

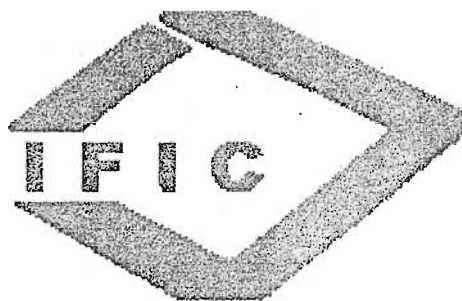
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BCA

An Appraisal Of Credit

Financing Performance

Of



IFIC Bank Limited

Tomorrow's Bank Today

INTERNSHIP REPORT

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Report 61

Acknowledgement

At first I grateful to the Almighty Allah to give me the patient and capable me to prepare this internship report on time. I have completed my internship in International Finance Investment And Commerce (IFIC) Bank Limited. In this report I want evaluate the Credit Financing performances of the bank. To collect all the data and their performances I have got the help from Mr. Abu Nasser Al Razi, First Assistant Vice President. I am really very much grateful to him for the information.

I also very grateful to Mr. Syed Hossain Chowdhury, Grade One Officer, Mr. Ziaul Bari, First Vice President, who were really helped me to collect the data. They helped me as much as possible. Because the bank has strict rules not provide their some confidential data to the outsiders. I will have to also mention other two madam Ms. Farhin Sultana, Stuff Officar, and Ms. Morsheda Begum, Stuff Officer, both of them were very helpful for me.

All of them were very much helpful and I am so much grateful to all of them. They have enough contribution to get the information and data. And that's why it is possible to prepare the report.

Now I am mentioning the name of my internship supervisor Mr. Tanbir Ahmed Chowdhury. Who is the prominent and foremost person for me to prepare the report because he gave me all the instructions, schedule, format and all the other discipline by which it can possible for me to utilize all the baking credit financing information and data properly. Without his instruction it is really tough for me to provide a better quality report. So I again so much grateful to my supervisor, who helped me anytime when I asked and also consider my different problems.

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Executive Summary

The report is prepared to evaluate The Credit Financing Department of IFIC Bank. As a private commercial bank all the sectors of credit financing department are not highlighted in this report. The main ideas and which are more performed in the bank those analyzed. In the report there are five chapters are mentioned.

At first, the in the introductory part mainly emphasized the overview of the bank, capital and surplus, scope and methodology, which is chapter one. In chapter two the performance evaluation of overall banking is highlighted and in it the items are analyzed such as – deposit amount, total and fixed assets, dividend and bonus share, time interest earn, etc. are evaluated. In the chapter three there are all the credit financing different type, terms and conditions, rules, loan sanctioned criteria, loan disbursement amount, recovery rate etc. are emphasized. There are also more two chapters – chapter four is for problem finding of overall banking system and also the problem of the credit department. And the last chapter five is for suggestions to improvement of the overall banking system and the credit department.

There are also the limitations to collect the data, conclusion, appendix, bibliography are mentioned to fulfill the report.

All over the report there are many rules and regulations, problems are identified. with all those the solutions are given to improve the overall and the credit financing department so that the services of the bank will be more quick and unique, reduce the risk of providing loans by refund on time, consider the borrower's criteria etc. which will help the bank to develop their performance

MISSION STATEMENT OF IFIC BANK

The Mission Statement of IFIC Bank is –

“ Our Mission is to provide service to our clients with the help of a skilled and dedicated workforce whose creative talents, innovative actions and competitive edge make our position unique in giving quality service to all instructions and individuals that we care for.”

As a private Commercial Bank IFIC is committed to the welfare and economic prosperity of the people and the community, for the IFIC Bank derive from them the inspiration and drive for onward progress to prosperity.

They want to be the leader among banks in Bangladesh and make our indelible mark as an active partner in regional banking operating beyond the national boundary.

In an intensely competitive and complex financial and business environment, they particularly focus on growth and profitability of all concerned.

chapter 1

Introduction

1.1 An overview of International Finance Investment And Commerce Bank Ltd.

The Bank in a Sketch:

International Finance Investment and Commerce (IFIC) Bank Limited started its banking operations on June 24, 1983. Early to that it was set up in 1976 as a joint venture finance company at the illustration of the Government of the People's Republic of Bangladesh. Government then held 49 percent shares while the sponsors and general public held the rest. That finance company has some important objectives those were to **establish joint venture banks, finance companies and affiliates abroad and also has another common objective to carry out ideal banking functions of a finance company at home.**

In 1983, at what time the Government decided to open up banking in the private sector, the above finance company was transformed into a full-fledged commercial bank. Along with this, the Government also entitled four other commercial banks in the private sector. Subsequently, the Government denationalized two banks, which are then fully Government-owned.

The Government maintained 40 percent shares in IFIC Bank in charging of its original objectives, namely, promotion of joint participation of Government and private sponsors to establish joint venture banks, financial companies, branches and affiliates abroad.

Ownership Construction:

The Bank has an ownership structure which that the sponsors hold ownership of the Bank in the private sector and Government of the People's Republic of Bangladesh. The sponsors and individuals now own 63 percent of the share capital and the Government owns a little more than 37 percent of the shares of the bank.

Functional Constituent at Head Office:

Managing Director, ex-officio Director of the Board, is the Chief Executive Officer (CEO) of the Bank. Under direct control of the Managing Directory is the Deputy Managing Director (now the position is vacant).

The procedures and all the accomplishments at the Head Office of IFIC Bank have been diverse into nine Groups excepting the office of the Advisor, Credit Policy and Risk Management and the office of the Chief of MD's Secretariat. A

Group Executive who reports directly to the Chief Executive heads each Group. In the bank, Secretary's Division, which is outside these Groups, reports directly to the Managing Director. The rule of the Bank that all the Divisions at Head Office are obligated to report to the respective Group Executives.

Under Manipulations of the Bank-

Group-I : The operation is General Credit Division.

Group-II : Operations of this group consists of four Divisions, namely-

- i. Foreign Trade Operations Division,
- ii. Foreign Exchange Accounts/Fund Management,
- iii. Operations (Overseas) Division and
- iv. Garments Division.

Group-III : The operations of this group is Bank Examiners' Division.

Group-IV : The operations are of this group are –

- i. Comprise Central Accounts Division,
- ii. General Banking Division,
- iii. Treasury Division and Establishment Division.

Group-V : The operations consists of this group is Recovery Division.

Group-VI : Operations has been designed with Project Finance Division under it.

There are three Services Groups among those six operations Groups of the Bank. Those are :

Services Group-I: The services are included of this group:

- Human Resources Development Division,
- Planning,
- Research and
- Statistics Division and Personnel and Administration Division.

Services Group-II: The services are incorporated of this group:

- Branch Expansion,
- Business Development and Marketing Division,
- Computer Division and
- Special Projects Division.

Services Group-III:

The service under this group is - Law Division has been placed.

Distinct Financing:

The Bank over the past eight years has been contributing term finance to medium and small-scale industries, on the side of carrying out habitual banking performances. Both Asian Development Bank and World Bank had designated it to finance medium and small sized industries under outstanding agenda. Under these agendas the Bank authorized loans of Tk.42.80 crore to as many as 53 units. They financed 138 units from the Bank's own fund, till December 31, 2000 65 percent of their Industrial finance goes to textile division along with RMG.

OVERSEAS OPERATIONS:

Bank of Maldives Limited (BML):

The Bank had set up in 1983 as a joint venture bank in the Maldives Limited (BML), at the request of the Government of Republic of the Maldives. At that time this was the only national bank in that country which would perform its business through seven branches. IFIC Bank had accomplished the dealings of BML from 1983 to 1992. In 1992, as per obligation, IFIC Bank sold its shares to Government of the Maldives and handed over management of BML to the Maldivians.

Oman-Bangladesh Exchange Company (OBEC):

IFIC Bank established an exchange company – Oman Bangladesh Exchange Company – in 1985, to accelerate allotment by Bangladeshi wage earners working in Oman. The business of the Exchange Company, a joint venture between the Bank and Oman nationals, is run and attained by IFIC Bank under a management covenant.

From the beginning, the Company has been showing impressive results as a joint venture banking business. It executed their business through six branches, in December 2000. Annual remittances increased from Tk.166.52 million in 1985 to Tk.1561.80 million in 2000. The company earned profit amount to Tk.16.90 million in 2000 as against Tk.2.29 million in 1985.

19 officers of the Bank are engaged in the exchange house.

Branches in Pakistan:

In 1987 IFIC Bank opened its first transmarine branch in Karachi. That branch expanded their operations immediately and prove of their performance is that the

branch extended its deposit base to Tk.831.97 million in 2000 from Tk.116.05 million in 1987. The pre-tax profit earned by the branch stood at Tk.46.06 million in 2000.

In 1993 the Bank was opened the second overseas branch at Lahore in Pakistan. The deposit and pre-tax profit of the branch was Tk.352.00 million and Tk.12.34 million respectively in 2000.

Nepal Bangladesh Bank Limited:

In December 1993 the Bank got the authorization to constitute a joint venture bank in Nepal with 50 percent equity. In June 1994 it initiated their executions under the name Nepal Bangladesh Bank Ltd. This is the first joint venture project between the two countries. As per terms of the joint venture agreement, management of the bank is vested with IFIC Bank. After beginning their operations within one year this bank had reached break-even point. Deposit of the Bank as on July 16, 2000 was Tk.4,648.00 million. The Bank made a net profit of Tk.295.00 million during the year ending on July 16, 2000, which is the last day of financial year in Nepal.

Nepal Bangladesh Finance And Leasing Company Limited:

There are another joint venture named Nepal Bangladesh Finance and Leasing Company Limited launched its operations on April 18, 1999. The management of this company is related with IFIC Bank. The company's 30 percent shares are held by IFIC Bank.

Computer And Information Technology (IT):

In 1983 since IFIC Bank has been laying great importance on the use of augmented technology, branch of knowledge and system on its expedition as Commercial Bank. The Bank first introduced computer in branch banking in that year.

There are 44 branches are computerized out of a total of 52 branches of the Bank in the country. Local Area Network (LAN) system has been installed in seven of the computerized branches.

Opening New Branches:

This bank is expanded their branches in a very quick time. In 2000, the Bank had already set up 52 branches within the country excluding two branches abroad i.e. in Pakistan.

They got the permission from Bangladesh Bank has been obtained to open three urban branches and one rural branch in Bangladesh in 2001.

HUMAN RESOURCES DEVELOPMENT DIVISION:

The Bank has a mission and aim. Human Resources Development (HRD) activities aim at fulfilling the Bank's Mission. One of their four major missions is to:

“Provide service to their clients with the help of a skilled and dedicated workforce whose creative talents, innovative actions and competitive edge make their position unique in giving quality service to all institutions and individuals that they care for”.

In all the companies all time the skilled, enthusiastic and dedicated workforce with aesthetic talents, ingenious actions are not always immediately accessible. Appreciating the scarcity of such manpower, the Bank from the very beginning laid importance to HRD that conceptually includes activities like:

- Pre-recruitment drill,
- Recruitment,
- Induction,
- Training in the Academy,
- Job rotation,
- Placement and posting,
- Reward and promotion.

The Bank designs all these activities to fulfill their mission with banking performance in an integrated way aiming at manpower with required technical, managerial, human and conceptual skills.

The management of IFIC Bank not only appreciates the need of skills essential for day to day banking procedures but also conceives the need for skills to meet the global and national financial and economic environments that are changing fast. They all time wants to meet the needs of new skills arising out of Financial Sector reforms Program (FSRP) is also a major concern of the management. So that the customer will be more attract to their banking facilities, and all services with a talent and expert workforce.

The Bank, therefore, set up a Division namely HRD division long back. The Academy of the Bank works under this Division.

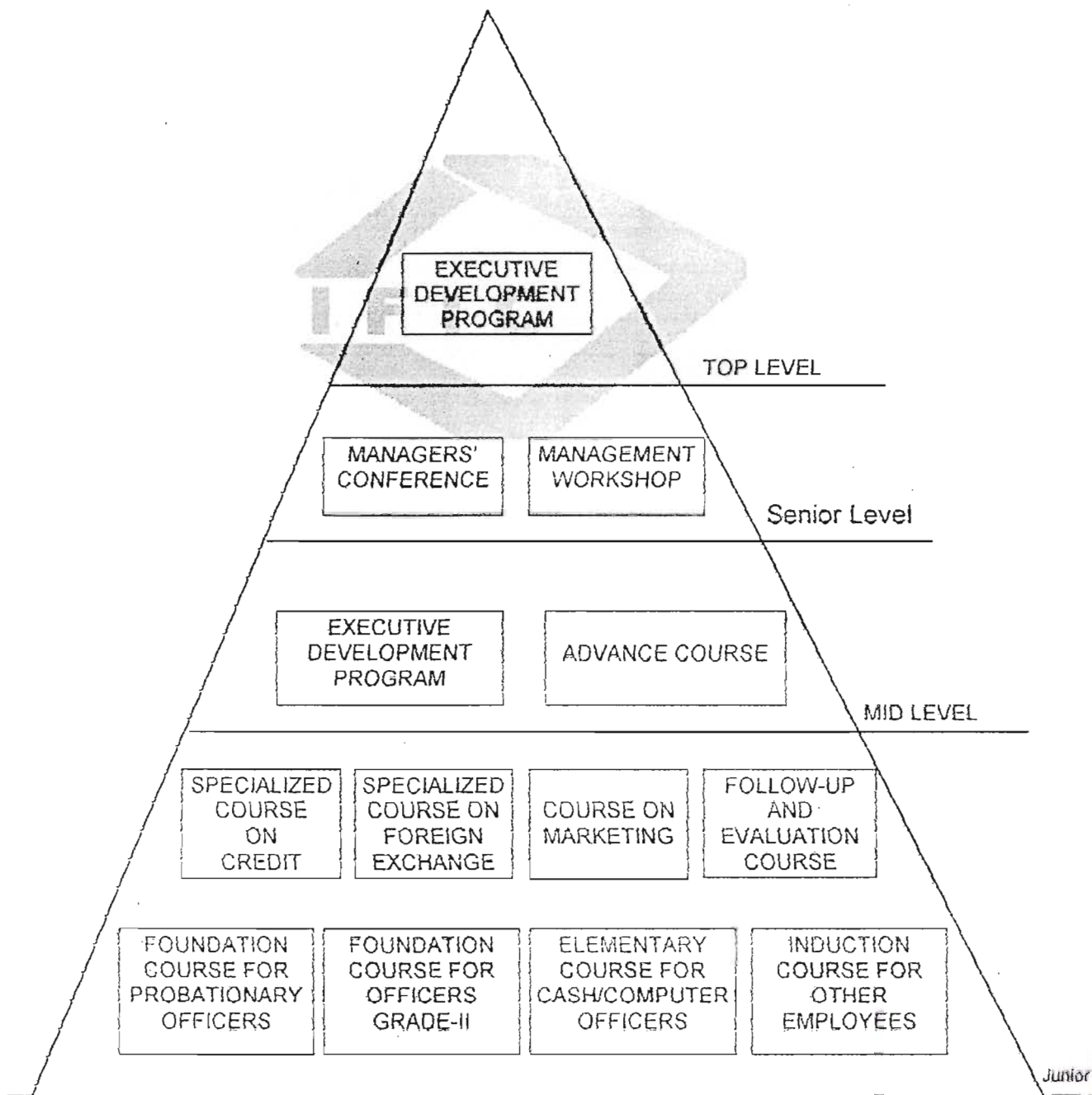
Types Of Academic Credit Related Programs:

The Bank Academy provides some foundation courses for fresher. Foundation Courses on elementary knowledge of banking are organized Specialized Courses on the areas like –

- Credit,
- Foreign Exchange,
- Accounts,
- Inspection,
- Marketing etc.

All the areas are intended for **officials working in those areas**. There is also different Senior level courses, which are run on specific knowledge area. Certain courses are a compound of different knowledge areas.

The logo for IFIC (International Finance Institute for Credit) is a stylized, light gray emblem. It features a central shield-like shape with a pointed top and bottom, and the letters 'I F I C' are prominently displayed in a bold, sans-serif font across the middle of the shield.



CONCEPTUAL FRAME OF PROGRAMS

1.2 Capital Structure Of IFIC Bank

Capital and Reserves:

The Bank initiated with an authorized capital of Tk.10.00 million in 1983 and the paid-up capital was then Tk.71.50 million only. Over the last seventeen years, the authorized and paid-up capital has increased extensively. Authorized capital was Tk.500.00 million and the paid-up capital stood at Tk.279.35 million* as on December 31, 2000.

The Bank has constructed up significant resources as reserves base over the years. In last seventeen years its reserves and surplus have increased significantly. As against Tk.21.20 million only in 1983, reserves and surplus increased to Tk.683.73 million in 2000. The Bank has a better consistent policy which help of building up reserves has authorized the Bank to sustain a better capital adequacy ratio as relate to others.

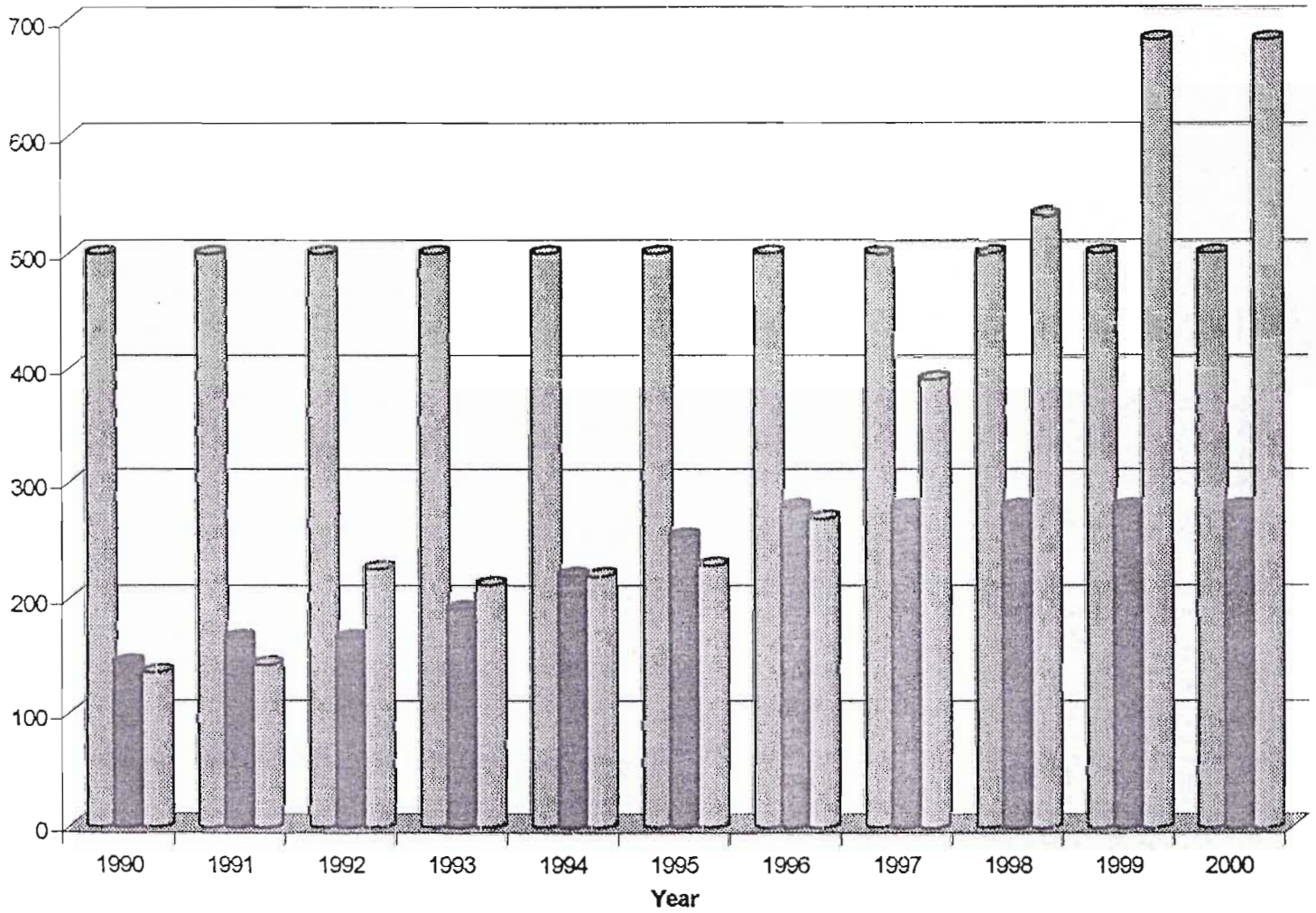
The Bank has been demonstrating a balanced and improved accomplishment with the dynamic support and guidance from the Government. In its seventeen years of operations, the Bank has deserved the status of a leading bank in terms of both business and goodwill.

Beginning with a proper deposit of only Tk.863.40 million in 1983 the Bank has closed its business with Tk.17,500,10 million of deposit as on December 31, 2000. The annual growth rate has mostly been higher compared to both banking sector growth and individual rates achieved by others.

As against a profit of Tk.21.94 million in 1984, the Bank earned a profit of Tk.534.15 million for the year ended December 31, 2000.

Capital and Reserve

Authorized capital Paid-up capital Reserve and Surplus



1.3. Scope and methodology of the study:

The methodology of collecting the data from the bank from their Library, Academy, Annual report, publications, advertisements in the newspapers, and their different secret files which are not published in anywhere. The evaluation of the credit performances of the bank are collected from their credit department, but all the information are not more vast and not a long terms, because of their restrictions to expose some items to the outsider. The data are Primary data because mainly all the data are collected from the bank 's publications, their own collections about their performances. And the other things regarding their ideas, thinking, problems, future thinking, attitudes over the other banks all collected by interviewing. Which are Secondary data.

The responders were in different rank in the banking sector they are – First Vice President, provision officer of Credit department, and some other else. The 10 responders are interviewed and all of them are give their own approach about the bank. They give different types of banking ideas, it's strong sides, problems, the present situation and future planning etc.

There are open-end type questions are asked in the interviewed, where all the respondents have the chance to say their own words, feelings, ideas, thinking.

The responses are analyzed and all are as follows:

Questions	Answers	Analysis
1. The present position of IFIC Bank as a Private Bank.	1. The present position of IFIC Bank is 5 th among all the old and new Private Banks.	1. On the basis of their ideas that lower profit makes their position 5 th and they are almost sure that this will be gone down in the future.
2. The reason of lower profit.	1. the reasons are: ➤ Mainly, loans are not recovered properly. ➤ Loans are classified. ➤ Lower amount LC is made for war in different countries. ➤ RMG sector's failure.	2. They are mainly express about their Classified loans, which they gave but not recovered in the perfect time. Also the RMG sector failed to keep their export in different countries and that's why the bank can't get more clients for opening LC. so their earnings are gone down and they also mention about total condition of the world, mainly about war, which affect their profit also.
3. Interest charge	3. What the bank earns by interest charging mostly those are not	3. When any loans are not refunded then it becomes Bad and Loss position and that's why which loans are not recovered.

	accept as their profit because of the Classified loans.	So the profit is declined.
4. Main problem of the bank.	4. Less offerings of new ideas to the customers, more formality and rigid system of Consumer Credit Scheme, slow service,	4. As a old and good reputed private bank all the problems they couldn't over come and also their offerings are not properly maintained, more inflexible systems can't attract the customers. Also the slow service make the people bore because now the time of fast move so all should be more faster than and faster.
5. Credit facility of the Bank	5. The credit facility of the bank is more than the other banks. That means they arrange more credit for their clients.	5. IFIC Bank will be more concern to give their loan to more clients than the other new and old private banks. But they are more concern about the risk of loan refunded. If they can't recover their loans on time then they have to consider a big loss with expensed because when the loans are in Bad and Loss position then the bank has to go for action of law against that borrower. So there is enough expenses are included for all these.
6. Number of branches.	6. The Number of branches is 52 in all over the country.	6. As an old private bank the position of its number of branches is the lowest among all the old private banks.
7. Best opportunity for the employees of IFIC Bank.	7. Stuff House Building Loan (SHBL), Provident Fund Loan (PF), they are also get the benefit from the Consumer Credit Scheme (CCS).	7. It is really very good opportunity for the IFIC Bank's stuffs to get the loan for house building, PF loan and also they get the opportunity to get the loan for purchasing their necessary home appliances, which are under the CCS.
8. Main strong side of IFIC Bank.	8. Surplus money.	8. The bank has a large amount surplus amount of money by which they can earn a lot of money by giving loans to their clients. They are so strict to refund their loans. But they can't give loans for all times because the lack of reliable consumers and also at present the garments sectors fail to continue their earnings and that's why the banks are fail to get LC account what they got in previous period.
9. Possibility of introducing ATM Card, Tele-	9. They have the future thinking to offer some new offerings like –	9. All types of new offerings attract more to the new customers and retain easily the old clients. So the bank has the

banking system.	ATM Card, Tele-banking.	decision to introduce some new ideas in new year for gaining more clients and make them permanent.
10. Measurement the performances and the position of the bank.	10. In terms of the respondents answers the banking performances and position are measured by Bangladesh Bank and also by the IMF.	10. IMF is the principal indicator to measure the bank on the basis of their assets, reserve and surplus, loan circulation, rules and regulations of arranging the credit facility, loan sanction, disbursement and also recovery rate in different years.
11. Training for the employees.	11. On the basis of the respondents speaking it is adequate and the bank also arrange training program for the new employees in the batch.	11. The bank arranges the training facility for the employees and it is mainly held with the batch process, and they also arrange the training program for the new joining employees. The bank also arranges the exam for the old employees to give promotion and the marks are included in their personal files and then the management decides to whom they give promotion.
12. Principal Responsibility.	12. Both retain the old clients and attract clients.	12. On the basis of their speech they think that the bank can retain the old clients and attract the new clients by giving a very good services that means all are dependent on the services, also the new offerings must attract more customers both the new and old.
13. What will improve the service and banking system, by which they can compete with the other in the future.	13. The new advanced technology like – ATM Card, Tele-banking facility flexible credit facility mainly their new offerings CCS.	13. Every time they talk about improve their consumer facilities programs. They wanted to say that different types of easy and flexible technological system and also the timely credit facility except more harassment and new offerings which will be less time consuming those types of arrangements will attract more the customers and also help to compete with the competitors.
14. The well step by which the bank get a good clients. And attract more customers.	14. The bank offered a very good entity, which was a new offering introduced before one year, called Monthly Income Scheme.	14. This was really a very good step was taken by the bank, the idea of that the client will keep a specific amount of money for a short term and get a monthly interest. The amount was 50,000 TK to 1 Lac and then the client will get the interest. It is the private bank took the first step. But the bank couldn't attract the customers. The reason is not clear.

<p>15. Ideas gathering from whom.</p>	<p>15. For new offerings and different ideas the bank will decide from their new idea generation department.</p>	<p>15. IFIC Bank has the totally different department for taking any new ideas for offer to the customers. They mainly observe all the situations and monitor all other banks functions, their new steps then they will decide which will be convenient for them for maintaining and also less expensive but attractive to the clients.</p>
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Chapter 2

Performance Evaluation Of

IFIC Bank Ltd.

2.1. Branches of the Bank:

Branches of the Bank:

The Bank covers all the significant trading, exchange and commercial centers of the country by its executions. As on December 31, 2000 it had 52 branches within Bangladesh.

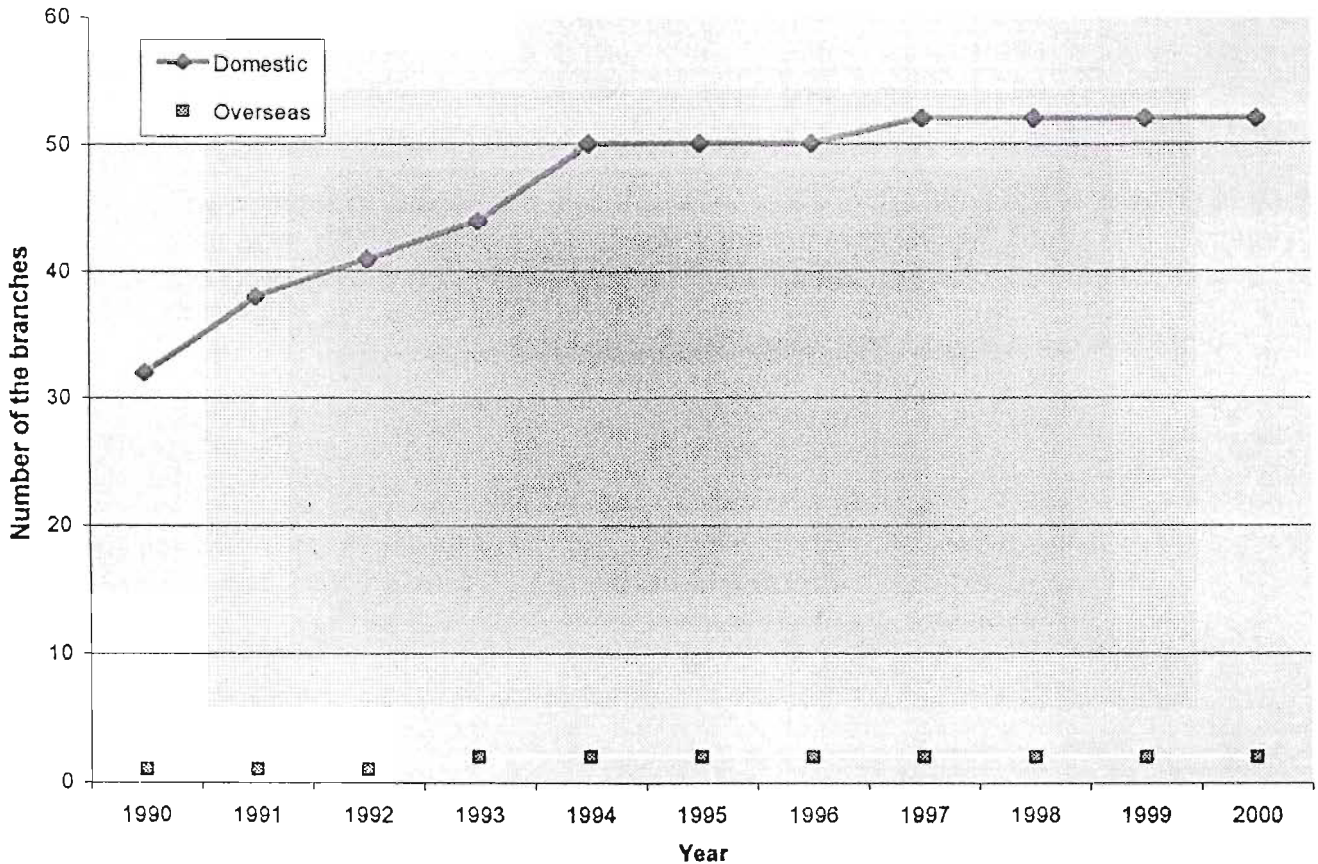
All the important branches are equipped with computers in addition to the modern facilities, logistics and professionally component workforce.

Number Of Domestic And Overseas Branches From The Year 1990 To 2000:

Year	Domestic	Overseas
1990	32	1
1991	38	1
1992	41	1
1993	44	2
1994	50	2
1995	50	2
1996	50	2
1997	52	2
1998	52	2
1999	52	2
2000	52	2

The number of domestic branches of IFIC Bank is increased more at the year 1990 to 1994 and after 1994 the number of the domestic branches are also increased but at a very few amount. And the current number of domestic branches is 52 all over the country and as a private the number of branches are really very well positioned. So the increasing level is extended more up to 1994 from 1990 and then it is stopped from the year 1997 and the number is still 52 at the year 2000 on the basis of IFIC Bank Annual Report 2000. So in the figure it can be found that the curve is constant from the year 1997 to 2000.

Branch Expansion



On the other hand one overseas branch was up to year 1992 then it was increased and up to year 2000 the number of overseas branch is 2. That's why the curve is maximum time constant at one level. So the comparing with domestic and overseas branches the domestic branches increasing level is more than the overseas branches.

2.2. Number Of Executives And Employees:

Workforce:

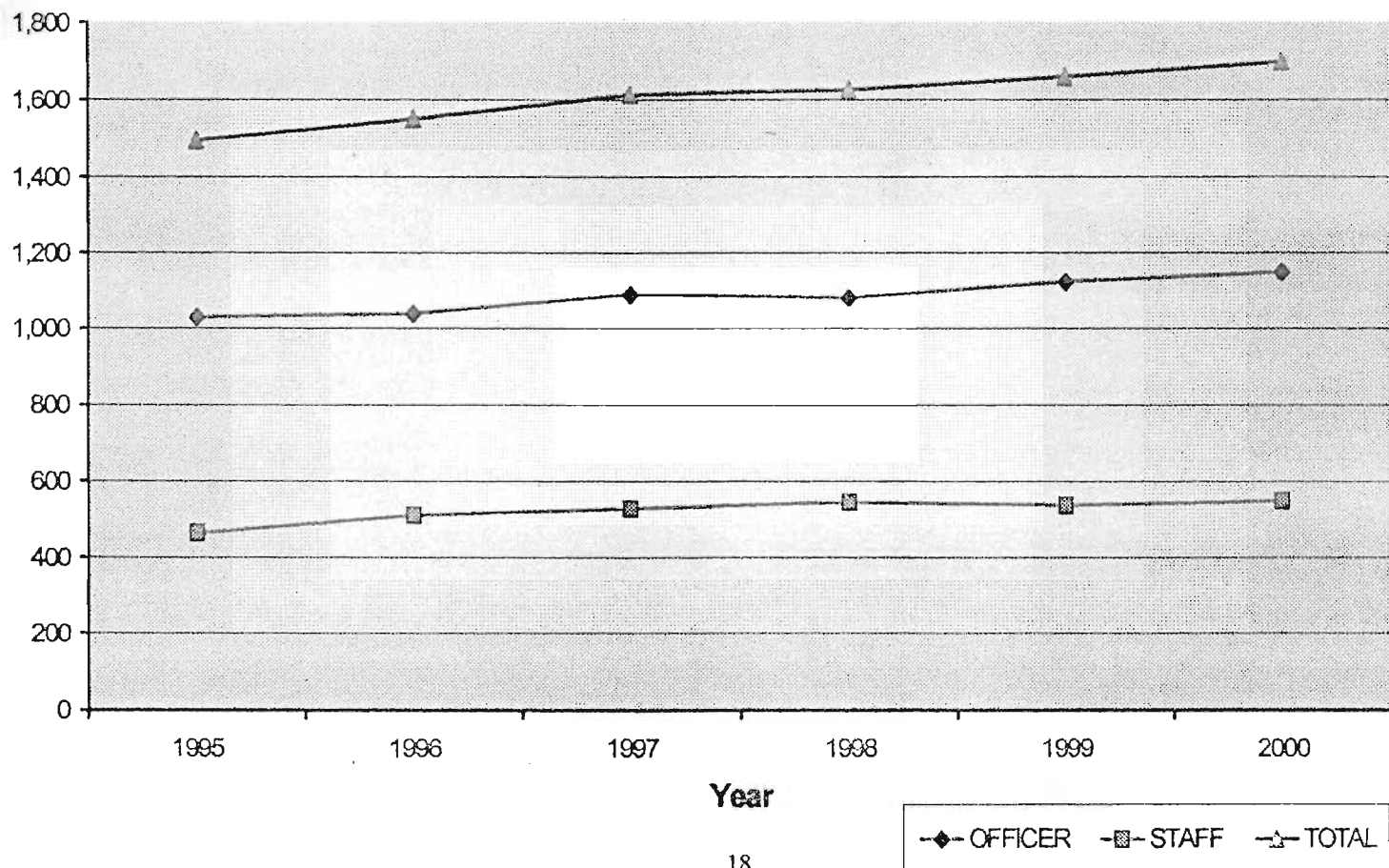
Total manpower stood at 1,700 as on December 31, 2000. Out of them 1,151 were officers and 549 were non-officer employees. The number of female employees in the Bank on the date was 188.

GROWTH IN WORKFORCE

YEAR	OFFICER	STAFF	TOTAL
1995	1,030	465	1,495
1996	1,038	511	1,549
1997	1,088	526	1,614
1998	1,081	543	1,624
1999	1,124	535	1,659
2000	1,151	549	1,700

The number of Officer and also the other stuffs in the bank are increasing at each year from 1995 to 2000 and that's why the curve of Officer, Stuffs and ultimately the total curve is gone upward. But the increment rate is low so the curve is increasing at a lower rate.

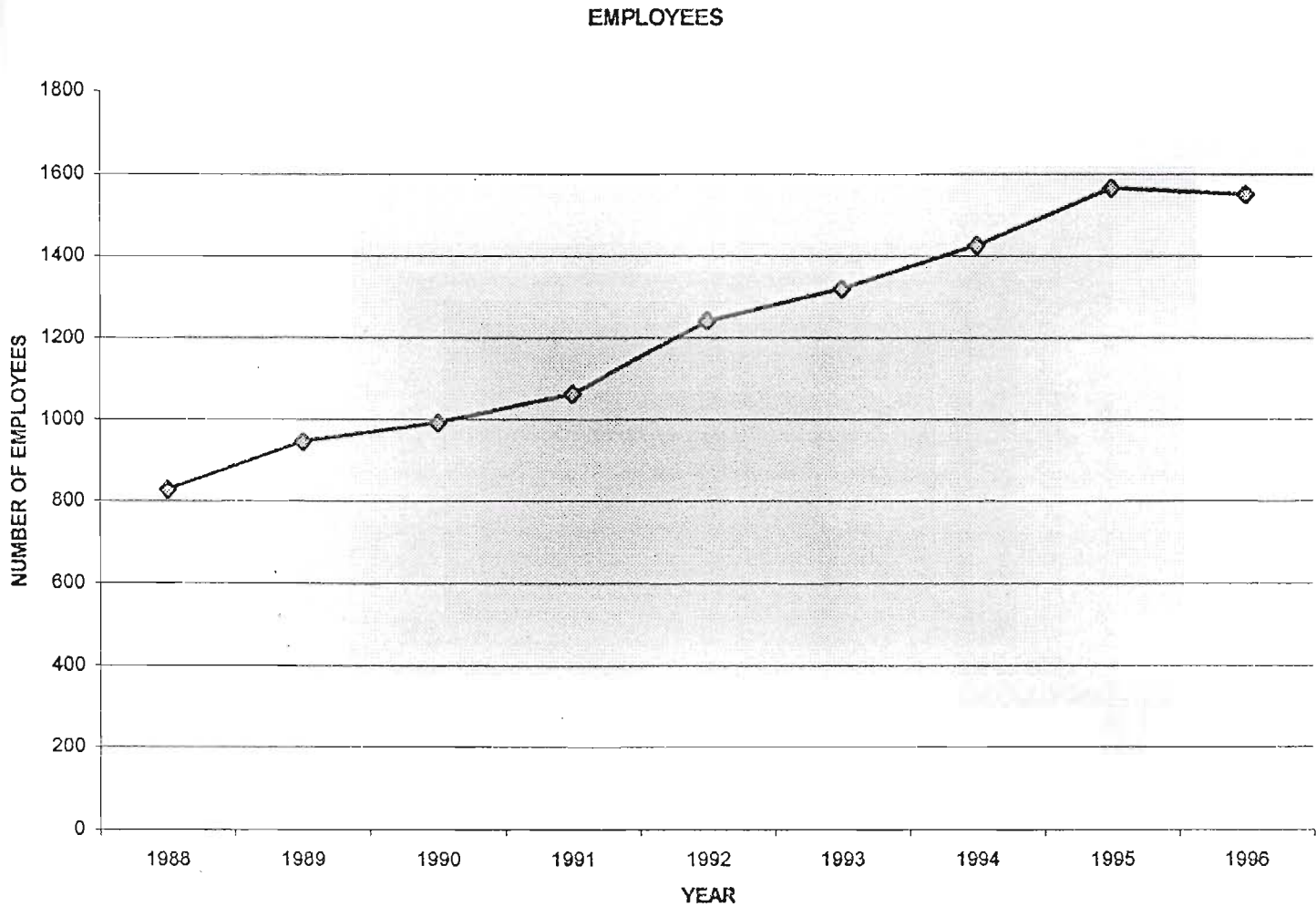
Growth in workforce



Number Of Employees From 1988 to 1996:

YEAR	EMPLOYEES
1988	827
1989	945
1990	992
1991	1062
1992	1243
1993	1320
1994	1425
1995	1565
1996	1549

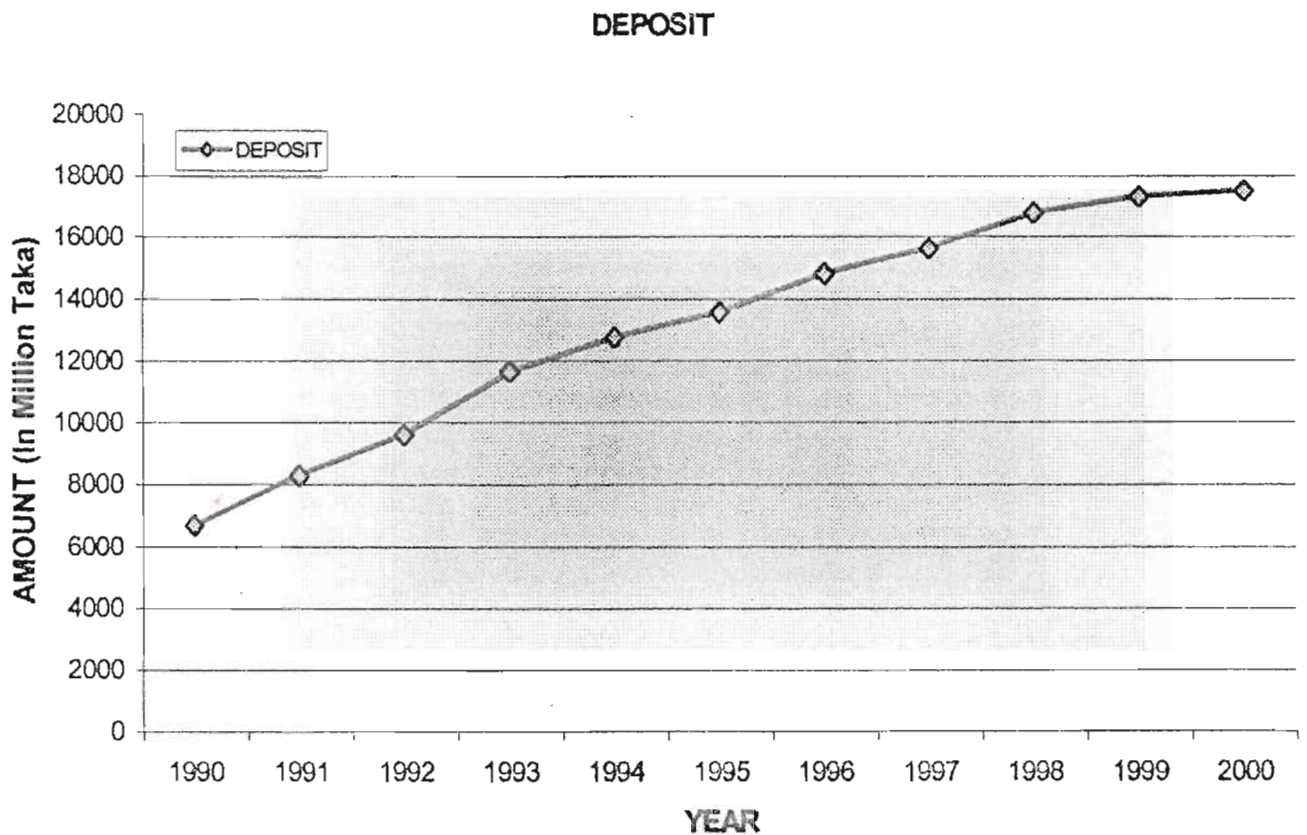
The number of employees of IFIC Bank is increased each year. That's why the curve is gone upward every year. But in 1991 to 1992 the curve is gone up more



than the other years. Because the employees are more employed at the year between 1991 to 1992. And the other year the employees increasing rate are similar.

Deposit Amount From The Year 1990 to 2000: (Figure in million Tk)

YEAR	DEPOSIT
1990	6712.5
1991	8284.49
1992	9594.76
1993	11649.03
1994	12747.62
1995	13565.35
1996	14811.08
1997	15623.94
1998	16793.49
1999	17312.09
2000	17500.1



From the Figure of the Deposit Amount of IFIC of the last ten years from 1990 to 2000 it can find that the deposit amount of the Bank is increasing every year at a regular basis. That means the amount is increasing at an equal level every year, not a very huge amount difference among the entire ten years amount. The amount is increased more at the year of 1990 to 1991 and the other years are mainly equally increased but the last three years the amount is extended at a very lower rate. And that's why the curve of the deposit amount of IFIC Bank is upward each year but the curve is extended upward at a very lower rate. So the deposited amount is increasing but at a lower rate.

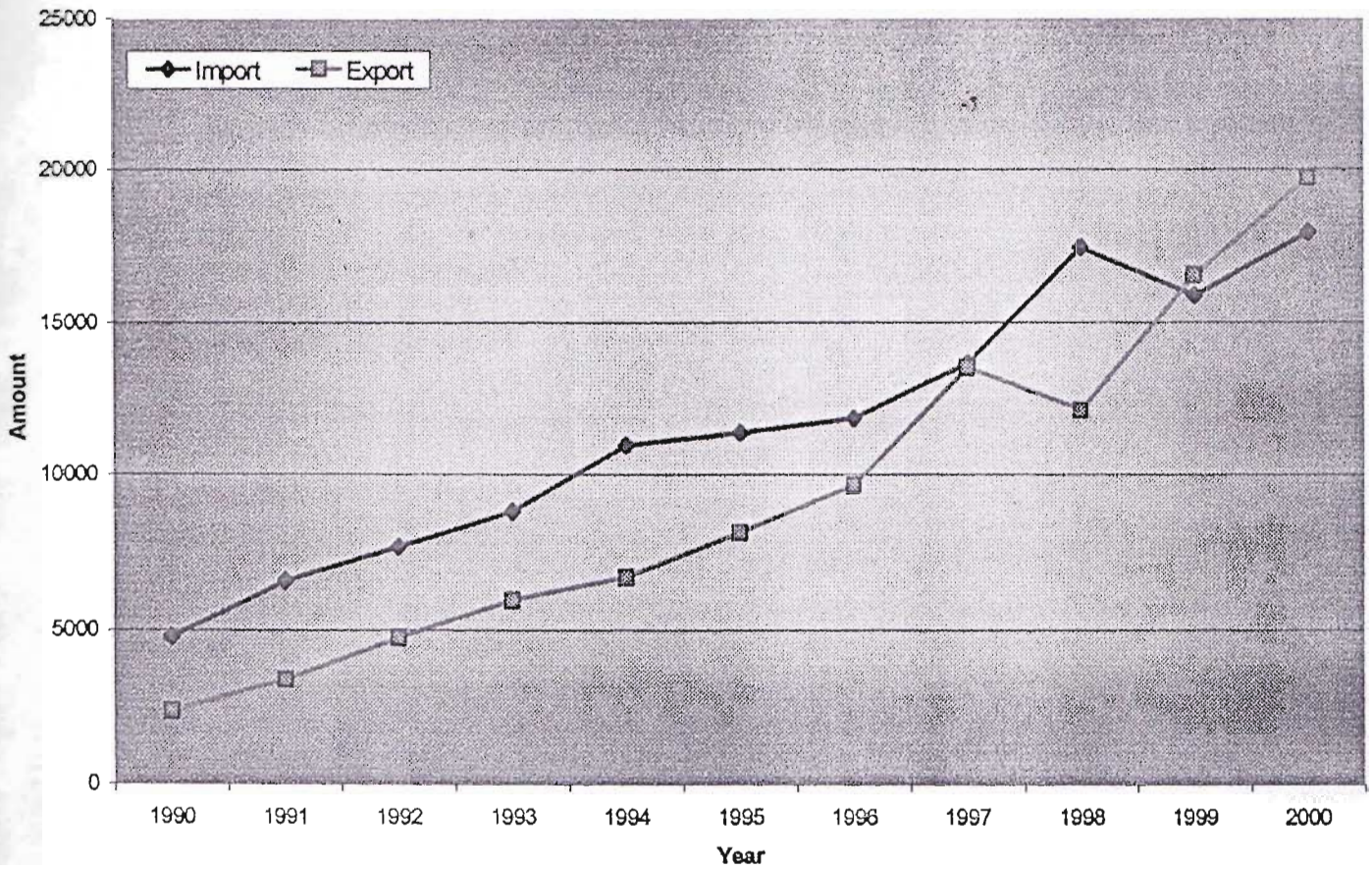
Import And Export Business Handled From 1990 To 2000:
(Figure in million Tk)

Year	Import	Export
1990	4769.9	2373.3
1991	6572	3404.5
1992	7663.2	4748.1
1993	8793	5954.4
1994	10964.6	6693.7
1995	11366.7	8115.9
1996	11845.2	9636.6
1997	13628.18	13513.82
1998	17440	12109.9
1999	15886.19	16545.95
2000	17939.1	19711.6

The Import Business of IFIC Bank is extended very regular basis in every year. From 1990 to 2000 the Import Business Handled is increasing and the amount of that in 2000 is about 4 times more than the year 1999. But in those ten years the amount is fluctuated in year 1999, which is less than 1998 but the last year that means in 2000 again that amount is increased. And maximum time the rate of increment is mostly in each year about nearly constant from one year to another next year. From it can be conclude that the amount will may be increasing more for the future years.

The amount of exporting from the last ten year from 1990 to 2000 is increased and the maximum year it is increasing from the previous year. And the rate is extended at a constant rate from the year 1990 to 1994. At the middle year the amount is increased in 1997 at from 1996 that means the amount in 1997 is more than 1996, which is a medium large gap between these two years. And again the amount is gone down in 1998 from the year 1999. And also the amount

Import And Export (Taka In Million)



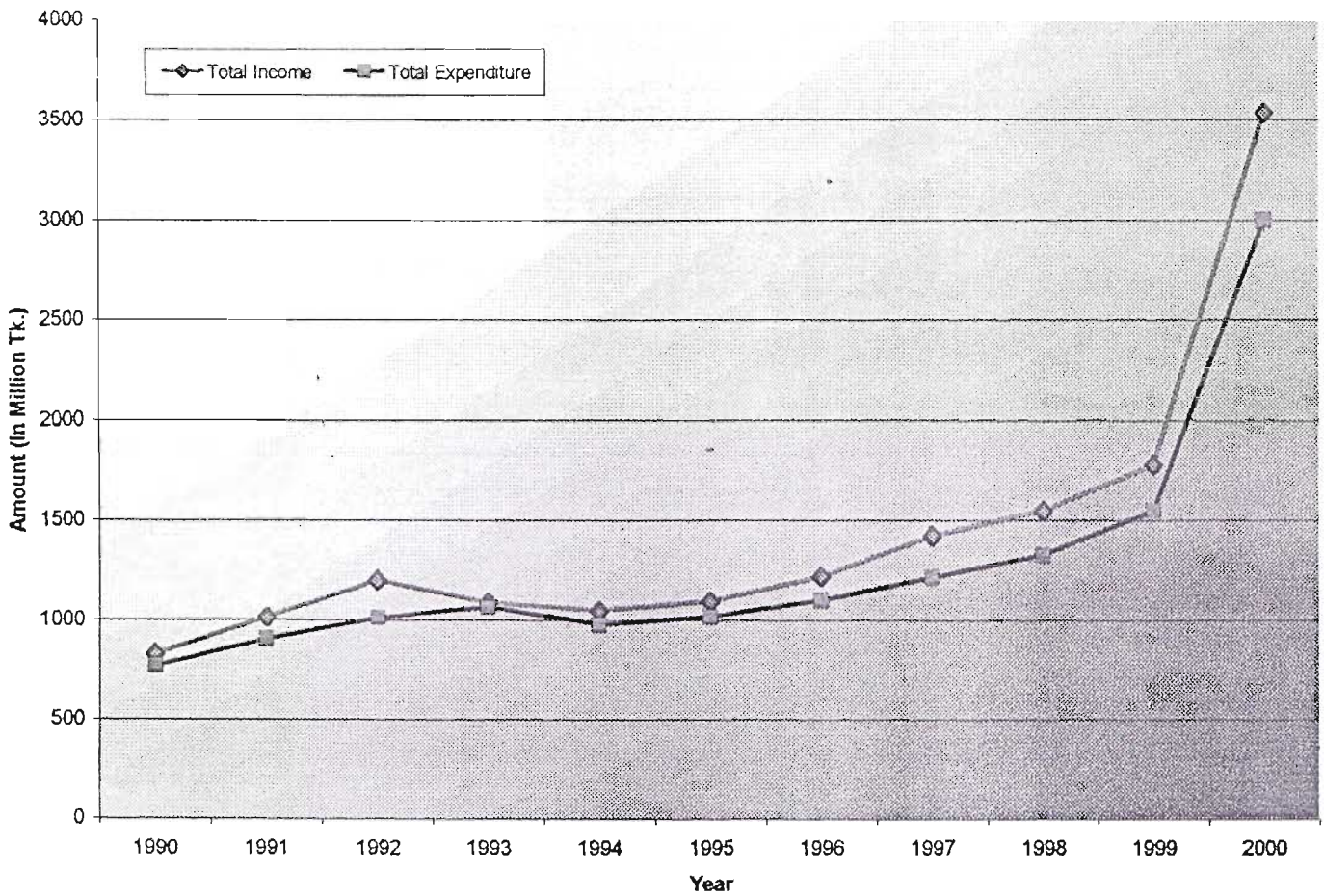
is again is increment at a medium large amount like in the year 1997 and in 2000 the increment is continued and go into the good position.

Total Income And Expenditure From The Year 1990 To 2000: (Figure in million Tk)

Year	Total Income	Total Expenditure
1990	825.61	766.29
1991	1010.37	900.36
1992	1203.5	1008.69
1993	1087.51	1064.73
1994	1047.69	974.83
1995	1095.67	1015.62
1996	1220.82	1102.29
1997	1422.37	1215.33
1998	1545.8	1329.58
1999	1777.93	1546.86
2000	3532.75	2998.6

The total income of IFIC Bank was increased from the year 1990 to 1993 but then after that year the amount was in the constant position for the three years from 1993 to 1995. And then the amount again begun to go up and the amount is increased in each year. But in 2000 the amount is expand at a very huge amount, which is just double from the year 1999. It is mentioned that the total income of that bank will be increased for the future period.

Total Income And Expenditure



From the year 1990 to 1993 the Total Expenditure was increased but in 1994 the amount was gone down. And again the amount was increased from the year 1995 to 2000. So the curve is go upward. But in the middle period the expenditure rate of increment is lower that's why the curve was go up at a very little and the curve is go up at huge distance from the year 1999 to 2000 because, the rate of increment in 2000 is larger than other years. From the figure it is shown that the expenditure of the bank will be gone upward.

So if comparing both income and expenditure then it can be found that both two are similarly increased and continued from the year 1990 to 2000. But actually the amount of income is more than the total expenditure. So it is very good sign for the bank and that's why the bank has more surplus money in hand.

Net Profit After Tax From The Year 1990 To 2000: (Figure in million Tk)

Year	Net Profit After Tax
1990	21.32
1991	49.51
1992	86.81
1993	11.28
1994	36.43
1995	42.03
1996	65.19
1997	124.22
1998	140.54
1999	150.19
2000	157.40

NET PROFIT AFTER TAX



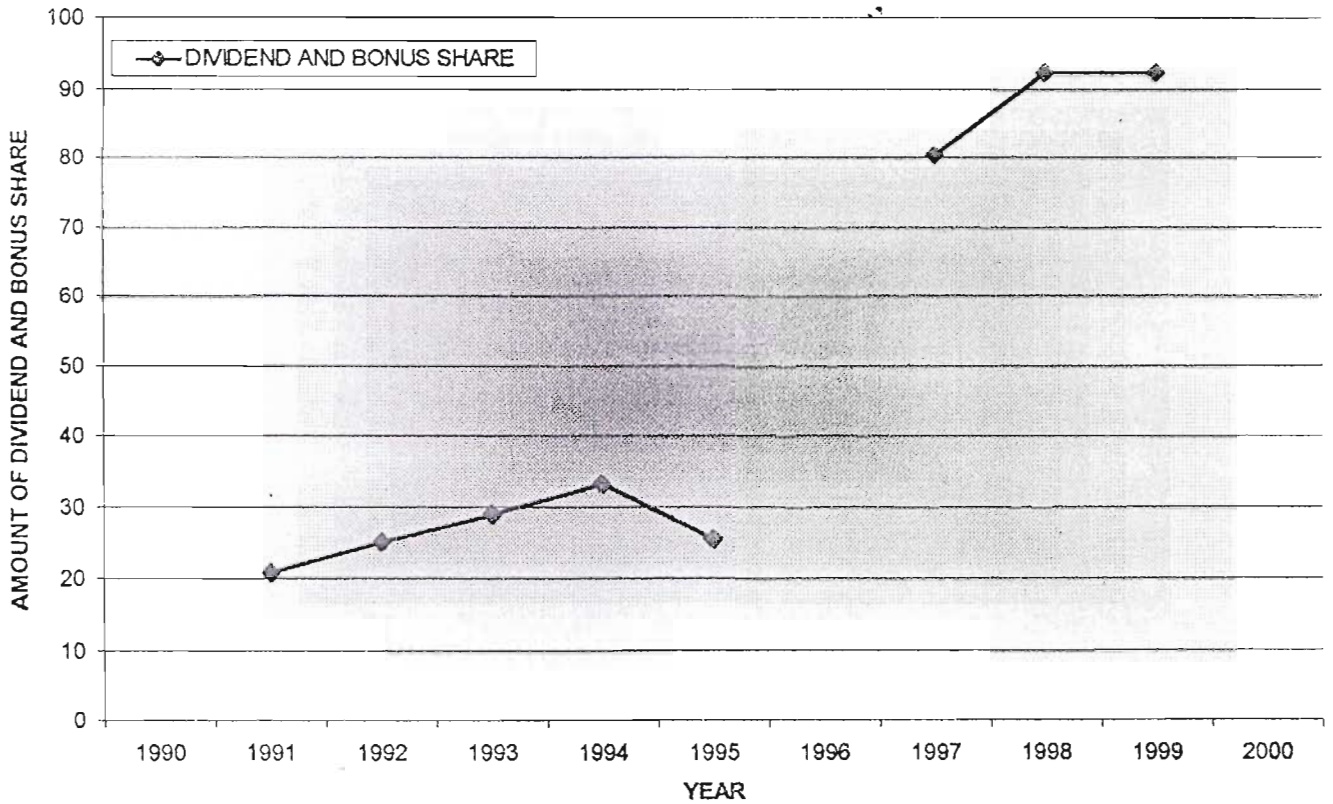
The Net Profit After Tax of IFIC Bank is considered by the figure that the curve is fluctuated in difference to their amount in different years. From the year 1990 to 2000 in several times the amount is fluctuating at a different rate and from 1993 to 2000 the amount is increased without any downward rating. From that it can be concluded that the net profit after tax will be increased. It will help the bank very to expand their business and become a large and profitable Financial Institution.

Dividend And Bonus Share (Year 1990 - 2000): (Figure in million Tk)

Year	Dividend And Bonus Share
1990	---
1991	20.87
1992	25.04
1993	28.8
1994	33.12
1995	25.4
1996	---
1997	80.32
1998	92.36
1999	92.36
2000	---

The dividend and bonus share was not declared in 1990, 1996 and 2000. But the other eight years the directors declare the dividend and bonus shares. From the year 1991 to 1994 the dividend and bonus shares declaring rate were increasing but in 1995 the rate was gone down and in 1996 no declaration was happened. Again the declaration began from the year 1997 and 1998 and the rate was very high than the other years but in 1999 the rate was same as 1998 and in 2000 no declaration was made. That's why in the figure it can find that the curve goes upward and gap in three year where there was no declaration of dividend and bonus share. The curve was downward sloping in 1995 and constant in 1998 and 1999. From the figure it can say that in the future period the dividend and bonus share will be increased.

DIVIDEND AND BONUS SHARE

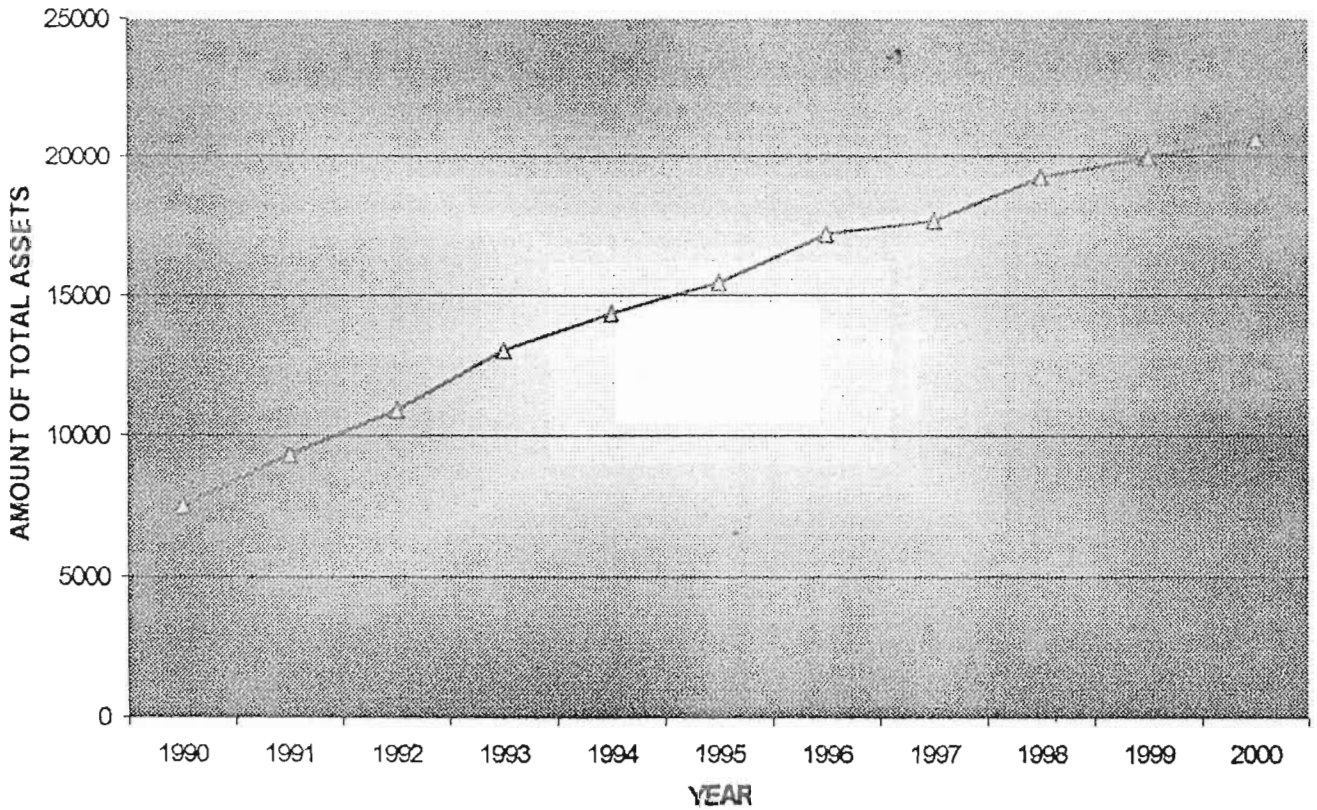


Total Assets of The Bank From The Year 1990 To 2000:
(Figure in million Tk)

Year	Total Assets
1990	7509.71
1991	9301.48
1992	10950.5
1993	13059.08
1994	14352.8
1995	15474.07
1996	17155.1
1997	17648.12
1998	19214.85
1999	19967.57
2000	20632.89

The total asset of the bank was increased each year at a constant rate to other years and so the curve is upward sloping at a same rate from one year to

TOTAL ASSETS

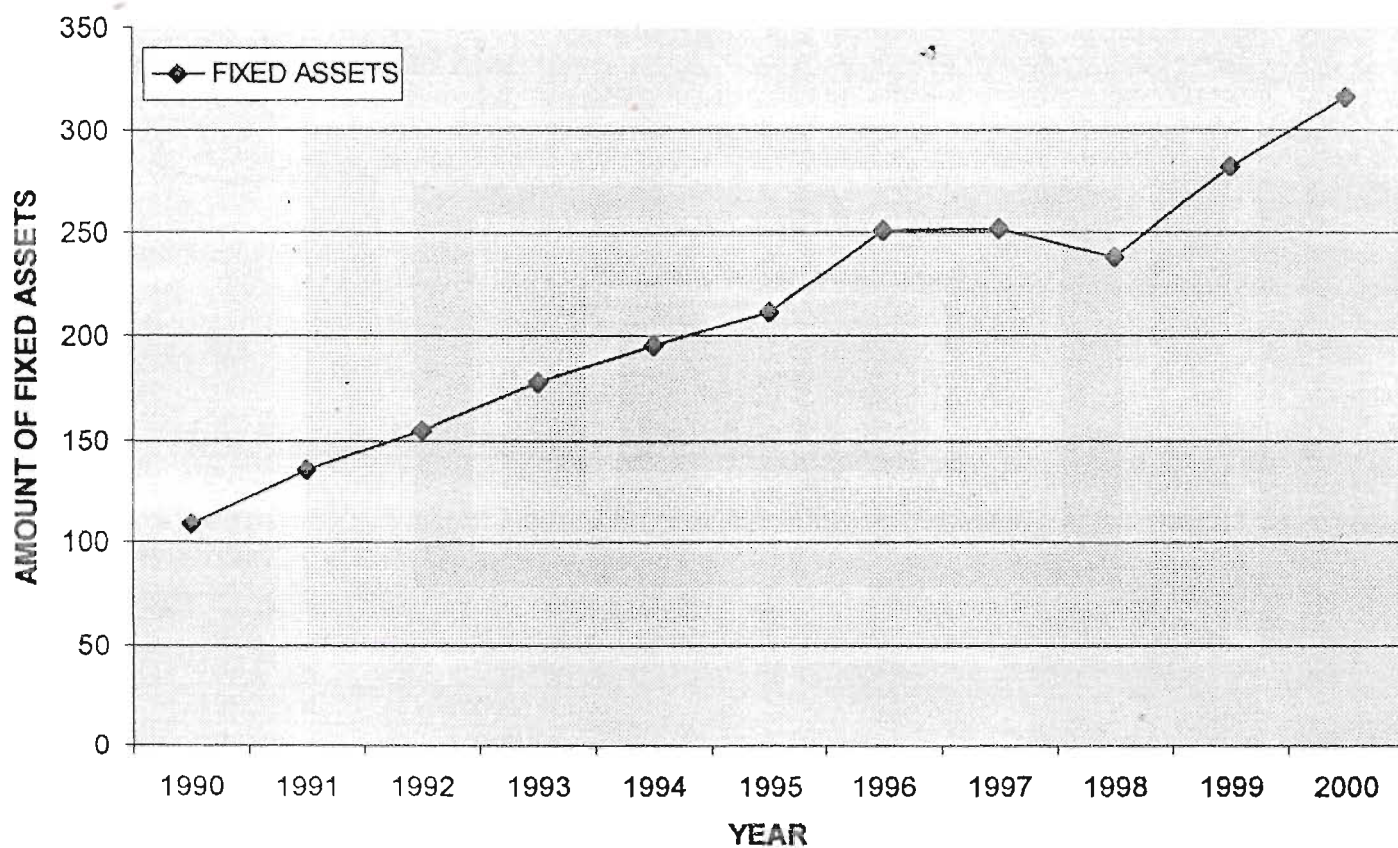


another year. But in the curve in one year the increment rate was very little that's why the curve was little downward sloping and again it was upward sloping. So from the figure it can conclude that the rate will be increased at the future time.

Fixed Assets From The Year 1990 To 2000: (Figure in million Tk)

Year	Fixed Assets
1990	108.89
1991	134.98
1992	155.2
1993	177.82
1994	195.62
1995	212.08
1996	251.51
1997	252.15
1998	238.86
1999	282.06
2000	316.04

FIXED ASSETS



The amount of fixed asset of the Bank was increased at the constant rate from the year 1990 to 1995. In 1996 the rate was extended more than the other years and so the curve was gone more upward, in 1997 the rate was increased at a very little amount and in 1998 the rate was fallen than the year 1996 and 1997. So the curve was gone down and the again the rate was increased at a higher rate than the other years, for that reason the curve was gone upward sloping in 1999 and 2000 than the other years. And from this it can understand that the amount of fixed asset will be in the prospective position.

2.3. Ratio Analysis:

A. Profitability Ratio:

i) Profit margin on deposit = $\frac{\text{Net Income (Net Profit After Tax)}}{\text{Deposit}}$

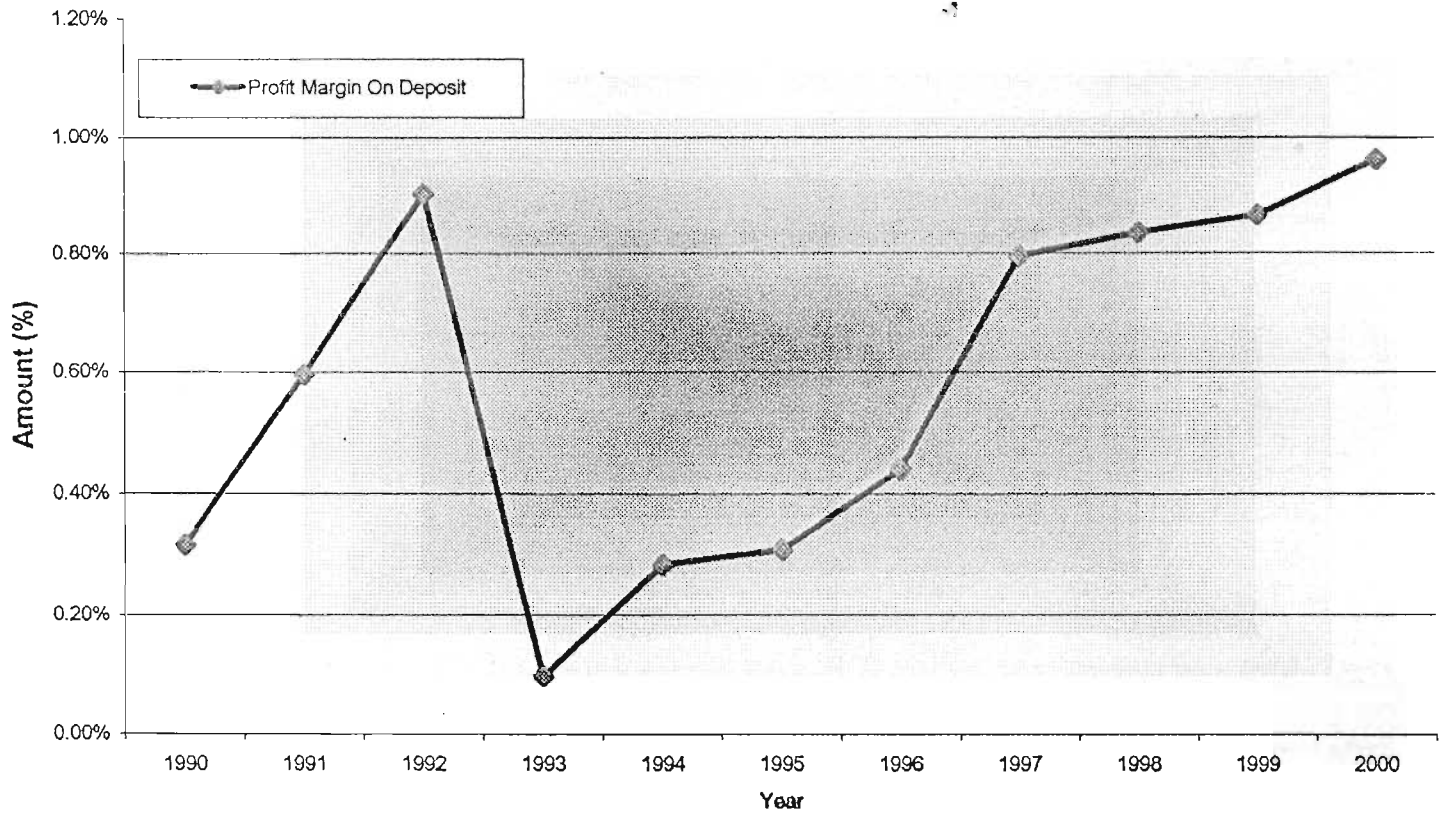
Profit Margin On Deposit From 1990 To 2000:

Year	Profit Margin On Deposit
1990	0.32%
1991	0.60%
1992	0.91%
1993	0.10%
1994	0.29%
1995	0.31%
1996	0.44%
1997	0.80%
1998	0.84%
1999	0.87%
2000	1.14%

The profit margin on deposit of IFIC Bank in 1990 was very low, then in 1991 and 1992 the rate was increased at a very high amount than 1990 so the curve was gone upward. Then the rate was gone down at a huge difference in the year 1993 and again it went up at a very little rate from the year 1994 to 1996 than the previous year. But the curve was gone up at a lower rate. And again the rate was increased at higher rate in 1997 then the curve was gone upward at a big difference. Then up to year 2000 the rate was increased but not a very large quantity.

So, at last it can measure two fluctuation made in two years and then the rate was increased smoothly and it is predicted that the position will be good for the future, because the fluctuation was made previous year not lately so the future will be bright.

Profit Margin On Deposit

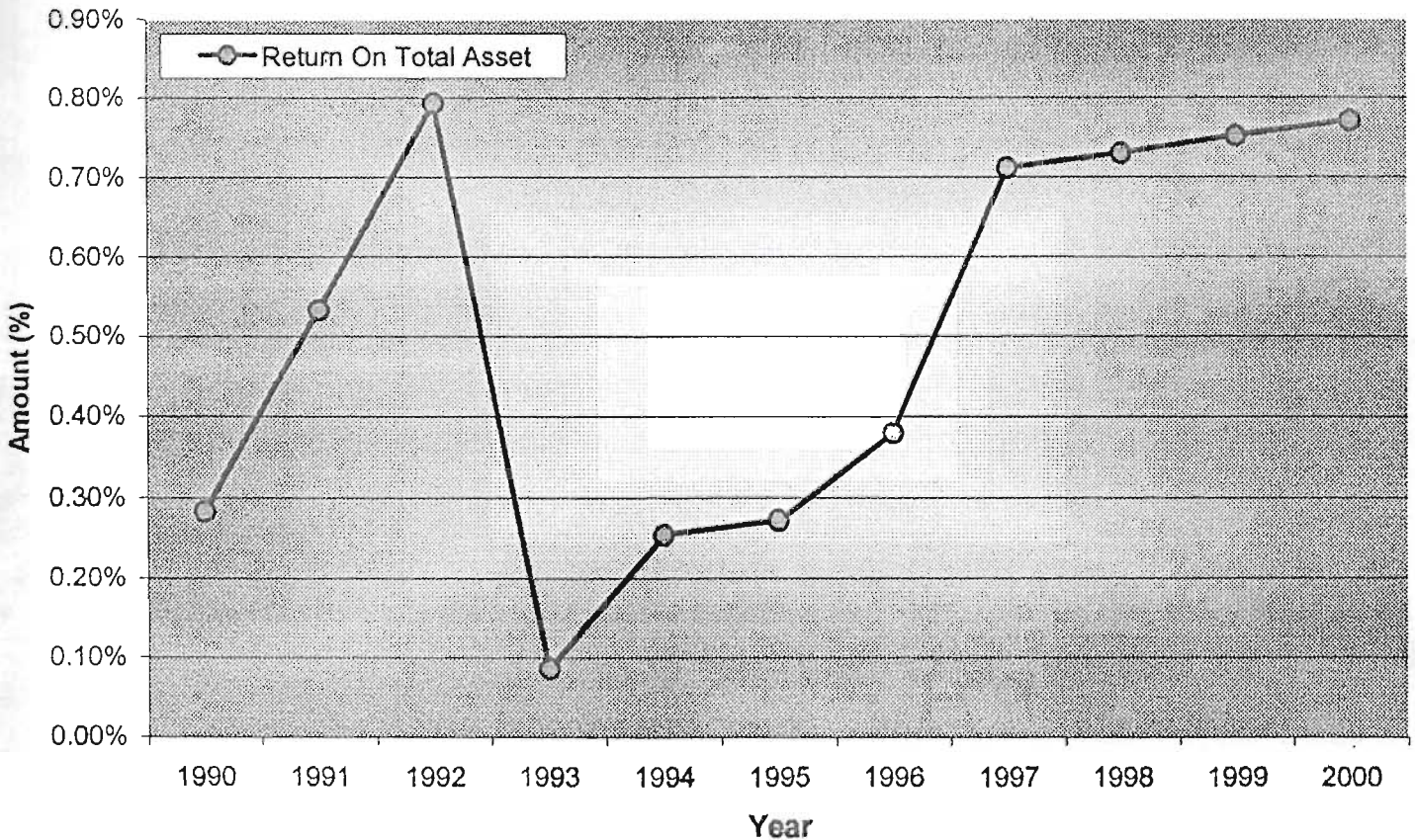


ii) $\text{Return on total Asset (ROA)} = \frac{\text{Net Income}}{\text{Total Asset}}$

Return On Total (ROA) Asset From 1999 To 2000:

Year	Return On Total Asset
1990	0.28%
1991	0.53%
1992	0.79%
1993	0.09%
1994	0.25%
1995	0.27%
1996	0.38%
1997	0.71%
1998	0.73%
1999	0.75%
2000	0.77%

Return On Total Asset (ROA)



The ROA is shown in the figure and it is found that from 1990 to 1997 there were very large fluctuation was made. In 1990 to 1992 there was a huge increment rate and again in 1993 the huge rate of decrease was happened and again the rate was increased up to 1996 and then in 1997 there was another huge change was made by increasing the rate at a large amount. Then the rate was increased at a lower rate up to 2000. So the curve is gone upward slope. From this it can say that the future curve will be gone higher.

iii) Return on Common Stock Equity (ROE)

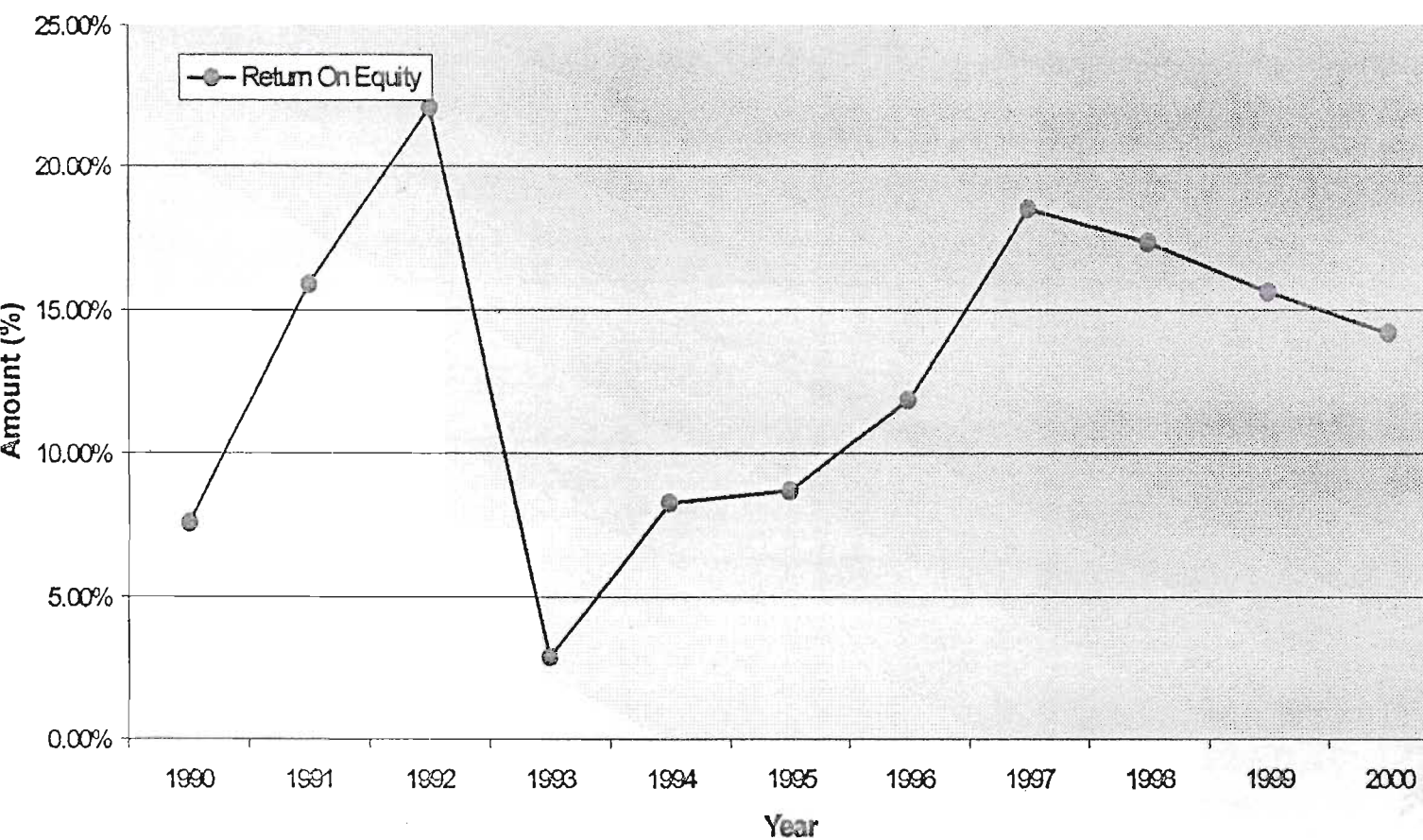
$$= \frac{\text{Net Income Available to Common Stockholder}}{\text{Common Equity}}$$

Return On Common Stock Equity (ROE) From 1990 To 2000:

Year	Return On Equity
1990	7.56%
1991	15.94%
1992	22.08%
1993	2.89%
1994	8.26%
1995	8.70%
1996	11.89%
1997	18.48%
1998	17.29%
1999	15.59%
2000	14.21%

The Return On Equity (ROE) is shown in the figure from the year 1990 to 2000.

Return On Equity



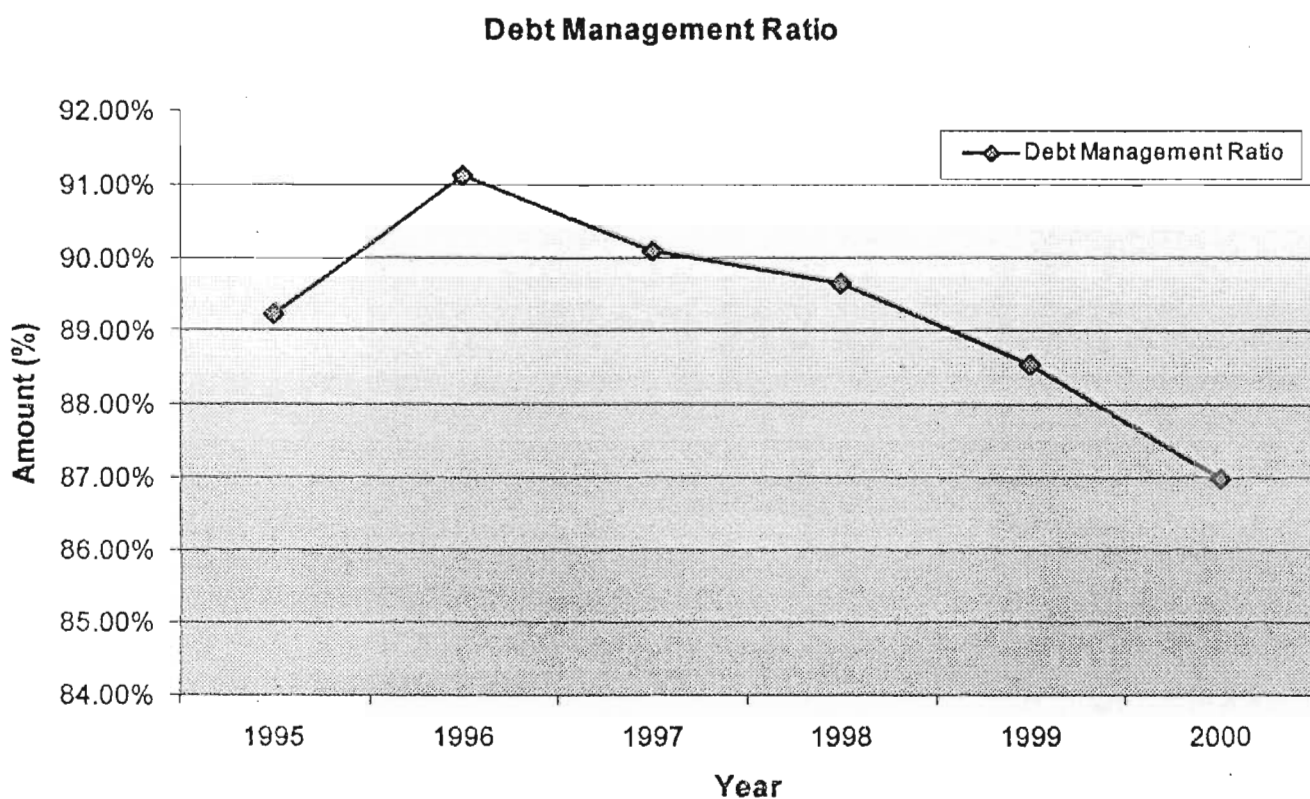
From where it can be found that there are many fluctuations in the rate in increment and decline. At the year 1990 to 1992 the rate was increased and in 1993 the rate was declined and again increased and it as continued up to year 1997. And again from 1998 to 2000 the rate was fallen down so the curve was gone downward.

B. Debt Management Ratio:

i)
$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

Debt Management Ratio From 1995 To 2000:

Year	Debt Management Ratio
1995	89.24%
1996	91.14%
1997	90.11%
1998	89.67%
1999	88.53%
2000	86.96%



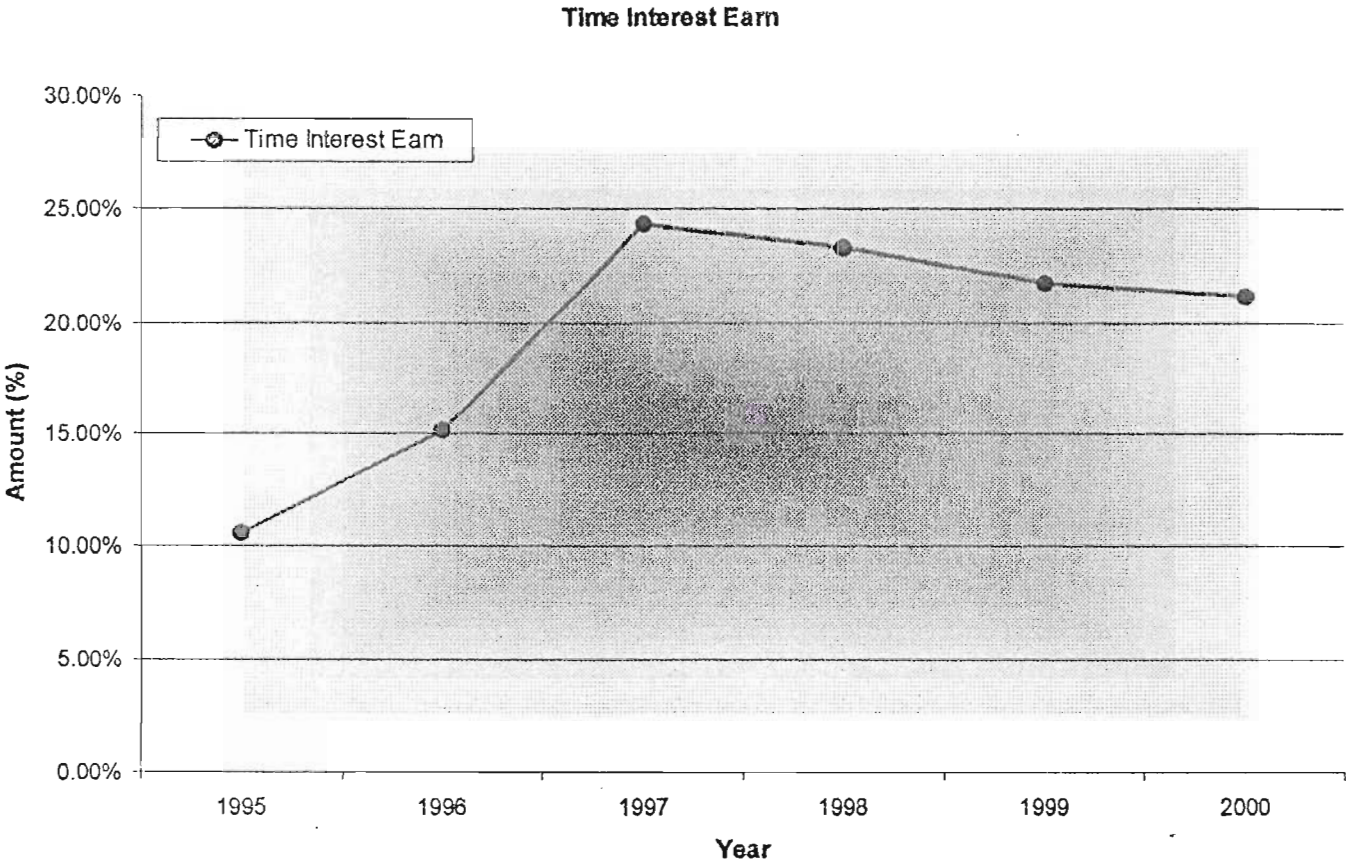
The Debt management Ratio from the year 1995 to 2000, was downward slopping. But in 1995 to 1997 the rate was increased at a very little amount. Then the rate was declined and it was continued up to 2000. So the curve is downward slopping if the graph.

ii) **Time Interest Earn**

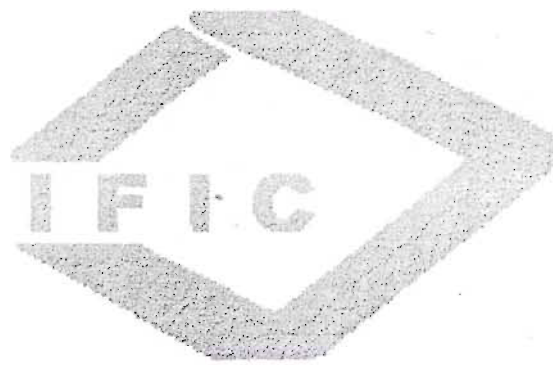
$$= \frac{\text{Earning Before Interest and Tax (Profit Before Tax)}}{\text{Interest Charges (Interest Paid on Deposit, Borrowings etc.)}}$$

Time Interest Earn From The Year 1995 To 2000:

Year	Time Interest Earn
1995	10.57%
1996	15.14%
1997	24.35%
1998	23.31%
1999	21.77%
2000	21.17%



The Time Interest Earn of IFIC Bank is in downward position. That means from the year 1995 to 1998 the rate was increasing and among those the rate was increased at the year 1997 from 1996. Then the rate became go down and up to 2000 after the year 1997 the rate was downward slopping. And from this it is concluded that the rate of time interest earn will be declined.



chapter 3

Evaluation Of Credit Financing Of



IFIC Bank Ltd.

3.1. An Overview of Credit Financing by IFIC Bank. Different Types of Credit Financing of IFIC Bank.

Credit Policy of Central Bank vis-a-vis IFIC Bank Credit Policy and Program. An Overview on Credit Management

Before discuss on the Credit Function of the Bank, first it should be discussed to know and understand that – what is Bank and what are the Bank's functions.

Definition of Bank:

The word 'Bank' is extracted from the word 'Banco' or 'Banque'. Banco or Banque means a bench. The early bankers transacted their money lending activities sitting on benches in a market place. According to others, the word 'Bank' is originally derived from the German word 'Back' meaning a joint stock fund. However, the term 'Bank' has been in use from the middle ages in connection with the business of money lending.

Originally, 'Banker' or 'Bank' was defined as a person who carried on business of receiving money, collecting of drafts, honoring checks drawn upon it. Over the years the banking business has undergo many changes and now it covers a wide range of activities. According to modern concept, banking is a business, which deals with borrowings, lending and remittances of funds as well as many ancillary businesses connected thereto.

Functions of Bank:

An analysis of the definitions would reveal that a bank has three broad functions. These functions which be called principal functions are:

1. Accepting Deposits.
2. Granting of Credits.
3. Investment.

Definitions, in addition to indication the principal or broad function, also indicate about modes of payment of deposits by a banker.

A modern bank also does some other functions, not incorporated in the definitions. These functions which may be called subsidiary functions are as follows:

1. Providing remittance facilities.
2. Executing standing instructions of customers.
3. Providing safe deposit lockers.
4. Undertaking Foreign Exchange business including issuance of Letter of Credit,
5. Buying or selling of securities, collecting interest/dividend on securities/shares etc.
6. Collecting bills/checks, and
7. Any other service given by a modern banker.

Credit Functions of the Bank:

Commercial Banks while executing their functions extends credits to prospective business enterprises as well as individuals out of its deposit receipt from diverse sources keeping a percentage of dispersion over the cost of deposit.

Acceptance of deposits of various type for the purpose of Lending or investment.

- Broadly, credit is finance made available by one party (lender, seller, etc.) to another party.
- Bank credit is one form of credit.
- The chief function of credit is to relax the constraint on balanced budget. It is through this chief function the financial system is able to promote savings, investment, better allocation of resources, and growth of the economy.
- Commercial banks and financial institutions intermediate between lenders and borrowers. These financial intermediaries create deposits, which can be good alternatives to currency as means of payments. They use the funds generated from deposits to make loans to households, firms and business through financial intermediation.
- Financial Intermediation is transfer of funds from lenders to borrowers through financial institution.
- Financial Intermediation can aid in the allocation of credit and there by helps improve the economy's performance.
- An effective financial system (consisting of financial markets, financial assets and financial intermediaries) facilitates capital formation process by efficiently directing the flow of funds from lenders to borrowers.

Credit Policy of Bangladesh Bank:

Bangladesh Bank as the Central Bank, which is the proper monetary policy of the country, is entrusted with maintaining price stability of the country pursuing. In the country monetary policy vis-a-vis regulating money supply of the economy is pursued through open market operation viz. purchase and sale of Bills and Securities and movements of Bank rate of Bangladesh Bank.

In the country money supply can be supervised through expansion and reduction of credit through commercial banking operation. Economic development of a country largely depends on expansion of Industrial Sector and growth of export, which in turn depend mostly on credit expansion. Since expansion of credit increases money supply Bangladesh Bank has to pursue and optional credit flow in order to keep the inflation within desired range to ensure price stability vis-a-vis economic growth of the country.

At present Bangladesh Bank is pursuing a policy of moderate credit expansion. Following this policy, emphasis is given to assure flow of credit to private sector since GOB has adapted a policy of export led growth through private sector. With globalization, Bangladesh Bank has withdrawn all interest band on deposit and has given complete freedom to banks to set their own interest on lending. To ensure smooth credit flow Bangladesh Bank puts emphasis on stability of financial sector.

On the contrary, Bangladesh Bank monitors its credit policy through prologue of restrictive rules and regulations etc. Enactment of Bank Company Act, phase-wise program for classification of loans and advances and provisioning thereof, exercising Lending Risk Analysis (LRA) large loan monitoring cell and Credit Information Bureau (CIB) are the tools to controls credit policy. All these help Bangladesh Bank to supervise its credit policy, which in turn help them to strengthen financial sector discipline as a whole.

Credit Policy of IFIC Bank:

As one of the leading Private Commercial Bank, IFIC Bank has been playing a vital rules and regulations in the overall economic development of the country. The general credit policy of the Bank is to help sustaining economic growth of the country in pursuance to Government policy, Banking Company Act and guidelines issued from Bangladesh Bank from time to time. The credit portfolio of the Bank covers wide range of economic activities in trade, commerce, industry, import, export and other sectors with a view to contributing in sustainable economic growth and employment opportunities.

Since the Bank believes in sound lending, its credit policy is guided by principles of safety, security, liquidity, profitability, purpose, productivity and diversified credit portfolio keeping in view national objectivity.

The role of IFIC Bank is to augment further the economic development of Bangladesh by assisting in the promotion, establishment, expansion, modernization and efficient running of private sector industrial, agricultural and commercial enterprises and encouraging the participation of private sector capital in such enterprise.

Bank extends credit to profitable enterprises and earns profit. They also pay taxes, build reserves and pay dividend to the shareholders.

The General Credit Policy Of The Bank Centers On The Following Principles:

Principles of Lending:

Bank makes Sound Lending in accordance with the principles of safety, security, liquidity, purpose, profitability, diversification and national interest. The funds for lending:

- ◆ Paid up capital
- ◆ Reserves and surplus
- ◆ Deposit of all types – fixed, savings, currents, cash certificates
- ◆ Borrowing from central banks
- ◆ Borrowing from other banks
- ◆ Credit lines from financial institutions.

Areas of Lending:

Lending is made to different sectors giving priority to export oriented industry including export financing, different manufacturing and service industry (including new and BMRE project), Industrial working capital, Import financing, Housing, General trade and Commerce etc.

Types of Credit Policy:

The Credit facilities are provided in two forms:

1. Direct and
2. Indirect.

Those two type facilities are included with –

- Term lending,
- Continuing credit,
- Demand loan,
- Packing credit,
- Loan general,
- Bill purchase and discounting,
- Letter of credit,
- Letter of guarantee etc.

Duration of Facility:

Most of the credit facilities are given for short and medium term basis. Long-term loans are also given but on selective basis depending on viability of the project.

Key Aspects of Lending:

The most important thing is to be considered in making advances is whether the money would definitely come back.

That is in allowing credit facility judgment is made on the Borrower's ability and willingness to repay and the viability of the business itself.

Judgement is made on the basis of information available on the borrower and the business, and projections of the business.

*** Selection of Borrower:**

While selecting Borrowers emphasis is given on their business behavior, previous experience credibility, managing competence, integrity and financial performances.

6 Cs of credit to selection the borrower:

Different 6 Cs	Illustration of all the different 6 Cs
1. <i>Character</i>	Integrity, experience and business sense of the borrower.
2. <i>Capital</i>	Resourcefulness of the borrower to mobilize own funds for the business.
3. <i>Capacity</i>	Of the borrower to manage the business.
4. <i>Cash flows</i>	Generation of adequate surplus from the business.
5. <i>Collateral</i>	Extra security
6. <i>Credit Report</i>	CIB report from Bangladesh Bank.

If the money goes to the right borrower and is utilized in productive purpose from which generation of cash surplus will be adequate to repay the bank's loan then the advance is likely to be repaid.

Safety of the advances is ensured through pre sanction appraisal of business risks, which could lead to the failure of the business and consequent non-repayment of the loan.

Post sanction monitoring and follow up is other measures to ensure safety of advances.

*** Purpose of Credit:**

While sanctioning credit, purpose is considered of utmost importance. General purposes for credit include trade and commerce, project loan for manufacturing industry, working capital facilities, export/ import financing, financing to Housing sector, Transport sector, Cold storage, Advance to contractor for execution of work order and consumer credit etc. Bank discourages sanctioning of loan for unproductive and speculative purposes. Before providing the loan the bank will ask the purpose of taking loan which is – What is the Business:

What is the purpose of the credit? Does it make sense?

What is the source of payback?

Are the purposes and pay back logically related?

Productive purpose usually generates cash surplus cash, which could provide a definite source of repayment.

The Borrower will not be in a position to repay bank's loan unless her business can generate enough cash surplus. That will be possible if she can employ the fund in productive purpose.

*** Business Validity Analysis:**

For business validity analysis the bank has to ask some questions such as-

In what industry does the customer do business?

What are the trends and risks that are common to the business?

How do these risks and trends affect the purpose of the and payback?

What strategy is the company pursuing?

What is the competitive position of the company?

What must the borrower do to be successful and repay the loan?

Develop financial statement expectations

What do the financial statements show about the borrower's management?

What strengths and weakness are there?

*** Projections:**

The bank has also project about their borrower and for that there are also different types of questions are asked:

When the business will have enough cash to repay the loan?

How predictable is operating **cash flows**?

What risks have **significant impact on repayment**?

What early warning **signs should be watched**?

Lending Process:

There are different procedures **are considered by the Bank** for lending to the diverse borrowers. Those procedures **are:**

- Types of borrowers
- Types of advances
- Risks
- Price
- Security
- Monitoring and follow up
- Legal resource
- Credit Policy
- Credit restrictions.

Cash Flows:

The borrower must be in a position to repay within a reasonable time – on demand or as per arrangement. **The sources of repayment must be definite.** The business or the project for which advances are extended must be self-liquidating to ensure repayment.

Security:

While providing loan within its credit folio, the Bank accepts security of adequate value acceptable to the Bank. **That means for advances, purpose is important** which should be productive to ensure repayment. Borrower's managerial

capacity is also important. But even than security is necessary to ensure safety – to provide against such contingencies such as unexpected changes in circumstances, which may affect safety and liquidity of the advance. The value of the security offered as mortgage is assessed by Bank's enlisted surveyor in addition assessment made by the Branch Manager.

* Strategic Plan:

In order to increase its credit portfolio, the Bank has taken the following strategic plan: -

1. To increase its quantum of medium and long term loan on export oriented projects.
2. To increase its working capital lending operation as a policy of providing a balanced package of service to clients.
3. To provide short term capital to trading enterprises including those engaged in government construction work.
4. To increase volume of foreign exchange business with special emphasis on import and export.
5. To provide finance to agricultural sector and housing sector.
6. To increase non-funded business activity as potential source of earning.
7. To participate in loan syndication sponsored by other banks.

* Credit Management:

With a view to keeping credit operation sound and regular and to ensure credit discipline in the Bank, a new department namely ' Credit Administration Department ' was set up in July 1996 with the following functions: -

- a. Formulation of policies/guidelines for effective administration of credit (except Import/Export Credit).
- b. Supervision, follow up and control of domestic advances/guarantees through periodical returns and statements.

- c. Ensure compliance of Head Office Inspection/Audit irregularities by the Branch in respect of documentation and operation.
- d. Ensure submission of compliance of Bangladesh Bank Comprehensive Inspection Reports by the Branches and coordination with Bank's Examiners Division in submitting compliance report to Bangladesh Bank.
- e. Devise management information system for effective reporting by the branches.
- f. Provide guidelines to branches for monitoring credit efficiently and assisting the Branch in formulating its policy.
- g. Supervising the branches to ensure effective administration of Credit Portfolio.
- h. Review performance of the branch in administering their credit portfolio and taking up the issue with Head Office Management.
- i. Taking up important issues with the Branch and the management as deemed necessary.

Diversification:

Don't put all your eggs in one basket. An element of risk is always present in an advance however secure it might appear. Diversifying of risk to a large number of borrowers and different business is a means of reducing risks. In fact the entire Banking business is one of taking calculated risks and a successful banker is an expert in assessing such risks. Large number of borrowers, many types of business, different types of securities reduce lending risks to some extent.

Principles of lending are embodied in Bank's Credit Policies. These with others measures (such as analytical skills of credit officers, monitoring and follow up, audit and inspection etc.) ensure quality of advances. To ensure quality of loans, credit policies and guidelines must be followed meticulously. Flexibility should not be used as excuse for disregarding or ignoring them. It should be remembered that diversification of advances and varying periods of repayments may take some care of the liquidity, and security may be an insurance for the advances but quality of loans is the single most important factor that can ensure long term survival and growth of the bank. As such Credit Quality must always take precedence over exploitation of business opportunities. An old saying in banking is that quality of credit officers ensures quality of advances.

Credit Officers should have adequate understanding of following relating to credit:

❧ Bank's Credit Policy

- ⌘ Business
- ⌘ Domestic and Global Economic Trends
- ⌘ Borrowers
- ⌘ Tools and Techniques of Credit Risk Analysis
- ⌘ Legal matters related of Lending.

The credit /loans/advances so extended by the Bank can be categorized as under: -

Types of Loans and Advances:

There are two different types of Loans and Advances. Those are:

A. Secured Advances.

B. Unsecured Advances.

The activities and functions of those two types Loans and Advances are explained as follows:

A. Secured Advances:

Meaning

Secured loan or advance means a loan or advance made on the security of assets, the market value of which is not at any time less than the amount of such loan or advance.

Where the advance is secured the security can be enforced in case of default by the borrower; i.e. the security can be sold and adjusted against the loan account after giving proper notice or taking action through a court.

Sanction

Any branch of the Bank may give secured advances for the purposes not prohibited by Bangladesh Bank within the delegated powers of the Manager concerned or with the approval of the Head Office.

Forms of Secured Advances:

1. Loans:

Advance made in a lump sum repayable either on fixed installment basis or in lump sum having no subsequent debit except by way of interest, incidental charges, etc. is called a loan.

After creation of loan, there will be only repayment by borrower. A loan, once repaid in full or in part, cannot be drawn again by the borrower. If the borrower desires further accommodation, it will be treated as separate transaction.

The whole amount of loan is debited to the consumer's name on a loan account to be opened in the ledger and its paid to the borrower either in cash or by way of credit to his current or savings account. Interest that is charged on the whole amount for the period loan is sanctioned.

Loans are given to parties who have fixed source of income or who desire to pay it in lump sum. House building loan, loans for purchase of vehicles, inputs, small loan etc. are some of the examples.

2. Security Overdrafts: (SOD)

Advance in the form of overdraft is always allowed on a current account operated upon by checks. The customer may be sanctioned a certain limit within which, he can overdraw his current account within a stipulated period. Here, withdrawals or deposits can be made any number of times at the convenience of the borrower, provided that the total amount withdrawn does not, at any time, exceed the agreed limit. Interest is calculated and charged only on the actual debit balances on daily product basis.

Balance of overdraft account may fluctuate. It may increase by withdrawals by the customer and may decrease if the customer makes payment into the account.

Overdraft facility is generally granted to businessman for expansion of their business.

It is a short term (1-year) but continuous loan because it will continue after the maturity period.

Types of Security Overdraft:

There are two types of SOD:

i) **Loan will be given against financial obligation:**

Taking various securities will provide the loan:

- Fixed Deposit Receipt (FDR)
- Investment Corporation of Bangladesh (ICB)
- Share
- BSP
- PSP

The limit for Share, BSP, PSP is 13%.

ii) **Loan will be given against Work Order:**

The loan is provided against Work Order mainly to the contractor for contractual functions. For taking loan the borrower have to give work document then the bank perform their rules before giving the loan to check all of the borrower's document.

In the Bank so far the loans are provided under SOD are 210.

3. Cash Credit: (CC)

Cash credit as a form of advance is a separate account by itself and is maintained in a separate ledger. It is operated upon like an overdraft account. The borrower may operate the account within stipulated limit as and when required. The drawings are subject to drawing power.

Cash credit is an active and running account to which deposit and withdrawals may be made frequently. The debit balance of the account on any day can not exceed the agreed/sanctioned limit.

Cash credit is generally given to traders, industrialists, and farmers for meeting their working capital requirements. Mainly for those person for providing their working capital that's why they can easily continue their functions like – any manufacturer company, if they are in the production at present that means when they want to take loan at that the production would be running. And the Bank will take their products or any machines as security and it is act by two ways. Those are –

i) **Pledge:**

It is the process where the Bank will take the security under their control into their warehouse. If that security is product and if they want to sell those then they have to first take permission from the bank and can take from the bank's warehouse and sell.

ii) **Hypothecation:**

The bank will be the owner of the security and those products or machine will be under control by the borrower.

4. Inland Bills Purchased:

Purchasing of inland Bill of Exchange arising out of commercial transaction is called inland bill purchased.

When the drawee of a bill encloses the documents of title to goods (Bill of Lading, Railway Receipt, and Steamer Receipt) with the bill to be delivered to the drawee of the bill on payment or against acceptance of bill, as the case may be, the bill is called a **documentary bill**. In the absence of such documents it is termed as a clean bill.

In case of purchase and discounting of bills, the banker credits the customer's account with the amount of the bill after deducting his charges or discount. Demand bills have no maturity and repayable on demand. The banker is entitled to demand their payment immediately on presentation before the drawee. This practice, adopted in case of demand bill, is known as purchase of the bills. In case of a usance bill maturing after a period of time, the banker retains the bill for that period and realizes the amount of the bill from the drawee on its due date. This practice is called discounting of bills.

In case of purchase of checks, amount of the check is credited to the party's account to the debit of bills or check purchased account and on receipt of the proceeds of the of the checks, after collection, bill of check purchase account is liquidated.

Sometimes banks are to purchase bill of exchange of businessmen to facilitate commercial transactions. Besides bills, banks also purchase checks drawn by Govt., Semi-Govt. Institutions, local authorities, or any first class parties for extending accommodation to the parties requiring funds.

5. Advances against import under WES/SEM (IP Loan):

Importers very often require advances from the banks to buy required foreign exchange for starting Letter of Credit (L/C) under Wage Earners' Scheme (Secondary Exchange Market). This advance is called Advance Against Import under WES/SEM, briefly called IP Loan.

This advance is usually extended to the importers under WES to facilitate imports into the country.

6. Payment Against Document (PAD):

The importers are to open letter of credit through any bank for importing goods. Most of the time, the banks are to extend credit to the importers, if not prohibited by Bangladesh Bank, for buying required foreign exchange. This loan, on receipt of shipping documents from the negotiating bank, is transferred and lodged to PAD.

PAD is associated with import and import financing. The Bank opening letter of credit is bound to honor its commitment to pay for import bills when these are presented for payment provided that it is drawn strictly in terms of the letter of credit.

The foreign correspondent, who negotiates the documents: debits the accounts of the opening bank and in fact, the amount thus stands advanced on behalf of the importer.

The opening bank on receipt, will lodge the shipping documents to their book and will respond to the debit advice originated by foreign correspondent to the debit "Payment Against Documents (PAD)" account or "Bill of Exchange (B/E) account" and present the bill to the importer for payment/acceptance.

7. Loan Against Imported Merchandise (LIM):

In many cases, a bank has to clear the goods imported under letter of credit at the request of the borrower. When the importer does not come forward to retire the documents inspite of repeated reminders bank has on forced circumstances, to clear the imported consignment on arrival of the same to avoid heavy demurrage at the port, which adds to the burden of commitment.

When the importer fails to retire the documents or requests for clearance of goods, the outstanding under PAD or B/E is transferred to "Loan Against Imported Merchandise (LIM) account" and, the overdue interest from the date of accompanying Bill of Exchange or negotiation date to the date of transfer to LIM

account is charged. The advances against merchandise account is a loan account and only amounts for clearance charges, such as, custom duty, sales tax etc. are allowed to be debited. At the time of opening of letter of credits banks obtain from the importer an agreement on stamped paper which provides for financing and, if necessary, clearance and storage of goods by debited importer's account at their risk and responsibilities.

After clearance, consignments are taken deliver by the importer on full payment of bank's liability. Normally part delivery is not allowed while on LIM account. When the importer in part desires the delivery, the LIM is converted into cash credit account retaining proper margin and executing charge documents, the delivery is effected thereafter on obtaining pro rata payment.

8. Trust Receipts:

This is an arrangement under which credit is allowed against Trust Receipts and imported or exportable goods remain in the custody of the importer or exporter but he is to execute a stamped Trust Receipt in favor of the Bank wherein a declaration is made that goods imported or bought with the bank's financial assistance are held by him in trust for the bank.

9. Export Cash Credit:

Export cash credits are extended to an exporter to facilitate the export of goods and commodities for which there is export letter of credit or contract on hand. It is a pre-shipment and short-term credit to be liquidation out of the proceeds of export documents, which include negotiation or purchase of export documents.

10. Foreign Bill Purchased:

Purchasing of foreign bills of exchange arising out of commercial transactions is called Foreign Bill Purchased.

B. Unsecured Advances:

Meaning

An unsecured or clean advance is one, which is granted to a borrower without obtaining any security from him subject to restriction imposed from time to time. Unsecured advances may include:

1. Clean Overdrafts and,

2. Clean Loans.

Sanction

It may be granted subject to restrictions imposed by Bangladesh Bank or any other competent authority with prior approval of Head Office to a customer on the basis of his personal credit worthiness.

It will not be granted unless the sanctioning authority has full confidence in the ability of the customer to repay it on demand or at its maturity if it is a loan. Definite arrangements for repayments, whether by installments or otherwise, must as a rule be made.

Modes of Charging Securities Lien / Hypothecation / Pledge / Mortgage:

Charging a security means it is available as a cover for an advance. It is expected that the Banker should lay greater emphasis to analysis the risk for giving the loan against the security to minimize the dependability on security and propounded Lending Risk Analysis (LRA) for lending. However like other developing countries in the country also Banker consider security as an insurance or a cushion to fall back upon in case of an emergency. Security is in 2 forms from the banking point of view –

1. Primary Security :

This security tangible or intangible that the Banker advance against directly are treated as primary security.

2. Collateral Security :

The security that are obtained in addition to the primary security to improve the overall security position of the advances are called Collateral Security.

Methods of creating charge over securities depends upon following points:

- i. Nature of Account.
- ii. Nature of the Advance.
- iii. Type of property to be charged.
- iv. Degree of control over debtors' property required by the Banks.

The common methods of charging securities are –

- a) Lien.
- b) Hypothecation.
- c) Pledge.
- d) Mortgage.
- e) Assignment etc.

The explanations of those methods are as follows:

a) Lien:

Lien is the right of one person to retain goods and securities in his/her possession belonging to another until certain legal debts due to the person

retaining the goods are satisfied. Lien differs from other forms of charge in respect that it does not arise out of an implied or express agreement. But right of lien arises out of the dealing between the parties.

b) Hypothecation:

Hypothecation is a charge created on property or goods for the amount of debts. The owner however retains his/her ownership and possession.

A banker should take following precaution in an advance against hypothecation of stocks.

- i) Firstly, the statement of the stock must be obtained at the time of execution of documents and to verify.
- ii) The banker should obtain periodical statement of the stock duly signed by the authorized person with valuation. The stock statement to be contained a declaration by the borrower regarding clear title to the goods and the correctness of the quality, quantity and valuation thereof.
- iii) The stock to be fully insured against Fire, Burglary and other risks in joint names with Bank clause.
- iv) In case the borrower is a company necessary charge to be registered with the Registrar at Joint Stock Companies within a period of 21 days.

c) Pledges:

Pledge is defined as " A bailment of goods as security for payment of debt or performance promise".

The usual method of obtaining a Title of goods offered as security is by way of Pledge. Securities held to meet Pledging requirements mentioned earlier should be selected with other goals in mind to avoid conflicts among investment goals.

On the basis of IFIC Bank any one can take loan on the process of Pledge. Who is in legal possession of the goods can pledge them to any body. The following are the parties who can legally pledge goods.

1. The owner of the goods himself.
2. Mercantile agent who is in the possession of the goods or documents of the Title to goods with the consent of the owner.

3. A person who has obtained possession of the goods by fraud, misrepresentation, coercion, or undue influence, such contract is voided at the option of the lawful owner. However, such person will create a valid pledge provided the following conditions are fulfilled :

- * The contract has not been rescinded before the person who has possession the goods enters into the contract of pledge.
- * The pledge acts in good faith without knowledge of the defect title of that person who takes loan by pledging his/her goods. This principle does not apply to a thief who has no title to goods and can give none.

Of all the method of charging a security, pledge is perhaps the most satisfactory. The goods under pledge being in the possession of the Bank, it is easy to dispose of them if necessary at short notice. However, following precaution to be taken in an advance against pledge of stocks/goods.

- i) The commodities to be accepted must have saleable and steady price. The goods should not be perishable in nature.
- ii) If the seasonal commodities are taken as pledge must be liquidated with the close of the seasons.
- iii) Chemicals, explosive goods, inflammable goods, old stocks, goods the price of which constantly fluctuate etc. should not be accepted as security in pledge.
- iv) To stock to be insured against Fire, Burglary, Flood, Cyclone and to cover other risks.

Although pledge is a superior form of security it is not popular with Bankers. The reasons are : -

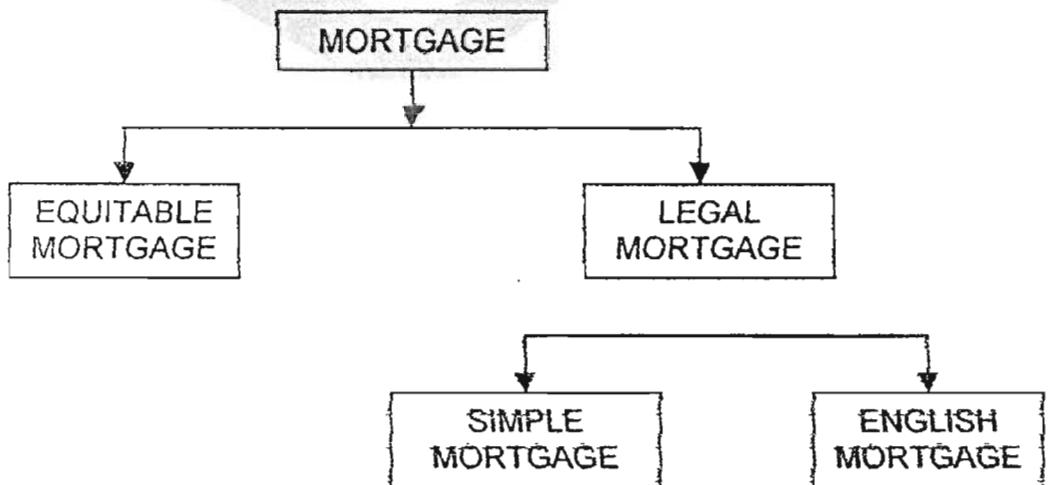
- i) Responsibilities in law of taking care of goods lye with Banker.
- ii) Particularly the person who takes advance by pledging, it would appears, consider himself absolved of the responsibility of repayment of debt to the bank.
- iii) Moreover a pledge arrangement cannot be registered with the Registrar of Joint Stock Companies.

d) *Mortgage:*

As per Section No.58 of the Transfer of property Act 1882 defines that a mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, existing or further debt, or the performance of an engagement, which may give rise to a pecuniary liability.

In the mortgage, the mortgagee does not become the absolute owner of the property charged to him/her and the mortgagee is entitled to have the property reconvened to him/her on repayment of the debt. The mortgagor is said to possess "The equity of redemption" and he/she cannot be deprived of this right in any way.

The mortgagor can transfer either a legal interest or an equitable interest in the property mortgaged.



The Banker has usually different sets of standard documents forms drafted as per law of the country suitable for the advances. The relative documents as applicable to the advance arrange for by the borrower are required to be executed before availing of the advance. The borrower or the guarantor through execution of Demand Promissory Note and delivery it to the banker accompanies through other documents where he/they provide other securities to secure advance.

Advances Against Fixed Deposit Receipts

1. Observation Of Fixed Deposit Receipts:

Scrutinize the fixed deposit receipts with regard to the following points subject to credit restriction imposed from time to time by Bangladesh Bank.

- The Fixed Deposit Receipt is not in the name of a minor.
- The depositor on revenue stamp of adequate value duly discharges it and his signature is verified in pencil.
- If the receipt is issued in joint names, it will be discharged by all the depositors named in the receipt on revenue stamp of adequate value. Their signatures are to be verified.
- If the Fixed Deposit Receipt is offered as a security for allowing advance, a letter of lien will be obtained from the depositors, on the appropriate form.
- If the same branch has issued the Deposit Receipt, lien against that specific Deposit Receipt is marked in the Fixed Deposit Register of the branch.
- As far as possible advances against Fixed Deposit Receipts of other branches of the Bank should be avoided. However, where such advances are made, the branch where the advance is being allowed will obtain under joint signature of two officers of the issuing branch, a confirmation that their lien has been duly registered with them. At the issuing branch the lien noted in the Fixed Deposit Register should form a part of the other outstanding instructions in respect of the deposit noted therein. These instructions must be carried forward under the initials of an officer when a new register is opened at the branch. The branch where the advance is to be allowed will directly obtain the verification of the discharge of the holder of the deposit receipt and also of the signature on the letter of lien from issuing branch. The borrower will not be allowed under any circumstances to have such verification done on his own.
- The discharged receipt, the letter of lien duly verified by the issuing branch and the letter confirming registration of the lien on the Deposit Receipt will be kept along with other documents for the relative advance, duly entered in the Safe-in-Register.
- Lien on the partial amount on Fixed Deposit will not be accepted.
- The lien of the Bank to be marked in red ink on the Deposit Receipt against which advance has been allowed. On adjustment of the advance, lien will be

released under signature of two officers on the back of the Fixed Deposit Receipt.

- An undertaking from the borrower or third party (if the deposit is in the name of a third party) for encashment of the FDR and appropriation of the proceeds thereof without reference to them must be obtained.
- An undertaking from the borrower/third party (if the deposit is in the name of a third party) for renewal of the Fixed Deposits without reference to them must be obtained.

2. Charge Documents:

After full satisfaction on the above-referred points, obtain the following charge documents duly stamped and allow the advance:

- Demand Promissory Note.
- Fixed Deposit Receipt duly discharged.
- Letter of Lien (First party of the Third party, as the case may be)
- Letter of continuity for overdraft.
- Letter of disbursement for loan.
- Letter of installment for loan.
- Letter of Arrangement.
- Letter of partnership along with Registered Partnership Deed in case of partnership account.
- Resolution along with Memorandum and Articles of Association in case prior clearance from the Bank before declaring any interim or final dividend.

Advances Against Pratirakhya Sanchaya Patraya / Bangladesh Sanchaya Patraya / ICB Unit Certificate

1. Ensure The Following:

While allowing advance against Pratirakhya Sanchaya Patraya (PSP), Bangladesh Sanchaya Patraya (BSP) ensure the following, subject to credit restrictions imposed from time to time by Bangladesh Bank.

- The certificates have been issued in the name of the borrower/guarantor.
- The PSPs / BSPs are signed by the holder on the back thereof, in accordance with the signature appearing on the 'Identify Slip'. In case of joint holders ensure that all the holders as per instructions contained for encashment duly sign certificates.
- The certificates do not stand in the name of minors.
- The 'Identify Slip' containing the specimen signature of the holders, is duly demonstrated by the issuing authority under the signature and the stamp / seal of the Issuing Officers.
- The 'Identify Slip' is surrendered to the office of issue for transfer of the certificates to the pledgee Bank.
- PSPs / BSPs must be pledged and transferred in the name of the Bank.

2. Procedure For Transfer / Pledge Of PSP / BSP To Bank:

Where the pledger is already in possession of the certificates. The following points are enclosed for this:

- A written authority to pledge the certificate with the Bank as security against borrowings must be issued to the pledgee by the office of issue.
- The pledge must present at the office of issue, the Bank or the Post Office, as the case may be the prescribed form for transfer applying for transfer of Certificates to the pledgee Bank. The authority letter referred to above must be attached and the certificates be presented at the same time and get the certificate4s transferred in favor of Bank.

3. Charge Documents:

Allow the advance after obtaining the following documents duly stamped:

- Demand Promissory Note.
- Bangladesh Sanchaya Patraya / Pratihaya Sanchaya Patraya duly discharged.
- Letter of lien. or
- Letter of lien, in case of advance allowed to a third party.
- Letter of Partnership along with registered partnership deed.
- Resolution along with Memorandum and Articles of Association in case of accounts of Limited Company and in case of Corporations, resolution of the Board along with charter.
- Letter of Authority for encashment of Certificated on prescribed form, introduced by Postal Authorities.
- Transfer Form.
- Identify Slip issued by the officer of issue.

Advance (Loans And Overdrafts) Against Shares

1. Advance Against Approved Shares:

- Advance may be allowed against shares of various. Companies approved by Head Office from time to time quoted in the Stock Exchange, Stock brokers or to parties as may be permitted by Bangladesh Bank from time to time, subject to margin stipulated by Bangladesh Bank.
- A list of shares approved for this purpose circulated by Head Office from time to time.

2. Survey Of Shares:

Before allowing the advance, obtain delivery of the shares and their Transfer Deed forms and thoroughly scrutinize them with regard to the following:

- They are original share scripts and bear the seal of the company.
- The shares are fully paid up. Do not allow advance against partly paid up shares, unless approved by the Head Office.
- The shares tendered as security for advance are registered in the name of the borrower, except where a reputable party with a good standing with the Bank desires to take advance against shares with blank Transfer Deeds without the shares having been transferred to his name.
- The shares are accompanied with blank Transfer Deed duly signed by the person in whose share stands and witnessed by somebody who is easily traceable.
- The company concerned under its stamp verifies the transferor's signature on the Transfer Deed.
- The Transfer Deeds are undated.
- The Transfer Deeds, as far as possible, are in marketable lots, determined by the Stock Exchange.
- A fresh set of Transfer Deeds signed by the borrower, and witnessed by somebody who is easily traceable is obtained and retained with the branch for all. Such shares, which are to be sent to various companies for registration in his/her name, before the closure of their books, if so, requested by him/her.

- These shares are lodged with the companies concerned for registration with their original Transfer Deeds, duly completed in all respects, under a covering letter from the branch, requesting them to return the shares to the branch, as the Bank has its lien on them. The Transfer Deeds attached with the shares are completed and signed by the borrower as transferee, before these are dispatched to the companies.
- A receipt is obtained from the companies and retained with branch, duly discharged by the shareholder, for exchange with the share certificates, when ready for delivery.
- The borrower's signatures on the fresh set of Transfer Deeds are verified by the companies concerned and retained with branch along with their respective share certificate when received back from them after registration.
- The branch should obtain a letter of lien from the borrower in respect of all shares which stand in his/her name, or which have been sent to the various companies for registration, in his/her name.
- Where advance has been allowed to the borrower at the specific request of a third part against shares owned by them the letter of lien will be obtained from third party and not from the borrower.
- The branch will not generally resort to transferring the shares registered in the name of the borrower or any third party, in its own name.
- In the event of transferring the shares in the name of the Bank with the approval of Head Office, branches will take special notice of any declaration Dividends, Bonus Shares or any offer of Right Shares made by the companies concerned. They will also ensure that all such Dividends and Bonus Shares are duly received by them.
- The dividend is credited to the account of the borrowers and the bonus shares are kept along with other shares of the borrowers.
- In case of an offer of Right Shares, branches will send an intimation to the borrowers concerned inquiring from them if they were interested to acquire them for the value mentioned on the letter of Right which should immediately be deposited by them with the Bank.
- If the borrowers do not deposit the money from their own resources or make any alternate arrangement in that behalf, the letter of rights may be renounced with the permission of the Head Office and the sale proceeds should be credited to the borrower's account under intimation to him/her.

3. Calculation Of Drawing Power:

If the Branch Manager is satisfied with the security offered, he/she will calculate the drawing power of the borrower on the basis of paid up value and market value whichever is lower keeping prescribed margin and also complying all other instructions in this respect.

4. Restrictions:

According to the provision of section 23(2) of Banking Companies Ordinance as adopted in Bangladesh, no banking company will hold shares in any company whether as pledgee, mortgagee or absolute owner of an amount exceeding thirty percent of its own paid up share capital and reserves, whichever is less. Branches while entertaining any application should not commit to make any advance against shares without getting a clearance from the Head Office, where a record is maintained of the total holding of different shares of the Company held by the Bank as pledgee.

5. Charge Documents:

Allow the advance on obtaining the following charge documents duly stamped:

- Demand Promissory Note.
- Letter of Lien against shares and securities for first party or third party as the case may be.
- Letter of Arrangement.
- Letter of Partnership along with Registered Partnership Deed in case of Partnership Accounts.
- Resolution along with Memorandum and Articles of Association in case of accounts of Limited Company and in case of Corporations, resolution of the Board along with Charter.
- Letter of Ownership.
- Blank Transfer Deeds duly verified.
- Personal Guarantee of directors (excepting nominated directors by Govt./Corporations) in case of limited companies.
- For Loans: Letter of Disbursements.

- For Overdrafts: Letter of Continuity.
- An undertaking from the Directors of the Limited Company to obtain prior clearance from the Bank before declaring any interim/final dividend.

6. Review Of Advance:

- Branch Manager will conduct a constant review of advances against shares and exercise vigilance over:
 - # Market rates of shares pledged.
 - # Their marketability
 - # Dividend/Bonus/Right Shares declared from time to time.
- Review will not be required in case of advances allowed to recognized share brokers against the pledge of shares.
- Suitable steps to safeguard the Bank's interest may be necessary after review and the borrower may be required to:
 - # Repay certain amount.
 - # Deposit more shares as security.
 - # Pass on the dividends/bonus shares/rights shares to the Bank.
- These should be got transferred in the name of the Bank before closure of the books of the companies concerned so that the Bank automatically receives such entitlements.
- An undertaking should be obtained from the borrower where there is significant security that the benefit as and when received by them will be passed on to the Bank for credit of or as security against the advances.
- This undertaking should be followed up to ensure that the benefits are deposited within reasonable time.

Advances (Loans/OD/CC) Against Pledge Of Goods/ Stocks

1. Points To Be Considered:

While allowing an advance against pledge of goods/stocks, take the following points into consideration subject to restrictions imposed from time to time :

- The quantity and the quality of the goods are ascertained.
- The goods are readily saleable and have a constant and effective demand in the market.
- Goods are not perishable as a result of storage for long or short duration.
- In case of agricultural crops the security pertains to the current season, and the advance is adjustable before the end of the season.
- Goods are stored in a pacca storehouse to save them from deterioration and also to guard them against risks of pilferage.
- The borrower has an absolute title to the goods.
- The goods are not already encumbered and pledged with some one else.
- The prices of the goods are not subject to frequent and erratic changes.
- Goods are stored in the warehouse in the presence of a responsible officer of the Bank.

2. Valuation Of Security / Insurance / Warehouse / Stock report:

- Careful valuation of the security and its quantity is to be made.
- The selling price of the goods offered as security is to be ascertained from the market.
- The goods are to be insured against all risks and Warehouse Keeper and Guards are to be posted in the warehouse as per rules of the Bank.
- Name plate of the Bank is to be displayed inside the warehouse and also at a conspicuous place outside the warehouse.

- The stock report is to be obtained duly signed by the borrower, indicating the goods item by item. Their quantity, rate and value are to be duly certified by the Warehouse Keeper.
- Stock must be inspected regularly by authorized Bank representative.
- Stock cards indicating the quantity of stocks in the warehouse, their value and rate, are also to be placed inside the warehouse, at a prominent place. In large warehouses with a number of stacks, separate cards for each stock are to be made and a summary of the cards is to be displayed at a prominent place.
- The locks of the warehouse are to be sealed and keys are to be deposited in the Branch.

3. Charge Documents:

After carrying out the above measures, allow the advance on obtaining the following charge documents:

- Demand Promissory Note.
- Letter of Pledge.
- Letter of Arrangement.
- Letter of Continuity for Cash Credit (CC) and Overdraft.
- Letter of Partnership along with Registered Partnership Deed in case of Partnership Accounts.
- Resolution along with Memorandum and Articles of Association in case of accounts of Limited Company and in case of Corporation, resolution of the Board along with Charter.
- Personal Guarantee of the Directors in case of Public / Private Limited Companies.
- Letter of Disclaimer.
- Stock Report.

4. Delivery Of Goods:

- Goods will have to be delivered to the parties against delivery orders, signed by two officers of the Branch, one of whom must be Manager / Officer-in-Charge, Advance Department.
- Before signing the delivery orders, the signature of the customers should invariably be verified on the application form.
- Similarly after having delivered the stock, obtain the signature of the persons taking delivery of the goods on the back of the delivery orders.
- While signing the delivery orders ensure that the customer has made adequate payment to the Bank for the goods delivered to him / her.



Advance Against Hypothecation Of Goods / Stocks

For giving the advance against Hypothecation of goods or stocks different conditions will need to be fulfilled.

1. Points To Be Considered:

Keep the following in view, when allowing advance against Hypothecation of stocks / goods subject to restrictions imposed from time to time:

- The facility is allowed only to the trustworthy and prudent customer.
- The goods are readily saleable, having a constant and effective demand in the market.
- Goods are not subject to rapid deterioration due to storage for the short or long period of time.
- The borrower has an absolute title to goods.
- The security is not encumbered, and / or hypothecation to any other Bank.
- The prices of the goods are steady.
- The goods are insured against all risks and the insurance policy bears "Bank Mortgage Clause".
- Stock report duly signed by the borrower is to be obtained at least once in a fortnight but while releasing funds, up-to-date position of stock should be obtained. In the event of default, the Bank would be free to stop further drawings.
- Stock must be inspected regularly by authorized Bank representative.
- A separate stock statement as on last day of the year duly certified by the external auditors of the company must be obtained in case of limited company.

2. Charge Documents:

Allow the advance after obtaining the following charge documents duly stamped:

- Demand Promissory Note.
- Letter of Hypothecation.
- Letter of Arrangement.
- Letter of Partnership along with Registered Partnership Deed in case of Partnership Accounts.
- Resolution along with Memorandum and Articles of Association in case of accounts of Limited Company.
- In case of corporations, resolution of the board along with Charter.
- Letter of Guarantee. (Signed by the partners and / or directors of the company in their individual capacity, except Directors nominated by Govt. / Corporation.)
- Letter of disclaimer.
- Stock report.

3. Registration Of Charge:

In case of limited companies where the case credit facilities are allowed against hypothecation of stock, the following procedure is to be adopted for getting the first charge favoring Bank registered with the Registrar of Joint Stock Companies as per Companies Acts are:

- Submit Form xviii duly filled in and signed (by the borrower) along with Letter of Hypothecation.
- This must be submitted within 21 days of the execution of the Letter of Hypothecation.
- The registrar on receiving the above documents will issue "Certificate of Registration of Mortgage."

4. Withdrawal Of Charge:

- Withdraw the Bank Charge after the advance is adjusted and the limit is cancelled.

- Submit Form xxviii along with the prescribed fee before the Registrar, who will issue a certificate to the effect that Bank's charge has been satisfied.

Advances Against Mortgage Of Immovable Property

1. Meaning Of Mortgage:

When a customer as a security for loan offers immovable property, like building and land, a charge thereon is created by means of a mortgage.

According to section 58 of the Transfer of Property Act a mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or, to be advanced by way of loan. Existing or future debt, or the performances of an engagement, which may give, rises to a monetary liability.

2. Immovable Property Defined:

Immovable property includes land and things attached to the earth like trees, buildings and fixed machinery. Machinery which is not so installed and which can be shifted from one place to another is not considered immovable property. The property in which the interest is sought to be transferred must be specific such as- the property must be capable of identification by description, like – by location, area, boundaries, etc.

3. Meaning Of The Mortgagor And Mortgagee:

The transferor is called a mortgagor, the transferee a mortgagee, the principal money and interest of which payment is secured for the time being are called the mortgage money and the instrument (if any) by which the transfer is effected is called a mortgage deed.

4. Kinds Of Mortgage:

A mortgagor can transfer either a legal interest or an equitable interest in the property mortgaged. Accordingly, mortgage that is charged is either -

- a. Equitable mortgage or
- b. Legal mortgage.

a. Equitable Mortgage

An equitable mortgage is created by an agreement, express or implied, that an equitable interest in the property will pass to the mortgagee as security for a debt due or to become due. An equitable mortgage is created by a simple deposit of

original title deed with intent to create a security thereon for the debt. The legal title to the property is not passed on the mortgagee but the mortgagor undertakes through a memorandum of deposit, to execute a legal mortgage in case the borrower fails to pay the debt in time.

- Municipal areas notified by Govt. Delivers to a creditor or the borrower's agent documents of title to immovable property, with the intent to create a security thereon, the transaction is called a mortgage by deposit of the deeds.
- The mortgage by deposit of Title Deeds is called in English Law an Equitable Mortgage.
- The restriction to the towns named refers to the place where Deeds are delivered and not to the situation of the property mortgaged. The property mortgaged may be outside the town or party within town provided the transaction is made within the town specified.
- A deposit of Deeds outside the specified town areas will create neither a mortgage nor a charge.
- Generally Equitable Mortgage against an agricultural land is not created.
- Equitable Mortgage by deposit of title Deeds of immovable properties may be created by any of the following three classes of persons:
 - Those who themselves avail of the advance against properties owned by them and which stand in their names.
 - Those who avail of the advance, for the purpose of their business, in the names of their firms or companies in which they happen to be partners or directors and deposit the Title Deeds of the immovable properties held by them in their names, as collateral securities, besides the usual charge documents, together with a letter of guarantee signed by them in their personal capacity obtained from them.
 - Those who deposit the Title Deed of immovable properties belonging to them and standing in their names, to secure the advance allowed to third parties on their recommendation. In such cases usual charge documents are obtained from the parties to whom advance is actually allowed together with a letter of guarantee from the persons depositing their Title Deeds to secure the advance.
- In addition to the original Title Deed of the immovable property and chain of documents, obtain the following documents:
 - Record of Rights.

- Up – to – date Rent Receipts.
 - Municipal Tax Receipts.
 - Non-Encumbrance Certificate otherwise called Search Certificate issued by the Sub-Registrar/ District Registrar/Authorized Agents of the place, where equitable mortgage of the property is created.
 - In all cases the owner of the property be called upon to submit an Income – Tax – Clearance certificate/ Wealth Tax certificates irrespective of Income Tax and Wealth Tax against the concerned person or the property. Production of this certificate may not be insisted in case of Equitable Mortgage and in lieu an affidavit be obtained.
 - Urban property Tax Clearance Certificate should be obtained from the Municipal Committees of the town, wherever applicable.
- The aforesaid documents are to be scrutinized by Bank lawyer, and after full satisfaction, prepare in duplicate, receipt of all the documents received, on the Bank's letterhead.
 - All other documents should also be obtained as required under local conditions.
 - Two Authorized Officers of the Bank under Rubber Stamp will sign the receipt.

Give the original receipt to the borrower and request him or her preserve it carefully and present it at the time of redemption, to exchange it with

- Demand Promissory Note.
- Letter of Arrangement.
- Letter of Continuity.
- Letter of Revival.
- Letter of Partnership along with Registered Partnership Deed in case of Partnership Accounts.
- Resolution along with Memorandum and Articles of Association in case of accounts of Limited Company. In case of Corporation, resolution of the Board along with Charter.
- Letter of Guarantee signed by the partners of the firm and/or the directors of a company in their personal capacity.

- Letter of Guarantee signed by the depositor's Title Deeds to secure the advance to third parties.
- Letter of Disbursement.
- An undertaking from the Directors of the Public Limited Company to obtain prior clearance from the Bank before declaring any interim or final dividend.
- In case of limited companies get the charge registered with the Registrar of Joint Stock Companies within 21 days and obtain a certificate from them.

b. Legal Mortgage

In legal mortgage, the mortgagor transfers the legal title in respect of the mortgaged property to the mortgagee. The mortgagee gets which is called a Legal Estate in the property and the borrower is endowed with all sorts of rights and remedies which can, for the most part, be exercised on that person's initiative and there is need to seek the cooperation of a mortgagor.

Advance Against Debenture

A Debenture is a document issued by a company usually under its common seal acknowledging the indebtedness of the company either to the bearer or to the registered holder of the document. The debts may be redeemed –

- a. At a fixed future date, or
- b. By periodical drawings, or
- c. Not redeemable while the company is a going concern.

The last class is called irredeemable debenture. Debenture is a loan to a limited company bearing a fixed rate of interest. The interest is payable whether the company makes a profit or not. Debentures may either be secured by mortgage of definite property or floating charge. If there is no charge, debentures are clean or unsecured. In case of winding up of company, the secured debenture holders can have recourse to the property charged. If unsecured, then they will rank with ordinary creditor. Debenture holders are the creditors. They are not shareholders. There are different kinds of debenture.

a. Debenture to Bearer:

Debenture is payable to bearer, with or without power for the bearer, to have them placed on register or to have them at any time withdrawn from it. These are transferable and have been recognized by courts as negotiable instruments transferable by delivery.

b. Registered Debenture:

This type of debenture is payable to a registered holder. Any transfer of these must be registered with the company.

c. Simple or Naked Debenture:

These debentures are those where no security is given for payment of interest or repayment of principal. These do not carry any charge on the assets of the company. They contain only a simple promise to pay.

d. Mortgage Debenture:

Any debenture secured by a charge, whether specific or floating, on the whole or part of the assets of the company, is called a mortgage debenture.

e. Redeemable and Irredeemable:

Redeemable debentures indicate that the company agrees to repay the money lent at a stipulated time or after a certain period of notice. Irredeemable or perpetual debentures have no date for repayment and the company may repay debentures at any time it may choose to do so. They will, however, be repaid when the company goes into liquidation or makes default in the payment of interest.

Debenture as Banker's Security:

Bankers advance money on debenture issued by companies. When banks speak of debentures as security for advances, they invariably mean debentures carrying a charge on some property of the company. This charge may be "Fixed" or "Floating". The fixed charge creates legal mortgage on some specific property of the company like – land, building, fixed plant, machinery, etc. in favor of the debenture holders. Where there is a charge on some specific part of the company's property, it is usually done by a trust deed by which a specific part of the property of the company is vested in trustees for the benefit of the debenture holders. Where there is a fixed charge, the debenture holders are free from the danger of any one securing a prior charge and the trustees are given power to sell the property charged, if that should be necessary.

A floating charge is an equitable charge on floating assets such as: Stock-in-Trade or on whole of the company's undertaking of a going concern. Where a large number of secured debentures are issued in a series, the security given will usually be a floating on the whole of company's undertaking.

Precaution and Checks:

While taking debenture as security, the banker should take the following precautions:

- i) Borrower is the registered holder of the debenture to be mortgaged.
- ii) The banker should satisfy himself as to the financial position and reputation of the company whose debentures are to be accepted as securities.
- iii) The authority of the company to issue debentures. Issue of debentures tantamount to borrowing by the company. The banker must, therefore, inspect the Memorandum of Association to find out whether it gives the

company power of borrowing though in case of trading companies this power is implied.

- iv) The banker should accept only mortgage of secured debenture as securities.
- v) The banker should preferably accept debentures with a fixed charge to debenture with a floating charge because in the matter of repayment, the debentures with a fixed charge to specific assets have priority over the debentures with a floating charge in the event of the liquidation of the company.
- vi) While advancing secured debentures, the bank should inspect the register of charges maintained by Registrar of Joint Stock Companies to ascertain whether any prior charge exists or not. When debentures with a fixed charge on some assets are accepted as security for advance, the bank should see that title deeds of the property, evidencing the title of the company to the property, are deposit with him.
- vii) Debentures accepted as security should be readily marketable and sufficient margin, say – 50%, should usually be maintained.
- viii) There is regularity in payment of interest and no arrears interest is brought into account on Balance Sheet.
- ix) Funds are being accumulated periodically by the company for redemption of debenture, which can be ascertained by referring to the specific investment in the Balance Sheet "Redemption Reserve Fund Investment Account" of the Company.
- x) A memorandum of deposit should accompany the deposit of debentures. The memorandum of deposit should authorize the banker to sell the debenture given as securities in the default of borrower in repaying the advance.

Documents are as follows:

1. Application for advances.
2. Demand Promissory Note.
3. Letter of Continuity (in case of overdraft account).
4. Letter of Lien.

5. Irrevocable letter of mandate for collection of interest etc. addressed to relative companies by the debenture holder.
6. Letter of authority given by the borrower to sell debenture in default of the borrower in repaying the loan.



Securities And Advances

1. Securities Against Advances:

The following securities are to be obtained by the branches depending on the nature of advances while allowing secured advances to the parties.

- a. Pratirakshya Sanchay Patra, Bangladesh Sanchay Patra, ICB unit certificates, Wage Earner Development Bond.
- b. Fixed Deposit Receipt issued by any branch of IFIC Bank Limited.
- c. Shares quoted in the Dhaka Stock Exchange Limited.
- d. Pledge of goods and produce.
- e. Hypothecation of goods, produce and machinery.
- f. Immovable property.
- g. Fixed assets of a manufacturing unit.
- h. Checks, Drafts, Pay Order, Railway Receipts, Steamer Receipts ; Burge Receipts of the Govt. Or Corporations.
- i. Shipping documents.

2. Which Advances Against Which Securities:

All securities are not suitable for all type advances. Each security has its own suitability. Specific securities to be obtained by the branches while allowing advances are shown below against the types of advances:

Types Of Advances	Securities
Loans	Lien of various kinds of Sanchay Patras, Govt. Securities, Shares quoted in the Stock Exchange, Debentures, Fixed Deposit Receipts, Pledge Of gold or gold ornaments, hypothecation of vehicles, Collateral of immovable properties.
Overdraft	Sanchaypatra, Non-resident Foreign currency deposits (NFGD), Shares, Debentures, Govt. Promissory Notes,

	Fixed Deposit Receipts, Life Insurance Policies, gold or gold ornaments, work order.
Cash Credits	Pledge or hypothecation of stock-in trade, Goods, produce and merchandise, machineries, land and building on which machineries are installed.
Inland Bills Purchase	Bill itself.
PAD	Shipping documents for imports.
LIM	Pledge of imported merchandise.
TR	Trust Receipt obtained in lieu of import documents.
Export Cash Credit	Pledge or hypothecation of goods or export Trust Receipts
Foreign Bills Purchased	Shipping documents for exports.

Interpretation Of Lending Categories

Explanation:

There are different types of lending categories and which has different and separate definitions of all types. Loans or advances include fixed forms loans, cash credits, overdraft facilities etc. in the lending categories there are two types of term loan those are:

- a. Fixed Term Loan, and another one is -
- b. Continuous Credit or Loan.

The definitions and all the lending categories are as follows:

- a. Fixed term loans are **advances with fixed repayment schedules**, the terms of loans are defined as follows:
 - i) **Short Term: Up to and including 12 months.**
 - ii) **Medium Term: More than 12 and up to and including 60 months.**
 - iii) **Long Term: More than 60 months.**
- b. Continuing credits are advances, which have an expiration date, but no fixed scheduled of repayment.

The definitions of both the Fixed and Continuous Loans are defined in terms of their functions. All the lending categories have different procedures for the loan taking and its repayment. There are different 11 lending categories those are discussed in the following:

1. Agriculture:

The loans are given for different purpose. And among those one of the loans made to primary producers like – Farms, fishing establishments, forestry establishments, and livestock operation. Loans to processors or traders of agricultural products are not to be classified as agriculture, nor are loans to input suppliers. Agriculture refers to a production unit engaged in farming, fishing, forestry, or livestock.

This category may include –

- * Short Term.

- * Medium, and
- * Long fixed term loans as well as continuing credits.

According to the agricultural loans are categorized by different ways. Those are like:

- However, loans can be made to tea gardens for export according to the definition in category No. 6 and such loans should be treated as export rather than agricultural loans.
- Loans to tea gardens for production are treated as agricultural.
- Medium and long term loans to tea gardens are classified as industrial term lending (lending category #2) or special program industry and the category No. 9.1 according to the total investment in the tea garden.

2. Industrial Term Lending:

This category covers –

- * Medium and
- * Loan term loans for manufacturing.

However, tea gardens are to be encompassed in this category if they qualify by size, otherwise as "Special programs – industry". The loans must be to constitute, which is producing goods for sale to the public. Service industries are excluded and are to be placed under the "Other" category # 11. Small and cottage industry lending is excluded from this category and is to be included under the "Special programs – small industry" category # 9.1. Those industries have working capital loans are not included in this category # 4.

3. Jute Working Capital:

This type of Lending category is the continuing credits to jute mills. That means the loan period will be renewable before the expiry date as extension.

4. *Other Manufacturing Working Capital:*

There are also loans for the working capital to manufacturing establishments. These loans are usually –

- Continuing credits, but may manifested short fixed term loans.
- Short-term loan weaver credits are to be included here.
- However, advances for service structures are to be included in other commercial lending.

5. *Jute Exports:*

These loans for –

- Exports of jute manufactured products or
- Raw jute against confirmed export orders.
- Generally these are continuing credits but may be short fixed term loans.

6. *Other Exports:*

- Loans are for exports of all items other than jute against confirmed export orders.
- Usually, these are continuing credits but may include some short fixed term loans.
- These loans may be to any establishment, which is exporting directly.

7. *Jute Trading:*

Loans to jute traders for domestic operations. These are generally continuing credits.

8. *Other Commercial Lending:*

For other commercial lending –

- Short term loans and continuing credits for commercial purposes other than confirmed exports and jute trading.

- These loans include internal trade, service establishments and import financing.
- No medium or long terms are to be included.

9. *Special Programs:*

There are different programs are in the lending categories, which are as follows:

9.1. *The special programs are:*

- Special programs small industry covers medium and long-term loans for small and cottage manufacturing industries. [Small industry is so called those which are established whose total investment in fixed capital – land, building, machinery and equipment which are excluding any taxes and duties. Those fixed capitals is not exceed 36 million taka and investment in machinery and equipment which are also excluding taxes and duties and does not exceed 15 million taka. Cottage industries are also called like this Small industry.]
- There is no short term or continuing credits is to be included in this category.
- Medium and long-term weaver credits are included.

10. *Urban Housing:*

There are some lending rules for urban housing. Those are as follows:

- Medium and long term loans for housing construction to individuals or developers.
- The housing must be located within urban areas (Municipalities).
- When the bank sanction the loan for the outside urban areas then the bank may the rural housing program and which is considered as a special program.
- If there is any borrower who is eligible for the rural housing program then the urban housing rate can be used if the bank wishes to expend a loan, and such loans are to be included under urban housing.

11. Others:

Any loan that does not fall in any of the above categories is considered "other". This includes loans for transport equipment, construction other than housing, cold storage facilities, and personal loans.

There are Additional Notes on Lending Category. Those are:

1. Loans under the credit scheme for unemployed youth trained by the Youth Ministry are considered to fall into the category appropriate for the borrower. The if this is for a manufacturing establishment it would be included in category # 3 – Working Capital.
2. Loans made under the self-employment credit scheme or the Women Entrepreneur Development Program follow the same principle as in 1 above.
3. Export Development Fund (EDF) loans are considered foreign currency loans and interest rates are as set in the Circular describing the EDF.

Consumers Credit Scheme (CCS) Of IFIC Bank

IFIC Bank presents a very special offer for the consumers for meet their different needs and demand what they can't effort by their own capability. In today's world, the person and the family have so many dreams and wants, but the limited income resist their dream and for fulfilling their needs and demand that means make the dreams come true IFIC Bank arrange a very good offer, which is called Consumer Credit Scheme.

Most of the people of the country are not much in the better position, motts of them are in the middle waged and live a medium life with a mid capacity. When the bank come up with new offerings for the mid level consumers then they are really want to go for taking those type facilities to buy any luxurious things for fulfill their needs and demand. That means the bank offers a good thing for the general consumers that when the consumers want to consume any product, which is costly the consumer will provide some percentage of that product price and the then the bank will provide the left portion what the consumer can't pay.

The consumers can consume under IFIC Consumer Credit Scheme those are as follows:

a. Vehicles:

Cars / Micro – buses, 4 Wheel drives, Small jeeps, motor cycles, Mope9ds Two-wheeler) etc. :

b. Domestic Appliances:

Air conditioners, Refrigerators, Deep Freezers, Washing machines, Mobile phones, Cooking ranges, Microwave ovens, Furniture and other Domestic appliances.

c. Office Equipment:

Under Office Equipment the office can purchase some equipment those are - Personal computers, Photocopiers, Facsimile machines, Small non-commercial Generators, Other Office equipment, I.P.S.

d. Entertainment:

The entertainment items are – V.C.D / V.C.R / V.C.P, Music system, Sound system, Video camera with accessories.

e. Intangible items:

For Holidays, Education, Medical expenses.

f. Others:

Home repair, Redecoration, Renovation.

And for these the consumer has to maintain different rules and regulations, which are given, by the bank. And also the consumers are recognized and selected by the bank. All the rules and regulations are given below:

1. Eligibility Criteria:

There are different criteria all are as follows:

- a. The potential borrower must be a national of Bangladesh and aged at least 18 years.
- b. The potential borrower's employer, business or profession, as the case may be, should preferably be located in the same town or city as his or her residence and lending branch of IFIC Bank Ltd.
- c. The potential borrower must provide his or her permanent residential address in case he or she is living in a rented house or flat.
- d. Each prospective borrower must open a Savings Account with the branch.
- e. The potential borrower should preferably be a regular Income Tax and or other applicable Taxpayer. Last Tax paid assessment certificate prominently indicating TIN should preferably be submitted with the loan application form.

Loan For Service Holder:

For service holder there are different rules and regulations are as follows:

- a. The borrower can be any person employed by a reputed company as a confirmed employee. He or she must submit certificate regarding salary, confirmation and length of service.
- b. The borrower has to minimum monthly take home salary should not be less than Tk.5000/- and 3 times of Equated Monthly Installment, which is called by the Bank EMI.

- c. He or she must have at least 5 years of employment left.

Credit Scheme For Self Employed Person:

When the credit scheme for the self employed person then the other rules are maintained. Those are:

- a. A self-employed person must be of repute in the respective profession or any business.
- b. The borrower must have a net take home income of at least Tk. 10,000/- per month and 3 times of **Equated Monthly Installment (EMI)**.
- c. He or She will have to run in his or her own business for at least 5 years and has a satisfactory banking relationship with **IFIC Bank Ltd.**
- d. He or she must submit up-to-date trade license of his or her business concern.

Credit Scheme For Defense Service Personnel:

There are additional and diverse principles and directions for the defense people when they want to get the loan from the bank. The rules are discussed as follows:

- a. Employer's certificate should be obtained only from the commanding officer of the borrower's unit.
- b. In case of soldier, the guarantor should not be below the rank of Junior Commission Officer.
- c. The respective unit of the borrower will provide a guarantee certificate that the borrower will pay the monthly installment in due time.

All the other terms and conditions are same as service holders.

2. Item Financed:

The bank has some rules and regulations, which is Item Financed. That means the bank will finance on the basis of the item what the consumer wish to buy. There are when the consumers want to buy domestic Appliances, Office Equipment and Entertainment Equipment.

3. Limit Range:

The limit is for the Consumer Credit Scheme is Tk.10,000/- to Tk.7,00,000/- for the consumers for their fulfillment their needs and demand.

4. Loan Amount:

The loan amount will be 80% of the Invoice or Quotation Amount. That means the consumer will arrange 80% of the product expense and the left amount 20% will provided by the bank.

5. Down Payment:

Minimum equity contribution will be 20% of the invoice/quotation amount, which will be realized from the borrower's Savings Account.

6. Interest Rate And Fees:

The interest and fees will have to be paid by the borrower. The amount is:

- a. Each set of Application Forms Tk.30/-.
- b. Interest rate is Tk.16.50% P.A. with quarterly rest.
- c. 2% service charge of the loan amount (minimum Tk. 500/-) will be realized from the borrower's Savings Accounts.
- d. 2% Risk Fund of the loan amount will be realized from the borrower's Savings Account.
- e. Stamp Charge Tk.470/-.

7. Payment Order:

A Payment order of the Invoice or Quotation Amount will be issued in favor of the supplier of the consumer item.

8. Application Form And Other Forms:

Consumers must submit Application Form (Bank's prescribed form) duly filled in and also submit the following item.

- a. Form-A Letter from the borrower to his or her employer.
- b. Form-B Employer's certificate to the Bank.

9. Photograph:

A recent passport size photograph of the consumer (attested by the employer or the guarantor when consumer is a businessman) and also the guarantor (attested by the Gazette Officer)

10. Delivery The Product Memo And Money Receipt:

The borrower must have to submit the delivery memo and the money receipt that how much the product price, which is the asset purchased to the lending branch.

11. Repayment Arrangement:

The bank also concerns the repayment arrangement. Where also there are many rules those are given below:

- a. The installment will be payable monthly on or before 7th of the subsequent month.
- b. Post dated checks of the amount equal to the installment size (one of each installment) and one undated check (double of installment size) in favor of IFIC Bank Ltd. should be submitted before disbursement of the loan.

12. Penal Interest:

Penal interest for delayed payment will be charged Tk.50/- if the installment is not paid within 15 days from the 7th of each month. Thereafter, Penal Interest for delayed payment will be charged Tk.75/- for subsequent delay of each 15 days.

Classification Of Loans And Advances:

A. Types of Loan:

As per BCD Circular No.34 dated November 16, 1989 Loans and Advances are divided into four categories for loan classification purpose, as under:

- i) Continuous
- ii) Demand
- iii) Fixed Term
- iv) Short Term Agricultural and Micro Credit.

Brief description of each type of Loan is given below:

Nature Of Loan	Characteristics	Example
a) Continuous :	<ul style="list-style-type: none"> • The loan has no particular repayment schedule • Loan contains date of expiry, credit limit, etc. • The borrower may draw funds up to the limit sanctioned. • Typically the borrower deposits and draws money according to the need of the enterprise. 	<ul style="list-style-type: none"> • Cash Credit (C.C.) - (Hypothecation) • C.C. (Pledge) • Security Overdraft (SOD), LIM, ECC. • Loan General etc.
b) Demand:	<ul style="list-style-type: none"> • The loan is repayable on demand. • Without having prior approval as a regular loan (i.e. contingent and any other liability), but converted to compulsory or Forced Loan subsequently. 	PAD, FBP, IBP, IDBP, IFDBC, LIM (Forced) LTR PAD (Forced) etc.
c) Fixed Term:	<ul style="list-style-type: none"> • Repayable within a particular period of time. • Specific installment schedule for repayment. 	Term Loan (others) Term Loan (Industry) House Building Loan Consumer Credit Loan Transport Loan etc.
d) Short Term Agricultural	<ul style="list-style-type: none"> • Enlisted as Short Term Credit under Annual Credit Program 	Agricultural Credits, Weaving Loan,

and Micro Credit:	<p>of Agricultural Credit Department, Bangladesh Bank.</p> <ul style="list-style-type: none"> • Also include credit extended to agricultural sector and repayable within less than 12 months. • Short Term Micro Credit not exceeding Tk.10,000.00 and repayable within 12 months. 	<p>Swanivar Credit, etc.</p> <p>Not disbursed by IFIC.</p>
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B. Overdue Loan: Definition of Overdue:

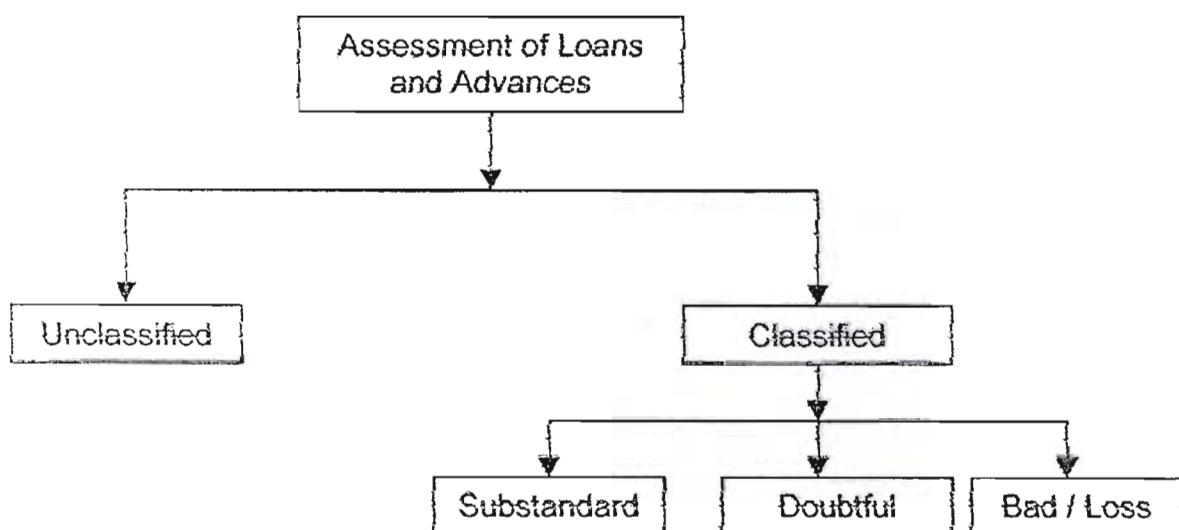
Nature Of Loan	Definition of Overdue	Calculation of Overdue Period	Example
1. Continuous Loan (CL2)	<p>Advance not renewed and date of expiry passed</p> <p>Becomes overdue on the date of expiration.</p>	<p>Difference between the reference date of classification and expiry date.</p>	<p>Limit expired on January 31, 2001. Reference date March 31, 2001.</p> <p>Loan is overdue for 2 months.</p>
2. Demand Loan (CL3)	<p>Becomes due one month after the bank requires payment through formal notification to the borrower.</p>	<p>Difference between the reference date of classification and expiry date.</p>	<p>PAD created on April 4, 2001, payment became Overdue on May 30, 2001. Reference date June 30, 2001.</p> <p>Overdue period 1 month.</p>
3. Term Loan for less than 5 years (CL4)	<p>Becomes Overdue whenever an installment is not received by the bank.</p>	<p>Time equivalent of installment = $\frac{\text{Arear} \times \text{Frequency}}{\text{Installment size}}$ = --- months</p> <ul style="list-style-type: none"> • Arrear = Amount payable at Ref. 	<p>ABC Co. Ltd. Enjoying Term Loan failed to pay quarterly installment as under;</p> <ul style="list-style-type: none"> • Size of installment =

		<p>Date less Amount already paid</p> <ul style="list-style-type: none"> • Frequency = No. Of Installments per year. 	<p>Tk.30,000/-</p> <ul style="list-style-type: none"> • Amount Payable = Tk. 90,000/- • Amount paid = Tk.50,000/- <p>Date of last payment: March 30, 2001</p> <p>Reference date: June 30, 2001. Time equivalent of installment = $(40,000 \times 4) / 30,000 = 5$ months.</p>
4. Term Loan for more than 5 years (CL5)	Becomes Overdue 6 months after an installment not received by the bank.	<p>Time equivalent of installment = $\text{Arear} \times \text{Frequency} / \text{Installment size} = \text{--- months}$</p> <ul style="list-style-type: none"> • ArEAR = Amount payable at Ref. Date less Amount already paid • Frequency = No. Of Installments per year. 	<p>XYZ Co. Ltd. Enjoying Term Loan failed to pay by monthly installment as under;</p> <ul style="list-style-type: none"> • Size of installment = Tk.20,000/- • Total Amount Payable at Ref. Date = Tk. 140,000/- • Total Amount paid = Tk.90,000/- <p>Date of last payment: March 15, 2001</p> <p>Reference date: June 30, 2001. Time equivalent of installment = $(50,000 \times 6) / 20,000 = 15$ months.</p>

C. Scale Of Classification:

As per BCD Circular No. 34 of 1989 all loans are to be assessed as either Unclassified or Classified. On the basis of reduced chance of repayment loans are classified as under:

Classification Status	Basis of Judgement
i) Substandard	# Impaired by evidence that the borrower is unable to repay, But, # There is a reasonable prospect that the loan's condition can be improved.
ii) Doubtful	# Impaired by evidence that it is unlikely to be repaid in full, But, # Special collection efforts might eventually result in partial recovery.
iii) Bad / Loss	# Very unlikely that the loan can be recovered.



D. Basis for Loan Classification:

a. Objective Criteria :

BRPD Circular No.16 dated December 6, 1998 and
BRPD Circular No.16 dated May 14, 2001 for determining the
preliminary classification status.

1. Continuous Loans (CL2):

Overdue Period	Classification Status
a) Less than 6 months	Unclassified (UC)
b) 6 months or more but less than 9 months	Sub-Standard (SS)
c) 9 months or more but less than 12 months	Doubtful (DF)
d) 12 months or more	Bad / Loss (BL)

2. Demand Loss (CL3):

Overdue Period	Classification Status
a) Less than 6 months	Unclassified (UC)
b) 6 months or more but less than 9 months	Sub-Standard (SS)
c) 9 months or more but less than 12 months	Doubtful (DF)
d) 12 months or more	Bad / Loss (BL)

3. Term Loans up to 5 years (CL4):

Overdue Period	Classification Status
a) Less than 6 months	Unclassified (UC)
b) 6 months or more but less than 12 months	Sub-Standard (SS)
c) 12 months or more but less than 18 months	Doubtful (DF)
d) 18 months or more	Bad / Loss (BL)

4. Term Loans for more than 5 years (CL5):

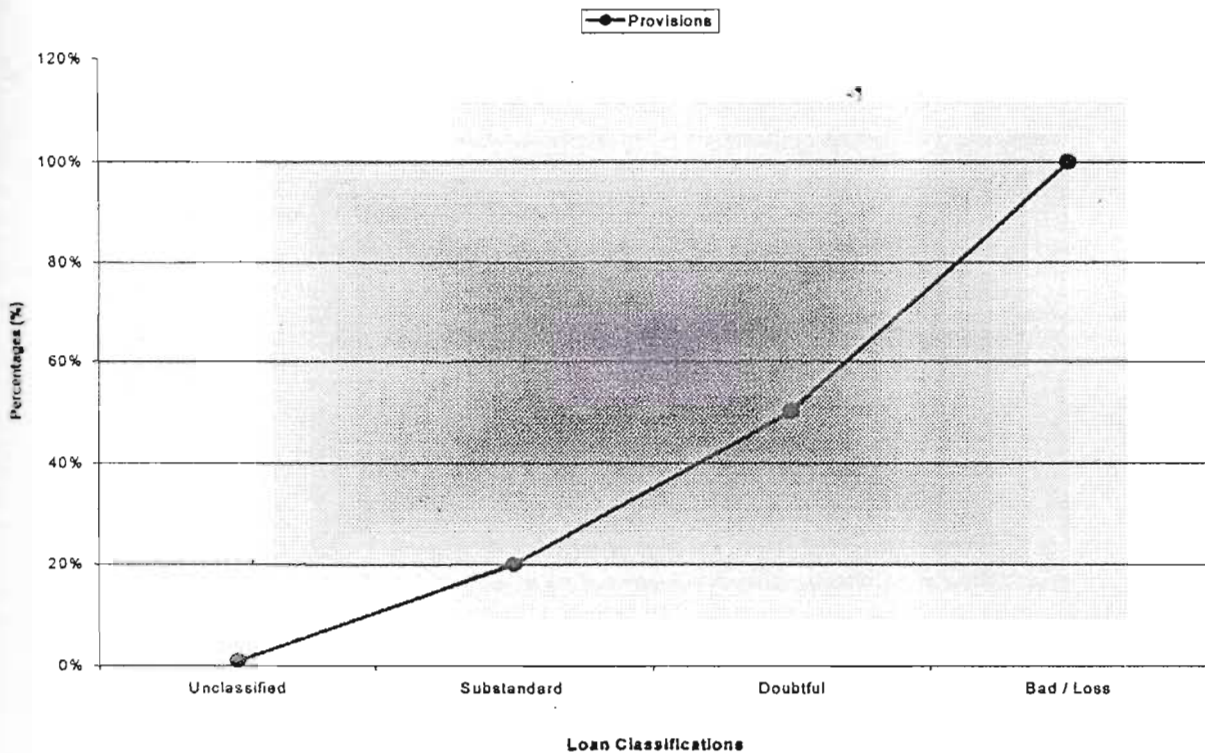
Overdue Period	Classification Status
a) Less than 12 months	Unclassified (UC)
b) 12 months or more but less than 18 months	Sub-Standard (SS)
c) 18 months or more but less than 24 months	Doubtful (DF)
d) 24 months or more	Bad / Loss (BL)

5. Short Term Agricultural Credit / Micro- Credit (CL6):

Overdue Period	Classification Status
a) Less than 12 months	Unclassified (UC)
b) 12 months or more but less than 36 months	Sub-Standard (SS)
c) 36 months or more but less than 60 months	Doubtful (DF)
d) 60 months or more	Bad / Loss (BL)

Loan Classifications and its Provisions:

Loan Classifications	Provisions
Unclassified (UC)	1% (For all UC)
Substandard (SS)	20%
Doubtful (DB)	50%
Bad / Loss (BL)	100%



b. Qualitative Criteria:

The Qualitative Criteria will be judged on the basis of qualitative factor.

The bank has reason to believe that the borrower may not be able to repay the loan due to change in the circumstances under which the loan was originally sanctioned, like –

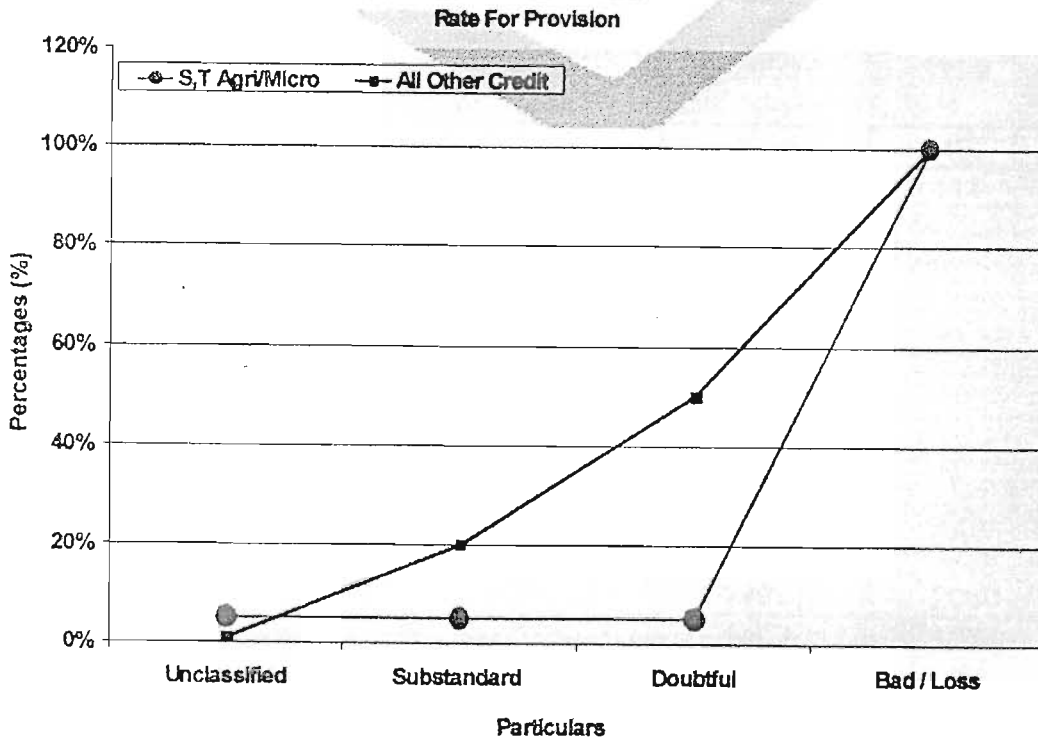
- More than a normal risk due to adverse financial condition (arising from loss of a borrower's capital).
- Poor financial performance of the borrower (borrower's cash flow is insufficient to serve debt requirements).
- Due to insufficiency of security (value of security is less than the loan outstanding).
- Other unfavorable factors.

This judgement can be made regardless of whether the loan is overdue or not.

Rate For Provision

Particulars	Short Term (ST) Agri/Micro	All Other Credit
Unclassified (UC)	5%	1%
Substandard (SS)	5%	20%
Doubtful (DB)	5%	50%
Bad / Loss (BL)	100%	100%

The rate for provision of the short term loan different in all the particulars, which is same for UC, SS, DB, and the rate is the highest for Bad/Loss. The rate of recovery of UC, SS, and DB is less because those are for short term and loss will not be large. And the rate of BL is 100% because if the loan will be in that position, which will never repaid then the bank will have to consider a big loss and which make the bank in a big trouble. So for recovery that Bad/Loss the Bank will make their provision 100% for Bad/Loss. That's why the curve is constant for the UC, SS, DB and upward for BL.



Different Loan Classified Position And The Data Of The Bank For Three Years From 1999 To 2001:

Loan Classification and provisioning as on Years 2000 and 2001:

(Amount in Lac)

Status	2001	2000	Net Increment
Total No. of Accounts	1087	1275	188
No. of Accounts Classified	375	353	-22
Total Advance	74953.59	76511.98	1558.39
Total Advance Classified	19373.8	19165.31	-208.49
Ratio of Classified Advance to Total Advance	25.85%	25.05%	-0.80%
Total Cumulative Provision Required	7632.47	7896	263.53

Loan Classification and provisioning as on Years 1999 and 2000:

(Amount in Lac)

Status	2000	1999	Net Increment
Total No. of Accounts	1275	1497	222
No. of Accounts Classified	353	411	58
Total Advance	76511.98	76472.31	-39.66
Total Advance Classified	19165.31	17835.32	-1329.99
Ratio of Classified Advance to Total Advance	25.05%	23.32%	-1.73%
Total Cumulative Provision Required	7896	5723.85	-2172.15

The ultimate position of the loan classification and provisioning as on three years from 1999 to 2001:

(Amount in Lac)

Status	1999	2000	2001
Total No. of Accounts	1497	1275	1087
No. of Accounts Classified	411	353	375
Total Advance	76472.31	76511.98	74953.59
Total Advance Classified	17835.32	19165.31	19373.8
Ratio of Classified Advance to Total Advance	23.32%	25.05%	25.85%
Total Cumulative Provision Required	5723.85	7896	7632.47

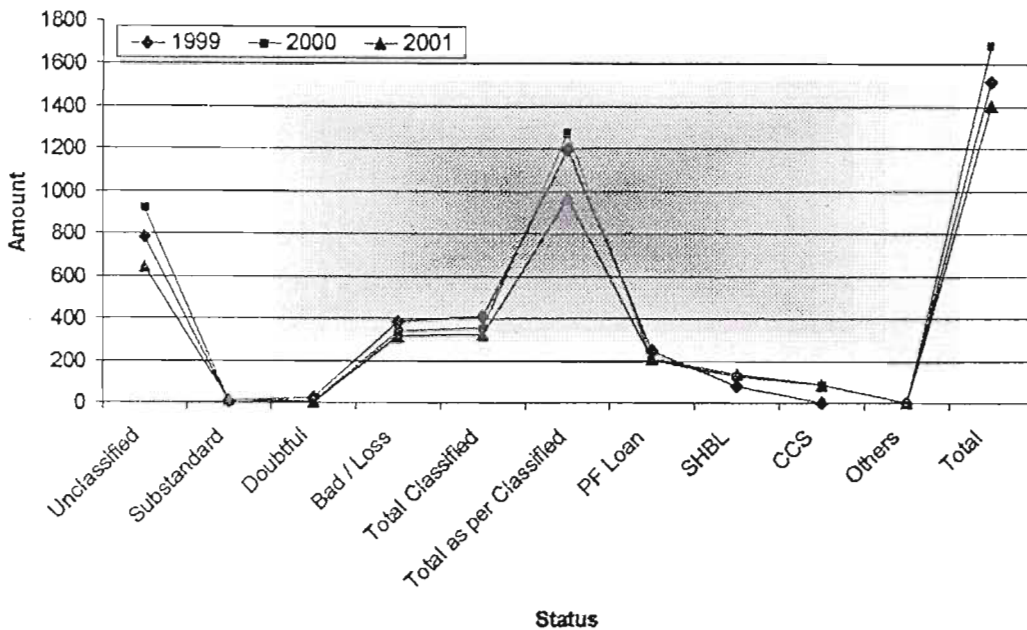
From the table and the Figure it can be found that total number of accounts, number of accounts classified and total advances are less in the year 2001 than 2000 and also 1999. But total advance classified amount is increasing, which is more in 2000 than 1999 and also more in 2001 than 2000. But total Cumulative Provision Required is more in 2000 than 1999 but the amount is less in 2001 than 2000.

The Ratio of Classified Advance to Total Advance is also increasing in each year and that means the amount will be go upward on the basis of this reading.

Loan Classification And Provisioning As On The Last Three Year From 1999 To 2001 (No. Of Accounts):

Year	Unclassified	Substandard	Doubtful	Bad / Loss	Total classified	Total as per Classified	PF Loan	SHBL	CCS	Others	Total
1999	784	7	20	384	411	1195	246	78	0	0	1519
2000	922	11	6	336	353	1275	202	122	87	0	1666
2001	644	9	1	318	328	972	207	138	87	0	1404

Loan Classification and Provisioning as on The Last Three years
(No. of Accounts)



**Nature Wise Summary of Loan Classification For Three
Years From 1999 To 2001:**

On 31.12.1999:

(Amount in thousand)

Code Nature of Advance	NO of Account	Total Amount Classified	Interest Suspense	Eligible Security	Base of Provision	Required Provision
Cash Credit (CC)	107	811696	289630	340685	271402	177249
SOD	83	460762	180530	93688	210409	142933
LTR	52	319492	159350	131931	74709	70249
LIM	33	42661	24455	0	19221	19221
PAD	124	133954	719	1800	131435	99170
ECC	4	11248	4066	0	7212	7212
FDBP	5	3560	0	0	3560	3560
IBP	3	159	0	0	159	159

Total amount of Loan Sanction, Disbursement and Recovery Rate:

On 30.12.1999:

(Figure in Lac)

Status	Unclassified (UC)	Classified (CL)	Total
Loan Sanctioned and Disbursement	59837.04	17835.40	77672.44
Recovery Rate	2595.21	87.24	2682.45

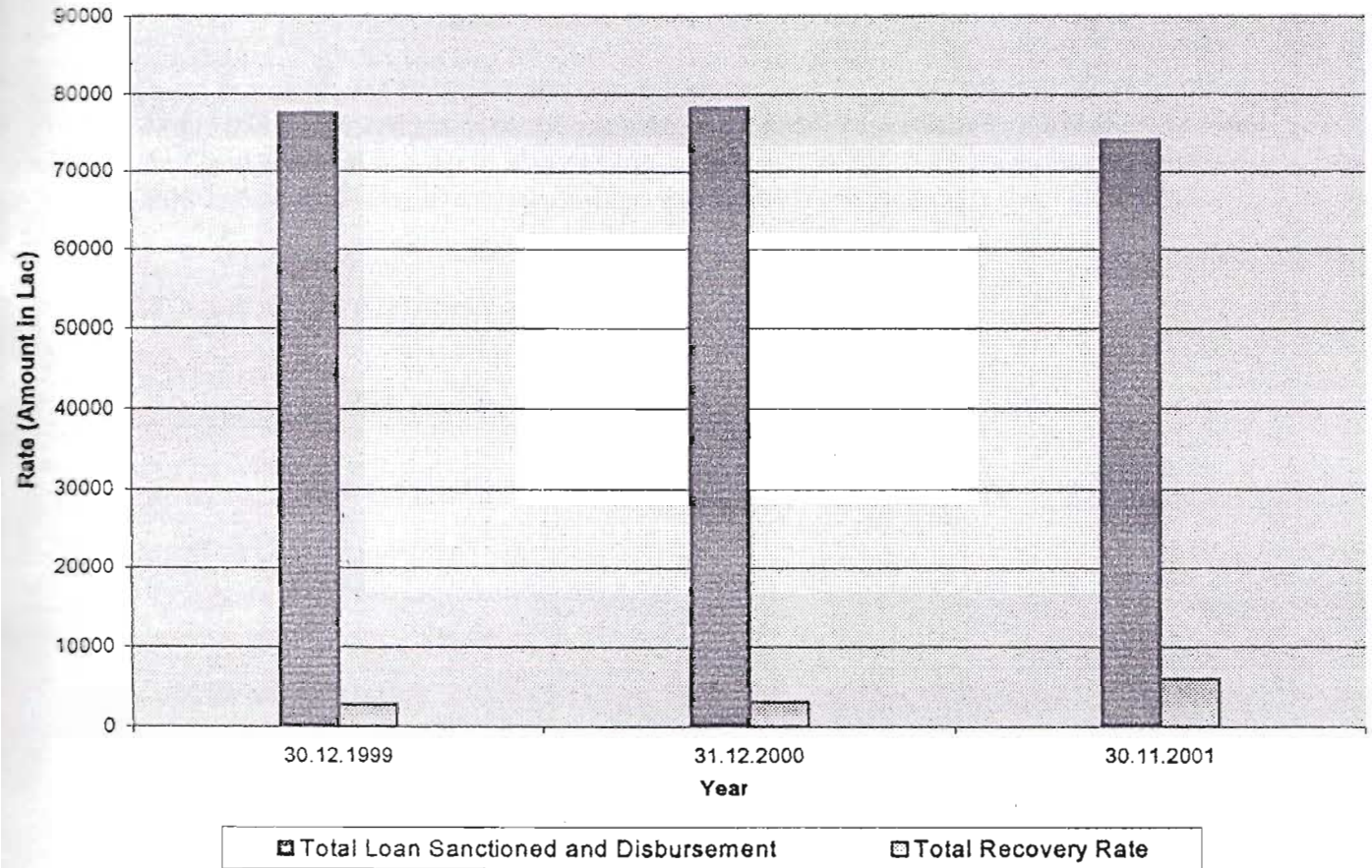
On 31.12.2000:

Status	Unclassified (UC)	Classified (CL)	Total
Loan Sanctioned and Disbursement	59153.01	19165.32	78318.33
Recovery Rate	2844.21	246.73	3090.94

On 30.11.2001:

Status	Unclassified (UC)	Classified (CL)	Total
Loan Sanctioned and Disbursement	59184.49	14870.39	74054.88
Recovery Rate	3768.32	2183	5951.32

Total Loan Sanctioned, Disbursement and Recovey Rate



From those three figures of three year it can say that the total amount of Loan sanctioned and Disbursement is same. From that it can also measured that the total amount of loan sanctioned and disbursements are become lower than that means the total amount loan sanctioned and disbursements are more in 2000 than the year of 1999 but in 2001 up to November the amount is lower than 2000. And the recovery rate is increasing from 1999 to 2001 that means the total amount of recovery will be in the upward slopping.

If make more clarify then it can say that the amount of UC of loan sanctioned and disbursements are decreasing because of adequate and perfect moral clients. But if the loan sanctioned and disbursements are increased then it is good for the bank because the bank can earn more profits, but decreasing the loan sanction it make the bank weak in terms of their earnings. And the total recovery rate of UC portion the amount is increasing and it is very good sign for the bank because the bank can refund their loan regular basis and if the amount is good then the risk

will be reduced. The recovery rates of three years are shown the good future for the bank.

The total amount of Classified loans are in 2000 was higher than 1999 and in 2001 up to November the amount is lower than 2000. If this trend is continued then the bank will be good position because their risk will reduced. On the other hand the total amount of recovery rate of CL loan was more in 2000 than in 1999 but that amount is also in a very higher position in 2001 up to November than 2000. And it is also a very good sign for the bank fir reducing the risk to loss.

Loan Classification and Provisioning:

Number of Accounts for three years:

(Figure in

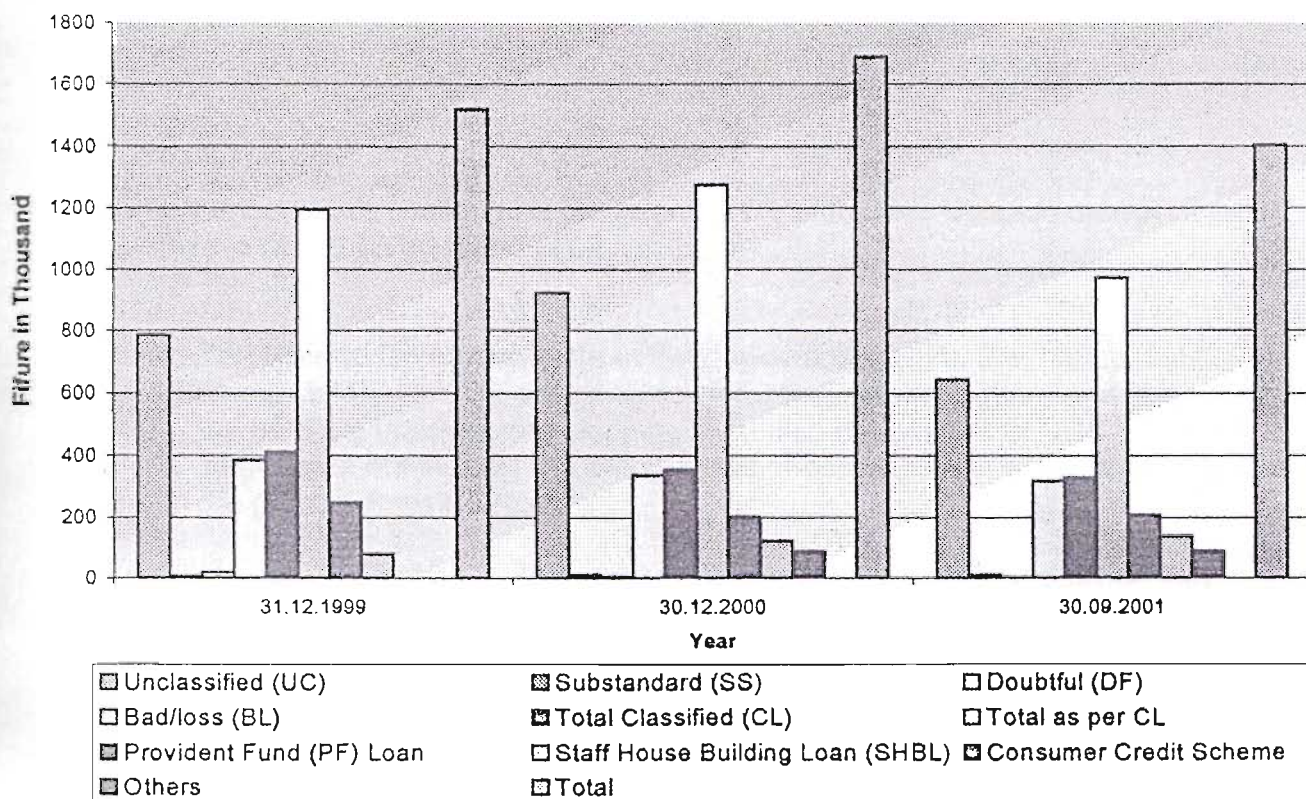
thousand)

Status	No. Of Accounts 31.12.1999	No. Of Accounts 30.12.2000	No. Of Accounts 30.09.2001
Unclassified (UC)	784	922	644
Substandard (SS)	7	11	9
Doubtful (DF)	20	6	1
Bad/loss (BL)	384	336	318
Total Classified (CL)	411	353	328
Total as per CL	1195	1275	972
Staff Loans :			
Provident Fund (PF) Loan	246	202	207
Staff House Building Loan (SHBL)	78	122	138
Consumer Credit Scheme	-	87	87
Others	0	0	0
Total	1519	1686	1404

In the loan classification and provisioning the Number of Accounts for three years it can be found all the status –

- The total Number of Accounts for UC and Substandard are fluctuating position in three years. That means in 2000 the number was increasing than the year 1999 and also in 2001 the number was declining than in 2000, so in the figure the bars are in the fluctuating position.
- The total Number of Accounts for DF, BL and ultimately total Classified and Total as per total classified loans are decreasing for the three years from 1999 to 2001. So the in the figure the DF, BL, Total CL and As per total CL loan shafts are declining position.
- In the status of the Stuff Loans and under this the PF and SHBL loans are in the declining position. So in the figure the PF and SHBL bars are in the declining position from the 1999 to 2001.
- On the other hand the other portions of Stuff loans – CCS is in 1999 was absent and others portion there is no figure.
- Ultimately, the total status position of the Loan Classified and Provision is in the fluctuating position and that's why the bars of the figure are in the downward slopping.

No. of Accounts of Loan Classification and Provosion



Balance Outstanding for three years:

(Figure in thousand)

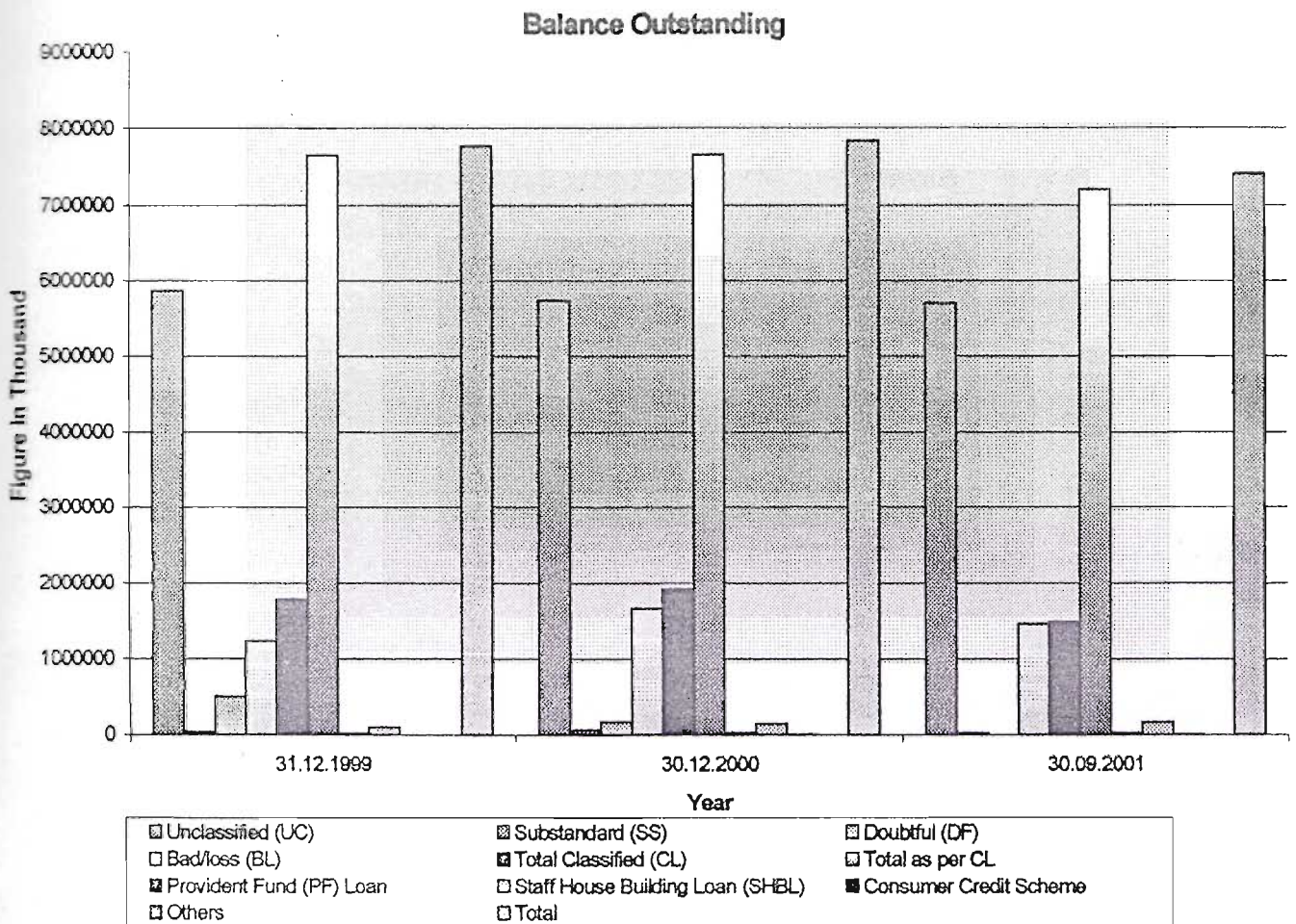
Status	31.12.1999	30.12.2000	30.09.2001
Unclassified (UC)	5863699	5734665	5702629
Substandard (SS)	41899	65742	32879
Doubtful (DF)	511154	178884	516
Bad/loss (BL)	1230485	1671906	1460938
Total Classified (CL)	1783538	1916532	1494333
Total as per CL	7647237	7651197	7196962
Staff Loans :			
Provident Fund (PF) Loan	19180	24815	30702
Staff House Building Loan (SHBL)	100827	153040	170231
Consumer Credit Scheme	-	2781	2605
Others	0	0	0
Total	7767244	7831833	7400500

In the loan classification and provisioning the amount of Balance outstanding for three years it can be found of all the status –

- The UC and DF amounts are in the downward position that means the amount of UC and DF are gone down for the last three years and that's why the bars are in downward slopping. And also the amount of CCS is in 1999 was absent but in 2001 the amount was gone down than in 2000. So the bars are going downward slopping.
- The SS, BL, Total CL, Total as per CL are in the fluctuating position that means the amount what the amount in 1999 then it was gone up in 2000 and

again it was gone down. So the shafts of the three years are fluctuating position.

- In the stuff loan except CCS the amount of PF and SHBL are increasing and that's why the bars are going upward, which can be found from the figure.



- So ultimately, the total balances outstanding of the different status are in the fluctuating position. That means the amount is increasing in 2000 than in 1999 and again it was gone down in 2001. So the bars are in fluctuating position.

Interest Suspense for three years:

(Figure in thousand)

Status	31.12.1999	30.12.2000	30.09.2001
Unclassified (UC)	82052	34413	29113
Substandard (SS)	0	8263	6801
Doubtful (DF)	37703	14765	59
Bad/loss (BL)	621017	649897	452253
Total Classified (CL)	658720	672925	459113
Total as per CL	740772	707338	488226
Staff Loans :			
Provident Fund (PF) Loan	0	0	0
Staff House Building Loan (SHBL)	0	0	0
Consumer Credit Scheme	-	0	0
Others	0	0	0
Total	740772	707338	488226

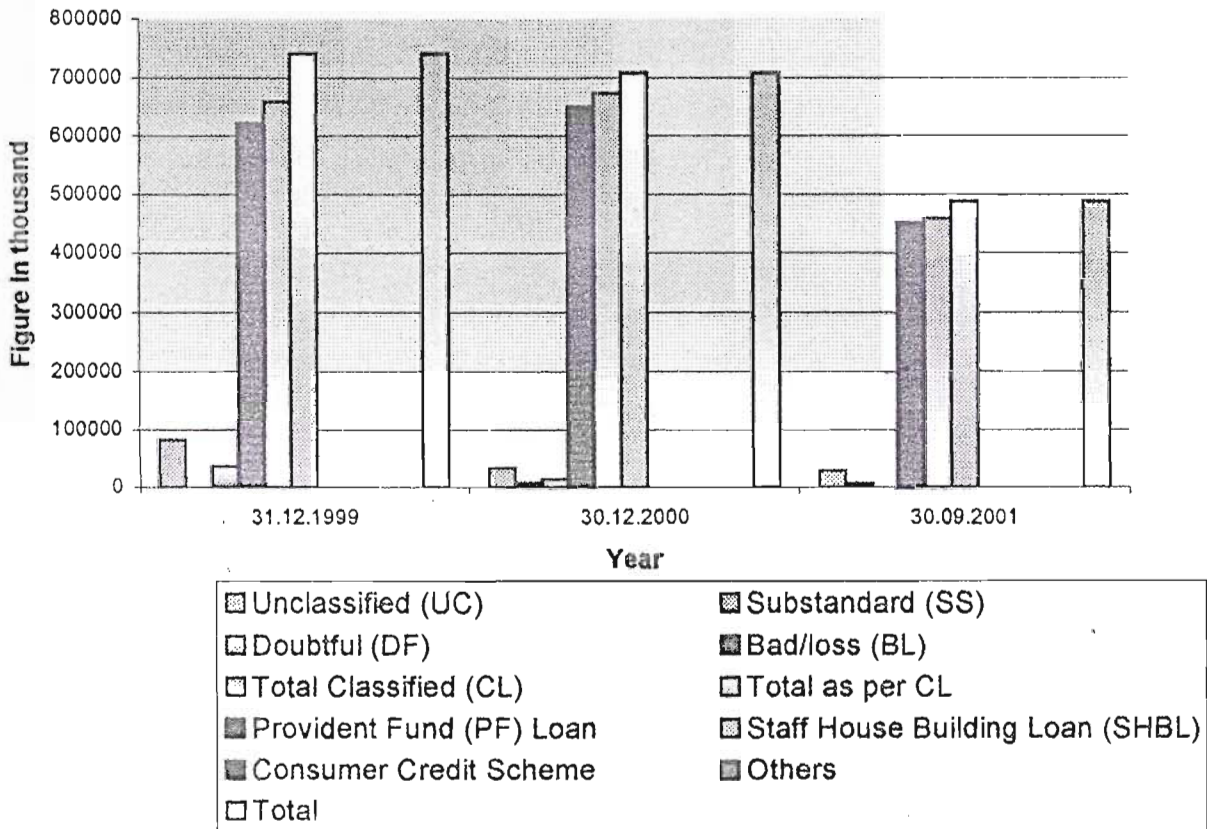
In the loan classification and provisioning the amount of Interest Suspense for three years it can be found from all the status –

- The amount of UC, DF and Total as per CL are declining gradually from the year 1999 to 2001 and also the amount SS is lower in 2001 than the year 2000 and the amount was absent in 1999. So from the figure those shafts are downward slopping.
- Also the amount of BL and Total CL of the status are in the fluctuating condition, that means the amount was what in 1999 then the amount was increasing in 2000 and again it was declining in 2001. So there is a change is

happened in three years with fluctuating. So the bars are in fluctuating position. That means the bars are in up and down position.

- There are no publications and calculated figure in 2001 of stuff loans figure. So it is absent.

Interest Suspense



- The ultimate result of the total interest suspense of the loan classified and provision is that the amount is declining from 1999 to 2001. So the shafts are in downward slopping.

Branch: Motijheel Branch, Stamp of Branch Serial Number (As provided by Bangladesh Bank):
On 31.12.1999.

(Figure in thousand)

Sector (1)	Total (2)	Amount Classified / Unclassified or Balance Outstanding				Base for Provision for			Amount of provision required (10)	Interest Suspense (11)
		Unclassifi- ed (UC) (3)	Substan- -dard (SS) (4)	Doubtful (DF) (5)	Bad/ Loss (BL) (6)	SS (7)	DF (8)	BL (9)		
1. Continuous	1891348	538748	N/A	471104	881496	N/A	332180	185842	357320	509420
2. Demand Loan	540078	402409	18020	35706	83943	18020	35706	81424	106905	720
3. Term Loan (TL) Up to 5 Years	468742	194540	23879	N/A	250323	N/A	N/A	64935	66881	132796
4. TL Over 5 Years	4747068	4728002	N/A	4344	14723	N/A	N/A	N/A	47280	97838
5. Short Term (ST) Agri /Micro	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sub Total:	7647236	5863699	41899	511154	1230485	18020	367886	332201	578386	740774
6. Staff Loan	120007	N/A	N/AN/A	N/A	N/A	N/A	N/A	N/AN/A	N/A	N/A
Total	7767243	5863699	41899	511154	1230485	18020	367886	332201	578386	740774

Branch: Motijheel Branch, Stamp of Branch Serial Number (As provided by Bangladesh Bank);
On 31.12.2000.

(Figure in thousand)

Sector (1)	Total (2)	Amount Classified / Unclassified or Balance Outstanding				Base for Provision for			Amount of provisio n required (10)	Interest Suspense (11)
		Unclassifi -ed (UC) (3)	Substan dard (\$S) (4)	Doubtful (DF) (5)	Bad/ Loss (BL) (6)	SS (7)	DF (8)	BL (9)		
1. Continuous	2015149	614544	13222	58010	1329373	12065	43304	495703	525913	550709
6. Demand Loan	628771	461750	0	22986	144035	0	22986	128549	144660	13687
7. Term Loan (TL) Up to 5 Years	439214	216634	20225	3858	198497	16414	2635	43876	50643	127996
8. TL Over 5 Years	4563064	4441739	32295	94030	0	28351	36593	0	68384	14866
9. Short Term (ST) Agri /Micro	0	0	0	0	0	0	0	0	0	0
Sub Total:	7651198	5734667	65742	178884	1671905	56830	105518	668128	789600	707339
6. Staff Loan	180637	-	-	-	-	-	-	-	-	-
Total	7381835	5734667	65742	178884	1671905	56830	105518	668128	789600	707339

Loan Classification Summary as on 31.12.2000.

(Figure in thousand)

Classified Status	No. Of Accounts	Amount Outstanding	Interest Suspense	Eligible Securities	Base for Provision	Provision Required
Bad/Loss	337	1671906518	649897508	511360347	668127900	668127900
Doubtful	6	178883560	14764659	38602110	105516791	52758398
Substandard	11	65742626	8263170	650000	56829456	11365890
Total Classified	354	1916532704	672925337	570612457	830474147	732252188
Unclassified	922	5734665703	34413063	1956356	0	57346659
Total	1276	7651198407	707338400	572568813	830474147	789598847

Nature wise summary of Loan Classification as on 31.12.2000.
(Amount in thousands)

Total	CD Others	Short Term	Medium Term	Long Term	DL TO D, IBP, FDBP, FDB C	EC ECC	PG PC	LR LTR	LM LIM	OD SOD (Overhead)	CC Cash Credit	Code nature of advance	
1276	0	0	101	23	733	13	0	10	66	183	147	No. Of A/C	Total advance
765119	0	0	439216	4568064	633248	48201	0	36128	80398	690498	1155448	Amount	
922	0	0	70	21	625	12	0	0	34	108	51	No. Of A/C	Unclassified
5734667	0	0	216534	4441713	466048	47285	0	0	39057	229504	294400	Amount	
354	0	0	31	2	107	1	0	10	32	75	95	No. Of A/C	Classified
1915512	0	0	333582	136325	167200	916	0	36128	41341	460994	861046	Amount	
11	0	0	1	1	0	0	0	7	1	1	0	No. Of A/C	Substandard
65741	0	0	20225	32295	0	0	0	9669	798	2754	0	Amount	
8262	0	0	3811	3944	0	0	0	391	0	116	0	Interest Suspense	
650	0	0	0	0	0	0	0	0	0	650	0	Eligible Security	
6	0	0	1	1	2	0	0	0	0	1	1	No. Of A/C	Doubtful
178884	0	0	3858	94030	22966	0	0	0	0	3884	54326	Amount	
14764	0	0	1223	10921	0	0	0	0	0	0	2620	Interest Suspense	
58602	0	0	0	46516	0	0	0	0	0	0	12086	Eligible Security	
337	0	0	29	0	105	1	0	3	31	73	95	No. Of A/C	Bad Loss
1671907	0	0	-	198499	144214	916	0	26439	40543	454566	806720	Amount	
649897	0	0	-	113851	13782	526	0	10594	23615	185867	301862	Interest Suspense	
511361	0	0	-	60719	1800	0	0	6908	0	124500	317434	Eligible Security	
789599	0	0	50642	68354	144785	853	0	11050	18392	205776	289707	Provision Required	

Branch: Motijheel Branch, Stamp of Branch Serial Number (As provided by Bangladesh Bank);
On 30.09.2001.

(Figure in thousand)

Sector (1)	Total (2)	Amount Classified / Unclassified or Balance Outstanding				Base for Provision for			Amount of provision required (10)	Interest Suspense (11)
		Unclassifi- ed (UC) (3)	Substand ard (SS) (4)	Doubtful I (DF) (5)	Bad/ Loss (BL) (6)	SS (7)	DF (8)	BL (9)		
1. Continuous	1720190	576198	5267	516	1138210	5013	456	494607	501600	382619
2. Demand Loan	560675	390254	3495	N/A	166926	3495	N/A	151439	156040	13687
3. Term Loan (TL) Up to 5 Years	403578	260209	22891	N/A	120478	16441	N/A	26825	32715	81502
4. TL Over 5 Years	4512526	4475968	1227	N/A	35324	1130	N/A	28351	73337	10418
5. Short Term (ST) Agri /Micro	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sub Total:	7196963	5702629	32880	516	1460938	26079	456	701222	763692	488226
6. Staff Loan	203538	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	7400501	5702629	32880	516	1460938	26079	456	701222	763692	488226

The previous data is kept in Matijheel Branch and analyze it because that is the local branch and mainly all the information of other branches are reserved in that branch. As a local office of the city it maintains all the vast information and all the information is provided to the Head Office from this branch.

Loan Classification Summary as on 30.09.2001.

(Figure in thousand)

Classified Status	No. Of Accounts	Amount Outstanding	Interest Suspense	Eligible Securities	Base for Provision	Provision Required
Bad/Loss	318	1460937720	452253194	439123227	701221648	701221648
Doubtful	1	515687	59495	0	456192	228096
Substandard	9	32879359	6800809	0	26078550	5215709
Total Classified	328	1494332766	459113498	439123227	727756390	706665453
Unclassified	644	5702628818	29112664	52304835	0	57026284
Total	972	7196961584	488226162	491428062	727756390	763691737

Total	CO Others	Short Term	Medium Term	Long Term	DL, TOD, IBP, FDBP, FDB C	EC ECC	PC PC	LR LTR	LM LIM	OD 500 (General)	CC Cash Credit	Code nature of advance	
972	0	0	109	18	466	15	0	11	59	161	133	No. Of A/C	Total advance
719696	0	0	403578	4512519	572794	94248	0	42520	75329	425732	1089242	Amount	
644	0	0	81	16	359	15	0	1	26	100	46	No. Of A/C	Unclassified
5702628	0	0	260209	4475968	402194	94248	0	5131	33055	163336	268487	Amount	
328	0	0	28	2	107	0	0	10	33	61	87	No. Of A/C	Classified
1494334	0	0	143369	36551	170600	0	0	37389	43274	262396	800755	Amount	
9	0	0	2	1	1	0	0	0	4	0	1	No. Of A/C	
32380	0	0	22891	1227	3495	0	0	0	5223	0	44	Amount	Substandard
6901	0	0	6450	97	0	0	0	0	254	0	0	Interest Suspense	
0	0	0	0	0	0	0	0	0	0	0	0	Eligible Security	
1	0	0	0	0	0	0	0	0	0	1	0	No. Of A/C	
516	0	0	0	0	0	0	0	0	0	516	0	Amount	Doubtful
59	0	0	0	0	0	0	0	0	0	59	0	Interest Suspense	
0	0	0	0	0	0	0	0	0	0	0	0	Eligible Security	
318	0	0	26	1	106	0	0	10	29	60	86	No. Of A/C	Bad Loss
1460938	0	0	120478	35324	167105	0	0	37389	38051	261280	800719	Amount	
452253	0	0	51122	6973	13782	0	0	12246	21834	71064	275232	Interest Suspense	
439124	0	0	59469	0	1800	0	0	6905	0	81758	289188	Eligible Security	
763692	0	0	32715	73337	166244	942	0	18524	17645	161878	302407	Provision Required	

Nature wise summary of Loan Classification as on 30.09.2001.

(Amount in thousand)

Usual Conditions For The Term Loan

Both the sponsors and the company will have to perform some roles as usual conditions for the term loan. All those are as follows.

1. The Sponsors Roles:

The roles of the Sponsors are:

- Complete the project and meet any short fall of the cost of the proposed project out of their own resources.
- Not change the project site without the prior approval of the bank.
- They will have to submit quarterly report on the implementation of the project to the Bank.

2. The Company's Roles:

The company has several roles. Those are:

- Display a signboard at a conspicuous place of the project site indicating that the IFIC Bank Ltd. has financed the project.
- Employ suitable persons having suitable academic background and practical experience in the area of production, finance, accounting, and marketing for smooth operation of the project.
- They have to arrange meeting of its Board of Directors at least once in each quarter of the year, to discuss the affairs of the company and submit the minutes of such meeting to the Bank regularly.
- Maintain all books of accounts properly, which may be inspected by IFIC Bank Ltd.
- Submit to IFIC Bank Ltd. the audited Balance Sheets, together with the Profit and Loss Accounts, of the Company for every financial year within four months from the close of the Company's financial year. Also furnish such other data on the project to the IFIC Bank Ltd. and/or any other agency as IFIC Bank Ltd. may require advice.
- Agree that the Bank will always have the right to transfer to any individual, company, bank or other authority the ownership or the loan together with all

collateral to be given by the borrowers and/or guarantors in case of failure of repayment the bank loans in time.

- Agree that the Bank always be at liberty to obtain and gather full financial and credit information on the borrower(s) from other financial institutions.
- Agree that the Bank will be at liberty to publish notices and information on the borrower if the borrower fails to repay Bank's dues as per repayment schedule and in that case the expense incurred thereof will be borne by the borrower.
- Abide by the rules and regulations of the Department of Environment and Pollution Control, Government of the Peoples Republic of Bangladesh.

There are some restrictions and rules for the company that what they cannot perform that means some prohibitions for them. Those are:

3. The Company will not perform:

There are some roles those are prohibited for the company. Such as:

- Make any amendment or alteration in the Company's Memorandum and Articles of Association without obtaining prior approval of IFIC Bank Ltd. in writing
- Provide any loan and or make any investment for other purpose out of the funds of the project.
- Provide any loan or advance by whatever name called to any of its Director, Shareholder or firm/company in which its directors or shareholders have interest.
- Furnish any corporate guarantee to other company without Bank's permission.
- Undertaken any fresh capital expenditure, which will hamper repayment of Bank's permission.
- Declare dividend without paying Bank's dues.
- Repay any sub loan/ Directors loan without adjustment of IFIC Bank's dues.

4. The Company will provide undertaking to the effect that:

- The shares held by the existing directors of the Company that would not be transferred to any one without prior approval of IFIC Bank Ltd. in writing.
- The Company will have meeting of its Board of Directors at least once in each

5. The activity of the completed documentation:

The documentation of loan will be completed within three months from the date of communication of sanction thereof, otherwise the sanction is liable to be withdrawn.

6. The interest of the loan:

In no cases, the interest of the loan of IFIC Bank's will be released and/or reduced.

7. Loan classification:

The Loan will be classified, if two installments remain unadjusted at any reference date of classification, which will be reflected in the CIB report of the Company.

8. General terms and condition of the loan:

The loan will further be governed by all other general terms and conditions of IFIC Bank Ltd.

9. Loan sanctioning terms and condition:

The above mentioned sanction of loan and the terms and conditions thereof are subject to amendment, modification and/or withdrawal without notice at the discretion of IFIC Bank Ltd.

List Of Documents To Be Obtained For The Term Loan:

1. D.P. Note.
2. Letter of Arrangement.
3. Letter of Disbursement.
4. Letter of Installment.
5. Letter of Disclaimer.
6. Letter of Undertaking.
7. Letter of Hypothecation for machinery, equipment, furniture-fixture and other floating assets of the Company.
8. Deed of legal mortgage for Tk. Lac on decimal land at Mouza- , JL- , Khaitan- and , Plot- Sub-Registry Office – Dhaka Sadar under municipal holding no. - DIT Road, with a storied Commercial cum Industrial building thereon, standing in the name of Mr./ Mrs. a director of the Company valued assessed by Jorip – o – Paridarshan – a Bank's enlisted surveyor – duly registered with the District or Sub-Registrar.
9. Form XVIII for filing charge with Registrar of Joint Stock Companies under relevant sections of Company Act 1994 should be filled within 21 days of execution of documents.
10. Personal guarantee of all directors of the Company.
11. Certified copy of resolution of Board of Directors to borrow funds, execute documents and complete other formalities in line with Memorandum and Articles of Association of the Company.
12. Insurance policies for machinery, equipment and furniture – fixture of the Company with adequate value covering usual risks viz. Fire and RSD.

Requires Papers / Documents For Applying Term Loan Limited Company:

1. Memorandum and Articles of Association certified by Registrar of Joint Stock Companies.
2. Copy of Form – XII duly certified by Registrar of Joint Stock Companies if there is any change in the Directorship.
3. Bio-data of the Directors of the company mentioning Father's name, Mother's name and Husband's name in case of female Directors. TIN No, Individual Net-worth.
4. Detail Feasibility Report comprising Technical, Management Marketing and Financial aspects for proposed project (New / Expansion / BMRE).
5. Past performance with Audited Balance Sheet of previous 3 (three) years in case of existing companies.
6. Particulars of security offered with Chain of Documents.
7. Set of accounts at least two competitors (if published).
8. Bank Statements for last 12 months from previous Bank (For new customers).
9. Business Plan.
10. Application in the Bank's assigned format.
11. Undertaking from individual directors in the prescribed format.

Issuance Of Bank Guarantee

Meaning:

The entire Bank has a common performance for their customers. It is like the issuance of Bank Guarantee on behalf of its clients is a common banking service to be rendered by a commercial bank within the preview of credit portfolio of the bank. Guarantees are expressed and specific assurance of the bank to make good any financial loss the beneficiary of the guarantee may sustain when the party named in the guarantee on whose behalf the guarantee is issued fails to perform the contract and/or discharge his or their obligation. Although the bank issuing the guarantee is not called upon to pay the amount immediately the obligation undertaken in the guarantee is of no less magnitude than that of actual credit disbursed as the bank is substituting its own credit where its customers credit fails and on demand the sum guaranteed is payable. It is therefore, a contingent or anticipated financial liability.

Concept:

Proportionate with the need as may be warranted by diverse directional ever expanding business activities of its clients a bank may be required to issue various types of guarantee like –

- Tender bond
- Performance bond
- Advance payment guarantee
- Investment bank guarantee and other miscellaneous types of guarantees.

Sometimes the bank may be essential to consolidate in a single bond of surety undertaking direct obligation under the surety bond.

Provision:

Whatever may be the type of the guarantee, before issuance, the specimen of the guarantee should be thoroughly examined to ascertain that it has no ambiguity. The issues like –

- The extent of liability (guarantee amount, interest, charges, etc.)
- Validity (contract period, claim submission period, clause of extension etc.) and
- Responsibility of the bank (on demand unconditional, at own initiative etc.) should stand clearly defined.

Duration:

Usually a bank issues guarantee for a specific period of time not exceeding one year at a varying percentage of margin and security determined, on the basis of customer and banker relationship and nature of liability undertaken. A bank may also issue guarantee for longer duration or a continuing bank guarantee subject to its security aspect well taken care of.

Determination Of Security:

Since the bank is to remain prepared for eventuality such as – payment of guarantee and consequent forced loan, it is essential that the aspect of security is considered in that light. In case of those guarantees where against the funds are released by the beneficiaries the issuing should be more particular while determining the security.

Operation:

While progression for issuance of a bank guarantee, the branch should ask the clients to the following necessary papers. Those are –

- A written request for the guarantee specifying the purpose, amount, period and the security offered.
- The details of the security other than the cash margin.
- Specimen of the guarantee (in case a prescribed pro-forma does not exist, a specimen may be drafted to suit the requirement incorporating the amount, tenor and purpose with bank's obligation clearly spelled out).

Formalities:

While deciding the issue a guarantee, the following should be obtained prior to issuance.

- Cash margin may be determined.
- Counter guarantee signed by the client.
- Specimen of guarantee duly approved by the customer.

In case the guarantee is covered by any other security other than cash margin which may generally be of following types:

- * Fixed Deposit Receipt.
- * Sanchaya Patras or any other financial obligation.

- * Pledge/Hypothecation of goods and produce or construction materials or equipment etc.

- * Mortgage of immovable properties.

In such circumstances the legal requirements should be got completed and charge documents as may be required in relation to the type of security should be obtained.

Central Bank Rules:

It may be noted that as per directives of the Central Bank, in force, besides the margin that determined on the basis of customer-banker relationship the uncovered portion of the guarantee is to be got covered by readily releasable security

Records To Be Maintained:

The particulars of the guarantee issued should be recorded in the Letter of Guarantee Register and Letter of Guarantee margin ledger. Safe-in-Safe-out register should be used for entering the counter guarantee; other charge documents or mortgage documents if any.

CIB (Credit Information Bureau) Its Importance in Restoration and Maintenance of Credit Discipline.

Background

1. The credit information, which has so far been collected by Bangladesh Bank scheduled banks and other financial institutions are not broad based and systematized to be used by Bangladesh Bank, scheduled banks, financial institutions, Govt. of Bangladesh and other agencies for credit policy and other purposes.
2. Due to irregularity and inadequacy in the flow of credit information as mentioned above, the bulk of classified loan (in relation to total outstanding credit) was very high during the 1980s.
3. Under the situation it has become imperative to equip the banks with requisite credit information for processing the loan applications of the borrowers.
4. With this end in view creation of Credit Information Bureau was urgently felt and proposal was put forward by various organizations, such as National Commission for Money, Banking and Credit (in 1986) and the World Bank (vide Report on Financial Sector Reform in 1987 and Task Force Report in 1990).
5. The above proposal came into reality when the Board of Directors of Bangladesh Bank in its meeting held on August 18, 1992 approved the creation of a full-fledged Credit Information Bureau in Bangladesh Bank.
6. The Credit Information Bureau, Bangladesh Bank has undertaken the task of collecting and storing detailed credit information and retrieving the same to the banks, financial institutions and other organizations for policy purposes. The timely reporting of accurate credit information will help the users of CIB report to a considerable extent. Proper recording of borrower's information in segment – 1,2,3,4, and 5 for creation of CIB data base is extremely vital.

Objectives

1. Collect all sorts of information in respect of the borrowers (having outstanding balance of Tk. 10 Lac and above). Recently it has decided to collect quarterly information in respect of the borrowers having outstanding loan of Tk. 1 Lac and above with effect from September quarter, 1999 from the scheduled banks (on quarterly basis) and other financial institutions (on half-yearly

basis). However, it has been decided to collect, in addition, information from the scheduled banks in respect of big selective borrowers (Taka one crore and above) on monthly basis with effect from April, 1998.

2. Creation of computer database in order to feedback the same information to the banks, other financial institutions for quick processing of new loan application, rescheduling etc.
3. Preparation of various reports for MIS purposes to be used in Bangladesh Bank and Ministry concerned.

Functions

The following are the main functions of CIB : -

1. To standardize information flow on loans/credits.
2. To increase the speed and accuracy with which the credit information is made available to banker assessing credit risk.
3. To create all integrated information package by combining the information on classified loans with the information on newly sanctioned loans to the borrowers.
4. To integrate the defaulted loan information in the (CIB) for timely submission to the banks for loan application processing.
5. To create MIS on credit information viz-recovery, disbursement, classifications etc. for use the Government, Bangladesh Bank and other national and international financial institutions.
6. To establish a system in the microcomputer unit of the CIB for effective support of the bank's lending operations.
7. To make policy decision to include information of the development financial institutions (DFIs) dealing with loan-term industrial finance for the benefit of the banks and DFTs.
8. To help the commercial banks to generate their own (automatic) database system for timely submission of the credit information to CIB for preparing CIB report.
9. To achieve co-ordination among the parties involved in the CIB.

10. To make policy for keeping ultimate security and confidentiality of CIB data and reports thereon.
11. To convey the CIB information to banks as quickly as possible for quick disposal or their loan applications.
12. To conduct itself supervisory job (survey) in case of need to review the correctness of the information submitted by banks.
13. To prepare various CIB reports pertaining to the borrowers.
14. To prepare summary reports on available information at CIB for management purposes.

Present Position

1. Since the inception of Credit Information Bureau (CIB) in Bangladesh Bank various credit information (Pertaining to banks and financial institutions) are being collected, processed and distributed to the commercial banks, financial institution, Government officers and Security Exchange Commission. The information so far collected by CIB are :
 - i) Debtor's/ Borrower's information (Segment - 1)
 - ii) Owner's information (Segment -2)
 - iii) Group/Affiliations information (Segment - 3)
 - iv) Credit Exposure Matrix or Financial Information (Segment - 4)
 - v) Third Party guarantors information (Segment -5)
2. Of the above, information of serial no.1 through 4, information are structured and necessary software has been developed for providing credit information to the banks and financial institutions for loan processing purposes, Beside3s software relating to the various credit information has been developed for MIS purposes.
3. At present on an average CIB is getting six hundred request per day (for credit information) from the banks, financial institution and Government officers. CIB is giving those reports within 24 hours of receiving the request. Report contains not only borrower's information but also their owner's (including other related business) and group's information.
4. Software regarding guarantor's information are ready for necessary use Guarantor's information will be integrated into the main database and will be included in the CIB reports in due course.

5. Recently CIB issued a circular for collection of data relating to the CRR (Credit Risk Rating), Financial Scores Viz-Y-Score and Z-Score from the scheduled banks. This information will ultimately be retrieved to the scheduled banks in order to provide more helpful tools to them while processing loan application.

Some Basic Concepts Frequently Used in CIB

CIB has their own basic concepts to find out company's different ideas, past, present situation and also predict the future thoughts. Those concepts are:

1. ***Soft Ware:***

To perform the most frequently needed task and computations with the help of computer programs are devised. Such programs/instructions are called Soft Ware.

2. ***Hard Ware:***

The electrical, electronic and mechanical devices that make up a computer are called HardWare.

3. ***Database:***

It is used for a file (or series of files) or data so structured that its contents can be used in a computer to provide input to several systems.

4. ***MIS (Management Information System):***

A system whereby top management gets the information it needs to make decision. This information consists of both financial and non-financial data and almost always requires the help of a computer to be organized into usable form.

5. ***Off-line:***

Describing a computer system that does not process input data as they are received but stores and processes them at some later period.

6. ***On-line:***

Describing a computer system in which input data are processed as received and output data are transmitted as soon as they become available to the point where they are required.

7. ***CRR (Credit Risk Rating)/Y-Score/Z-Score:***

Lending banks and financial institutions will henceforth (w.e.f. the quarter end June, 1997) submit information to CIB on CRR, Y-Score and Z-Score as per instruction of Bangladesh Bank. This will help the Lending banks and the financial institutions to decide issues (regarding sanction of loan) more promptly and smoothly.

Those scheduled banks that make LRA (Lending Risk Analysis) will directly supply information on CRR from overdue risk score matrix. Information on financial score such as Y-Score and Z-Score will be supplied from spread sheet.

Those banks, which do not process information by LRA, will supply information (by grading) making a comparison with overall risk score matrix.



Processing Of Limit Application And Sanction

In its function to extend credit facilities, the Bank has to process the limit proposals and accord sanction in the following manner:

1. Sanction by Competent Authority:

A secured advance may be granted to a party only after getting a limit sanctioned from the competent authority.

Party to Apply:

For obtaining a secured advance against any of the securities specified in this Manual, the party must make an application in the standard form in writing to the branch where the borrower maintains his or her operative account.

2. Credit Report:

Loan/Advance Proposal:

Application for Loan:

For obtaining a loan / advance the party must make an application the standard form in writing to the branch where they maintain their operative account.

Functions after submitting application:

After receiving the application from the party, Branch Manager will take immediate steps to compile report regarding the party, based on the following sources of information:

- i) Personal investigation
- ii) Confidential reports from-
 - # Other banks
 - # Head office and / or branches
 - # Chamber of Commerce
 - # Trading Account, Profit and Loss Account, Balance Sheet, Memorandum and Articles of Association, if any, and other documents submitted by the party.

- iii) CIB from Bangladesh Bank, as the case may be.
- iv) The average balance and the present balance maintained in the account.
- v) The nature of operations during the last six months and
- vi) The date of opening of the account.

3. Preparation of Limit Proposals:

The Branch, may prepare a limit proposal after being fully satisfied with the following points:

- i) *The financial position of the party.*
- ii) *Purpose for which advance is required.*
- iii) *Nature of securities offered.*
- iv) *The repayment arrangements.*

4. Guidelines to be followed in preparing Limit proposals:

Prepare a limit application the Bank's standard form along with a financial credit of the borrower as per guidelines given here under. A fresh proposal is prepared taking into account the following guidelines:

- i) *Name of the party and his/her address (both present and permanent).*
- ii) *Names of allied concerns, if any.*
- iii) *Year of establishment.*
- iv) *Date when account opened.*
- v) *Turnover during the last six months.*
- vi) *Dealings with the Bank.*
- vii) *Average balance during the last six months and present balance maintained in the account.*
- viii) *Dates on which account was in debit during the last six months and reasons for non-adjustment, if any.*
- ix) *Balances maintained in allied accounts, if any.*
- x) *Liquid resources of the party consisting of cash, bills receivables book-debts and stock should be more than short-term liabilities of the party.*

- xi) *Constitution of the firm.*
- xii) *Name(s) of the proprietor, partners and/or directors.*
- xiii) *Nature and scope of business.*
- xiv) *Assets and liabilities of the firm or company as disclosed by their latest balances sheets viz:*
 - * *Cash, goods, investments, landed property etc.*
 - * *The extent and nature of liabilities.*
- xv) *Profits and Losses.*
- xvi) *Trading Account.*
- xvii) *Liquid Resources i.e. Cash and other assets easily convertible into cash.*
- xviii) *Personal assets of the proprietor/partners and/or directors.*
- xix) *Credit lines availed with other banks in the same name or in other allied names and accounts.*
- xx) *General reputation, commercial integrity and experience in business in which is proposed to utilize the money to be borrowed from the Bank.*
- xxi) *Business given to the Bank during last six months including imports, exports, bills for collection and remittances etc.*
- xxii) *Business expected.*
- xxiii) *Amount of limit required and its nature.*
- xxiv) *Purpose for which advance is required.*
- xxv) *Securities offered, their condition and marketability and margin retained.*
- xxvi) *Name, worth, business and address of Guarantor, if any.*
- xxvii) *Rate of interest.*
- xxviii) *Period for which advance is required.*
- xxix) *Repayment arrangement:*

In case of seasonal advance it should be ascertained at what period of the year maximum accommodation will be required and when the advance will be fully repaid. The borrower's promises regarding repayment should be considered in the light of all the

relative circumstances to avoid an optimistic view of prospective profits and collection of outstanding etc.

- xxx) *Other facilities enjoyed by the party either in the same name or in allied accounts with our Bank.*
- xxxii) *Opinion of other banks regarding the financial position and reputation of the party.*
- xxxiii) *Report of CIB of Bangladesh Bank.*
- xxxiv) *Existence of sole banker relationship with the party.*
- xxxv) *Amounts of advance required is reasonable compared to amount of self-owned capital provided by him.*
- xxxvi) *Lending Risk Analysis.*
- xxxvii) *Financial credit risk, Balance sheet, and Branch Manager's recommendations.*

5. Renewal Proposal:

While sanctioning limits in case of continuous advances, the expiry date is fixed by the sanctioning authority. Therefore, branch is required to review the limit for renewal before expiry of that period.

Limit application for renewal proposal is prepared on standard form. The sanctioning authority after due consideration may approve the limit application for renewal either in full or in part and will communicate sanction to the Branch.

At the time of the renewal of the limit, the proposal should contain the following information:

- i) *The extent to which the limit was availed of by the borrower.*
- ii) *If the limit was availed to his satisfaction, whether the borrower has been resorting to excess withdrawals and causing his account to be drawn in excess of his limit or drawing powers.*
- iii) *The securities offered by the party are not deteriorated or damaged due to the passage of time.*
- iv) *The stocks were rotated periodically.*
- v) *Whether the funds availed by the borrower from the Bank was utilized for the purposes it was sanctioned.*
- vi) *Whether there has been any change in the constitution of the firm, if so, full particulars should be given.*

- vii) *The general position of the account during the period under review, specially with regard to any heavy losses which the borrower might have suffered or diversion of the borrower's business to some other bank.*
- viii) *Whether the consideration for which advance was initially allowed still existed.*
- ix) *Whether deposits in allied accounts or business in such account, if any, were still with the branch.*
- x) *Whether the account was remunerative or it was just an accommodation without any proportionate returns to the Bank in the shape of allied business like – Exports, Bills, Drafts, and TTs etc.*
- xi) *Whether the borrower was progressive and with the funds availed from the Bank; he was building his business for better advances to the Bank in future.*
- xii) *Whether the behavior of the account was such as to indicate that he was in active business.*

6. Approval by Head Office and Branch responsible:

- i) *Send original and duplicate copies of the limit application for Fresh Proposal to the Head Office along with the financial / credit report as per guidelines.*
- ii) *The limit proposal is sent to Head Office along with supporting papers/documents/information as per guidelines.*
- iii) *The sanctioning authority after due consideration may approve the limit application either in full or in the part and will communicate sanction containing detail terms and conditions to the concerned Branch.*
- iv) *After receiving the limit sanction advice from sanctioning authority the branch allows advance to the party in accordance with the disbursement procedure as per terms and conditions of sanction. The terms of conditions of the limit are advised to the party and confirmation thereof is obtained from the borrower.*
- v) *Note the particulars of the limit application in the confidential limit Sanction Registrar. The Officer In-Charge of the Advances Department will initial the observant.*
- vi) *A separate letter is required to be written for each advance under correspondence with the Head Office wherein not more than one party will be discussed.*

- vii) *The transaction in the cash credit / overdraft accounts should be recorded in Overdraft / Cash Credit Ledger and loan in Loan Ledger.*
- viii) *To maintain record of Title Deed of properties and other securities Title deed / Security and Document Register should be used.*

7. Loan Monitoring and Administration:

The concerned branch disburses the loans /advances to the party as per terms and conditions of sanction. The operation of the loan account is monitored from Head Office based on different regular monthly statements of loans and advances taking into account the following factors:

- i) *The outstanding remains within the sanctioned limit.*
- ii) *The interest is serviced regularly.*
- iii) *Transaction/turnover in the account is satisfactory.*
- iv) *Installments are paid on the due date.*
- v) *Insurance coverage, where applicable, is adequate and valid.*
- vi) *Irregularities pointed out by internal/external auditor/inspection team are regularized.*

Category of Loans and Advances made by IFIC Bank and prescribed rate of interest applicable thereof:

Categories of Lending	Rate
1. Agriculture (Loans to primary producers)	13.75%
2. Large and Medium Scale Industry (Term Loan)	16.00%
3. a) Working Capital (Jute)	16.00%
b) Working Capital (Other than Jute)	15.50%
4. Jute Trading	15.50%
5. a) Jute and Jute made goods exports	10.00%
b) Other exports.	10.00%
6. Other commercial lending	15.50% -16.50%
7. a) Urban Housing	16.50%
b) Low Cost Housing	13.50%
8. Special Programs :	
a) Small and Cottage Industry (Term Loan)	12.00% (subsidy 3%)
b) Other Special Programs.	14.50%
9. a) Others	15.50% - 16.50%
b) Against -	
i) FDR	3.50% above FDR rate minimum 12.50%
ii) Financial Obligation	13.00%

Execution of Lending Risk Analysis (LRA) in Lending Operation of Banks

LRA is associated by the FSRP as a part of its banking sector reform programs. FSRP is that – the Financial Sector Reform Project has been established in the prior nineties in Bangladesh with a view to introduce about financial discipline through attempting applicable upgrading proceeds in the financial sector of our country. Among the particular developed measures that FSRP has so far authorized, Lending Risk Analysis (LRA) constructs an important set of activities that has been assigned for minimizing and sidetracking risk in funds business of local banks both Public and Private.

Background of LRA in context huge non-performing loans:

Whole Banking Industry is technically bankrupt due to stumbling bad debts in the loan portfolios of bank.

Internationally –

- 3 – 5% bad debt level is acceptable level of bad debts for banks.
- 6 – 8% bad debt level is closely supervised by regulatory authority and Board of Directors of concerned banks signs Memorandum of undertaking with the central bank to improve the position.
- 10% bad debt level forces central banks to order stop lending activities until position improves.
- 15 – 20% bad debt level Banks are declare bankrupt.

A huge amount of reserve has to be created against bad debts form banks' earning constraining expansion and growth.

Categories of classified loans and loan provisioning requirements in Bangladesh-

- Substandard 15%
- Doubtful 50%
- Bad or Loss 100%
- New Loans 1%

Effect of classification – Non Performing Loans:

- # Generates no earning for the Bank.
- # Requires provisioning
- # Requires payment of interest on deposits to fund the classified loans.
- # Leave little option but to increase lending rates, thus making the Bank non competitive.

The necessity of Lending Risk Analysis:

The main reason of the LRA planning for the Bank is the main and the number one problem for the Banks in Bangladesh is Bad Debt by providing loans. They have in the great trouble when the borrowers do not repay those in time and sometime those borrowers never repay the loan and then all those amounts are in the bad debt position, which is a very big loss for banking business.

For this the Banks have no options but to Ensuring Quality of Loans for their survival and growth in the long run. That the Banks have to provide loans for surviving and growth their monetary position by taking the LRA Planning.

Causes of Loan Default are:

There are different reasons are inside in the loan default after taking loan from the bank. Those are as follows:

- Inadequate Risk Analysis of Loan Proposals.
- Collateral Based Lending System Instead of Cash flow-based Lending.
- Directed Lending.
- Insider Lending.
- Interest Waiver.
- Willful Defaulters (20%), etc.

The Ways of Improvement of Quality of Loan:

There are different ways of improving the quality of the loan. Those must find out and analyze by the Banks and by these they can control and less the loan repayment default. Like-

- The bank must have to analyze the borrowers' ability to repay the loan on the basis of their planning to get the loan.
- The bank must have to create channel to ensure that where and to whom they provide their loans those will be in the best uses. That's why the banks have the chance to get that loan in time.
- They have to remove those ideas by which they can reduce the non-performing and improvement of quality of loan. And those will reduce the loan default.

Action Steps For Reduce The Loan Default:

- Assess the risks of failure to repay of all the borrowers.
- Decide whether to accept or reject loans.
- Set price and terms on the basis of the borrowers types.
- Obtain sanctioning documents and disburse loans.
- Monitor performance of the borrowers in terms of their business, service and other positions.
- Ensure repayment and recovery of the loan payment for the bank future expansion.

For assessing the risk of loan payment and the risk of failure to repay the loan than the bank must go for the planning to analyze the borrowers, which is called Lending Risk Analysis.

The Terms and Definitions of Lending Risk Analysis (LRA):

Lending Risk Analysis (LRA) is simply a loan proceeding illustration. When the bankers go through this lending manual then it will be easy and understandable for them to assess that the creditworthiness of their prospective borrowers, they can the vast ideas about the borrowers. Therefore, LRA is such an mechanism, which is assuredly and directly related with lending information to analyze the

borrower's financial, marketing, managerial and organizational aspects subjectively and objectively. It also facilitates the analyst to know the security risk of the credit.

Lending Risk Analysis encompasses evaluating the expectation of repayment the loans to the bank as per contract on the basis of analysis of certain risks. Mainly when the credit amount is 50 Lac or more than that then must go for LRA procedure and also if the credit policy needs to be renew before the repayment or expiry date then the bank need CIB report about the borrower.

To analyze these risks bankers will need to fill-up 16 pages LRA Form. The form leads to scoring various risk factors included in lending (Table A). LRA, first of all, has divided the various risks into two groups namely,

- a. Business Risk and
- b. Security Risk.

The explanations of these two types are as follows:

a. Business Risk:

Business Risk is circumstance with whichever the borrowing company would interrupt to originate adequate cash out of business to refund the loan. Business Risk, the principal element of lending risk, consists of the Industry Risk. It has two components:

i) Industry Risk:

Due to some external reasons a business may fail and the risk which arrives from external reasons of the business is called Industry Risk. It has two components and the risk measurements are also as follows:

1. Supplies Risk:

When the business defaults due to disturbance in the stock of inputs, the resultant risk that would arise is known as Supply Risk.

The Measurement Of Supplies Risk:

Measure	Examples of Supply Risks	Analysis
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Price	<ul style="list-style-type: none"> ➤ Expansion to expenditure of supplies reduces margins: <ul style="list-style-type: none"> • Discharge of price controls. • Requirement of import tariffs. • Conflicting fluctuation of foreign exchange rates. 	<ul style="list-style-type: none"> ➤ Review recent changes in Govt. Regulations, and determine likelihood and nature of any future changes, which may affect supplies –
Quantity	<ul style="list-style-type: none"> ➤ Scarcity of supplies or unreliability of deliveries causes production loss: <ul style="list-style-type: none"> • Labor anxiety. • Irregular power supplies. • Imposition of price controls makes supplies scarce. • Supply of raw materials disrupted by transport difficulties. • Critical raw material only available from one supplier who goes out business. 	<ul style="list-style-type: none"> • Discuss with industry experts in bank. • Discuss with industry participants.
Quality	<ul style="list-style-type: none"> ➤ Difficulty in obtaining right quality of supplies results in inferior product: <ul style="list-style-type: none"> • Shortage of necessary skilled. • Raw materials of right quality difficult to obtain. 	<ul style="list-style-type: none"> ➤ Obtain cost breakdown, and for each item on breakdown, assess risk that supplies of this item are disrupted.

2. Sales Risk:

It is another element of Industry Risk. When the business fails for disruption in sales, this type of risk would generate.

The Measurement Of Sales Risk:

Measure	Examples of Sales Risks	Analysis
Market size	<ul style="list-style-type: none"> ➤ Sales reduce because total market size drops- <ul style="list-style-type: none"> • Customers are switching to substitute products like – plastic replaces jute for making sacks. • The market is seasonal for like – sweater, fans, umbrellas, etc. 	<p>Obtain industry turnover data for at least 3 years:</p> <ul style="list-style-type: none"> • Search Govt. Statistics like – “Monthly statistical bulletin of Bangladesh” published by Bureau of Statistics;

	<ul style="list-style-type: none"> • The market is cyclical like – Fridge, TV, VCRs. 	<ul style="list-style-type: none"> • Export Promotion Board Publications. • Contact industry groups. • Obtain data for largest players and extrapolate for whole industry. ➤ Determine if the product is obsolete, seasonal or cyclical or none of these. ➤ Predict growth or decline in market turnover over next few years.
Increased competition	<ul style="list-style-type: none"> ➤ Sales decreased as a result of increased competition- • Govt. Removes a monopoly. • Competitors introduces new production technology giving lower costs or better quality, or both • New companies are able to enter market easily- <ul style="list-style-type: none"> * Low capital investment required. * Low skills required. * Low regulatory barriers. 	<ul style="list-style-type: none"> ➤ Analysis financial data for at least two major competitors. ➤ Determine how company differences itself from its competitors: <ul style="list-style-type: none"> • Better quality. • Lower price. • More responsive. • Better distribution. Etc. ➤ Determine how company's production technology compares with that of competitors. ➤ Analyze barriers to entry.
Changes in regulations	<ul style="list-style-type: none"> ➤ Sales damaged by changes in regulations: <ul style="list-style-type: none"> • Imposition of price controls reduces margins. 	<ul style="list-style-type: none"> ➤ Review regulations, which govern industry. ➤ Review recent changes and determine

	<ul style="list-style-type: none"> • Removal of price controls leads to increased competition. • Imposition of export tariffs/controls reduces sales. • Fluctuation of foreign exchange rates reduces margins. 	<p>likelihood and nature of future changes:</p> <ul style="list-style-type: none"> • Discuss with industry experts. • Discuss with industry participants. <p>➤ Evaluate impact on industry of recent and potential future changes.</p>
Lose of single large customer	Company loses a single large customer.	<p>➤ Identify company's 5 largest customers, which is in terms of sales.</p> <p>➤ For any customers representing more than 10% of sales, assess the risk that these customers switch to a competitor for their new offerings than other.</p>

ii) Company Risk:

Company Risk is shown for some internal reasons of the business. It has also two main components and four sub-components. Those are:

1. Company Position Risk:

Every individual company grasps a situation within an industry. This position is very much competitive. Due to weakness in the company's position in its industry, a company may fail and the risk of failure is called Company Position Risk. It depends on-

➤ Performance Risk:

If a company fails to perform well enough to repay the loan because of its weakness under given expected external conditions, the company is said to suffer from performance risk.

Assessment of Performance Risk Involves Validating The Company's Performance Expectations:

Example of performance risks	Analysis
<ul style="list-style-type: none"> ➤ Company borrows more than it can repay, based on unrealistic performance expectations: • Performance assumptions incorrect • Analysis faulty/non-existent. 	<ul style="list-style-type: none"> ➤ Analyze recent performance history: <ul style="list-style-type: none"> • Use financial spreadsheets. • Look for trends. • Find explanations for any significant trends. ➤ Analyze competitive position: <ul style="list-style-type: none"> • Rank in industry. • Comparison of financial data with competitors. • Company strengths and weaknesses. ➤ Assess company's strategy: <ul style="list-style-type: none"> • Does it exist? • Is it appropriate? • How risky is it?

➤ **Resilience Risk:**

When a company fails due to lack of its resilience to unexpected external conditions, the resilience risk is generated.

The Resilience Of A Company Depends On Its Leverage, Liquidity, And The Strength Of Its Connections:

Measures	Examples of risk	Analysis
Leverage	<ul style="list-style-type: none"> ➤ Company has insufficient equity to avoid bankruptcy: • Equity overvalued: 	<ul style="list-style-type: none"> ➤ Analyze debt to equity ratio: • Assess quality and value of assets.

	<ul style="list-style-type: none"> * Assets overvalued * Liabilities undervalued like – inter company loans or loans from directors omitted. <ul style="list-style-type: none"> • Shareholders withdraw support. 	<ul style="list-style-type: none"> • Assess value and completeness of liabilities. ➤ Assess shareholders' support: • Willingness to guarantee. • Willingness to inject additional capital.
Liquidity	<ul style="list-style-type: none"> ➤ Company has insufficient cash flow to meet repayments: • Cost increase combined with difficulty in raising prices: <ul style="list-style-type: none"> * Interest rates. * Labor costs. * Materials costs. • Sales fall combined with high unavoidable costs. • Creditors withdraw support, combined with illiquid assets. 	<ul style="list-style-type: none"> ➤ Analyze financial ratios: <ul style="list-style-type: none"> • Current. • Quick. • Receivables turnover. • Inventory turnover. • Accounts payable turnover. • Debt service coverage, etc. ➤ Analyze flexibility of production.
Connections	<ul style="list-style-type: none"> ➤ Company position weakened by inappropriate connections; • Company damaged by connections with unpopular players. • Company unable to lobby for critical issues due to lack of right connections. 	<ul style="list-style-type: none"> ➤ Determine political and private sector affiliations of owner(s) and key managers. <ul style="list-style-type: none"> • Family relations. • Membership of groups/political parties. • Voting record.

2. Management Risk:

If the management of a company fails to exploit the company's position effectively, the company can fail and this risk of failure is called management risk. It can be subdivided further.

➤ Management Competence Risk:

Management competence risk is the risk that the company disrupts because the management is incompetent.

The Examples Analysis Of Management Competence Risk And By Which That Risk Is Measured:

Measures	Examples of risks	Analysis
Ability	<ul style="list-style-type: none"> ➤ Managers don't have the necessary abilities or experience: <ul style="list-style-type: none"> • Insufficient skills to manage key areas like – Finance, Operations, Administration etc. • Inability to manage people – <ul style="list-style-type: none"> * Autocratic style. * Failure to communicate with employees. 	<ul style="list-style-type: none"> ➤ Obtain key managers' bio-data and determine: <ul style="list-style-type: none"> • Education • Experience • Relevant skills. ➤ Interview individuals familiar with management: <ul style="list-style-type: none"> • Branch or region manager. • Govt. Officers. • Managers themselves.
Level of teamwork	<ul style="list-style-type: none"> ➤ Managers don't work well together: <ul style="list-style-type: none"> • Poor organization structure: <ul style="list-style-type: none"> * Unclear responsibilities. * Key functions missing * Span of control too wide or narrow like – a manager is responsible for too many or too few immediate subordinate. • Poor decision making: <ul style="list-style-type: none"> * Important decisions are made arbitrarily without proper analysis. * Difficult decisions are not made. * Frequent changes in direction. 	<ul style="list-style-type: none"> ➤ Review organization chart: <ul style="list-style-type: none"> • Test for clarity. • Ensure all functions are present. • Determine span of control. ➤ Review performance and compare with competitors: <ul style="list-style-type: none"> • Profits. • Growth. ➤ Determine reasons for any recent changes in management.

➤ Management Integrity Risk:

Management integrity risk is the risk that the company fails to repay its loan due to lack of management integrity.

The Measurement Of Management Integrity Risk:

Measure	Examples of risks	Analysis
Honesty	<ul style="list-style-type: none"> ➤ Bank is unable to assess risk properly due to unreliable or inadequate data: • Managers fail to disclose all relevant information. • Information that is supplied is misleading. 	<ul style="list-style-type: none"> ➤ Review credit files: <ul style="list-style-type: none"> • Note missing information. • Note inconsistencies in information supplied. • Determine frequency and nature of communication. ➤ Interview individuals familiar with management: <ul style="list-style-type: none"> • Branch or regional manager. • Auditors. • Govt. Officers ➤ Interview management: <ul style="list-style-type: none"> • Test for openness. • Ask for references. ➤ Perform site visits to assess: <ul style="list-style-type: none"> • Inventory. • Fixed asset quality. ➤ Look for signs of audit problems: <ul style="list-style-type: none"> • Auditors changed recently. • Audits refused. • Accounts qualified.
Dependability	<ul style="list-style-type: none"> ➤ Bank has difficulty in recovering loan due to failure of management to meet commitments: 	<ul style="list-style-type: none"> ➤ Review intra group accounts: <ul style="list-style-type: none"> • Receivables and payables to related companies.

<ul style="list-style-type: none"> • Management fails to meet contractual obligations. • Funds diverted to associated companies. • Security double pledged. • Management fails to meet with bank. • Management frequently adjourns meetings. 	<ul style="list-style-type: none"> • Transfer prices used with related companies. • Dividend payments. • Owner's salaries. <p>➤ Look for characteristics of managers that may cause problems in recovering the loans:</p> <ul style="list-style-type: none"> • Political power used to avoid obligations. • Disturbed tax escape. • Involved in questionable activities.
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b. Security Risk:

Security Risk is the that the realized value of the security does not cover the exposure of loan. Exposure means principal plus significant interest. Security Risk can be divided into two parts:

1. Security Control Risk:

Security Control Risk is the risk that the bank fails to realize the security because of lack of bank's control over the security offered by the borrowers.

The Measurement Of Security Control Risk:

Measure	Examples of risks	Analysis
Ease of obtaining a favorable judgement	<p>➤ Legal rights comprised:</p> <ul style="list-style-type: none"> • Mortgage is not taken. • Bank has second priority or it is subordinated. <p>➤ Documentation inadequate:</p> <ul style="list-style-type: none"> • Inadequate notary. 	<p>➤ Verify documentation:</p> <ul style="list-style-type: none"> • Security perfection. • Documentation completeness. • Documentation integrity. • Insurance policy and documentation. <p>➤ Assess customer's lobbying power with</p>

	<ul style="list-style-type: none"> • Lacking signatures. • Inaccurate assumptions. • Imperfect evidence. • Lacking stamp duty. • Outdated, past due. <ul style="list-style-type: none"> ➤ Fraud. ➤ Insurance does not cover exposure. ➤ Customer able to influence judgement: <ul style="list-style-type: none"> • Customer has strong lobbying power. • Judge sympathetic towards customer. 	<ul style="list-style-type: none"> ➤ legal authorities.
Ease of taking possession of security	<ul style="list-style-type: none"> ➤ Security missing. ➤ Security immobile. ➤ Difficulty in evicting squatters. 	<ul style="list-style-type: none"> ➤ Conduct site visit(s) to verify security existence.

2. Security Cover Risk:

It is the risk that realized security value may not cover the full exposure of loans.

The Measurement Of Security Cover Risk:

Measures	Examples of risk	Analysis
Expected security cover strength	➤ Expected realizable value, which is based on expected speed of liquidation and expected value at liquidation and that value is less than the exposure.	➤ Complete security covers calculation form.
Speed of realization	Security liquidity takes longer than expectation-	➤ Review recent cases to estimate speed

	<ul style="list-style-type: none"> ➤ Acquiring title to security takes longer than expected; • Legal procedure is unpredictable. • The borrower is able to delay legal process- <ul style="list-style-type: none"> * Documentation difficulties. * Lobbying. ➤ Selling security takes longer than expected- <ul style="list-style-type: none"> • Security highly specialized. • Value is so large that few can afford it. • Borrower has influence over potential buyers. 	<p>of realization.</p> <ul style="list-style-type: none"> ➤ Assess power of the borrower to prolong legal process. ➤ Analyze market demand for security.
Liquidation value	<p>Value realized at liquidation is less than expected-</p> <ul style="list-style-type: none"> ➤ Security loses value before it is realized: <ul style="list-style-type: none"> • Poor quality. • Perishable • Subject to rapid depreciation. • Technology liable to become obsolete. • Product has been customized for customer like – tailor made suit. ➤ Market price changes before security is realized: <ul style="list-style-type: none"> • Market prices are volatile. • Small number of buyers colludes to hold the price down. 	<ul style="list-style-type: none"> ➤ Use assessor to value security: <ul style="list-style-type: none"> • Quality and quantity. • Market demand. ➤ Review recent cases for difference between assessed value and the value realized at sale. ➤ Inquiry economic circumstances.

Process of Lending Risk Analysis:

The Lending Risk Analysis is mainly needed for either Trading or Manufacturing Companies, the credit officer or concerned persons who are involved to prepare the LRA report should first Collect the information and data in respect of the loan proposal and the borrower.

The following steps are generally followed:

- Collect all data available from published sources.
- Visit company to collect company specific data that is not published.
- Interview management to assess their ability and integrity.
- Investigate the security.
- Have an impression (by the credit officer) of the company's operations.

After collecting all the required information and data then:

- Prepare financial spreadsheet, which includes Balance Sheet, Income Statement, Cash Flow Statement and Financial Ratios on the basis of at least 3 years, financial statements of the borrowers.
- Analysis of Spreadsheet Ratios.
- Prepare supplementary questions for company management, if necessary.

After collecting all the information by filling up the LRA form of the borrowers, then find out the scores from the table of that LRA form. Then the score table - A assigned the specific score for each type of risks to indicate the risk level like –

- Low Risk.
- Average Risk.
- High Risk, and
- Excessive Risk.

After all these the bank will select the borrowers on the basis of the total scores from the LRA form as business and security risk. Then on the basis of the total scores of business and security risk, they have to be classified under any one of the 4 risk levels from the table - B, such as –

- Good Risk.

- Acceptable Risk.
- Marginal Risk, and
- Poor Risk.

At last, Risk Matrix has been expanded in the LRA manual to evaluate the overall risk level with the help of Business Risk Score and Security Risk Score. The Matrix has been constituted with the 4 – columns and 4 – rows from Table-C. Columns are used for business risk scores and rows are used for security risk scores.

Measuring the Risk from the Table:

From Table-B:

After observing the total score from the table-B then find out its Business risk levels:

Measurement of Risks	Scores / Values
Good Risk	13 to 19
Acceptable Risk	20 to 26
Marginal Risk	27 to 34
Poor Risk	Over 34

Again, if the total security risk score lies between –

Measurement of Risks	Scores / Values
Good Risk	-20 to -15
Acceptable Risk	-14 to 0
Marginal Risk	0 to 10
Poor Risk	Over 10

Risk matrix from the table-C demonstrates the values and selecting the Business risk levels.

Measurement of Risks	Scores / Values
Good Business Risk	1
Acceptable Business Risk	2
Marginal Business Risk	3
Poor Business Risk	4

Similarly, also by another way measures the Security Risks like –

Measurement of Risks	Scores / Values
Good Security Risk	A
Acceptable Security Risk	B

Marginal Security Risk	C
Poor Security Risk	D

Risk Matrix also reveals that –

Measurement of Risks	Scores / Values
Overall Good Risk Level	1A, 1B, 1C, and 1D
Overall Acceptable Risk Level	2A, 2B, and 2C
Overall Marginal Risk Level	2D, 3A, and 3B
Overall Poor Risk Level	3C, 3D, 4A, 4B, 4C and 4D

Here it is noticeable that if the level of business risk is good, whatever be the security risk level the overall risk will be good. Similarly, if the business risk is poor and whatever be the security risk level, the overall risk will be poor. From the above discussion it can say that according to LRA, business risk dominates the overall risk level much more than the security risk and in some cases security risk is ignored to assess the overall risk level.

Constraints in Implementing LRA:

It has been observed habitually that banks in Bangladesh used to execute funds business like – lending activities under security-oriented principle. Banks are used to provide more importance to the security without considering the business risk of the borrowers at the time of loan sanctioning, before 1989. But LRA does not give more emphasis on the security rather it gives more significance on the business risk of the borrowers. LRA's unique systems of scoring and capable borrowers with due consideration regarding their competence, integrity, and repayment capacity and cash flow projection of the project. While the bankers of Bangladesh are going to do lending risk analysis through 'LRA Form' they are facing various problems in implementing the same. The criteria specified in the LRA manual are very much appropriate and pragmatic to minimize the risks of lending. But it becomes very difficult and inflexible in some cases to the bankers because of the following reasons:

1. Analysis and Interpretation of Financial Statement:

Financial Statement refers to these basic statements like – Balance Sheet, Income Statement and Cash Flow Statement. These Statements provide a summary of financial position of any concern as those carry a lot of data. For arriving at any conclusion or to improve the lending decisions, the bankers are to analyze and interpret the data, which are given in the financial statements. But the problems that are usually faced by the bankers in analyzing the financial statements are:

(i) The Static Statements:

Financial Statements are usually prepared on a particular date or for a certain period and indicate position during that period only. These figures themselves do not provide any trend unless compared to the past. This comparison provides a picture of the past performance only and future forecasting on the basis of historical data may not be correct since other factors like –

- Market conditions.
- Macro-economic policies etc.

These may affect the future operation.

(ii) The Probability of Window - Dressing:

Businessmen in the society are usually tempted to take resort to window-dressing. Window – Dressing means accounts are so manipulated that the vital facts are concealed and facts presented are

superficial. Most of the concerns prepare financial statements to meet the specific requirement such as – borrowing from bank, satisfying the income tax authority etc. any lending decision based on the discrepant financial statements increase the lending risk.

(iii) The Non-Financial Change:

There are no many modifications, which may not be uncovered through the financial statements, but these changes may affect the financial position. For instance, if some technical experts have left the organization and the company has no alternative arrangement, it will definitely hamper production and profit. But these types of facts can not be found from the analysis of financial statements.

2. Industry Analysis:

Relevant and necessary data about the industries are not available in the country. There is no reliable industry specific information on important concerns to investors or bankers such as taxes, labor costs, utilities, raw materials availability, import duties etc. Uses of statistical methods are very limited at our national level because of non-availability of relevant information. Bureau of Statistics of Bangladesh (BSB) provides some information regarding national economy. But those are quite inadequate compared to the requirement of our banking and financial institutions. It is notable that there is no industry average in our country, which is required to fill-up the LRA Form. The financial institutions have not yet established any Data Bank for this purpose. Information provided in the Statistical Year-Book by Bureau of Statistics and Credit Information Bureau (CIB) of Bangladesh Bank are inadequate and in some cases obsolete for using in LRA.

3. Practices of Management Principles:

Most of the Banking Institutions in our country do not practice the principle delegation of authority and responsibility. On most of the cases management is extremely centralized and does not allow authority of decision making in lower level of management.

4. Skill and Knowledge of the Personnel:

Human resources are the most valuable resoucyces of an organization. The trained and skilled manpower is an important factor for effective handling of LRA. Most of the banks are facing the acute problem regarding rge skilled and knowledgeable personnel who know the modern tools and techniques of analyzing the financial statements, trend and dynamism of market.

5. Economic Factors:

The various components at the macro and micro level of our national economy are not yet stable enough. As a result, the analysis of demand, supply, sales forecast etc. does not contribute enough to the Lending Risk Analysis (LRA).

6. Borrower's Profile:

The number of real entrepreneurs are still very few in our country. Due to lack of knowledge about marketing, management, finance and accounting most of the entrepreneurs are not able to provide enough data and information, which are required by the bankers for the analysis of lending risk. However, it is also found that some entrepreneurs want to borrow from banks but they do not maintain proper financial statements or books of accounts.

7. Legal Environment:

Analysis of security risk often does not become accurate because of lengthy and complicated legal proceedings. However, the law of the country does not make auditing compulsory for all the enterprise except Joint Stock Company. In such a situation analysis of lending risk on the basis of un-audited financial statements may become useless.

8. Biasness and Irregularities:

In the LRA manual the degree of risks of the borrowers are measured subjectively and as such the question of biasness and irregularities of the concerned personnel can not be avoided. If they do not apply their judgement ethically, the result of LRA may be misleading.

Recommendations to implement the LRA:

The recommendations for overcoming the above problems are now put forward here as under:

a. Development of Accounting System:

All the financial institutions and banks any undertake a coordinated effort to convince the government for taking initiatives to improve the standard of professional services that are being provided by the Chartered Accountants under the authority of the Institute of Chartered Accountants of Bangladesh (ICAB). Special measures should be taken to stop the issuance of fake and purposeful statements. Then the advise is reform the law to make the Audited Financial Reports compulsory even for the proprietorship and partnership firms having a minimum turnover.

b. Data Bank:

All the banks and other financial institutions may take an initiative to establish a Data Bank for their ready reference to the pertinent information. Bangladesh Bank may play a significant role towards this end. There should be another agency like in USA, preferably in private sector something under the title of "Credit Information Bureau" side by side with the Credit Information Bureau (CIB) in our country, which will enable the bankers to coress-verify the information regarding the borrowers and credit request.

c. Training of the Bank Personnel:

More training should be conducted for the bankers to improve their analytical ability and professional standard regarding the use of LRA and other tools and techniques in selecting the borrowers and analyzing the loan proposals.

d. Decentralization of Management:

Authority should be delegated to the lower level with adequate measures for accountability, necessary control and follow-up for making the lending decision and recovery.

e. Motivation:

In the banking system there is a motivation for the employees that the bank performs the employees' compensation package with fringe benefits be increased to boost up the spirit and overall motivational level,

because highly motivated personnel can only provide high level of performance. However, motivation can reduce the corruption and irregularities of the personnel involved with it.

f. Field Study Based LRA:

Credit Department of the banks and financial institutions should conduct real field studies to analyze the lending risk before final decision is taken. There are documents and paper works in LRA should be minimized and market study for lending should gradually be introduced.

g. Development of Legal System:

In the country there is a system and the procedures of the Artha Rin Adalat and the other financial acts should be reviewed and modernized for the systematic and timely disposal of the default loan cases.

h. Research and Development:

Interest income occupies the major part (80% - 85%) of the total earnings of a bank, which comes from the lending activities. The profitability of the Bank is mainly depends on interest earning capacity. So all the financial institutions and the Banks should establish a separate Research and Development Cell in head office level particularly for the purpose of lending risk analysis and recovery of loans. Primarily LRA Form is designated in the light of manufacturing units. On the basis of study of research, banks can supplement the additional form is suitable for the trading concerns and even for the proprietorship and partnership firms. Regarding this bank can rely on this cell. In lending, the deviation between actual and expected performance can be measured and possible solutions can be found out through this Research and Development Cell.

Conclusion of Lending Risk Analysis:

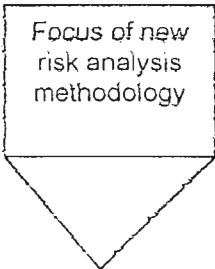
At last it can be said about LRA that the financial institutions and banks in Bangladesh will be confident and get the necessary help through implementing the LRA, which will reduce the lending risk at a minimum level. For a long time, the Banks of Bangladesh have been carrying the burden of huge amount of classified loans. It is hopefully consider that the banks will minimize the dangers regarding the bad loans and banks advances through implementing the LRA. Obviously, LRA is not the ready prescription on all ills but it would be helpful to the banks to go one step forward of their mission to minimize lending risk. At present, LRA is applicable for the loan amount of Tk. 1 crore and above and the amount for IFIC Bank 50 Lac and above. This is the limit should be gradually reduced and it should be made compulsory for Bangladesh Shilpa Bank (BSB), Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB) also and the special form should be developed for the agricultural lending. Since banks and financial institutions play an important role in the progress of national economy, it is the duty of the bankers to manage their loan portfolio very carefully. The national economy has been suffering enough for the misuse of banks' money in loans and advance and wastage of public assets. This is the high time to manage the public assets effectively and contribute to the nation's progress.

The New Risk Analysis Methodology Will Increase The Emphasis On Analysis Business Risk

Rationale:

- Thorough emphasis of business risk is more important in Bangladesh than analysis of security risk:
 - * *The legal system in Bangladesh often prevents the realization of security.*
 - * *If the security can not be realized, then the bank is totally exposed to business risk.*
 - * *Understanding of business risk is thus vital to banks in Bangladesh.*
- Current under-emphasis of business risk results in a large number of avoidable bad debts.
 - * *Currently the banks analyze security risk adequately, but almost ignore business risk.*
 - * *Many loan defaults result from business failures, which could be predicted by better analysis of business risk.*
- The Financial Sector Reform Project (FSRP) client banks should improve their analysis of business risk to reduce bad debts.

Focus of new
risk analysis
methodology



Business Risk:

It is concerned with whether the borrowing company would fail to generate sufficient cash out of business to repay the loan.

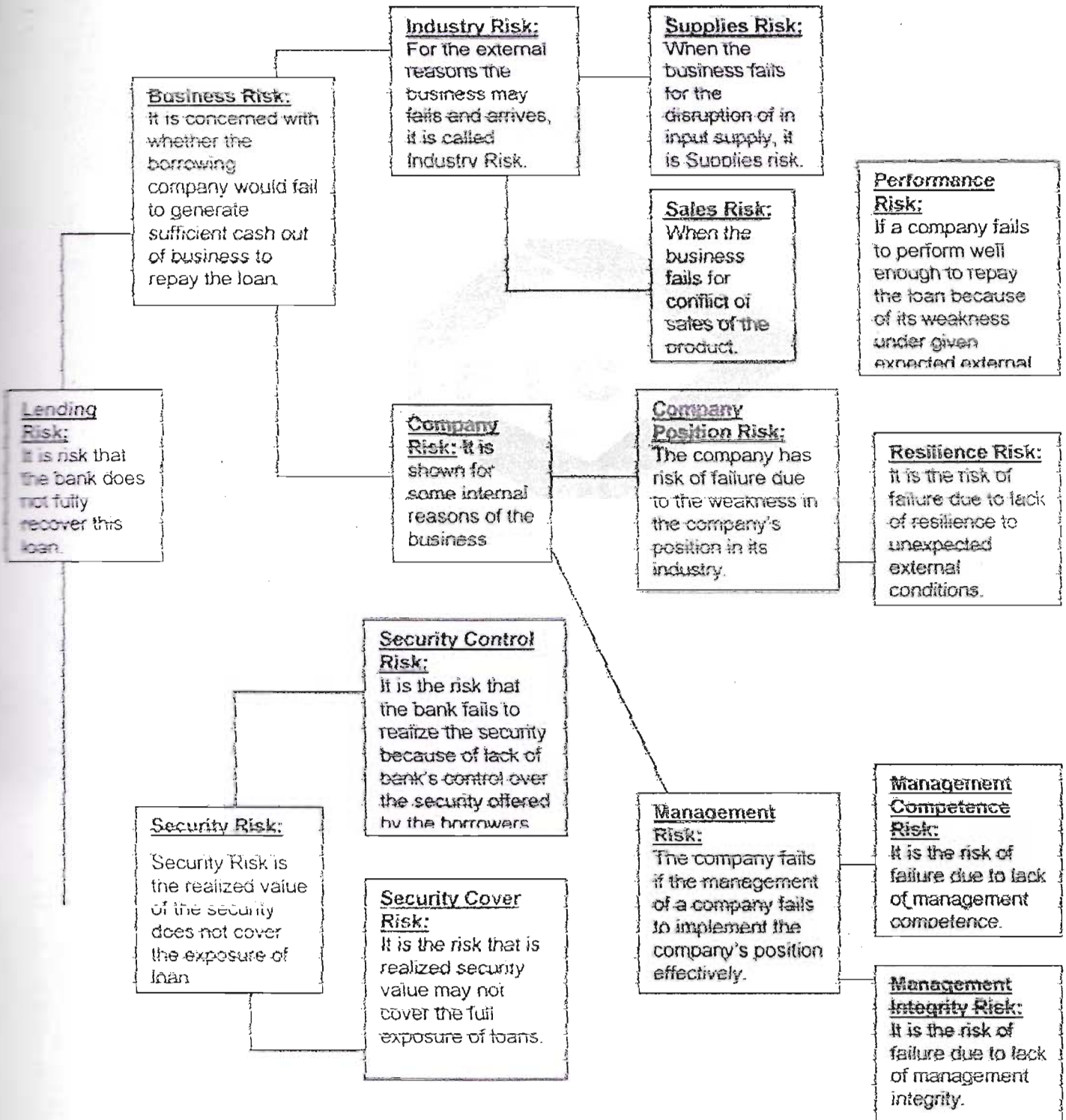
Lending Risk:

It is risk that the bank does not fully recover this loan.

Security Risk:

Security Risk is the realized value of the security does not cover the exposure of loan.

A Design For Assessing Those Risks:



Chapter 4

Problems Of IFIC Bank Ltd.

4.1. Problems relating to overall banking systems:

As a private bank there are different type of problems are facing in the country to perform their banking performance. Those are as follows:

- Overall the executives and all the rules and regulations are made by the Bank Board of Directors, Chairman, maintain banking procedures. The board of Directors selects the Chairman. Whatever they make the decision the employees will perform all those. But there are different banking regulations are performed at a regular basis in general banking system and sometimes the all the employees are not informed and aware about all the rules.
- The big problem for the bank is liquidity, slow service, how many ideas they offer can't maintain on time with a special responsibility.
- There are different operations are in the commercial bank like - Savings account, Deposit account, PSP, Interest, loan sanctions, etc. The consumers of the private bank are mainly well service holder and businessman, who want to get a better service with less time and for these they give a higher service charge, but for this all the general people are not able to get those types of facilities. And that's why the bank will have to pay a large scale of tax to the Govt.
- The expectation of those consumers from this type of private bank is more. And to fulfill the needs with their expectations the bank has to expense more, because all the private banks are the competitors of each other. If one bank provide a better service at a lower cost then the consumers will go to them and the other will be on loss. Like - Standard Chartered Grindlays when introduced ATM Card system then it helps the consumers more to get their money from their accounts any time. But this bank doesn't have this type facility for their clients.
- But the other banks are not really prepare for these type change and if the bank begins this type of facility for the consumers then they have to spend more and then the Govt. will ask tax of that ATM card machine. And also the bank has maintained those ATM card operations, and they have to change all the other performance like more standard and unique and for they will have to more conscious and train their stuffs more.
- They don't have Tele-banking system by which bank easily performs their LC roll with the foreign bank. By this they can collect the code number of the clients and when they want to get their money from any other country but they can't transfer it from their bank to the foreign country bank where that client is asking the money.
- The bank also has to face other problems like - slow service, maintenance procedures are not adequate.

- Sometimes the consumers are not prepare formalities in the banking systems before taking loan, or saving the money and sometime they are not come on time and that's why the banking performance is disturbed.
- When any consumer want to take loan then the necessary papers are not provided by them then the bank will have to create another post for monitoring those clients and if their information are confusing then the bank will have to monitor all the time to reduce the risk. If any time they fail to monitor the clients any cheating and give a huge amount of loan then the bank will be in great losses.
- Also if the bank is not properly guide any employee and if they can't give good service to their clients then the bank will loose their customers as well. If in the banking system and all the employees are not relate to each other and don't aware of all the banking rules and regulations and customers then the bank will in great trouble.

On the basis of the respondents replies it can say that the bank has a lower number of new offerings to adjust with the demand and the new technology so the customers are reducing day by day. What the other new, old and also the foreign banks are conscious more to offer new ideas to attract the clients for increasing their earnings that means their overall profit.

4.2. Problems relating to credit financing of the bank:

The Bank faces several problems due to their main and profitable function Credit Financing or Loan Granting to their different clients at a different amount. Those problems are:

- The main and a large portion of their earnings come from providing loan to the big clients and when those loans are refund to the bank then the bank earns a great profit. But by provided the loan in a different amount to the different clients then the bank has great risks are involved with the great chance earning possibilities, because when the bank selects and decides to give the loans to their different clients as a short or long or medium term.
- Mainly the bank falls in the greatest trouble when they sanction the loan at a huge amount for a long-term basis. Mainly when the bank sanction a long term loans it is huge amount.
- If the client are not properly transparent and dishonest to the bank and if that borrower does not give whole and appropriate information about him or the collateral like- security is land or building or automobiles and others. If the price of that security and what the borrower gives the price of that security but actually it is false and the bank sanction his or her loan then the bank will be in great risk. So the main problem of the bank is loan sanction.
- If the loans are classified then the risk will be more that means the loans are classified in different types =

When the loan payment is in the position of overdue period then those loans fall in the Classification status. Those are as follows:

- a. **Unclassified (UC):** When the Overdue Period of loans are less than 12 month to the bank then it is Unclassified.
- b. **Substandard (SS):** When the loans Overdue Period is in the position of 12 months or more but less than 36 then it is Substandard.
- c. **Doubtful (DB):** When the Overdue Period of loans are 36 months or more but less than 60 months then it is Doubtful.
- d. **Bad/Loss (BL):** When the loans Overdue Period is 60 months or more than that then it is Bad/Loss.

➤ The bank has another types of problems when they go for Lending Risk Analysis that is LRA does not give more importance on the security rather it gives more significance on the business risk of the borrowers. LRA's unique systems of

scoring and capable borrowers with due consideration regarding their competence, integrity, and repayment capacity and cash flow projection of the project. While the bankers of Bangladesh are going to do lending risk analysis through 'LRA Form' they are facing various problems in implementing the same. The criteria specified in the LRA manual are very much appropriate and pragmatic to minimize the risks of lending. But it becomes very difficult and inflexible in some cases to the bankers, which are explained before.

➤ The bank has a problem in their Consumer Credit Scheme (CCS). Because the bank has much formalities for giving loan against the securities and it sometimes very much strict for the consumers, about their guarantors so it is very much harassment for them.

➤ From the interviewing of different ranked employees it is clear that the bank is in the big problem of giving loan, because when the loans are not refunded then they have to consider a very big loss and which will not really easy to recover that loss.

So the bank is in the huge trouble by providing loans to the consumers. If the loan is in UC position then the bank is safe, but if the loan is in CL, or DS, or BL position, then it will be very bad for the bank. To find out the proper and accurate information they have to be more concern about their clients and all time they will have to monitor their performances. It is really expensive and sometimes not much possible to monitor perfectly. So if they stop loan giving then the banking business will not be continued because the large portion of earnings are come from that loan sanctioning. So there are a great trouble which can be said as Dilemma.

chapter 5



Tomorrow's Bank Today

Recommendation

5.1. Instructions for the overall banking systems:

As a private bank and which has a good reputation in the country and also outside the country then the bank should be more accurate all of their performances and provide a very better service with responsibility to their clients. Make a good relationship to their customers. All time aware about their customer's needs and demand what they expect from them. For these, the bank must have to be trained all of their employees. In every month in all branches employees should arrange workshop with different packages and present to their old customers with all the new customers which will attract them. By these the bank will get the suggestions from the clients and the general people who will be their future clients.

The bank management should arrange continuous training operations in the package system in different section with the different branches at a time and other time and ask different proposals from all the employees from the different sectors. Also the executives will be trained from the outside of the country and gain all types of performances from the different foreign banks and reserve all the clients recommendations.

The banking management should create them as a successful by increasing the availability of all the monitors for all sections so that the authority will notice all the problems and inaccuracy of any branch. They will have to introduce new banking particulars to attract the new customers and retain the old clients. More accuracy and developed performances attract them.

They have to observe all the other banking policies and before those others they have to introduce new ideas, which will really draw attention the clients both new and old. And all the times they will have to be aggressive by operating new performances like – advertisement of new offerings; collect the phone bills in all the branches so that the people can pay their bills from any areas where they live. And all time in each branch must be safe for all the clients and also the employees and the management should more conscious about their office environment. They should introduce ATM Card System, Tele-banking System and quick service by trained the employees.

5.2. Suggestions for the improvement of credit financing of IFIC Bank:

A private bank is a very good position in the people's mind as their performance and the expectation of the general people is really extremely high mainly those who are conscious about their activities and if the bank is well reputed. The people those who are involved in business and trade in different foreign country, then sometimes they need to get the opportunity to get the loans for trading and also for LC. Also the general consumers need to give loan for buying different types of necessary home appliances. Giving the loan will also benefit the bank and it is a large opportunity to earn a large amount of profit. And the risk is almost each sector of giving loan. That means when the bank sanction loan then they have to take risk because that loan may not be refunded. Then the bank will incur a great loss. So they will have to improve the credit financing system before providing the loan by different ways:

- They will have to arrange and implement that type of system by which they will never incur any loss by giving loan. Such as - Lending Risk Analysis (LRA), the bank will have to reduce the constraints of implementing LRA without any types of constraints and all will periodically. By which it can understand the trend of future period on the basis of the past position and then the banking management will take decision, whom will get loan or not.
- They will have to analyze all the candidates of getting loan. What's their purpose of taking loan and all of their information, monitoring perfectly their real position and compare with their given information, the real uses of that loan. The previous information of taking loan or not, if that client took loan at the previous period then the bank has to find out the past record of loan refund - time, amount, and any type of fraud case or other monitoring.
- The bank management will have to train all the employees to aware about the candidates those who applying for taking loan. With that they will have to consider the loan types that means which candidate applied what type of loan and the amount also. That means they will have to divide the candidates on the basis of loan types like - some applied for long term, some are for short term and some are for medium term.
- They must have to consider their security what they want to keep as collateral. They will have to monitor that security by their own employees who will only for that purpose and also measure the exact price of that collateral.
- The bank will also keep the businessman's company profile and measure the reality of the candidate's company balance sheet, income statement, journal, annual report, dividend declaration for the last few years and then find out the trend and analyze the future position.

- They also measure the good positioned company and their competitors and also all type of weaknesses.

At last it can say all the procedures must be very accurate and quick without any harassment of the candidates and the bank will have to clear them about their operations and that's why those who will be aware and not to try to involve any types of fraud. For all these at first the bank will have to trained in terms of all types of risk averse banking policy by giving loan for any terms and attract more positive borrowers and provide a very quick and smooth service. The bank should make more flexible the Consumer Credit Scheme for attracting the consumer and all other loan categories.

Limitations of collecting the information from IFIC Bank:

A private bank has already in different limitations their own. They have some ideas, which they don't want to expose to the others because the entire private banks have different confidential information, which are only for their analysis. So when to prepare this report many problems are also come forward and that's why the report is in different times falls in trouble to make the decision of their future ideas.

They have the limitation to provide all sorts of information such as their bad debts, which are classified, unclassified, recovery rates, loan sanctioned, disbursement mainly those are their secret rate, what they are prepare for present to the others.

All the ratios, assets, liabilities, their position in the private bank it is also only for their secret topic. But they give those some ideas but not clear information is gathering is really tough for their own limitations, which are mentioned for them as rules and regulation. How much they can publish for the general people they give mainly those and more but not excess, by which they will be in trouble in the future.

There is another limitation to collect the data is that the maximum time the employees are so busy by their works. So they can't help always at the same manner, when they talk about anything with explanation then may be their clients were come and there was a break created and again the same concentration and explanation were disturbed. That's why the actual and perfect information is not collected for all time.

Conclusion

Conclusion

International Finance Investment And Commerce Bank Limited, which is a very old private of Bangladesh, which has a good reputation also all over the country. The performances of the bank are well enough but they have different problems such as – as an old private bank the number of branches all over the country are lower with comparing other old banks. They have also another problem of their service sector to the clients because sometimes the services are slow, that's why the clients begin to shift another forward institutions. The credit financing process is strict mainly their Consumer Credit Scheme (CCS), which make the clients more disturbed to get the facility to buy their necessary goods. When the bank goes for Lending Risk Analysis (LRA) then they have to face different problems also. Their credit financing process is very strict which helps the bank to reduce the risk of refund the loans and fraud case will be reduced. But on the other hand those who are real borrowers and those don't have any fraud idea, they can't tolerate those type of rigid procedures by which when they go for taking loan for purchasing any types goods they have to consider different formalities and clauses which mainly take more.

They will be succeed to reduce and stop those risks, continued smooth credit financing by making it more easier for the clients and also make sure that by which the bank also will be secured by avoiding the risk of loan classified. When the loans are in the classified position mainly in Bad and Loss position then the bank case in the court against the borrower to repay the loan to recovery those losses. But before taking decision to go to court the bank warn the borrower to repay the loans and if there is no response then they go for law and regulations.

The bank has a good position because they have enough surplus money but they can't properly utilize to give more as credit because of the lack of reliable customers. And sometime those are in the classified last position that means those loans are Bad and Loss position then they have to take the decision to go for court for those borrowers and that's why the expenditure also large amount. They have another good position that their income is more than their expenditure, so for the last few years their income is increased compared with their expenditures. Also they have another very good sector is that their export position is also more than their importing.

But they are weak to offer new technological ideas, which can attract more and more customers, what the other different banks already offered and gain a huge amount customers. So the bank must conscious about those new technological offerings for gaining more customers by which they can earn more profit. And for introducing the new ideas they will have to make more strong their idea generate department and also they should monitor more the other banks' ideas and survey of the customers needs and demands from the private banks. So ultimately it will help the bank to get the good position in the country.