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BBA

**Bus 499
Credit Management Performance
of
United Commercial Bank Limited**

**Prepared For:
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1998-1-10-044**

**September 9, 2002
East West University, Dhaka.**

Report 62

September 9, 2002

Dr. Tanbir Ahmed Chowdhury
Associate Professor
Dept. of Business Administration
East West University, Dhaka

Subject: Request for submission of internship report.

Dear Sir

As a student of business administration, I have to submit an internship report for the fulfillment of my graduation. I have tried my best to fulfill the requirement of the course.

Working three months in the United Commercial Bank Ltd. Helped me to fulfill the requirement of writing the internship report and subsequent preparation of this report is a very valuable experience for me as it helps to combine practical experience within theoretical knowledge.

My internship in United Commercial Bank Ltd. was a worthwhile experience and the exposure of such a reputed organization would be a definite value for me. I would like to mention here that I am extremely grateful to you for your favorable guidance, tireless effort and attention as and when required in accomplishing the report. I followed your instruction schedule, format and discipline obediently and sincerely.

I am really grateful to you because of your tiresome effort for me, which provides me the opportunity to do this internship report.

I shall be pleased to answer any query you consider necessary as and when needed.

Sincerely

Synthia Mahmud 9.09.02

Synthia Mahmud

I.D# 1998-1-10-044.

Preface

The B.B.A internship program is a compulsory course for the students who are graduating from the East West University. It is three credits hour course duration of three months. Students who have completed all the required courses are eligible for this program.

In the internship program I was attended with a host organization for the last three months. During this period I learned how the host organization works in the field of banking sector.

The main theme of the internship is to gather practical experience and knowledge about the corporate banking activities of the financial sector in our country. It also helps a student compare to the theoretical knowledge with the practical field and this helps the students to get more exposure in the service life in a banking sector.

I have evaluated the credit management performance of the United Commercial Bank Ltd. in this report. You can understand the credit management performance when you go through the report. I have tried my best to make the report as informative as possible.

Acknowledgement

This report could never been completed without the help of some helpful and cooperative persons, and accommodating authorities. I would like to state the names of some of those supportive bodies.

First, I am very grateful to Mr. S.I. Nusrat A. Chowdhury, chairperson and associate professor, East West University for his kind supervision to me.

I express my heartiest gratitude and deepest respect to my internship (BUS-499) advisor Dr. Tanbir Ahmed Chowdhury, who showed specific guidance to prepare this report and without whose help it was quite impossible to me to fruitfully accomplish my goals to prepare this report. Because a lot of insights and knowledge I have put and used to the materials covered to this report, Learned and gathered from his vigorous instructions.

I also want to thank Mr. Abdul Matin,(Assistant Vice- President), Nayabazar Branch of United Commercial Bank Ltd. and other executives of that branch for providing me some of the necessary data and information required in completing this report, and assisting me to have the exposure and experience of a job.

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1.1 Introduction

Historically, commercial banks have been playing a vital role in the world economy and financial system. It is the place where the people with surplus fund can deposit the money with full trust and safety and also the people who are in deficit position can borrow money to fulfill their needs. Bank is not only a financial institution, it is a helping hand for the common people, different organizations and also for the government.

Bank's services are not only limited in deposit and loan services, the functions of commercial banks have changed as the needs of the economy have changed. There are other financial institutions that also provide the service of deposit and loan. But there are some difference between other financial institutions and banks. Other financial institutions do not provide the withdrawal service of money through demand deposits and they also do not concern about the basic financial needs of the consumers like fund remittances inside and outside the country. And they also do not have foreign exchange service, which is one of the most important service that banks provide.

By continuous research and development commercial banks are providing the best financial services with the superior technological facilities. They are acting as intermediary between the deficit units and the surplus units. Through their activities they are actually driving the wheel of the economy. Country's prospect and future economic conditions largely depend on the activities of the commercial bank.

United Commercial Bank Limited is also playing its role efficiently for the prosperity and good economic future of the country.

1.2 Objectives

The main objective of this paper is to analyze the credit management system of United Commercial Bank Limited.

What types of loan and advance schemes they offer, how they sanction those schemes, how they maintain the security of those schemes, how they manage the client to make the payment on due time, these are the key areas of observation in the credit management.

Another objective of this paper is to define the United Commercial Bank Ltd. as an organization.

What is its background, history, vision, mission, organizational structure and what are the services it provides for the consumers; these are the main purposes of this objective.

Mangers of the commercial banks need to manage several risks to maximize the wealth of the owners, like interest rate risk, liquidity risk, capital risk, operational risk, etc. These risks are more or less interrelated but credit risk is directly related with the credit management. To evaluate the credit management performance it is very important to know how much credit risk the bank is taking. Is the risk too much high compare to the other banks? Or it is low. The last objective of this paper will provide the answer of these questions.

So the final objective of this paper is to analyze the credit risk of United Commercial Bank Ltd. by comparing with the peer group average.

1.3 Limitations

There are some limitations of this paper. But these limitations represent only the facts that really hampered the quality of the report. Like this report focuses on loan and advance part of UCBL., which is the most sensitive element of the bank so in some cases the bank authority hesitated to disclose important information to maintain the business secrecy.

Publications of United Commercial Bank Ltd. were not sufficient to collect the needed information. But they provided the required annual reports of the bank. But the main difficulty was to collect the information of other commercial bank to make the peer group average. Because of the limitation of time it was not possible to collect data directly from the particular bank. So the necessary data has been collected from the library of Securities and Exchange Commission (SEC).

Limitation is a very common thing of our life. If there are some advantages of any work at the same time there will be some difficulties of that work also. But with these limitations people become successful, they achieve their desire goals. There are so many examples of that.

So, no excuse should be given to hide the weaknesses of any given job. But if there is hard work and full effort behind it then people appreciate the whole work, no body search for the flaws.

1.4 Application Procedures

&Source of Information

Application procedure of chapter two was sorting the informations and arranges those in an appropriate order to clarify the subject matter. Same procedure has been followed in chapter three also.

Application procedure of chapter four was sorting the information and using different financial ratios to calculate the credit risk. Microsoft Excel has been used as the spreadsheet program for different calculations.

The necessary informations have been collected from both primary and secondary sources. These are, the annual reports of different banks including UCBL., credit manual and other publications of the organization have been used as the secondary information sources. On the other hand, informal meeting with knowledgeable officials of UCB helped to collect the primary information.

2.1 About United Commercial Bank Limited

Philosophically, a bank is a financial institution, which accepts depositors' money for safe – keeping and contracts with the depositors to lend this money at interest to individuals or organizations who are in need of its use and who can give security that the loans will be paid with interest. From the profits made from lending money at interest the banker agrees to pay the legitimate depositors a fixed sum of interest besides safe – guarding the deposits. United Commercial bank Limited also follows these operations.

United Commercial Bank Limited, , was primarily established in November 1983 to expand the business activity and industrialization in Bangladesh to create new employment opportunities, by acting as a catalyst for the attraction of new entrepreneurs, capital, skills, and technology. Their main services were "Investment Account (I/A)" and "Issuing Promissory Notes (P/N)". The minimum amount of opening an I/A was Tk. 1000. The investor could take loan against his/her I/A as much as three times of the amount invested. UCBL would charge 18%-20% interest (including service charge) from borrowers. There was no range of amount in issuing Promissory Notes. But in 1989, Bangladesh Bank made a law asking UCBL to issue P/N not less than of Tk. 5,00,000. They also asked for its quarterly performance report.

UCBL's liquidation amount was 10% of the net profit whereas that of other banks and investment companies was 20%.

2.2 Background

UCBL was doing well until the Bank of England closed BCCI in 1992. The incident of BCCI affected commercial banks and investment companies of Bangladesh badly, specially the private ones.

The Bank which started with 16 branches in 1993, has at present 79 (seventy-nine) branches. Among the branches of Dhaka, Chittagong, Sylhet, Feni, Khulna, Jessore and Rangpur District Headquarters 16 (sixteen) are Authorized Dealer, means these branches are fully equipped for dealing in direct foreign exchange businesses. United Commercial Bank is now positioned to best suit the financial needs of its customers and make them partners of progress.

The share price of the bank is currently being quoted at both Dhaka and Chittagong stock exchange at an average price of Tk. 200 against per value of Tk. 100. United Commercial Bank based upon its commendable business performance for the year ended 2000, has meanwhile declared dividend at the rate of 20% (cash 10% plus Bonus 10%).

Main shareholders of this bank comprise leading industrialist and business magnets of the country. The board of directors consists of 26 members. Most of the directors are owners of large of business groups having high net worth.

Due to the predecessor company's involvement in investment financing sector of the country the bank inherited its top corporate customers. Moreover the bank is involved in import trade financing. Bulk importers of consumer goods, food grains industrial raw materials are its customers. The bank has financed in textile and apparels sectors. The bank has a trend of choosing customers from diversified

groups. The bank has first class customers in the construction sector involved in high rise building, heavy construction and roads and high way construction.

The purpose of the bank is to become " the bank of choice" in the communities they serve. They accomplish this by offering to the customers the financial services they expect while providing a return to the owners. In accomplishing this mission, the bank has fulfilled all the conditions set by the central bank. They claim that "UCBL is profit making and problem-free institution".

2.3 The Vision

To be in the forefront of national development by providing all the customers inspirational strength, dependable support and the most comprehensive range of business solutions, through our team of professionals who work passionately to be outstanding in everything we do.

2.4 The Mission

The mission of UCBL is to be at the forefront of national economic development by:

- 3 Anticipating business solutions required by all the customers everywhere and innovatively supplying them beyond expectation.
- 3 Setting industry benchmarks of world class standard in delivering customer value through the comprehensive product range, customer service and all the activities.
- 3 Building an exciting team-based working environment that will attract, develop and retain employees of exceptional ability who help celebrate the success of the business, of the customers and of national development.
- 3 Maintaining the highest ethical standards and a community responsibility worthy of a leading corporate citizen.
- 3 Continuously improving productivity and profitability, and thereby enhancing shareholder value.

2.5 United Commercial Bank at Present

Like clothes shops, candy shops, bakeshops, food shops, UCBL is not a "debt shop" the term being used by many to call the present day banks. It is now been called a modern bank that undertakes all its operations at an international standard.

Having started its operations as a commercial bank in 1993, recovering from some primary difficulties, United Commercial Bank has now emerged as a major player in the financial sector. Its performance has been outstanding in terms of profitability for the year ended 2000. Listed in both the Dhaka and Chittagong stock exchange since late 1999 with an IPO that raised the paid-up capital of the bank to Tk.39 crore, the current price levels of its shares and turnover in trading is evidence of its high rating among investors.

Banks are the pillars of the financial system. Specially, in Bangladesh, the health of the banking system is very vital because the capital market is little developed here. As the banks are still the major sources of credit and exercise great influence on the financial system, it is extremely important that the country's banking system should be in good health in the interest of investment activities, meeting the needs of all kinds of finance and related matters.

Over the years, United Commercial Bank has built itself as one of the strong and important member of Bangladesh's financial sector and is playing a significant role in extending the role of the private sector of the economy.

The bank is pledge & bound to perform even better in the coming years, opening new branches, adding new and better products and services to its customers at their doorsteps.

Without efficient policy maker and management team it is not possible to achieve the desire goal. United Commercial Bank also needs that to accomplish their mission. The next few sections will present the board of directors, the management team, the organizational structure and the responsibilities of each division.

2.6 Board of Directors

There are 27 members in the board of directors of United Commercial bank. Bank's Chairman is head of the board of directors. There is 1 Chairman, 1 Vice-Chairman, and 22 directors. Managing Director who is head of the management is also the member of the board of directors. Chairman and Vice-Chairman are elected for the period of two years by rotation among the directors.

Chairman:

Zafar Ahmed Chowdhury

Vice Chairman:

M.A. Sabur

Directors:

Hajee M.A. Kalam
Md. Jahangir Alam Khan
Sultana Hashem
Hajee Younus Ahmed
Nur Uddin Javed
Shabbir Ahmed
Monoara Jahangir
Sharif Jahir
Kaji Enamul Haque
Nayeem Kalam
Showkat Aziz Russell
Riyadh Zafar Chowdhury
Ahmed Arif Billah
Humayun Kabie Ahmed
Aziz- Al Mahmud
Md. Tanveer Khan
Md. Aminur Rahman

Syanthia Mahmud

Farhana Akhter
Aziz- Al Masud
Mrs. QamrunNahar
Kaiser Ahmed

Managing Director:

Muhammad Sajid-ul Haque

2.7 Management

There are 23 members in the top management team of United Commercial Bank Limited. Managing Director is the head of this team. There are 2 Executive Vice-presidents, 2 Senior Vice-Presidents, and 19 Vice-Presidents in this management team.

Managing Director:

Muhammad Sajid-ul Haque

Executive Vice-President:

M.Serajul Islam

M.S.KamalUddin

Senior Vice-President:

Anisur Rahman
Sahabuddin Ahmed

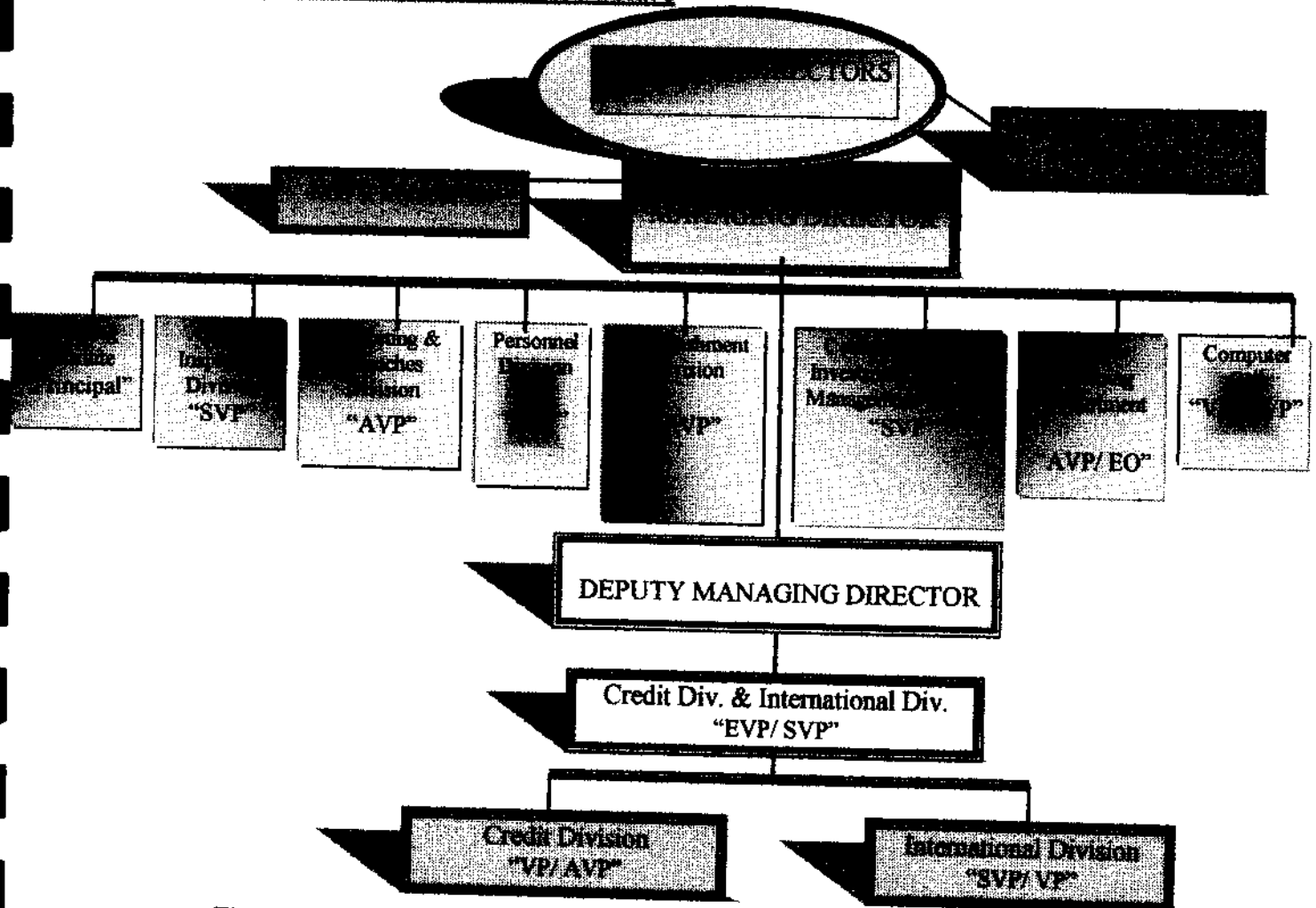
Vice-President:

Dewan Mosharraf Hossain
Md.Manir Hossain
Mafizur Rahman Chowdhury
A.S.M. Zahrul Amin
S.M.Didarul Alam
Anowar Pasha
Chowdhury Anwarul Hasan
Syanthia Mahmud

Md. Shahe Alam Miah
Jashimuddin Ahmed Chowdhury
Ershadullah Patwary
A.B.M. Ihsanul Kabir
A.K.M Sahidullah
Md. Mizanur Rahman
Md. Shah Alam
Md. Qamrul Hasan
Shahid Ahmed
Mozidur Rahman Biswas
Chandan Sen Gupta
Ali Haider

2.8 Organizational Structure of UCBL

Chart 2.1: Organizational Structure



EVP: Executive Vice President
SVP: Senior Vice President
VP: Vice President
AVP: Assistant Vice President

2.9 Responsibilities of Divisions

2.9.1 Board's Secretariat

Conducting annual general meeting, board meeting and communicating with the members of the board of the directors and helping stockholders for any banking affairs. They also update list of the shareholders and maintain the registration procedure of the new shareholders.

2.9.2 MD's Secretariat

Assisting the Managing Director in bank's operational affairs by providing necessary information and particulars. This department also maintains the daily program of the MD's.

2.9.3 Training Institute

Arranging training program, seminar, and workshop for development of skill of bank's employees. It also does the selection process of the employees for the training purpose. This institution not only arrange training courses itself, they also have a contract with Bangladesh Institution of Bank Management (BIBM) to provide training to the employees of United Commercial Bank.

2.9.4 Audit & Inspection Division

Acting as internal auditor of the bank to audit the transaction of bank's account. Usually this audit has been made in the early time of the year at United Commercial Bank. This audit team also evaluates the performance of the employees individually and reports it in the human resources division. Some time audit comes from the Bangladesh Bank also. They especially check the foreign exchange transactions.

2.9.5 Marketing & Branches Division

Although United Commercial Bank does not provide any tangible product to its consumers but it also needs a strong marketing strategy to serve its services comparatively better than the competitors. This division looks after this job. They takes the necessary steps to promote the banking products & services. It also communicate with the branches for banking affairs, like any branch can face liquidity problem or low deposit problem then this division takes proper initiatives to solve that. It keeps contract with the big corporations and institutions to accumulate big amount of deposits.

2.9.6 Personnel Division

Recruiting human resources and maintaining the salary system. It controls the promotion system of the existing officers. They also provide internship facilities to the students of the business school.

2.9.7 Establishment Division

Maintaining bank's assets and providing stationary items to the branch and head office. It operates the maintenance account and sets the fund range for the branch to spend for the needed accessories. But if the branch exceed the fund range then they have to take the permission of the head office.

Syanthia Mahmud

2.9.8 Central Accounts Investment and Fund Management Division

In United Commercial bank the master account is operated by the head office. It operates the operation of the clearinghouse for all branches and also the other internal transactions through inter branch transaction account (IBTA). It also maintains the accounts of the bank for investing the idle fund in the money market instruments.

2.9.9 MIS & Planning Department

This department controls the central database, which contains all the confidential informations, the instructions and the bylaws of central bank, and important research works and also the competitor's information. This department actually does the job of research & development.

2.9.10 Credit Division

Monitoring the advance and approving the proposal of advances through the board of directors. It also maintains all the information about the loan of each branch. They especially process this information for Bangladesh Bank's Credit Cell called "Credit Information Bureau.

2.9.11 International Division (ID)

Maintaining the foreign exchange transaction of the head office and branches. It controls the international fund transfer among the branches and also verifies the letter of credit and sets the margin for it. It time to time notify the latest instruction of the central bank to all its authorized dealer (AD) branches. This department also keeps the record of foreign currency reserve and disbursement and informs central bank every month with particular statement. They also provide daily exchange rate list to all its AD Branches through telex or fax.

So these are the responsibilities or job description of the different divisions of United Commercial Bank Ltd. The employees who work in these divisions or in the branches are also very important for the bank. Because only their good performance can help United Commercial Bank to reach the expected destination. The next section will describe the benefits that the employees are provided by the bank.

2.10 Employees Benefits

In addition to fixed salaries and allowances, employees of UCBL are given following incentives to motivate them in working.

2.10.1 Incentive Plans

UCBL provides Cash, Accelerated Promotion, and Special Increment, etc. as incentives to its deserving employees. Like every year head office sets a deposit limit for every branch. If the branch can exceed that limit then the employees will enjoy some monetary incentive. Also in between the branch the Vice-President (VP) ask the employees to provide their personal contribution to increase the deposit of the branch. The employee who contributes the highest amount of deposit by using their link has been given a nice incentive.

2.10.2 Pension Plans

UCBL does not have any pension plan, but its employees receive gratuity. They also have provident fund and the welfare fund for the employees. The head office invests these funds on the securities, which are non-speculative in nature.

2.10.3 Number of Paid Holidays

The employees of UCB get 45 days holidays in a year. They get casual leave of 10 days, and earned leave of 35 days. If one employee does not take the casual leave then he/she will not get this in the next year. But if one employee does not take the earned leave then he/she will get these holidays in the next year.

2.10.4 Insurance

UCB does not facilitate its employees with medical, dental or individual life insurance policies but maintains group life insurance for all. If any body died then his/her family will get some amount by the designation.

2.10.5 Bonuses

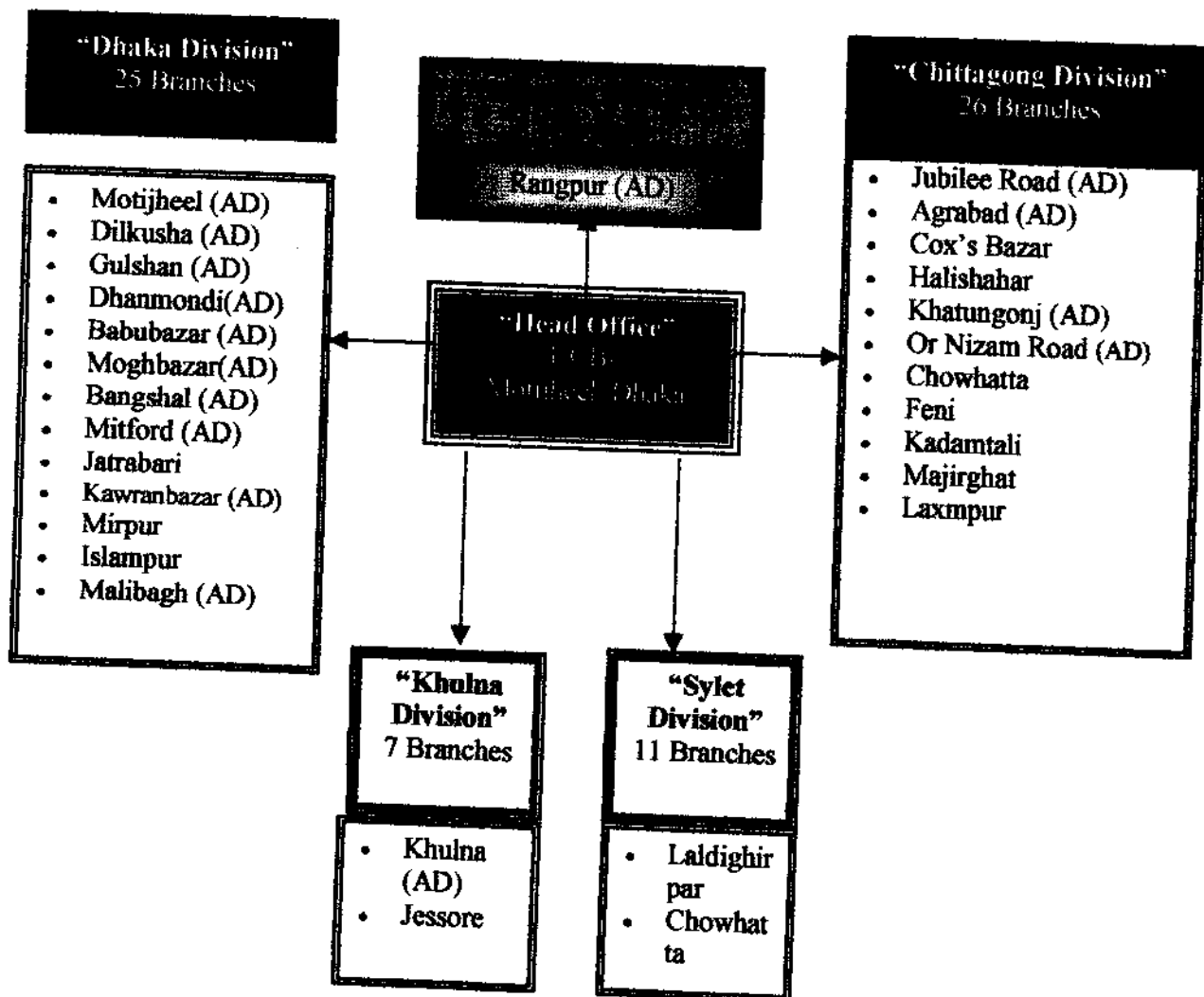
UCBL gives two bonuses every year, amounting one basic each. Usually in the Eid time they get these two bonuses.

Branches are the main source of income for a commercial bank. Actually branch sells the services to the ultimate customer. It acts as a retail shop. This is also true for United Commercial Bank. The next two sections will represent the branches of UCB and what services its provide to the customers.

2.11 Branches of United Commercial Bank Ltd.

There are 79 branches of UCB Ltd. around the country. Branches are in all the division of the country. Among the branches 16 are authorized dealer (AD). The bank is planning to open more branches at different important business centers of the country. But this is subject to approval of Bangladesh Bank. The network of the branches is as follows:

Chart 2.2: Branches of UCB Ltd.



2.12 Services of United Commercial Bank

United Commercial Bank Limited provides various kind of services to its customers like deposit schemes, loan schemes, foreign exchange services, Islamic banking, inland and foreign remittance services.

These services have many categories. United Commercial Bank always tries to create new opportunities for its clients. It gives customized services and maintains harmonious banker-client relationship. It contributes towards formation of national capital, growth of savings & investment in trade, commerce & industrial sectors. Its planning department is always trying to originate new banking products to stay in the competitive market. And they are committed to the customers to give them ultimate satisfaction.

2.12.1 Deposit Schemes

The deposit scheme of UCB can be classified in to two main categories like the other banks. One is time deposit and another is demand deposit. These deposit schemes are available in many forms. Foreign currency account can be opened also at UCB.

Time deposit and its categories will be discussed in the succeeding pages.

2.12.1.1 Time Deposits

A deposit which is payable at a fixed date or in a notice of the depositors. It gives fixed interest rate over a fixed period of time. In case of premature time deposit, the bank is not bound to accept surrender of deposit before its maturity date. In order to prevent such tendency, the interest on such a fixed deposit is made cut a certain percentage less than the agreed rate. Normally, savings bank deposit interest rate is allowed.

UCB gives time deposits service through Fixed Deposit Receipt (FDR), Short Term Deposit (STD), and Bearer Certificate Deposit (BCD) etc.

2.12.1.1.1 Fixed Deposits Receipt (FDR)

This is a contract between the bank and the depositor for a specified fixed period of time that the bank will maintain the deposit amount and will give a fixed rate of return to the depositor. The bank does not need to maintain any cash reserve against these deposits as per the central bank's rules. Therefore the bank offers high rate of interest on such deposits. The instrument is automatically renewed within seven days after the date of its maturity if the client does not come to encash the FDR. In case of lost FDR, the customer is asked to record a GD in the nearest police station. After that, the customer has to furnish an indemnity bond to UCB then a duplicate FDR is issued to the customer by the bank.

2.12.1.1.2 Short Term Deposit (STD)

In Short Term Deposit, the deposit should be kept for at least seven days to get interest. For the Short Term Deposit interest rate is 6.00%. The interest offered for STD is less than that of saving deposit. In UCB, various big companies, organizations, government departments keep money in STD accounts. Frequent withdrawal is discouraged and requires prior notice.

UCBL offers following attractive rates of profit to its depositors on Time Deposits:

Table 2.1: Interest Rate on time Deposits

<u>Nature of Deposits</u>	<u>Band of Rate of Interest</u>
Fixed Deposit 1 month	8.00% - 8.50%
Fixed Deposit / Bearer Certificates for 3 months	9.00% - 9.25%
Fixed Deposit / Bearer Certificates for 6 months	9.25% - 9.50%
Fixed Deposit / Bearer Certificates for 1 year	9.75% - 10.50%
Fixed Deposit / Bearer Certificates for 2 years	10.25% - 11.25%
Fixed Deposit / Bearer Certificates for 3 years	10.75% - 11.50%

2.12.1.1.3 Special Savings Scheme

In addition to above, higher rate of profit is offered on bulk deposits. With a view to ensuring risk free and profitable investment of limited income of majority of our people & thereby providing maximum benefits, UCB has launched "Special Savings Schemes (SSS)" like "Deposit Pension Scheme (DPS)", this scheme includes the following features for the convenience of the clients.

- * The monthly installments of Tk. 500 to Tk. 2500 may be deposited every month during the entire period of the scheme.
- * The duration of the scheme is 5 years or 10 years.

The depositors will be paid a specified amount as per the following table:

Table: 2.2 Amount of return in SSS

<u>Monthly installment (Taka)</u>	<u>Duration</u>	
	<u>5 Years</u>	<u>10 Years</u>
500	40,000	1,00,000
1000	80,000	2,00,000
1500	1,20,000	3,00,000
2000	1,60,000	4,00,000
2500	2,00,000	5,00,000

A depositor may open one or more accounts of different installments in the same Branch. Loan may be extended upto 80% of the deposited amount.

2.12.1.1.4 Special Fixed Deposit Scheme

Any amount of Tk. 1,00,000/- or its multiple may be deposited under this scheme. Duration of the Scheme is 3(three) years. Monthly interest will be given to the depositor against the deposited amount according to the following schedule:

Table: 2.3 Monthly Profit of Special Fixed Deposit Schemes

<u>Amount Deposit (Tk.)</u>	<u>Monthly Profit (Tk.)</u>
50,000	427
1,00,000	854
2,00,000	1,708
3,00,000	2,563
4,00,000	3,417
5,00,000	4,583
6,00,000	5,500
7,00,000	6,417
8,00,000	7,333
9,00,000	8,250
10,00,000	10,000

2.12.1.2 Demand Deposits

Demand deposit means money in a bank account, which can be taken out by the depositors as much as their demand. He/she can do it just by writing a check. UCB offers two types of demand deposit account one is savings deposit another is current deposit.

2.12.1.2.1 Saving Deposit

Savings deposit is the most popular and most common demand deposit of our banking system. UCB also offers this account. The specialty of this deposit account is the depositors can withdraw the money whenever he/she wishes but not more two times in a week. In case of emergency, permission has to be taken from the branch manager. For the savings deposit interest rate is 8.50%.

2.12.1.2.2 Current Deposit

This type of account is popular all over the world. Mainly for the business purposes this type of account is used. Because the depositor can withdraw money without any prior notice. The depositors can write several cheques in a day against the account. There is no limitation of amount. Current account can be opened by individual, proprietorship business, partnership business, or by limited companies both private and public. The account can open in individual name or in joint name. Interest is not given in this account. Some times the depositors may allow withdrawing money by exceeding their deposit limit. Banks do this kind of practice only for their prime customers. This thing creates one kind of loan.

2.12.1.3 Foreign Currency Deposits

As a leading private commercial bank of Bangladesh UCB is contributing it's best to provide the service of foreign transaction. It has been using the most upgraded technology for this purpose from the very beginning. And that's why Bangladesh Bank has given them the permission to maintain different types of foreign currency accounts. These are as follows:

2.12.1.3.1 Private FC Account

Without prior approved of the Bangladesh Bank foreign currency accounts may be opened with UCB in the names of:

- * Bangladesh Nationals residing abroad.
- * Foreign nationals residing abroad or in Bangladesh and also foreign firms registered abroad and operating in Bangladesh or aboard.
- * Foreign missions and their expatriate employees.

Foreign exchange earned through business done or services rendered in Bangladesh cannot be put into these accounts. On the above foreign currency accounts maintained with UCB under this authority they can pay interest on such accounts provided the accounts are maintained in the form of term deposits for a minimum period of 90 days. Rates of interest payable on such accounts should normally be comparable with the rates available on similar accounts maintained abroad.

Foreign nationals residing in Bangladesh are allowed to maintain and operate their foreign currency accounts abroad. This account may be opened in the names of resident Bangladeshi nationals working with the foreign/international organizations operating in Bangladesh provided salary is paid in foreign currency.

2.12.1.3.2 Resident Foreign Currency Deposit (RFCD)

Persons ordinarily resident in Bangladesh may open and maintain with United Commercial Bank "Resident Foreign Currency Deposit (RFCD)" accounts with forcing exchange brought in at the time of their return from travel abroad. Any amount brought in with declaration to Custom authorities in form FMJ and up to us \$ 5000 brought in without any declaration, can be credited to such accounts. However, proceeds of export of goods or services in Bangladesh or commission arising from business deals in Bangladesh shall not be credited to such accounts.

2.12.1.3.3 Non-Resident Foreign Currency Deposit (NFCD)

NFCD account can be opened for a term of 1 month, 3month, 6month and 12 month in USD, GBP, German Mark, Japanese Yen or EURO Currency with any of UCB's AD branches. The minimum amount of deposit should be USD 1000.00 or GBP 500.00 or equivalent amount in other currency.

NFCD account can be operated or renewal basis up to an unlimited period. The account holder can operate such account as long as he/she desires after the final return from abroad. A non-resident Bangladeshi national can also open an NFCD account by deposit of foreign currency earned in foreign country within 6 months from the date of his/her final return from abroad. Interest will be accrued on the balances of foreign currency deposit in NFCD account at the equivalent rate of interest applicable on EURO currency deposits. Interest so earned on the NFCD balances will be tax-free. Balance of NFCD account in foreign currency can be remitted to any country freely. This balance is also convertible in BD Taka at the prevailing exchange rate.

2.12.1.3.4 NITA

Non-resident Bangladesh Nationals can open NITA account with any of UCBC's AD branches for investment of their surplus earnings in foreign currency in the capital market of Bangladesh by purchasing shares and securities. Dividend earner on the shares & securities and its sale proceeds can be deposited to NITA account. Profit /dividend earned on NITA account is income tax free.

Entire balance of the NITA account can be freely transferred at any time in FC to foreign countries at the existing exchange rates. NITA account can be operates through a nominee. The concern Bank in this case UCB maintaining the account can also act as nominee.

2.12.1.3.5 Quota Account

Government of Bangladesh has taken many initiatives to encourage the export-oriented industries. One of them is quota account. Any industry (accept the garments industry) who does almost 100% value added¹ export will get 40% retention quota from the government. And the amount will be 40% of the total value of the export in cash. With this cash amount foreign currency account can be opened at United Commercial Bank.

2.12.2 Remittance Services

Remittance or fund transfer service is another area where United Commercial Bank is giving their service very efficiently. They are using most upgraded technology for this service. Their intention is to provide this service to the customers with minimum cost and time. The following section will define the two types of remittance services one is inland remittance and the other is foreign remittance:

2.12.2.1 Inland Remittance

In Bangladeshi banking system inland remittance or domestic fund transfer system is very common practice. Almost every bank provides TT, DD, PO facilities. A good portion of bank's income comes from the commission of these services.

2.12.2.1.1 Telegraphic Transfer (TT)

¹ Value addition means how much import has been done for the exporting purpose. Usually in the garment industry the value addition is much lower than the other exporting industries. Because the garment companies import most of their raw materials from abroad.

A telegraphic transfer (TT) is an instruction for transfer of money by telegraph technology, means by telephone or telex. TT is used especially to transfer money from one district to another district. In the United Commercial Bank only account holders are allowed to take the TT service. Both the sender and the receiver must have account in UCB. Bank charges 0.15% commission on total amount of TT. Bank also receives Tk.100 as telephone or telex charge. The security of the TT is maintained by a test number. Two authorized officers of sender's branch give two or three digit test number. After sending TT advice two authorized officers of receivers bank also give two or three digit test number. This two test numbers have to be matched. Other wise the receiver will not get the money. This is very strange thing, but for the bankers it is not very difficult because this is their secret system and they do not want to disclose this matter. The money of TT is being adjusted through the "inter branch transaction account (IBTA)" of head office.

2.12.2.1.2 Demand Draft (DD)

DD is another kind of money transfer system from one place to another place. Like TT; DD also has to be between the branches of the United Commercial Bank. But the sender and the receiver do not need to have any account in United Commercial Bank. Bank charges some commission for DD. The main purpose of this system is to carry the money safely from one place to another place, but that place should have the branch of UCB. The receiver may deposit the DD in his/her account in another bank to collect the money through clearing house.

2.12.2.1.3 Pay Order (PO)

Pay order is most commonly used inland remittance system. Usually it is used as an alternative of check to give any payment. It is account payee only. The sender of pay order does not need to be an account holder in United Commercial Bank. Any person can take this service from them. But there are some commercial

banks who provide this service only to their account holders. United Commercial Bank charges very minimum amount of commission for this.

2.12.3 Loan Schemes

The primary function of commercial bank is the extension of credit to borrowers and earns interest on it. This is a major source of income for them. United Commercial Bank also earns one of its major part of income from the loans and advances. In this section only main theme of the loan schemes will be highlighted. **Details of this section will be discussed in chapter 3 (Credit Management of United Commercial Bank Limited).**

The following sections will define different types of loan schemes under four main categories these are general loan & advance, import loan & advance, export loan & advance, Islamic loan:

2.12.3.1 General Loan & Advances

UCBL allows general credits to individuals /firms /companies to help their business in the following categories:

*** Loan (G)**

When an advance is made in a lump sum repayable either in fixed monthly installments or in lump sum and no subsequent debit is ordinarily allowed except by way of interest, incidental charges, etc.

*** Cash Credit**

Cash credit is a favorite mode of borrowing by traders, industrialist etc. for meeting their working capital requirements. It is operated like overdraft account. Depending on charging security, there are two types cash credit one is CC (Hypothecation) and another is CC (pledge):

- **Cash Credit (Hypothecation)**

This type of credit is allowed to the traders and industrial borrowers for promoting trade and commerce and industries.

- **Cash Credit (Pledge)**

Allowed for promoting trade, commerce and industries of the country against pledge of stock in trade under Bank's control. Here bank retains the goods in its control as collateral.

- **SOD (FO)**

Allowed against financial obligation like lien of FDR, Government Securities, ICB Mutual Funds, etc. for promotion of economic and business activities.

- **SOD (General):**

Generally allowed to the traders for business promotion and economic activities. Usually these loan is given against different work order and supply order.

- **Bank Guarantee**

United Commercial Bank issues bank guarantee generally for business/ economic purpose for participating in the local /industrial tenders and other commercial activities.

- **Loan (HBL)**

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House building loan is one of the most important sector for any bank to lend their money. United Commercial bank also provides house-building loan for constructing residential buildings as well as commercial buildings.

✿ **Temporary Overdrawn (TOD)**

In case of any special situation if the borrower apply to the bank to withdraw more than the loan limit then bank may give the permission.

✿ **Current Account Overdrawn**

The overdraft is a kind of advance always allowed on a current account operated upon by cheques. The customer may be sanctioned a certain limit upon which, he can overdraw his current account within a stipulated period.

✿ **Inland Bill Purchase (IBP)**

If any regular client of the bank approach them to purchase any bill which is post dated and if the bank agrees to do that then IBP loan will be created.

✿ **Consumer Finance Scheme (CFS)**

In the recent time it has been observed that most of the commercial banks are giving more concentration on consumer finance scheme. Under the scheme the clients may secure loan facilities at easy installments to procure household amenities.

✿ **Lease Finance Scheme (LFS)**

Items leased out to the new/existing industries to procure machines for the industries. An entrepreneur, under this scheme, may avail of the lease facilities to procure industrial machinery with easy repayment schedule.

2.3.2 Import Loan & Advances

The Bank allows credits to the importers in the following forms:

• Payment against Document (PAD)

In case of a sight L/C bank must make the payment to the beneficiary's bank when it get the document. Bank does this thing on behalf of the importer. Actual payment will be made by importer. So this practice create a contingent liability for the bank. And bank charges interest until they get the payment from the importer.

• Loan against Imported Merchandise (LIM)

In this loan scheme borrower is allowed to retire documents and clear the consignment form the customs authority taking the goods under Bank's Control.

• Loan against Trust Receipt (LTR)

This advance allowed for retirement of shipping documents and release of goods imported through L/C falls under this head.

2.12.3.3 Export Loan & Advances

The Bank allows credits to the exporters to help performing their exports under the following categories:

✱ **Export Cash Credit (ECC)**

Exporter is allowed to provide with working capital for production of items of export. Credit facilities allowed to facilitate export against L/C fall under this category.

✱ **Packing Credit (PC)**

Packing credit is called pre-shipment export financing. It allowed to the exporter for packing the goods before shipment.

✱ **Back-to-Back L/C Financing**

This facility is extended especially to garment factories. The company can open a back to back LC against the importer's master LC to import the raw material from abroad.

✱ **Foreign Document Bill for Purchase (FDBP)**

This is a post-shipment export financing. After exporting if the exporter need the money immediately. United Commercial Bank can purchase the bill as a service to the exporter and charge interest on that.

✱ **Local Document Bill for Purchase (LDBP)**

This is exactly like FDBP the only difference is this is local and that is foreign. Sometimes in the local market one party can import from another party in order to complete the export order.

2.12.4 Foreign Exchange Services

Although most of the foreign exchange services have already been discussed in the deposit scheme, foreign remittance, and import export loan schemes sections, but considering the importance of foreign exchange business in United Commercial Bank some of its important aspects should be discussed in the paper.

Today successful companies are fully aware that they need to be able to rely on the services of a bank that can handle international trade with a good hand. Ever since its conversion into a full-fledged bank in 1993, United Commercial Bank has been established itself as a "Trade Finance" bank. With a highly professional team experienced and competent professionals they are able to provide a wide range of services to companies engaged in international trade.

As an authorized dealer bank UCB do all the common operations of foreign trade like **letter of credit (LIC)** issuing, advising, negotiating, etc. They also do all the regular operations of **bill of exchange** purchasing, selling, and financing. Because the topic of this paper is not that much related with the foreign exchange so that it could be irrelevant to discuss the very common things of foreign exchange.

But there are some important things in the foreign service, which represent the organizational efficiency of UCBL.. Like the world wide correspondent and the membership of SWIFT (Society for Worldwide Inter-Bank Financial Telecommunication). These will be discussed in the next page.

2.12.4.1 SWIFT

United Commercial Bank is a member of the Society for Worldwide Inter bank Financial Telecommunication (SWIFT). This is one kind of networking system between most of the banks in world. This is an Internet based networking system, which provides e-mail facility to its member banks. But there are some differences between the regular e-mail (which is usually used all over the world) and the SWIFT e-mail. SWIFT e-mail is operated by an especial software, which is not Windows based. Disc Operating System (DOS) is the required operating system for SWIFT technology. Because DOS is considered to be one of the most secured operating system and security is the first priority in foreign exchange transaction.

Through this fast, reliable and secure global communication UCB has gained 24 hours connectivity with over 7000 financial institutions in 200 countries for transmission of LCs, Guarantees, funds transfer, payments, etc. Some other private banks of Bangladesh are using SWIFT but they have this facility only in the head office.

2.12.5 Other Services

United Commercial Bank also offers locker service to its customers. This service is offered in some selected branches. Three types of lockers are available small, medium and large. United Commercial Bank also sales prize bond and revenue stamp in its cash counter.

3.1 Credit Management of United Commercial Bank Ltd.

A senior loan officer of Northeastern Bank, USA addressed the trainees of the bank in a seminar² that "making a loan is like growing vegetable in a garden. It takes time to prepare the ground, plant the seeds, nature them, and wait for them to grow. Some plants will blossom and be fruitful, others will wither on the vine. Your task is to make loans, monitor them, and then harvest the fruits of your labor." From this speech it can be easily understand that lending is a complex business.

The primary function of commercial bank is the extension of credit to borrowers. Bank credit is a catalyst for bringing about economic development. Without adequate finance there can not be any growth or maintenance of a stable output. But banks are not only the source of loan to the deficit units. There are other financial institutions that also provide loans. They are now directly competing with the banks in many sectors. Among these financial institutions the house finance companies and the leasing companies are doing very well now a days.

But bank lending is more important to the economy because, it ensure the financing of agriculture, commercial and industrial activities of a nation. At the same time, a bank will therefore, distribute its funds among various assets in a manner as to derive sufficient income. Lending comprises a very large portion of banks total assets and forms the backbone of the bank structure. But loans and advances are required to be made valuable on the basis of lending policy formulated by the central bank in consonance with the national priorities and productive purposes only. Therefore the lending policies of the Bangladeshi banks have been regulated by the Bangladesh Bank. But as liquidity and profitability are conflicting considerations, United CommercialBank Limited, employing the funds pays due regard to both profitability and liquidity.

² This quotation has been taken from the book "Commercial Banking, The Management of Risk" first edition, ©1995, by West Publishing Company USA, chapter 16, page-535.
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3.1.1 Lending Consideration

Although off balance sheet activities play a vital role in augmentation of bank's earning, still income earned out of lending accounts for major portion of income of a banking company. This particular portfolio of lending more popularly characterized as "Risk Assets". It may raise the standard of success of a bank to the highest possible level and at the same time can be a sole instrument for liquidation depending on how this portfolio is handled. UCB also maintains its fund to invest in loans and advance to raise the standard of success.

3.1.1.1 Factors Considered to Reduce Credit Risk

A major part of the bank income comes from the loan and advance. So lending accounts for very high risk of the bank. Credit risk is the risk of losing money when loans defaults. If credit risk become too high then bank may fail. So to reduce the credit risk and also to protect the bank and country's interest, in the time of sanctioning loans UCB considers several factors. These are the followings:

3.1.1.1.1 Safety

Safety should be the first guiding principle of a banker. Because the existence of a bank depends of the safety. Bank should never be sacrificed the safety because of the profit earning capacity of its advances. Consequently to maintain a banking concern in sound condition, it is very essential that the safety of its advances to customers should be above suspicion. Extreme care should be taken that the fund

lent out are not subject to any risk of being lost. The banker is to ensure in the best possible manner that the money advanced by him goes to the right type of borrower. And it should utilize such a way that it will not only be safe at the time of lending but will remain so throughout the maturity period. Bankers have to ensure that the loan is serving a useful purpose in the trade or industry where it is employed. They should also concern about the repayment of loan with interest. If the banker is aware of the prominent reasons of loan default and risk elements, he can take precautionary measures to minimize risk element in recommending, sanctioning, or disbursing a loan. There may be hundreds of reasons for loan default but there are some important factors that a loan manager should concern before sanctioning the loan. These are **sick management, sick products, sick operation, sick finance, sick entrepreneur, sick market, willful default etc.**

3.1.1.1.2 Liquidity

The liquidity of an advance means its repayment on demand or on due date or after a short notice, the loan must stand fair chances or repayment according to the repayment schedule. It is utmost important that bank loan must be repaid as they become due otherwise the liquidity position of the bank is endangered. The major reason of bank's failure has been bad liquidity of a bank. The period of the advance and the case with which it will be repaid are very important. Even in the case of fully secured advances if it is feared from the very beginning that the advance would only be recovered by selling the securities it is not considered a good advance. It must therefore, always be ensured that the advance will be repaid from resources other than the securities pledged.

Another problem in advance is gradual reduction and eventual repayment. A banker would be failing in his duty to safeguard the interest of his depositors and share holders if his credit policy does not take full cognizance of this problem and not provide a method for gradual re-payment and final recovery of the money advanced.

3.1.1.1.3 Purpose

Another significant principle, which is to be kept, in view when advancing, is the purpose. The purpose for which lending is made should be productive as to ensure definite source or repayment. Banks discourage advances for investing in stocks or for speculative activities. There are obvious risks involved therein apart from the antisocial nature of such transactions. The banker must closely scrutinize the purpose for which the money is required, and ensure as far as he can, that the borrower applies the money borrowed for a particular purpose accordingly. Purpose has assumed a special significance in the present-day concept of banking.

3.1.1.1.4 Profitability

In bank advances profitability is equally important as the other factors. Like other commercial institutions, banks must make profit. Firstly, they have to pay interest on the deposits received by them. They have to incur expenses on establishment, rent stationery etc. They have to make provision for depreciation of their fixed assets and also for any possible bad or doubtful debts. After meeting all these items of expenditure, bank has to ensure its income to cover those expenditure. It is sometimes possible that a particular transaction may not appear profitable in itself, but there may be some additional business available, such as deposits from the borrower other concerns or his foreign exchange business, which may be highly remunerative. In this way the transaction may on the whole be profitable for the bank.

3.1.1.1.5 Security

Whenever a moneylender lends money he/she must consider carefully the chances of his being repaid by the borrower. Security creates an obligation on the borrower to make the payment on time. Sometimes bank wants some tangible

security from which he can obtain repayment in case the borrower is unable to meet his obligations. Without taking such security the business of money lending would be too speculative. Security is considered as insurance or a cushion to fall back in case of emergency. Bankers may realize it and reimburse themselves if the well calculated and almost certain source of repayment unexpectedly fails. It is, however, incorrect to consider an advance proposal from the point of view of security alone. An advance is granted by a good banker on its own merits, that is to say with due regard to its safety, capacity liquidity purpose etc. and after looking in to the character, capacity and capital of the borrower and not only because the security is good.

Adequate securities to be obtained while sanctioning & disbursing loan & advances stand for the banker as the last resort for recovery in case of loans & advances being stagnant & stuck-up.

Security can be classified as personal as well as primary security:

* **Personal Security:** In all advances the banker has a right of action against the borrower personally. Still then bank takes demand promissory notes from the borrower. Some times the banker in addition to borrower's personal security obtains guarantee from a respectable third party as personal security. These securities may be termed as personal security.

* **Primary and collateral Security:** Primary security is that security which is regarded as the primes cover for an advance and ordinarily is tendered by the borrower himself. The term's collateral security is applied to security tendered by the first party or third party to secure as advance.

The common methods of charging security are:

- * **Pledge**: When goods are bailed³ as security against advance or performance of a promise then it is called pledge. Ownership remains with the pledge and possession lies with the pledgee that acquires a special priority and lien so long his loan is not repaid.

- * **Hypothecation**: It creates a charge on property or goods for the amount of the debt. The owner retains his ownership as well as possession. But in case of default bank will be the legal owner of the goods.

- * **Mortgages**: 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, the performance of which may give rise to a pecuniary liability. Usually there are two types of mortgage such as registered mortgage & equitable mortgage.

- * **Assignment**: An assignment means transfer of right, property or debt or to make it over to another person. It is same as mortgage with the difference that in mortgage there is always a right of redemption but in the assignment it is provided by a separate agreement. Assignment relates to actionable claims. Actionable is a claim to any debt other than a debt secured by mortgage of immovable property or by Hypothecation or pledge of movable assets.

- * **Lien**: Lien is a right to retain goods/properties belonging to the debtor given to the creditor as security until he has discharged the debt due. Lien entitles the retainer to only retain the goods. He can not sell the goods in the absence of a contract to the contrary.

- * **Set off**: Right of set is the right of debtor to the total or partial margin of a claim of a creditor against him in his counter claim against the latter. It is the combining

³ Delivery of goods by one person to another for some purpose, upon a contract that when the purpose is accomplished the goods will be returned or disposed of according to the direction of the person delivering the goods.

of accounts between a debtor & a creditor so as to arrive at the net balance payable to one or the other. The right of set off enables a banker to adjust wholly or partly, a debit balance in a customer's account with any balance lying at his credit in any other account.

* **Guarantee:** Guarantees are obtained from third parties to secure advances under different situations such as in case of clean advances which is subject to credit restrictions. Or in case of advances to a partnership firm, limited company, advances where collateral security in the form of real estate/FDR BSPs are owned by third person etc. Guarantee should never be accepted from minors and persons of unsound mind, insolvent person who can not enter in to a valid contract.

* **Insurance:** Insurance is a written and definite contract between two parties under which one party pays the other party, the insurer, a definite sum of money called premium in consideration of which the insurer agrees to indemnify the losses, under agreed terms and conditions. This insurance policy can be a security for the bank in the time for sanctioning loans.

3.1.1.1.6 Diversification

Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance, however secure it might appear to be. In fact the entire banking business is one of taking calculated risks and a successful banker is an expert in assessing such risks, he is keen on spreading the risks involved in lending over a large number of borrowers, over a large number of industries and areas, and over different types of securities. The advances must not be in one particular industry. Too many eggs should not be placed in one basket, because any adversity faced by that particular industry would have serious effect on the bank. Recession does not normally affect all industries and business simultaneously.

3.1.1.1.7 National Interest

Even when an advance satisfies all the aforesaid principles it may still not be suitable. The advance may run counter to national interest. These principles may have to be relegated to a certain extent. So as to fit in the overall national development plans necessary flow of credit to priority sectors in the larger national interest. Suitability of an advance from national viewpoints has, therefore, come to be regarded as a basic principle of lending.

3.1.1.1.8 The Integrity and Reliability of the Borrower

The last and the most fundamental principle of lending is the integrity and reliability of the borrower. To avoid bad debt, it is the basic factor before any loan proposal can be considered. The success of any business depends upon the ability of the banker to study borrowers. The study of a borrower involves the study of the **seven "C's"** of the party. This refers to his **character, capacity, capital, collateral, conditions, compliance, and creditability.**

3.1.1.1.9 Other Factors

The United Commercial Bank therefore, follows the cardinal principle of lending, but the loans contain some degree of risk. Sound principles of credit must be employed in approving loans in order to keep the risk to a minimum. There is no uniform lending applicable to the bank. There are, however, certain factors that govern the making of Loans. These are:

- The obligation of banker to its customer because of its deposit liability.
- Prevailing local condition and general business conditions.
- Regulation and limitations imposed by Law.

- ◆ Policies established by the banks Board of Director or by regulatory authorities, the Government in case of nationalized banks.

3.1.1.2 Loan Sanction Procedure at United Commercial Bank Ltd.

A person or a firm or a limited company who submit a proposal for the loan at any branch of United Commercial Bank must have an account in that particular bank. The proposal of the outsider or account holder of UCB's other branches are not considered for loan sanctioning. Although the traditional rules and regulation have been followed in the time of sanctioning loan but the bankers client relationship plays the main role here. The **security, safety, and the profitability** and the other factors are important here but it is more important for the United Commercial Bank to have good relation with the clients. And it is necessary to have regularity in the banking activities for the clients.

United Commercial Bank is a private bank of Bangladesh and in the operations of the private bank head office plays a vital role. For any kind of major decision the branch has to rely on the head office instructions. Most of the time loan and advance sanction depends on the head office decisions. Credit division of the head office monitors the advance and approves the proposal of advances through the board of directors. It also maintains all the information about the loan of each branch. They especially process this information for Bangladesh Bank's Credit Cell called "Credit Information Bureau." Credit division of head office often inspects the loans, which are subject to high collateral. Basically valuation of the collateral is done by the credit division at UCB. Branch office has nothing to do here unless until the ultimate decision comes from the credit division.

Inspection is done not only for the collateral there are many other thing which must be taken in to consideration at the time of sanctioning loan. Such as, the

purpose of taking loan, whether the borrower has any other loan in any other bank, or the collateral he is providing is already used in another bank or not. To find out this information credit division of UCB contacts the Central Information Bureau (CIB) of Bangladesh Bank. CIB is a cell of Bangladesh Bank they monitors the loan and advances sanctioned by all the commercial bank around the country. They collect the data of each and every loan taker directly from the branch office. Branches of every commercial bank of Bangladesh fill up the CIB forms for the every borrower and send it to Bangladesh Bank within 5th day of every month. CIB save this record in a computer program according to the bank name and the borrower and his father's name.

Every loan taker has a code number given by the CIB. Credit division of United Commercial Bank queries in the CIB about the client who has applied for the loan. After the collection of the information about the client credit division approves the loan if it is satisfactory.

After that sanction of the loan the whole amount of loan is debited to the customer's name on a loan account to be opened in the ledger and, is paid to the borrower either in cash or by way of credit to his current Savings account. Interest is charged on the entire amount of debit balance, usually with quarterly rests unless there is an arrangement to the contrary. 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.

3.1.1.3 Loan Control, & Monitor

Having completely and accurately prepare the necessary loan documents, the loan officer ready to disburse the loan to the borrower's loan account. After

disbursement of the loan it is the most important duty of the banker to control and monitor the current position of the loan.

The loan needs to be monitored to ensure whether the terms and conditions of the loan fulfilled by both bank and client or not. Is the borrower following the installment schedule or the due date of payment in case of short-term loan? If it is a cash credit how much the borrower withdrawing weekly or daily from the account and how much he returns. These are the main things to monitor.

Moreover, credit monitoring implies that the checking of the pattern of use of the disbursed fund to ensure whether it is used for the right purpose or not. It includes a reporting system and communication arrangement between the borrower and the lending institution and within department, appraisal, disbursement, recoveries, follow-up etc.

If the bank finds anything irregular then they send reminder to the borrower. Reminder to the client is given through a formal communication channel. A letter is written and properly signed on the bank's papers. This letter is issued several times to remind the borrower to repay the outstanding payment. If the loan amount is not yet repaid after sending a series of letters, then, social pressure is created on the client by persons referred while opening account in the Bank. If it does not work then legal notice is prepared and sent by United Commercial Bank when above two steps fails to recover the amount. It is a threat to the borrower.

The last and final step of the recovery procedure is to take legal action. United Commercial Bank sincerely tries to avoid this kind of situation for its honorable clients but sometimes it has no other way because it is directly related to its survival.

3.1.1.4 Classifications of Loan

Loan classification is a process by which the risk or loss potential associated with the loan accounts of bank on a particular date is identified and quantified to

measure accurately the level of reserves to be maintained by the bank to provide for the probable loss on account those risky loan. This rule is for every commercial bank of Bangladesh. Bangladesh bank has made this rule to reduce the number of loan defaulter. United Commercial Bank also follows this rule very strictly.

All types of loans of United Commercial Bank fall into following four classifications:

① **Unclassified Loan & Advance**

Mainly the fresh loans and the loans, which repayment is regular go under this classification. Bank does need to worry about this. But it is the duty of the managers to maintain this properly to protect it from becoming substandard loans.

② **Substandard Loan & Advance**

If the Repayment is stopped or irregular but has reasonable prospect of improvement then it goes under this classification. In case of term loan if an advance or any portion of an advance or interest thereon remains overdue for more than 09 (nine) months to 12 (twelve) months, then the advance will be classified as "Substandard". In case of continuous loan if an advance or any portion of an advance or interest thereon remains overdue for more than 06 (six) months to nine (nine) months, then the advance will be classified as "Substandard".

③ **Doubtful Loan & Advance**

If any loan is unlikely to be repaid but special collection efforts may result is partial recovery then it goes under this classification. In case of term loan if an advance or any portion of an advance or interest thereon remains overdue for more than 12 (twelve) months to 18 (eighteen) months, then the advance is classified as "Doubtful". In case of continuous loan if an advance or any portion of an advance or interest thereon remains overdue for more than 09 (nine) months to 12 (twelve) months, then the advance is classified as "Doubtful".

⊙ **Bad Loan & Advance**

If any loan has very little chance or no chance of recovery then it will go under this category. In case of term loan if an advance or any portion of an advance or interest thereon remains overdue for more than 18 (eighteen) months, then the advance will be classified as "Bad/Loss". In case of continuous loan if an advance or any portion of an advance or interest thereon remains overdue for more than 12 (twelve) months, then the advance will be classified as "Bad/Loss".

3.1.2 Loan Schemes Offered by United Commercial Bank Ltd.

United Commercial Bank Limited offers different types of loan schemes for its clients. In chapter 2 only the main theme of the loan schemes has been highlighted under the "services of UCB Ltd." section. Details of these schemes will be discussed in this chapter.

The following sections will define different types of loan schemes under four main categories: these are general loan & advance, import loan & advance, export loan & advance:

3.1.2.1 General Loan & Advances

UCBL allows general credits to individuals /firms /companies to help their business in the following categories:

3.1.2.1.1 Cash Credit

Cash credit is the favorite mode of borrowing by traders, industrialists, agriculturists etc. for meeting their working capital requirements. This type of facility is always against pledge of goods, produce and merchandise. It is opened

advantages of a cash credit account to a borrower are that, unlike the party borrowing on a fixed basis, he may operate the account within the stipulated limit as and when required and, can save interest by reducing the debit balance wherever he is in position to do so. Thus, cash credit account is an active and running account to which deposits and withdrawals may be affected frequently.

3.1.2.1.2 SOD (FO)

This credit is allowed against financial obligation like lien of FDR, Government Securities, ICB Unit certificate, company's stock etc. for promotion of economic and business activities. The most important and the guiding point to be remembered in allowing advances against such securities is that the certificates must be got transferred in the name of bank and the same will be re-transferred in the name of the borrower after the advances are fully and finally liquidated. To this end the manager should ensure that the certificates have been issued in the name of borrower/guarantor and the other identification requirement are original. Bank's lien must be marked with issuing office of the certificates and a written confirmation must be obtained. A written assurance is needed that the proceeds of the certificates with interest will be paid to bank on demand without reference to buyer. In case of companies share manager should ensure that the share of the particular company is quoted in the Stock Exchange. Shares must be fully paid up. Before sanctioning the loan bank must evaluate the market value of the share and its intrinsic value.

3.1.2.1.3 SOD (General)

Generally allowed to the traders for business promotion and economic activities. Usually these loan is given against different work order and supply order. The purpose of loan should be specific. It is not a continuous loan. Risk element in such financing is more than in any other mode of financing. The work/supply order must be issued/allotted to the contractor by a government department, corporation/autonomous body against allocated and available fund. The

genuineness of the work/supply order must be verified to the best possible satisfaction of the manager.

Experience of the proposed borrower in the line of business should be verified and examined from certificates of enlistment and past performance from different government/semi government departments, corporations, autonomous bodies where they executed work/supply orders. Certificate of availability of fund for payment of bill under the concerned work/supply order and how he accomplished the task should be attached with the credit proposal of SOD (General).

3.1.2.1.4 Bank Guarantee

Issuance of Bank Guarantee on behalf of clients is a common banking service rendered by commercial bank. Guarantees are expressed commitment to make good of any financial loss the beneficiary of the guarantee. It may sustain when the party named in the guarantee on whose account the guarantee is issued, fails to perform the contract or discharge his/her obligation under the guarantee. Though the bank issuing the guarantee is not called upon to pay the amount immediately, the obligation undertaken in the guarantee is of no less importance than that of actual credit disbursed as bank is substituting its own credit where its customers credit fails and on demand the sum guaranteed is payable. It is, as such, a contingent or anticipated financial liability but charges interest on it as like as other loans and advances.

In keeping with the ever increasing business need of its clients Bank may be required to issue guarantee against advance payment, in the shape of bid bond Performance bond, and investment bank guarantee. Normally UCB issues guarantee for a period not exceeding one year at different percentage of margin and security determined on the basis of banker customer relationship and the nature of liability undertaken. Guarantee for longer period or a continuing guarantee may also be issued based on security aspect.

3.1.2.1.5 Loan (G)

When an advance is made in a lump sum repayable either in fixed monthly installments or in lump sum and no subsequent debit is ordinarily allowed except by way of interest, incidental charges, etc. it is called a loan (general). This type may be short term or long term. It is sanctioned for a fixed period of time. It may be a Demand Loan repayable on demand. Entire sum is debited to loan account of party and credited in his current or savings account for withdrawal as per need of loaner. Where payable in installments, amount of each installment is released as above. No Check Book is issued for this loan. No subsequent debit excepting for charging interest of incidental charges. Amount repayable either in lump sum or in installments. Interest is charged on debit balance. Loan once repaid in full or in part, cannot be drawn by borrower unless a fresh loan is sanctioned.

3.1.2.1.6 Loan (HBL)

House building loan is one of the most important sector for any bank to lend their money. United Commercial bank also provides house building loan for constructing residential buildings as well as commercial buildings. This loan is given against mortgage of land and the building to be constructed thereon, is permissible subject to credit restriction imposed by Bangladesh Bank from time to time.

A comprehensive credit report based on credit worthiness, reputation and repeatability of the proposed borrower should be prepared and if it is acceptable, the proposal may be accepted for consideration. The disbursement schedule should be prepared in such a way that the construction of the house will be completed by utilizing bank's advance and borrower's equity.

3.1.2.1.7 Temporary Overdrawn (TOD)

All most all the loan has a limit of amount. The borrower is not allowed to withdraw money over that amount. But in case of any special situation if the borrower apply

to the bank to withdraw more than the limit then bank may give the permission. But for this kind of practice banker client relationship is a vital thing. Bank usually provides this kind of service to their prime customer.

3.1.2.1.8 Current Account Overdrawn

The overdraft is a kind of advance always allowed on a current account operated upon by cheques. The customer may be sanctioned a certain limit upon 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 the total amount overdrawn does not, at any time, exceed the agreed limit. Interest is calculated and charged only on the actual debit balances on daily product basis. Thus, the borrower in this case can have interest by reducing the debit balance. Sometimes in a current account overdraft is allowed to honor an important check without any prior arrangement thereof. Such facility by the bank to a first class party for a short period is called temporary overdraft.

In an overdraft account the balance may fluctuate day-to-day. It may increase by drawing of check by the customer and may decrease by payment into the account. It is essential that a letter of continuity must be obtained in the case of overdraft account. This letter makes the customer liable to the final balance of his account by confirming the intervening debits and credits in his account. Overdraft facilities are generally granted to businessmen for expansion of their business against the securities of stock-in-trade, shares, debenture, Government promissory notes, fixed deposit, life policies, gold and gold ornaments etc. In case, where the overdraft is allowed with no other security except personal security of the borrower, it is termed as clean overdraft.

3.1.2.1.9 Inland Bill Purchase (IBP)

If any regular client of the bank approach them to purchase any bill which is post dated and if the bank agrees to do that then IBP will be created.

Inland bill could be any financial paper, which has monetary value like check, pay order, fixed deposit receipt, different government bond etc. Bank usually purchase the bill on discount from the client and clear the instrument after the maturity date. After receiving the money bank also charge interest from the client account on the total amount.

3.1.2.1.10 Consumer Finance Scheme (CFS)

The majority of the people of our country belong to middle class and of limited income. The majority of the people of the country can not increase the standard of living by purchasing necessary modern household amenities paying the price at a time. In order to help this vast population purchases the essential amenities by/financing, United Commercial Bank Ltd. has introduced consumers credit Scheme. It may be expected that this program shall provide with strong contribution to the Socio economic development of Bangladesh. Loans allowed to service people for purchasing domestic/household items repayable on monthly installment basis. The Scheme aims at improving the standard of living of the fixed income group. Under the scheme the clients may secure loan facilities at easy installments to procure household amenities.

*** The purpose of the scheme**

The purpose of this Scheme is to provide assistance in promoting the skill keeping pace with modern technology and life style along with the development of their standard of living through providing the people belonging to the limited income group, service holders and self employed profession with Bank Credit Facilities.

*** The Eligibility of the Customers**

The interested customers shall have to be considered by the Bank able to pay off the installments of loan. They shall have to submit income certificate got from the employer along with the application. The customer must have a savings account

in the concerned branch of the Bank. In the consideration off the Bank a person considered able to pay of the installments of all loans from the monthly income, shall be able to apply for more than one commodity.

* **The scope of the scheme**

- 3 New or reconditioned motor car/motor cycle/micro bus etc.
- 3 Refrigerator, Deep Freeze
- 3 Television/VCR/Two-in-one/Three-in-one/Camera etc.
- 3 Air conditioning system/Generator,
- 3 Personal Computer/Word Processor.
- 3 Water pump/Micro oven/Washing machine/Dish Antenna etc.
- 3 Photo Copier/Sewing Machine/Laminating Machine etc.
- 3 Furniture/ Fixture.
- 3 Fax Machine/ Cellular Phone.
- 3 Any Consumer goods acceptable to the Bank.

3.1.2.1.11 Lease Finance Scheme (LFS)

United Commercial Bank offers lease finance scheme usually for new /existing industries to procure machines for the industries. An entrepreneur, under this scheme, may avail of the lease facilities to procure industrial machinery (without having to purchase it by down payment) with easy repayment schedule. The clients also get special rebate in their income-tax payment under the scheme.

Consumer credit scheme is given for personal use but lease finance scheme is given for commercial use. Other than machinery for the commercial transport or for taxicab this scheme is used. But until the borrower clear all his/her obligation United Commercial Bank will be the owner of the asset.

3.1.2.2 Import Loan & Advances

The Bank allows credits to the importers in the following forms:
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3.1.2.2.1 Payment against Document (PAD)

In case of a sight L/C bank must make the payment to the beneficiary's bank when it get the document. Bank does this thing on behalf of the importer. Though actual payment will be made by importer. So this practice create a contingent liability for the bank. And bank charges interest until they get the payment from the importer. Directly PAD is not like a loan but it is the first step to create loan against imported merchandise and loan against trust receipt.

Moreover, PAD must be formed within 24 hours. If there is any discrepancy in the document then issuing bank (in this case UCB) will inform the importer whether he/she will accept it or not. If he/she does not accept then bank will stop the payment and inform the negotiating bank.

3.1.2.2.2 Loan against Imported Merchandise (LIM)

Allowed to retire documents and clear the consignment form the customs Authority taking the goods under Bank's Control. This kind of loan allowed for retirement of shipping documents and release of goods imported through L/C taking effective control over the goods by pledge fall under this type of advance. When the importer failed to pay the amount payable the exporter against import L/C, then UCB gives loan against imported merchandise to the importer. The importer will bear all the expenses like the go down charge, insurance fees, etc. and the ownership of the goods is retaining to the bank.

The landed cost of merchandise is properly worked out before the goods are delivered to the customer against proportionate payments. Each item should be separately worked out so that goods are delivered to the customers against proportionate payment made for each item. Before allowing this advance proper verification of the goods should be made at the port for assessing the quality and quantity of the goods imported as far as possible.

LIM is same as the CC (Pledge) the difference is LIM is given for foreign businesses. This is also a temporary advance connected with import, which is known as post import finance.

3.1.2.2.3 Loan against Trust Receipt (LTR)

In the ordinary course of business, it is usual practice that bank delivers shipping documents and or goods held under pledge or LIM to his customer only on receipt of payments pertaining to the documents or goods. But, situation may arise when banker considers it advisable to release the bill of lading or goods without receiving the corresponding payment only because of emergency and for mutual interest of bank and the customer. Under such exceptional situation only, banker releases the shipping documents or goods without immediate payment.

The goods are handed over to the importer under trust with the arrangement that sale proceeds should be deposited to liquidate the advances within a given period. This is post import finance by UCBL. Here goods will be under importer's control because if bank takes the control then the importer who might be a producer might not able to produce the products. LTR is same as CC (Hypothecation) only difference is LTR is for foreign businesses.

3.1.2.3 Export Loan & Advances

The Bank allows credits to the exporters to help performing their exports under the following categories:

3.1.2.3.1 Export Cash Credit (ECC)

Allowed to provide with working capital for production of items of export. Credit facilities allowed to the facilitate export against L/C fall under this category. It includes loan against packing credit. ECC is extended to the companies who are involved in exporting goods and services. ECC is provided to procure raw

material, packing list, wages salaries, utilities etc. other characteristics of ECC are same as general cash credit.

3.1.2.3.2 Packing Credit (PC)

Packing credit is called pre-shipment export financing. It allowed to the exporter for packing the goods before shipment. The quantum of packing credit is usually 10%- 15% of the value of the export L/C. It is a short term advance allowed by bank to an exporter to enable to procure, process, manufacture, pack and ship the goods to the buyers abroad in conformity with the terms of export letter of credit. Usually garments industries take this loan to finance their expenses for utilities, salaries, wages etc. These types of credit are generally sanctioned to regular exporters for a particular period against confirmed/open Export Letter of credit received in favor of the borrower from first class Foreign Bank. The terms and conditions of the credit must be acceptable and should not contain clause as may jeopardize bank's/borrower's interest.

3.1.2.3.3 Back-to-Back L/C Financing

This facility is extended to garment factories. Suppose a garments company has got an order of exporting 10,000 shirts in the United States. That company has an account in UCB Gulshan Branch. Bank already has received a master LC from the US importer's bank by SWIFT for this shipment. But to make 10,000 shirts they do not have the required raw materials. The material has to be imported from Japan. In this case the company can open a back to back LC against the importer's master LC to import the raw material from Japan. And the company may ask for loan for this purpose. If bank provide loan for this then it would be back to back LC financing.

It is different form the original credit based on which the bank undertakes the risk of the back-to-back credit. In this case, the bank's main surety/security is the original credit. The original credit (selling credit) and the back-to back credit (buying credit) are separate instruments independent of each other and in no way

legally connected, although they both form part of the same business operation. The supplier (beneficiary of the back-to-back credit) ships goods to the importer or supplier goods to the exporter and presents documents to the bank as is specified in the credit. It is intended that the exporter would substitute his own documents and ships the goods to the importer, if necessary, and present document for negotiation under the original credit, his liability under the back-to-back credit would be adjusted out of these proceeds. The export L/C is marked lien and no margin is taken. Import of Raw martial through opening back-to-back LCs against lien of Export LCs. This facility is extended to garment factories.

3.1.2.3.4 Foreign Document Bill for Purchase (FDBP)

This is a post-shipment export financing. After exporting the goods the exporter might need the money immediately. But if the bill is a time draft then the importers bank will make the payment 90 days or 120 days after. And also in case of sight draft the exporter may need the money urgently. In this situation as the exporter's bank United Commercial Bank can purchase the bill from the exporter at discount. Bank also make a exchange gain here by purchasing the bill at a lower exchange rate than the actual rate in which importer's bank will make the payment. But the question is how the loan is created here. Actually the bank purchases the bill as a service to the exporter so the exporter has to take some risk here. If the payment does not come after 21 days from the last date of payment then bank will charge interest on the bill purchase amount.

3.1.2.3.5 Local Document Bill for Purchase (LDBP)

This is exactly like FDBP the only difference is this is local and that is foreign. Sometimes in the local market one party can import from another party in order to complete the export order. Just to make the transaction authenticated banks are related here. This is also a back to back L/C but in the local market.

3.1.3 Lending Rates on Different Loan Schemes

Interest rate of the loan schemes is a vital matter for the profitability of the bank. Because it is the price of the bank's product. If the price is not set accurately by considering the cost of borrowing and the competitors rates then it will definitely hamper the growth and wealth maximization process. So the interest rate on loan schemes should be determined by the competitive market forces.

United Commercial Bank also follows the market forces to determine its interest rate on loan schemes. Generally UCB charge same rate for most of the loan schemes. But there are some exceptions also.

Recently, a very big change has been occurred in the loan interest rate of United Commercial Bank due to the Bangladesh Bank's decision of reducing bank rate by 1% and Bangladesh Government's decision of reducing interest rate on all the government securities. The executive committee of the board of directors of the bank in its 63rd meeting has approved the reduction of interest by 1% on general advances and 3% on export finance of United Commercial Bank.

Due to this decision the revised interest rate on advances of United Commercial Bank Ltd. has been effected from November 01, 2001. The previous and the current rate of interest under different categories of advances are as follows:

Table 3.1: Revised Lending Rates of United Commercial Bank Ltd.

Categories of Advance	Previous Rate of Interest	Current Rate of Interest
Cash Credit Both pledge & hypothecation	16.50%	15.50%
SOD (FO) Against UCBL's FDR	5% above the FDR rate, 13.50% minimum	3% to 5% above the FDR rate 13.50% minimum
SOD (FO) Against other bank's FDR, govt. securities, shares & debenture	16.00%	15.00%
SOD (general) Against work/supply order And real estate	16.50%	15.50%
Loan (g)/Term Loan for small cottage industry	12.00%	12.00%
Loan (g)/Term Loan for large & medium industry	16.00%	15.00%
Loan (g)/Term Loan for agriculture	14.00%	13.50%
Loan (g)/Term Loan for HBL, Transport, Project Loan, Demand Loan	16.50%	15.50%
Consumer Finance Scheme (CFS)	16.50%+1.00% Service Charge	15.50%+1.00 Service Charge

Lease Finance Scheme (LFS)	16.00%+2.00 supervisory and monitoring charges	15.00% Risk Fund 1.00% (1time)
Import Finance: PAD, LIM, LTR, etc.	16.00% if adjusted within 30 days of creation. 16.50% p.a. at monthly rest after expiry of 30 days	15.00% if adjusted within 30 days of creation. 15.50% p.a. at monthly rest after expiry of 30 days
Export Finance: Packing Credit, ECC	10.00%	7.00%
Ex. Finance: LDBP, FDBP, ABP	16.50%	15.50%
Other lending IBP, TOD, Current account over drawn	16.50%	15.50%

United Commercial Bank calculates the interest rate quarterly on most of the loan schemes mean four times in a year. If it is less than a quarter, they charge interest on the total number of days.

4.1 Credit Risk Analysis of United Commercial Bank Ltd.

It has been mentioned in the chapter one that the final objective of this paper is to analyze the credit risk of United Commercial Bank Ltd. by comparing with the peer group average. So this chapter will define the credit risk position of UCB. To manage bank operations a manager has to deal with various kind of risk such as interest rate risk, liquidity risk, capital risk, operational risk, fraud risk, etc. But credit risk is the most important risk for the bank's profitability, because it is directly related with the credit

management, which is the biggest earning source for any commercial bank. But before going through the analysis it is necessary to know, what is credit risk?

4.1.1 What is Credit Risk?

The credit risk of a bank is defined as the risk that the interest or principal, or both, on securities and loans will not be paid by the borrower as promised. Credit risk is estimated by relating the proportion of assets that cut medium or low quality loans. It means if the quality of the loan is not very high then there will be a credit risk that the bank will not get its money back. So the assets have to be sufficient enough to cover the credit risk.

Credit risk will be high if the bank has more medium or low-quality loans, but returns will be usually higher too because without taking high risk it is not possible to make high return. But in Bangladesh case it has been seen that instead of giving higher return the highly risky loan becomes bad loan, which is not recoverable. On the other hand returns tend to be lower if the bank chooses to lower its credit risk by having a smaller portion of its assets in medium quality loans. It effects the bank's profit maximization process because in case of high quality loans bank takes collateral, which reduces the risk of default 90% to 100%. But because of this security borrower negotiate the interest rate and takes the loan with minimum possible rates. So it hampers the profit maximization of the bank.

4.1.2 Procedures of Measuring Credit Risk

From the definition of the credit risk it has been cleared that to measure how much credit risk the bank is taking it is necessary to know the quality of the loan. If the quality of the loans is high then bank is not taking too much credit risk. But if the low quality loans are high then bank is certainly taking too much credit risk.

But without having internal access it is impossible to know which are high quality loans and which are low quality loans because it is subject to secrecy of the organization. So if

qualitative data about the loans are not available and some one tries to analyze the credit risk of a bank from external data such as the numerical data of loan and advance from the annual report of the bank then he/she should calculate the credit risk ratios of the particular bank and should compare with the similar individual bank or peer groups average. Industry average should not be taken in case of bank because bank industry is very much diverse the motto of every bank is not similar like UCB should not be compare with Standard Chartered Bank because United Commercial Bank's focus is retail banking and Standard Chartered focus is wholesale banking.

This procedure also has been followed to measure the credit risk of United Commercial Bank Ltd. The credit risk ratios such as provision for loan losses ratio, loan ratio, bad debt to total assets ratio have been calculated to measure the credit risk. And also a comparison of loan classification of United Commercial Bank with the peer group has been accomplished.

Peer group average of these ratios have calculated on the basis of four competitor banks of UCB these are Prime Bank Ltd., Southeast Bank Ltd., Dhaka Bank Ltd., and Eastern Bank Ltd. These four banks have been selected to calculate peer group average⁴ by the suggestion of the knowledgeable officials of United Commercial Bank Ltd.

4.1.3 Credit Risk Analysis

The following ratios and comparison of loan classifications will define the position of UCB comparing to its competitors in term of credit risk:

4.1.3.1:

Table No: : Loans and advances (1996 – 2000)

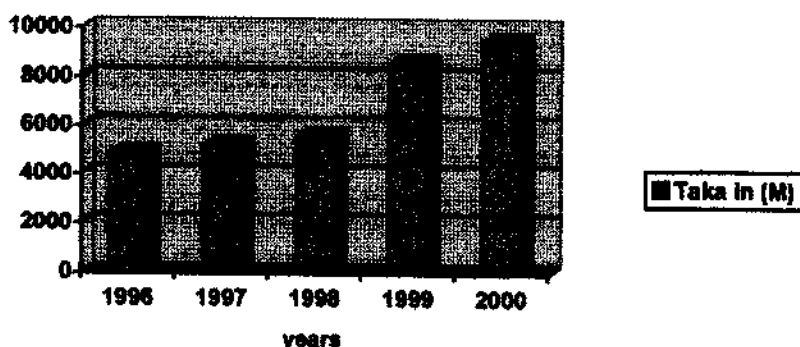
Taka in Million.

	1996	1997	1998	1999	2000

⁴ The calculations of peer group average of different ratios are given in the appendix.
 Syanithia Mahmud

Advances and Loans	4798.99	5152.56	5554.16	8557.91	9443.87
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Chart No: Loans and advances (1996 -2000)



From above the table and chart we can see the growth in loans and advances over the past five years.. In 1999 the loan and advances was only 4798.99 in million taka. In 1997 it increased to 5152.56 million taka then in 1998 5554.16 million taka and in 2000 it increased much in 1999 and 2000. In 1999 it was 8557.91 million taka and in 2000 it was increased to 9443.87 million taka. It was continuously growing over the five years period.

4.2.1 Sector wise Loan Distribution:

Credit programme of the bank continued to expand satisfactory during the year. Consequently net credit rose to Tk. 9443.87 million in 2000 from Tk. 8557.91 million in 1999. Average advance per branch increased to Tk. 119.54 million from Tk, 108.33 million of 199. The credit deposit ratio stood at 0.76:1. Sector wise net advances in last three years given below:

Tk. In million (Sector)	1999	2000
Continuous loan	4178.26	5253.36
Demand loan	675.47	1019.53
Term Loan (upto 5 yrs)	754.87	1976.09
Term Loan (over 5 Yrs)	796.90	1136.75

Staff loan	32.77	58.14
Total	6437.27	9443.87

4.1.3.1 Provision for Loan Loss Ratio

By analyzing the loan quality every commercial bank generate an estimate of future loan losses. And to cover this loss bank arrange some fund as provision for loan losses. According to the banking accounting system this provision is an expense and it is deducted from the income. So if the quality of the loan is not satisfactory then the management will provide large provision for loan losses and it will reduce the income of the bank. So it is the duty of the banker to make the loan portfolio as good as possible to have less provision for the loan losses.

But if a commercial bank wants to know that the amount of loan losses they are generating is higher than its competitors or they are in better position. Then they can know it by calculating the following ratio:

$$\text{Provision for loan loss ratio}^5 = \frac{\text{Provision for loan losses}}{\text{Total loan \& advances}} \times 100$$

This ratio measures the bank's chances of loan losses as a percentage of total loan and advances. It means if the percentage of loan provision is large then chances of loan losses is higher. So if the ratio is large the quality of the loans are questionable and the future of the bank is not also good. It will also indicate the performance of the managers because it is the duty of them to make this ratio lower as much as possible.

Provision for loan losses ratio⁶ of United Commercial Bank and its peer group is as follows:

Table 4.1: PL Ratio of UCB Ltd. & Peer Group Avg.

⁵ This & all other ratios have been calculated in MS Excel. The calculation sheet has been attached in the appendix.

⁶ The data of provision for loan losses was only available for the year 1999 & 2000.

The loan ratio indicates the extent to which assets are devoted to loans as opposed to other assets such as cash, securities, and plant and equipment. It measures what is the percentage of loan and advance portion out of the total assets of the bank. Although loan and advance usually is the biggest part of the assets of the balance sheet of any commercial banks. But if the loan and advance is large then the credit risk is also high because chances of not getting the money back is higher in loan investment than the investment in securities. Because securities, plant, equipment can provide a certain return with very minimum risk. But default risk in loan investment is very high. So a bank which has high amount of provision for loan losses should not expand its loan portfolio without proper consideration of all the factor of loan sanctioning.

Loan ratio can be calculated as follows:

$$\text{Loan ratio} = \frac{\text{Net Loans \& Advances}}{\text{Total Assets}} \times 100$$

The table of loan ratio of United Commercial Bank Ltd. & its peer group is in the next page:

Table 4.2: Loan Ratio of UCB Ltd. & Peer Group Avg.

Years	1996	1997	1998	1999	2000
United Commercial Bank Ltd.	35.31%	42.53%	39.05%	59.81%	64.09%
Peer Group Avg.	32.54%	43.51%	46.37%	49.39%	53.68%

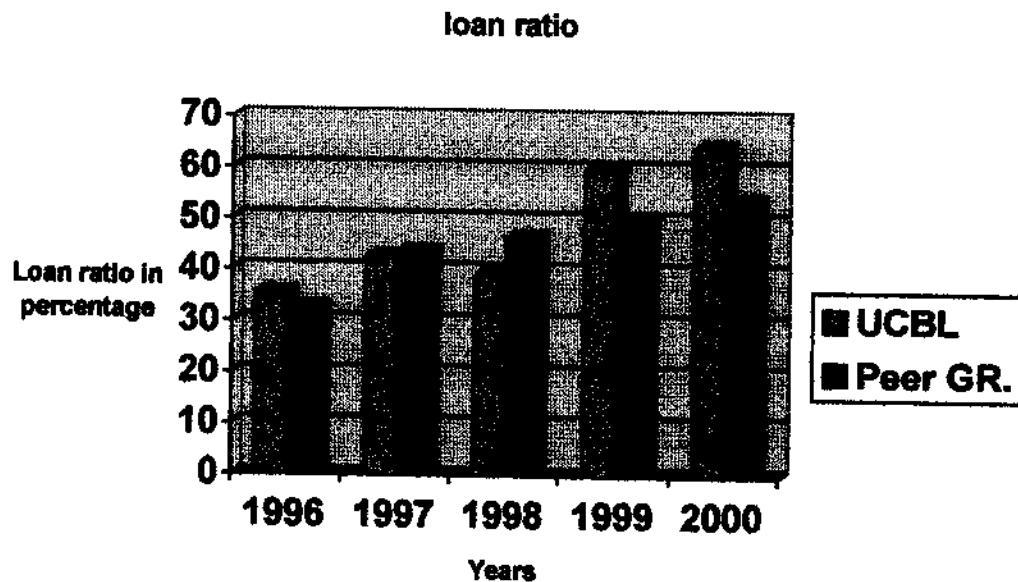


Chart 4.2: Loan Ratio

Here it can be observed⁷ that the percentage of total loan out of the total assets of UCB is pretty much fluctuating. It was more or less same in the 1996 and 1997 but in the 1998 it was far below than the peer group average. But in the year 1999 and 2000 higher than the peer group average.

4.1.3.3 Bad Loans to Total Loans Ratio

This indicates the bad loan as a percentage of total loan and advances. It measures that how much bad loan a commercial bank is carrying. As it is described in the chapter three that bad loan is the loan which has almost no chance of recovery. So bad loan should not be very high for any bank. If the amount of bad loan is high the ratio of bad loan to total loan will be high. If it is

⁷ The detail findings of these ratio analyses have been discussed in the next chapter.
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higher than the peer group it means the competitors have better quality of loan portfolio.

Bad loan to total loan ratio can be calculated as follows:

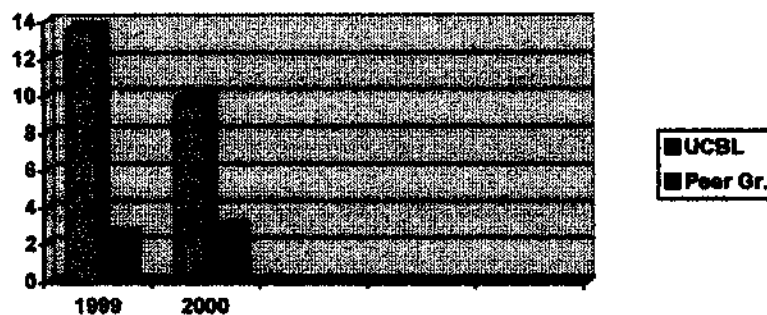
$$\text{Bad loans to total loans ratio} = \frac{\text{Total Bad Loans}}{\text{Total Loans \& Advances}} \times 100$$

Bad loans to total loans ratio of UCB Ltd. & its peer group is in the next page:

Table 4.3: Bad Loans to Total Loans Ratio of UCB Ltd. & Peer Group Avg.

Years	1999	2000
UCB Ltd.	13.56%	9.82%
Peer Group Avg.	2.45%	2.86%

Chart 4.3: Bad Loans to Total Loans Ratio



The main observation of this ratio analysis is that the percentage of bad loan of UCB Ltd. is much higher than the peer group average in both the years 1999 & 2000. Which indicates they have huge amount of loans, which is almost unrecoverable. On the other hand the competitors have very minimum amount of bad loans. It means a good amount of UCB'S loans are questionable.

4.1.3.4 Comparison of Loan Classifications

Comparison of loan classification will show the total picture of the loans and advances of UCB Ltd. It will judge the position of UCB'S loans and advances with the loans and advances of its two main competitors, Prime Bank Ltd. and Dhaka Bank Ltd. Because it is not a ratio comparison that's why peer group average will not be used here.

Table 4.4: Comparison of Loan Classifications

	UCBL	Prime Bank Ltd.	Dhaka Bank Ltd.
Unclassified	89.14%	98.59%	98.20%
Substandard	0.70%	0.33%	0.33%
Doubtful	0.34%	0.34%	0.26%
Bad/Loss	9.82%	0.75%	1.22%

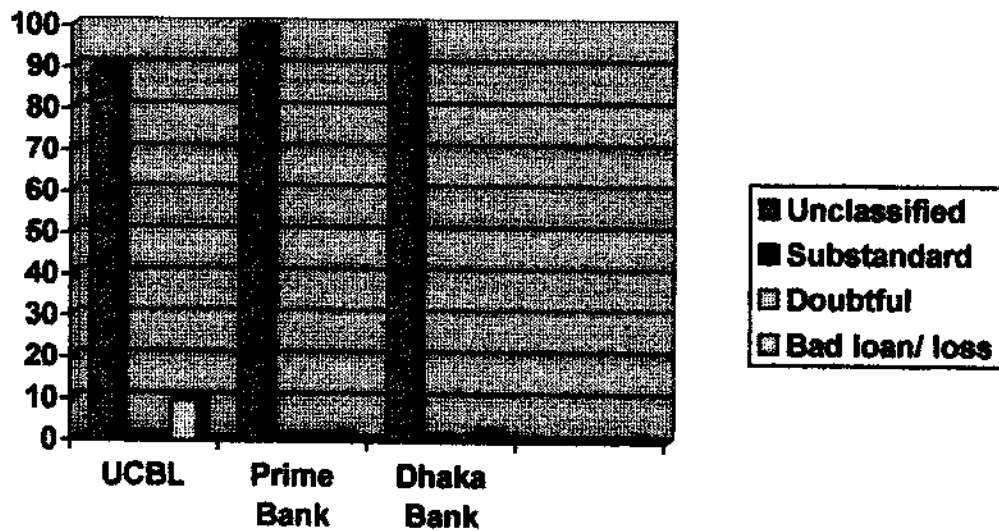


Chart 4.4: Loan Classifications

It has been already mentioned in chapter three⁸ that loan classification⁹ is a process by which the risk or loss potential associated with the loan accounts of bank on a particular time horizon is identified. It also accurately measures the level of reserves or provision to be maintained by the bank to provide for the probable loss of the risky loans. This rule is for every commercial bank of Bangladesh. Bangladesh bank has made this rule to reduce the number of loan defaulter.

⁸ The characteristics of loan classifications have been discussed in the chapter three. Refers to 3.1.1.4 page 60.

⁹ The calculations of the loan classifications have been given in the appendix.

Here it can be seen that UCB has less unclassified loans than the Prime Bank and Dhaka Bank. UCB has 89.14% of unclassified loans but the other two bank has unclassified loans more than 98%. It proves that the competitors of UCB are taking very minimum credit risk. Because their loan quality is much higher than the UCB.

On the other hand United Commercial Bank has the highest percentage of bad loan which is 9.82% but the Prime Bank and Dhaka Bank has bad loan of 0.75% and 1.22% respectively. It also proves that the quality of the loan of UCBL is not very good.

Chapter 5

Problems of United Commercial Bank Ltd.

∅ Advertising and promotion:

Advertising and promotion is one of the weak point of UCBL. UCBL does not have any effective marketing activities. Other banks have better marketing strategy.

∅ Limitation of Information system (PC bank)

PC Bank is not comprehensive banking software. It is desirable that a more comprehensive banking should replace PC Bank system.

∅ Employee Dissatisfaction:

Because of late promotion and longer probationary period there is dissatisfaction among the employees. Late increment in salary in another cause for employee dissatisfaction.

∅ Centralization:

The bank is too much centralized. For each and every work branch office have to get permission from the head office. The head office tightly controls each and every branch office. This dependency on head office causes slow down their activities.

∅ Online banking:

Online banking is one of the major deficiencies of UCBL. . It will very difficult to survive without full fledge online banking where most of the competitor bank shifted to online.

Recommendation

➤ UCBL should pursue advertisement campaign in order to build a strong image among the people. They should carry out aggressive marketing campaign to attract clients. They can give advertisements in newspaper and magazine, television and neon signs.

➤ UCBL can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking.

➤ There is a new retail banking service provided by the foreign banks. UCBL can evaluate the option of launching credit cards.

➤ UCBL should move towards online banking operations. It is the appropriate time for going for online banking because some of the banks are already in to the online banking operation.

➤ They should innovate other type of deposit to attract more customers.

Conclusion

United Commercial Bank Ltd. has been trying to operate its business successfully since 1993. The bank has already developed good image and goodwill among its clients by offering excellent services. Though facing challenges from its Rival Banks, the bank has been successful because of the commitment and dynamic leadership of its management over the periods. Within a few years of its operation, the bank has grabbed a position in the banking sector. According to CAMEL Rating the bank's performance is 2, which is satisfactory. It is expected that in a year or so the rating will be 1, which is strong. So we can say that overall performance is good in banking sector of Bangladesh.

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