

**Internship Report on Credit Risk  
Management of  
IFIC BANK LIMITED**

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Date of Submission: May 29, 2016

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May 29, 2016

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SENIOR LECTURER  
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**Subject: Letter regarding submission of Internship Report on IFIC Bank Ltd.**

Dear Sir,

I am delighted to submit my internship report on “Credit Risk Management of IFIC Bank Limited” as per our Masters in Business Administration (MBA) Program requirement. I had completed my internship program in IFIC Bank Limited in Mohammadpur Branch, Dhaka.

I have worked over there in every department from February 11, 2016. I have prepared this report based on Loans & Advance section.

While preparing the report I, enthusiastically and sincerely devoted my best effort. Surely, it enriches my knowledge and promotes study.

Thank you for giving me such an opportunity for working on the topic.

Sincerely yours,

.....

**(Urmi Chakraborty)**

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## ACKNOWLEDGEMENT

My heartiest thanks notation will first go to my supervisor Mr. Noman H Chowdhury, Senior Lecturer, BRAC University for providing his gentle instruction, proper suggestion and corrections for improvement the report.

I am grateful to Mr. Rashedul Alam, FAVP & Head of HR Development & Talent Management, IFIC Bank Ltd., Head Office, Dhaka for giving me permission to work as an Internee in IFIC Bank Ltd., Mohammadpur Branch, Dhaka. I would also like to thank Mr. Helal Ahmed (First Vice President and Relationship Manager, IFIC Bank Ltd, Kawran Bazar Branch), Mr. Abdul Kadir (Assistant Vice President and Relationship Manager, IFIC Bank Ltd, Mohammadpur Branch) and Mr. Abu Mayeen Palash (Senior Principal Officer and Manager Operation) of IFIC Bank Ltd, Mohammadpur Branch, Dhaka to allow me to complete my internship program in this bank.

I am also really thankful for the knowledge I gained during my close association with expert bankers on different sectors, especially Mr. Abu Mayeen Palash (GB), Mrs. Fahmida Zaman (Clearing), Mr. Nazma Begum (Cash), Mr Maruf Al Hasnat (Loans & Advance), and other officials who helped me by sharing their rich banking experience during the internship period.

## **E X E C U T I V E   S U M M A R Y**

International Finance Investment and Commerce Bank Limited (IFIC Bank Limited) is a first generation bank in Bangladesh that came in banking sector with big promise. IFIC Bank Limited is one of the oldest commercial banks, started its journey on August 3, 1983, operating nationwide with 130 branches.

The main purpose of the report is to provide a basic idea on Credit Risk Management of IFIC Bank Limited. The report will also present the different terms and conditions of maintaining the different credit service of IFIC Bank Ltd.

Now a day, Credit Risk Management is vital for a bank to earn revenue. And here in this report, I have tried to explain the services of IFIC Bank Ltd. in the perspective of Credit Risk Management.

Firstly, I have started with accounts opening. Then I looked at the local money transfer, clearing, cash section, accounts section etc. I wrote PO, different vouchers, etc. These kinds of activities are under control of General Banking.

Finally, I went to Loans and Advance Section. I learnt about the different guidelines, criteria, conditions required for the loans and I have also learned to prepare different proposal.

I have gone through different analysis on Credit Risk Management. In Mohammadpur Branch, the amount of loans provided is following an increasing trend but still not enough in compare to deposits especially in SEF sectors it shows decreasing trends. However, the amount of loans in CF category also increases because of Home Loan.

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY.....</b>		<b>4</b>
<b>CHAPTER 1.0 INTRODUCTION.....</b>		<b>10-16</b>
<b>1.1</b>	<b>INTRODUCTORY THOUGHTS</b>	10-11
	1.1.1 Origin of the report.....	10
	1.1.2 Objectives of the report.....	10
	1.1.3 Scope of the Report.....	10
	1.1.4 Methodology of the report.....	11
	1.1.5 Limitations of the report.....	11
<b>1.2</b>	<b>AN OVERVIEW ON IFIC BANK LIMITED</b>	12-16
	1.2.1 Ownership Structure.....	12
	1.2.2 Value of IFIC Bank Ltd.....	12
	1.2.3 Organization Structure.....	13
	1.2.4 Board of Directors.....	14
	1.2.5 Policy Committee.....	14
	1.2.6 Corporate Culture.....	14
	1.2.7 Different Divisions.....	14
	1.2.8 Joint Ventures.....	15-16
	1.2.9 Technology.....	16

<b>CHAPTER 2.0</b>		<b>18-61</b>
<b>CREDIT OPERATIONS AND MANAGEMENT OF IFIC BANK LTD.....</b>		
<b>2.1</b>	<b>CREDIT OPERATIONS</b>	18-53
	2.1.1 Lending principles of IFIC Bank.....	18-19
	2.1.2 Sound Principles of lending.....	19-20
	2.1.3 Credit department function.....	21
	2.1.4 Direct Facilities (Funded).....	21-35
	2.1.5 Indirect facilities.....	35-36
	2.1.6 Business analysis.....	37
	2.1.7 Selection of Borrower.....	38-40
	2.1.8 Single borrower / Group Limits/ Large Loan/ Syndication.....	40-41
	2.1.9 Procedures for giving Advances	42-47
	2.1.10 Credit Assessment.....	48-49
	2.1.11 Feasibility report.....	49
	2.1.12 Credit line proposal	49
	2.1.13 Project Appraisal	50-53
<b>2.2</b>	<b>CREDIT RISK MANAGEMENT</b>	54-57
<b>2.3</b>	<b>CREDIT APPROVAL</b>	58-61
<b>2.4</b>	<b>CREDIT ADMINISTRATION</b>	61
<b>2.5</b>	<b>LOAN CLASSIFICATION</b>	61-62

<b>CHAPTER 3.0 LEGAL FRAMEWORK.....</b>		<b>64-85</b>
3.1	LEGAL FRAMEWORK FOR LOAN RECOVERY	64
3.2	PRUDENTIAL GUIDELINES	65-79
	3.2.1 Prudential Guidelines for SEF (Small Enterprise Financing)	65-73
	3.2.2 Process Flow Chart of SEF (Small Enterprise Financing)	74
	3.2.3 Product Program Guidelines for Small Enterprise Loan	75-79
3.3	SECTOR WISE POSITION OF LOANS & ADVANCES (MOHAMMADPUR BRANCH):	80
3.4	EXISTING POSITION OF LOANS AND ADVANCES, MOHAMMADPUR BRANCH.	81
3.5	EXISTING POSITION OF SMALL ENTERPRISE FINANCING, MOHAMMADPUR BRANCH	82-83
3.6	INTEREST INCOME FROM LOANS AND ADVANCES, MOHAMMADPUR BRANCH.	84
3.7	RECOVERY OF LOANS AND ADVANCES, MOHAMMADPUR BRANCH.	85
<b>CHAPTER 4.0 CONCLUSION.....</b>		<b>87-89</b>
4.1	RECOMMENDATION.....	87-88
4.2	CONCLUSION.....	89
<b>SOURCES</b>		<b>90</b>

<b>LIST OF FIGURES, TABLES AND GRAPHS</b>		
	<b>FIGURES</b>	
1	Organization Structure	13
2	Process Flow Chart of SEF (Small Enterprise Financing)	74
	<b>TABLES</b>	
1	Interest rates in Loan and Advance	37
2	Rate of Net Classified Loans	40
3	Aggregate exposure of bank on small enterprise sector	66
4	Sector wise position of Loans & Advances (Mohammadpur Branch)	80
5	Total Loans and Total Deposits of IFIC Bank (Mohammadpur Branch)	81
6	Total SEF and Total Deposits of IFIC Bank (Mohammadpur Br.)	82
7	Sector wise position of Interest Income of IFIC Bank (Mohammadpur Br.)	84
8	Classification of Loans and Advances of IFIC Bank (Mohammadpur Br.)	85
	<b>GRAPHS</b>	
1	Total Loans and Total Deposits of IFIC Bank (Mohammadpur Branch)	81
2	Loans Percentage of Deposits of IFIC Bank (Mohammadpur Branch)	81
3	Total SEF, Total Deposits and Total Loans of IFIC Bank (Mohammadpur Br.)	82
4	SEF as a percentage of Total Deposits of IFIC Bank (Mohammadpur Br.)	83
5	SEF as a percentage of Total Loans of IFIC Bank (Mohammadpur Br.)	83



# CHAPTER-1.0

## INTRODUCTION

## 1.1 INTRODUCTORY THOUGHTS

### 1.1.1 Origin of the report

Mr Noman H Chowdhury, Senior Lecturer, BRAC University, has assigned me to prepare an internship report on ‘Credit Risk Management of IFIC Bank Ltd., Mohammadpur Branch.’ As per his instruction and under his kind supervision I have done this internship report on the Quantitative data of IFIC Bank Ltd. & my experience with the professionals while I worked there. This report has been designed to provide basic understanding of the corporate environment of IFIC Bank Ltd., Mohammadpur Branch, and Comparable performance of the specific branch for last 5 years.

### 1.1.2 Objective of the report

The primary objectives of the study are summarized in the following manner:

- ✓ To fulfill the requirement of MBA program.
- ✓ To learn desk-wise credit activities in bank branch.
- ✓ To study financial activities of the bank.
- ✓ To analyze the performance of Mohammadpur branch.
- ✓ To gain practical experiences and view the application of theoretical knowledge in the real life.

### 1.1.3 Scope of the Report

Banking sector is a large and difficult area. A Bank has different products, different services and different customers. Different departments of a Bank perform different activities.

As I was an Intern, my scope was very much limited and restricted. I had to maintain some official formality for the collection of data of my report. I had the opportunity to work only at the IFIC Bank Ltd., Mohammadpur Branch. The report is based on my observation and studies during my internship period in Mohammadpur Branch of the IFIC Bank. The study covers the Bank’s functional areas i.e. Service of IFIC Bank & its other department such as General Banking, Loan and Advance, Account opening, Clearing and Foreign exchange.

#### **1.1.4 Methodology of the report**

This report is prepared using both Primary and Secondary information.

##### **Primary Information was collected through-**

- ✓ Informal interview with the organization officials of concerned department.
- ✓ Face to face conversation with the respective officers and staffs of the Branch.
- ✓ Informal conversation with the clients.
- ✓ Practical work exposures from the different desk of the three department of the branch were covered.

##### **Secondary Information that was used for this report is collected mainly from –**

- ✓ Statement of affairs and Statement of Income account of the specific branch on yearly basis.
- ✓ Other sources are-
  - a. Annual report of IFIC Bank Ltd.
  - b. Web site of the bank.
  - c. Bank papers and hand notes.
  - d. Different lending forms and schemes used by the Bank.

#### **1.1.5 Limitations of the report**

- One of the major limitations is the shortage of internship period. To prepare a report on some issues takes much time but in practice we are given a short time.
- The study was conducted only on the Branch level. Overall banking performance could not be evaluated for time constraints.
- Finally, the lack of the depth of my knowledge and the analytical capacity for writing such report is also a shortcoming of this study.

## **1.2 AN OVERVIEW ON IFIC BANK LIMITED**

International Finance Investment and Commerce Bank Limited (IFIC Bank Ltd.) is a banking company incorporated in the people's republic of Bangladesh with limited liability. It was set up at the instance of the Government in 1976 as a joint venture between the Government of Bangladesh and sponsors in the private sector with the objective of working as a finance company within the country and setting up joint venture banks/ financial institutions abroad. The Government held 49 percent shares and the rest 51 percent were held by the sponsors and general public. In 1983 when the Government allowed banks in the private sector, IFIC was converted into a full-fledged commercial bank. The Government of the People's Republic of Bangladesh now holds 32.75% of the share capital of the Bank. Leading industrialists of the country having vast experience in the field of trade and commerce own 11.31% of the share capital and the rest is held by the general public.

### **1.2.1 Ownership Structure:**

Ownership of the bank is held by the sponsors in the private sector and Government of the People's Republic of Bangladesh. Sponsors and individuals now about 67.25% of the share capital and the Government own a little more than 32.75% of the share.

### **1.2.2 Value of IFIC Bank Ltd.:**

- To work as a team to serve the best interests of the organization.
- To value and respect people and make decision based on merit.
- To have a strong customer focus and to build relationship based on integrity.
- To work for continuous business improvement.
- To provide recognition and reward on performance.

**1.2.3 Organization Structure:**

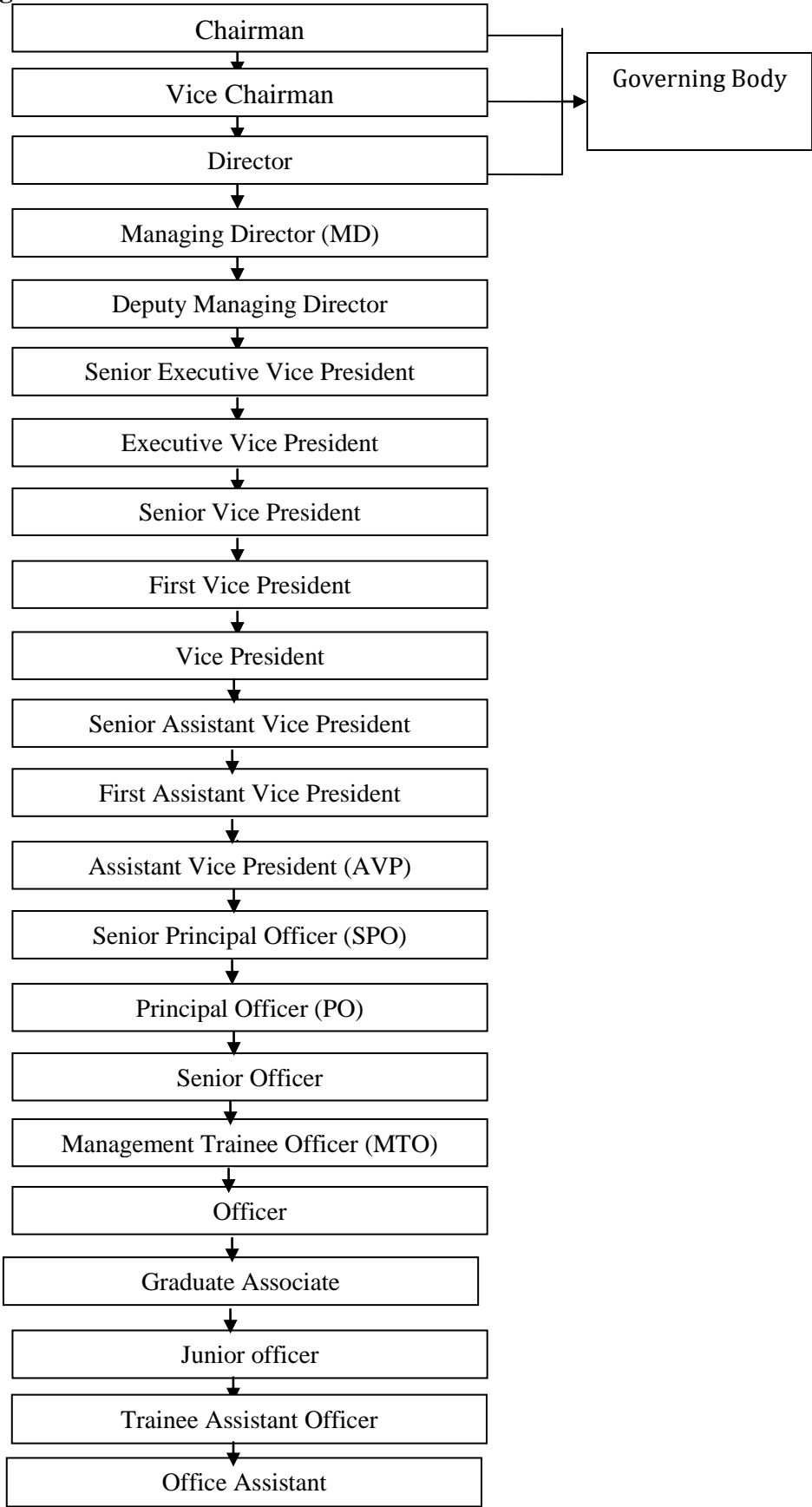


Figure 1: Organization Structure

#### **1.2.4 Board of Directors:**

Board of Directors of the Bank is a unique combination of both private and Government sector experience. Currently it consists of 9 Directors. Of them three represent the sponsors and general public and three senior officials in the rank and status of Additional Secretary/ Joint Secretary represent the Government. Managing Director is the ex-official Director of the board. The board of directors who also decides on the composition of each committee determines the responsibilities of each committee.

#### **1.2.5 Policy Committee:**

All matter relating to the principals, policies, rules and regulation etc. for operation and management of Bank is recommended by the committee to the board of Directors.

#### **1.2.6 Corporate Culture:**

IFIC Bank is one of the disciplined Banks with a distinctive Corporate Culture. Here it believes in shared meaning, shared understanding and shared sense making. IFIC Bank's people can see and understand events, activities, objects and situations in a distinctive way. They maintain their manners and etiquette, character individually to suit the purpose of the Bank and the needs of the customers who are of paramount importance to them. People in the Bank see themselves as a tight knit than family that believes in working together for growth. The corporate culture IFIC Bank belongs has not been imposed; it has rather been achieved through IFIC Bank's Corporate Culture.

#### **1.2.7 Different Divisions:**

Human Resources division:

- Investment Division
- Marketing Division
- International Division
- General Banking Division
- General Service Division
- Financial administration Division
- Internal Control and Compliance Division

### **1.2.8 Overseas Operations:**

#### **Oman International Exchange LLC (OIE):**

Oman International Exchange LLC (OIE), a joint venture between IFIC Bank Limited and Oman nationals, was established in 1985 to facilitate remittance by Bangladeshi wage earners in Oman. IFIC Bank holds 25% shares, and the balance 75% is held by the Omani sponsors. The exchange company has a network of 15 branches covering all the major cities/towns of Oman. The operations of the branches are fully computerized having online system. The affairs and business of the company is run and managed by the Bank under a Management Contact.

#### **NIB Bank Ltd., Pakistan:**

IFIC Bank had two branches in Pakistan, one in Karachi and the other in Lahore. Karachi Branch was opened on 26<sup>th</sup> April 1987, while Lahore Branch was opened on 23<sup>rd</sup> December, 1993. To meet the Minimum Capital Requirement (MCR) of the State Bank of Pakistan, the Overseas Branches in Pakistan have been amalgamated with a reputed leasing company in Pakistan named National Development Leasing Corporation (NDLC) Ltd. Therefore, the existence of the above Overseas Branches has ceased on 2<sup>nd</sup> October 2003 and a new joint venture bank entitled NDLC-IFIC Bank Ltd. Emerged in Pakistan on 3<sup>rd</sup> October 2003. The Bank was subsequently renamed as NIB Bank Ltd. IFIC Bank presently holds 0.23% equity in the Bank.

#### **Nepal Bangladesh Bank Ltd. (NB Bank):**

Nepal Bangladesh Bank Ltd. (NB Bank), a joint venture commercial bank between IFIC Bank Ltd. And Nepal nationals, started operation with effect from June 06, 1994 in Nepal with 50% equity from IFIC Bank Ltd. The Bank was so far opened 28 (twenty eight) branches at different important locations in Nepal. IFIC Bank presently holds 40.91% shares in NB Bank

#### **IFIC Money Transfer (UK) Limited:**

IFIC Money Transfer (UK) Limited, a fully owned subsidiary exchange company of IFIC Bank Limited was incorporated in UK and commenced its operation on 31st August, 2011

to facilitate inward foreign remittance from United Kingdom. The company has recently reached break-even despite lot of challenges.

### **1.2.9 Technology:**

IFIC Bank, in the year 2005, acquired a robust core banking system - “Equation Banking Application (EBA) and Equation Banking Server (EBS)” developed by Misys , a globally renowned UK-based company engaged in the technology business. Recently IFIC Bank has taken the initiative to get an upgraded version of the Misys and engaged KPMG, a world renowned consulting firm to assist in preparing a detailed study of work process driven by our customer needs. A client of IFIC can walk into any one of our 120 locations or in any of our agents centers and avail of the same facilities and services that they are getting from their home branch. To meet the requirements of our Non Resident Bangladeshi customer, they have developed a Remittance Software - Remit4U, which is integrated with our Mobile Banking platform. IFIC is a member of the BEFTN System operated by Bangladesh Bank. This enables non-clients of IFIC to get the remittance faster and keeps the transaction secured. Their Alternate Delivery Channels are geared to ease the daily lives of our clients by making it possible for them to pay their utility bills online. Currently IFIC has an internet banking platform which enables customers to check their balances and get their statements online. In 2015 the internet banking experience more satisfying for our retail customers by giving them broader access to a wider range of amenities. IFIC also plans to introduce a portal for the corporate customers so that they can send instructions electronically without the need to visit any of our Branch or Client centers. An important constituent of IFIC is its human resource. To attract young and emerging talents in the country, a Job Web portal has been launched. This portal integrates with the Human Resource Management System and makes it easier for the Human Resources team to effectively manage the recruitment process. IT also plays an important role in making it easier for our human resource team to function effectively. In keeping up with its commitment to follow the compliance related guidelines and become a compliant bank, IFIC has implemented an anti-Money Laundering software (goAML). IFIC has integrated its core banking system with the National Payment System of Bangladesh Bank (NPSB) so that the IFIC ATMs are connected with the ATM network of all banks in Bangladesh. IFIC has been operating a 24/7 Contact Centre. By dialing 16255 IFIC customers can get access to a wide array of services.



# Chapter-2.0

## **CREDIT OPERATIONS AND MANAGEMENT OF IFIC BANK LTD**

## **2.1 CREDIT OPERATIONS AND MANAGEMENT OF IFIC BANK LTD**

### **2.1.1 Lending principles of IFIC Bank:**

Principle of lending is collection of certain expected time tested standards, which ensure the proper use of loan fund in a profitable way and its timely recovery. Different authors described different principles for sound lending.

IFIC Bank follows the following seven principles in its lending activity:

- 1. Safety**
- 2. Liquidity.**
- 3. Purpose.**
- 4. Profitability**
- 5. Security.**
- 6. Diversification**
- 7. National interest.**

#### **1. Safety:**

Safety is the most important thing in making advances-whether the money would definitely come back. It should get the prior significance in the time of sanctioning the loan at the time of minority the borrower may not pay or may unable to pay the loan amount. Therefore, at the time of sanctioning the loan adequate securities should be taken from the borrowers to recover the loan. Banker should not compromise with safety for profitability.

IFIC Bank limited exercises the lending function only when it is safe and that the risk factor is adequately mitigated and covered. Safety depends upon:

- The security offered by the borrower and
- The repairing capacity and willingness of debtor to repay the loan with interest.

#### **2. Liquidity:**

The borrower must be in a position to repay within a reasonable time- on demand or as per arrangement. Banker should consider the liquidity of the loan at the time of sanctioning it. Liquidity is necessary to meet the consumer need.

### **3. Purpose:**

Purpose should be productive so that the money not only remains safe but also provides a definite source of repayment. Purpose should ensure generation of adequate cash repayment of advances. IFIC Bank exercises its lending function only on productive purpose. IFIC Bank also considers national aspect of any project while financing they take utmost care so that the project can't be detrimental to the society as well as to the nation.

### **4. Profitability:**

Spread is important. Bank is in business and profit is needed for long-term survival and growth. The banker should consider the interest rate when go for lending. Always banker should fix such an interest rate for its lending which should be higher than its saving deposits interest rate. Rule of thumb: Spread should be at least 3%.

### **5. Security:**

For advances, purpose is important which should be productive to ensure repayment. But even then security is necessary to ensure safety. Banker should be careful in the selection of security to maintain the safety of the loan. Banker should properly evaluate the proper value of the security. If the estimated value less than or equal to loan amount, the loan should be given against such securities.

### **6. Diversification:**

Diversifying the risks to a large number of borrowers and different business is a means of reducing risks. Banker should minimize portfolio risk by putting its fund in the different sectors. If banker put its entire loan able fund in one sector it will increase the risk. So if it faces any problem in any sector it can be covered by the profit of another sector.

### **7. National Interest:**

Banking sector has significant role to play in the economic development of a country. So IFIC Bank charge lower interest rate on export or other priority areas.

#### **2.1.2 Sound Principles of Lending:**

Sound principles of lending are obvious to avoid loan default tendency and risk elements to safeguard of public money as well as business of a bank. So, there must be a principle

of advance and efforts should be made to make it a sound one for which in depth study must be made on the following points of the bank:

- When loan is to be given.
- Why loan is to be given.
- How the loan is to be given.
- What may happen after disbursement of the loan?
- Generally what happen (from past experience) after disbursement if the loan.
- It is hopeful that the borrower will repay the loan.
- Whether the loan should be given only the private sector or also in government sector as well.
- Whether only secured loan will be extended or provision should be kept for clear loan also.
- Whether only short term and midterm loan should be considered or long term will be considered.

### **2.1.3 Credit Department Function:**

One of the primary functions of commercial bank is sanctioning of credit to the potential borrowers. Bank credit is an important catalyst for bringing about economic development of a country. Without adequate finance, there can be no growth or maintenance of a stable economy. Bank lending is important for the economy, because it makes possible the financing of agriculture, commercial and industrial activities of a nation. Hence, it is very clear that, IFIC Bank plays an important role to move the economic wheel of the country. There are different types of loan, which is provided by the bank, but those are the collective form of the following item.

### **2.1.4 Direct Facilities:**

#### **1. Continuous Loan:**

IFIC Bank gives in the following Continuous Loan:

- i. Cash Credit Hypothecation (CC HYPO)
- ii. Cash Credit Pledge (CC PLEDGE)
- iii. Secured Overdraft (SOD)
- iv. AMAR Account

#### **Cash Credit Hypothecation (CC HYPO)**

- ◆ Cash credit is given through the cash credit account. Cash credit is an active and running account where deposits and withdrawals may be made frequently. The debit balance of the account on any day cannot exceed the agreed limit.
- ◆ The instrument is HYPOTHECATION DEED.
- ◆ 50% margin requires opening a CC account. (varies)
- ◆ Operation of cash credit is same as that of overdraft. The purpose of cash credit is to meet working capital needs of traders, farmers, and industrialist.
- ◆ It is granted only the first class parties.
- ◆ It is charged against a property where neither the ownership nor the possession is passed to the bank.

#### **Cash Credit Pledge (CC Pledge)**

- ◆ The nature, operational work, and characteristics of CC- PLEDGE in as same as CC - HYPO.

- ◆ CC.PLEDGE is different from CC-HYPO only from the securities or business goods against the loan amount.
- ◆ It is charged against properties where the ownership may remain to the borrower but the possession is passed to the bank.
- ◆ The instrument is Pledge Deed.

#### **Secured Overdraft (SOD General):**

Advance is granted to a client against financial obligations. The security of advance is granted to the person to whom the instrument belongs. The discharged instrument is surrendered to the bank along with a letter signed by holder /holders authorizing the bank to appropriate the proceeds of the instrument on due date towards the repayment of the advance. The bank's lien is prominently noted face of the instrument under the signature of an authorized bank official. The instrument is issued by another branch of IFIC Bank limited or any branch of some other bank, and then the concerned branch in each intimates to lien mark the instrument.

#### **Secured Overdraft (SOD (FO):**

Advance is granted to a client against financial obligations. The security of advance is granted to the person to whom the instrument belongs. The discharged instrument is surrendered to the bank along with a letter signed by holder /holders authorizing the bank to appropriate the proceeds of the instrument on due date towards the repayment of the advance. The bank's lien is prominently noted face of the instrument under the signature of an authorized bank official. The instrument is issued by another branch of IFIC Bank limited or any branch of some other bank, and then the concerned branch in each intimates to lien mark the instrument.

#### **Secured Overdraft (SOD (Export):**

Advance allowed to purchasing foreign currency for payment against L/Cs (Back-to – Back) where the exporter cannot materialize before the date of import payment.

#### **AMAR Account:**

It is a unique transactional account where both deposit and overdraft facility is enabled in a single account. IFIC Bank introduces this type's account first time in Bangladesh which will ultimately reduce the account operation cost of the customer with numerous benefits in a single account.

### **Features of "AMAR Account"**

- ✓ Deposit and loan (overdraft) is enable in a single account
- ✓ Slab wise deposit interest facility.
- ✓ Deposit interest will be calculated on daily balance and paid after every month.
- ✓ One card will be used for both debit & credit transaction
- ✓ One cheque book will also be used for both debit & credit transaction

The overdraft facility associated with "Amar Account" is named as smart draft which is actually the alternative of credit card with less than half interest rate. Overdraft is allowed for all credit worthy individuals of Bangladesh who have urgent financial needs.

### **Features of Overdraft for "Amar Account"**

- ✓ Alternative of credit card with less than half interest rate (14%)
- ✓ Maximum limit of up to BDT 300,000/-
- ✓ 100% cash withdrawal facility.
- ✓ Can be used in VISA logo POS/ ATM outlet for purchase in both inside  
And outside Bangladesh.
- ✓ Pay only for the amount utilized.
- ✓ No cash advance fee for ATM or other types of withdrawal
- ✓ No hidden charges.

### **Term Loan**

IFIC Bank offers in the following Term Loan:

- i. Industrial Loan
- ii. Others loan
- iii. Staff House Building Loan (SHBL)
- iv. Staff loan against Provident Fund (SLPF)
- v. House Building Loan(Thikana)
- vi. IFIC Home Loan/ Home Credit/ Home Loan Takeover

### **Industrial Loan:**

IFIC considers the loans, which are sanctioned for more than one year as term loan. Under this facility, an enterprise is financed from the starting to its finishing like as from

installation to its production. IFIC offers this facility only to big industries. Interest rate is 15.50%.

The loan term as follows:

- a. Short term: up to and including 12 months.
- b. Medium term: more than 12 months up to and including 60 months.
- c. Long term: more than 60 months.

### **Others Loan**

Loan provided for other purposes which is productive and less risky than industrial sector are treated as others loan. The terms and conditions of these types of loan are same as industry loan.

### **Staff House Building Loan (SHBL)**

150 times of basic salary is provided as SHBL. Bank rate + 1 % interest is charged to the loan amount. Repayment adjusted from their monthly salary. Repayment is made at equal monthly installment.

### **Staff Loan against Provident Fund (SLPF)**

10% of basic is contributed by employee and 10% of basic is also contributed to the PF by the Bank. Repayment is adjusted from their own salary. But this type of loan facility is presently stopped by the authority.

### **House Building Loan(Thikana)**

This loan is provided against 100% cash collateral. Alongside, the land and building are also mortgaged in the bank. Rate of interest is 15.50%. This loan is also given for the construction of building house. It is given for twenty (20) years at equal monthly installment.



## **Small Enterprise Financing (SEF)**

IFIC Bank gives loan in the following important sectors of Small Enterprise:

1. Easy Commercial loan
2. Retailers loan
3. Transport Loan
4. Commercial house building loan
5. Possession right loan
6. Contractor's loan
7. Letter of guarantee
8. Working capital loan
9. Letter of credit
10. Loan against imported merchandise (LIM)
11. Loan against trust receipt(LTR)
12. Bidder's loan
13. Project loan
14. IFIC Protyasha ( Loan for women entrepreneurs)
15. IFIC Prantonari ( Loan for grassroots women entrepreneurs)
16. IFIC Krishi Shilpo ( Loan for Agro based industries)
17. IFIC Shilpo Sohay ( Loan for Cottage & Micro Enterprise)
18. IFIC Green Earth

### **Easy Commercial loan:**

To meet business requirement of individual business enterprises (other than public limited company) against pledge of financial instruments i.e. FDR, ICB Unit Certificate, WEDB, NFCD, PSS Account, MIS & Share Certificates & any other Govt. security eligible for credit facilities.

### **Retailers Loan:**

To meet working capital /capital finance for any small & retail entrepreneur with successful business record, having a valid trade license are eligible for Retailers loan. Loan period is 12 to 36 months and limit maximum 2.00 lac.

**Transport Loan:**

To purchase of Road/Water transport for commercial use individual, business enterprises (other than public limited company) engaged in transport business at least two years experience are eligible for transport loan. Debt equity ratio is 50:50. Interest rate is 14.75% to 15.50% p.a. with quarterly rest or as revised from time to time.

**Commercial House Building Loan:**

Individual, business enterprises (other than public limited company) having commercial plot are eligible for construction of commercial building. Interest rate is 13.00% p.a. with quarterly rest or as revised from time to time.

**Possession Right Loan:**

For financing fixed working capital proprietorship concern having no collateral security to offer other than possession right of shop and at least two years experience in the line of business are eligible for possession right loan.

**Contractor's Loan:**

Individual, business enterprises (other than public limited company) engaged in construction and supply business are eligible for secured over draft to execute work order awarded by Govt./Semi Govt. & Autonomous Bodies.

**Bidder's Loan:**

Individuals, business enterprises (other than public limited company) engaged in construction and supply business can avail Bidder's loan for issuing Payment Order/Demand Draft etc. to participating in tenders.

**Working Capital Loan:**

Business Enterprises (other than public limited company) engaged in manufacturing/trading business are eligible to avail Working Capital Loan to meet day to day expenses for processing of manufacturing and selling product.

### **Project Loan:**

Business Enterprises (other than public limited company) engaged in manufacturing/ service industry can avail Project Loan to set up /BMRE of manufacturing /service unit.

### **Loan against Imported Merchandize (LIM):**

When the importer failed to pay payable to the exporter against import L/C, Then IFICBL gives loan against imported merchandise to the importer. This is also a temporary advance connected with import, which is known as post import finance. Eligibility: Business Enterprises (other than public limited company) engaged in import merchandise can avail working capital for retirement of import documents.

### **Loan against Trust Receipt:**

Business Enterprises (other than public limited company) engaged in import of merchandise can avail working capital for retirement of import documents.

### **Muldhan:**

Any business purpose loan for business enterprises (other than Public Limited Company) incorporated in Bangladesh engaged in manufacturing or trading or service business.

#### **Eligibility**

- Business enterprise having two years experience in existing business.
- Monthly cash flow to support proposed loan installment.

### **IFIC Protyasha ( Loan for women entrepreneurs):**

Any business purpose loan for business Enterprises (other than Public Limited Company) incorporated in Bangladesh own and run by women entrepreneurs (at least 51% share of a business hold by women), engaged in manufacturing/ trading/ service business.

#### **Eligibility:**

Woman entrepreneurs having two years experience in the same line of business monthly cash flow to support proposed loan repayment.

#### **Nature of the Loan**

Term Loan, Over Draft & Demand Loan

#### Loan Size

Upto Tk.25,00,000/- collateral free

Above Tk.25,00,000/- to upto Tk.50,00,000/- with collateral.

(Note: OD allowed for the limit over Tk.25,00,000/-)

#### Loan Period

Maximum 60 (sixty) months for Term Loan.

Maximum 12 (twelve) months for OD.

03 (three) months to 06 (six) months on the basis of business nature for Demand Loan.

#### Grace Period

03 (three) months to 06 (six) months on the basis of business nature.

#### Interest Rate

@10% p.a. with quarterly rest, if refinance available from Bangladesh Bank or

Interest rate as set by bank from time to time if refinance is not available from Bangladesh Bank.

#### Repayment

By equal monthly installments effective from completion of grace period for Term Loan.

OD & Demand Loan to be adjusted within the validity.

### **IFIC Prantonari ( Loan for grassroots women entrepreneurs)**

Any business purpose loan for Cottage, Micro & Small Enterprise owned & run by grassroots women entrepreneurs involved in manufacturing unit of jamdani, nakshikatha, boutiques and other handicrafts, service unit of beauty parlor, catering service and other income generating trading activities and those who have no access to financial facilities from banks.

#### **Eligibility**

- Grassroots Women Entrepreneurs having at least two years experience in same line of business.
- Monthly cash flow to support loan repayment.

#### **Nature of Loan**

Term Loan.

### **Loan Limit**

- Minimum Tk.20,000/- to maximum Tk.50,000/- for cottage industry (collateral free)
- Minimum Tk.100,000/- to maximum Tk.5,00,000/- (collateral free)
- Above Tk.500,000/- but upto maximum Tk.20,00,000/- (with collateral)\*
- Minimum Tk.200,000/- to maximum Tk.5,00,000/- (collateral free for group of five members).
- Minimum Tk.1,00,000/- to maximum Tk.2,00,000/- for cottage industry (collateral free for group of five members)

### **Loan Period**

- Minimum 24 (twenty four) months to maximum 36 (thirty six) months for loan upto Tk.3,00,000/-.
- Minimum 36 (thirty six) months to maximum 60 (sixty) months for loan above Tk.3,00,000/-.

### **Interest Rate**

@ 10.00% p.a. with quarterly rest, (as directed by Bangladesh Bank subject to availability of refinance).

### **Repayment**

Equal Monthly Installment (EMI).

### **IFIC Krishi Shilpo ( Loan for Agro based industries)**

The loan product has been designed for Small & Medium Enterprises engaged in business of General & Aromatic Rice Mill (semi-automatic, automatic), Flour Mill, Oil Mill, Feed Mill, Milk processing, food and fruit processing unit/ industry and other rural based Agro-processing industry as declared by Bangladesh Bank.

Nature of the Loan

Term Loan/ Lease Finance / OD / CC/ Demand Loan.

Loan Limit

Small: Upto Tk.50.00 lac (with collateral)

Medium: Above Tk.50.00 lac to maximum Tk.5.00 crore (with collateral).

#### Loan Period

Maximum 60 (sixty) months for Term Loan & Lease Finance.

Maximum 12 (twelve) months for OD & CC.

Maximum 04 (Four) months for Demand Loan.

#### Interest Rate

@10% p.a. with quarterly rest for Term loan, OD & CC if refinance available from Bangladesh Bank (applicable for the project located other than all Divisional Town & Narayanganj Town) or

Interest rate as set by bank from time to time if refinance is not available from Bangladesh Bank.

#### Repayment

By equal monthly installments effective from completion of grace period in case of Term Loan & Lease Finance.

OD, CC & Demand Loan to be adjusted within the validity.

#### **IFIC Shilpo Sohay ( Loan for Cottage & Micro Enterprise)**

Loan product for any Bangladeshi potential entrepreneurs or group of entrepreneurs (maximum 05) who has the business of Cottage & Micro Enterprise i.e, Pottery, Cane & Bamboo, Handloom, Goldsmith, Handicrafts, Jewellery and other manufacturing, service & trading business and has minimum 01 (one) years business experience in particular activity or line of cottage & micro sized business.

#### **IFIC Green Earth:**

##### a) Domestic Bio Gas Plant:

Rural areas of Bangladesh is very dependent on fossil fuels such as Diesel, Kerosene etc. & firewood, dried dung for their energy consumption. This use of energy is often coupled with many problems such as deforestation, health hazards and causes of climate change. On the other hand produced biogas through transformation of natural resources can be used as clean cooking fuel as well as sources of electricity at night. The slurry that arises from the manure/dung of a bio-gas plant can be used as high grade organic fertilizer and fish feed. To increase the production and use of bio-gas, IFIC Bank offered credit facility for “Domestic Bio Gas Plant (4 Cow Model).

b) Commercial Bio Gas Plant:

In view of the energy crisis, there is need for developing new as well as renewable sources of energy. To overcome energy crisis IFIC Bank has introduced the above titled scheme being an alternative energy producing resource through gas generator.

c) VERMINCOMPOST

Continuous use of chemical fertilizers badly affect the texture and structure of the soil fertility, reduces organic matter content and decreases microbial activities of soil. So application of vermin compost and conventional compost to soil is the prime need for the maintenance of soil fertility status and crop productivity. IFIC Bank is financing in the said area. Its main purpose is to meet the financial needs for purchasing of 2 cows, Vermin, construction of shade and for other expenses to produce Vermin compost Fertilizer for own use/business purpose.

Finance for Brick Kiln Efficiency Improvement Projects

Brick making by using traditional Fixed Chimney Kiln (FCK) technology are highly energy-intensive and carbon emitting which causes harmful impact on health, environment and contributes to global warming. In order to reduce the emission of carbon gas and to enhance energy efficiency IFIC Bank will provide financial support to establish brick kilns having modern technologies like -HHK, Improved Zigzag or equivalent technology, which are energy efficient & less carbon emitter.

Fire Fighting & Safety Equipment Loan

Due to non-availability of Fire Fighting Equipment's and Structural Safety system, most of the Clothing/ Apparel/ Garments Industries in Bangladesh are exposed to fire hazards and casualties and therefore fire disasters in clothing/ garments industries have jeopardized the very existence of these sector. To come out this situation IFIC Bank has introduced "Fire Fighting & Safety Equipment loan" in Garments, Knitting, Textiles, Garments Accessories, Packaging, Terry Towel & Linen manufacturing Industries under Green Financing Scheme.

## **Consumer Financing(CF)**

IFIC Bank Ltd. introduced Consumer Financing Scheme for its customer during 1999 duly approved by the Board of Directors of the bank in their 251<sup>st</sup> meeting held on April 4, 1999 with the following loan products:

- Vehicle loan
- Domestic appliances loan
- Office equipment loan
- Entertainment purpose loan
- Loan for intangible loan
- Others

Guidelines under the prudential Regulation and Direction of Bangladesh bank have been formulated. These guidelines will assist the branches as to how the CFs loan port-folio should be managed.

The committee studied existing products available in the market. Considering the market demand and investment opportunities in Consumer Financing Sector, the committee has formulated the following 12 (twelve) products for IFIC Bank to be launched under Consumer Financing Scheme:

1. Easy loan (Secured Personal loan).
2. Consumer Durable loan
3. 'Parua' (Education loan)
4. IFIC Home Loan/ Home Credit/ Home Loan Takeover
5. IFIC Salary Loan
6. Any Purpose Loan
7. IFIC Marriage Loan
8. CNG Conversion Loan
9. IFIC Medical Loan
10. IFIC Holiday Loan
11. IFIC Peshajeebi Loan (Loan for professional)
12. IFIC Auto loan



### **IFIC Easy Loan:**

Our Easy Loan is to serve any personal financial needs. The loan is absolutely hassle free & paid against financial securities.

### **Consumer Durable Loan:**

IFIC creates an opportunity to satisfy customers' desire to purchase consumer durables like - computer, television, refrigerator, washing machine, air conditioner, music systems, motor cycle and a lot of other things by Consumer Durable Loan. IFIC Bank is providing maximum 1.00 lac taka to be repayable in by 12 to 36 monthly installments.

### **Parua Loan:**

IFIC Bank offers Education Loan that can make a student's dream comes true. IFIC Bank firmly believes that expense for education is an investment for future. Only education can fulfill the dreams of an individual as well as a nation. IFIC Bank is providing maximum Tk. 8.00 lac to be repayable in 12 to 48 monthly Installments.

### **IFIC Home Loan/ Home Credit/ Home Loan Takeover:**

IFIC Home Loan" is an attractive home & mortgage based loan facility for all credit worthy individual of Bangladesh who wish to buy new or used apartment/flat, mortgage their existing house/flat/apartment or construct/ renovate/ extend their existing flat/house etc.

#### **Product Features**

- Loan amount Tk 5 Lac – Tk 1.2 Crore
- Tenure : Maximum 25 years
- Interest rate : Starts from 9.90%
- No processing fee for loan takeover and additional refinancing
- 1% processing fee for fresh loan
- Faster delivery for loan processing

### **Any Purpose Loan**

IFIC Any Purpose Loan caters to various needs of salaried people. With minimum formalities customers' can get a loan for an amount upto Tk.3.00 lac to be repayable at 12 to 36 monthly installments. The loans are easy & absolutely hassle free.

### **IFIC Marriage Loan**

The single most important day of one's' life, begin customers' new family in style. Money is only an object for such an important event and shouldn't be a barrier to its perfection. IFIC Bank is providing maximum Tk. 3.00 lac to be repayable in 12 to 36 monthly installment.

### **CNG Conversion Loan**

Due to price hike of fuel, CNG conversion has become the necessity of time. IFIC Bank offers the best suitable loan for CNG conversion of vehicle. IFIC Bank is providing maximum Tk. 1.00 lac to be repayable in 12 to 36 monthly installment.

### **IFIC Medical Loan**

IFIC Medical Loan caters hospitalization or other emergency medical needs to salaried people. The loans are easy & absolutely hassle free. IFIC Bank is providing maximum Tk. 3.00 lac to be repayable in 12 to 36 monthly installments.

### **IFIC Holiday Loan**

When one plan to visit overseas with family or friend for taking a break from routine, enjoying nature, making a holiday - all these can happen through IFIC Holiday Loan. IFIC Holiday Loans are easy & absolutely hassle free. IFIC Bank is providing maximum Tk. 3.00 lac to be repayable in 12 to 36 monthly installments.

### **IFIC Peshajibi Loan**

Whether the customer is a Doctor/ Engineer/ IT professional/ Management Consultant or any other professional, the product is designed for them. IFIC Bank is providing Maximum Tk. 10.00 lac to repayable in 12 to 48 monthly installments.

### **IFIC Auto Loan**

Owning a car means freedom of convenience for moving out, affords punctuality, shelter from rain and heat during traveling and above all guarantees the much needed safety. Owning a car is a dream of many people. IFIC Bank is providing maximum Tk. 20 lac to be repayable in 12 to 60 monthly installments.

### **2.1.5 Indirect Facilities:**

#### **1. Guarantee:**

A credit facility provided in contingent liabilities form, extended by the banks to their clients, for participating in development work like supply of goods and services.

#### **a. Tender or Bid bond guarantee:**

The tender guarantee assures the tender that tender shall uphold the conditions of his period of the offer as binding and he will also sign the contract in the event of the order being guaranteed.

#### **b. Performance guarantee:**

A performance guarantee expires on the completion of the delivery or performance. Beneficiary finds that as a guarantee, the contract will be fulfilled in every respect and can retain the guarantee as per provision for long time. Including a clause starting that the supplier can claim under the guarantee, by presenting an acceptance certificate signed by the buyer can counteract this.

#### **c. Advanced payment guarantee:**

This type of guarantee is given against work order. This idea can be made clear with the help of an example. Before the beginning of Jamuna Bridge construction, the government

collected money from different sources to pay the contractors in advance. But there was a risk for the government that the contractor might not do their construction work even they were paid in advance. So the government asked bank guarantee from them. Then the contractor submits the bank guarantee to the government. This type of guarantee is called advanced payment guarantee

## **2. Letter of credit:**

A credit facility in contingent liabilities form provided to the clients by the banks for import / procurement of goods and services:

### 2.1.6 Business analysis:

Business analysis is done from two angles –term, conditions and collateral securities:

<b>Interest rate in Loan and Advance:</b>	<b>NEW Interest rate</b>	<b>Old Interest rate</b>
<b>Types of advances</b>		
Agriculture:		
Primary Customer	11.00%(Max rate)	11.00%
MFI Linkage	10.00%(Max rate)	11.00%
Term Loan(Large & Medium Enterprises) both manufacturing & non-manufacturing	12.00%(Mid rate)	12.50%(Mid rate)
Term Loan(Small Scale Enterprises)	13.00%(Mid rate)	13.50%(Mid rate)
Working Capital (Large & Medium Enterprises)	12.00%(Mid rate)	12.00%(Mid rate)
Working Capital (Small Scale Enterprises)	13.00%(Mid rate)	13.50%(Mid rate)
Export	7.00%	7.00%
Trade Financing:		
(Large & Medium Enterprises)	14.50%	15.00%
(Small Scale Enterprises)	14.50%	15.00%
Bill Purchase & Discount	12.50%	12.50%
Housing Loan		
Commercial	13.45%	13.45%
Residential	11.49%	11.49%
Consumer Credit	14.00%	15.00%
Credit Card	24.00%	24.00%
Credit to NBFIs	15.00%	14.00%
Lease Finance	14.00%	14.00%
Lending against Financial Obligation:		
Against FD/FD Scheme of IFIC Bank	FD Rate+2%	FD Rate+2%
Lending against other Financial Obligation(FO)	FO Rate+3% (Min 13.00%)	FO Rate+3% (Min 13.00%)

**Table 1: Interest rates in Loan and Advance**

### 2.1.7 Selection of Borrower

This usually involves a detailed study of six aspects of loan application as below:

01. Character
02. Capacity
03. Cash
04. Collateral
05. Condition
06. Control

#### **01. Character:**

In commercial lending, character refers to the client's willingness and determination to meet a loan obligation. To determine the character of the borrower, banker must investigate the following:

- a) Customer's past payment record
- b) Experience of other lenders with the customer
- c) Purpose of loan
- d) Customer's track record in forecasting business or personal income
- e) Credit Rating
- f) Presence of the co-signor or guarantor of the loan

#### **02. Capacity:**

Management ability to generate enough cash to satisfy all obligations is defined as capacity. It also refers to the ability to manage cash.

- a) Identity of customer and guarantor
- b) Copies of resolution, partnership agreements, and other legal documents
- c) Description of history, legal structure, owners, nature of operation, products and principal customers and suppliers for a business of the borrowers

### **03. Cash:**

It is important to know whether the borrower have the ability to generate enough cash in the form of cash flow to repay the loan. In general the borrowing customers have only three sources to draw upon to repay their loan:

- a) Cash flows generated from sales or income
- b) The sale or liquidation of assets
- c) Funds raised by issuing debts or equity securities

### **04. Collateral:**

Collateral is important because it can be pledged by a borrower as a way of offsetting weaknesses in the other C's. The purpose of collateral is to provide the lender with a secondary source of repayment if the cash for repayment does not materialize in the normal operating cycle of business.

- a) Ownership of assets
- b) Vulnerability of assets to obsolesce
- c) Liquidation of value of assets
- d) Degree in specialization in assets
- e) Lien, encumbrances and restriction against property held
- f) Leases and mortgage issued against property and equipment
- g) Guarantee and warrantee issued to others
- h) Bank's relative position as creditors in placing a claim against borrower's assets
- i) Probable future financing needs

### **05. Condition:**

The loan officer or credit analyst must be aware of recent trends in the borrower's line of work or industry and how changing conditions might affect the loan. To assess the situation the following points should be taken into consideration:

- a) customer's current position industry and expected market share
- b) customer's performance vis-à-vis comparable in the same nature of business or industry
- c) competitive climate for customer's product
- d) sensitivity of customer and industry to business cycle and changes in technology

- e) labor market condition in customer’s industry or market area
- f) impact of inflation on customer’s balance sheet and cash flows
- g) long run industry or business outlook
- h) regulations, political and environmental factors affecting the customer and or his/her job, business and industry

**2.1.8 Single borrower / Group Limits/ Large Loan/ Syndication :**

The limit for single client/group under one obligor concept will be as under:

- i) The total credit facilities by a bank to any single person or enterprise or organization of a group shall not at any point of time exceed 35% of the bank’s total capital subject to the condition that the maximum outstanding against fund based financing facilities (funded facilities) shall not exceed 15% of the total capital.
- ii) Non-funded credit facilities, e.g. letter of credit, guarantee etc. can be extended to a single large borrower. But under no circumstances, the total amount of the funded and non-funded credit facilities shall exceed 35% of bank’s total capital.
- iii) However, in case of export sector, single borrower limit shall be 50% of the bank’s total capital. But funded facilities in the form of export credit shall not exceed 15% of the total capital. However, the single Borrower exposure limit may be changed as per directives issued by Bangladesh Bank from time to time.

**Large Loan**

- i) Loan sanctioned to any individual or enterprise or any organization of a group amounting to 10% or more of bank’s total capital shall be considered as large loan.
- ii) The bank shall be able to sanction large loans as per the following limits set against their respective classified loans :

**Rate of net classified loans The highest rate fixed for large loans against bank’s total loans & advances**

Upto 5%	56%
More than 5% but upto 10%	52%
More than 10% but upto 15%	48%
More than 15% but upto 20%	44%
More than 20%	40%

**Table 2: Rate of Net Classified Loans**



iii) In order to determine the above maximum ceiling for large loans, all non-funded credit facilities e.g. letter of credit, guarantee, etc., shall also be considered to arrive 50% credit equivalent. However, the entire amount of non-funded credit facilities shall be included while determining the total credit facilities provided to an individual or enterprise or an organization of a group.

## 2.1.9 Procedure for giving advance:

### Step 1:

The potential borrower will submit application to IFIC for loan by filling up of a specific Application form. The Application form (request for Credit Limit) contains following particulars:

- i. Name of the Borrower-----
- ii. A/C No.-----
- iii. Borrower's address (with telephone no.) [Residential address and Permanent address]-----
- iv. Introducer's name, A/C no. & address-----
- v. Date of establishment/ incorporation-----
- vi. Trade license number, date and expiry date (Photocopy of trade license enclosed)-----
- vii. GIR/TR no. & amount of income tax paid last year-----
- viii. Constitution/ Status (Mention whether sole proprietorship/ partnership/ Public Ltd. company/ Private Ltd. company)-----
- ix. Particulars of individual/ Proprietor/ Partners/ Directors (Name & Designation, father's/ Husband's name, present & permanent address with Telephone no., % of shares held)-----
- x. Experience and background of Individual/Proprietors/ Partners/ Directors-----
- xi. Full particulars of assets in the personal name of Individual/ Proprietor/ Partners/ Directors with valuation-----
- xii. Names of Subsidiaries/ Affiliates, percentage of share holding and nature of business-----
- xiii. Nature and details of business/ products (for which credit facility is applied for), Markets (Present market price per unit, Factory price), Estimated sales for next one year.....
- xiv. Credit facilities required (type, amount, period, purpose, and mode of adjustment).....

- xv. Details of securities offered with estimated value (Primary security, Collateral security, market value of the security).....
- xvi. Details of liabilities in the name of the client or in the name of any other partners/Directors or Subsidiaries/Affiliates Nature of advance, amount, security and validity of limit).....
- xvii. Balance Sheet/ Income Statement of Statement of Accounts of the following years attached (Preferably last 3 years).....
- xviii. Other relevant information.....
- xix. Proposed debt/equity ratio.....
- xx. Signature of the Applicant.....

**Step 2:**

After receiving the loan application form, Mohammadpur Branch sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Credit information Bureau) report. This report is usually collects every time the borrower approaches for loan. The purpose of this report is to being informed that whether the borrower has taken loan from any other bank; if ‘yes’ then whether these loans are classified or not because at any circumstances a bank cannot finance a defaulter borrower.

**Step 3:**

After receiving CIB report if the Bank thinks that the prospective borrower will be a good borrower, then the bank will scrutinize the documents. In this stage, the Bank will look whether the documents are properly filled up and signed.

**Step 4:**

Then comes the processing stage. In this stage, the Bank will prepare a Proposal a proposal contains following relevant information:

- a) Name of the Borrower---
- b) Nature of Limit-----
- c) Purpose of Limit-----
- d) Extent of Limit---
- e) Security---
- f) Margin---
- g) Rate of Interest-----

h) Repayment-----

i) Validity-----

Mohammadpur Branch has the discretionary power to sanction loan (SOD) up to Tk.20.00 Lac against financial obligations by taking post-facto approval from Head Office. But in that case, the Branch Manager has to give attention to the following matter:

- ✓ The borrower must maintain minimum 25% margin for Bid Bond upto BDT 2.50 lac
- ✓ The borrower must maintain minimum 10% margin for Bid Bond upto BDT 5.00 lac

Except this case, the branch has to send the proposal to the Head Office. Head Office will prepare a minute and submit it before the Executive Committee (EC). The minute has to be passed by Credit Committee (CC) and the Executive Committee (EC) and lastly to the Board of Directors (BOD) Meeting.

**Step 5:**

After the sanction advice, Bank will collect necessary documents (charge documents).

These documents are given below:

A.)Loan (general):

- a) Joint Promissory Note
- b) Single Promissory Note
- c) Letter of Undertaking
- d) Loan Disbursement Letter
- e) Debit Figure Confirmation Sheet
- f) Letter of Continuity
- g) Letter of Authority
- h) Letter of Revival
- i) Right of Recall the Loan.
- j) Letter of Guarantee
- k) Letter of Indemnity
- l) Trust Receipt
- m) Hypothecation of Goods
- n) Hypothecation of Vehicles
- o) Counter Guarantee

- p) Letter of Lien
- q) Letter of Lien in case of advance against FDR
- r) Letter of Authority to encase FDR
- s) Letter of Agreement for Packing Credit
- t) Letter of Guarantee for opening L/C
- u) Charges over Bonds or Certificates or shares etc. by third person, firm or company to secure specific and general liability.
- v) Memorandum of Deposit of Title Deeds
- w) Hypothecation of goods to secure a Demand Cash Credit or Overdraft/Loan amount
- x) Guarantee by Third party.

**Step 6:**

Charge documents as required for the different types of advances, are mentioned below:

**a) Loan (general):**

- D.P note signed on revenue stamp
- Letter of arrangement
- Letter of disbursement
- Letter of partnership
- Letter of pledge
- Letter of hypothecation
- Letter of lien and ownership
- Letter of lien for packing credit
- Letter of lien
- Letter of lien and transfer authority
- Legal documents for mortgage property

**b) Overdraft:**

- D.P note
- Letter of partnership
- Letter of arrangement
- Letter of continuity
- Letter of lien
- Letter of lien and ownership
- Letter of lien and transfer authority

**c) Cash credit (pledge):**

- Letter of pledge
- Letter of authority empowering the bank to deduct / realize warehouse, staff salary and other incidental expense for inspection, maintenance of goods etc.
- Letter of declaration handing over the possession of goods stored or to be stored in the warehouse against the facility.
- Letter of disclaimer in case of Hired go down signed by the owner of the warehouse.

**d) Cash credit (Hypothecation):**

- Letter of hypothecation.
- Letter of authority empowering the bank to inspect goods and possession of the goods in case of duly drafted by the lawyer of the bank.
- Stock report duly signed by the borrower on fortnightly basis or after every deposit in the loan account or before realizing fund against limit.
- Letter of declaration duly signed by the party clearly stating that the goods hypothecated are not in any case encumbered elsewhere.
- Sufficient insurance cover inserting the name of the Bank as mortgage with bank mortgage clause.

**Step 7:**

For withdrawing the loan amount, the customer creates a CD account and the loan is transferred to the CD A/C. Afterwards the customer can withdraw the money.

**Step 8:**

**Credit disbursement:**

After verifying all the documents, the branch disburses the loan to the borrower. The loan officer disburses the loan to the borrower loan account. A “Loan Repayment Schedule” is also prepared by the branch and is given to borrower.

**Step 9:**

After the disbursement of loan, the bank follows the following manner:

- Constant supervision.
- Working capital assessment.
- Stock report.
- Break Even analysis.
- Rescheduling of repayment.

### **Step 10:**

The loans are repaid in installment. This installment is according to bank directives. Some loans are repaid all at a time. If any loan is not repaid then notices are served to the customer. Sometimes legal actions are also taken for recover the loan.

### **2.1.10 Credit assessment:**

A through credit and risk assessment should be conducted prior to the granting of a facility, and at least annually thereafter for all facilities. The results of the assessment should be present in a Credit Application that originate from the relationship manager or account officer (“RM”) ,and probable mitigation of risks. The RM should be the owner of the customer relationship, and must be to ensure the accuracy of the entire credit application submitted for approval.

Credit proposals shall contain summarizing of the results of the RMs risk assessment and include, as a minimum, the following details:

- **Amount and type of loan(s) proposed.**
- **Purpose of loans.**
- **Loan structure (Tenor, Covenants, Repayment schedule, Interest)**
- **Security arrangements.**

In addition the following risk areas are to be addressed:

#### **a) Borrower analysis:**

The majority shareholders, management terms and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed and risks mitigated.

#### **b) Industry Analysis:**

The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weakness of the borrower relative to its competition should be identified.

**c) Supplier/ buyer analysis:**

Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability such as:

**Historical Financial Analysis:** An analysis of a minimum of 3 years historical financial statements of the borrower shall be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements shall also be analyzed. The analysis shall address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed.

**Projected Financial Performance:** Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.

**Account Conduct;** For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments etc. should be assessed.

**Adherence to Lending Guidelines:** Credit applications should clearly state whether or not the proposed application is in compliance with the Bank's Policy Guidelines. Any deviation may be referred to the MD within his delegation.

**Mitigating Factors:** Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations and lack of transparency or industry issues.



**Loan Structure:** The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs lead to increase the risk of fund diversion and may adversely impact the borrower's repayment ability.

**Security:** A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.

**Name Lending:** Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

#### **2.1.11 Feasibility Report**

This report is from borrower's point of view. The borrower prepares this report and submitted to the bank.

#### **2.1.12 Credit Line Proposal:**

In this step of the term loan the branch sends a credit line proposal to the Head Office for approval of the term loan. The credit line proposal contains the following particulars:

Fresh/Renewal/Revision of the term loan

- Borrower name
- Types of business
- Capital structure
- Particulars of previous transaction
- Existing vis-à-vis proposed credit limits
- Movement of the accounts
- Liabilities of sister concerns

### **2.1.13 Project Appraisal:**

It is the reinvestment analysis done by the banker before a project he approved. Project appraisal in the banking sector needed for the following reasons:

- ✓ To justify the soundness of an investment
- ✓ To ensure repayment of bank finance
- ✓ To achieve organizational goals
- ✓ To recommend if the project is not designed properly.

### **Techniques of Project Appraisal:**

An appraisal is a systematic exercise to establish that the proposed project is a viable proposition. The appraising officer checks the various details submitted by the promoter in first information, sheet credit application form, and feasibility report. IFIC considers the following aspects in appraising:

- i. Entrepreneur
- ii. Technical Viability
- iii. Commercial Viability
- iv. Financial viability
- v. Economic Viability
- vi. Management and organizational Viability

#### **(a) Entrepreneur:**

Entrepreneur/ promoter have to be creditworthy and competent enough to run the proposed industry.

1. Preference given for educated / knowledgeable sponsors, who know about their business concern, have technical know and expertise in the field of proposed industry.-Who have own land and building for running project
2. Have experience in working abroad
3. Sponsors with innovative ideas

4. Sponsors must have net worth more than 2.5 time of the equity required for investment in the project
5. Who have good dealings with the bankers/ outside parties and has social contacts and standings.
6. Have an A/C with IFIC
7. Sponsors requiring group funding may be given financial assistance provided for each other, etc.

The Project should be viable from organizational, technical, commercial, financial and economic points of view.

**(b) Technical Viability:**

It implies the assessment of various requirement of actual production process. It involves a critical study of following factors:

- Location and site of the project:
- Selection of the optimum location, therefore, revolves around the joint consideration and evaluation of the following factors-
  - Raw materials supplies
  - Transportation facilities
  - Power, water and fuel supply
  - Manpower
  - Natural and climate factor
  - Size of the plant/project
  - Technology, plant & equipment-the study should consider some important technological factors with regard to plant and equipment, viz:
    - Adequacy and suitability of the plant & equipment and their specification
    - Plant layout
    - Balancing of different sections of the plant
    - Reputation of the machinery supplies, etc.
    - Building and layout-the operative efficiency of industrial project also depend on the layout.

**(c) Commercial Viability:**

This study indicates emulation of a project's feasibility in terms of market. The market analysis contains:

- a. Analysis of past and present demand
- b. Analysis of past and present supply
- c. Estimate future demand of the project
- d. Estimates project's share in the market, etc.
- e. Marketing channel for the product should accessible to the entrepreneur.

**d) Financial viability:**

Analysis of financial viability is an essential part of project appraisal. The financial analysis focuses the following for judging this viability.

Cost of the project and means of finance: It is necessary to make a preliminary assessment of the project and the means of the financing it. If the cost of the project is too high that is not possible to mobilize the resources of that magnitude through the available resources, the project is out question.

- a. Investment profitability analysis: several capital budgeting techniques are used for judging profitability.
- b. Financial ratio analysis.
- c. Break-even analysis.
- d. Debt service coverage ratio should be at least 2.5 times at the optimum level of production.
- e. IRR should preferably be not less than 20 percent.

**(e) Economic Viability:**

The project should ensure benefit to the national economy and create sufficient opportunity in the following areas:

- a. Generation of employment.
- b. Income distribution
- c. Self-reliance

- d. Development of small-scale industries & ancillary business
- e. Improvement of quality of life and well being
- f. Environmental issues
- g. Opportunity cost

**(f) Management and organizational Viability:**

It is very much important for the success of a project. Because, if the management is incompetent a good project is become failed so it is necessary to evaluate the following things;

- Overall background of the promoter
- Their academic qualification
- Business and industrial experience
- Their past performance

The appraisal generally can cover up to six aspects of a project. The following flow chart may be used for selection of a good project.

**g) Historical financial analysis:**

Preferably an analysis of minimum 3 years historical financial statements of the borrower should be presented. The analysis should address the quality and sustainability of earnings, cash flow and strength of the borrower's balance sheet.

## **2.2 CREDIT RISK MANAGEMENT**

Credit Risk Management holds a positive relationship with credit monitoring, reliability and assurance factors. All these factors play vital role in the mitigation process of credit risks. Risk mitigation process starts from sourcing loan applications and the loan application goes through several screening process where reliability and assurance factors are very much important. Here, knowledge of practical world and product program are very much essential to identify risks associated with loan proposals. This type of policy helps the analysts to analyze loan proposals very easily. But there are some weak points of this straightforward policy and guidelines. This procedure deny any type of exceptional proposals which may have better creditworthiness and repayment capacity. Credit risk management is all about ensuring repayment capability of the customers who are provided loans and advances. Minimizing Credit Risk is subject to proper framework of risks and justification with historical trend and other assurance factors.

### **Credit Risk Grading**

#### **Definition of Credit Risk Grading (CRG) :**

- The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure.
- A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure.
- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

#### **Functions of Credit Risk Grading :**

Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.



management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

### **Credit Risk**

The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Jarrow, Lando and Turnbull (1997) study the term structure of credit risk spreads in a model with the bankruptcy process following a discrete state space Markov chain in credit rating. Crouhy, Galai and Mark (2000) make a comparison of Credit Risk to the other models, they state that credit risk is easy to apply as it drives a closed form solution for the loss distribution of a credit portfolio. There is no market risk in credit risk because both market risk and credit migration are ignored in this model, each borrower's exposure is the same changes in its credit quality do not affect its exposure.

### **Credit Monitoring**

Credit Monitoring plays crucial roles in achieving financial goals. Too conservative a policy will entail high opportunity cost through loss of business, but too liberal a policy results in the cost of tying up funds in debtors and the increased possibility of bad debts. A survey investigating building merchants' practices in Wales (1984), conducted by questionnaire, reflects some variety in approaching the provision of trade credit, but a relatively high degree of uniformity and lack of sophistication in monitoring systems. Stigitz and Weiss (1988) are the example of papers advancing the idea that banks are institutions specializing suggest that monitoring the behavior of customers over time including repayment of loans and other transactions, provides banks with an information advantage they can use to successfully perform the function of resource allocation in an economy.

### **Reliability**

Risk is a growing concern in the modern environment and a number of disasters have served to focus attention on the hazards and risks involved in a wide range of activities. There is a wide range of techniques and procedures to find out risk and assess the



reliability, both in relation to safety and in the wider sense. These techniques now underpin new legislation on safety and have relevance over a broad spectrum of activities, including environmental and other systems, where risk and reliability are key concerns. Chee Tong (2001) Structural risk and reliability analysis has been identified as the potential tool for satisfying these requirements. It is capable of identifying the sources of variables affecting the fatigue life and fatigue strength of the structure in terms of risk.

### **Assurance**

Douglas L. King and Rocie C. Wellman (1995) A system and method of accepting risk though contractual obligations transfer a portion of the risk to investors and includes means for absolute assurance of timely payment to contract holders, and segregation, of interests of particular investors to specifically identified risk in a risk to capital matching system, the system creates agreements which promise payments, Based on loss from risk including investment risk. Data processing provides legally segregated relationship management links, supervising and balancing the interests of professionals in a Risk transfer and diversification system.

## 2.3 CREDIT APPROVAL

The primary factor determining the quality of the bank's credit portfolio is the ability of each borrower to honor on a timely basis all credit commitments made to the bank. The authorizing credit personnel prior to credit approval must accurately determine this. The credit approval process shall be governed by the Bank credit policy framework, which can be summarized under the following headings:

**1. Credit Evaluation Principles:** To have the optimum returns from the deployed funds in different kinds of lending, more emphasis shall be given on refund of loans and advances out of funds generated by the borrowers from their business activities (cash flow) instead of realization of money disposing of the securities held against the advance which is very uncertain and time consuming. Accordingly the credit evaluation principles must be adhered to at every level of approval. The lending risk analysis tool containing analysis of both the business risk and security risk provides overall rating of risk in a particular loan under the following lending process:

- Assess risk of failure to repay.
- Decide whether to accept or reject a loan proposal
- Set price and terms.
- Obtain sanctioning documents and disburse loan.
- Monitor performance and ensure repayment/recovery

**2. Credit Risk Evaluation/Assessment:** The importance of a detailed and complete credit risk assessment for each facility and customer relationship cannot be over emphasized. The steps that should be followed in carrying out such an assessment are set out in the Bank credit manual and in Head Office Circulars issued from time to time.

**3. Lending Authority:** To assure proper and orderly conduct of the business of the Bank, the Board of Directors will empower Managing Director and other Executives of the Bank to lend up to certain terms, and condition and conditions at their discretion. The lending officers are broadly categorized as follows:

Managing Director, G.M, D.G.M, A.G.M (credit), Manager, and Assistant Manager.

The amount and scope of each officer lending authority is a function of the amount and extent of authority required by the officers to carry out his/her responsibilities to the bank and its clients in a prudent, effective and efficient manner.

It must be emphasized that an officer will not be delegated lending authority only on the basis of his position. Specified lending authority will be delegated by the Managing Director to various Executives after taking consideration his proven credit judgment, knowledge an experience.

**4. Approval under Dual Signature:** All approval of credit facilities must be conveyed under dual signature. Ideally both the signatories must have the required lending authority; if however, two lending officers of the required lending authority are not available, one of the signatory must have the lending authority.

**5. The responsibilities for credit policy, procedure, approval & review shall vest amongst the following groups:**

- a) Board of Directors:
- b) Executive Committee

#### **Head Office Credit Committee**

##### **Constitution**

The Head Office Credit Committee (HOCC) consists of members appointed by the Executive Committee. The maximum number of member of the HOCC will be six and the minimum number will be four. The HOCC would meet as often as necessary or at such intervals as it may decide. The minimum quorum for HOCC will be four. The decision will be arrived at by consensus of all members present.

##### **Function:**

- (a) To process credit proposals in accordance with the credit Approval Authority as delegated by the Board of Directors.
- (b) To establish, monitor and review the credit policy.
- (c) To oversee the functioning of credit administration at Head office and Branch levels.

#### **Branch Credit Committee**

Branch Credit Committee to be headed by the Branch Manager, other members to be selected by the Manager in consultation with Head office.

### **Responsibilities**

The branch Manager will be the first line lending officers and are responsible for exercising their authority with due diligence and discipline. They must also know their borrower fully. Comply with the applicable instruction, manuals, circulars and other rules of the Bank and well as those of Bangladesh Bank Banking companies Act 1991 (as amended from time to time). Review and analyses the following in connection with credit risk proposals coverage any obligation:

- A. History of antecedent of the obligor and its management personnel.
- B. Financial condition of the obligor evidenced by comparative statement, latest Balance Sheet, income statement, operating results and supplementary facts as well as by personal Net worth statement of the proprietor, partners & Director.
- C. Bank & Credit Information Bureau (CIB) checking and trade standing obtained through investigation.
- D. Any other pertinent information.
- E. Secure necessary and adequate Legal & Banking documentation as well as insurance coverage.
- F. Ensure continuing review of the risks and exposure with particulars attention being paid to term loans. At the minimum the following should be done:
  - a) In Every month all credit facilities should be reviewed by Branch Manager along with other members of Branch Credit Committee.
  - b) Ensure that all loan covenants are being complied with.
  - c) Review the regular deposits that are being made in the accounts especially for CC & SOD limits and the deposits commensurate with limits and business.
  - d) Ensure verification of stock reports by the Manager or his authorized officer every month.
  - e) Visit the business establishment/factories of the borrower at least once in a month to review business position, profitability, future projection etc. and prepare a report of the finding.
  - f) Ensure that all credit facilities are covered by appropriate approval and they are kept within approved limits and ensure compliance with terms and conditions of the approval.

### **Loan of Directors**

No credit facilities should be allowed to any Director of the Bank as defined by Bangladesh Bank in Banking Companies Act.

## **2.4 CREDIT ADMINISTRATION**

The principal elements of Bank credit administration are as follows:

- a) Credit approval (discussed in previous section).
- b) Credit files maintenance.
- c) Facility evidence maintenance.
- d) Credit monitoring and review.

## **2.5 LOAN CLASSIFICATION**

Loan classification is a process by which the risk or loss potential associated with the loan accounts of a bank on a particular date is identified and qualified to measure accurately the level of reserves to be maintained by the bank to provide for the probable loss on account those risky loan. Like other banks, all types of loans of IFIC fall into following four scales:

- **Unclassified:**

Repayment is irregular.

- **Substandard:**

Repayment is stopped or irregular but has reasonable prospect of improvement.

- **Doubtful:**

Unlikely to be repaid but special collection efforts may results in partial recovery.

- **Bad /loss:**

Very little chance of recovery.

### **Classification procedure:**

The classification procedure is done as per the central bank's instructions in BRPD circular No.14 of 23.09.2012. The loans are classified based on following criteria.

### **Classification criteria:**

**1. Overdue criteria (OD):**

Term loans became overdue whenever an installment is not received within 3 months of the normal date of repayment for private sector loans and 6 months in case of public sector loans. Continuous type of loans, if not renewed, becomes overdue on the date of expiration of the loan. Classification status of a loan account is determined based on the length of overdue period.

**2. Qualitative criteria:**

In addition to the above mentioned criteria loans

**3. Special condition:**

There are certain special conditions set out in this circular which require classification even though a loan may not be overdue.

**Inspecting department instruction:**

Regardless of the above Bangladesh Bank's inspecting department may change the bank's classification of any loan.

# Chapter-3.0

## LEGAL FRAMEWORK

### 3.1 LEGAL FRAMEWORK FOR LOAN RECOVERY

After being classified, if the borrower not capable to adjust the loan then the bank can take following legal actions by filling suit

1. Filling certificate cases under Public Demand Recovery Act-1913.
2. Filling money suit cases under Artha Rin Adalat-1990.
3. Filling Bankruptcy cases under Bankruptcy Act -1997.
4. Filling cases under Negotiable Instrument Act -1881 section 138 to 141 for insufficient fund. (In case of term loan).

#### **Some problems of recovery:**

- ❖ Exemption of interest by govt. / bank.
- ❖ Exemption of loan including interest by govt.
- ❖ Political pressure and misunderstanding.



### 3.2.1 PRUDENTIAL REGULATIONS FOR SEF (SMALL ENTERPRISE FINANCING)

#### **Prudential Guidelines for SEF**

These guidelines include objective / quantitative parameters for the eligibility of the borrowers and determining the maximum permission limit per borrower.

Fundamentally, credit policies and procedures can never sufficiently capture all the complexities of the product. Therefore, the following credit principles are the ultimate reference points for making Small Enterprise Financing (SEF) decisions:

- Assess the entrepreneur's character for integrity and willingness to repay.
- Lend only when the entrepreneur's has capacity and ability to repay.
- Extend credit only if bank can sufficiently understand and manage the risk.
- Use common sense and past experience in conjunction with thorough evaluation and credit analysis.
- Do not base decision solely on customer's reputation, accepted practice, other Lender's risk assessment or the recommendation of other officers.
- Be proactive in identifying, managing and communicating credit risk.
- Be diligent in ensuring that credit exposures and activities comply with the requirement set out in product program

#### ◆ **Regulation: 1**

##### **Source and capacity of repayment and cash flow backed lending**

- A. Bank shall specifically identify the sources of repayment and assess the repayment capacity of the borrower on the basis of assets conversion cycle and expected future cash flows. In order to add value, the bank must assess the conditions in the particular sector/ industry they are lending to and its future prospects. The banks must be able to identify the key drivers of their borrowers, business, the key risks to their business and their risk mitigate.
- B. The rationale and parameters used to project the future cash flows shall be documented and annexed with the cash flow analysis undertaken by the bank.

#### ◆ **Regulation: 2**

##### **Personal guarantees**

All facilities to SEs shall be backed by the personal guarantees of the owners of SEs.

In case of limited companies, guarantees of all directors other than nominee directors shall be obtained.

In case of proprietorship concern, spouse's guarantee other than the personal guarantee of the owners may be taken.

◆ **Regulation: 3**

**Per party exposure limit**

The minimum and maximum exposure of a bank on a single SE shall remain within the range of TK. 50 lac respectively subject to the following:

- a) In case of working capital finance - maximum up to 100% of the net required working capital or 75% of the sum of total of inventory and receivables, whichever is lower.
- b) In case of fixed assets purchase - maximum up to 90% of the purchase price.

◆ **Regulation: 4**

**Aggregate exposure of bank on small enterprise sector**

The aggregate exposure of the bank on SE sector shall not exceed the limits as specified below:

<b>% of classified SE advances to total portfolio of SE advances</b>	<b>Maximum limit</b>
a. below 5%	10 times of equity
b. below 10%	6 times of the equity
c. below 15%	4 times of the equity
d. up to and above 15%	Up to the equity

**Table 3: Aggregate exposure of bank on small enterprise sector**

### ◆ **Regulation: 5**

#### **Limit on clean facilities**

In order to facilitate growth of smaller loans, banks are free to determine security requirements for loans up to TK. 5 lac. Guidelines for security requirements for loans of amounts more than TK. 5 lac are given in Regulation-6.

### ◆ **Regulation: 6**

#### **Securities**

Consequent to the regulation stated in Regulation-5, facilities provided to SEs shall be secured by banks as follows:

#### **For loan amounting below TK. 10 lac**

As a minimum, banks must take charge over assets being financed.

#### **For loan amounting TK. 10 lac and above.**

- a) Legal mortgage over immovable properties with registered Power of Attorney.
- b) Personal Hypothecation on the inventory, receivables, advance payments, plant & machineries.
- c) Guarantees of spouse/ parents/ other family members.
- d) One third party personal guarantee,
- e) Post dated cheques for each installment and undated cheque for full loan value including full interest.

### ◆ **Regulation: 7**

#### **Loan documentation**

For all facilities, banks must obtain (as applicable) and not limiting to following documents before disbursement of loan can be made:

1. Loan Application Form duly signed by the customer.
2. Acceptance of the terms and conditions of Sanction Advice.
3. Trade License.
4. in case of partnership firm:
  - a) Copy of registered partnership deed certified as true copy or partnership deed on non-judicial stamp of TK. 150 denomination duly notarized.

**5. in case of Limited Company:**

- a) copy of memorandum & Articles of Association of the company including Certificate of incorporation duly certified by Register Joint Stock Companies (RJSC) and attested by the managing director accompanied by an up-to-date list of Directors,
  - b) copy of Boarder solution of the company for availing credit facilities and authorizing managing director/chairman/director for execution of documents and operation of the accounts,
  - c) an undertaking not to change the management of the company without prior permission of the bank,
  - d) copy of last audited financial statement up to last 3 years (as applicable and subject to regulation-10)
  - e) Personal guarantee of all directors including the Chairman and managing directors.
  - f) certificate of registration of charges over the fixed and floating assets of the company duly issued by RJSC,
  - g) certificate of registration of amendment of charges over the fixed and floating assets of the company duly issued by RJSC in case of repeat loan or change in terms and condition of sanction Advice regarding loan amount, securities etc.,
- 6) Demand Promissory Note
  - 7) Letter of hypothecation of stocks and goods
  - 8) Letter of hypothecation of book debts and receivables
  - 9) Letter of hypothecation of plant & machinery
  - 10) Charge on fixed assets
  - 11) personal Letter of guarantee
  - 12) Wherever practical, insurance policy for 110% of the stock value covering all risks with bank's mortgage clause in joint name of the bank and client.

**In the case of individual person:**

- 2(two) copy passport size photographs of intending borrower and guarantor.
- Letter of introduction from employer (where required)
- Bank Statement (for last 6 months).

- Personal Net Worth Statement
- Copy of Passport/voter ID/Driving License (if any)
- Utility Bill copy (Telephone/Gas/Electricity)-anyone
- Salary Certificate/Trade License
- T.I.N Number
- Copy of offer letter from recognized college/ university for studying abroad
- For local private university/Medical College submission of evidence related to admission and cost of CIB report on the borrower's as required.

**In the case of sole proprietorship firm:**

- 1(one) copy passport size photograph
- Copy of Trade License.
- Personal Net Worth Statement
- Hypothecation of Stock
- Personal guarantee of a businessman having business at the same area or any person acceptable to the bank

◆ **Regulation: 8**

**Margin Requirements**

Banks shall adhere to the minimum margin requirement as prescribed by Bangladesh Bank (if any).

◆ **Regulation: 9**

**Credit Information Bureau (CIB) clearance**

While considering proposals for any exposure, banks should give due weights to the credit report relating to the borrower and his group obtained from a Credit Information Bureau (CIB) of Bangladesh Bank. The economics of obtaining CIB report will be governed by rules and regulations as prescribed by Bangladesh Bank from time to time.

◆ **Regulation: 10**

**Minimum conditions for taking exposure**

1. Banks shall, as a matter of rule, obtain a copy of financial statements duly edited by a practicing Chartered Accountant, relating to the business of every borrower who is a limited company or where exposure of a bank exceeds TK.40 lac, for analysis and re-record.

2. It is recognized that a large number of enterprises other than limited companies (I.e., sole proprietorship/partnership firms etc.) may not have proper books of accounts including balance sheet, profit & loss account and they may not be able to prepare current and future cash flows due to lack of sophistication and expertise. It is expected in such cases, banks shall assist the borrowers in obtaining/developing such books of accounts as performs/formats prescribed by each bank.

3. Each bank shall develop their own Loan Application Form and "BORROWERS Basic Fact Sheet". Banks shall not approve and/or provide any exposure (including renewal, enhancement and rescheduling) until and unless the prescribed loan application Form is accompanied by a borrower's basic fact sheet under the seal and signature of the borrower.

#### ◆ **Regulation: 11**

##### **Proper utilization of loan**

The bank should ensure that the loans have been properly utilized by the SEs and for the same purpose for which they were acquired / obtained. Banks should develop and implement an appropriate system for monitoring the utilization of the loans.

#### ◆ **Regulation: 12**

##### **Registration on facilities to related parties**

1. Banks shall not take any exposure on a SE in which any of its director, shareholder, employer or their immediate family members is holding 5% or more of the share capital of the SE. However, this restriction for the shareholder has been withdrawn and henceforth, the word 'shareholder' should be considered as omitted.

#### ◆ **Regulation: 13**

##### **Classification and provisioning for Loans/Advances**

##### **Maintenance of Provision:**

a) **General Provision:** Banks will be required to maintain General Provision in the following way :

(1) @ 0.25% against all unclassified loans of Small and Medium Enterprise (SME) as defined by the SME & Special Programmes Department of Bangladesh Bank from time to time and @ 1% against all unclassified loans (other than loans under Consumer Financing, Loans to Brokerage House, Merchant Banks, Stock dealers etc., Special Mention Account as well as SME Financing.)

(2) @ 5% on the unclassified amount for Consumer Financing whereas it has to be maintained @ 2% on the unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up business under Consumer Financing Scheme.

(3) @ 2% on the unclassified amount for Loans to Brokerage House, Merchant Banks, Stock dealers, etc.

(4) @ 5% on the outstanding amount of loans kept in the 'Special Mention Account'.

(5) @1% on the off-balance sheet exposures. (Provision will be on the total exposure and amount of cash margin or value of eligible collateral will not be deducted while computing Off balance sheet exposure.)

**b) Specific Provision:** Banks will maintain provision at the following rates in respect of classified Continuous, Demand and Fixed Term Loans:

(1) Sub-standard : 20%

(2) Doubtful : 50%

(3) Bad/Loss : 100%

**Base for Provision:**

For eligible collaterals of the following types, provision will be maintained at the stated rates on the outstanding balance of the classified loans less the amount of Interest Suspense and the value of eligible collateral:

a. Deposit with the same bank under lien against the loan,

b. Government bond/savings certificate under lien,

c. Guarantee given by Government or Bangladesh Bank. For all other eligible collaterals, the provision will be maintained at the stated rates on the balance calculated as the greater of the following two amounts:

i. outstanding balance of the classified loan less the amount of Interest Suspense and the value of eligible collateral; and

ii. 15% of the outstanding balance of the loan.

However, the base for provision shall be further reviewed towards closer convergence with international best practice standards.

**Eligible Collateral :**

In the definition of 'Eligible Collateral' as mentioned in the above paragraph the following collateral will be included as eligible collateral in determining base for provision:

- 100% of deposit under lien against the loan
- 100% of the value of government bond/savings certificate under lien
- 100% of the value of guarantee given by Government or Bangladesh Bank
- 100% of the market value of gold or gold ornaments pledged with the bank.
- 50% of the market value of easily marketable commodities kept under control of the bank
- Maximum 50% of the market value of land and building mortgaged with the bank
- 50% of the average market value for last 06 months or 50% of the face value, whichever is less, of the shares traded in stock exchange.

In addition to the time-based criteria prescribed above, subjective evaluation of performing and non-performing credit shall be made for risk assessment and where considered necessary. Any account including the performing account will be classified and the category of classification determined on the basis of time based criteria shall be further downgrade. Such evaluation shall be carried out on the basis of creditworthiness of the borrower, its cash flow, operation of the account, adequacy of the security, inclusive of its realizable value and documentation covering the advances.

Regarding the Reversal of Provision, the provision held against classified assets will only be released when cash realization starts exceeding:

- i. In case of loss category, the net book value of the assets.
- ii. In case of doubtful category, 50% of the net book value of the assets.
- iii. In case of sub-standard category, 25% of the net book value of the assets.

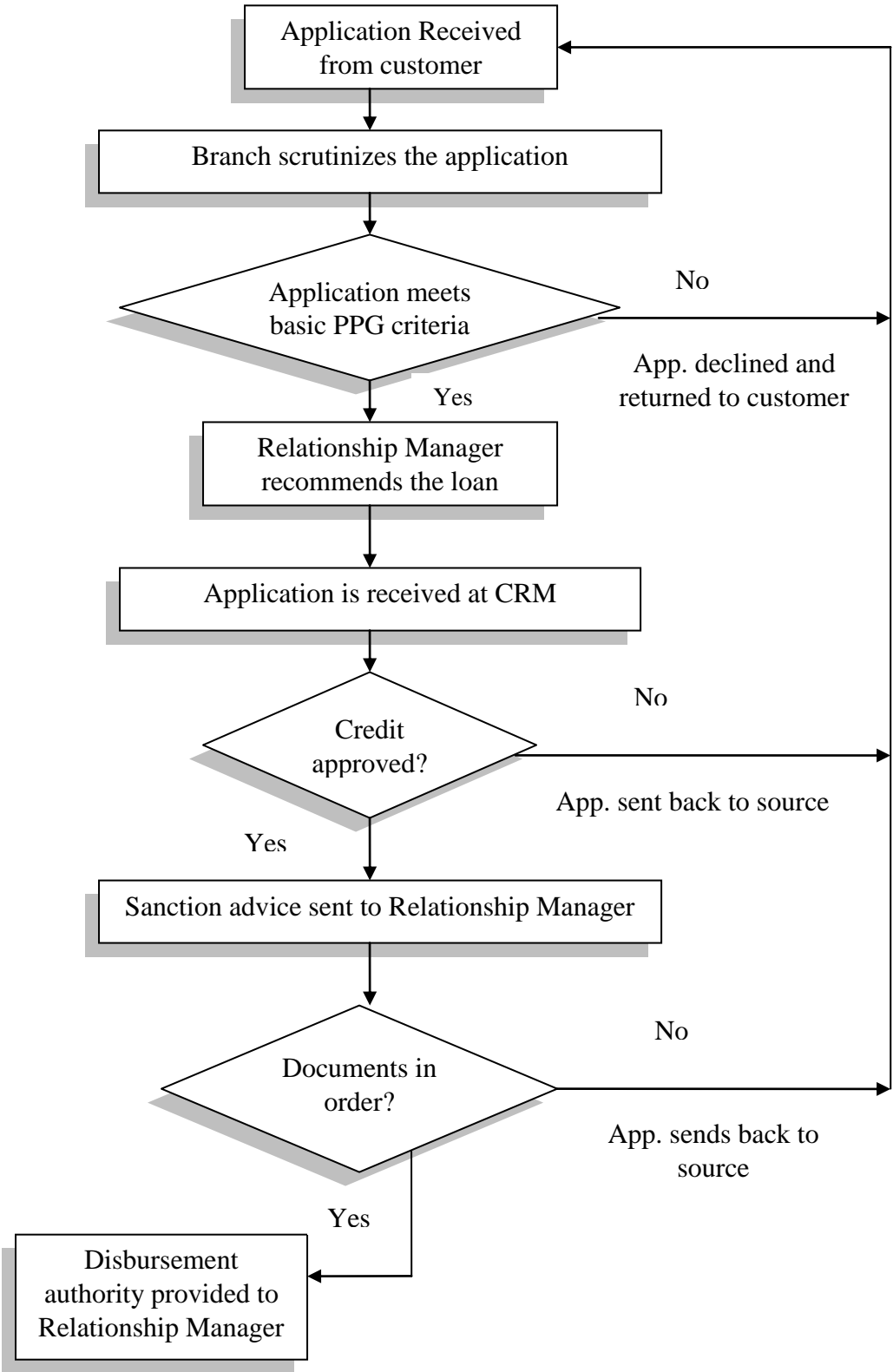
Further, the provision made on the advice of Bangladesh Bank will not be reversed without prior approval of Bangladesh Bank. Regarding the Submission of Returns, banks shall submit the borrower-wise annual statements regarding classified loans/advances to the Banking Inspection Department. Regarding the Timing of Creating Provision, banks shall review, at least on a quarterly basis , the collectibles of their loans /advances





portfolio and shall properly document the evaluations so made. Shortfall in provisioning, if any, determined, as a result of quarterly assessment shall be provided for immediately in their books of accounts by the banks on quarterly basis.

**3.2.2 Process Flow Chart of SEF (Small Enterprise Financing):**



**Figure 2: Process Flow Chart of SEF (Small Enterprise Financing)**

### 3.2.3. Product Program Guidelines of Small Enterprise Loans:

#### 1. Easy Commercial Loan

<b>Purpose</b>	:	To meet business requirement.	
<b>Nature of Loan</b>	:	Overdraft / Loan General	
<b>Customer Segment</b>	:	Individual, business enterprises (other than Public Limited Company) engaged in any business.	
<b>Loan Amount</b>	:	a) Maximum 90% of the face value of FDR/NCD/WEDB. Face value would mean the original amount for which the FDR/NFCD/WED was issued or the amount renewed, b) Maximum 90% of the MIS amount where interest is not allowed to be withdrawn until adjustment of the liability.	
<b>Interest Rate</b>	:	IFIC Bank FDR	11.00% p.a with quarterly interest
	:	ICB Unit Certificate & other banks FDR	11.50% -do-
	:	NFCD	11.50% -do-
	:	Pension Savings Scheme	14.50% -do-
	:	Share	16.00% -do-
<b>Tenor</b>	:	Maximum 12 (Twelve) Months	

#### 2. Retailers Loan

<b>Purpose</b>	:	Working Capital.
<b>Nature of Loan</b>	:	Term Loan.
<b>Customer Segment</b>	:	Individual / Proprietorship firm engaged in retail business
<b>Loan Amount</b>	:	Maximum TK. 2 Lac
<b>Security</b>	:	<ul style="list-style-type: none"> <li>Hypothecation of stock.</li> <li>Personal guarantee of a businessman having business at the same area or any person acceptable to the bank.</li> </ul>
<b>Interest Rate</b>	:	16.50% p.a with quarterly interest
<b>Loan Processing Fee</b>	:	1% of loan amount (Maximum Tk. 10,000/=)
<b>Service Charges</b>	:	0.50% on loan amount to be realized at the time of disbursement of loan.

<b>Tenor</b>	:	Maximum 36 (Thirty six) months.
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### 3. Transport Loan

<b>Purpose</b>	:	Purchase of road / water transport for commercial use.
<b>Customer Segment</b>	:	Individual, business enterprises (other than Public Limited Company) engaged in transport business.
<b>Loan Amount</b>	:	Maximum TK. 50 Lac.
<b>Debt-Equity Ratio</b>	:	60:40
<b>Debt Burden Ratio</b>	:	Maximum 30% based on average net monthly return.
<b>Security</b>	:	<ul style="list-style-type: none"> <li>• Hypothecation of registered vehicles.</li> <li>• Comprehensive insurance in the joint name of the bank and the borrower.</li> </ul>
<b>Interest Rate</b>	:	16.50% p.a with quarterly interest
<b>Tenor</b>	:	Maximum 48 (Forty eight) months.

### 4. Commercial House Building Loan

<b>Purpose</b>	:	Construction of commercial building.
<b>Customer Segment</b>	:	Individual, business Enterprises (Other than Public Limited Company) having commercial plot.
<b>Loan Amount</b>	:	Maximum TK. 50 Lac.
<b>Debt-Equity Ratio</b>	:	70:30 of construction cost.
<b>Debt Burden Ratio</b>	:	Maximum 30% based on average net monthly return.
<b>Security</b>	:	<ul style="list-style-type: none"> <li>• Legal mortgage of land and building within city corporation or municipal area.</li> <li>• Registered power of Attorney to sell the mortgaged properties without invention of court.</li> </ul>
<b>Interest Rate</b>	:	16.50% p.a with quarterly interest
<b>Loan Processing Fee</b>	:	1% of loan amount (Maximum Tk. 10,000/=)
<b>Service Charges</b>	:	0.25% on loan amount to be realized at the time of disbursement of loan.
<b>Tenor</b>	:	Maximum 5 (Five) years.

<b>Evidence of income</b> :	<ul style="list-style-type: none"> <li>• Bank statement for last six months.</li> <li>• Details of income and Expenditure.</li> <li>• Cash flow statement.</li> </ul>
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### 5. Possession Right Loan

<b>Purpose</b> :	Fixed Working Capital.
<b>Nature of Loan</b> :	Term Loan (others).
<b>Customer Segment</b> :	Proprietorship concern having no collateral security to offer other than possession right of shop.
<b>Loan Amount</b> :	Maximum TK. 5 Lac
<b>Debt-Equity Ratio</b> :	50:50
<b>Debt Burden Ratio</b> :	Maximum 30% based on average net monthly return.
<b>Security</b> :	Hypothecation of stock duly insured with bank mortgage.
<b>Interest Rate</b> :	16.50% p.a with quarterly interest
<b>Loan Processing Fee</b> :	TK. 2000 to be realized before disbursement of loan.
<b>Service Charges</b> :	0.50% on loan amount to be realized at the time of disbursement of loan.
<b>Tenor</b> :	Maximum 36 (Thirty six) months.
<b>Evidence of income</b> :	<ul style="list-style-type: none"> <li>• Bank statement for last six months.</li> <li>• Details of income, Expenditure and assets and liabilities in details to be verified by the relationship manger.</li> </ul>

### 6. Contractors Loan

<b>Purpose</b> :	To execute work order awarded by Govt./semi Govt. & autonomous bodies.
<b>Customer Segment</b> :	Individual, business enterprises (other than Public Limited Company) having commercial plot.
<b>Nature of Loan</b>	Secured Overdraft (SOD)
<b>Loan Amount</b> :	Maximum TK. 50 Lac.
<b>Debt-Equity Ratio</b> :	50:50
<b>Security /Collateral</b> :	<ul style="list-style-type: none"> <li>• Legal mortgage of land, building, machinery within City Corporation and/or Municipal area.</li> </ul>

	<ul style="list-style-type: none"> <li>Registered power of attorney to sell the mortgaged property without intervention of court.</li> <li>Assignment of work order.</li> </ul>
<b>Debt Burden Ratio</b> :	Maximum 30% based on average net monthly return.
<b>Interest Rate</b> :	16.50% p.a with quarterly interest
<b>Loan Processing Fee</b> :	TK. 2000 to be realized before disbursement of loan.
<b>Service Charges</b> :	0.50% on loan amount to be realized at the time of disbursement of loan.
<b>Tenor</b> :	Maximum 3 (Three) years.
<b>Evidence of income</b> :	<ul style="list-style-type: none"> <li>Bank statement for last six months.</li> <li>Details of income, Expenditure and assets and liabilities in details to be verified by the relationship manger.</li> </ul>

### 7. Working Capital Loan

<b>Purpose</b> :	To meet working capital requirement
<b>Nature of Loan</b>	Cash Credit
<b>Customer Segment</b> :	Business enterprises (other than Public Limited Company) engaged in manufacturing, trading business.
<b>Loan Amount</b> :	Maximum TK. 50 Lac.
<b>Security</b> :	<ul style="list-style-type: none"> <li>Hypothecation of stock in trade duly insured with bank mortgage clause.</li> <li>Pledge of stocks duly insured with bank mortgage clause.</li> </ul>
<b>Debt-Equity Ratio</b> :	Depending on the nature and risk in the business.
<b>Interest Rate</b> :	16.50% p.a with quarterly interest
<b>Loan Processing Fee</b> :	TK. 2000 to be realized before disbursement of loan.
<b>Service Charges</b> :	0.25% on loan amount or maximum TK. 5000.
<b>Tenor</b> :	Maximum 3 years.

### 8. Loan against Imported Merchandize (LIM)

<b>Purpose</b> :	For clearance of imported consignment.
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<b>Customer Segment</b> :	Business Enterprises (Other than Public Limited Company) engaged in import business.
<b>Security</b> :	Imported goods to be stored at godown under effective control of bank duly insured, covering all relevant risks.
<b>Interest Rate</b> :	16.50% p.a with quarterly interest
<b>Tenor</b> :	As per nature of imported items and Bangladesh Bank Guidelines if any.
<b>Disbursement mode</b> :	Imported goods to be cleared as per term of sanction.
<b>Disbursement Pre-condition</b> :	<ul style="list-style-type: none"> <li>• Request of the importer for clearance of imported consignment.</li> <li>• Imported documents to be handed over to the bank's approved clearing agent.</li> <li>• Payment of margin by the importer if any.</li> <li>• Payment of other charges.</li> </ul>

#### 9. Bidder's Loan

<b>Purpose</b> :	For issuance of Payment Order / Security Deposit Receipt / Demand Draft only for participation in the tender.
<b>Customer Segment</b> :	Individual, business Enterprises (Other than Public Limited Company) engaged in construction and supply business.
<b>Nature of Loan</b>	Loan General (Resolving)
<b>Loan Amount</b> :	Maximum TK. 50 Lac.
<b>Security</b> :	<ul style="list-style-type: none"> <li>• Legal mortgage of land and building within City Corporation or Municipal Area.</li> <li>• Registered power of Attorney to sell the mortgaged properties without invention of court.</li> </ul>
<b>Loan Processing Fee</b> :	1% on loan amount (Maximum Tk. 2000/-) to be realized at the time of disbursement of loan
<b>Service Charges</b> :	0.25% on loan amount to be realized at the time of disbursement of loan (Maximum TK. 5000/=)
<b>Tenor</b> :	Maximum 12 (Twelve) months.
<b>Evidence of income</b> :	<ul style="list-style-type: none"> <li>• Bank statement for last six months.</li> <li>• Financial Statement.</li> <li>• TIN Certificate.</li> </ul>

### 3.3 SECTOR WISE POSITION OF LOANS & ADVANCES (MOHAMMADPUR BRANCH):

In Mohammadpur Branch, most of the loans are in the form of Term Loan category. The rest of the loan falls in Overdraft (SEF), Cash Credit (Hypo)-SEF and Secured Overdraft (CF) and others.

	<b>December 2015</b>
<b>Term Loan</b>	
CF	11,86,262.59
House Building Loan	99,73,106.56
Staff House Building Loan	51,45,396.34
Staff Loan against PF	1,25,102.16
IFIC Home Loan	3,79,88,529.53
<b>Total Term Loans</b>	<b>5,44,18,397.18</b>
Loan General	98,07,027.21
OD Staff Salary	2,51,502.80
Overdrafts-SEF	1,13,72,373.30
Secured Overdraft	2,67,79,217.20
Cash Credit (Hypo)-SEF	4,74,32,528.83
<b>Total Loans</b>	<b>15,00,61,046.52</b>

**Table.4: Sector wise position of Loans & Advances (Mohammadpur Branch)**

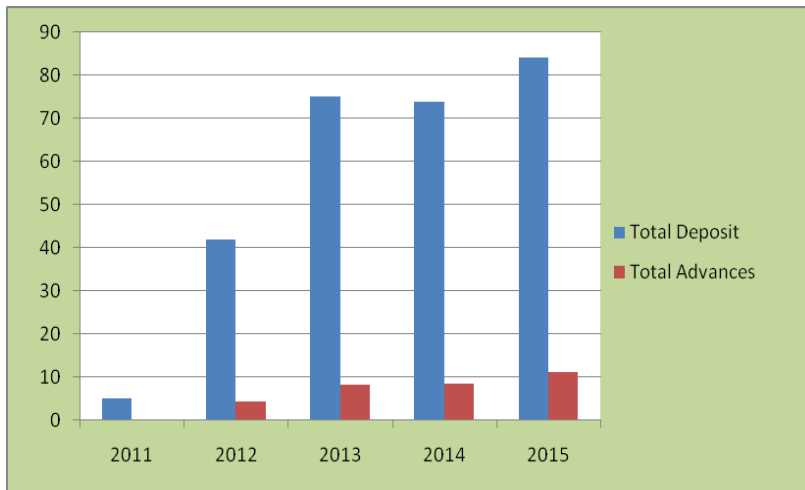


### 3.4 EXISTING POSITION OF LOANS AND TOTAL DEPOSITS OF IFIC BANK (MOHAMMADPUR BR.)

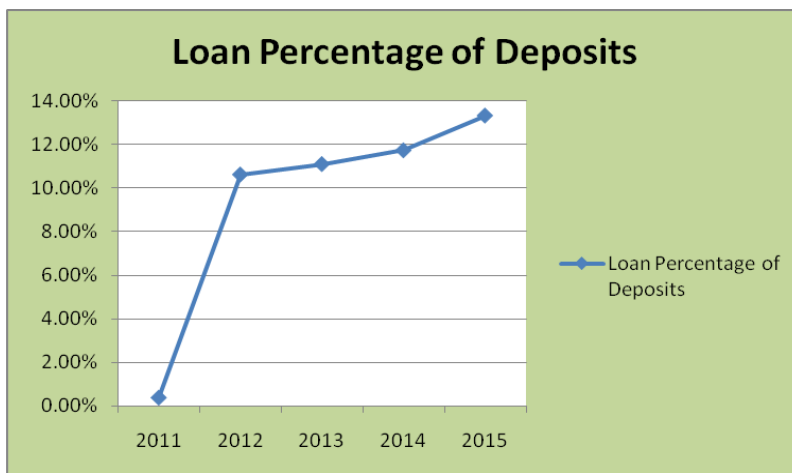
(Fig. in crore)

TOTAL	TOTAL LOANS (TK.)	TOTAL DEPOSITS (TK.)	LOANS AS A PERCENTAGE OF TOTAL DEPOSITS
2011	0.02	5.12	0.39%
2012	4.45	41.96	10.61%
2013	8.34	75.21	11.09%
2014	8.66	73.86	11.72%
2015	15.01	84.20	17.83%

**Table 5 : Total Loans and Total Deposits of IFIC Bank (Mohammadpur Branch)**



**Graph:1 Total Loans and Total Deposits of IFIC Bank (Mohammadpur Branch)**



**Graph:2 Loans Percentage of Deposits of IFIC Bank (Mohammadpur Branch)**

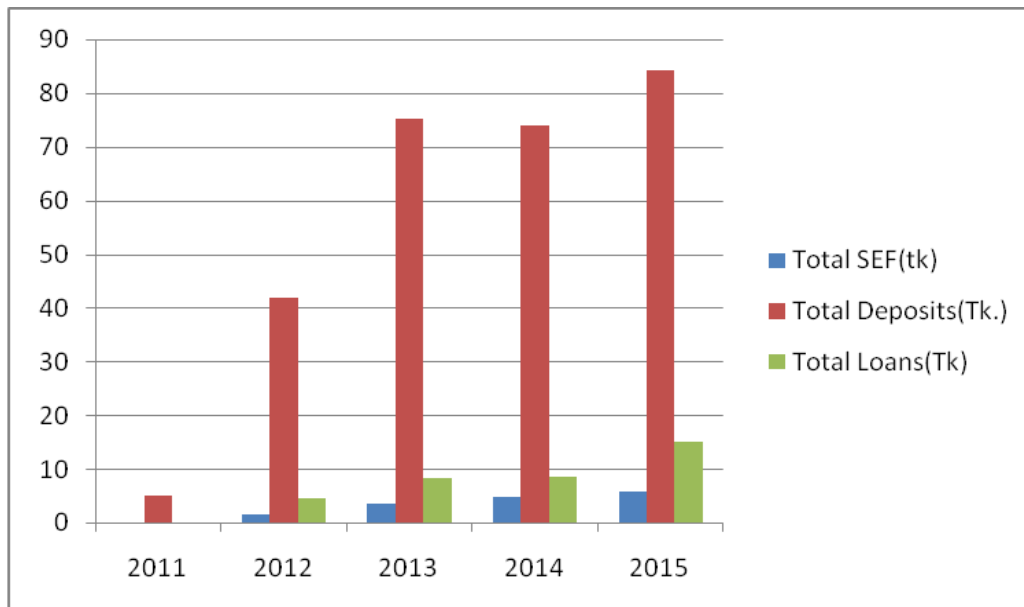
### 3.5 Existing Position of Small Enterprise Financing, Mohammadpur Branch, IFIC Bank Ltd.

#### Total SEF and Total Deposits of IFIC Bank (Mohammadpur Br.)

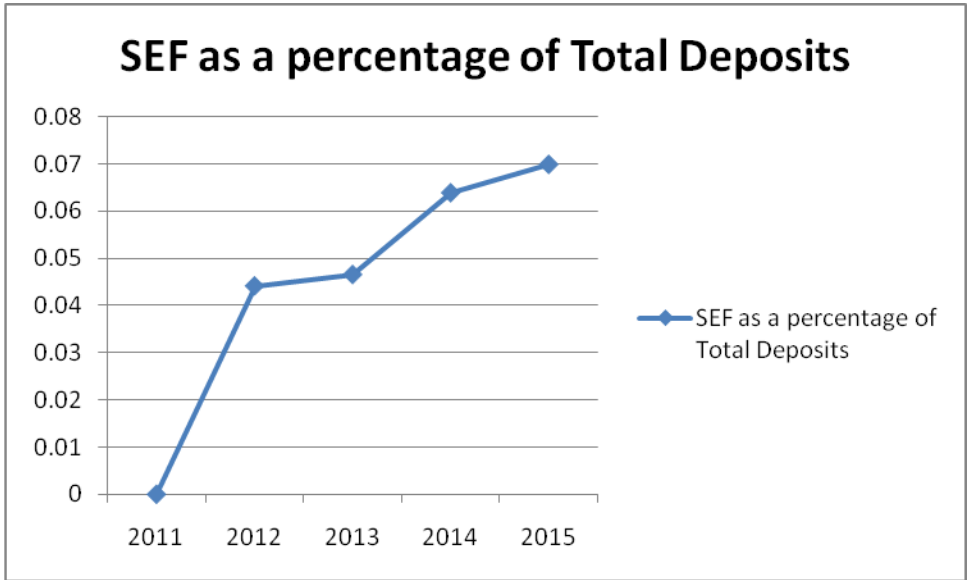
(Fig. in crore)

TOTAL	TOTAL SEF(TK.)	TOTAL DEPOSITS (TK.)	TOTAL LOANS (TK.)	SEF AS A PERCENTAGE OF	
				Total Deposits	Total Loan
<b>2011</b>	-	5.12	0.02	-	-
<b>2012</b>	1.50	41.96	4.45	4.41%	33.71%
<b>2013</b>	3.50	75.21	8.34	4.65%	41.96%
<b>2014</b>	4.71	73.86	8.66	6.38%	54.39%
<b>2015</b>	5.88	84.20	15.01	6.98%	39.17%

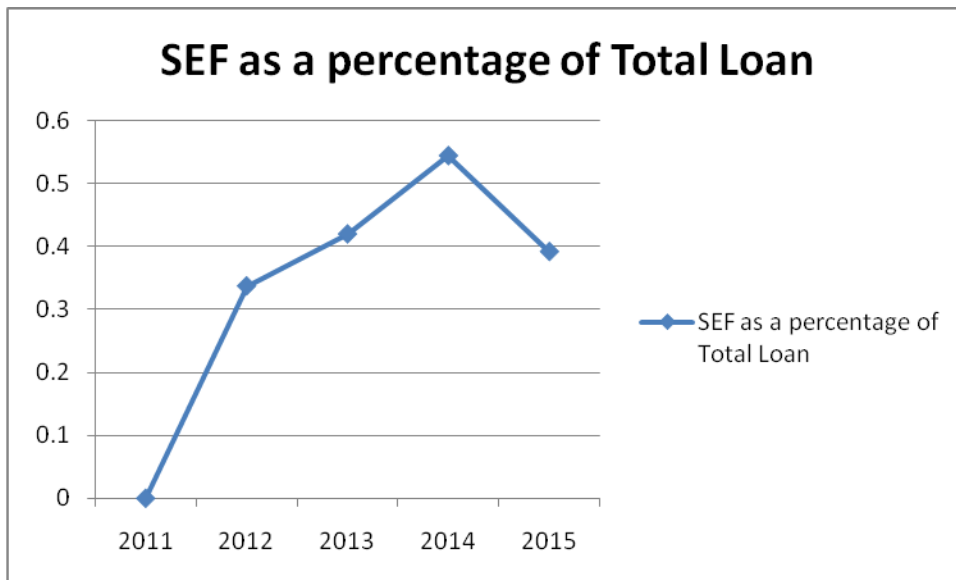
**Table 6 : Total SEF and Total Deposits of IFIC Bank (Mohammadpur Br.)**



**Graph:3 Total SEF, Total Deposits and Total Loans of IFIC Bank (Mohammadpur Br.)**



**Graph:4 SEF as a percentage of Total Deposits of IFIC Bank (Mohammadpur Br.)**



**Graph:5 SEF as a percentage of Total Loans of IFIC Bank (Mohammadpur Br.)**

### 3.6 Interest Income from Loans & Advances, Mohammadpur Branch, IFIC Bank Ltd.

#### Sector wise position of Interest Income (Mohammadpur Br.)

(Fig. in crore)

	2011	2012	2013	2014	2015
CC(Hypo)	-	0.01	0.30	0.33	0.58
Overdrafts	-	0.02	0.17	0.08	0.14
CF	-	0.06	0.50	0.61	1.06
Others	0.002	0.04	0.06	0.05	0.07
<b>TOTAL</b>	<b>0.002</b>	<b>0.13</b>	<b>1.03</b>	<b>1.07</b>	<b>1.85</b>

**Table 7 : Sector wise position of Interest Income of IFIC Bank (Mohammadpur Br.)**

### 3.7 Recovery of Loans & Advances

#### Mohammadpur Branch, IFIC Bank Ltd.

Recovery faces a great threat for commercial banks as well as for IFIC Bank Limited. However, IFIC bank Limited yet is doing well for recovery of its loan amount. It is good news for all the stakeholders that the percentage of classified loan of the end less than 4.46% where this ratio is very high for similar types of banks prevailing in our country especially for older banks of the country.

#### Classification of Loans & Advances (Mohammadpur Br.)

(Fig in crore)

	2013	2014	2015
<b>Unclassified Loans</b>			
Standard	7.67	7.99	14.34
SMA (Special Mention Account)	-	-	-
<b>Classified Loans</b>			
SS (Substandard)	0.67	-	-
DF(Doubtful)	-	0.67	-
Bad / Loss	-	-	0.67
<b>Total Loans (TK.) =</b>	<b>8.34</b>	<b>8.66</b>	<b>15.01</b>

**Table 8 : Classification of Loans and Advances of IFIC Bank (Mohammadpur Br.)**

# Chapter-4.0

## CONCLUSION

## 4.1 RECOMMENDATION

- The study was limited to some specific variables assuming other variables are insignificant to selection the borrowers. Moreover, in the organization part the area of activities of IFIC Bank Ltd. specifically loans and advance division is highlighted. For the viewpoint of above the followings can be recommended:
- The rules and regulation that a borrower must follow is very complex and sometime impossible. So, the bank should make the procedure easier and understandable to attract the potential customer.
- Unlike Home Loan and Amar Account, IFIC Bank Limited needs to develop some more new and innovative product to come on the stage of competition with other banks. In recent years, some banks launched a number of innovative products to attract their customer. IFIC may follow the way to be a leader of modern banking.
- Clearance from IFIC Bank Limited or other bank at the time of taking new loan from IFIC Bank Limited or other bank may be made compulsory. Introduction and at the same time proper implementation of this system may be expected to speed up the selection procedure.
- The names of defaulters as well as good and regular payers may published in various dailies and provide various facilities to good borrower will encourage a borrower to be a good borrower. This initiative can help the bank in decreasing the number of defaulter and the volume of large outstanding loan amount as well.
- In the selection procedure, the new entrepreneur should be encouraged in getting loans and those who have the records of regular repayment may be given preference. Though the bank introduces different SME products but it still needs to implement in broader aspect
- There will be the least possibility of wrong appraisal and evaluation of loan proposals, if more competent employees are employed as per the requirements of IFIC Bank Ltd.
- Review the borrower's financial position periodically to measure the risk implication from the beginning to full repayment of loan.
- Not to emphasize on experience of the borrowers as the key factor in

providing loan facilities. Rather, elasticity and future prospective need to be taken into account.

- Lending procedure needs a very lengthy time in IFIC Bank, that's why applicants sometime felt harassed and uneasy. People are applying for loan to fulfill their immediate necessity. So, it's a responsibility and a way to provide better service through stopping unnecessary time consuming.

#### **4.1.1 FEW SUGGESTATIONS**

- ✓ IFIC Bank should reduce interest rate for given customer and Small Enterprise Loan.
- ✓ IFIC Bank should reduce penal interest on overdue amount, which depends on the category of loan. Penal interest is burden for the customers.
- ✓ Maximum loan limit size of the bank should increase.
- ✓ The Bank takes more time to sanction loan that should be reduced.
- ✓ IFIC Bank Ltd. needs to promote through various media about all types of loan offers and other products.



## 4.2 CONCLUSION

From the learning and experience point of view I would like to say that I really enjoyed my internship period in IFIC Bank Ltd. at Mohammadpur Branch from the very first day. I am confident that this 3 (three) months internship program will definitely help me to realize my further career in the job market.

It is difficult to measure and express perfectly Loans & Advances of a bank within this short time span of my internship period. But it was a great opportunity for me to get used to with the Loan & Advance Procedure of commercial banking of IFIC Bank. I have tried heart and soul to include the necessary relevant information in my report.

The selection and the awareness about the loans type is one of the key determinants of the right and proper use of fund. The loan default in the banking sector of our country has been hindering the growth of the economy. The problem has also been reducing the level of investment, the productivity of capital and the volume of savings. In managing loans and advances of the commercial banking sectors, the critical factors are needed to be identified and managing of those factors will have positive impact on the overall banking sector. The analyzed factors are not the only determinants of the loans and advances as well as the selection procedure. In this study, several qualitative factors are considered and casual relationship of types of loan and the selection procedure, compliance with covenants by borrowers and strength of supervision is established. The study was conducted by using the data of the Bank. So, findings of this study are not applicable in the macro environment but further study can be conducted on the basis of the findings of the report.

During the course of my practical orientation I have tried to learn the practical banking to relate it with my theoretical knowledge, what I have gathered and going to acquire from various courses.

## SOURCES

### 1. Published Article:

- i. Prospectus of IFIC Bank Ltd.
- ii. Leaflet, Booklet and department published documents.
- iii. Annual Report of IFIC Bank Ltd. (2011 to 2014).
- iv. My daily Notebook, written during the internship period.
- v. Special Project Report- Published by IFIC Bank

### 2. Web site:

<http://www.ificbankbd.com/>