

Daffodil International University



“An Analysis of the Credit Management of United Commercial Bank Ltd.”

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Letter of Transmittal

December 15, 2018

To

Professor Mohammed Masum Iqbal, PhD

Department of Business Administration

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Subject: Submission of internship report on “An Analysis of the Credit Management of
United Commercial Bank Ltd”

Dear Sir,

It is my pleasure to present the internship report on “An Analysis of the Credit Management of United Commercial Bank Ltd”. This was assigned to me as a partial requirement for the completion of the MBA program. I have tried to combine the both primary and secondary data with my own investigation in order to come up with a complete report. In spite of several constraints, I gave my all efforts to make this report as meaningful one.

I hope and sincerely believe that this report will serve the purpose of my internship program. My effort will be rewarded only if it is add value to the research literature.

Thank you again for your valuable direction and cooperation.



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Certificate of Approval

I hereby declare that the concerned report entitled “An Analysis of the Credit Management of United Commercial Bank Ltd” is prepared by Mustafizur Rahman, ID # 093-14-1068, MBA program, Major in Marketing, Department of Business Administration, Faculty of Business & Entrepreneurship, Daffodil International University. He has completed the internship report under my supervision and submitted for the partial fulfillment of the requirement of the degree of Master of Business Administration (MBA) at Daffodil International University.



15.12.18

Professor Mohammed Masum Iqbal, PhD

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First I pay my gratitude to the Almighty for giving me the ability and patience to work hard successfully. I am also grateful to our honorable teachers who encouraged me to reach the goal.

I may not have been successful in complete the report without the active support and cooperation from many persons in the UCBL.

I have tried my best and also worked hard for preparing this project report. I have received whole-hearted cooperation from my Internship Professor Dr. Mohammed Masum Iqbal, Department of Business Administration, Faculty of Business & Entrepreneurship, Daffodil International University Bangladesh who advised me and also guided me. I am grateful to him for his suggestions and all instance observations to prepare the Report.

I would also like to thank to the officials of UCBL Corporate Branch especially Mr.Md. Shafiqul kabir - Officer, Mrs. Taslima Sharmin – Junior Officer, Ms.Kazi Meherun Nessa-junior Officer. Mr. Md. A.B.M. Ismail Hossain - Senior Officer. Mr. Jubair Ebne Jahan – Senior Officer, Ms. Shahanaz Akter - Officer and very special thanks goes to Md. Nurur Rahman Khan First Asstt. Vice President & Head of Branch for providing all the support in the organization. Special thanks go to the respondents, who spared their time generously, and took the trouble of answering my queries and helped me to complete my study.

I would also like to add that without the kind advice & suggestion of Mr. Afsar Ali - Senior Executive Officer, the whole proceedings of making this internship report would have been hampered. I am really grateful to him.

Executive Summary

Banking system of Bangladesh has gone through three phases of development- Nationalization, Privatization, and Lastly Financial Sector Reform. UCBL of Bangladesh Limited has started its journey as a private commercial bank from 1983.

The objectives of the study are to learn and analyze the credit management of UCBL and the system the followed for credit assessment. Additionally, the study covered to identify the credit products of United Commercial Bank Ltd. Also the study intended to explain and analyze credit sanctioning and disbursement and recovery process of UCBL. Moreover, the study tried to identify problems related to credit management and make some suggestions to improve the credit management situation of UCBL. To reach the objectives of the study the data were collected from primary and secondary sources and analyzed in descriptive style.

From the analysis the bank's income mostly depended on the activities of foreign exchange division and credit division. For this UCBL handle both of department very strongly. The rate of interest or product cost set up by the head office. Interest rate has to be within a limit for every bank which is notified by the Bangladesh Bank. The Banks in Bangladesh has faces a lot of illegal pressure from Political persons, Directors and Management of the Bank for approval of loan. in that cases Risk managers are bound to approve the loan without any assessment and rationality.

The bank needs to make its credit policy easy and understandable as the policy is very complicated. By this way all credit officers will understand the instruction and follow this instruction correctly at the time of credit management. To assess the credit proposal correctly management should recruit by manager of credit department. The management must be careful to sanctioning that loan which is recommended by powerful bodies. Because these loans sometimes become more risky. To reduce the credit risk the original documents of the client must be verified thoroughly. If manager sanction the loan without the original documents, that may involves more risk. To reduce the default risk the repayment capacity of loan of the client should be properly investigated. Otherwise, here have the chance to default. The process of sanctioning a loan is very time consuming. Management should give more effort to reduce the time of processing a loan. The main portion of profit comes from the foreign exchange and credit division, but there are not enough employees on these departments to serve the clients, for this reason number of employees should be increased in these departments.

The bank is much more structured compared to other listed banks operating in Bangladesh. It is relentless in pursuit of business innovation and improvement and it has a reputation as a leader in financing manufacturing sector

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CHAPTER # 1

Introduction

1.1 Introduction:

A country is financially rich when it has modern financial institutions of its own. These institutions play a vital role in the field of financial stability of a country. Banking sector is one of the stable financial institutions of a country. A bank is financial institute that accepts deposits from the public and creates credit. Especially banks play an important role in the field of promotion of capital, encouragement of entrepreneurship, generation of employment opportunities etc. Due to globalization, money transfer and other important task is easily done by banks

1.2 Background of the study:

Internship program is a pre-requisite for acquiring graduation from Department of Business Administration. Before completing of the degree, a student must undergo the Internship program. In the internship program, I was attached to host organization name UCBL at Corporate Branch. This report prepared on my practical experience on the day to day banking activities, theoretical experience and under close supervisor of Professor Dr. Mohammed Masum Iqbal of my internal support as well as my official supervisor.

1.3 Scope of the Study:

The present study was not out of limitations. But as an intern it was a great opportunity for me to know the banking activities of Bangladesh specially U.C.B.L. Some constraints are appended below:

- The main constraint of the study is inadequate access to information, which has hampered the scope of analysis required for the study.
- Since the bank personals were very busy, they could provide me very little time.

1.4 Objectives of the Study:

- To identify the credit products of United Commercial Bank Ltd;
- To explain credit sanctioning and disbursement process of UCBL;
- To analyze credit recovery process of UCBL;
- To identify problems related to credit management of UCBL;
- To make recommendations to solve the problems;

1.5 METHODOLOGY OF THE STUDY

1.5.1 Data Sources:

The report was fully exploratory in nature. Data have been collected from both primary and secondary sources.

Primary sources:

- Officers
- Manager
- Clients

Secondary sources:

- Annual report of U.C.B.L
- Prospectus of U.C.B.L
- Unpublished data
- Different Text Books
- Different manuals of U.C.B.L
- Different circulars of U.C.B.L

1.6 Methods of data collection:

Primary sources of data

- Face to face conversation with the bank officers & staffs.

Secondary sources of data

- The necessary data were collected from the secondary sources through meticulous review.

1.7 Limitations of the study:

In preparing this report some problems and limitations have encountered which are as follows:

- 1. Limitation of time:** It was one of the main constraints that hindered to cover all aspects of the study.
- 2. Lack of Secondary Information:** The secondary source of information was not enough to complete the report.
- 3. Limitation of the Scope:** Some confidential information was not disclosed by various personnel of their respective department.

Such as:

- 1.** In many case the relevant authorities are not helpful to provide information.
- 2.** Since the Bank personnel were very busy with their activities, they failed to co-operate me to complete this report.
- 3.** The main difficulty of the study was insufficiency of current information relevant to the study.
- 4.** Consolidated data related to the study were not given due to time shortage.

CHAPTER # 2

OVERVIEW OF UCBL

2.1 Introduction:

United commercial Bank Ltd. is one of the leading private commercial bank in Bangladesh. It Sponsored by some dynamic and reported entrepreneurs and eminent industrialists of the country and also participated by the eminent. UCBL started its operation in the mid 1983.

The emergence of UCBL in private sector is an important event in the arena of Bangladesh. It has been able to establish the network of 99 (another one is on going) branches throughout the country.

2.2 Mission and Vision of UCBL

UCBL has certain Vision relative to its competitors of UCBL visualizes as:

- Maximizing shareholders wealth.
- Setting industry benchmarks of world class standard in delivering customer value through our comprehensive product range, customer service and alt our activities.
- To participate in growth and expansion of our national economy.

2.3 Strategies, Goals & Objectives of UCBL:

Strategy is a course of action taken by the management available to him in advance. Business sense, it refers to the formulation of basic organizational missions, purposes, & objectives; policies & program strategies to achieve them, & the methods needed to assure that lies are implemented to attain organizational ends.

2.3.1 Strategies of UCBL

- Utilize all available resources to develop various plan, policies and procedures in each of the objectives and goal areas.
- Synchronized and steady growth of the bank.
- Implement plans, polices and procedures.
- Utilize team of professional employees.

2.3.2 Goals of UCBL

- Develop a plan for offering better customer service.
- Foster a realistic deposit mobilization plan.
- Develop appropriate lending risk assessment system.
- Enhance capital plan.
- Generate a system to make good advances.

2.3.3 Business Objectives UCBL

Objective may be defined as a specific desired result to be achieved.

The objectives of UCBL have outlined hereunder:

- Ensure full recovery of all advances.
- Ensure a satisfied work force.
- Make sound loan and investment
- Build up a low cost fund base.

2.4 Organism of UCBL

Managing Director

Deputy Managing Director

Senior Executive Vice President

Executive Vice President

Senior Vice President

First Vice President

Vice president

First Assistant Vice President

Assistant Vice President

Senior Executive Officer

Executive Officer

Senior Officer

Officer

Junior Officer

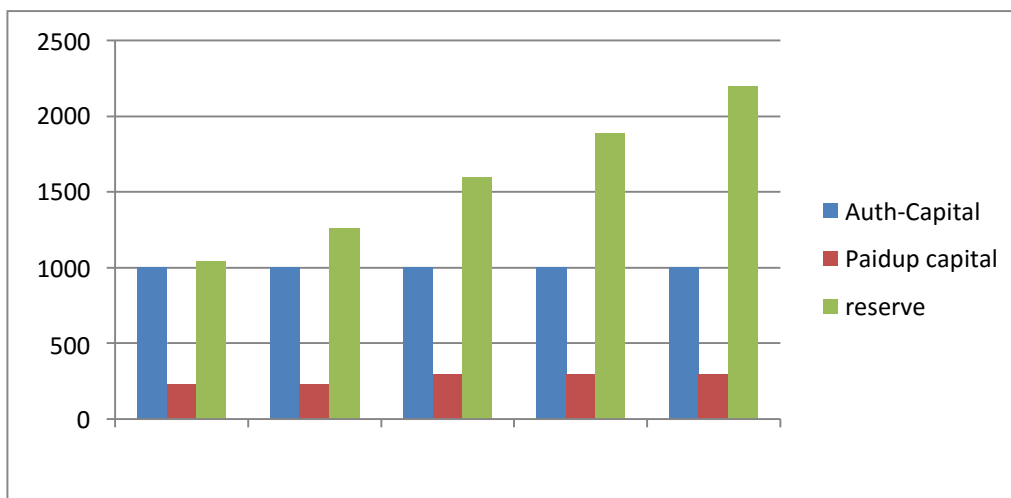
2.5 Board of directors of UCBL

The Bank has in its Management a combination of highly skilled and eminent bankers of the country of varied experience and expertise successfully led by Mr. M. Shahjahan Bhuiyan, a dynamic banker, as its Managing Director and well educated young, energetic and dedicated officers working with missionary zeal for the growth and progress of the institution. The board of directors of united Commercial Bank is following below:

2.6 Financial Position of UCBL

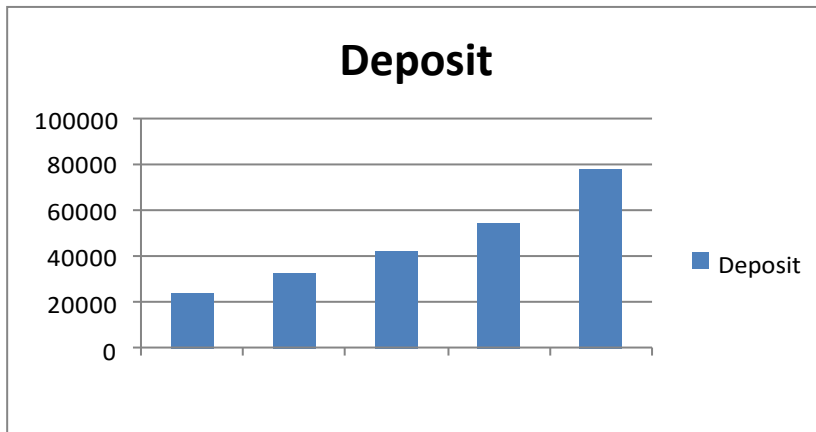
2.6.1 Capital and reserves

During the year under report authorized capital of the bank remained unchanged at TK 1000 million and the paid-up capital stood at TK 299 million. The reserve fund of the bank increased by 16.33 percent to TK 2,197 million against TK 1,889 million in the previous year of 2016. The reserves for the last five years (2013 to 2017) are as below (taka in million):



2.6.2 Deposit

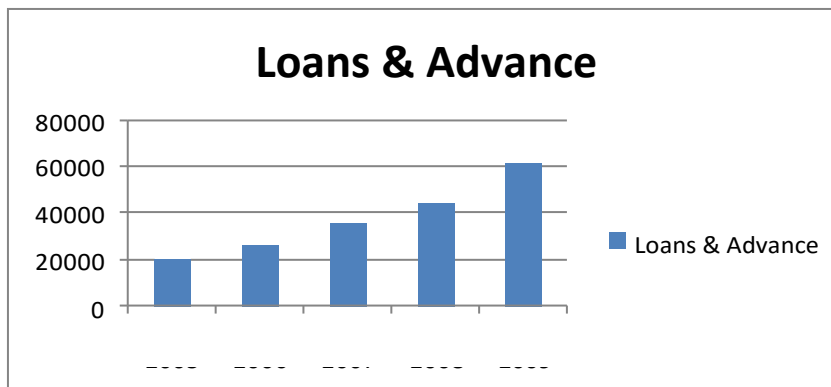
The deposit of the bank registered an increase of 42.66 percent in the year under review. At the close of 2017, Total deposit stood at TK 77,730 million as against TK 54,485 million in the previous year. The Deposit mix comprised Tk.12400 million as demand and Tk.65330 million as time deposit. Out of the total deposits, Tk.68,455 million was mobilized from the private sector while the balance Tk. 9,275 million from the public sector. Deposits of last five years (2013 to 2017) are shown below:



2.8.3 Credit

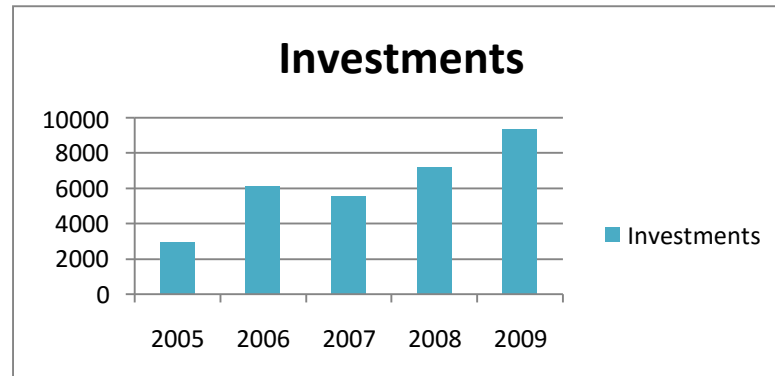
The bank continued its participation in different credit programs for financing new industrial projects, working capital, trade finance, international trade etc. Consequently total credit rose to TK 61,692 million in 2017 from Tk. 44,446 million of 2016. The credit deposit ratio stood at 79.37 percent. Sector wise net advances during the year were as follows:-

Loans and advance of last five years (2013 to 2017) are given below:



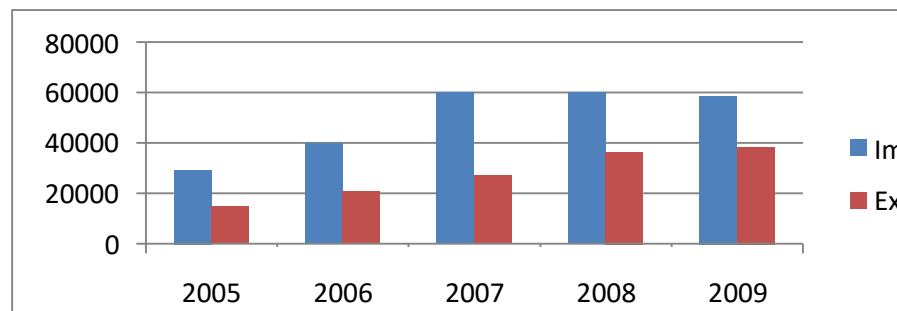
2.6.4 Investment

At the close of 2017, total investment of the bank stood at TK 9,346 million against TK 7,201 million in 2016. dividend amounting to Tk. 8 million has been received from different companies/ institutions against investment in share during the year under report.



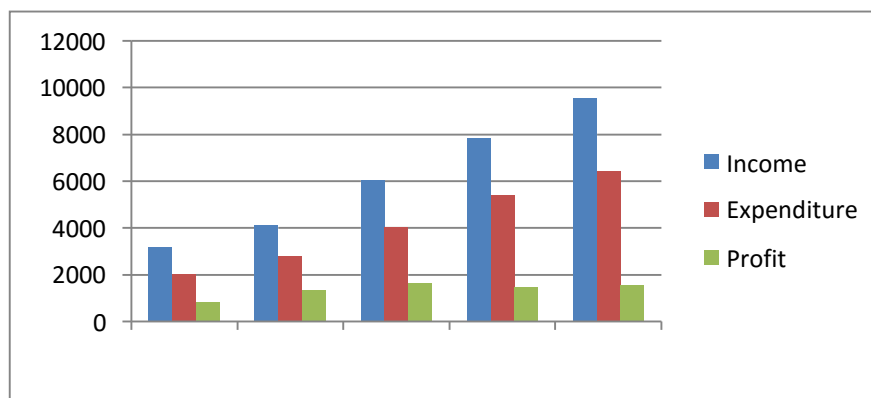
2.6.5 Foreign Trade

During the year 2017, the volume of import business was Tk.58,857 million compared to Tk.60,009 million in 2016.



2.6.6 Income, Expenditure & Operating Profit

UCBL earned a total operating income of Tk. 9540 million during the year against Tk. 7850 million in the previous year. The total operating expenditure was Tk. 6415 million in 2017 against Tk. 5400 million in 2016.



CHAPTER # 3

Credit Management of U C B L

3.1 Credit Management:

As United Commercial Bank Limited is providing credit facility out of its available funds, it has to manage these credits very efficiently. An efficient credit management system comprise many things and this cover the pre-sanction activities to post-sanction activities. Credit management is important as it helps the banks and financial institutions to understand various dimension of risk involved in different credit transactions.

At the pre-sanction stage, credit management helps the sanctioning authority to decide whether to lend or not to lend, what should be the loan price, what should be the extent of exposure, what should be the appropriate credit facility, what are the various facilities, what are various risk mitigation tools to put a cap on the risk level.

At the past-sanctioning stage, the bank can decide about the depth of the review of renewal, frequency of review, periodicity of the grading, and other precautions to be taken. Having considered the significance of credit risk, it becomes imperative for the banking system to carefully develop credit management. For this reason, the bank is maintaining a new division which is well-known as credit division.

3.2 Credit Products:

- **Trade Loan**

Those who are running the business by purchasing shop's possession or renting for a specific time and those unemployed educated youth who have no ability to give collateral but involved in business such as all types handicrafts, book, cookeries, all kinds of furniture, grocery & stationary shops, departmental store or any other income generating activities are the eligible group of this loan Corporate Branch 1 & 2. Besides these, all branches of divisional and old districts towns and main branches of new districts towns. Loans are sanctioned on the basis of production plan at Head Office level as per delegation.

- **SME & Micro Credit:**

This program Small & Medium Enterprises Financing is being implemented in the Bank from 2005. The main objective is to promote and establish the Small & Medium Enterprises of Bangladesh as an efficient and profitable business concern with a view to ensure the economic development of the country by increasing local productions, generating income & employment.

- **Home Loan:**

Home loan amount depends on your repayment capability. A number of factors such as your monthly net disposable income, age, qualifications, value of immovable property, Number of family members and dependents, monthly expense, other fixed obligations, nature of Job/business, saving habits etc. are taken into consideration.

- **Agricultural Loan:**

This program came into force by the Bank in 1993 with a view to extend the small enterprises for the socio-economic development of the country. A wide range of micro enterprises such as Tailoring, Printing, Readymade garments, Small Pharmacy, Shop of electronic goods, Small Poultry and other income generating activities are involved in the projects activities.

- **Consumer credit:**

A new innovative product for consumers run by bank is consumer loan of United Commercial Bank Limited. Any person who holds jobs any public or semi- government, government, autonomous, private organization.

3.3 Credit Assessment System:

Commercial banks and financial institutions intermediate between lenders and borrowers. These financial intermediaries collect deposit and disburse it as loan and advance to the individual people, business, commercial, industrial entity.

3.3.1 Allocation of Authority:

To assure proper and orderly conduct of the banking operation, the board of directors empowered the Managing Directors and executives of the bank to lend up-to certain under certain terms and conditions at their discretion. Important point is that an officer will not be delegated certain power on the basis of his position.

3.3.2 Approving Authority:

UCBL credit proposal go through certain steps that are ordered in terms of hierarchy. The board of directors is the ultimate authority and it delegates different power to the different committees. In UCBL there are following hierarchies in approving credit facilities.

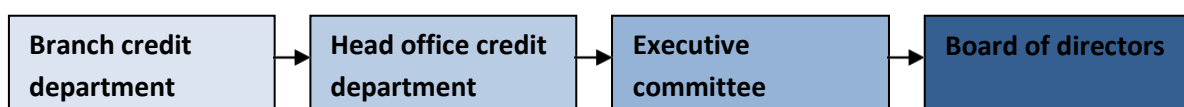


Fig: Approving authority sequence

3.3.4 Branch Credit Committee

The branch credit department is maintained by the branch manager and the other members are second man or manager operation, credit in-charge, and other members are nominated by the branch manager and the credit officer who prepares the proposal calls them relation officer.

3.3.5 Head Office Credit Department

After receiving the loan proposal from different branches, credit committee (HO) seats after certain interval for analyzing the proposal.

- The committee evaluates the quality of the lending staff posted in the branch and take appropriate steps to made them efficient and effective.
- Ensuring that all the required information and documents are collected and are in order.

3.3.6 Executive Department

If the limit of the loan proposal exceeds the authority delegated to the head office credit committee, the loan proposal is forwarded to the executive committee for sanction. Approving the credit facility as delegated by the Board of Directors.

- Supervising implementing the directives of the Board of Directors.

3.3.7 Board of Directors

If the credit demand of the client crosses the delegated power of the executive committee, the proposal is sent to the board of directors for approval. The Board of Directors has, in the UCBL retain the following credit related responsibilities in their hand:

- Delegating authority to approve and review credit
- The board of directors will approve the credit for which authority is not delegated to anybody.
- The board of directors will establish the credit-related, policy and procedures.

3.4.1 Loan Disbursement Procedure of UCBL:

3.4.2 Getting Credit Information:

United Commercial Bank Limited collects credit information about the applicant to determine the credit worthiness of the borrower. The bank collects the information about the borrower from the following sources:

- ❖ Personal investigation
- ❖ Confidential report from other bank head Office/ Branch/ chamber of the commerce
- ❖ CIB report of Central Bank

3.4.3 Information Collection:

The loans and advances department gets a form filled by the party seeking a lot of information. The information is listed below:

- ❖ Name and address of the borrower (present and permanent)
- ❖ Constitution or status of the business
- ❖ Date of establishment and place of incorporation
- ❖ Particulars of properties, Partners and Directors
- ❖ Background and business experience of the borrowers.
- ❖ Particulars of personal assets, name of subsidiaries, percentages of shareholding and nature of business.
- ❖ Details of liabilities in name of borrowers in the name of any directors.
- ❖ Financial Statement of the last three years
- ❖ Nature of business/ products.
- ❖ Details of securities offered.
- ❖ Proposed debt equity ratio
- ❖ Other relevant information

3.4.4 Analyzing this Information:

United Commercial Bank Limited then starts examination whether the loan applied for, is complying with its lending policy. If comply, then examines the documents submitted and the credit worthiness. Credit worthiness analysis, i.e. analysis financial conditions of the loan applicant is very important. If loan amount is more than 50,00,000, then bank goes for Lending Risk analysis (LRA) and Spreadsheet Analysis (SA) which are recently introduced by Bangladesh Bank. According to Bangladesh Bank Rules, LRA and SA are a must for the loan exceed of one core. If these two analyses reflect favorable condition and document submitted for the loan appeared to be satisfactory, then bank goes for further action.

3.4.5 Lending Risk Analysis (LRA):

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

a) Industry Risk:

- ❖ Supply risk- What is the risk of failure to disruption in the supply of input?
- ❖ Sales Risk- What is the risk of failure due to disruption sales?

b) Company risk:

i. Company position Risk:

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

ii. Management Risk:

- ❖ Management Competence Risk- What is the risk of failure due to lack management competence?
- ❖ Management Integrity Risk- What is the risk of failure due to lack management integrity

c) Security Risk:

- ❖ Security Control Risk- what is the risk that the bank fail to realize the security?
- ❖ Security Cover Risk- What is the risk that realized security value is less than the exposure?

3.4.6 Collateral Evaluation:

United Commercial Bank Limited is very cautious about valuation of the collateral. The bank officials simultaneously evaluation the collateral of the party offered by the private firm. The valuation of the collateral increases the accuracy of its value estimated. Three types of value of the collateral are assumed—

- Current market price
- Distressed price
- Price after five years

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

3.4.7 Final Decision about the Project:

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

3.4.8 Proper Supervision of the Project:

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

3.4.9 Documentation on the loan:

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

- Demand Promissory Note: Here the borrower promises to pay the loan as and when demanded by the bank to repay the loan.
- Letter of Arrangement: Here the written amount of the loan sanctioned to the borrower is specified.
- Letter of Continuity: It is used to take continuous facilities as proving continuous securities.
- Letter of Hypothecation: It is the written document of the goods hypothecated thus to put in case of need.
- Stock Report: This report is used for SOD and CC. In this report information about the quality and quantity of goods hypothecated have furnished.
- Personal Guarantee: It is the additional confirmation of the borrower to repay.
- Guarantee of the directors of the company.
- Resolution of the Board of Directors: it is used to borrow the fund to execute documents and complete other documents.
- Letter of Disclaimer: By this letter, the borrower withdraws his all claim on the property/mortgaged.
- Letter of Acceptance: Letter indicating the acceptance of the sanction proposal by the borrower.
- Letter of Pledge: It is the written document of the goods pledge thus the legality of holding the goods.

- Letter of Disbursement: this is the document through which the payment of sanctioned loan indicates.
- Letter of Partnership: In case of partnership firm, the partnership deeds are to be provided.
- Letter of Installment: The amount of installment that is to be paid at certain intervals.
- Tax Paying Certificate.
- Any document if described, as essential in the sanctioned advice sanctioned by the Head Office.

3.4.10 Creation of Charges for securing loan:

For the safety of loan, United Commercial Bank Limited requires security from the loaner so that it can recover the loan by selling security if borrower fails to repay. Creation of a charge means making it available as a cover for an advance. The method of charging should be legal, perfect complete. Importance of charging securities is as—

- Protection of interest.
- Ensuring the recovery of the money lent.
- Provision against unexpected changes.
- Commitment of the borrower.

3.5 Credit management

Credit Management is a discipline at the core of every financial institution and encompasses all the activities that affect its risk profile.

- a) The individuals who take or manage risks clearly understand it.
- b) The bank's risk exposure is within the limits established by Board of Directors.
- c) Risk taking decisions are in line with the bank strategy and objectives set by BOD.
- d) The expected payoffs compensate for the risks taken.

3.6 Credit Evaluation/Measurement

Until and unless risks are not assessed and measured it will not be possible to control risks. Further a true assessment of risk gives management a clear view of bank's standing and helps in deciding future action plan.

3.7 Credit Management Process:

UCBL always try to manage above credit by various steps like risk analysis, evaluation, acceptance and management of some risk or combination of risks. Risk management is emphasized not only for regulatory purpose but also to improve operational and financial performance of the Bank. The objective of the risk management is that the Bank takes well calculative business risks while safeguarding the Bank's capital, its financial resources and profitability from various risks.

3.8 Board and senior Management oversight:

UCBL's board of director and senior management must concern following things to reduce risk.

a) To be effective, the concern and tone for credit management must start at the top. While the overall responsibility of credit management rests with the BOD, it is the duty of senior management to transform strategic direction set by board in the shape of policies and procedures and to institute an effective hierarchy to execute and implement those policies.

b) The formulation of policies relating to credit management only would not solve the purpose unless these are clear and communicated down the line. Senior management has to ensure that these policies are embedded in the culture of organization.

3.9 Management of Core Risks in Bank

Risks involved in different operational area are under control of the management. UCBL has taken appropriate measures to enforce and follow all approved risk manuals/ guidelines covering the following risk area in order to control and minimize the business as well as financial risks at an acceptable level.

1. Policy Guidelines on Asset Liability Management
2. Policy Guidelines on Credit Risk Management
3. Policy Guidelines on Foreign Exchange Risk Management

UCBL has formed a Management Committee to review proper implementation and regular monitoring of core areas of Risk Management.

3.10 Credit risk

Credit risk is one of the major risks faced by the Bank. This can be described as potential loss arising from the failure of a counter party to perform according to contractual arrangement with the Bank. The failure may arise due to unwillingness of the counter party or decline in economic condition etc.

In the case of direct lending: principal and/or interest may not be repaid;

- In the case of guarantees or letters of credit: funds may not be forthcoming from the constituents upon crystallization of the liability;
- In the case of treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or cease;

3.11 Principles to Reduce Credit Risk

UCBL follow some principles to reduce their credit risk. These principles set by board of director and senior management. Every branch follows these principles in a very proper way. These principles are:

3.11.1 Repayment Capacity

Credit facilities will be extended to those customers who can make best use of them thus helping maximize Bank's profit as well as economic growth of the country.

3.11.2 Compliance

All credit extension must comply with the requirements of Bank's Memorandum and Articles of Association, Banking Companies Act, 1991 as amended from time to time, Bangladesh Bank's instruction circulars, guidelines and other applicable laws, rules and regulations, Bank's Credit Management Policy, Credit Operational Manual and all relevant circulars in force.

3.11.3 Loan-Deposit Ratio

Loans and advance are financed from customer deposits some time from capital fund of the Bank. United Commercial Bank Limited financed the loan less than their deposits. Another thing is that bank does not finance their loan from short term money market or out of temporary fund.

3.11.4 Deviation

Any deviation from the internal policy of the Bank must be justified and well documented. Specially, all credit assessment form shall invariably include the deviations from the policy, if any. However, no external regulations shall be compromised.

3.11.5 Return

Credit operation of the Bank should contribute at optimum level within the defined risk limitation. In other words, credit facilities should be extended in such a manner that each deal becomes a profitable one so that Bank can achieve growth target and superior return on capital.

3.11.6 Credit Quality

Credit facilities shall be allowed in a manner so that credit expansion goes on ensuring optimum asset quality i.e. Bank's standard of excellence shall not be compromised. Credit facilities will be extended to customers who will complement such standards.

3.11.7 Diversification

The portfolio shall always be well diversified with respect to sector, industry, geographical region, maturity, size, economic purpose etc. Concentration of credit shall be carefully avoided to minimize risk.

3.11.8 Proper Staffing

Proper credit assessment is complex and requires high level of numerical as well as analytical ability of the concerned officer. To ensure effective understanding of the concept and thus to make the overall credit portfolio of the Bank healthy.

3.11.9 Name Lending

No credit facility shall be allowed simply considering the name and fame of the key person or corporate image of the borrowing company. The Bank shall carefully avoid name lending. Credit facility shall be allowed absolutely on business consideration after conducting due diligence.

3.11.10 Single Customer Exposure Limit

UCBL will always comply with the prevailing banking regulation regarding “Single Customer Exposure Limit” set by Bangladesh Bank from time to time. As per prevailing regulation, Bank will take maximum exposure (outstanding at point of time) on a single customer.

3.11.11 Security

Security taken against facilities shall be properly valued and affected in accordance with the laws of the country. When any loan taker was unable to repay the loan then can recover the loan by realizing the security.

3.11.12 Large Loan

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

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

3.11.14 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.

3.12 Credit Acceptance Criteria

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

- a) Maximum amount in each type of facility line
- b) Maximum limit to a single obligor and group

3.13 Risk Grading

Risk grading is a key measurement of a Bank's asset quality and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications.

3.14 Significance of Credit Risk Grading

Credit risk grading is an important tool for credit risk management as it helps the Banks & financial institutions to understand various dimensions of risk involved in different credit transactions.

At the post-sanction stage, the bank can decide about the depth of the review or renewal, frequency of review, periodicity of the grading, and other precautions to be taken.

3.15 Function 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.

3.16 Use of Credit Risk Grading

The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a Common standardized approach to assess the quality of an individual obligor and the credit portfolio as a whole.

3.17 Number and Short Name of Grades Used in the CRG

The CRG scale consists of eight categories with Short names and Numbers are provided as follows:

Grading	Short Name	Number
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watch list	MG/WL	4

Special Mention	SM	5
Sub standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

3.18 UCBL Credit Risk Grading Framework

Effective credit management requires an accurate and forward looking estimation of the probability of default over the next 12 months. It should be noted that Credit Risk Grading is not a replacement of comprehensive credit appraisal.

3.19 Risk Grading Scorecard

As per instruction of Bangladesh Bank, Risk Grading Score Card has been developed for all exposures of UCBL (irrespective of amount) other than those covered under Consumer and Small Enterprise Financing Prudential Guidelines and also under The Short-Term Agricultural and Micro-Credit. The Score Card will be updated if required. The score of the risk grading scorecard will be weighted one.

3.20 A clear definition of the different categories of Credit Risk Grading is given below

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

3.20.1. Superior (SUP)

- Credit facilities, which are fully secured i.e. fully cash covered.
- Credit facilities fully covered by government guarantee.
- Credit facilities fully covered by the guarantee of top tier international bank.
-

3.20.2 Good (GD)

- Strong repayment capacity of the borrower.
- The borrower has excellent liquidity and low leverage.
- The company demonstrates consistency strong earning and cash flow.
- Borrower has well established, strong market share.

3.20.3 Acceptable (ACCPT)

- These borrowers are not strong as good grade borrowers, demonstrate earnings, cash flow and have a good track record.
- Borrowers have adequate liquidity, cash flow and earnings.
- Credit in this grade is secured acceptable collateral (1st charge over inventory/receivables/equipment/property).

3.20.4 Marginal/Watch list (MG/WL)

- This grade warrants greater attention due to conditions affecting the borrower, the industry or the economic environment.
- These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/ or inconsistent earnings.

3.20.5: Special Mentioned (SM)

- This grade has potential weakness that deserves management's close attention. If left uncorrected, this weakness may result in a deterioration of the repayment prospects of the borrower.
- Severe management problems exist.

3.20.6 Sub Standard (SS)

- Financial condition is weak and capacity or inclination to repay is in doubt.
- These weaknesses jeopardize the full settlement of loans.
- Bangladesh Bank criteria for Sub Standard (SS) shall apply.

3.20.7 Doubtful (DF)

- Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.
- However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset yet is not classified as Bad & Loss.

3.20.8 Bad and Loss (BL)

- Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/ liquidation.

- Prospects of recovery are poor and legal options have been pursued.
- Proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for.

3.21 Process of Loan Recovery:

Recovery plan is one of the components of performance plan. It is a future intended action in respect of recovery. In other word, it is a conscious and deliberate effort to recover all current dues and overdue loans. Recovery procedure is a lengthy one that requires efforts of the bank, society and legal institutions. It also takes time and money. Like other banks, United Commercial Bank Limited follows four steps to recover the outstanding amount.

These areas are—

- a) Reminder to the client
- b) Creating social pressures
- c) Sending legal notice and
- d) Legal action

These four steps are described in detail below—

- a) Reminder to the client is given through a formal communication channel. A letter is written and properly signed on the bank's papers. This letter is issued several times to remind the honorable loaner to repay his/her outstanding portion.
- b) If the loan amount is not yet repaid after sending a series of letters, then social pressure is created on the client by persons referred while opening account in the bank.
- c) Legal notice is prepared and sent by United Commercial Bank Limited when above two steps fails to recover the amount. It is a threat to the borrower.
- d) The last and final step of the recovery procedure is the help from the court. United Commercial Bank Limited sincerely tries to avoid this kind of situation for its honorable clients but cannot help doing for its own sustainability.

CHAPTER # 4

Problems, Recommendations and Conclusion

4.1 Problems Identified

1. The loan processing period is lengthy due to preparation of credit proposals, proper documentations and negligence of the employees. Most of this time is spent for the correspondence between the branch and Head Office.
2. The terms and conditions of credit division were sometimes difficult to understand and maintain to the ordinary clients.
3. Consumer loan facilities like car loan, doctor loan, education loan etc. were almost zero. For this reason, this bank lags behind other modern commercial banks.
4. The bank avoids corporate (large) enterprise financing to avoid risks associated with it, while trade and commerce financing get highest priority.
5. Lack of manpower slows down to provide better services to its borrower-clients.
6. The bank has no specific credit recovery unit to realize the credit from borrowers in time. Generally, the branch Manager and the Relationship Manager perform these activities.
7. This bank has no credit sales and marketing wing to attract and increase valued borrower-clients.

4.2 Recommendations

1. The bank should speed up its loan processing time, to ensure better services for its clients. The branch manager should be given more authority to sanction loan for reducing loan processing time.
2. The terms and conditions regarding credit should be moderate for the clients. Also, the bank should arrange seminars to clarify the terms and conditions of credit department to its clients.
3. To maintain a good portfolio of credit the bank should diversify its loan services. Lending for agriculture and medium enterprise purpose should be increased.

4. For increasing the market share, the bank should increase its consumer loan facilities.
5. The level of lending in corporate (large) enterprise financing should be increased by the bank to increase potentiality of more revenue.
6. Skilled manpower should be employed to ensure professionalism for performing financial activities more efficiently.
7. The introduction of specific credit recovery unit can be a unique tool to realize credit from the borrowers.
8. Credit sales and marketing wing should be introduced to attract and retain a large number of clients.

4.3 Conclusion:

As an organization the United Commercial Bank Limited has earned the reputation of top listed banks operating in Bangladesh. The organization is much more structured compared to any other listed bank operating in Bangladesh. It is relentless in pursuit of business innovation and improvement. It has a reputation as a leader in financing manufacturing sector.

UCBL does very good in credit risk management. Bangladesh Bank has introduced a good numbers of circulars, guidelines, tools and techniques for managing the credit risk in a prudent manner as well as to minimize the rate of default/ non-performing loans at a standard level.

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Appendix

Some Abbreviation:

UCBL: United Commercial Bank Ltd.

FAD: Finance and Account Division

CAB : Credit information Bureau

BOD: Board of Director

SOP: Standard Operating Procedure

ALCO: Asset Liability Committee

CRM: Credit Risk Management

RM: Relationship Manager

Performance of UCBL at a glance

(Figure in million)

No	Particulars	2013	2014	2015	2016	2017
01	Authorized Capital	1,000	1,000	1,000	1,000	1,000
02	Paid-up Capital	230	230	299	299	299
03	Reserve Fund	1045	1262	1596	1889	2197
04	Deposits	24559	33015	42296	54485	77730
05	Advances	20211	26110	37556	44446	61692
06	Investments	2877	6101	5518	7201	9346
07	Gross Income	3188	4118	6052	7850	9540
08	Gross Expenditure	2036	2797	4034	5400	6415
09	Net Profit(pre-tax)	852	1321	1668	1463	1542
10	Import Business	29408	2939853	60329	60009	58857
11	Export Business	14785	20803	27230	36500	38519
12	Foreign Correspondents	189	213	345	345	274
13	Number of Employees	1949	2029	2082	2292	2508
14	Number of Branches	80	84	84	84	98
15	Number of Shareholders	4064	4120	7499	10337	10337