6	Features of UBL	19
2.7	Functions of UBL	19
2.8	Operational Network Organ gram	21
2.9	Services & Products	22
Chapter 3	Job Details, Observation & Learning's	36
3.1	Job Details	37
Chapter 4	Credit Risk Management	40
4.1	Credit Policy of Uttara Bank Limited	41
4.2	Credit Sanctioning Authority of Uttara Bank Limited	41
4.3	Tools for Credit	42
4.4	Large Exposure Assessment Framework:	44
4.5	Lending Risk Analysis (LRA)	51
4.6	Proposal Analysis	52
4.7	Evaluation of Collateral	53
4.8	Final Decision about the Project	53
4.9	Proper Supervision of the Project	53
4.10	Documentation of the Loan	53
4.11	Loan Recovery Programs	54
4.12	Recovery of Non-Performing Loans & Investments	55
Chapter 5	Major Findings, Recommendations and conclusion	58
	References	63

List of abbreviations

UBL	:	Uttara Bank LimitedLimited
DSC	:	Dhaka Stock Exchange
CSE	:	Chittagong Stock Exchange
DD	:	Demand Draft
TT	:	Telegraphic Transfers
LC	:	Letter of credit
SME Loan	:	Small and Medium Enterprise Loan
USAID	:	United States Agency for International Development
SEDF	:	South Asia Enterprise Development Facility
IFC	:	International Finance Corporation
CCS	:	Consumers Credit Scheme
MDS	:	Monthly Deposit Scheme
RFCD	:	Resident Foreign Currency Deposit
FDR	:	Fixed Deposit Receipt
DPS	:	Deposit Premium Scheme

Chapter-1



Chapter-1: Introduction

1.1 Origin of the report

Internship Program of BRAC University is mandatory for every student to completing MBA program.

The purposes of the internship Program are:

- Internship will give the students Opportunity to develop their skill in the application of theory to practical work situation.
- Internships will provide students with an in-depth knowledge of the formal functional activities of a participating organization.
- Internship will increase a student's sense of responsibility.
- Internship will also provide student the opportunity to develop attitudes conducive to effective interpersonal relationships.
- Internship also helps the students to assess their career on chosen sector.

This internship report, thus, is submitted after completing internship at Uttara Bank Limited. This report includes the major job responsibilities and also a project on specific process which is **“Credit Risk Management of Uttara Bank Limited.”**. The Report also includes an overview of Uttara Bank Limited. More over it describes the major responsibilities and observation of mine though the internship period in Uttara Bank Limited.

1.2 Objective of the Report

- **Specific Objective:**

The specific objective of this reports are:

1. To bring together information regarding the entire process of credit -.
2. To achieve knowledge regarding the system of credit risk assessment.
3. To find out the Strengths, Weaknesses, Opportunities and Threats of the bank as well as the flaws or drawbacks regarding the services and solution offered.
4. To detect the positive aspects as well as the shortcomings of the credit and the credit risk assessment process.
5. To identify methods to improve the quality and standard of the products offered to the customers.

1.3 Scope of the Report

The main intention of this report is to find out the Credit risk management system of Uttara Bank Limited.

1.4 Methodology

■

Selection of the Topic:

The topic was approved by my respective supervisor. It was thoroughly discussed with him and my respective supervisor provided me a format so that a well-organized report can be prepared.

■

Sources of data

There are two types of data I collect for that report and those are

1. Primary Sources:

➤

Face to face conversation with the respective officers

□

Direct Observation

□

Practical desk work

2. Secondary Sources:

➤

Annual report of UBL

➤

Internal server and external websites of UBL

➤

Relevant books, research paper and journals

➤

Theoretical books of the related banking sector

1.5 Limitation of The Study

On the way of the study, I have faced the problems that are given below that may be terms as the limitation or shortcoming of the study-

■

It was very difficult to collect the information from various personnel for the job constrain.

■

Bank policy was not disclosing some data and information for various reasons.

■

The department people always remain busy due to lack of supporting employees so they could not dedicate their full efforts

■

Because of the limitation of information some assumption was made. So there may be some personal mistake in this report.

■

The annual report is the main secondary source of the information but this information was not enough to complete the report and it was not identified clear idea about this bank.

Chapter-2

Chapter-2: Overview of Uttara Bank Limited

2.1 Uttara Bank Limited

Uttara Bank Limited is one of the largest and oldest private-sector commercial banks in Bangladesh, with years of experience. Adaptation of modern technology both in terms of equipment and banking practice ensures efficient service to the clients. There are 230 branches at home and 600 affiliates worldwide which has created efficient networking and reach capability. Uttara Bank Limited is a bank that serves both clients and country. The total numbers of employee of Uttara Bank Limited are nearly 3,562.

2.2 Historical Background of UBL

Uttara Bank Limited is deeply related with the history tradition and living standard of human of the country. This Bank started its operations on 28th January 1965 as a commercial bank by Eastern Banking Corporation, which is interpreting by a private organization. In 1972 the Bank takes this name Uttara Bank Limited but it was converted as a public limited company named “Uttara Bank Limited” in the year of the 1983 upon amendment of Bangladesh bank (Nationalization) order. The Bank was incorporated as a banking company on 29/06/1983 and obtained business commencement certificate on 21/ 08/ 1983. Only within one year the Bank floated its share & now the Bank is listed in the DSE & CSE for trading share.

Corporate Information

Name	Uttara Bank Limited
Nature of Business	Banking service and profit oriented
Date of Incorporation	29.06.1983
Chairman	Md. Azharul Islam
Number of Branches	230
Total Asset	TK. 12455630541
Paid up Capital	Tk. 4,000,803,370.0
Web site	www.uttarabank-bd.com

2.3 Objectives, Mission, Vision and goal of Uttara Bank Limited.

The objectives of UBL are follows:

- Mobilizing deposit from the surplus economic unit to deficit economic unit.
- Cater to all different segments of retails and wholesale customer.
- Being a high quality distributor of products and services.
- Serve the people of the country by providing financial assistance.
- Help the nation in reducing the employment problem by securing services to a large number of people.
- Ensure balanced economic development though out the country.
- To expand business.
- To keep position in the competitive market.
- To contribute in profitability of UBL

Missions of UBL are given bellow:

- To provide high quality financial service
- To provide excellent quality customer service
- To maintain corporate and business ethics.
- To become a trusted repository of customers money and their financial advisor.
- To make their stop superior and rewarding to the customers.
- To display team sprite and professionalism.
- To have a sound capital base.

The Visions of UBL are:

Uttara Bank Limited will be a unique organization in Bangladesh. It will be a knowledge-based organization where the Uttara Bank Limited professionals will learn continuously from their customers and colleagues worldwide to add value. They will work as a team, stretch themselves, innovate and break barriers to serve customers and create customer loyalty through a value chain of responsive and professional service delivery.

Continuous improvement, problem solution, excellence in service, business prudence, efficiency and adding value will be the operative words of the organization. Uttara Bank Limited will serve its customers with respect and will work very hard to instill a strong customer service culture throughout the bank. It will treat its employees with dignity and will build a company of highly qualified professionals who have integrity and believe in the Bank's vision and who are committed to its success. Uttara Bank Limited will be a socially responsible institution that will not lend to businesses that have a detrimental impact on the environment and people.

The Goals of UBL are-

Uttara Bank Limited will be the absolute market leader in the number of loans given to small and medium sized enterprises throughout Bangladesh. It will be a world-class organization in terms of service quality and establishing relationships that help its customers to develop and grow successfully. It will be the Bank of choice both for its employees and its customers, the model bank in this part of the world.

2.4 Different Wings of Uttara Bank Limited.

Name of the Division	Affiliated Departments
Human Resources Division	<ul style="list-style-type: none"> ➤ Personnel Department ➤ Disciplinary Department ➤ Test Key Department ➤ Research & Planning Department ➤ Risk Management Department
Central Accounts Division	<ul style="list-style-type: none"> ➤ Accounts Department ➤ Reconciliation Department
Credit Division	<ul style="list-style-type: none"> ➤ Approval Department ➤ Admin. & Monitoring Department ➤ Lease Finance Department ➤ Recovery Department
Internal Control & Compliance Division	<ul style="list-style-type: none"> ➤ Audit & Inspection Department ➤ Monitoring Department ➤ Compliance Department
Banking Control & Common Services Division	<ul style="list-style-type: none"> ➤ Anti-Money Laundering Department ➤ Branches Operation Department ➤ Business Promotion Department ➤ Green Banking Department ➤ Public Relations Department
Board & Share Division	<ul style="list-style-type: none"> ➤ Board Department ➤ Share Department
International Division	<ul style="list-style-type: none"> ➤ Correspondence Banking Department ➤ Remittance Department ➤ Trade Services Department
Treasury Division	<ul style="list-style-type: none"> ➤ Front Office (Dealing Room) ➤ Back Office

	<ul style="list-style-type: none"> ➤ Asset & Liability Management Department
Establishment Division	<ul style="list-style-type: none"> ➤ General Services Department ➤ Transport Department ➤ Stationery & Records Department ➤ Engineering Department
Information & Communication Technology (ICT) Division	<ul style="list-style-type: none"> ➤ MIS Department ➤ Development & Support Department ➤ Card Department
Corporate Banking Division	<ul style="list-style-type: none"> ➤ Credit Marketing Department ➤ Credit Business Development Department

2.5 Highlights on the overall activities of the Bank for the year ended 2016 and 2015

Sl. No.	Particulars	2016 Taka	2015 Taka
1	Paid-up-Capital	4,000,803,370	4,000,803,370
2	Total Capital (Teir -I+II)	12,481,950,575	12,059,318,972
3	Capital surplus/(Deficit)	2,573,138,477	1,902,295,969
4	Total Assets	162,417,665,493	151,476,294,321
5	Total Deposits	134,951,613,717	122,407,644,955
6	Total Loans & Advances	83,311,088,400	75,806,888,472
7	Total Contingent Liabilities	21,243,114,531	22,494,473,358
8	Advance/ Deposit Ratio	61.73%	61.93%
9	Percentage of Classified Loans against total Loans & Advances	7.75	8.27
10	Profit after tax & provision	1,530,747,417	1,502,882,669
11	Amount of classified loan during current year	5,464,300,000	5,241,600,000
12	Provision kept against classified loans	1,304,636,184	1,144,676,696
13	Provision surplus /(deficit)	63,873,221	101,801,452
14	Cost of Fund (%)	4.58	5.58
15	Interest earning Assets	131,333,102,607	119,593,464,071
16	Non-interest earning Assets	31,084,562,886	31,882,830,250
17	Return on Investment (ROI) %	12.90	11.32
18	Return on Assets (ROA)%	.94	.99
19	Income from Investment	4,077,080,338	4,679,945,781
20	Earning per Share (EPS)	3.83	3.76
21	Net Income per Share	3.83	3.76
23	Price Earning Ratio (Times)	6.45	6.04

2.6 Features of UBL

The bank is committed to turn all its activities as per council board. UBL through its steady progress and continuous success has earned the reputation of being one of the leading private sector banks of the country. The distinguishing features of UBL are as follow:

- All its activities are conducted on interest banking system according to council board.
- Establishment of participatory banking instead of banking in debtor creditor relationship.
- Investment is made though deterrent modes permitted under council board.
- Investment income of the bank shared with depositors according to a ratio to endure a reasonable fair rate of return on their depositors.
- It aims are to introduce a welfare oriented banking system and also to establish equity and justice in the field of all economic activities.
- It extends economic and financial services to the poor , helpless and height income group of the people for their economic up liftman particularly in the rural areas.
- It plays a vital role in human resource development and employment generation particularly for the unemployed youths.
- Its aim is to achieve balanced growth and equitable development of the country through diversified investment operations particularly in the priority sector and in the less developed.
- It extends cooperation to the poor the helpless and the height income group for their economic development.

2.7 Functions of UBL

The operations of Uttara Bank Limited are divided into three major categories:

1. General banking : it includes:-

- a. Mobilization of deposits.
- b. Collection of Deposit
- c. Lending
- d. Receipts and payment of cash.
- e. Handling transfer transaction
- f. Operations of clearing house
- g. Maintenance of accounts with Bangladesh band and other bank

- h. Collection of cheque and bill
- i. Issue and payment of Demand Draft, telegraphic transfers and payment order
- j. Executing customers standing instructions
- k. Maintenance of safe deposit lockers
- l. Maintenance of internal accounts of the bank

While doing all the above noted work UBL issue cheques-book, Deposit account opening form, SS card, Ledgers, Cash book, Deposit account ledgers, preparation statement of accounts. Pass Book, Balance of different accounts and calculated profits.

UBL offers to open the following account to the depositors:

- Current Account
- Saving Account
- Term Deposit account. (3 month/6month /12 month /36month / 60 month/120 month)

2. Foreign Exchange Business

Foreign Exchange Business plays a vital role in providing substantial revenue on the bank income pool.

- ~~Opening letter of credit against commission for importing industrial agricultural and other permissible items under council board.~~
- Opening letter of credit on the principle of sale, on the principle of under wage earner scheme.
- Handling of export /import document.
- Negotiation of export and import document when discrepancy occurs.
- Financing import under import board.
- Financing to export on profit or loss sharing
- Handling inward and outward remittance.

3. Other activities

The UBL performs the following task for the welfare of the nation. There are some points which is below:-

- Income generating scheme for the unemployed youth of the nation.
- CSR
- Education scheme for assisting poor scholar student to case and help them to continue their study.

2.9 Services & Products

UBL is a service oriented financial institution. The main function of the bank is to provide services to its clients. The bank offers various products and services to the clients to attract them. The first primary job of the bank is to collect deposit from its clients and other prospective clients who still have not opened their accounts at the bank. They offer different accounts at the bank. They offer different interest rates to the different accounts. The bank also provides credit facilities to its clients. In fact the deposits are collected to lend some money to the people to make profit. Also the foreign exchange department opens the L/C to its clients and thus collects L/C commissions from its clients and thus makes a huge profit of its own.

UBL offers many products and services to its clients on their satisfaction. It has a good reputation in the banking sector by continuously updating product and service qualities. A bank cannot be able to make its desirable progress without the satisfaction of its customers. That's why UBL always gives preference to its client satisfaction and made significant progress through its operation such as deposit mobilization, credit management, foreign trade etc.

SERVICES:

1. Personal Banking:

Amongst private sector banks, UBL has already made its mark in the personal banking segment.

2. Corporate Banking:

UBL offers a full range of tailored advisory, financing and operational services to its corporate client groups combining trade, treasury, investment and transactional banking activities in one package. Whether it is project finance, term loan, import or export deal, a working capital requirement or a forward cover for a foreign currency transaction, UBL's corporate banking managers will offer clients the right solution. Customers will find top class skills and in depth knowledge of market trends in UBL's corporate banking specialists, speedy -s and efficient processing fully satisfying client's requirements-altogether a rewarding experience.

3. Capital Market Services:

Capital market operation besides investment in treasury bills, prize bonds and other government securities constitute the investment basket of UBL. Interest rate cut on bank deposits and government savings instruments has contributed to significant surge on the stock markets, which creates opportunities for the bank in terms of capital market operations. The bank is a member of DSE and CSE.

4. SME Services:

Since inception, the UBL has held socio economic development in high esteem and was among the first to recognize the potentials of SME's.

➤ Uttara Bank Limited's involvement:

Recognizing the SME segment's value additions and employment generation capabilities quite early, the bank has pioneered SME financing in Bangladesh in 2003, focusing on stimulating the manufacturing sector and actively promoting trading and service businesses.

➤ Experience and learning:

The single largest problem of the lower end of the SME sector is that they are unable to fully understand their needs. Even if these needs are understood, they are seldom met with right product mix. Small business owners are unable to provide banks with required information of the right type and quality. This has created a gap between the borrower and the banks and has served to limit the outreach of SME financial products. In order to conquer this barrier, Uttara Bank Limited SME unit provides comprehensive support to prospective clients in evaluating their business and

preparing the required documents in acceptable formats. In this regard, the Uttara Bank Limited SME unit has been working in close collaboration with the USAID, the SEDF an IFC managed multi donor facility and the World Bank.

5. Online Banking Services:

Online banking services are designed to provide better services to its clients. Previously UBL used own developed Software but now they use world class software named Bank Ultimus to avail this service to their customers. This allows them to give prompt service to their valued clients. Flora is a universal banking solution that meets the customer's needs in retail, corporate and investment banking. Under this system, the bank is capable of doing, for example, the following transactions:

- Cash withdrawal from consumer's account at any branch of the bank
- Deposit in consumer's account to any branch of the bank;
- Transfer of money from customer's account to any other account with any branch of the bank.

But most of the time UBL are using Telephone or Mobile phone.

6. By Mobile & Internet Banking Services:

UBL provide services by Mobile and Internet Banking facilities to its clients.

The following are the glimpses of the facilities:

- **Through Mobile banking:**
 - Access to the account information anytime from anywhere
 - Request for cheque book and account statements
 - Make cheque status inquiry
 - Place stop cheque instruction
- **Through Internet banking:**
 - Access to the account information anytime from anywhere
 - Fund transfer
 - Make utility bill payment
 - Open and close term deposit
 - Request for cheque book and account statements
 - Place stop- cheque request
 - Make loan repayment
 - Inquire interest and foreign currency rates and many more.

Loan Product:

- CC Hypo (Cash credit hypo)
- CC Pledge (Cash credit Pledge)
- Consumer Credit Scheme(CCS)
- Overdraft (Second overdraft)
- UHRL (Uttaran Houseing Repairing Loan)
- SBL (Small Business Loan)
- Agricultural Loan
- PLS (Personal Loan)
- Women Entrepreneurship

Cash credit (Hypothecation):

Cash Credit allowed against hypothecation of good is known as Cash Credit (HYPO) limit. In case of hypothecation, the borrower retains the ownership and possession of goods on which charge of the lending bank is created.

Under this arrangement a credit is sanctioned against hypothecation of the raw materials or finished goods. The letter of hypothecation creates a charge against the goods in favor of the Bank but neither the ownership nor its possession is passed on to it; only a right or interest in the goods is created in favor of the Bank and the borrower binds himself to give possession of the goods to the bank when called upon to do so. When the possession is handed over, the charge is converted into pledge. This type of facility is generally given to the reputed borrowers of undoubted integrity.

Charge of Uttara bank limited is 14%. The bank should take the following precaution.

- The banker should carefully verify the stocks of hypothecated goods and their market price.
- Stocks should be duly insured against fire and burglary.
- Bank should try obtaining sufficient collateral security.
- Periodical statement of stock duly signed by the borrower should be obtained.
- The goods are readily saleable and have good demand in the market.
- The borrower should be trustworthy and prudent customer.
- The price of the goods, offered as security, is to be calculated as per purchase price or market price whichever is lower.
- The price of goods is steady etc.

2. Cash credit (Pledge):

Cash credit allowed against pledge of good is known as Cash Credit (Pledge).In case of Cash credit (Pledge), the borrower pledge his goods to the bank as security against the Credit facility. Banks retain the effective control of the pledged goods. Pledge goods may be stored in a go

down of the borrower but under lock and key of the bank. Banks guards are posted to protect the go down sometimes; pledges goods are in Banks go down.

For CC loan every individual have to show some papers of their property. These are –

- Original title deed
- Bia deed(minimum 25 years ownership)
- Mutation porcha
- Land revenue receipt and holding tax receipt.
- Maath jorip porcha.
- RAJUK Approval Plan.
- Picture of the property.
- Owners photograph (4 copies).
- Valuation certificate.
- NEC(Non Encumbered Certificate)
- Location Map.

If a person wants to take CC loan for his shop he has to submit some papers. These are-

- Applicants photograph.
- Up-to-date trade license.
- Contract deed of rental shop.
- Stocks of goods position.
- Balance sheet of 3 years.
- Account statement.
- TIN Certificate.
- National ID Card.

3. **Small Business Loan (SBL):**

In case of SBL the borrower will get loan from the bank against his business. Here the bank will charge against the amount of loan. Maximum limit of the loan is TK 5 lac. Uttara bank Ltd Charges 14% interest against the amount.

Bank will obtain following documentation from the borrower.

- Photographs of borrower.
- Commissioner Certificate/ ID card/ Passport/ Photocopy as the identity of the borrower.
- Photographs of the mortgage property.
- Documentation of property (Dalil,Parcha,Khajna rasis)etc.
- Valuation of the property.
- Audit report of the property.
- Six months bank statement.
- Report of CIB.

4. **Consumer credit schemes (CCS):**

The Bank distributed loan of Tk.6.4 million and 886.7 million during the year 2015 under two special project namely “Uttara Consumer Loan Scheme “and Uttaran House Repairing and Renovation Scheme “respectively . The outstanding balance of the same stood at Tk. 84.1 million and Tk 4,315.5 million respectively at the end of the year 2015.It may be mentioned here that the recovery rate in these schemes is satisfactory.

Special features:

- No collateral security is required.
- Quick sanction.
- Simple rate of interest.
- Maximum loan amount Tk 3,00,000/-
- 5% Incentive on total interest charged.

5. **Personal Loan:**

The banks desirous of financing the purchase of used vehicles shall prepare uniform guidelines for determining value of the used vehicles, however, the bank shall only finance the vehicles imported as described in the existing import policy order, to cater the urgent financial need of the service holders having limited income bank introduced loan scheme.

Special features:

- Any permanent salaried employee aged between 20 to 55 years is eligible to loan.
- No collateral security is required.
- Maximum amount of loan Tk 100000/-
- Maximum period of loan upto 3 years.

6. **Uttaran housing Repairing Loan:**

In case of UHRL the borrower will get loan from the bank by giving mortgage of his property. Here the bank will charge against the amount of Loan. Maximum limit of the loan is TK.25 lac. Uttara bank Ltd charges 14% interest against the amount.

Purpose:

- To help genuine House/ Building/ Flat owners to undertake repairing, renovation works for better living or increasing rental income.
- To help the owners of House/ Building/ Flat to get loans at a minimum time & without any hurdles.
- To contribute towards development of socio-economic condition of the society.
- To improve the standard of service holders and self employed persons or Retired Government Officers, excluding Businessmen, developer.

Interest and other charges:

Interest: 14.00% per annum with yearly rest subject to change that may be made by the Bank from time to time.

- Processing Fees: @TK 1000.00 (Taka One Thousand) only per lac to be realized before processing of loan.
- Processing fee to be refunded deducting TK.500.00 (Taka Five Hundred) only as service
- Charge per proposal in case of it is rejected
- Cost of Application form & Prospectus: TK 200.00 (Taka Two Hundred) only.

If loan installments are regularly & timely paid without any default, the borrower will be allowed incentive at the rate of 5% of the total interest charged which will be refunded on full adjustment of the account.

Repayment period

- The loan is to be repaid by equal by monthly installments including interest maximum within 8 (Eight) years for loan above TK 5.00 lac (Taka Five Lac) only.
- Repayment will start after 3 (Three) months of availing 1st installment of the loan.
- Loan installments will have to be paid within 10th bay of every month. If any installment is not paid within 10th day of the month, the borrower will be treated as defaulter and penal interest @ 2% per month will be charged on the defaulted amount

Security:

- Registered Mortgage of the property where against loan is to be availed by deposit of original Title Deed with chain of documents.
- Registered Irrecoverable General Power of Attorney empowering the Bank to sell the mortgaged property as and when required.
- An undertaking by the borrower in banks prescribed form to pay monthly installments regularly in time.
- Post dated cheque for all installments to be deposited in advance.
- Personal Guarantee of Spouse or any other person acceptable to the bank is to be obtained.

Benefit of the scheme:

The genuine House/ Building/ Flat owners of small and fixed income group or retired persons may avail of the opportunity to repair, renovate their own house according to their need and repayment capacity.

- **Inland Bill Purchase(IBP):**

Uttara Bank Limited started granting of credit facility against Inland Bill Purchase by issuing the Instruction Circular No.243 dt. 17-01-99. subsequently certain amendments have also been made there to provide Credit Division.

All concerned are hereby instructed to observe the following procedure for granting of credit facility against Inland Bill Purchase (IBP):

- Only those bills will be purchased which arise out of genuine business transactions of manufacturing units/concerned.
- The concerned branch allowing IBP facility must see that the bill has been drawn by the party himself and he is not the purchaser of goods/services or endorser of the bill.
- The applicant requesting for IBP facility will have to submit all the shipping documents as required in the ILC opened by buyer's bank.
- On receipt of acceptance and maturity date for payment of the bill from ILC opening bank, our concerned branch will invariably verify, by physical contact with concerned ILC issuing bank, the genuineness of the said acceptance letter by relationship Manager/ second Officer/ Dealing officer (not below Principal Officer) with authorized signature to be counter signed by the branch incumbent.
- In case the liability against any IBP is not adjusted even within 30 days after due date of payment, the matter shall be referred to Head Office, International Division giving full particulars of bills/LCs for taking up the issue by them for settlement.

The following charges and interest are to be realized:

1. Handling Charge: 0.25% of bill value with minimum TK.25.00 and maximum TK.2000.00
2. Rate of interest: 14.00% per annum with quarterly rest subject to change that may be made by the bank from time to time.

8. Loan Against Trust Receipt(LTR):

On the arrival of goods and lodgment of import documents, importer may request the bank for clearance of goods from the port (custom) and keep the same to bank go down. Proper sanction from the competent authority is to be obtained before clearance of consignment. For giving these types of loan, officer makes loan proposal and sends it to H/O for approval. After getting approval from H/O, bank grants loan in the form of LTR.

- Advance against a Trust Receipt obtained from the Customers are allowed to only first class tested parties when the documents covering an import shipment or other goods pledged to the Bank as security are given without payment. However, for such advances prior permission/sanction from Head Office must be obtained.
- The customer holds the goods or their sale-proceeds in trust for the Bank, till such time, the loan allowed against the Trust Receipts is fully paid off.

The Trust Receipt is a document that creates the Banker's lien on the goods and practically amounts to hypothecation of the proceeds of sale in discharge of the lien.

9. Overdraft:

Overdraft is a loan. A person must need to have cash deposit if a person wants to take this loan. If a person has a FDR or MDS deposit in UBL he can get the loan. For MDS owner needs to pay 15.5% loan interest. For FDR owner needs to pay loan interest up to 3% than his FDR interest rate. Overdraft loan can be given to government employee. In that case they need to show land security and the payable interest rate is 14%. 25% advance loan can be given by the bank on work order value.

10. Agricultural Loan:

At present the bank is disbursing Agriculture Loan to the farmers directly through its all branches with simple terms and conditions. The persons interested in agriculture works , including men and women, landless, marginal farmers and shared croppers are eligible for receiving Agriculture Loan from the bank .The Agriculture credit sectors of banks are crops, irrigation, equipments, agriculture machineries.

6. Corporate Banking Products:



Securitization of assets:

UBL intends to take up the challenge of securitization of assets and play a significant role in ensuring that securitization of assets becomes a normal part of the range of financial instruments available for organizations who can count on a steady, but piecemeal, flow of revenue and want to translate this stream into cash resources with which to carry out further lending activities to new customers. Some practical issues still need to be settled such as those concerning pricing, or the legal framework, but it is expected that, as UBL and other institutions pursue more such securitization activities these will be resolved.



Corporate finance and advisory services:

Given the needs of its large and varied base of corporate clients, UBL will be positioning itself to provide investment banking advisory services. These could cover a whole spectrum of activities such as guidance on means of raising finance from the local stock markets, mergers and acquisitions, valuations, reconstructions of distressed companies and other expert knowledge bases advice. By this means UBL hopes to play the role of strategic counselor to blue chip Bangladesh companies and then move from the level of advice to possible implementation of solutions to complex financing problems that may arise from time to time. This would be an extra service that would complement the normal financing activities that UBL already offers to corporate business houses.



Syndication of funds:

At UBL, the Syndication and structured Finance Unit was setup on October 30, 2004. This unit effectively closed two syndicated deals in the first and second quarters of 2004. The syndications and Structured Finance team as a business unit soon followed up by closing another deal totaling tk. 2.10 billion for a large local corporate. The year 2004 being the first full year of operation for the team ended on a high note as UBL was able to close three syndicated deals as the Lead Bank, two deals as the Co arranger and several other deals as a participant.

7. Uttaran Consumer-Credit Scheme

UBL started Uttaran Consumers Credit Scheme from 1996. UBL offers opportunity of financial assistance for –

- Motor cycle/car- New or re-conditioned.
- Refrigerator/ Deep Freeze.
- Television/ VCR /VCP/VCD
- Radio/ Two-in-one/ Three – in – one
- Air-Conditioner/ Water Cooler/ Water Pump
- Washing Machine.
- Personal Computer/ UPS/ Printer/ Type writer
- Sewing Machine.
- House hold furniture- Wooden & Steel.
- Cellular Telephone.
- Fax
- Photocopier.
- Electric Fan- Ceiling/ Pedestal/ Table.
- Bi-Cycle
- Dish Antenna.
- Baby Taxi, Tempo/Microbus (For self employed persons)
- Kitchen articles such as Oven, Micro-oven, Toaster, Blender, Pressure Cooker etc.

7. Monthly Deposit Scheme (MDS)

Saving is the best friend in bad days. Small saving can build up a prosperous future. Saving can meet up any emergencies. UBL has introduced monthly saving scheme that allows saving on a monthly basis and getting a handsome return upon maturity. If anyone wants to build up a significant saving to carry out your cherished dreams, UBL MDS is the right solution.

8. Masik Munafa Prokolpo (MMP)

UBL has introduced monthly benefit scheme for the prudent persons having ready cash and desiring to have fixed in income on monthly basis out of it without taking risk of loss and without en-cashing the principal amount.

9. Double Benefit Deposit Receipt Scheme (DBDR)

For people who have cash flow at this moment and want to get it doubled quickly UBL has Double Growth Deposit Scheme that offers to make double money within 10 years.

Deposits Products

At present Uttara Bank Limited has the following deposit product that has been offered to general public:

1. Current Account

The client can enjoy maximum flexibility and convenience when he/she opens a current account with us.

This account offers:

- Any number of transactions a day.
- No minimum balance fee.
- Statement of account at your desired frequency.
- Few cost of cheque book.
- Any branch banking facility.
- Statement by Fax on demand.

2. Savings Account

The Savings Account allows the client to have interest income on his/her deposit whilst the account can be used for your transaction purposes. He/she can draw a maximum number of two cheques per week; exceeding this number will forfeit the interest for the month. UBL offers a competitive interest rate (3.00%) on the account. Also there is no requirement for a minimum balance to be maintained in the account to be eligible for the interest. Interest is applied to the account on half-yearly rests.

This account also offers:

- No minimum balance fee.
- Statement of account at client's desired frequency.
- Few cost of cheque book.

- Any branch banking facility.
- Statement by Fax on demand.

3. Special Notice Deposit (SND)

UBL Short Term Deposit Account is a unique blend of flexibility and high return on your deposit. The client can use this account like a current account whilst he earns interest on the account when the stipulated minimum balance is maintained in the account. UBL offers a very competitive interest rate (3.5-5.0%) and the interest is calculated on a daily product basis.

This account also offers:

- No limit to the number of withdrawals.
- No minimum balance fee.
- Statement of account at client's desired frequency.
- Few cost of cheque book.
- Any branch banking facility.

4. Fixed Deposit account

Clients can open Fixed Deposit Accounts for 3 months, 6 months, 1 year or for longer term. UBL offers competitive interest rates. Clients can Place their deposit under lien with UBL and take a loan, buy shares or open an overdraft account to meet their cash requirements. Interest rates on deposits vary from time to time.

5. Others Accounts

Foreign Currency Account for private individual/firm/organization:

- Any person/firm/organization who earns foreign currency can open Foreign Currency Account with UBL.
- Payments in foreign currency may be made freely abroad from this account and local payment in Taka may also be made from this account.

Bank pay interest provided the accounts are maintained in the form of term deposit for minimum period of 90 days.

Foreign Currency Account for Bangladeshi Nationals Working and earning abroad:

- No initial deposit is required.
- A/c holder nominates his nominee to operate the account.
- The account holder can freely transfer entire amount in foreign currency anywhere he

chooses or can convert into Bangladesh Taka currency.

- Funds from this account may also be issued to the account holder up to his entitlement for the purpose of his foreign travels in usual manner.

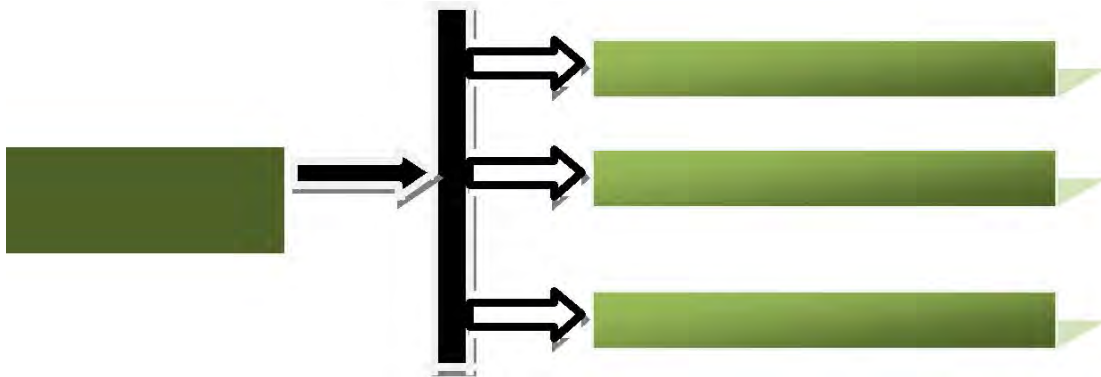
Resident Foreign Currency Deposit Account

- Persons ordinarily resident in Bangladesh may open and maintain RFCD Account with foreign exchange brought in at the time of his return from travel abroad.
 - Any amount brought in with declaration to customs authorities in the form FMJ and up to US\$ 5000 brought in without any declaration can be deposited in this account.
 - Balance in this account can be freely transferred abroad.
-

Chapter-3

Chapter-3: Job Details, Observation & Learning's

3.1 Job Details



As an Intern, I was very lucky that I got chance to work on various section of a bank. That helps me to improve my knowledge about banking activities. I work on four different divisions on UBL. Now I will briefly describe my job details bellow-

1. The General Banking Division

This division is very important for any bank. All important work like account opening, issuance of FDR, DPS Processing of inward and outward clearing are happen in this department.

Task I handled in this division are:

- Issuing Cheque Book
- Recording the issuance cheque books in the recording paper.
- Opening Account
- Opening various type of scheme etc.

2. Credit Division

The main activities of the bank are done by the Credit division. This division is all about giving loans and managing the risk of the investment. This department exercises the lending function; therefore, distribute its funds among various assets in a manner as to drive sufficient income.

The different tasks in this division are as follows:

- Accept customer loan offer.
- Process that offer in the form of credit.
- Lean of customer accounts.
- Sorting the loan form and put that form in according to customers file.
- Fill up the limit form, sanction letter.
- Take signature in charge documents from the customers.
- How loan account open.
- Preparing credit proposal.

3. Accounts Division

Accounts division is one of the most important divisions in the branch. The officers of this division do all accounts activities of branch. The officers match daily position with the daily affaires. The task I done in this division are:

- Sorting the debit and credit voucher.
- Arrange that voucher chronologically as their code.
- And then checking that voucher with daily supply

Chapter-4

Chapter-4: Credit Risk Management

The word credit comes from the Latin “Credo” meaning, “I believe”. It is a lenders trust in persons/firms/company’s ability or potential ability to command goods or services of another in return for promise to pay such goods or services of another in return for promise to pay such goods or services at some specified time in the future. The making of loans and advances has always been prominent profitable function of bank. Sanctioning credit to customers and others out of the funds at its disposal is one of the principal services of a modern bank.

Credit is a process to ascertain the risks associated with the extension of the credit facility. It is generally carried by the financial institutions which are involved in providing financial funding to its customers. Credit risk is a risk related to non repayment of the credit obtained by the customer of a bank. Thus it is necessary to appraise the credibility of the customer in order to mitigate the credit risk. Proper evaluation of the customer is performed this measures the financial condition and the ability of the customer to repay back the loan in future. Generally the credits facilities are extended against the security know as collateral. But even though the loans are backed by the collateral, banks are normally interested in the actual loan amount to be repaid along with the interest. Thus, the customer's cash flows are ascertained to ensure the timely payment of the principal and the interest.

In Banks and Financial Institutions, Credit Risk is considered as an essential factor that needs to be managed. Credit Risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with the agreed terms. Credit Risk, therefore, arises from the Bank’s dealings with or lending to corporate, individuals and other Banks or Financial Institutions.

4.1 Credit Policy of Uttara Bank Limited

Uttara Bank Limited credit policy contains the views of total macro-economic development of the country as a whole by way of providing financial support to the Trade, Commerce and Industry. Throughout its credit operation Uttara Bank Limited goes to every possible corners of the society. They are financing large and medium scale business house and industry. At the same time they also take care entrepreneurs through its operation and lease finance and micro-credit, small loan scheme etc.

From Financial Aspects it is observed that as a Matter of Policy

1. Charging of interest is flexible depending on insisting of the proposal and the customer.
2. It takes care and maintaining proper “Mix” of Short, Medium and Long term finance for a period not exceeding five years.
3. Uttara Bank Limited put emphasis on the customer.
4. It takes care of diversity in credit portfolio.

4.2 Credit Sanctioning Authority of Uttara Bank Limited

Uttara Bank Limited believes in decentralization of power and authority as because of the evil duel subordination may creep in the chain of command. Its authority is not well defined and properly implemented with a view to ensuring prompt efficient services to its multiple plans spread far and wide, the bank envisages delegation of optimum power to its executive and officials at different level of operation.

In order to implements the system of delegation of power effectively and to drive the desired for the bank as well as the executive concerned, bank has develop a system to ensure that delegated authority by the executive can be evaluated realistically and qualitatively.

The basic guideline they follow to achieve the objective of delegation of authority is-

- The Managing Director can exercise all the powers vested in other executives of the bank.
- The Managing Director may suspend exercise of delegated power of any executive through specific or general order.
- Other than Managing Director, the delegation of powers is exercise by the executive through specific or general order.

Delegated powers are expected to be exercise by the authorized executives judiciously keeping

the bank interest in mind. In exercising the powers so delegated authorized executives shall also have credit restrictions as governed by banking company act, Bangladesh Bank for exercising the delegated power-

1. The borrower must be a man of integrity and must have good reputation in the market.
2. The enterprise of the borrower must be viable and profitable. Proposal of the borrower must be evaluated properly and carefully so as to ascertain its profitability.

3. The borrower must have the capital and capability for utilizing credit properly and profitably.
4. No sanctioning officer can sanction any credit to any of his near relations to any firm/company where his relations have financial interest.
5. A customer to whom credit is to be allowed; should be far as possible within the command area.

4.3 Tools for Credit

The 10 C's of good and bad loan.

In addition to the formal credit, the credit of Uttara Bank Limited tries to judge the possible client based on some criteria. These criteria are called the C's of good and bad loans. These C's are described below:

1. Character Make sure that the individual or company you are leading to the Outstanding integrity.
2. Capacity Make sure that the individual or company you are leading to have The capacity of repaying your loan.
3. Conditions Understanding the business and economic conditions can and will Change after the loan is made.
4. Capital Make sure that the individual or company you are leading to have an appropriate level of investment in the company.

5. Collateral Make sure that there is a “Second way out” of a credit but do not
Allow that to drive the credit division.
6. Carelessness Remember that documentation, follow up and consistent monitoring
Are essential to high quality loan portfolio.
7. Communication Share credit objectives credit decision making both vertically and
Laterally within the bank.
8. Contingencies Make sure that you understand the risk, particularly the downside
Possibilities and that the structure and price the loan consistently
With that understanding.
9. Complacency Do not rely on past history to continue. Start alert to what can go
Wrong in any loan.
10. Competition Do not get swept away by what others are doing.

Others tools of good and bad loans are as follows as:

- a) Liquidity
- b) Profitability.
- c) Purpose of loan.
- d) Nature of loan.
- e) Source of repayment.
- f) Diversification of investment.

4.4 Large Exposure Assessment Framework:

These applications require assessments in line with the revised Credit Risk Grading System (CRGS) framework. This is a comprehensive analytical process that examines the following areas for potential risks:

- Borrower -ownership, ownership structure, past financial performance, management capability and depth, credit history & deposit account performance.
- Industry-vitality and prospects (sales volume trends in relation to demand levels), level of competition, buyer-supplier leverages and threats, cost and pricing structure, entry barriers and threats of new entries/substitution.
- Financial Package-type and purpose of assistance required, tenor, terms and conditions
 - Security-quality and quantity

Furthermore, potential risk exposures and any migrating factors must be disclosed in the analysis. These risks are invariably fall into the following categories:

- **Borrower:** Any issues regarding lack of management depth, complicated ownership structure or inter-group transactions are addressed and risk should be mitigated.
- **Industry:** The key risk factors/of the borrower's industry are assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces are addressed and strengths and weaknesses of the borrower relative to its competition are identified.

- **Supplier/Buyer Leverages:** Any customer or supplier concentrations are addressed, as these could have a significant impact on the future viability of the borrower.
- **Historical Financial Analysis:** Analyses of a minimum of 3 years historical financial statement of the borrower are presented. Cash flow, profitability and leverage trends are analyzed.
- **Projected Financial Performances:** A projection of the borrower's future financial performance are provided, indicating the sufficiency or lack thereof of cash flow to service debt repayment, Loans are not granted if projected cash flow is insufficient to repay debts.
- **Account Conduct:** For existing borrowers, the historic performances in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc.) are assessed.
- **Loan structures:** The amount and tenors of financing proposed are 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 is obtained and the quality and priority of security being proposed are assessed. Loans are not be granted based solely on security,
- **Mitigating Factors:** Risk factors (margin, sustainability, leverage /gearing, over-stocking, rapid growth/acquisition/expansion, management changes or succession issues, customer or supplier concentration, lack of transparency or industry issues) are identified in the credit assessment.

The Bank rates its individual risk exposures continuously until these have been discharged through full payment or otherwise written off. However, actual account performances are an additional consideration in classifying the exposures into one of the following eight categories:

- **Superior – Low Risk (AAA):**
Industry/Business & Financials: Strong industry and business performance is indicated on the basis of volume trends and operating margins; the account may be a dominant player in the

industry.

Account Performance: Account is cooperative, pays on time, and provides non-loan business. Security: Facilities are fully secured by cash deposits, government bonds or an unconditional guarantee from a top-tier international bank or financial institution.

➤ Good-Satisfactory Risk (AA):

Industry/Business & Financials: The account's performance is strong, having consistently strong earnings within a vibrant industry, good liquidity and low leverage.

Account Performance: Account is cooperative, pays on time and provides non-loan business. Security: Security is sub-prime but solid real estate.

Aggregate score would be 95 or above.

➤ Acceptable – Fair risk (A):

Industry/Business & Financials: Financial condition is currently strong but may be unable to sustain any major or continued setbacks. This classification indicates strengths below that of the previous category, but shows consistent earnings and positive cash flow.

Account Performance: Account is paying, but may be delayed by less than one month from time to time.

Security: Security position is satisfactory.

Aggregate score would be 75-94.

➤ Marginal -Watch list (BBB):

Industry/Business & Financials: These borrowers have an above-average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings.

Account Performance: Account is paying, but may be delayed by less than one month from time to time.

Security: Security position could be less than satisfactory if default occurs longer than 3 months. An aggregate score would be 65-74.

➤ Special Mention Account (SMA):

Industry/Business & Financials: These borrowers deserve management's close attention because of consecutive losses over two years with the potential to have negative net worth, excessive leverage.

Account Performance: Account is paying, but may be delayed by less than three months from time to time.

Security: Security position could be less than satisfactory if default occurs longer than 3 months. An aggregate score would be 55-64

➤ Substandard (SS):

Financial condition is weak, and capacity or inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans.

An aggregate score would be 45-54.

➤ Doubtful and Bad (Non-performing):

Full repayment of principal and interest is unlikely, and the possibility of loss is extremely high. The adequacy of provisions must be reviewed at least quarterly and the Bank should pursue a loan workout arrangement (e.g. restructuring), failing which legal options should be explored to enforce security to obtain repayment.

An aggregate score would be 36-44.

➤ Loss (Non – Performing):

The prospect of recovery is poor after exploring all options. Legal procedures have been initiated. In accordance with Bangladesh Bank guidelines, these accounts should be written off. An aggregate score would be 35 or less.

The deterioration of any loan account is regarded as a serious development that requires the attention of the Credit Committee. For this purpose, any account which is downgraded to "Substandard" should be the subject of a Classified Loan Report.



CREDIT RISK GRADING SCORE SHEET

Reference No.:	LEE /NCCPD/CRT/2013/	Date:	12-Feb-13
Borrower:	M/s. Gaci enterprise		
Group Name (if any):		Aggregate Score:	10
Branch:	Nanyangon	Risk Grading:	Acceptable
Industry/Sector:	TRADING		
Date of Financials:	12-Feb-13		
Completed by:	Shamsul M Marun		
Approved by:			
Number	Grading	Short	Score
1	Superior	SLP	Fully/cash secured, secured by government
2	Good	GD	85+
3	Acceptable	ACCEPT	75-84
4	Marginal/Watchlist	MQ/WL	65-74
5	Special Mention	SM	55-64
6	Substandard	SS	45-54
7	Doubtful	DF	35-44
8	Bad/Loss	BL	<35

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
A. Financial Risk	50%				
1. Leverage (15%)		Less than 0.25x	15	0.14	10
Debt Equity Ratio (x) - Times		0.26x to 0.35 x	14		
Total Liabilities to Tangible Net worth		0.36x to 0.50 x	13		
		0.51x to 0.75 x	12		
All calculations should be based on annual financial statements of the borrower (audited preferred)		0.76x to 1.25 x	11		
		1.26x to 2.00 x	10		
		2.01x to 2.50 x	8		
		2.51x to 2.75 x	7		
		More than 2.75x	0		
2. Liquidity (15%)		Greater than 2.74x	15	2.11	13
Current Ratio (x) -Times		2.50x to 2.74 x	14		
Current Assets to Current Liabilities		2.00x to 2.49 x	13		
		1.50x to 1.99 x	12		
		1.10x to 1.49 x	11		
		0.90x to 1.09 x	10		
		0.80x to 0.89 x	8		
		0.70x to 0.79 x	7		
		Less than 0.70x	0		
3. Profitability (15%)		Greater than 23%	15	23.0%	14
Operating Profit Margin (%)		20% to 24%	14		
(Operating Profit/Sales) X 100		15% to 19%	13		
		10% to 14%	12		
		7% to 9%	10		
		4% to 6%	9		
		1% to 3%	7		
		Less than 1%	0		
4. Coverage (5%)					
Interest Coverage Ratio (x) - Times		More than 2.00x	5	0.05	0
Earning before interest & tax (EBIT)		More than 1.51x Less than 2.00x	4		
Interest on debt		More than 1.25x Less than 1.50x	3		
		More than 1.00x Less than 1.24x	2		
		Less than 1.00x	0		
Total Score- Financial Risk			10		0



CREDIT RISK GRADING SCORE SHEET

Reference No.:	UBL/NGDN/CRG/2013/	Date:	12-Feb-13
Borrower:	M/s. Gazi enterprise		

B. Business/ Industry Risk 18%				
1. Size of Business (in BDT crore) The size of the borrower's business measured by the most recent year's total sales. Preferably audited numbers.	> 50.00	5	0.50	0
	30.00 – 99.99	4		
	10.00 – 29.99	3		
	5.00 – 9.99	2		
	2.50 – 4.99	1		
	< 2.50	0		
2. Age of Business The number of years the borrower engaged in the primary line of business	> 10 Years	3	1	0
	> 5 - 10 Years	2		
	2 - 5 Years	1		
	< 2 Years	0		
3. Business Outlook Critical assessment of medium term prospects of industry, market share and economic factors.	Favorable	3	Favorable	3
	Stable	2		
	Slightly Uncertain	1		
	Cause for Concern	0		
4. Industry Growth	Strong (>10%)	3	Strong (>10%)	3
	Good (>5% - 10%)	2		
	Moderate (1%-5%)	1		
	No Growth (<1%)	0		
5. Market Competition	Dominant Player	2	Dominant Player	2
	Moderately Competitive	1		
	Highly Competitive	0		
6. Entry/Exit Barriers	Difficult	2	Difficult	2
	Average	1		
	Easy	0		
Total Score- Business/ Industry		9		10

C. Management Risk 12%				
1. Experience Quality of management based on total # of years of experience of the senior management in the industry.	More than 10 years in the related	5	5-10 years in the related line of	3
	5-10 years in the related line of	3		
	1-5 years in the related line of	2		
	No experience	0		
2. Second Line/ Succession	Ready Succession	4	Ready Succession	4
	Succession within 1-2 years	3		
	Succession within 2-3 years	2		
	Succession in question	0		
3. Team Work	Very Good	3	Very Good	3
	Moderate	2		
	Poor	1		
	Regular Conflict	0		
Total Score- Management Risk		12		10



CREDIT RISK GRADING SCORE SHEET

Reference No.:	UBL/NGCN/CRG/2013/	Date:	12 Feb 13
Borrower:	M/s. Gazi enterprise		

D. Security Risk 10%			
1. Security Coverage (Primary)	Fully Pledged facilities/substantially cash covered / Reg. Mortg. for HBL Registered Hypothecation (1 st Charge/1st Pari passu Charge) 4 Registered Hypothecation (1 st Charge/1st Pari passu Charge) 3 2nd charge/Inferior charge 2 Simple hypothecation/Negative lien on assets 1 No security 0		Registered Hypothecation (1 st Charge/1st Pari passu Charge) 3
2. Collateral Coverage (Property Location)	Registered Mortgage on Municipal corporation/Prime Area property 4 Registered Mortgage on Pourashava/Semi-Urban area property 3 Equitable Mortgage or No property but Plant and Machinery as collateral 2 Negative lien on collateral 1 No collateral 0		Registered Mortgage on Pourashava/Semi-Urban area property 3
3. Support (Guarantee)	Personal Guarantee with high net worth or Strong Corporate Guarantee 2 Personal Guarantees or Corporate Guarantees with average financial strength 1 No support/guarantee 0		Personal Guarantee with high net worth or Strong Corporate Guarantee 2
Total Score Security Risk		10	8
E. Relationship Risk 10%			
1. Account Conduct	More than 3 years Accounts with faultless record 5 Less than 3 years Accounts with faultless record 4 Accounts having satisfactory dealings with some late payments 2 Frequent Past dues & Irregular dealings in account 0		More than 3 years Accounts with faultless record 5
2. Utilization of Limit (actual/projection)	More than 60% 2 40% - 60% 1 Less than 40% 0		100.00% 2
3. Compliance of Covenants / Conditions	Full Compliance 2 Some Non-Compliance 1 No Compliance 0		Full Compliance 2
4. Personal Deposits	Personal accounts of the key business Sponsors/ Principals are maintained in the bank, with significant deposits 1 No depository relationship 0		Personal accounts of the key business Sponsors/ Principals are maintained in the bank, with significant deposits 1
Total Score Relationship Risk		10	10
Grand Total - All Risk		100	80

4.5 Lending Risk Analysis (LRA)

LRA is a very important and vital analysis for deciding whether the loan proposal is potential or not. Many types of scientific, mathematical, statistical and managerial tools and devices are required to perform this analysis. Uttara Bank maintains a prescribed format for Lending Risk Analysis, which includes a spreadsheet to analyze a lot of things. It is not possible to discuss the entire LRA in this report.

Lending Risk Analysis (LRA)

a) *Industry Risk:*

- i. **Supply Risk-** What is the risk of failure to disruption in the supply of input?
- ii. **Sales Risk-** What is the risk of failure due to disruption sales?

b) *Company Risk:*

1. **Company Position Risk:**

- i. **Performance Risk-** What is the risk if the company position is so weak that it cannot perform well enough to repay the loan, given expected external condition?
- ii. **Resilience Risk-** What is the risk of failure due to lack of resilience to unexpected external condition?

2. **Management Risk:**

- i. **Management Competence Risk-** What is the risk of failure due to lack of management competence?
- ii. **Management Integrity Risk-** What is the risk of failure due to lack of Management Integrity?

c) *Security Risk:*

- i. **Security Control Risk-** What is the risk that the bank fail to realize the security?
- ii. **Security Cover Risk-** What is the risk that realized security value is less than the exposure?

4.6 Proposal Analysis

The Project Proposal is analyzed and decision about the project is taken. The loans and advance department is responsible for the analysis. After preliminary appraisal of the loan project the final approval is obtain from the manager. If the loan amount crosses a certain amount (tk. 1,00,00,000), managers send the loan project to the principal office for final approval. The experts in principal office find out different projected ratios and developed and understanding about the potentiality of the project. Bank evaluates a loan proposal by considering few predetermined variables. These are:

- Safety
- Liquidity
- Profitability
- Security
- Purpose of the loans
- Sources of repayment
- Diversification of risk etc.

Securities are of two types:

a) Primary Security

b) Collateral Security

The most important measure of appraising a loan proposal is safety of proposal. Safety is measured by the security offered by the borrower and repaying capacity of the borrower. The attitude of the borrower is also important consideration. Liquidity means the inflow of cash into the project in course of its operation. The profit is the blood of any commercial institution. Before approval of any loan project the bank authority has to ensure that the proposed project will be profitable venture. Profitability is assessed from the projected Profit and Loss Statement. The security is the only tangible asset remains with the banker. Securing of collateral is the only weapon to recover the loan amount. So bank has to see that the collateral is easy to sale and sufficient to recover the loan amount. Bank cannot sanction loan by only depending on collateral.

The sources of the payment of the project should be a feasible one. During sanctioning any loan Bank has to be attentive about diversification of risk. All money must not be disbursed amongst a small number of people. In addition any project must be established for the national interest growth.

4.7 Evaluation of Collateral

Uttara Bank is very cautious about valuation of the collateral. The bank officials simultaneously evaluate the collateral of the party offered by the private firm. The valuation of the collateral increases the accuracy of its value estimated. Three types of value of the collateral are assumed:

- Current market value
- Forced value
- Value after five years

The legal officers of the bank check the document ascertain their impurity.

4.8 Final Decision about the Project

If the loan decision remains with the branch level, that branch sanctions the loan and if the approving authority is Head Office then the decision comes to the branch by Mail.

4.9 Proper Supervision of the Project

If such provision is kept in the sanction contracts, the Uttara Bank limited officials go to the project area to observe how the loan is utilized. If no such clause to supervise the loan is added, even then the bank can see the performance of the project.

4.10 Documentation of the Loan

These are the most frequently used and common documents of above mentioned charged and for other formalities for sanctioning the loan:

- Demand Promissory Note: Here the borrower promises to pay the loan as and when demanded by the bank to repay the loan.
- Letter of Arrangement: Here the written amount of the loan sanctioned to the borrower is specified.
- Letter of Continuity: It is used to take continuous facilities as providing continuous securities.
- Letter of Hypothecation: It is the written document of the goods hypothecated thus to put in case of need.

- Stock Report: This report is used for SBL and CC. In this report information about the quality and quantity of goods hypothecated have furnished.
- Personal guarantee: It is the additional confirmation of the borrower to repay.
- Guarantee of the Directors of the company.
- Resolution of the board of directors: It is used to borrow the fund to execute documents and complete other documents.
- Letter of disclaimer: By this letter, the borrower withdraws his all claim on the property/mortgaged.
- Letter of Acceptance: Letter indicating the acceptance of the sanction proposal by the borrower.
- Letter of Pledge: It is the written document of the goods pledge thus the legality of holding the goods.
- Letter of Disbursement: This is the document through which the payment of sanctioned loan indicates.
- Letter of partnership: In case of partnership firm, the partnership deeds are to be provided.
- Letter of Installment: The amount of installment that is to be paid at certain intervals.
- Tax Paying Certificate.
- Others: Any document if described, as essential in the sanctioned advice sanctioned by the Head Office.

4.11 Loan Recovery Programs

When Uttara Bank Ltd sanctions loans and advances to its customers, they clearly state the repayment pattern in the loan agreement. But some credit holders do not pay their credit in due period. The nationalized and private sector commercial banks have to face this sort of problems. This situation is also found in Uttara Bank Ltd. To overcome the problem of overdue loan, the bank has taken particular loan recovery programs.

Recovery Programs taken by Uttara Bank Limited

- Establishing credit supervision and monitoring cell in the bank
- Re-structuring the loan sanctioning and distributing policy of the bank
- Sanctioning loans and advances against sufficient securities as best as possible
- Giving more powers to the branch manager in credit management decision making process
- Offering a package of incentives to the sound borrowers
- Giving more emphasis on short term loans and advances
- Imposing restrictions on loans and advances for sick industries
- Taking legal actions quickly against unsound borrowers as best as possible within the period specified by the law of limitations.

Recovery Patterns of Loan & Advances

Generally Uttara bank Ltd sanctions loans and advances to every sector of an economy. Before going into details of recovery performance, we have to be familiar with some terms used in recovery performance:

- Disbursement: highest outstanding balance on any date during the reporting period minus outstanding balance at the end of the preceding period.
- Demand for recovery: overdue at the end of the reporting period plus recovery during the reporting period.
- Recovery: highest outstanding balance on any date during the reporting period minus outstanding balance at the end of the recovery period.
- Outstanding: Outstanding figures in the ledger at the end of the reporting period.
- Overdue: Demand for recovery minus recovery.

4.12 Recovery of Non-Performing Loans & Investments

The NPL Recovery Unit is responsible for all accounts assigned to it by the Credit Committee.

The units are staffed by seasoned senior officers who undertake the following activities:

- Check the accounts thoroughly and establish business prospects; and find out the best way to recover the Bank's exposure with the least possible losses.
- Restructure those accounts which are deemed to be cooperative and in temporary distress, and monitor their performance closely until they have substantially complied with the revised terms including payment of at least six months' installments; rehabilitated accounts may be returned to the originating front offices for regular monitoring and supervision after this prescriptive period.
- Preparation of accounts with security, whose operations are active but the owners are uncooperative, for legal action; coordinate with the Bank's legal counsel and/or external lawyers in the filing and prosecution stage; execute final judgment as may be determined by the courts. For these types of accounts, the NPL Unit may recommend further accounting treatments (such as additional loan loss provisions) depending on the perceptions concerning the Bank's security position. Blacklist the borrowers to ensure they are not entertained for future accommodations in the future.
- Prepare accounts without any security, whose operations are either active or inactive and the owners are uncooperative, for attachment of personal assets through legal means; as above, coordinate with the legal agents of the Bank until the cases are resolved. Recommend write-off for accounts with no hope of recovery, and blacklist the borrowers to ensure they are never entertained in the future. The Board have the sole authority to approve write-offs .

Chapter-5

Chapter-5: Major Findings, Recommendations and conclusion

Findings

Every bank has its own credit procedure. Bank under study possesses a standard credit procedure. As the objective of my study is to make a comment on the credit management of Uttara Bank, I try my best to collect data for the study and find out the reality. Based on the data generated during my study period I will sum up my findings here and I think this will help me to achieve my objectives.

1. If we look at the historical background of Uttara Bank, we see that, the objective of Uttara Bank is to earn profit as well as to improve the economic welfare of the people as a whole.
2. Uttara Bank has a significant role in long term project financing in both agriculture and industrial sectors. Again Uttara Bank has a deep concern for rural farmers.
3. Private sector usually concentrates in the urban areas where as Uttara Bank spread their banking network all over the country.
4. With a view to implementing government policies, Uttara Bank has been maintaining its position in extending credit to government bodies, sector corporations and private enterprises.
5. Though bank required both quantitative and qualitative analysis but for big loans bank emphasizes on the lending risk analysis (LRA). But LRA is not a perfect measure of credit analysis. Because businessmen in our society are usually tempted to take resort of window-dressing that means accounts are so manipulated that the vital facts are concealed and facts presented are superficial. So banks have to go through both quantitative and qualitative analysis.

According to the standard and bank's credit procedure, credit operation is started from the customer application to the branch for the loan. But in some cases, few customers go directly to the directors of the bank and directors send them to the branch offices with his/her reference. In these cases, proper appraisal is not possible as directors the most powerful persons and bank management must give priority towards the decision of the directors. This phenomenon is found in the bank, which hampers the spontaneous procedure of credit appraisal.

6. Bangladesh Bank monitors all the policies of all the private and nationalized banks of the country. According to the Bangladesh Bank's strategy, all banks must possess the standard policies, which are designed by the central bank. Uttara Bank also possesses a standard credit proposal form. In that form all necessary information are required to fill up. But in practice credit officers do not fill up the proposal form properly. Most of the cases, they use assumption rather than exact figure. This practice might end up with bad or classified one.
7. A standard policy starts from the customer's direct application for the loan in the branch office. But it's a phenomenon that some of the customers directly contact with Head office and Head office choose the branch offices to disburse the loan. It may hamper the normal procedure. Branches always stay under pressure when they get order for disbursement from Head office. When branches get order from the head office, then appraisal system loses its formal track. So Head office should not send any order to the branch office without prior appraisal.
8. Every bank has its own budget and plan regarding loan portfolio. This loan portfolio must be diversified so that bank could diversify its risk. A proper and preplanned portfolio can eliminate the risk of huge classified loan or bad loans as this aspect is very much sensitive toward many external and internal factors. The bank under study i.e. Uttara Bank does not have any proper guide line where to invest; moreover they do not do any future plan to maintain a well structured portfolio to decrease the possibility of classified loan. This type of practice is working as an obstacle in smooth credit disbursement as well as in credit appraisal system.
9. Most of the loans that Uttara Bank distributes are as cash credit hypothecation and Uttara Bank emphasizes less on demand loan.
10. In many cases bank face this problem because bank's credit officer fails to value collateral property. Proper valuation means collateral will exactly cover the risk of bad loan. Officials must do it with due care.
11. Uttara Bank keeps enough provisions against classified loans and advances.

Recommendations

I have discussed so far about the different aspects of credit risk management Uttara Bank. for my report, I have selected Uttara bank Ltd. UBL plays an important role in the banking sector as well as in our economy. The success of a bank depends largely on the efficient credit management. A successful credit management is not only need for a bank's own performance but also it is needed for the smooth development of an economy. In any strategy of economic development, therefore, it is essential to emphasize the evaluation of a sound and well-integrated credit management system from the viewpoint of both resources mobilization and efficient allocation of funds. In conclusion it can be suggested a number of recommendations in order to overcome the problems and how to remove the causes of problem in credit management.

Since this an exploratory research, hence the recommendation given are not decisions rather they are only suggestions to improve the default rate. The recommendations are made on the basis of survey findings.

1. Central Bank should take proper actions for ensuring equivalent distribution of loans and advances.
2. Lending policies in our country should be geared to growth potential rather than being determined by the pre-existing collateral.
3. Changes in lending policies will not suffice the purposes unless it is followed by a change in the attitude and out look of both the borrowers and the bankers.
4. Improvement of credit management depends on the development of relevant, adequate, proper and reliable data base at the public sector banks as well as private sector banks in Bangladesh.
5. For developing a reliable credit management system for the commercial banks specially Uttara Bank, it should require to introduce as improved information system within bank as well as among the borrowers. Because ultimately it is what a borrower does with money that should guide the credit plan, the borrowers also have to know exactly where they are going, what their opportunities and how fast they can move?

- 6.** The security must be valued properly by the independent surveyors and constantly attached so that the value of mortgage property becomes sufficient to recover the default loan.
 - 7.** Publishing the names of defaulter as well as good and regular payers in various dailies and granting various sorts of facilities to good borrowers will create a moral persuasion on the borrowers. This may decrease the number of defaulters and the volume of large outstanding loan amounts as well.
 - 8.** Pressure from outsider and influence extorted by borrowers are also a great impediment in the smooth functioning of loan recovery process. The role of government in this case is the most important factor required to solve these sorts of problem.
 - 9.** More and more competent personnel must be recruited to reduce the weakness of credit management. Competent executives will ensure the reduction of wrong appraisal and evaluation of projects.
 - 10.** Prompt legal actions be taken against willful loan defaulters
 - 11.** The new entrepreneurs should be encouraged in disturbing loans and those who have the records of regular payment, should be given preference.
 - 12.** Steps should be taken so that guarantors cannot avoid their responsibility.
 - 13.** It is observed that the defaulters generally get various sorts of exemptions as declared by the government from time to time. Government must not show any kind of mercy to the defaulters in any way which may encourage the default culture. This type of action may discourse the borrowers to become willful defaulters.
 - 14.** The attempt to encourage banks to require borrowers comply with banking laws and regulations and clear up industrial properties prior to granting a loan.
 - 15.** Uttara Bank Limited should follow some straight ward mechanical procedures in assessing the risk of a borrower.
 - 16.** The formulation of a sound credit policy in the possibility of default loans.
 - 17.** The formulation of a sound credit policy in the banking sector as a whole has to take into account all these factors and each bank has to attempt to work out for itself what it is capable of doing so as best as possible.
-

Conclusion

In the changing concept of banking, financing in some areas, especially in advances to agriculture, small industries, small borrowers and export oriented industries are assuming great importance. Investment is the most important asset as well as the primary source of earning for the bank. On the other hand this is also the major source of risk for the bank. So the bank should always try to make an appropriate balance between its return and risk involved with the investment portfolio. Close supervision and effective follow up of investment activities might reduce the risk to a great extent. An unsupervised investment might be stuck up. Consequently not only the depositors but also the general share holders will be deprived of getting back their money from the bank.

~~As concluding remark the bank is able to attain a leading role with the 50 years of successful~~ story but to remain unrivalled among new generation banks, the bank must face new challenges. The bank must make a positive attempt to be more outward looking in their goals and aware of what is happening. They must also emphasize on the domestic scenario more closely and analyze any certain trends and strategies of their competitors. The bank must accept any failures and think of them as an objective to pursue future goals instead of blaming such failures on other factors and in this way the Bank will be able to keep on playing its important roles in our economy.

References

1. Uttara Bank Limited Limited [Online]. Available From [Accessed on 10/11/2017]
2. Annual Report of Uttara Bank Limited limited (2016)
3. <http://www.uttarabank-bd.com/>