



Daffodil
International
University

An Internship report On

Credit Risk Management System of Uttara bank Limited

Prepared For

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Program: Masters of Business Administration (MBA) Faculty of Business and Entrepreneurship
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PREFACE



First of all, I express my gratitude to Almighty Allah who enables me to complete this report. I would like to express my heartfelt gratitude to Prof. Mr. Mahbub Parvez, Dept. of Business administration, Daffodil International University for giving me his valuable time, guidance and instruction during preparation my report. I would like to thank the management of Uttara Bank Ltd. For giving me the opportunity to complete my internship in their reputed organization. I would like to express my gratitude to all the staffs of Uttara Bank Ltd, Gulshan Branch for providing me useful information regarding branch.

Finally I would like to express my special gratitude to Ms. Rina Khatun, GM of Gulshan branch Uttara Bank Ltd., who supervised me during 3 months stay at Gulshan Branch for preparing this report.

I must mention the excellent working environment and the positive group behavior of this bank, which helped me tremendously to observe the banking activities, work with the staffs and stay for three months without any hesitation.

Letter of Transmittal



December 1, 2018

To

Mr. Mahbub Parvez

Associate Professor

Department of Business Administration

Daffodil International University

Subject: **Submission of Internship Report.**

Dear Sir,

It is my immense pleasure to submit my internship report on “**Credit Risk Management System of Uttara bank Limited.** Which I have prepared by performing three months internship at **Gulshan Branch, Dhaka to fulfill the requirement of** Masters of Business Administration (MBA) degree from Faculty of Business and Entrepreneurship which enriches my academic background, about to enter into the professional field.

I sincerely believe that this internship program will help me to enrich my adaptability quality in the long run when I will involve in practical field. I am grateful for your valuable advices and cooperation. I have tried my best to go to deep into the matters and make full use of my capabilities in making this report meaningful, through there may be some mistakes and shortcomings. I shall be pleased to answer any kind of query that may arise during the evaluation of this report. So, I am fervently requesting and hoping that you would be kind enough to accept my report and oblige thereby.

Thanking You,

Yours Faithfully

Debjani Ghosh

ID: 161-14-1983

Department of Business Administration

Faculty of Business and

Entrepreneurship

Daffodil International University

Credit Risk Management System of Uttara Bank Limited



Certificate of Approval

This is to certify that the internship report on “**Credit Risk Management System of Uttara bank Limited**” is prepared by **Ms. Debjani Ghosh** bearing ID: 161-14-1983 major in Finance from Daffodil International University as a partial fulfillment of the requirement of Masters of Business Administration (MBA) degree. The Report has been prepared under my guidance and is a record of the bonafide work carried out successfully.

Now she is permitted to submit the internship report. I wish her all success in her future endeavors.

Mahbub Parvez

Associate Professor

Department of Business Administration

Daffodil International University

Credit Risk Management System of Uttara Bank Limited



Acknowledgement

I feel immensely pleased to have an opportunity, on the occasion of submitting my internship report. Preparing a report is really a great task. A lot of efforts and studies have gone in to make this report a reality. This would not have been possible only by me without the genuine support and assistance from others. I thank a number of individuals for their unprecedented support, cordial cooperation, objective direction and endless encouragement that have significantly contributed to the preparation of this report.

First and foremost, I would like to convey my deepest gratitude to the **almighty GOD**, the omniscient and omnipotent, who bestowed me the capability of successful completion of my internship report within the scheduled time. This report is an accumulation of many people's endeavor. I am indebted to all the people, with whom I approached during the various stages of writing this report, for their kind advices, suggestions, directions, cooperation and proper guidelines. My pleasure turns blooming to offer thanks to my supervisor who has been a faculty member of Business Administration at Daffodil International University. He directed me to prepare this report providing with all kinds of recently updated information from his busy scheduled time. He provided with valuable guidelines from the very beginning to the end with a friendly behavior.

I am grateful to Ms. Rina Khatun Manager of Uttara Bank, and all the personnel working at Uttara Bank at Gulshan Branch, Dhaka. Without their assistance and cooperation, this report might have not seen the light of day.

Last but not the least, I would like to express my appreciation to **Daffodil International University** and me eventually grateful to the University and its excellences that works on education and create knowledge.

Executive Summary



Uttara bank is one of the largest and oldest private-sector commercial bank in Bangladesh with years of experience. Adoption of modern technology both in terms of equipment and banking practice ensures efficient service to clients. Uttara bank limited had been a nationalized bank in the name of Uttara bank under Bangladesh bank.

Commercial banks lend money to different categories of borrowers for various purposes with a view to generate revenue. Accordingly, while processing and appraising loan proposal, banks essentially analyze the information relating to borrowers, assess the purposes of loan and determine the viability of the loan proposal is sound and safe for lending, loan is sanctioned and disbursed.

This paper analyses the impact of credit risk management practice and credit disbursement process of Uttara bank limited. To analyze the effectiveness of their credit risk management practices and process data sources gathered from primary data sources including practical banking work, personal discussion with the offers and executives of UBL and personal interview with the customer and from secondary data sources including annual report, published booklet, various published document, website, text book, circular etc. This report has several chapters and different aspects regarding the topic have been discussed in each chapter.

I examine some important ratio of credit risk and analyze their current situation based on profitability, profit margin and market share of ROI. Quantitative analysis reveals that UBL o through rigid credit risk management to manage their credit risk through they still need to improve on some areas such as relying more on debt may affect their liquidity and solvency and eventuality affect credit risk bank must have sophisticated information system and analytical techniques that enable management to measure the credit risk and bank should take into consideration potential future changes in economic conditions when assessing individual credits and their portfolio, and should assess their credit risk exposures under stressful conditions.



Table of Contents

PREFACE	I
Letter of Transmittal	II
Certificate of Approval	III
Acknowledgement	IV
Executive Summary	V
Chapter 01	3
Origin	4
Background	5
Objective	5
Specific Objective	5
Methodology	6
Type of Report	6
Source of Data	6
Chapter 02	8
Management Aspect	9
History	9
Vision	10
Mission	10
Goal	10
Philosophy	11
Corporate Profile	11
Product and Services of UBL	13
Financial Performance	14
Balance sheet	14
Income Statement	14
SWOT Analysis:	16
Strengths:	16
Weaknesses:	16



Opportunities:	17
Threats:	17
Chapter 03	18
Credit Risk Management System of Uttara Bank	19
Management of Loans in commercial Banks	19
Risk Profile of Uttara Bank Limited	23
Credit Risk Management:	24
Credit Risk Management Process of UBL	28
Performance of the Credit Department	46
Last 5 Years Revenue	46
Ratio Analysis	49
Liquidity Ratio:	49
Analyzing Activity Ratio:	51
Chapter 04	58
Findings	59
Recommendations	60
Conclusion	61
Appended Part	62
A: Bibliography	63



Chapter 01

INTRODUCTION

Credit Risk Management System of Uttara Bank Limited



Origin

Without practical application theoretical knowledge does not get any perfection. Being a student of MBA program I must have to gather practical knowledge and pragmatic skills in order to prepare myself for the future competition. Theory is unfruitful when practical exposure is absent. An exposure of three months is one of the crucial parts of four year MBA program with a view to recognizing the importance of practical experience,. There is no denying the fact that practical orientation is an integral part of MBA program requirement. I have worked as an intern at Uttara Bank Limited, Gulshan branch, Dhaka. It's a tremendous opportunity to learn practical knowledge and experience on the various aspects of banking business through an internship program in a bank for three months. The making of the report is solely based on the three months practical experience at Uttara Bank Limited, Gulshan branch, Dhaka which definitely helps a lot to learn about pragmatic situation of a financial institution and implementation of theoretical knowledge into practical and realistic work environment. Getting consent after much discussion I decided to work on a project titled **“Credit Risk Management System of Uttara bank Limited.** The report discusses about different credit facilities, approval process, monitoring and performance. The goal of this study is to identify and analyze the credit facilities, approval, monitoring collection and recovery process of Uttara Bank Limited. The performance analysis of the bank in the recent years is also a part of this study. It also includes different credit facilities which are enjoyed by the customers of Uttara Bank. The main objective of this report is to show upgrade information to analyze credit system of Uttara Bank more conveniently. For the academic requirement of Faculty of Business Administration, I have been assigned to do my Internship program at Uttara Bank Limited, Gulshan branch, Dhaka. Internal supervisor, Mr. Mahbub Parvez, Associate Professor, Department of Business Administration, Daffodil International University has assigned me to conduct the study on **“Credit Risk Management System of Uttara bank Limited.** Actually classroom discussion solely cant make a student to be acquainted with the real life situation; therefore it's an opportunity for the students to know about the practical environment of the real business world through this.



Background

Uttara Bank was framed in 1972 as a planned manage an account with resources and liabilities of the Eastern Banking Corporation set up in Pakistan on 28th January 1965. It began managing an account business 22nd June 1965 and turn into an individual from the UBL clearing house on seventeenth September 1965. At the time foundation, Eastern Banking Corporation had a paid up capital of Tk 1.42 million and store assets of about Tk 10 million. It was the main booked bank framed with capital raised altogether from the little pay gathering of individuals of East Pakistan. Eastern managing an account Corporation nationalized under the Bangladesh banks nationalization arrange 1972 and its name was changed to Uttara Bank. At this time, the bank had 82 branches the administration withdrawn 95% of its offer capital and permitted into work as a private bank. It was changed into constrained organization on fifteenth September 1983. At displayed, there are 215 branches in activity spread everywhere throughout the nation.

Inside a brief timeframe period, Uttara Bank Limited has possessed the capacity to make a picture for itself and earned huge notoriety in the keeping money segment of Bangladesh. This foundation pulled in the client's consideration through its diverse plans. Every one of these endeavors eventually prompt the benefit age for the bank. For Survival and development of any business foundation benefit age is an unquestionable requirement. Like other business banks Uttara Bank Limited gas an explicit focus for gathering and those stores through various credit programs for purchasers and organizations. Judicious contributing by the administration and consistent checking encourages the bank to accomplish its objective and adds to the development of the bank all in all and especially its branches. The organization rationality – "Neighborhood bank Global Network" has been accurately the embodiment of the legend of the banks achievement.

Objective

The main objective of this report is to know about the Credit Risk Management System of Uttara Bank Limited.

Specific Objective

- ✓ To identify the various types of credit disbursed by UBL.

Credit Risk Management System of Uttara Bank Limited



- ✓ To evaluate the process of credit management practices by UBL.
- ✓ To analyze credit disbursement process of UBL.
- ✓ To suggest some recommendations based on findings.

Methodology

The study requires systematic procedures from selection of the topic of preparation of the final report. To perform the study, the data sources were to be identified and collected, to be classified, analyzed, interpreted and presented in a systematic manner and key points were to be found out. The overall process of methodology has been given as below.

Type of Report

Exploratory research has been conducted for gathering better information that will give a better understanding on different financial data. Both primary and secondary sources of data collection procedure have been used in the report. Primary data has been collected mainly through the writers observation of the approval process and monitoring techniques, informal interviews of executives, officers and employees of Uttara Bank Limited.

Source of Data

The Information included in this report has been gathered equally from primary and secondary sources. This information is collected from the various divisions and departments of Uttara Bank Limited through face to face conversation and different published manual. In addition other necessary information has been collected from the below mentioned sources.

Primary Data Sources

- Practical Banking Work.
- Personal discussion with the officers and executives of Uttara Bank Limited.
- Personal Interview with customers.



Secondary Data Sources

- Annual Report of Uttara Bank Limited.
- Published booklet of the bank.
- Various published documents.
- Website of Uttara Bank Limited.
- Files and documents of the branches.
- Different text books.
- Different circular sent by head office of Uttara Bank Limited.
- The daily news papers and corresponding/related articles/journals.

Scope of the Work

The scope of the study is Uttara Bank Limited, Gulshan Branch. The report has been prepared through extensive discussion with the bank employees and the clients. The scope of the study is limited to the branch level only. Uttara Bank is now giving emphasis to create a constructive and meaningful competition with the private sector banking.

Limitations of the Work

The present study was not out of limitations. But as an internee it was a great opportunity for me to know about banking activities in Bangladesh especially in Uttara Bank Limited, I have identified the following problems that may be termed as the limitation or shortcomings of the study. The identified problems are given below:

- Lack of records.
- Insufficient data.
- Lack of proper support.
- Unavailable information in website.



Chapter 02

**ORGANIZATIONAL
PART**

Credit Risk Management System of Uttara Bank Limited



Management Aspect

History

Uttara Bank Limited celebrated the 50th commemoration of its Banking Service in 2015. This settled an old bank has a rich history. With the inception of some eminence Bengali agents, it was set up to encourage the impeded individuals of the then East Pakistan and began its managing an accounting task formally on 28th January of 1965 in name of "Eastern Banking Corporation" with four branches which before long achieved 60 just before the autonomy. Amid Non-collaboration development in 1971, this bank played out the treasury capacity of East Bengal.

After autonomy, Eastern Banking Corporation was nationalized and renamed as "Uttara Bank" and continued its keeping money task from 26th March 1972. Setting out on a dynamic voyage, Uttara Bank kept on developing and growing in the progressive years. It took the name "Uttara Bank Ltd." after privatization from June 1983 and wound up one of the biggest private area banks of Bangladesh. In the later years, Uttara Bank turned into the pioneer in the managing an accounting industry, obtaining lion's offer in internal outside settlements and a noteworthy piece of the overall industry in advances to vast, medium and little enterprises, brokers and agriculturists. In view of the bank's reliable solid money related execution and its growing nearness, Uttara Bank Ltd. is right now positioned as the most confided in the bank in Bangladesh.

At present, the bank has 233 branches and all are under an online system. Also, its viable and differentiated way to deal with grab the market openings is going ahead as a consistent procedure to oblige new clients by creating and extending rustic, SME financing and seaward managing an accounting office. Other than these customary conveyance focuses, the bank is likewise extremely dynamic in the elective conveyance region. It right now has the offices of SMS Banking, Internet Banking and a substantial number of ATMs of its own with ATM imparting game plan to other accomplice banks.

The Bank is glad for its supervisory group headed by Managing Director, Mr. Mohammed Rabiul Hossain and it urges all workers to commit a proportion of their time and ability to help troubled network by taking an interest in CSR programs. Its fundamental goal is to render administration to the general population whether rich or poor and to add to the advancement of the country.

Credit Risk Management System of Uttara Bank Limited



Vision

The bank has the following objectives:

- To provide quality services and wide range of product to the customers comparing to the other modern banks.
- To explore the needs of the common people including businessmen and professionals.
Extend credit to private sector of economy.
- To serve with quality at a price competitive to anyone in the financial market.
To contribute to the GDP (Gross Domestic Product) of the country.
- To ensure total commitment of quality.

Mission

The bank has a mission which puts accentuation

- To help with conveying fantastic support of our clients and to take an interest in the development and extension of our national economy.
- To set top-notch principles of trustworthiness and convey add up to fulfillment to our clients, investors, and workers.
- To end up the most looked for after bank in the nation, rendering innovation-driven imaginative administrations by our committed group of experts.

Goal

The bank has the accompanying objectives:

- To make an innovation-based most proficient saving money condition for its client.
- To guarantee morals and straightforwardness at all dimension.
- To guarantee economic development and build up to full an incentive to the noteworthy partner.
- Or more all to add a powerful commitment to the national economy



Philosophy

UBL Bank Limited, for the most part, pursues a top-down way to deal with taking vital choices for the organization. Fundamentally they pursue the bring together the system where the Head Office of the Bank control and screen every one of the exercises of its branches. If there should be an occurrence of showcasing procedure they essentially rely upon 'verbal' as they are as of now all around rumored for its long haul the benefit in the managing an accounting industry.

Corporate Profile

Name	Uttara Bank Limited
Essence	Local bank global network
Nature of Business	Banking service and profit oriented
Registered Office	90, Motijheel Commercial Area, Dhaka, Bangladesh GPO Box Number: 818 & 217, PABX: +8802-9551162
Web Address	www.uttarabank-bd.com
Date of Incorporate	June 29, 1983
Chairman	Mr. Azharul Islam
Vice Chairman	Mr. Iftekharul Islam
Company Secretary	Md. Fazlur Rahman
MD and CEO	Mr. Shaikh Abdul Aziz

Credit Risk Management System of Uttara Bank Limited



CFO	Mr. Md. Golam Mustofa, ACA
Credit Rating	Long Term “AA3-” (Very strong capacity & very high quality)
Number of Branches	233
Total Manpower	Approximately 3500
Authorized Capital	Taka 6000 Million (Up to 31 December, 2017)
Paid Up Capital	Taka 4000.8 Million (Up to 31 December, 2017)
Statutory Fund	Taka 9890 Million (Up to 31 December, 2017)



Product and Services of UBL

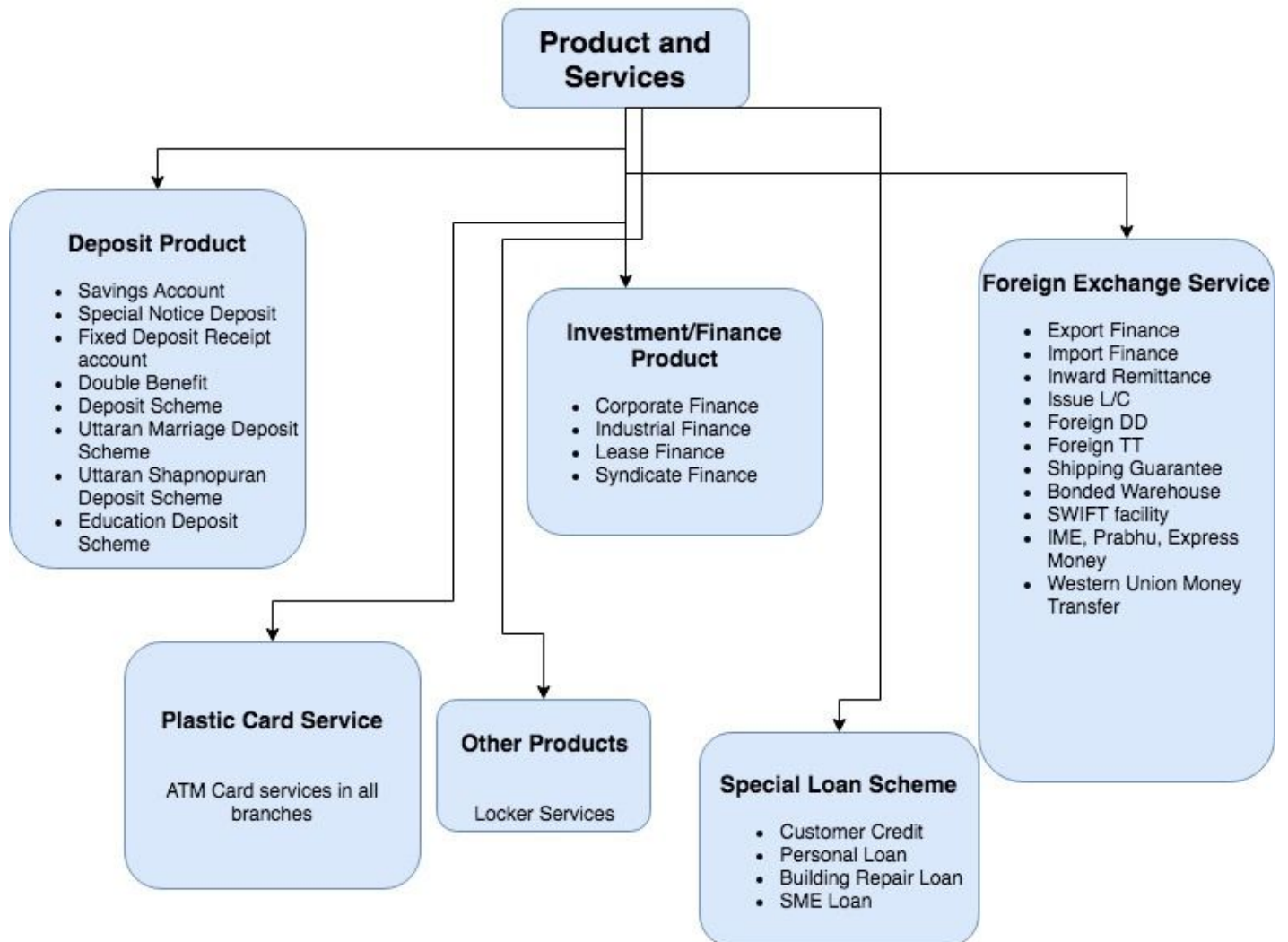


Figure: Product and Service of UBL



Financial Performance

Monetary Performance is an abstract proportion of how well a firm can utilize its advantages from business and produce incomes. Money related Performance term is additionally utilized as a general proportion of an association's by and large budgetary circumstance over a given timeframe, and can be utilized to contrast and comparative firms over a similar industry or to think about enterprises or segments in accumulation.

Monetary execution investigation alludes to an appraisal of the practicality, solidness, and benefit of a business, sub-business or task. It is performed by experts who get ready reports utilizing proportions that make utilization of data taken from money related articulations and different reports. These reports are normally introduced to top dimension the board as one of their bases in settling on business choices. In light of these reports, the board may take a choice. Money related execution examination is crucial to get a monetary outline about an organization. For the most part, it is comprised of the elucidation of asset report and pay explanation. Proportion examination and pattern investigation should be possible by utilizing these two articulations. These investigations are the real instruments for examining the organization's monetary execution.

Balance sheet

In budgetary accounting, a fiscal record or clarification of cash related position is a layout of the budgetary modifies of a sole proprietorship, a business affiliation or an association. Assets, liabilities and ownership esteem are recorded beginning at an unequivocal date, for instance, the completion of its cash related year. A bookkeeping report is much of the time portrayed as a "review of an association's cash-related condition". Of the four major budgetary enunciations, the benefit report is the primary declaration which applies to a singular point in time of a business' date-book year. A standard association money related record has three segments: assets, liabilities and proprietorship esteem.

Income Statement

Pay announcement furthermore implied as advantage and disaster clarification, benefit verbalization, working enunciation or explanation of exercises is an association's fiscal clarification that indicates how the salary is changed into the net pay. It demonstrates the livelihoods saw for an express period, and the cost and costs charged against these salaries, including limits (e.g., weakening and amortization of various assets) and appraisals. The purpose behind the pay declaration is to demonstrate executives and budgetary experts whether the association benefitted in the midst of the period being represented.



(Figure In Million- where applicable)

Sl. No.	Particulars	2017	2016	2015	2014	2013
Income Statement						
1	Gross Income	14,916.3	14,724.3	15,332.3	15,181.1	15,245.1
2	Gross Expenditure	12,086.1	12,221.5	11,355.6	11,368.3	12,109.7
3	Gross Profit	2,830.2	2,502.8	3,976.7	3,812.8	3,135.4
4	Pre Tax Profit	2,530.2	2,022.8	2,520.6	2,902.8	2,680.4
5	Post-Tax Profit	1,556.4	1,530.7	1,502.9	1,389.4	1,310.4
Balance Sheet						
6	Authorized Capital	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0
7	Paid up Capital	4,000.8	4,000.8	4,000.8	4,000.8	3,637.1
8	Reserve Fund and Other Reserves	9,890.0	9,350.0	9,155.4	8,179.1	7,042.3
9	Shareholders' Equity	13,890.8	13,350.8	13,156.2	12,179.9	10,679.4
10	Deposit	148,514.9	134,951.6	122,407.6	113,978.5	111,300.1
11	Advances (Gross)	105,260.9	83,269.3	75,806.9	74,198.9	64,829.8
12	Investment	32,603.9	31,614.3	41,336.6	42,787.9	45,749.5
13	Guarantee Business	3,250.3	3,014.1	3,098.9	2,394.2	2,566.9
14	Export Business	11,590.7	10,327.6	12,224.4	13,447.3	14,306.0
15	Import Business	48,440.3	39,962.4	38,738.0	45,870.9	40,336.8
16	Foreign Remittance	37,988.6	37,051.7	47,552.3	52,030.2	44,301.3
17	Fixed Assets	3,188.5	3,276.8	3,345.5	3,352.0	3,204.3
18	Total Assets	178,879.6	162,375.9	151,476.3	140,810.3	132,385.5
19	Classified Loans and Advances	7,104.6	6,458.0	6,272.6	5,875.7	5,209.5
20	Total Off Balance Sheet Exposures	24,220.3	21,243.1	22,494.5	25,358.2	18,775.9
BIS Capital Measures						
21	Required Capital (with Buffer)	11,381.7	9,908.8	9,559.6	9,616.7	8,195.2
22	Actual Capital	13,071.3	12,481.9	12,059.3	11,493.3	10,203.8
Credit Quality						
23	Required Provision	2,245.4	1,926.3	1,680.4	1,530.8	1,357.7
24	Provision Maintained	2,253.6	1,990.6	1,782.2	1,542.0	1,419.5
25	Required Prov.against off Balance sheet exposures	242.2	212.4	224.9	253.6	187.8
26	Provision Maintained	242.3	212.5	225.0	254.0	188.0
Share Information						
27	Earnings per Share (Face value Tk.10)	3.89	3.83	3.76	3.47	3.28
28	Market Value Per Share (Face value Tk.10)	35.30	24.70	22.70	25.90	31.10
29	Price Earning Ratio (Time)	9.07	6.45	6.04	7.46	9.48
30	Net Assets value per share	34.72	33.37	32.88	30.44	29.36
Operating Performance Ratio						
31	Advance-Deposit Ratio	0.71:1	0.62:1	0.62:1	0.65:1	0.58:1
32	Class. Advance /Total Advance (%)	6.75%	7.75%	8.27%	7.92%	8.04%
33	Class. Advance (net) /Total Advance (%)	4.61%	5.36%	5.92%	5.84%	5.85%
34	Income from Equity (%)	11.20%	11.47%	11.42%	11.41%	12.27%
35	Income from Assets (%)	0.87%	0.94%	0.99%	0.99%	0.99%
Other Information						
36	Number of Shareholders	45,784	52,763	63,083	76,389	82,081
37	Number of Branches	233	229	227	223	220
38	Number of Employees	3,542	3,667	3,743	3,730	3,769
39	Human Resources Development	2,591	2,419	2,654	4,421	1,958

Table: Summary of Uttara Bank (Last 5 years)

Credit Risk Management System of Uttara Bank Limited



SWOT Analysis:

The bank's quality and focused capacities can be appeared by the SWOT analysis. The SWOT investigation is grounded in the essential rule that technique trying endeavors must go for creation a solid match between a company's asset ability and its outside circumstance. The SWOT examination is as per the following:

Strengths:

- The bank has given administrations effectively and has accomplished altruism in everywhere throughout the nation.
- UTTARA bank has been supported by a different area of Bangladesh. The best business visionaries from different segment began this organization. Therefore there was a blend of various considerations and abilities in the administration of the bank, which is particularly basic for accomplishment in today's focused market.
- Bank has an extremely skillful and experienced best Management.
- Branches: UTTARA bank is working their business everywhere throughout the nation with
- branches. It has reinforced the dissemination of the bank's administrations.

Weaknesses:

- The bank does not have any formal limited time activity. They don't give any kind of ad or don't have any showcasing action. They don't even such a large number of bulletins.
- The compensation of the officers of UTTARA bank is brought down contrasted with different banks. Indeed, even the temporary job understudies are paid nothing. This is way high gifted HR are debilitated to join here.
- The basic leadership of the bank is an excess of brought together. No choice is made without the approval of the head office.



Opportunities:

- UTTARA bank is working corporate managing an account. In our nation, there is a gigantic chance of buyer managing an account. So UTTARA bank can reposition their marking and present customer keeping money with corporate managing an account.
- The managing an account division of the nation is getting to be modernized in the nation. Individuals get a kick out of the chance to draw cash whenever from anyplace. So ATM card is getting promoted in the nation.
- UTTARA bank can present ATM framework in their bank.
- The goal of the general population has been evolving. They currently need to spare more. They likewise need some advantage in their sparing. So UTTARA bank can present more items and plans.

Threats:

- In Bangladesh, after the financial change, more private bank has begun their activity in the nation. They are accompanying distinctive kinds of pulling in items. This has expanded the fruition among the banks.
- The estimation of neighborhood cash is diminishing. So interest in saving money is diminishing. Besides the expansion is expanding in the nation. So individuals need to set aside some cash yet, as a rule, they can't. Therefore, the banks are getting less store.
- There is an inclination of the general population of the nation to wind up bankrupt. Barely any days prior Oriental bank has an incredible anguish. In our nation, the receivable from the best 20 bankrupt organizations stood 88.36 billion. This is debilitating banks to make new speculation.



Chapter 03

Learning Part



Credit Risk Management System of Uttara Bank

Management of Loans in commercial Banks

Loaning is one of two essential capacities in business banks not just as a result of their social commitments of obliging credit needs of various segment of the network yet in addition loaning is most gainful, the rates acknowledged on advances have dependably been well over those acknowledged on ventures. Having cleaned a segment of stores in real money holds and profoundly fluid resources which yield practically zero income to satisfy liquidity prerequisites, an investor needs to convey the leftover assets in productive outlets so he might have the capacity to pay enthusiasm on stores, compensation to staff, meet other foundation costs, develop saves and to pay profit to the investors. This is the reason bank credit accounts from a noteworthy bit of the lingering assets of a business bank.

Risk

Risk is the potential that a chosen or activity (including the choice of inaction) will lead to a loss (an undesirable outcome) the notion implies that a choice having an influence on the outcome exists (or existed). Potential losses themselves may also be called “risks”.

- Risk can be seen as relating to the probability of uncertain future events.
- The chance that an investments actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. Different versions of risk are usually measured by calculating the standard deviation of historical returns or average returns of a specific investment. High standard deviations indicate a high degree of risk.

A fundamental idea in finance is the relationship between risk and return. The greater the amount of risk that an investor is willing to take on, the greater the potential return. The reason for this is that investors need to be compensated for taking on additional risk.

Sources of Risks at UBL

UBL recognizes under two broader viz. Pillar-I and Pillar-II risk under regulatory framework of Basel-II accord and Bangladesh Bank.

Pillar-I risk	Credit risk, market risk and operational risk
Pillar-II risk	All other risk i.e. management risk, security risk

Credit Risk Management System of Uttara Bank Limited



❖ **Credit Risk:**

Credit risk alludes to the hazard that a borrower will default on an obligation by neglecting to make required installments. The hazard is fundamentally that of the moneylender and incorporates lost foremost and premium, interruption to money streams, and expanded accumulation costs. The misfortune might be finished or fractional and can emerge in various conditions.

For example:

- A buyer may neglect to make an installment due on a home loan advance, Visa, credit extension, or other advance
- An organization can't reimburse resource anchored settled or skimming charge obligation
- A business or purchaser does not pay an exchange receipt when due
- A business does not pay a representative's earned wages when due
- A business or government bond backer does not make an installment on a coupon or essential installment when due
- A wiped out insurance agency does not pay a strategy commitment
- A ruined bank won't return assets to an investor
- An administration stipends chapter 11 security to a ruined customer or business

❖ **Market Risk:**

The likelihood for a speculator to encounter misfortunes because of variables that influence the general execution of the monetary markets. Market chance, likewise called "deliberate hazard," can't be wiped out through enhancement, however it tends to be supported against. The hazard that a noteworthy cataclysmic event will cause a decrease in the market in general is a case of market chance. Different wellsprings of market hazard incorporate subsidences, political disturbance, changes in loan costs and fear monger assaults.

Some market risks include:

- Value chance, the risk that stock or stock records (e.g. Euro Stoxx 50, and so forth.) costs, as well as their inferred instability, will change.
- Financing cost risk, the hazard those loan fees (e.g. Libor, Euribor, and so forth.) as well as their suggested unpredictability will change.
- Cash hazard, the risk that outside trade rates (e.g. EUR/USD, EUR/GBP, and so on.), as well as their suggested unpredictability, will change.
- Product risk, the risk that item costs (e.g. corn, copper, raw petroleum, and so on.) and additionally their inferred unpredictability will change.

Credit Risk Management System of Uttara Bank Limited



All businesses take risks based on two factors: the probability an adverse circumstance will come about and the cost of such adverse circumstance. Risk management is the study of how to control risks and balance the possibility of gains.

❖ **Operational risk:**

Operational risk is "the danger of an adjustment in esteem caused by the way that genuine misfortunes, brought about for lacking or fizzled inward procedures, individuals and frameworks, or from outer occasions (counting lawful hazard), vary from the normal misfortunes". This definition from the Basel II controls was likewise embraced by the European Union Directive.

In October 2014, the Basel advisory group Banking Supervision proposed a modification to its operational hazard capital system that sets out another institutionalized way to deal with supplant the essential marker approach and the institutionalized methodology for computing operational hazard capital. It can likewise incorporate different classes of hazard, for example, extortion, security, security insurance, legitimate dangers, physical (e.g. foundation shutdown) or natural dangers. Operational hazard is a wide control, near great administration and quality administration. In a comparable mold, operational dangers influence customer fulfillment, notoriety and investor esteem, all while expanding business unpredictability. Operational hazard is, in any case, sensible as to keep misfortunes inside some dimension of hazard resilience (i.e. the measure of hazard one is set up to acknowledge in a quest for his goals), controlled by adjusting the expenses of enhancement against the normal advantages.

❖ **Management risk:**

The dangers related with inadequate, damaging or failing to meet expectations the executives, which harms investors and the organization or reserve being overseen. This term alludes to the danger of the circumstance in which the organization and investors would have been exceptional off without the decisions made by the executives. The executives chance alludes to the possibility that



organization administrators will put their own advantages in front of the enthusiasm of the

organization and investors. A case of this is the ongoing embarrassments with Enron, WorldCom and other vast organizations, whose administrators acted in a way that in the long run bankrupted the organizations and obliterated investor riches. The board chance too applies to venture administrators, whose choices and activities may redirect from the financial specialists' desires or decrease the estimation of a speculation portfolio. Hazard management's objective is to guarantee vulnerability does not veer off the undertaking from the business objectives. Dangers can originate from various ways e.g. vulnerability in budgetary markets, dangers from undertaking disappointments (at any stage in structure, advancement, creation, or sustainment life-cycles), legitimate liabilities, credit chance, mishaps, regular causes and debacles and in addition conscious assault from a foe, or occasions of dubious or flighty underlying driver. There are two sorts of occasions i.e. negative occasions can be named dangers while positive occasions are named openings. A few hazards the executive's models have been created including the Project Management Institute, the National Institute of Standards and Technology, actuarial social orders, and ISO norms. Strategies, definitions, and objectives change generally as per whether the hazard the executive's technique is with regards to extending the board, security, designing, mechanical, monetary portfolios, actuarial appraisals, or general wellbeing and wellbeing. Certain parts of huge numbers of the hazard the executive's guidelines have gone under feedback for having no quantifiable enhancement for hazard, regardless of whether the trust in assessments and choices appear to increment.



Risk Profile of Uttara Bank Limited

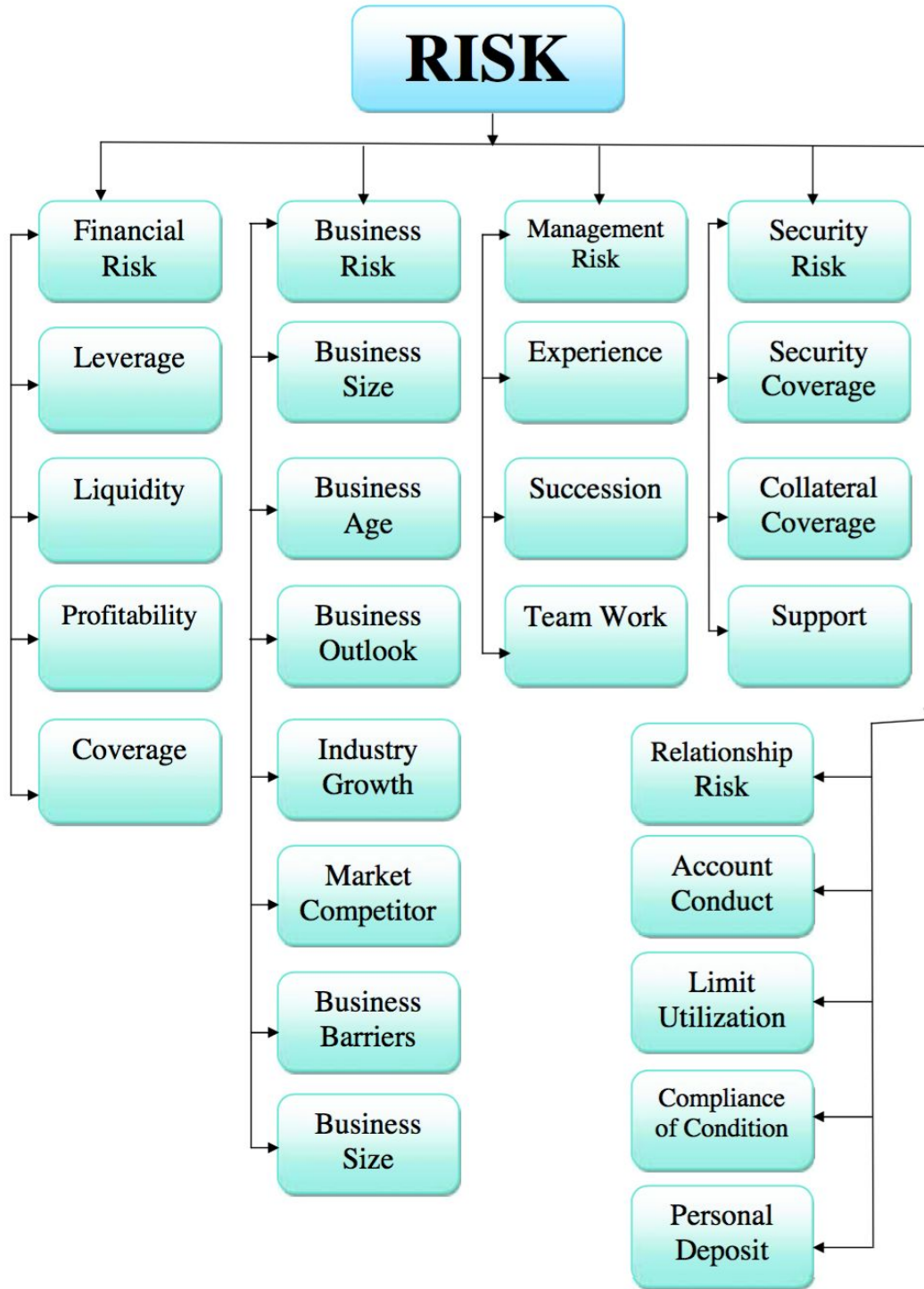


Figure: Risk Profile of Uttara Bank Limited

Credit Risk Management System of Uttara Bank Limited



Risks that come with lending and investment practices, banks must assess the risks. Credit risk management must play its role then to help banks be in compliance with Basel – II accord and other regulatory bodies. Credit risk management for banking is a very useful system, especially if risks are in line with the survival of banks in the business world.

Credit Risk Management:

Bank Credit:

The two main functions of a bank are to borrow money from public by accepting deposit and lending it to the public for the development of trade, commerce, industry and agriculture. Banks give some interest to depositors for deposit and take higher interest for lending. The margin is the banks profit. So, lending is by far the most important function of modern bank. The strength of a bank is, thus, primarily judged by the soundness of its advances.

A wise and prudent policy in regard to advances is considered an important factor inspiring confidence in the depositors and prospective customers of a bank. In general term, „Bank credit is a bank loan to an individual or a company, with a fixed maturity and often featuring amortization of principal. i.e. When a consumer purchases something using a credit card, they are buying on credit (receiving the item at that time, and paying back the credit card company month by month). Any time when an individual finances something with a loan (such as an automobile or a house), they are using credit in that situation as well. Advances not only play an important part in gross earnings of Bank, but also promote the economic development of the country.

All types of business activity includes trade, industry and agriculture have to depend on bank finance in one form or another. Bank by channeling accumulated savings of the nation into productive uses, help both the depositors and the borrowers.



Definition of Credit Risk Management:

Banks are continually looked with dangers. There are sure dangers during the time spent allowing credits to specific customers. There can be more dangers included if the advance is stretched out to disgraceful indebted individuals. Certain dangers may likewise come when banks offer securities and different types of ventures. Powerful credit hazard the board is fundamental for the achievement of any bank, as banks are working at a low edge contrasted with a different business. They should strike a legitimate harmony among benefit and liquidity and ought to dependably be watchful about default likelihood and credit Value in danger.

Credit risk management is the process or set of method by which one calculates the creditworthiness of a business or organization or of a person. Or a type of analysis an investor or bond portfolio anger performs on companies or other debt issuing entities encompassing the entity's ability to meet its debt obligations. The credit risk management seeks to identify the appropriate level of default risk associated with investing in that particular entity, and committed with the minimization of the risk of bad debt or default risk associated with a particular credit.

Credit Risk Management process enables Banks to proactively manage loan Portfolios in order to minimize losses and earn an acceptable level of return for shareholders. A comprehensive IT system is essential which should have the ability to capture all key customer data, risk management and transaction including Trade and Foreign Exchange. In order to establish an effective and efficient management of the credit risk the Bank must have robust credit risk management policies and procedures.

Importance of Credit Risk Management:

Credit hazard is most just characterized as the potential that the potential that a bank borrower or counterparty will neglect to meet its commitment as per concurred terms. The objective of credit hazard the board is to boost a bank's chance balanced rate of return by keeping up credit chance presentation inside worthy parameters. Banks need to deal with the credit hazard inalienable in the whole portfolio and the hazard in individual credits or exchanges. Bank ought to likewise think about



the connections between credit chance and different dangers.

The powerful administration of credit chance is a basic part of a far-reaching way to deal with hazard the board and fundamental to the long haul achievement of any keeping money organization. Credit Risk Management Policy of UBL catches the center standards for distinguishing estimating and overseeing credit chance in the Bank. These arrangements are endorsed by the Board of Directors and are intended to meet the authoritative necessities that exist today and to give adaptability to the nature UBL perceives that a basic factor in the Banks proceeded with benefit and soundness is its successful hazard the board abilities.

UBL guarantees its hazard the board quality and endeavors to constantly advance a proactive hazard the executives culture in the bank. Compelling measures are currently being taken towards the consistency of Basel II hazard the executive's benchmarks.

The significance of credit hazard the board for saving money is colossal. Banks and other budgetary establishments are frequently looked with dangers that are for the most part of monetary nature. These establishments must adjust hazards and also returns. For a bank to have a vast shopper base it must offer credit items that are sufficiently sensible.

Be that as it may, if the financing costs in advance items are too low, the bank will experience the ill effects of misfortunes. As far as value, a bank must have a significant measure of capital on its hold, however not all that much that it misses the venture income, and not very little that it drives itself to budgetary precariousness and to the danger of administrative resistance.

Credit chance administration, in back terms, alludes to the procedure of hazard appraisal that arrives in a speculation. Hazard frequently comes in putting and in the designation of capital. The dangers must be surveyed in order to determine a sound speculation choice. In like manner, the appraisal of hazard is additionally vital in thinking of the situation to adjust dangers and returns.

The danger of misfortunes that outcome in the default of installment of the account holders is a sort of hazard that must be normal. As a result of the introduction of banks to numerous dangers, it is sensible for a bank to keep a considerable measure of cash-flow to ensure its dissolvability and to keep up its monetary solidness.



The second Basel Accords gives proclamations of its guidelines in regards to the control of the bank's capital allotment regarding the dimension of dangers the bank is presented to. The more prominent the bank is presented to dangers, the more noteworthy the measure of capital must be with regards to its stores, in order to keep up its dissolvability and steadiness.

To decide the dangers that accompany loaning and venture rehearses, banks must survey the dangers. Credit chance administration must assume its job at that point to enable banks to be in consistency with Basel II Accord and other administrative bodies. Credit chance administration for managing an account is an exceptionally valuable framework, particularly if the dangers are in accordance with the survival of banks in the business world.



Credit Risk Management Process of UBL

The Credit Risk Management (CRM) Process of UBL is shown as follows:

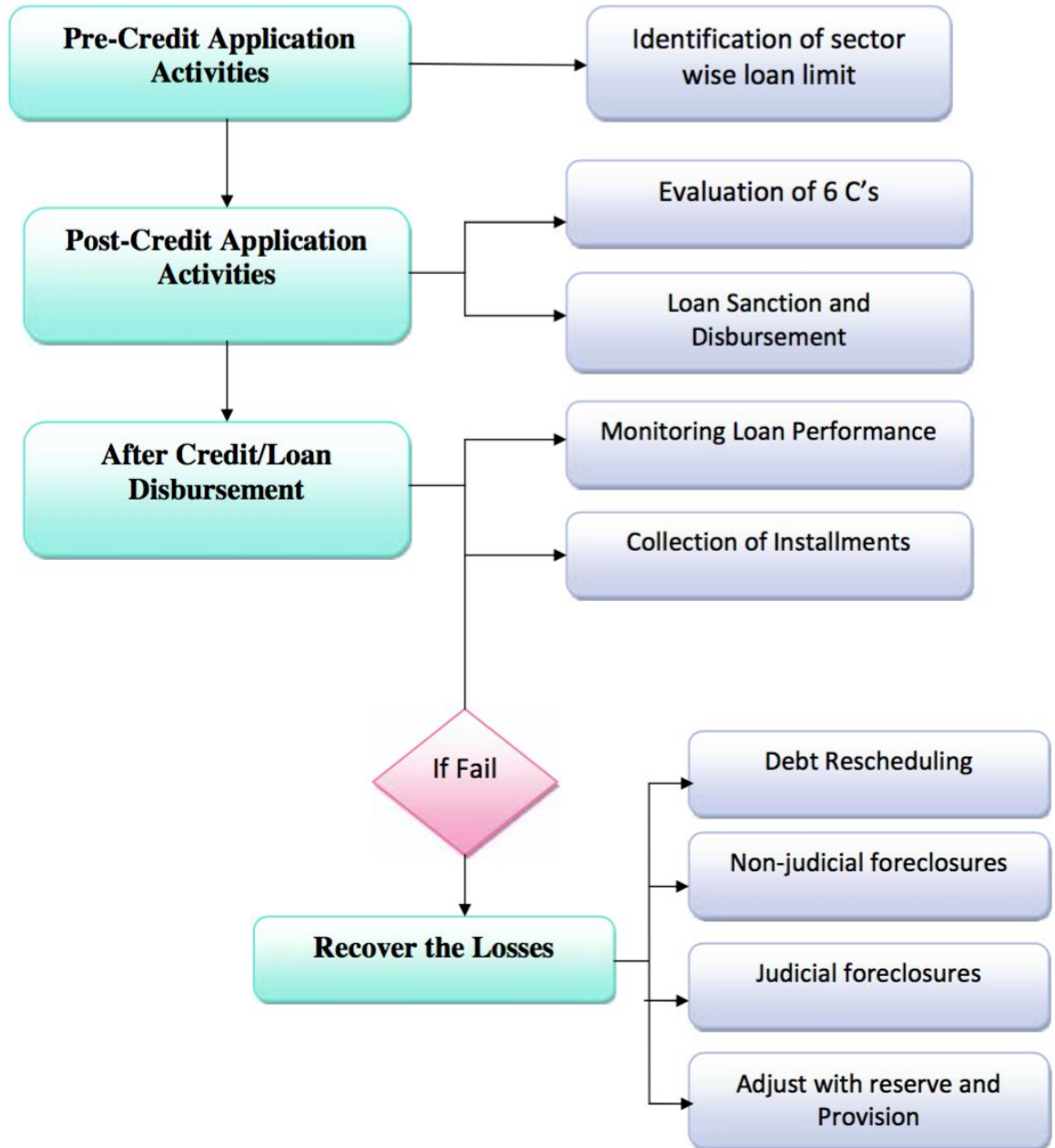


Figure: Risk Management Process of Uttara Bank Limited

Credit Risk Management System of Uttara Bank Limited



Pre-Credit Application Activities

Identification of sector-wise Credit Limit:

Recognizable proof of part insightful advance limit implies distinguish limit of the aggregate respectable sum into various segment or expansion of aggregate credit into a various division. Expansion in UBL includes spreading credit into a more extensive scope of monetary advances, i.e. Business advance, Personal Loan, Credit card; auto and instructive advance etc. UBL don't give add up to credit in the same division. In the event that they give all credit in a similar segment and, if by one way or another that specific division moves toward becoming crash, their credit may end up unrecoverable. So before giving credit UBL parts their aggregate noteworthy sum in various area. To give credit in the distinctive areas encourages UBL to various their credit chance.

Credits and Advances of the Bank as on December 31, 2012, remained at Tk. 63.59 billion contrasted with Tk.52.91 billion of 2011 mirroring a magnificent development of 20%. The development in the advance book was a result of Bank deliberate endeavors and improved cooperation in neighborhood corporate and credit-lines, syndicated and organized term back alongside expanding of the business relationship in the nation, the engaging quality of our retail and buyer credit items, cautious determination of borrower. Solid credit dangers evaluation and assurance under great security inclusion. Remarkable advances and advances of Offshore Banking Units was Tk.1491.28billion proving a development of 114%. Our Capital Market Services stretched out edge advances to the financial specialists, a volume of which TK.1943.64 million out of 2011. The yield on advance and advances diminished to 13.56 present from the dimension of 14.37 present of an earlier year because of decrease of loaning rates on corporate and medium scale financing according to rules of Bangladesh Bank and slow up a pattern in rates of a store in the focused market. Grouping of credits and advance was all around broadened points of interest of which are clarified in a note. 7.6 present from 4.57 from 5.57 percent on 2010 dependent on legally binding development terms, 68% of the current credit portfolio develops inside 5 years of the monetary record date.



Sector Wise Loan:

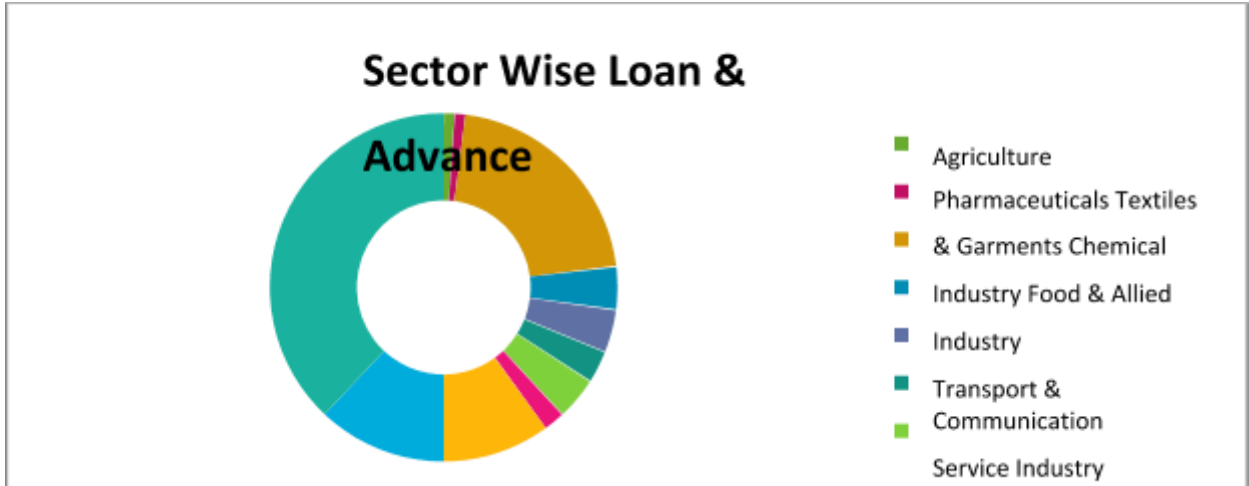


Figure: Credit Diversification Criteria of UBL in 2017

Industry and Business Segment Focus In Details

As a general practice Uttara Bank Limited unquestionably gathers its business in exchange back/trade Import business and a wide range of business advances, modern venture fund with the exception of generally confined by the administration or demonstrated as unscrupulous and restricted things. The bank stresses on expansion of its business portfolio equivalence with financial and business slant, life cycle of the items, request supply GAP, social commitment and so on. The Bank's policy for financing in different major sectors are summarized as follows:



SL	Sector	Policy
1	Textiles/spinning/sweater/knitting/Denims & Garments	To Expand
2	Cement	To Maintain
3	Telecommunication	To Expand
4	Communication	Selective Basis
5	Information Technology Project	To Expand
6	Construction/Real estate/House Building	To Expand
7	Agro based Industry	To Expand
8	Hospital/Clinic/School/Universities	Selective Basis
9	Healthcare/Pharmaceuticals/Medicine	To Expand
10	Electrical/Electronic appliance	To Expand
11	Finance to NBFI	To Expand
12	Special Program-CCS, Personal Loan, Supervised Credit Loan to SME clients	To Maintain
13	Plastic/Packaging	To Expand
14	Leather	Selective Basis
15	Steel and Engineering	To Expand
16	Scrap Vessel	Restricted Way
17	Edible Oid	To Expand
18	Paper/Pulp/Partex	To Expand
19	Chemicals	Restricted Way
20	Others	Based on the merit of the approved Head Office

Table: Loan Segmentation



Discouraged Business Types:

Uttara Bank Ltd. generally disheartens loaning to the accompanying territories of business:

- Military Equipment/Weapons Finance
- Tobacco area.
- Loaning to organizations recorded on CIB boycott or known defaulters.
- Exceptionally Leveraged Transaction (Maximum obligation to value proportion ought to be @ 60:40).
- Back of Speculative Investments (Not more obligation 40% of offer esteem or most recent a half year normal whichever is lower).
- Logging, Mineral Extraction/Mining, or other movements that is morally or naturally touchy.
- Counterparties in nations subject to UN sanctions.
- Offer Lending (Not over 40% of offer esteem or according to rules of Bangladesh Bank).
- Taking an Equity Stake in Borrowers.

Extension Loans depending on value/obligation issuance as a wellspring of reimbursement.



Post-Credit Application Activities

Evaluation of 6C,S:

Lending money is one of the main functions of a commercial bank. In the lending process, selection of borrower is the most crucial and vital job for a banker. Before a customer enjoys credit facilities it is important that the applicant should qualify for 6 Cs. The 6 Cs are:

❖ *Character or Trustworthiness:*

The principal thing that credit officers search for while assessing a proposition is proof of applicant's dependability. The advance application can be rejected without checking on your proposed business thought whether credit officers discover any proof in your experience demonstrating an absence of respectability. Officer may make inquiries like: Who would you say you are? To what extent have you lived where you live? To what extent have you been doing business? Do you satisfy your commitments? What is your remaining in the network? The responses to these inquiries will ordinarily originate from your strategy for success and references.

❖ *Capability:*

Banks should make certain that the individual/individuals settling on the business choices comprehend what they are doing. Fumble is the first purpose behind the disappointment of new business, and banks normally would need to keep away from that. Advance officers would need to know the expert foundation, past business encounter, applicable instruction, and dimension of achievement of the entrepreneur.

❖ *Capacity:*

In the event that the bank feels that sure about applicant's individual foundation and applicant's capacity to make great judgments when settling on business choices, the following stage for them is to decide the ability of applicant's business to turn up a benefit. They will now ask: what is applicants capacity to reimburse the advance? How does the credit continue to be utilized? In what manner will



they be repaid? Banks are especially intrigued in:(a) how soon you can create a positive money flow;(b) when you will demonstrate a profit;(c) how extensive will it be;(d) regardless of whether applicant's benefit will last; and (e) whether different resources will be financed by means of obligation or value. The response to these inquiries originates from an audit of applicant's money related explanation, especially applicant's income articulation, benefit, and misfortune proclamation and individual and corporate assessment forms.

❖ ***Collateral:***

Applicant's guarantee is imperative. Applicant's insurance speaks to an escape hatch for applicant's bank, and banks regularly need it to be sufficiently expansive to have the capacity to cover their losses(if by any stretch of the imagination) and effortlessly convertible to money. From applicant's anticipated income and rundown of benefits, brokers will solicit. How would you be able to make certain from applicant's capacity to reimburse the advance? What would you be able to offer the bank as an elective wellspring of reimbursement? In many cases, the bank will require the individual assurances everything being equal. Other than giving another wellspring of reimbursement, it likewise indicates applicant's promise to the business.

❖ ***Capital:***

No business exists in a vacuum, and credit officers would take a gander at various components that add up to more than obligations are known as capital. As it were, when borrower advertisements up such possess (resources) and subtract that whole borrower claim (liabilities), the distinction (total assets or capital) ought to be adequate to guarantee installment of another bill. Capital would allude to the budgetary assets got from monetary records that an organization may have with the end goal to manage its obligation. Numerous a times credit examiners would make this bit of the credit examination the most imperative one. Weight is given on Balance Sheet things and segments like Working Capital, Net Worth and income. One must realize how to peruse budgetary proclamation and that too from the point of view of a loan boss. Transient liquidity is essential on the off chance



that you are hoping to get paid for the time being. You ought to have the capacity to see whether this organization can assimilate more obligation and afterward, where does your advance (offering using a credit card is an advance isn't it?) Fit in the general obligation system of this business. You ought to likewise assess to check whether you can rely on the numbers whether they are evaluated, unaudited or organization arranged. Whenever required talk with the firm or individual who has arranged the announcement.

❖ ***Conditions or Terms of Loans:***

The nature of applicants loan realists is another important factor that could affect the results of applicants application. Bank would want to know three important things: How much money are you requesting? What will it be used for? And For how long will it be needed? Banks oftentimes prefer to approve loans for items that can be identified, has lasting value, and can be repossessed and sold if things fail

Loan Sanction and Disbursement:

Bank follows some necessary steps to sanction loan to borrower. The procedure mainly applicable for sanctioning and disbursing term loan although other advancing procedures also follow nearly the same procedure.

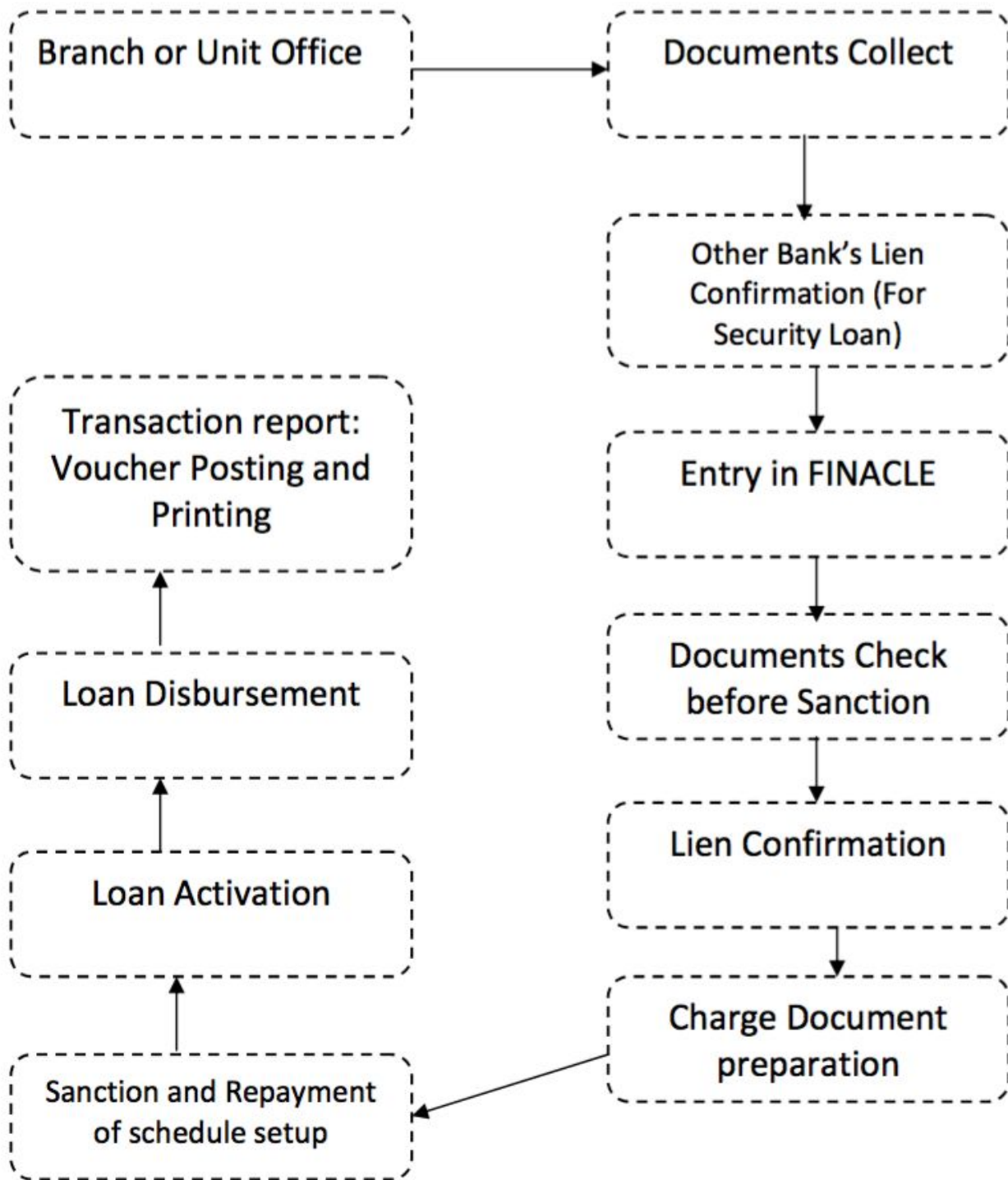


Figure: Procedures of UBL Loan Sanction and Disbursement



After successful completion of these steps bank allocate credit to a credit applicant. If anyhow authority becomes unsatisfied about a credit application, the credit will not sanction for that applicant.

After Credit/Loan Disbursement

Monitoring Loan Performance

After disbursement of credit its an essential task for the bank to monitor the loan/credit performance. If the loan/credit doesnt work then it will categorized as Non- Performing Loan (NPL).NPL Increase the risk of bad debt. Typically, loans that have not received payments for three months are considered to be non-performing loans, though specific contract terms may differ occasionally. Bank will take initiative to turn the loan performance start.

Collection of Installment

Loan is allowed for a single purpose where the entire amount may be required at a time or in a number of installments within a period of short span. After disbursement of the entire loan amount, there will be only repayment by the borrower. Bank send reminder over phone or via mail to the borrower about the installment payment date, amount etc.

Recover the Losses

If bank is unable to recover the entire amount of loan the bank can take these steps:

- ✓ Debt Rescheduling,
- ✓ Non-judicial Foreclosures,
- ✓ Judicial Foreclosures,
- ✓ Adjust with Reserve and Provision.



Debt Rescheduling

Debt rescheduling means extending the repayment period of an existing loan. This opportunity is given according to the capability and condition of clients. If bank find that client will be able to repay the unpaid amount if he get some extra time and if the client has good history of previous repayment, then bank may allow this opportunity. Extra interest on unpaid amount of loan for extra time will be imposed.

Non Judicial Foreclosure

Non-legal abandonments are handled without court intercession, with the necessities for the dispossession built up by state resolutions. At the point when a credit default happens, the borrower will be sent a default letter. In the event that the indebted person does not fix the default, a Notice of Sale will be sent to the borrower, posted in broad daylight spots and daily paper, recorded at the nation recorders office(Notary open), and distributed in zone legitimate productions. After the lawfully required day and age have lapsed, an open sale will be held, with the most noteworthy bidder turning into the proprietor of the property, subject to their receipt and recordation of the deed.

Judicial Foreclosures

Legal dispossessions are handled however the courts, starting with the loan specialist documenting a grievance and recording a notice. The protest will state what the obligation is, and why the default ought to enable the moneylender to dispossess and take the property given as security for the advance. The account holder will be served notice of the protest, either via mailing, coordinate administration, or distribution of the notice, and will have the chance to be heard under the watchful eye of the court. In the event that the court finds the obligation substantial, and in default, it will issue a judgment for the aggregate sum owed, including the expenses of the abandonment procedure. After the judgment has been entered, a writ will be issued by the court approving. A bartering, opens to anybody, and is held in an open place, which can run from before the courthouse ventures, to before the property being sold. Closeout will require either money to be paid at the season of offer, or a considerable store, with the equalization paid from later that equivalent day up to 30 days after



the

deal. Check applicants neighborhood systems painstakingly. Toward the finish of the sale, the most noteworthy bidder will be the proprietor of the property, subject to the courts affirmation of the deal. After the court has affirmed the deal, a deed will be arranged and conveyed to the most astounding bidder, when that deed is recorded, the most noteworthy bidder is the proprietor of the property.

Adjust with Reserve and Provision

Usually like other all bank and company UTTARA Bank doesnt disburse or distribute its all profit to shareholders. Some portion are set aside from net profit/earning as provision to meet future loss arise from debt. This provision is known as bad debt. When a bad debt occur UTTARA bank try to recover the loan by using this loan loss provision.

Some important ratio of credit risk

❖ *Leverage Management:*

Leverage ratio used to calculate the financial leverage of a company to get an idea of the main factors looked at include debt, equity, assets and interest.

Company's methods of financing or to measure its ability to meet financial obligations. There are several different ratios.

❖ *Debt to Assets:*

Debt to Assets (DTA) is important tools for measuring the leverage of a bank. The higher portion of DTA, the greater is the degree of risk because creditors must be satisfied before in the bankruptcy. The lower ratio of DTA provides to mitigate of protecting for the supplier of debt. The DTA ratios of Uttara Bank Limited are given below:



Debt to Assets vs. Year

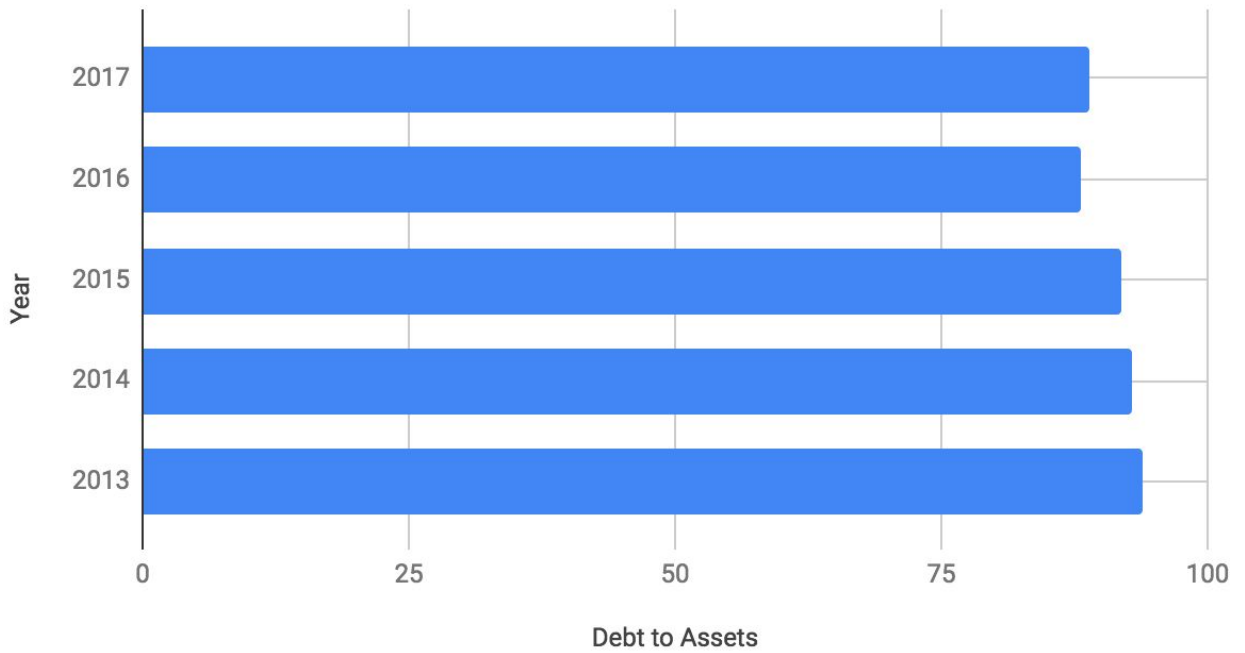


Figure: Debt to Assets

❖ *Equity Multiplier:*

Equity Multiplier (EM) is very important indicator of evaluating a company's ability to use its debt for financing its assets. EM ratio is also known as the financial leverage ratio. A higher equity multiplier indicates higher financial leverage, which means the company is relying more on debt to finance its assets. The EM ratios of Uttara Bank Limited are given below:



Equity Multiplier Ratio vs. Year

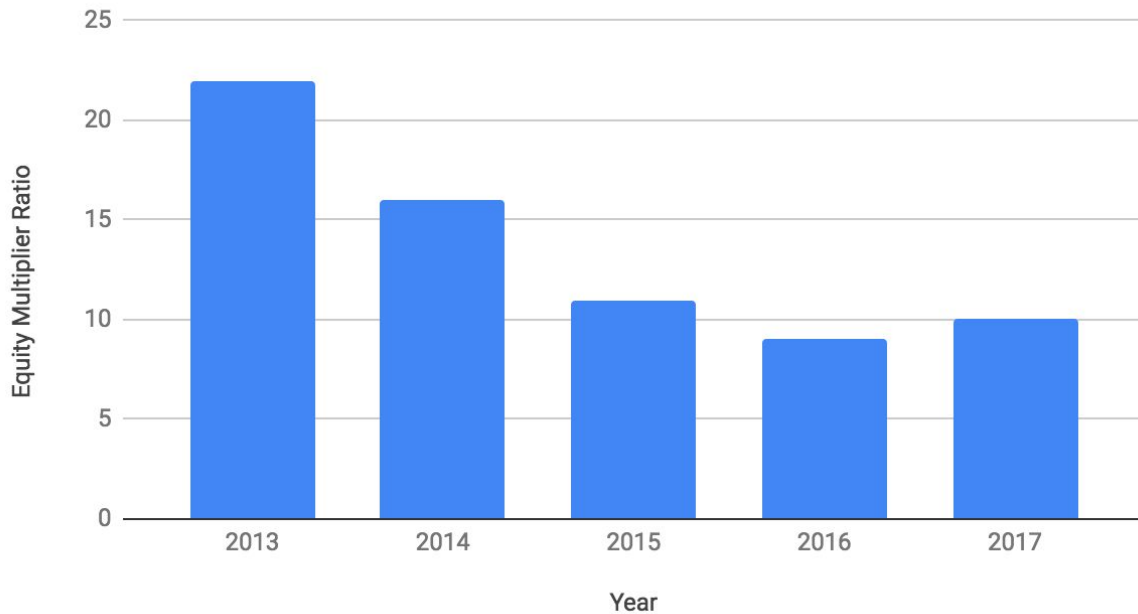


Figure: Equity Multiplier Ratio

❖ *Profitability Measurement:*

Profitability ratios measure a company's ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to some metric, often the amount of money invested.

They highlight how effectively the profitability of a company is being managed. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well.

❖ *Net Interest Margin:*

Net Interest Margin (NIM) is a very important tool for measuring a bank's profitability performance because small changes in a bank's lending margin can translate into large bottom line changes. The higher the ratio, the cheaper the funding or higher the margin the bank is obtaining. A bank's net interest margin is a key performance measure that drives ROA. The NIM Limited is given below:

Credit Risk Management System of Uttara Bank Limited



Net Interest Margin vs. Year

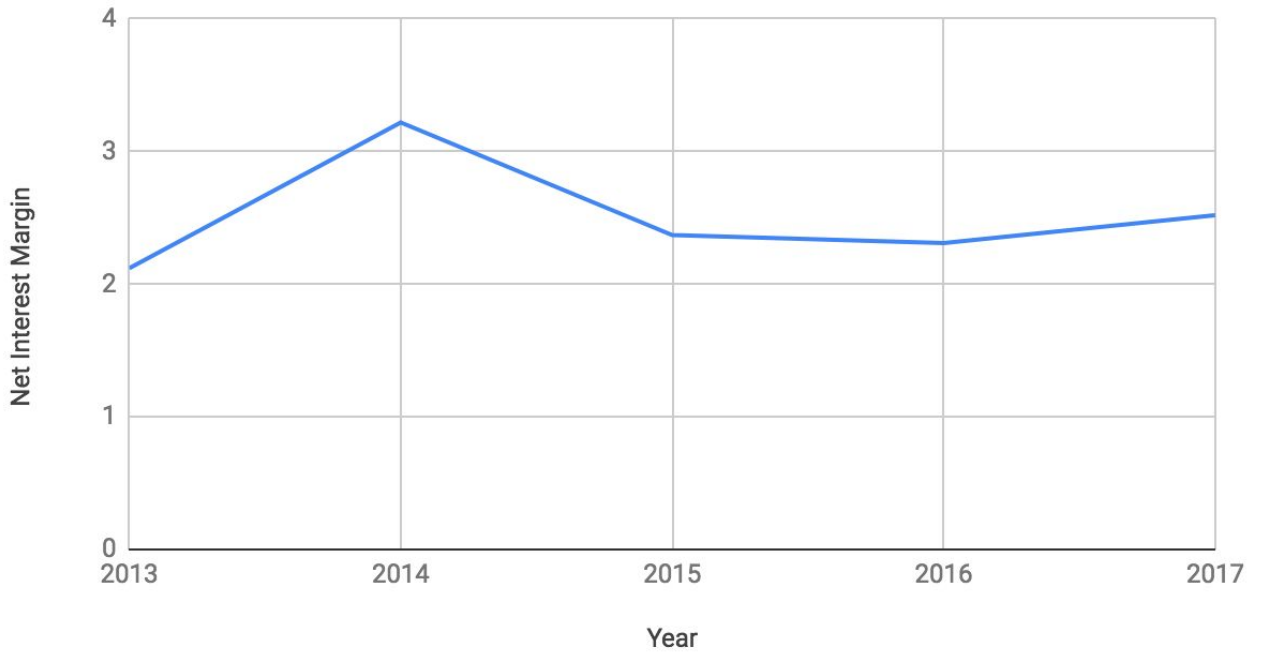


Figure: Net Interest Margin

The NIM ratio of UBL was increasing from FY2013 (2.12%) to FY2014 (3.22) and then it shows decreasing trend from FY2014 (3.22%) to FY2015 (2.31%) after then it slightly increases till FY2016 (2.52%) which was good sign for a bank. The highest NIM ratio was 3.22% in FY2014 and the lowest NIM ratio was 2.12% in FY2013. On an average, the bank maintained 2.51% NIM ratio.

❖ *Noninterest Income to Assets:*

Noninterest Income to Assets (NIM) is an indicator of the operational performance. It indicates the proportion of fees and other income in respect of total assets of banks. Highest NITA ratio is better for bank. The NITA ratios of Uttara Bank Limited are given below:



Non Interest Income to Assets vs. Year

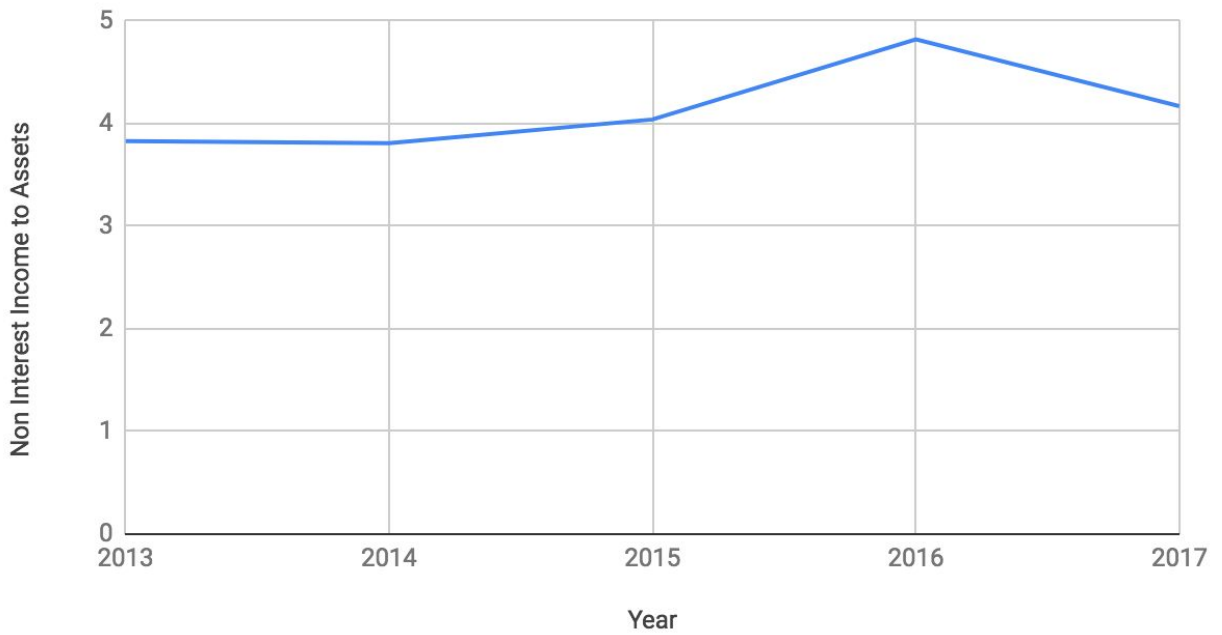


Figure: Noninterest Income to Assets

❖ ***Noninterest Income to Operating Income:***

(NITOI) Is another indicator of the operational performance? It indicates to what extent fees and other income represent a percentage of operating income of banks. The NITOI ratios of Uttara Bank Limited are given below:



Non Interest Income to Operating Income vs. Year

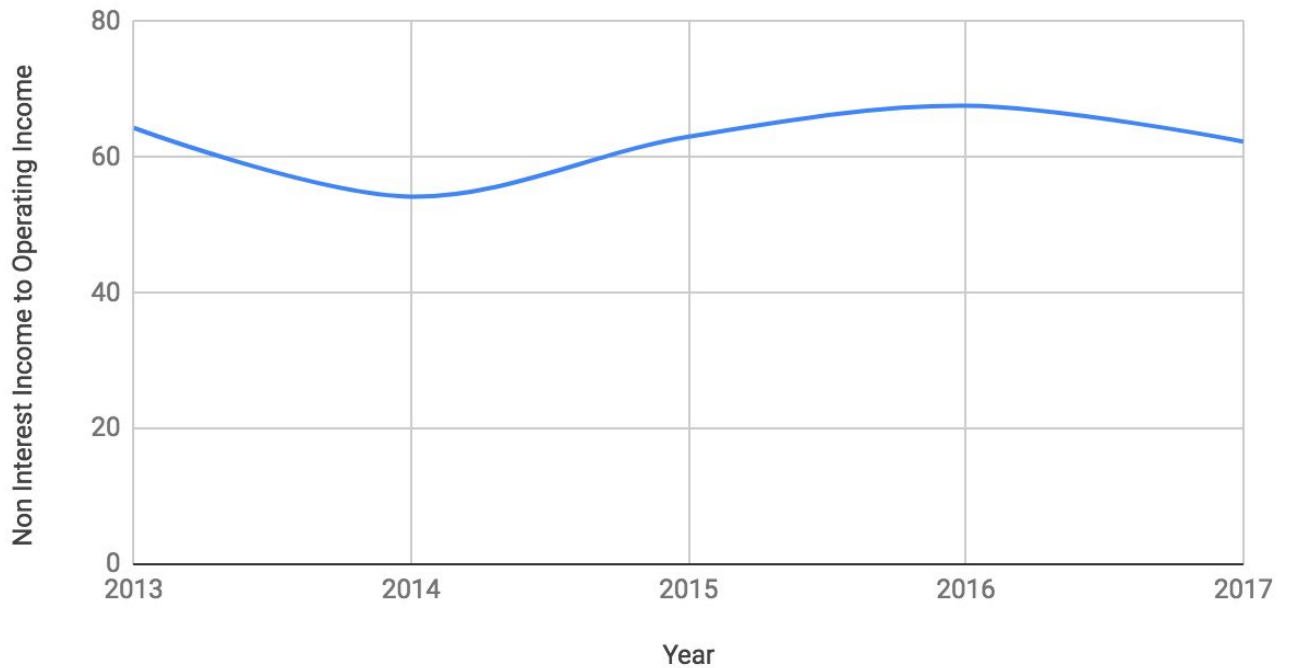


Figure: Noninterest Income to Operating Income

❖ *Assets Utilization Ratio:*

Assets Utilization Ratio (AUR) indicates the proportion of total operating income to total assets. The higher AUR ratio is better for a bank. The AUR ratios of Uttara Bank Limited are given below.

❖ *Liquidity Measurement:*

Liquidity ratio attempt to measure a companys ability to pay off its short-term debt obligations. This is done by comparing a companys most liquid assets (or, those that can be easily converted to cash), its short-term liabilities. In general, the greater the coverage of liquid assets to short-term liabilities the better as it is a clear signal that a company can pay its debts that are coming due in the near future and still fund its ongoing operations. On the other hand, a company with a low coverage rate should raise a red flag for investors as it may be a sign that the company will have difficulty meeting



running its operations, as well as meeting its obligations.

❖ **Liquid Asset to Liability**

According to Bangladesh Banking companies Ordinance 1962, subject to amended time to amended time, liquid assets to commercial banks consists of cash in hand, statutory reserves (With Bangladesh Bank), balance with other banks, and money at call and short-notice and approved security. This composition of liquid assets is known as structural allocation liquid assets. The Liquid Assets to Liability (LATL) ratio used in this study is measured by taking the structural allocation of liquid assets. The LATL ratios of Uttara Bank Limited are given below:

Liquid Asset to Liability vs. Year

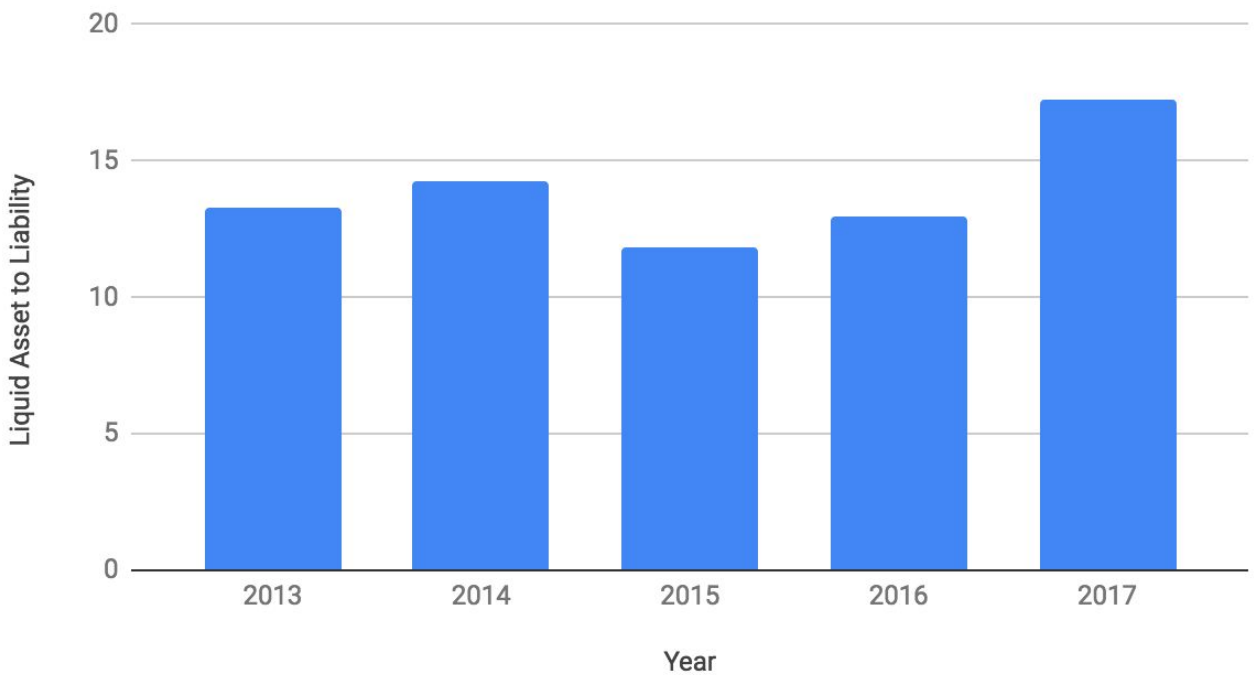


Figure: Liquid Asset to Liability



Performance of the Credit Department

Last 5 Years Revenue

Uttara Bank has got the highest revenue in the year of 2017 i.e. the last year.

Year	Revenue(Million)
2017	40,673,028
2016	27,509,946
2015	12,714,121
2014	10,714,654
2013	9,234,763

Revenue (Million) vs. Year

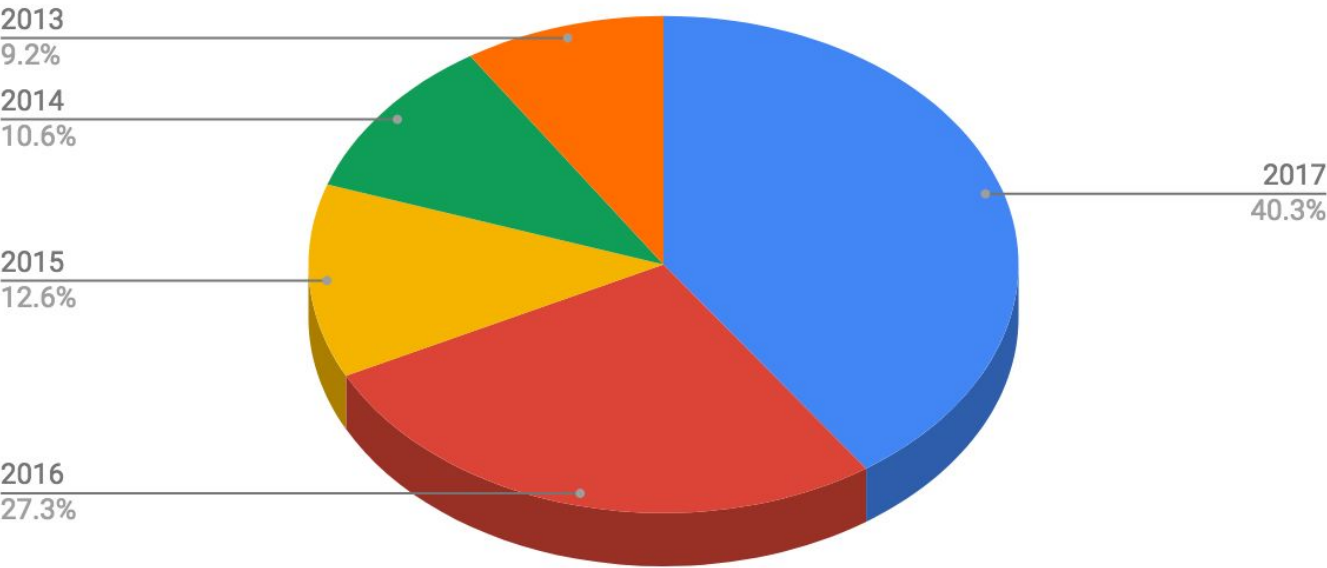


Figure: Revenue of Last Five Years

Credit Risk Management System of Uttara Bank Limited



Last 5 Years Gross Income

Gross income has not been being satisfactory for the last two years.

Gross Income (Million) vs. Year

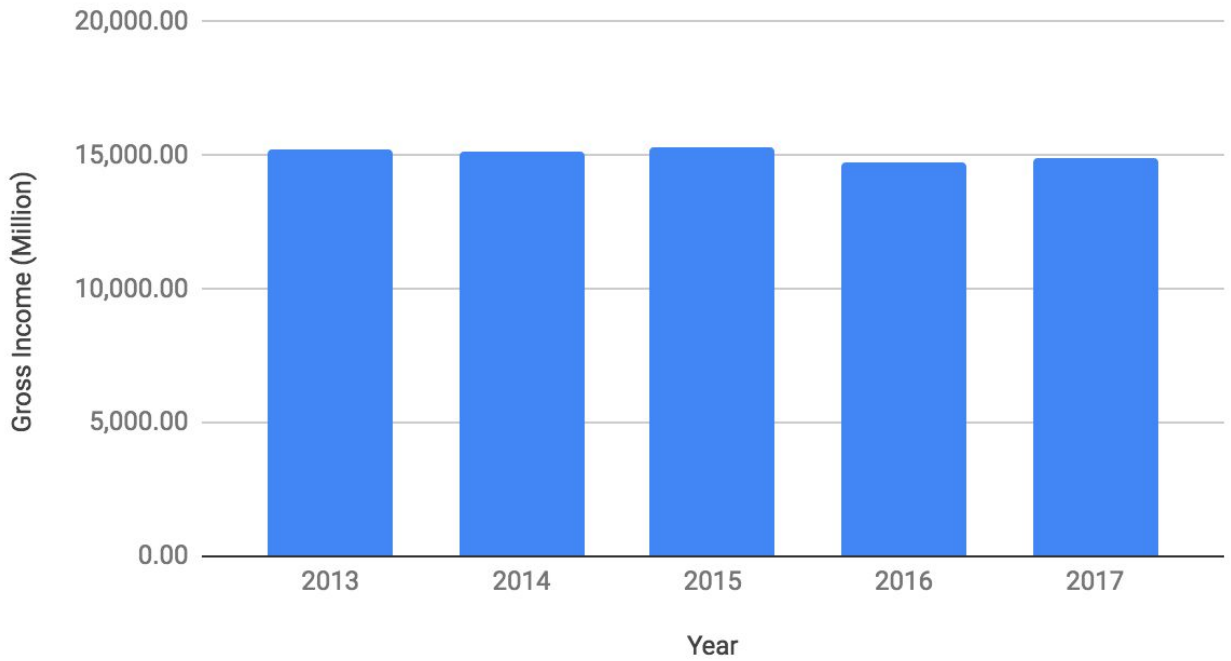


Figure: Gross Income of Last Five Years



Last 5 Years Gross Profit

Although gross profit increased in the year of 2017 but it has decreased much comparing to the years 2015, 2014 and 2013.

Gross Profit vs. Year

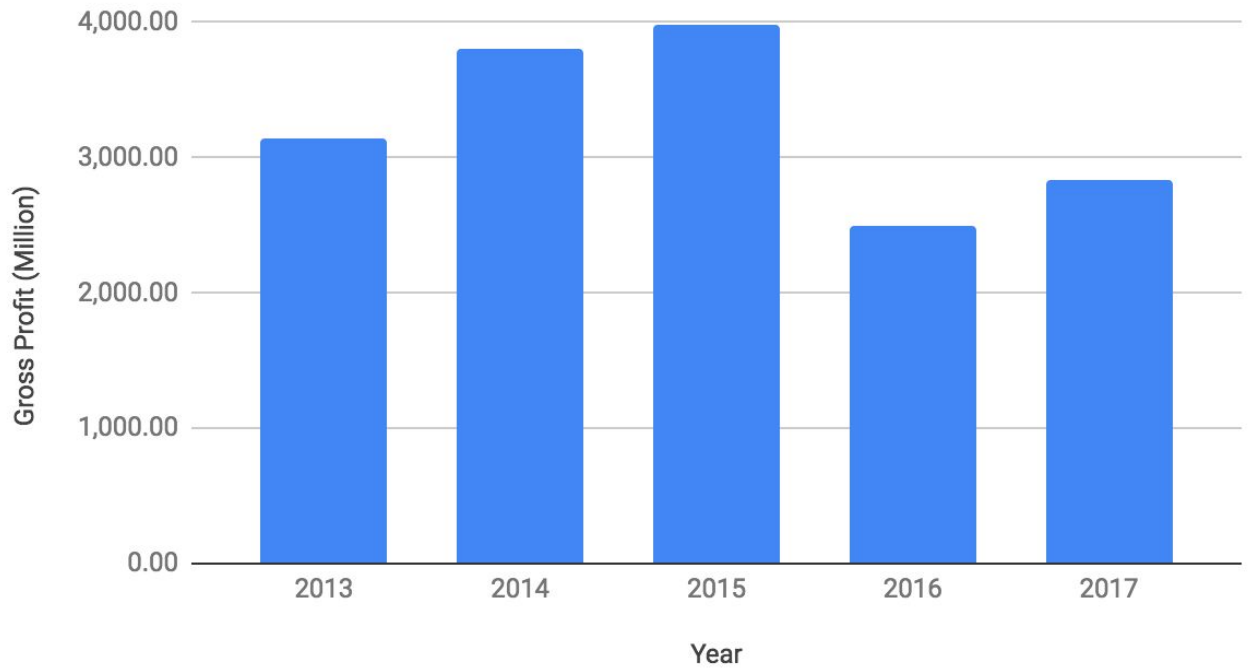


Figure: Gross Profit of Last Five Years



Ratio Analysis

Liquidity Ratio:

Current ratio

Current Ratio = Current Asset/Current Liabilities

Year	2017	2016	2015	2014	2013
Current Ratio	0.77	1.04	1.11	1.04	0.98

Current Ratio vs. year

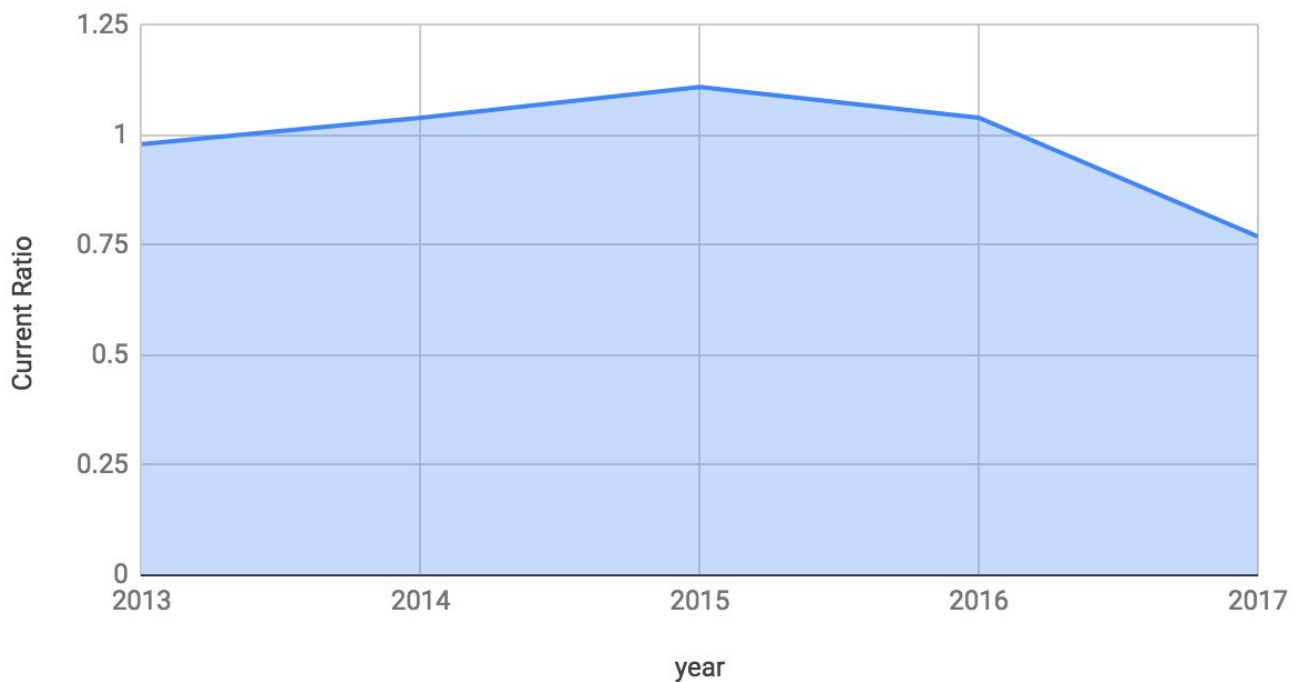


Figure: Current Ratio



Interpretation:

That is the higher the current ratio; the more liquid the firm is considered to be. But UBL, Current ratio is not good because it maintains 0.98tk current assets against 1tk current liabilities where as normally banking industry maintains 1: 1 current ratio. This graph shows that, the current ratio is decreasing year by year.

Net Working capital

$$\text{Net Working capital} = \text{Current Asset} - \text{Current Liabilities}$$

Year	2017	2016	2015	2014	2013
Net Working Capital(million)	-729.41	2085.43	3611.9	1540.7	-672.82

Net Working Capital(million) vs. Year

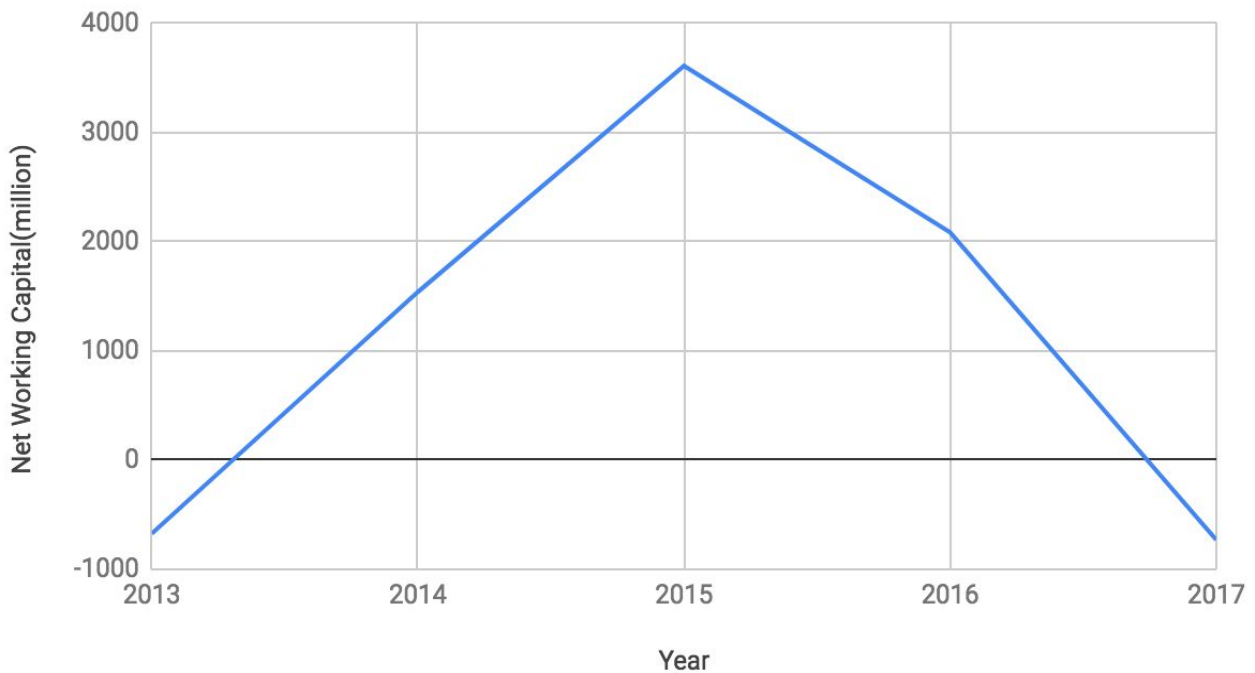


Figure: Net Working Capital



Interpretation:

Net working capital of UBL gradually decreasing in Year by Year However, the bank can not able to meet up its current obligations. So the Bank should increase its Current asset.

Analyzing Activity Ratio:

Cost Income Ratio:

$$\text{Cost Income Ratio} = \text{Total operating Expenses} / \text{Total Operating Income}$$

Year	2017	2016	2015	2014	2013
Cost Income Ratio	49.86%	52.23%	53.36%	45.09%	45.42%

Cost Income Ratio vs. Year

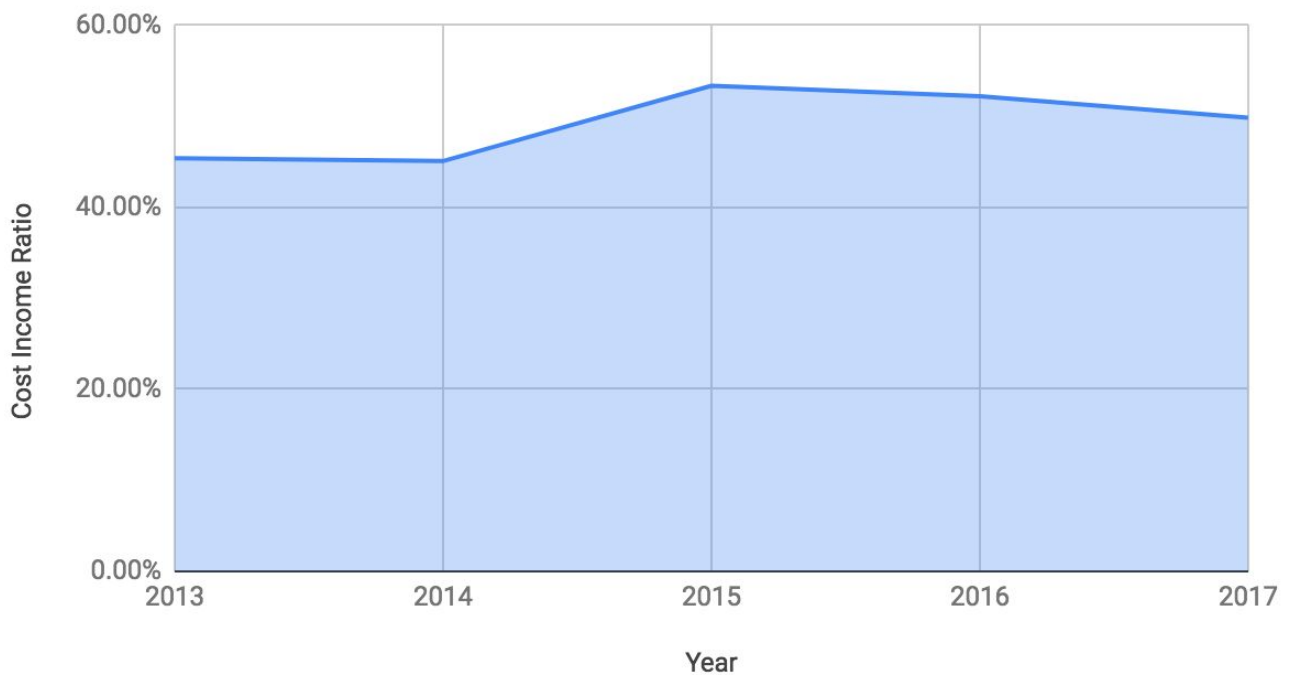


Figure: Cost Income Ratio



Interpretation:

We know that this ratio measures the operating efficiency of the bank by measuring the portion of the total operating costs relative to the total operating income of that bank and the higher the ratio, the lower the operating efficiency. In 2007 the operating cost of UBL Bank Ltd. is high but after that it decreasing. So it can be said that the operating efficiency of the UBL Bank Ltd. is in good position that is they are able to minimize their operating cost.

Total Asset Turnover Ratio:

$$\text{Total Asset Turnover} = \text{Operating Income} / \text{Total Asset}$$

Year	2017	2016	2015	2014	2013
Total Turnover Ratio	0.056	0.059	0.059	0.068	0.064

Total Turnover Ratio vs. Year

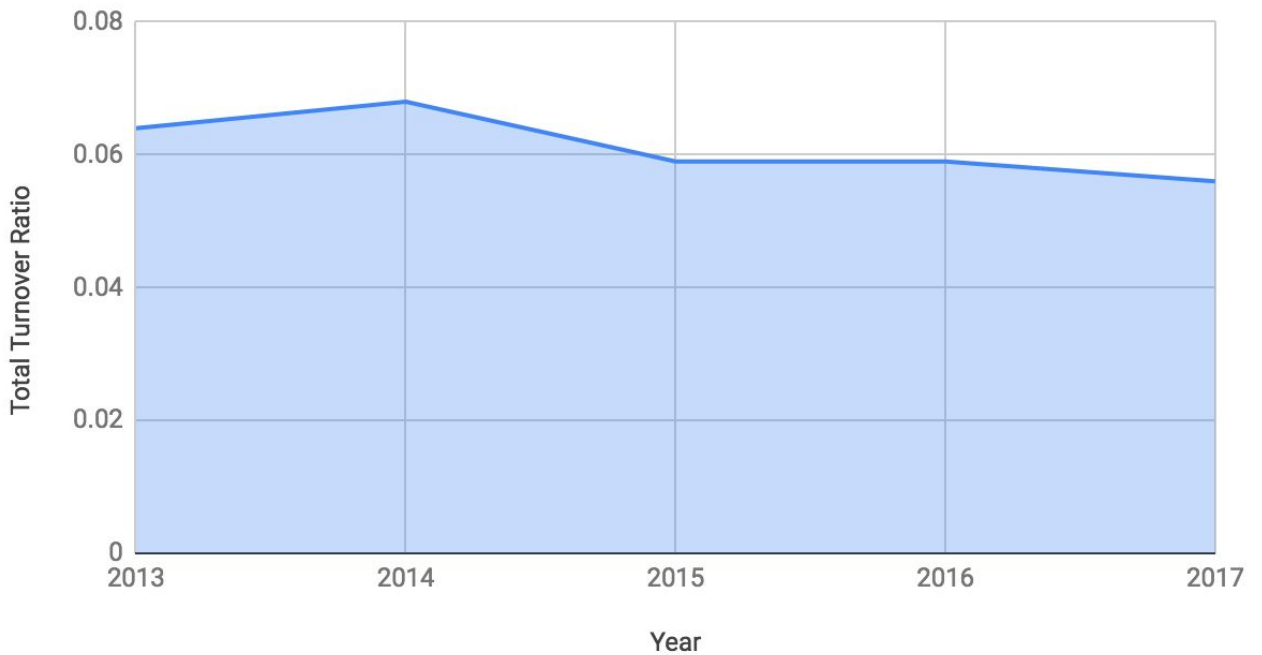


Figure: Total Turnover Ratio



Interpretation:

The banks total asset turnover ratio in 2005 – 2008 that is .0056- 0.068 which means 5.6 to 6.8 times. We know the greater the total asset turnover; it is more efficient and 4 to 6 times is slandered position but also depends on industry. But UBL is total asset turnover ratio is increasing day by day but in 2009 its decreasing which is not a good sign.

Debt Ratio:

$$\text{Debt ratio} = \text{Total Liabilities} / \text{Total Assets}$$

Year	2017	2016	2015	2014	2013
Debt Ratio	0.95	0.95	0.95	0.94	0.91

Debt Ratio vs. Year

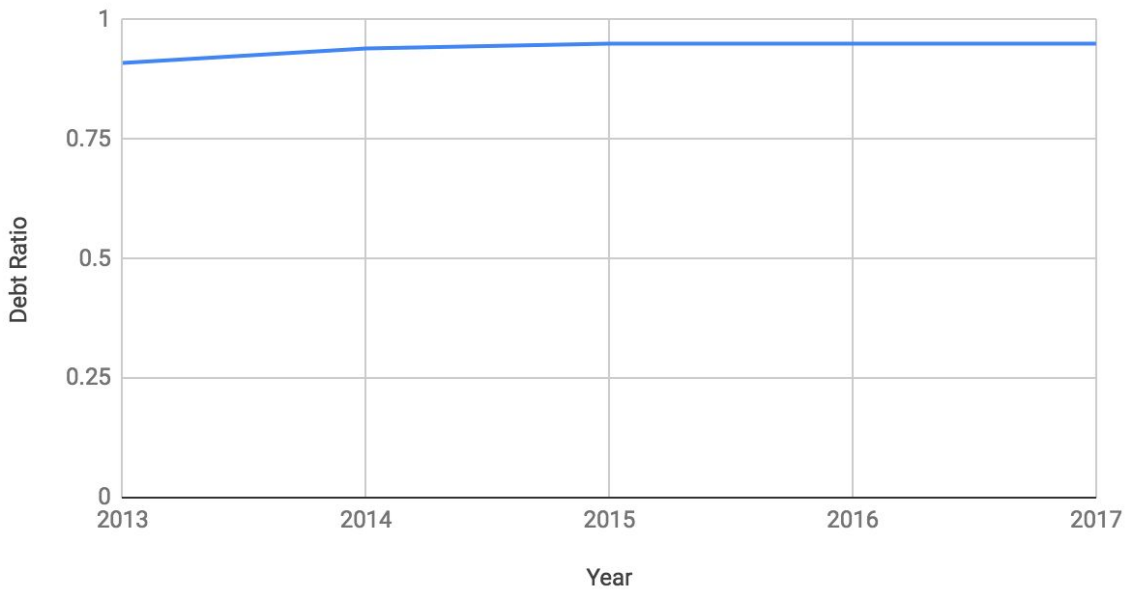


Figure: Debt Ratio



Interpretation:

This graph shows that, the debt ratio was decreasing year by year. The Debt ratio measures, the proportion of total assets provides by the firm’s creditors. Their debt ratio were decreasing trend that indicates positive sign.

Net Profit Margin:

$$\text{Net Profit Margin} = \text{Net profit after tax}/\text{operating income}$$

Year	2017	2016	2015	2014	2013
Net Profit Margin Ratio	0.04	0.09	0.13	0.28	0.24

Net Profit Margin Ratio vs. Year

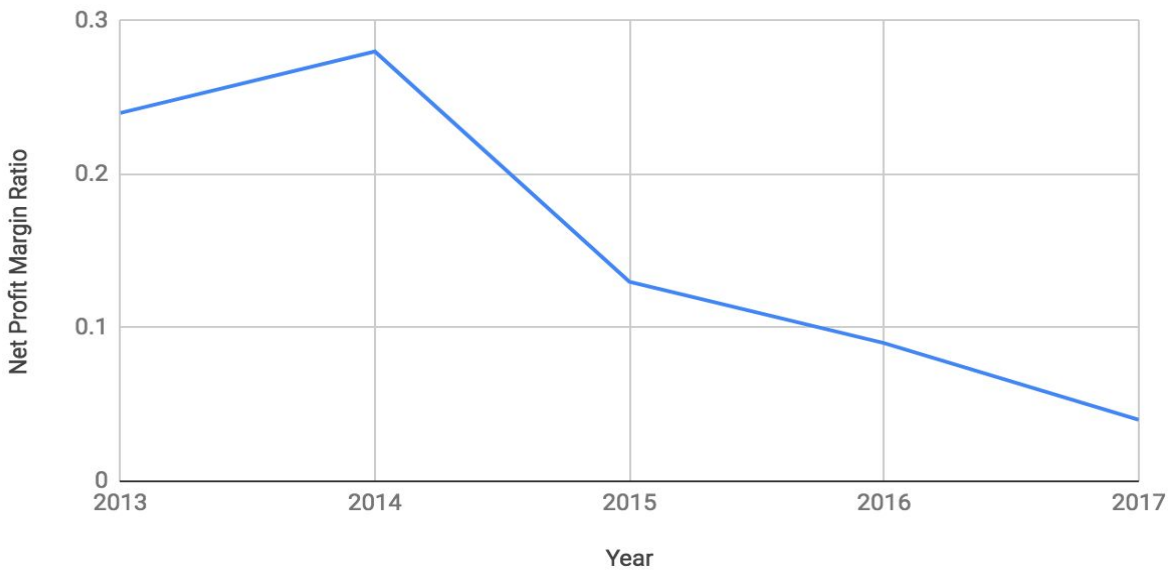


Figure: Net Profit Margin Ratio



Interpretation:

The Bank net profit margin in 2013-2016 that is 0.04-0.28 which indicates that profit margin is increasing day by day and it's good situation. But in 2017 UBL's net profit margin is decreasing which indicates that the banks profit is decreasing.

Return on Asset (ROA):

$$\text{Return on Asset (ROA)} = \text{Net Profit after tax} / \text{Total Asset}$$

Year	2017	2016	2015	2014	2013
Return on Asset (ROA) Ratio	0.23%	0.55%	0.77%	1.95%	1.54%

Return on Asset (ROA) Ratio vs. Year

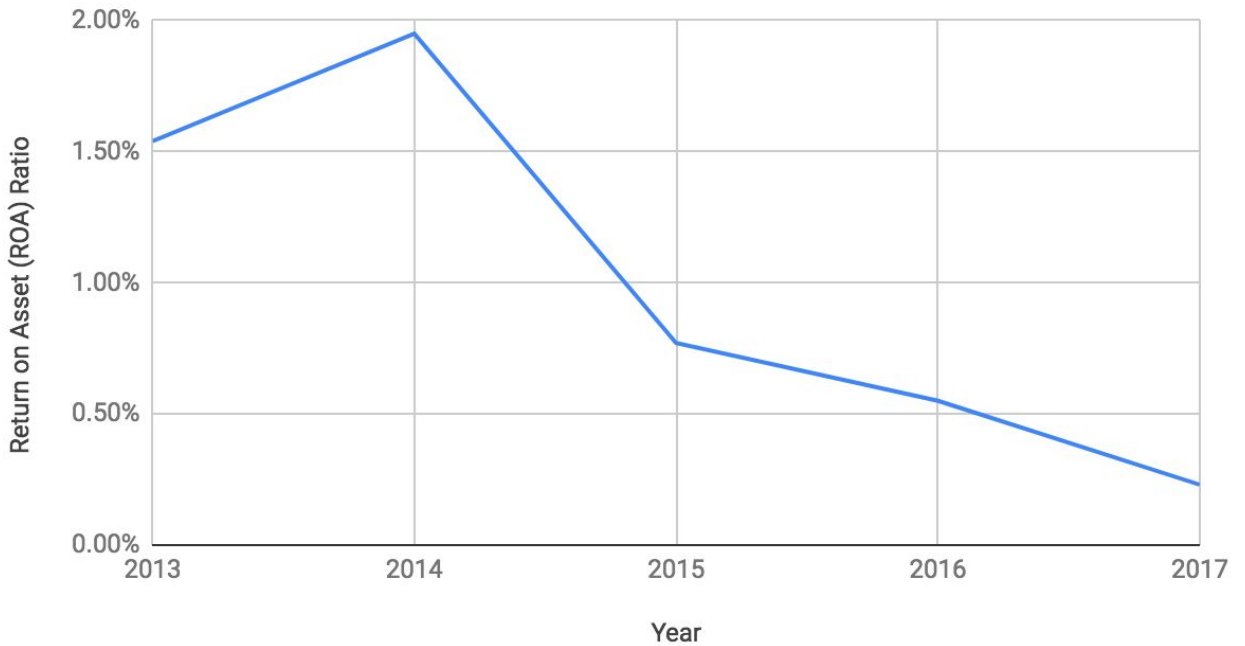


Figure: Return on Asset (ROA) Ratio



Interpretation:

The banks return on asset increasing from 0.23% to 1.54% in the preceding 5 years. So the UBL earn more profit from the assets. This is good for the bank. But in 2017 ROA is goes down it's not good for the bank.

Return on Equity (ROE):

$$\text{Return on Equity} = \text{Net Profit after Tax} / \text{Shareholders equity}$$

Year	2017	2016	2015	2014	2013
Return on Equity Ratio	5.77%	11.92%	16.69%	30.86%	17.81%

Return on Equity Ratio vs. Year

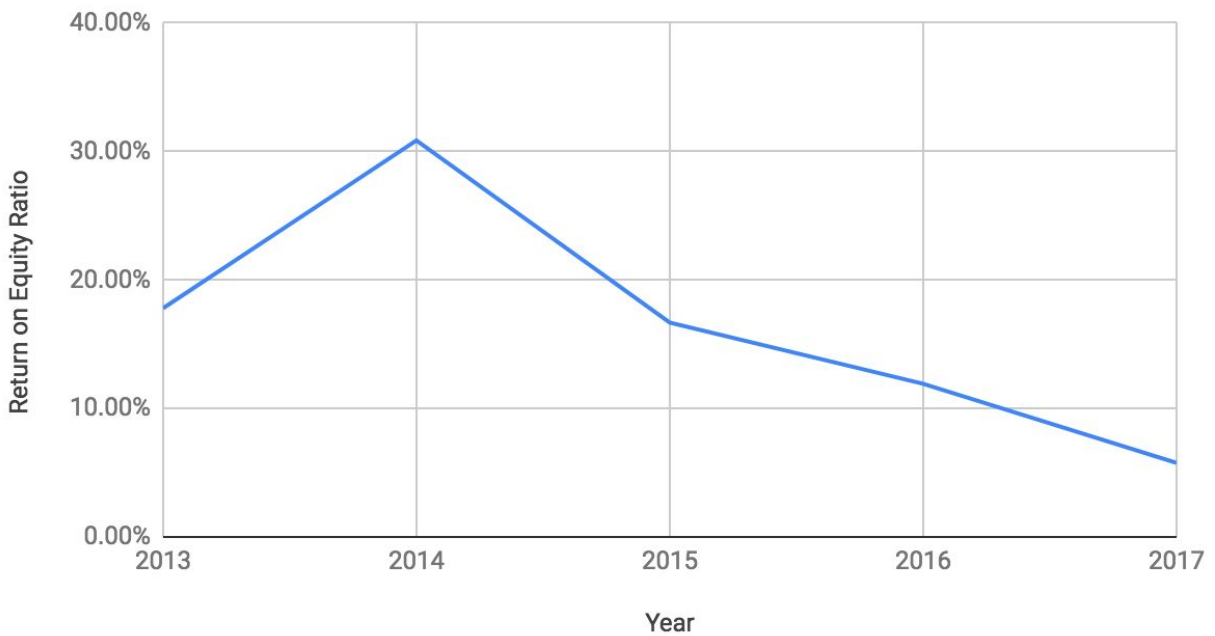


Figure: Return on Equity Ratio



Interpretation:

The banks return on equity deviates from 5.77% to 30.86%. In the preceding 5 years and the highest value can be observed in 2008 and the lowest value can be observed during the 2017, which is not desirable. So the management should work hard to increase the return associated with equity.



Chapter 04

FINDINGS, RECOMMENDATIONS AND CONCLUSION

Credit Risk Management System of Uttara Bank Limited



Findings

I have identified some problems and limitations in credit department of Uttara Bank Limited. If these problems are overlooked then Uttara Bank will fail to succeed and also fail to provide quality services to its customers . The identified problems are given below:

- The loan processing period is very lengthy due to check credit proposals, proper documentations and negligence of the employees.
- The terms and conditions of credit division are sometimes difficult to understand by ordinary clients.
- The Bank interest is very less in agricultural sector, which is only 1%.
- Consumer loan facilities like car loan, marriage loan, education loan etc. are almost zero. For this reason this bank lags behind other modern commercial banks.
- The bank avoids corporate (large) enterprise financing to avoid risks associated with it, while trade and commerce financing get highest priority.
- Lack of manpower slows down to provide better services to its clients.
- Credit monitoring and supervision activities are very poor and not effective. When a borrower fails to repay 4 or 5 installments then the bank officials go to the borrower to persuade him/her.
- 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.
- This bank has no credit sales and marketing wing to attract and increase clients.
- Due to lack of online banking facilities, the bank is not able to attract new deposits and thus lending ability of the branch is in threat now.



Recommendations

UBL has been achieving success for twenty nine years, but competition is being increased simultaneously in banking sector of our economy. Lots of banks have been established and they are being expanded with the passage of time. To survive as a top banking organization UBL has to do lots of things, some of these are given below:

- 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.
- 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.
- To maintain a good portfolio of credit, the bank should diversify its loan services. They may concentrate to agriculture and medium enterprises for providing loans.
- For increasing the market share the bank should increase its consumer loan facilities.
- The level of lending in corporate (large) enterprise financing should be increased by the bank to increase potentiality of revenue.
- Skilled manpower should be employed to ensure professionalism for performing financial activities more efficiently.
- For reducing loan loss and maximizing revenue the supervision and monitoring activities should be performed effectively and efficiently.
- The introduction of credit recovery unit can be a unique tool to realize credit from the borrowers.
- Credit sales and marketing wing should be introduced to attract and retain a large number of clients.
- The bank should introduce online banking facility to attract clients and increase deposits, which may increase the fund available for lending.



Conclusion

One of the important areas of banking sector is credit risk management. Credit risk management has wide prospects of growth. It's a must to maintain a balance between the returns and the risk. A variety of loan related products help the bank grow a large customer base.

UBL bank should maintain a rational interest rate for the loan it offers. Otherwise, in terms of equity the bank will suffer. The reserve of the bank must have substantial amount of capital. A perfect measurement must be ensured regarding the reserve. Too much reserve might be a reason of losing investment revenue. Again, too little reserve might lead the bank towards instability. Consequently, the bank might face the risk of being non-compliant to regulator body.

Credit risk management is a kind of risk assessment which comes in an investment. Risk often comes in the allocation of capital and in investing. The risks cannot be overlooked rather it should be assessed properly in order to derive a sound investment decision. The balance between the risks and the returns must be maintained through such decision.

Sometimes, giving loans is a risky affair. Risks also appear when securities and other forms of investment are offered by the bank. It's very usual that the risk of losses often come from the default of payment of the debtors. Economic stability and solvency are ensured when the bank keeps substantial amount of capital.

The more noteworthy the bank is presented to dangers, the more prominent the measure of capital must be with regards to its stores, in order to keep up its dissolvability and solidness. Credit hazard the board must assume its job at that point to enable banks to be in consistence with Basel II Accord and other administrative bodies. With the end goal to evaluate the hazard, UBL bank should design certain assessments, lead checking, and perform audits of the execution of the bank. With the end goal to decide the dangers included UBL ought to likewise do advance surveys and portfolio investigation.

Managing risks in various securities and derivatives should be emphasized by UBL. Still advancement has to be made for examining the credits and deciding the likelihood of defaults and dangers of misfortunes. For the survival of UBL bank credit chance administration is a basic device.



Appended Part



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- ❖ *Habib A 2012, Green Banking and Sustainable Development (Rio+20 Summit) Rio de Janeiro, Brazil, 19 June, 2017*



B: APPENDICES:

APPENDIX-1 APPENDIX-2 APPENDIX-3

Appendix-1

Printed Materials

- Uttara bank Ltd annual report 2017

Appendix-2

Library Works

- Library of Daffodil International University.

Appendix-3

Internet

- <http://www.Uttarabankltd.com>
- <http://www.wikipedia.com/>
- <http://www.bangladesh-bank.org/>
- <http://www.bangladesh-bank.org/circulars>
- [http://isqpm.org/2006%20Journal/Government%20policy%20and%20competitive%20business%20environment%20in%20Bangladesh%20by%20Mondal%20and%20Ahm ad.pdf](http://isqpm.org/2006%20Journal/Government%20policy%20and%20competitive%20business%20environment%20in%20Bangladesh%20by%20Mondal%20and%20Ahm%20ad.pdf)
- <http://ezinearticles.com/?The-Importance-of-Credit-Risk-Management-forBanking&id=1102802>
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- <http://www.uttarabank-bd.com/>
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