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# INTERNSHIP REPORT ON

# "THE OVERVIEW OF BANKING"



Submitted For  
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## CERTIFICATE FOR APPROVAL

July 19, 2007

I have the pleasure to approve the report entitled "*Overview of Banking*" on the **IFIC Bank Limited**" by Gazi Rashedul Hassan, ID# 2003-2-10-256 BBA (Major in Finance) to be submitted to the Department of Business Administration, Faculty of Business Studies, East West University, in partial fulfillment of the requirements for the degree of Bachelor of Business Administration in Finance.

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## EXECUTIVE SUMMARY

IFIC Bank engineers enterprise and creativity in business and industry with a commitment to social responsibility. "Profits alone" do not hold a central focus in the Bank's operation; because "man does not live by bread and butter alone."

IFIC Bank dreams of better Bangladesh, where arts and letters, sports and athletics, music and entertainment, science and education, health and hygiene, clean and pollution free environment and above all a society based on morality and ethics make all our lives worth living. IFIC's essence and ethos rest on a cosmos of creativity and the marvel-magic of a charmed life that abounds with spirit of life and adventures that contributes towards human development.

IFIC Bank believes in its uncompromising commitment to fulfill its customer needs and satisfaction and to become their first choice in banking. Taking cue from its pool esteemed clientele, IFIC Bank intends to pave the way for a new era in banking that upholds and epitomizes its vaunted marques "Your Trusted Partner".

IFIC Bank is offering different types of services for the people of our country. This bank has centralized online system which is implying the efficient banking system. This bank is able to serve the people quickly and efficiently. In this way IFIC bank is contributing to the economy of Bangladesh and helping the people as well.



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# Introduction

## Money and Banking

Narrow Money (M-1) increased by 10.7 percent to Tk. 267.44 billion during the FY 2003 as compared to the increase of 801 percent in the previous year.

Broad Money (M-2) increased by 15.6 percent to Tk. 1139.94 billion during the FY 2003 as compared to the increase of 13.1 percent in the preceding year.

There was no change in the CRR in FY 2003; instead, weekly Treasury bill auction were used in regulation the reserve money level along with fine-tuning with REPO and reverse REPO auction. Reserve money increased by 3.3 percent to Tk. 243. 13. Billion during the FY 2003 as compared to the increase of 24.3 percent during the previous year.

The outstanding level of bank credit (excluding foreign bills and inter-bank items) increased by Tk. 100 billion or 13.7 percent to Tk. 832.6 billion during FY 2003, against an increase of 13.5 percent in FY 2002.

Bank deposits (excluding inter-bank items) increased by Tk. 145.5 billion or 15.8 percent to Tk. 1065.7 billion during FY 2003, against a 12.7 percent increase in FY 2002.

Annual average inflation (FY 96=100) at the end of FY 2003 was 4.4 percent, against 2.8 percent as of end FY 2002.

## An Overview of Bangladesh's Banking Environment

The banking industry in Bangladesh is more than 600 years old. The Central Bank of the country, Bangladesh Bank, controls and monitors the banking industry.

Currently the major financial institutions under the banking system include:

- **Bangladesh Bank**
- Commercial Banks
- Islamic Banks: (For interest free Islamic banking in adherence to the shariah, i.e., Islamic banking principles and practices)
- Leasing Companies
- Finance Companies
- Merchant Banks

Generally, the commercial banks and finance companies provide a myriad of banking products/ facilities and services to cater to the needs of their customers. These include 24



hour banking, home banking (Tele-banking via use of modems and phones) and general banking and service products. The customer's convenience, such products are available throughout the bank branches in Bangladesh.

However, the Bangladeshi banking industry is characterized by the tight banking rules and regulations set by Bangladesh bank. All banks and financial Institutions (FI) are highly governed and controlled under the Banking Companies Act - 1993, which lays out many restrictions, besides other guidelines. Among the many regulations imposed, Bangladesh Bank does not allow any FI get into bankruptcy or insolvency.

The range of banking products and financial services is also limited in scope. Besides all local banks are imposed with 4% Cash Reserve Requirement (CRR), which is non-interest bearing and 12% Statutory Liquidity Requirement (SLR). This has given rise to higher cost of funds. With the liberalization of markets, competition on banking products and financial services seem to be more intense and competitive. In addition, as banking products, which can be offered in Bangladesh, are fairly homogeneous in nature due to the tight regulations imposed by Bangladesh Bank. Competing through differentiating the range of products offered is often difficult and not effective. Moreover, any innovative banking service launched is quickly duplicated by other banks such as ATMs, telebanking, online (real time) computerization bank branches etc. Hence, the key to establish a competitive edge in banking industry of Bangladesh is to provide better customer service quality.



**IFIC BANK LTD.**

## **Legal Status AND Nature of IFIC Bank Ltd.**

The declaration of the Government's bold and far-sighted decisions to allow banks in the private sectors to play its due role in the economy of Bangladesh, have started the process of creating new and dynamic financial institutions. One such institution is the **International Finance Investment and Commerce Bank Limited (IFIC BANK Ltd)**.

International Finance Investment and Commerce Bank Limited (IFIC Bank) is a banking company incorporated in the People's Republic of Bangladesh with limited liability. It was set up at the instance of the Government in 1976 as a joint venture between the Government of Bangladesh and sponsors in the private sector with the objective of working as a finance company within the country and setting up joint venture banks/financial institutions abroad. The Government held the sponsors and general public held 49 per cent shares and the rest 51 per cent. In 1983 when the Government allowed banks in the private sector, IFIC was converted into a full-fledged commercial bank. The Government of the People's Republic of Bangladesh now holds 35% of the share capital of the Bank. Leading industrialists of the country having vast experience in the field of trade and commerce own 34% of the share capital and the rest is held by the general public.

## **ORIGIN OF THE REPORT**

Present world is changing rapidly to face the challenge of competitive free market economy. To keep pace with the trend banks need executive with modern knowledge. To provide fresh graduate with professional knowledge in financial institutions, Department of Business Administration, East West University is conducting Bachelor of Business Administration (BBA). The course practical orientation in different organizations is an indispensable part of the BBA Program. Under this course the students are sent to gather practical knowledge about organizational environment and activities. The topic of the report has been selected after consulting with my faculty advisor **M. Sayeed Alam**. I am continuing my practical orientation course at IFIC Bank and which will be finished at 11 September 2007.

## **METHODOLOGY**

The methodology of the report is given below,

- ⇒ For the procedure of different banking operations, I observed the operations and worked with the Officers at the same time.
- ⇒ For the analysis part, data have been collected from different statements and the annual reports of the bank.
- ⇒ The theoretical aspects of the report are extracted from secondary sources. Several books and published materials are studied.

## **OBJECTIVE**

As business student it is indispensable to undergo some practical study like this for the purpose of having flavor of professional atmosphere and make rectification, as required. My supervisor assigned me few topics to make study. Accordingly this thesis has the topic of- “IFIC BANK LIMITED: OVERVIEW OF GENERAL BANKING, LOANS AND ADVANCES, AND FOREIGN EXCHANGE”

- ⇒ The specific objectives are
- ⇒ To study various desk works of the Federation Branch of IFIC Bank Limited.
- ⇒ To analyze the performances of IFIC Bank Ltd. as a whole.

## **SCOPE OF THE STUDY**

IFIC Bank Ltd. is one of the leading banks in Bangladesh. The scope of the study is limited to the Federation Branch only. The report covers how to conduct daily transactions of banks in various sections, like in general banking. How the banks make money providing loan to customers and how international transaction is conducting through the issuing of Letter of Credit. The scope of the study is just to acquaint with the operational scenario of IFIC, particularly in Federation Branch.

## **SOURCES OF DATA**

The report is based on both primary and secondary sources of information. Enquiring the officers of the bank, employees of its competitors & customers has provided the primary sources of information. Further, the secondary sources of information are the different annual reports, credit manual, various banking related books and journal kept in the Bank.

# GENERAL BANKING

General banking is the starting point and 'Heart' of all the banking operations. It is the department, which provides day-to-day services to the customers. It performs the core functions of Bank. It is the storage point for all kinds of transaction of foreign exchange department, loans and advance department & itself. Main Functions of general banking department are the followings:

1. Account opening section.
2. Account section.
3. Local remittance section.
4. Collection and Clearing section.
5. Cash section.

## ACCOUNT OPENING SECTION

### ACCEPTING DEPOSIT

The relationship between banker and customer begins with the opening of an account by the customer. Opening an account binds the customer into a contractual relationship. Infact all kinds of fraud & forgery start by opening an account. So, the bank should take extreme caution in selection of customers.

Bank is a financial intermediary, which mobilizes funds from surplus units and allocates them to deficit units. Surplus unit means the people who have surplus money and willingness to save. Deficit unit means the people who need money for industry, trade, business, or for personal use but don't have sufficient money of their own for such purposes. Bank mobilizes the funds by accepting deposits from depositors and allocates the funds by providing loans to borrowers.

So accepting deposits is one of the two classic functions of commercial banks. In IFIC bank account opening section deals with:

- ◆ Current deposit (CD)
- ◆ Savings deposit (SB)
- ◆ Short term deposit (STD)
- ◆ Fixed deposit (FDR)
- ◆ Cash credit
- ◆ Secured overdraft

## CURRENT DEPOSIT ACCOUNT

### General Characteristics

- ✿ CD accounts are unproductive in nature as banks loanable fund is concerned. Sufficient fund has to be kept in liquid form, as current deposits are demand liability.
- ✿ Thus huge portion of this fund become non-performing. For this reason banks do not pay any interest to CD Account holders.
- ✿ There is no restriction on the number and the amount of withdrawals from a current account.
- ✿ Service charge and incidental charges are recovered from the depositors since the bank make payments and collect the bills, drafts, cheques, for any number of times daily.
- ✿ Businessmen and companies are the main customers of this product.
- ✿ The Banks through current accounts grant the loans and advances
- ✿ In practice of IFIC bank, a minimum balance of TK.2000 has to be maintained.

## SAVINGS DEPOSIT ACCOUNT

### General Characteristics

As per BB instruction 90% of SB deposits are treated as time liability and 10% of it as demand liability.

- a. Generally householders, individuals and other small-scale savers are the clients of this account.
- b. Minimum Balance of Tk.2000 is to be maintained.
- c. Interest will be counted on the daily basis.
- d. Very limited service charge as it is an interest bearing account.
- e. The number of withdrawals over period of time is limited. Only two or three withdrawals are permitted per week.



## RATES OF INTEREST ON DEPOSITS

As per decision of the management, the rates of interest on deposits are being revised with effect from 01.03.2007

Types of Deposit	Deposit Rates
Savings Bank Deposit (SB)	6.00%

### Short Term Deposit (STD)

Less Than Tk. 1.00 crore	4.00%
Tk. 1.00 crore and above but less than Tk. 5.00 crore	4.50%
Tk. 5.00 crore and above but less than Tk. 10.00 crore	5.00%
Above Tk. 10.00 crore	5.50%
Bank to Bank	2.50%

FDR	Rate of Interest
<u>FDR(Tenure 1 month &amp; above but less than 3 months):</u>	
Less than Tk. 1.00 crore	6.50%
Tk. 1.00 crore and above	7.50%
<u>FDR(Tenure 3 months &amp; above but less than 6 months)</u>	9.50%
<u>FDR(Tenure 6 months &amp; above )</u>	10.00%

## Account Opening Process

<b>Step 1</b>	Receiving filled up application in bank's prescribed form mentioning what type of account is desired to be opened
<b>Step 2</b>	The form is filled up by the applicant himself / herself. Two copies of passport size photographs from individual are taken, in case of firms photographs of all partners are taken. Applicants must submit required documents. Application must sign specimen signature sheet and give mandate. Introducer's signature and accounts number – verified by legal officer.
<b>Step 3</b>	Authorized Officer accepts the application
<b>Step 4</b>	Minimum balance is deposited – only cash is accepted
<b>Step 5</b>	Account is opened and a Cheque book and pay-in-slip book is given

:

## Special Caution Must Be Taken For the Following Customers

<b>In the name of individual/</b>	The client has to fill up an account opening form. Terms and conditions are printed on the back of the form. The form contains the declaration clause, special instructions etc.
<b>In joint name</b>	In this type, the formality is same as individual account, but in the special instruction clause, either 'survivor' or 'former or survivor' clause is marked
<b>Proprietorship</b>	In addition, the customer has to submit the valid Trade License and Tax Paying Identification Number (TIN) along with the application.
<b>Partnership Firm</b>	<ol style="list-style-type: none"> <li>i. A copy of the partnership agreement (partnership deed)</li> <li>ii. Resolution of the partners regarding account opening.</li> <li>iii. Photographs attested of those who will operate.</li> <li>iv. Trade license.</li> <li>v. Mandate as to operation of the account.</li> </ol>
<b>Public Limited Company</b>	<ol style="list-style-type: none"> <li>i. Certificate of Incorporation</li> <li>ii. Copy of Memorandum and Articles of Association</li> <li>iii. Certificate of Commencement</li> <li>iv. Copy of Resolution of the Board of Directors</li> </ol>
<b>Private Limited Company</b>	<ol style="list-style-type: none"> <li>i. Certificate of Commencement is not necessary</li> <li>ii. Certificate of Incorporation</li> <li>iii. Copy of Memorandum and Articles of Association</li> <li>iv. Copy of Resolution of the Board of Directors</li> </ol>
<b>Non-trading Concerns (Societies, Clubs, Associations)</b>	<ol style="list-style-type: none"> <li>i. Registration Certificate under the Societies Registration Act, 1962</li> <li>ii. Certified copy of Bylaws &amp; Regulations/ Constitution.</li> <li>iii. Certified copy of Resolution for opening and operation of account.</li> <li>iv. Power of attorney to borrow</li> </ol>
<b>Joint account in the name of minor</b>	A minor cannot open an account in his own name due to the incapacity to enter into a contract. He can open an account in bank in joint name of another person who will be guardian of him.



## SHORT TERM DEPOSIT ACCOUNT (STD)

### General Characteristics

- a. Customers deposit money for a shorter period of time.
- b. STD account can be treated as semi-term deposit
- c. STD should be kept for at least thirty days to get interest.
- d. The interest offered for STD is less than that of savings deposit
- e. In practice, IFIC bank offers 5.5% rate of interest (half yearly compounding) for STD account. It may increase to 6% or more depending on the fund.
- f. Volume of STD A/C is generally high. IFIC bank, various big companies, organizations, Government Departments keep money in STD accounts.
- G. Frequent withdrawal is discouraged and requires prior notice.

## TERM DEPOSITS

The fixed deposit account is repayable after the expiry of a predetermined period fixed by the customer himself. The period varies from three months to three years. The customer may open his /her account for different time periods, which may be for three months, six months, one year, two years and three years. The interest rate of FDR a/c is frequently reviewed by Bangladesh bank. The interest rates of general FDR accounts are as below:

### Interest rate for Fixed Deposit

Time period	Interest rate
01 Month(MTD)	7.00%
03 Month(FDR)	7.25%
06 Month(FDR)	7.75%
12 Month(FDR)	8.5%
24 Month(FDR)	9.5%
36 Month(FDR)	11.50%

### General Characteristics

- a. Popularly, it is known as Fixed Deposit Receipt (FDR). Term deposits are made with the bank for a fixed period of time.
- b. The bank need not to maintain cash reserves against these deposits and therefore, the bank offers high rate of interest on such deposits.
- c. Customer can take loan to show the security of FDR.

## **OPENING OF FIXED DEPOSIT ACCOUNT**

- a. The depositor has to fill an application form
- b. In case of a deposit in joint name, IFIC bank also takes the instructions regarding payment of money on maturity of the deposit.
- c. The banker also takes the specimen signatures of the depositor(s).
- d. Necessary entries are given on the FDR register.
- e. An FDR is then issued to the depositor acknowledging receipt of the sum of money mentioned therein. It also contains the rate of interest & the date on which the deposit will fall due for payment.

### **Payment of Interest**

- a. It is usually paid on maturity of the fixed deposit. IFIC calculates interest at each maturity date and provision is made on that "Miscellaneous creditor expenditure payable accounts" is debited for the accrued interest.
- b. But the Bank may pay interest to depositor every 6 months or credit the amount of interest to his savings or current account, at his request.

### **Premature Encashment of FDR**

A depositor has the right to claim for refund of his deposit before expiry of the fixed term thereof. Bank may in special consideration allow premature encashment on application of the depositors subject to the under noted conditions:

1. For FDR which are 3 months maturity no interest will be payable at the premature encashment, only the principle amount will be refunded.
2. When premature encashment is allowed of FDR with tenure of over 3 months, interest will be paid if encashed before expiry of 6 months at the rate of 3 months prescribed interest rate.
3. Premature encashment is allowed of FDR with tenure of over 6 months, interest will be paid if encashed before expiry of 12 months at the rate of 6 months prescribed interest rate and the same theory will also be applicable for premature FDR encashment of 2 years and 3 years.

### **Loss of FDR**

If the instrument is lost from the possession of the holder, the holder is asked to fulfill the following requirements:

- a. Party should inform it to the bank immediately;
- b. Furnish an Indemnity Bond ;

- c. On fulfilling the above requirements a duplicate FDR is then issued to the customer by the bank.

**Renewal of FDR**

- a. FDR is automatically renewed within seven days after the date of its maturity if the holder doesn't come to encash the instrument.
- b. Renewal will be for the previously agreed maturity period.

**Accounting Treatment for FDR**

Purchase of FDR:	On Cash:	Cash A/C -----Dr. FDR A/C -----Cr.
	By PO/DD:	Clearing -----Dr. Sundry Creditors -----Cr.
	When honored:	Sundry Creditors -----Dr. FDR A/C-----Cr.
Encashment of FDR:	Encashment of FDR:	FDR A/C -----Dr. Interest on FDR A/C -----Dr. Excise duty on FDR -----Cr. 10% Income Tax on Interest -----Cr. Cash A/C -----Cr

**GENERAL PRACTICE OF IFIC BANK FOR ALL TYPES OF ACCOUNTS**

**Chequebook**

- a. To facilitate withdrawals and payment to third parties by the customer, IFIC provides chequebook to the customer.
- b. CD account chequebook contains 20 and 50 and 100 leaf, while SB account chequebook has 10, 20 and 50 leaves. Bank maintains a separate register in this regard.
- c. Requisition slip is provided to the customer in chequebook to issue new chequebook.
- d. A new chequebook should be delivered only to the account holder. Otherwise authorized signature is needed from client for delivery to other person.

### **When Chequebook Is Lost**

A guarantee form is taken from the account holder when his book is lost, where he indemnifies the bank in this regard. A new requisition slip is given to him for a new chequebook. Only a very senior officer will approve the case.

### **Incidental charges**

- a. TK. 100/- each for twice a year is debited from customer's CD account for rendering service to him.
- b. Again TK. 100/- each is debited from customers account for providing him the solvency certificate.
- c. If Bangladesh Bank's Cheque is placed TK. 100/ - is debited from customers account.
- d. No service charge for interest bearing account such as SB A/C, FDR etc.
- e. TK. 50/- is charged from customer as penalty if his cheque is dishonored two/ three times. Also TK. 50/- is debited as penalty to provide a loose cheque.

### **Compounding of Interest**

- a. In IFIC Bank, interest-compounding period varies with products.
- b. Interest on term deposit i.e. FDR is compounded at its maturity period. Such as 3 months, 6 months, 12 months etc.
- c. Interest on savings bank (SB) deposit is compounded six monthly.
- d. Interest on STD accounts is compounded yearly.

### **Crediting Interest**

Crediting interest implies that so for interest accrued is attached with the principal amount. In practice of IFIC

- a. FDR interest is credited at the maturity date.
- b. For SB account the crediting season is six-month period.
- c. Interest of STD is credited after each year.

### **Tax**

Whatever the amount of interest is accrued 10% tax is debited from the account at the time of crediting interest.

### **Accounting Treatment:**

Credit voucher is made for this purpose:

Customer Account .....Dr.  
10% Income Tax on interest in deposit .....Cr.

## **Closing of an A/C**

- a. If the customer is desired to close the account
- b. If IFIC finds that the account is inoperative for a long duration.
- c. If Garnishee Order is issued by the court on IFIC.

To close the account, the cheque book is to be returned to the bank. IFIC takes all the charges by debiting the account and the remaining balance is then paid to the customer. Necessary entries are given to the account closing register and computer.

## **Transfer of an A/C**

Account holder may transfer his account from one branch to another branch. For this he/she must apply to the manager of the branch where he is maintaining account. Then manager of Federation Branch sends a request letter to the manager of the branch where the account holder wants to transfer his account. With his request he sends original copy of account opening application and specimen Signature Card and photocopy of application for transferring the account with the balance remained account.

## **Account Inquiry**

A customer can obtain the statement of his account by the submission of an application in prescribed balance inquiry receipt. IFIC not charges any amount for this statement.

## **LOCAL REMITTANCE SECTION**

In banking language money transmitted domestically are known as local remittance. For local remittance purpose IFIC purchases and sells some instruments for its customers. The instruments are Pay Order (PO), Demand Draft (DD), Telegraphic Transfer (TT), Outward bills for collection (OBC).

## **PAY ORDER**

Pay order is an instrument, which is used to remit money within a city through banking channel. The instruments are generally safe as most of them are crossed.



## Issuing of a pay Order (PO)

### A customer can purchase pay order in different ways

	Cash A/C.....Dr.
By cash	Bills Payable (P.O) A/C .....Cr. Income A/C Commission on Remittance.....Cr. Client's A/C .....Dr.
By account	Bills Payable (P.O) A/C .....Cr. Income A/C Commission on Remittance .....Cr. Head office \ other department's client A\C ...Dr.
By transfer	Bills Payable (P.O) A/C .....Cr. Income A/C Commission on Remittance .....Cr.

From the above accounting treatments it is clear that the money, which is received by the bank from selling the instrument, is kept under bills payable account. It is current liability on the part of bank, which implies that, money received in this purpose has to be paid to the payees collecting bank on placement of the instrument.

### The procedure for selling P.O. is as follows

- Purchaser must be an A/c holder of IFIC.
- Deposit money with P.O. application form.
- Give necessary entry in the Bills Payable (P.O.) register;
- Payee's name, date, P.O. No. etc.
- Prepare the instrument.
- After it has been scrutinized & approved by higher authority, the instrument is delivered to customer. Signature of customer is taken in the counterpart.

In pay order bank cut the commission and charges. These are given below:

Limit(Tk)	Commission	Vat
1-1000	10	2
1001-100,000	25	4
100,001-500,000	50	8
500,000-Above	100	15

### **Settlement of a P.O.**

When P.O. submitted by collecting bank through clearinghouse, the issuing bank gives payment.

Bills payable A/C ..... Dr.  
Balance with Bangladesh Bank ..... Cr.

Thus bank's liability is settled by debiting bills payable. But before giving payment it should be examined whether endorsement was given by the collecting bank or not. If not then the instrument is dishonored marking "Endorsement required".

### **Unutilized P.O. / Cancellation of a P.O.**

If buyer wants to cancel the P.O. he has to give a letter of instruction in this regard. He will also have to return the instrument. Adjusting entry will be:

Bills Payable (P.O.) A/C ..... Dr.  
Client's A/C ..... Cr.

### **When PO is lost**

Incase the instrument is lost, the holder whether payee or buyer will inform it to the issuing bank immediately. Bank will mark stop payment on the Bills Payable (P.O.) register. Buyer will then ask for a new instrument by submitting a G.D. Copy and indemnity bond of Tk.50.00 (issued by court). A new Instrument will be delivered marked "In lieu of".

### **Collection of PO**

A customer of IFIC who is the payee of a P.O. will deposit it for collection. The instrument is given to the clearing that will place it to the issuing bank in the clearinghouse. Before placement, IFIC as a collecting bank gives necessary endorsement.

### **DEMAND DRAFT**

Demand Draft is a very much popular instrument for remitting money from one corner of a country to another. The instrument is basically used for transfer and payment. Difference between pay order and demand draft is in terms of place only. P.O. is used for remitting money within the city whereas DD is used for within the country. DD too, constitutes current liability on the part of a bank. At IFIC DD is not sold to people other than its customer.

### **Procedures for issuing a DD**

- a. DD application form filled in and money deposited by the customer.

- b. Necessary entries are given to a register name DD OUT – concern (drawn on) branch. A number, which is taken from this register, is known as “Controlling number.”
- c. An “Account payee only” crossed instrument given.

**Accounting Treatment**

**Sale of instrument**

Cash/Party A/C ..... Dr.  
 HO/A/C Drawn on Branch .....Cr.  
 Income A/C Commission .....Cr.

**Prepare an I.B.C.A. (Inter branch Credit Advice)**

H/O A/C Issuing Branch ..... Dr.  
 Drawn on Branch ..... Cr.

The I.B.C.A. is dispatched to drawn on branch. Issuing an I.B.C.A. implies that the branch is being credited to whom it is issued I.B.C.A. contains the controlling number.

**Role of a drawn on bank**

Lodgment is given after receiving an I.B.C.A. Necessary entry is given in a register called “DD-In-Issuing branch,” Controlling number of the I.B.C.A should match the serial number of this DD-in register.

**Accounting treatment**

Issuing Branch ..... Dr.  
 Bills Payable (D.D.) A.C..... Cr.  
 (After receiving I.B.C.A.)  
 Bills payable (D.D.) A/C .....Dr.  
 Customer A/C..... Cr.  
 (When payment given)

When finally the instrument arrives through clearing, the cancellation mark is given on the register.

In case where I.B.C.A. has not yet received from the issuing bank but where instrument has been placed, bank can not hang a party for the I.B.C.A. In this case payment is given to the party from the suspense account.

**Accounting treatment**

Suspense A/C ..... Dr.  
 Customer A/C .....Cr.



**Later on it is adjusted after receiving the fund from the issuing bank**

Issuing bank A/C ..... Dr.

Suspense A/C .....Cr.

**Charges taken for the draft**

Tk. 50.00 as postage charge is taken and no commission is charge for this purpose. The postage charge credited to the concern income account.

**Cancellation of a DD**

If the holder of the instrument wants to cancel it, he should submit a request letter in this regard. Issuing branch then sends an I.B.D.A. to the drawn on branch against the I.B.C.A. which was sent previously.

**Accounting treatment**

H.O. A/C Drawn on Branch .....Dr.

Customer Account .....Cr.

**Duplicate DD**

When DD is lost a duplicate instrument is given subject to fulfillment of the following requirements:

- a. Tk. 50.00 indemnity bond issued from the court.
- b. After losing the instrument, holder should immediately inform it to the bank that puts “stop payment” mark on the register.

**TELEGRAPHIC TRANSFER (TT)**

Telegraphic transfer is one of the fastest means of transferring money from one branch to another or from one place to another. The TT issuing bank instrument is given for T.T. Both parties should have account, as money is transferred.

**Outgoing T.T. – Its Procedure**

- a. Application by customer along with money given.
- b. In receipt of money a cost memo is given to the customer containing TT serial number. This number is informed to the awaiting party in the other branch, by the customer.
- c. Tested fax message is prepared, where TT serial no and the name of the concern party to whom the money will be credited is mentioned.

- d. Activity report is received from the telex department confirming transmission of message.

**Accounting treatment**

Cash A/C Party A/C ..... Dr.  
H/O A/C (Concern Branch) .....Cr.

**Incoming TT – Practice:**

- a. After receiving the fax message it is sent for test agree.
- b. TT serial number is scrutinized in the “TT IN – concern branch” register
- c. Voucher is released in this respect giving accounting treatment as

H/O (Concern Branch) A/C ..... Dr.  
Customer A/C .....Cr.

**Charges and Commission**

No charge as well as commission is applicable for this purpose.

**COLLECTION AND CLEARING SECTION**

Customers do pay and receives bill from their counter party as a result of transaction. IFIC collects the bills on behalf of their customers. Collection mechanisms in IFIC are clearing, Outward Bill For Collection, Inward Bills for Collection.

**CLEARING**

When the bill is within the range of the clearinghouse it is sent for collection through clearing section. As far as safety is concerned customers get crossed cheque for the transaction. Crossed check can't be encashed from the counter; rather it has to be collected through banking channel i.e., clearing. If a client of IFIC received a cheque of another bank that is located within the clearing range and deposit the instrument in his account at IFIC, then IFIC will collect the money through clearing house. After received the check IFIC will credit client account. However, the amount is credited in the customer a/c but he will not get the money until the check is honored.

### Procedures for collection

- a. Received” seal is stamped on the cheque
- b. Crossing of the cheques are done
- c. “Payee’s A/C Credited” endorsement is given
- d. Entries are given in the Outward Clearing Register
- e. Clearing” seal is given
- f. Cheques are sorted bank wise and entries are given to the computer.
- g. Entries are given in the Clearing House Register before dispatching to the clearing house.

### After that, a debit voucher is prepared

Balance with Bangladesh Bank -----Dr.  
All Customers’ A/C -----Cr.

### Function in the Clearing House

- a. The clearinghouse is an assembly of the locally operating scheduled banks for exchange of checks, drafts, and other demand instruments drawn on each other and received from their respective customers for collection.
- b. The house meets at the appointed hour on all working days under the chairmanship of the central bank. The clearinghouse sits twice in a working day.
- c. The members submit the claimable checks in the respective desks of the banks and vice-versa.
- d. Consequently, the debit and credit entries are given.
- e. At the end, the debit summation and the credit summation are calculated. Then the banks clear the balances through the check of Bangladesh Bank.
- f. The dishonored checks are sorted and returned with return memo.
- g. The dishonored instruments for Federation Branch are given following treatment:  
Customer A/C -----Dr.  
Balance with Bangladesh Bank -----Cr.
- h. If the instruments are dishonored then they are sorted again and sent back to the returning house along with their return memo.
- i. Later on all the instruments of IFIC which were claimed by other banks are sorted and delivered to respective branches.
- j. If the instruments are honored the treatment is:  
Customer A/C -----Cr.  
Balance with B.B. -----Dr.

### **Instruments of other branches**

However, the Federation Branch clears its checks as well as the checks of other branches. Because, no other branch is allowed to represent directly. The other branches send the instruments along with IBDA. Federation Branch acts as an agent in this case.

### **Accounting treatment for concerned branch**

HO A/C-Federation-----Dr.  
Customer A/C -----Cr.

**If the instrument is honored**, Federation Branch gives the following treatment Balance with B.B. -----Dr.  
HO A/C-concerned branch -----Cr.

**If the instrument is dishonored**, the instrument is returned to the concerned branch through IBDA. The treatment is:

HO A/C concerned branch -----Dr.  
Balance with B.B. -----Cr.

### **Dishonor of Cheque**

If the cheque is dishonored, IFIC sends a memorandum (cheque return memo) to the customer stating the reason. If the cheque is dishonored due to insufficiency of funds, IFIC charges TK.50/= as penalty. There are several reasons for dishonoring the cheque:

- Insufficient fund of customer's a/c.
- Amount in figures and word differs.
- Cheque out of dated/post dated.
- Drawer's signature differs.
- Payment stopped by drawer.
- Crossed cheque to be presented through a bank.
- Payee's endorsement required.
- Others.

### **OUTWARD BILLS FOR COLLECTION (OBC):**

If the bill is beyond the clearing range then it is collected by OBC mechanism. Customer deposit cheque, drafts etc. for collection, attaching with their deposit slip, Instrument within the range of clearing are collected through local clearing house, but the other which are

outside the clearing range are collected through OBC mechanism. A customer of IFIC, Federation Branch Dhaka is depositing a cheque, of Sonali Bank Cox's Bazar. Now as a collecting bank IFIC, Federation Branch will perform the following task.

This is the instrument is used for transferring money from one bank to other bank. Issued cheque must be outside Dhaka. This is sent by courier. Generally it reached 3-7 days.

Procedure is given below:

- Issuing bank request to corresponding bank to credit the proceeds our a/c under airmail advice to us.
- Authorize to debit you're a/c with us.
- Remit proceeds to credit our a/c with them under advice to us.
- Remit proceeds to us your draft order. (IBCA)

Collecting bank can collect it either by its branch or by the drawers bank. They will forward the bill then to that particular branch. OBC number will give on the forwarding letter. Now following procedures will take place in case of the following two cases.

**Bills collected through Branch:**

If the bill is forwarded to branch they will collect it through IBC procedure. Collecting branch will receive an I.B.C.A. from that particular agent branch. Accounting treatment from the angle of collecting branch will be;

H.O. A/C concerned branch .....Dr.  
 Customer A/C .....Cr.  
 Income A/C commission; Postage .....Cr.

In this case commission will be charged by the collecting branch, not the agent branch and the drawer's bank will send a DD to the collecting branch. Here both the banks will charge for collection from the customer. It should be scrutinized that D.D. is containing the OBC number.

**Accounting treatment for the collecting branch will be:**

Clearing ..... Dr.  
 Customer ..... Cr.  
 (DD will be sent for collection through clearing).

Customer A/C .....Dr.  
 Income A/C Commission ..... Cr.  
 Postage .....Cr.  
 (0.15% commission of the instrument value and Tk. 15/- as postage charge is deducted.)

### Balance Sheet effect

OBC create asset and liabilities simultaneously for bank. When send for collection, it is bank's liability and as well as customers liability i.e. banks asset.

- Liability head Bills for collection being bills receivable as per contra
- Asset head Bills receivable being bills for collection as per contra.

Customer's liability A/C .....Dr.  
Banker's liability A/C .....Cr.

### After realization (even if dishonored)

Banker's liability A/C .....Dr.  
Customer liabilities A/C .....Cr.

After realization the contra is settled. This item is a stock variable of balance sheet at a particular date.

### Balancing

Balancing is done on the bankers liability account. The year end balance is shown on balance sheet.

### INWARD BILLS FOR COLLECTION (IBC)

When the bank collects bills, as an agent of the collecting branch the system is known as IBC. In this case the bank will work as an agent of the collection bank. The branch receives a forwarding letter and the bill. Next steps are:

- a. Entry in the IBC register, a IBC number given
- b. Endorsement given- "Our branch endorsement confirmed"
- c. The instrument is sent to clearing for collection.

Clearing .....Dr.  
Miscellaneous Creditor A/C OBC .....Cr.

### If honored

If the instrument is honored the accounting treatment will be;  
Miscellaneous Creditor A/C OBC ..... **Dr.**  
H.O. Collecting branch A/C .....Cr.



**An IBCA is dispatched in this regard**

HO A/C agent branch .....Dr.

HO A/C collection branch ..... Cr.

**If dishonored**

In this case the instrument is returned to the collecting branch along with a return memo.

### **DOMESTIC BILL PURCHASED (DBP)**

Bank has to serve its customer by any means. But some customers are valued as far as deposit is concerned. So banks give them some benefits depending on the situation. Clients get bill which is as per agreement collected by the bank. This collection procedure takes usually 2-3 days. But in many cases valued clients need money urgently. In this situation bank purchase the bill of the client paying him money then the then. Later on bank collects the bill and adjust accordingly.

#### **Accounting Treatment**

Domestic bill purchase A/C .....Dr.

Customer A/C .....Cr.

When collected by any instrument or any branch

HO A/C concerned branch/clearing A/C .....Dr.

Domestic bill purchase A/C .....Cr.

This is kind of credit which is offered to the valued clients only. However no credit line facility is needed for them. Commission is charged from them at a higher rate which is equivalent to lending rate of 14-15% for the collection period only.

### **CASH SECTION**

Cash section demonstrates liquidity strength of a bank. It is also sensitive as it deals with liquid money. Maximum concentration is given while working on this section. As far as safety is concerned special precaution is also taken. Tense situation prevails if there is any imbalance in the cash account.

#### **Vault:**

All cash, instruments (PO, DD, cheque) and other valuables are kept in the vault. Principal branch's vault is incurred up to Tk. 2 crore with a local insurance company. If cash stock goes

beyond its limit of Tk. 2 crore, the excess money is transferred to Bangladesh Bank. If there is shortage of cash during transaction period money is drawn from the central bank. There are three keys of the vault which are given to three senior most officers. Daily, an estimated amount of cash is brought out from the vault, for transaction purpose.

### Functions of Cash Department

<b>Cash Payment</b>	<p>Cash payment is made only against cheque</p> <p>This is the unique function of the banking system which is known as “payment on demand”</p> <p>It makes payment only against its printed valid Cheque</p>
<b>Cash Receipt</b>	<p>It receives deposits from the depositors in form of cash</p> <p>So it is the “mobilization unit” of the banking system</p> <p>It collects money only its receipts forms</p>

### Cash payment or Cheque cancellation process:

<b>Step 1</b>	Receiving Cheque by the employee in the cash counter
<b>Step 2</b>	<p>Verification of the followings by the cash Officer in the computer section</p> <ol style="list-style-type: none"> <li>i. Date of the Cheque (it is presented within 6 month from issue date)</li> <li>ii. Issued from this branch</li> <li>iii. Amounts in figure and sentence written does not differ</li> <li>iv. Signature of the drawer does not differ</li> <li>v. Cheque is not torn or mutilated</li> </ol>
<b>Step 3</b>	Gives pay cash seal and sends to the payment counter
<b>Step 4</b>	Payment officer makes payment

### Books maintained by this section

<b>Vault Register</b>	It keeps account of cash balance in vault in the bank.
<b>Cash Receipt Register</b>	Cash receipt in whole of the day is recorded here.
<b>Cash Payment Register</b>	Cash payments are made in a day are entered here.
<b>Rough Vault –Register</b>	Cash calculation for final entry in vault register is done here, as any error and correction here is not acceptable.
<b>Cash Balance Book</b>	Balance here is compared with vault register. If no difference is found, indicates no error.



In book 1 and book 5, notes and currency are recorded by mentioning their denominations and number of each denomination.

Same set of these books is maintained separately for both local and foreign currency.

## **FOREIGN EXCHANGE**

### **Letter of Credit**

Letter of credit is a widely used instrument both local and in international Trading, a written undertaking given by a bank on behalf of importer/ client to pay a certain sum of value of goods or services to the seller on fulfillment of some terms and conditions imposed by importer or by it self (buyer's bank).

There are various types of letter of credit.

Such as-

- ⇒ Irrevocable/ Revocable
- ⇒ Confirmed / unconfirmed
- ⇒ With re-course/ without recourse to drawer

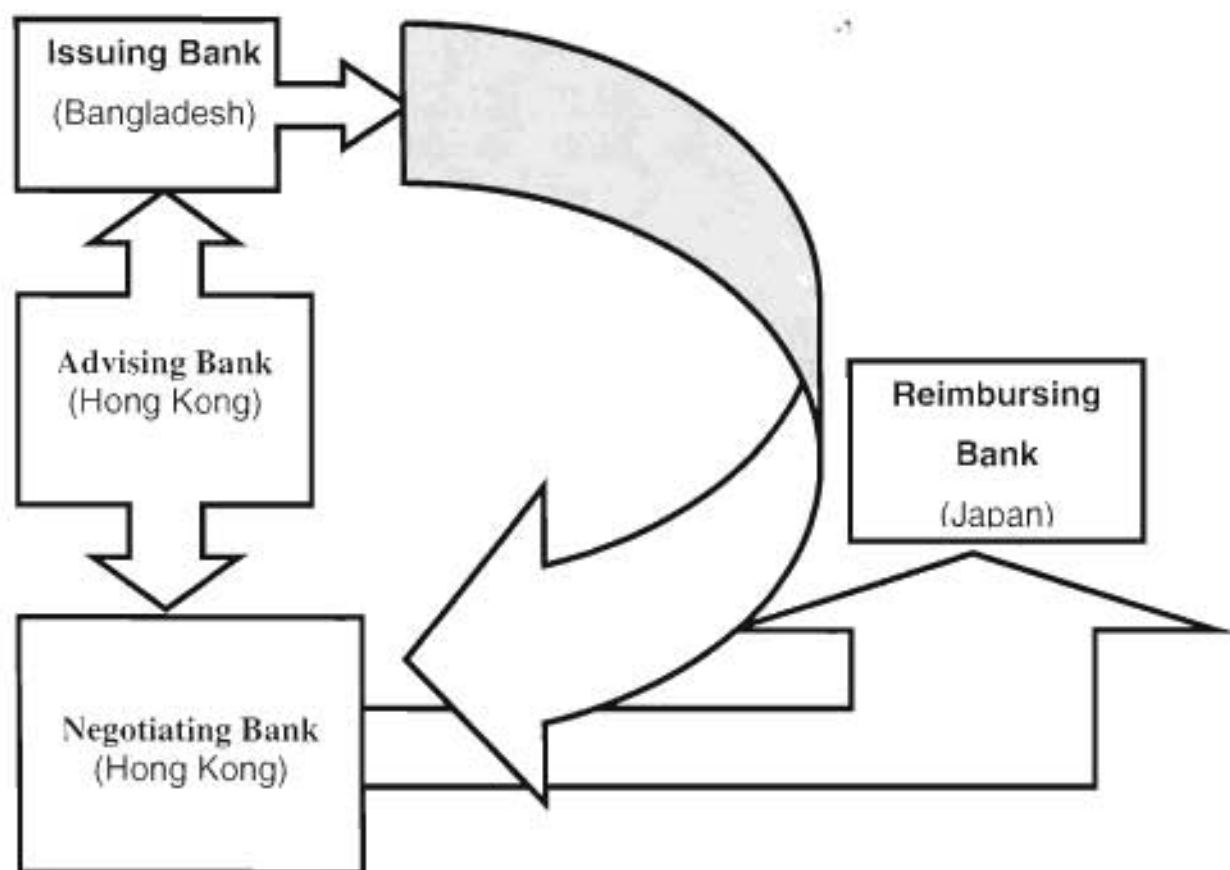
Besides, there are some other special types of documentary letter of credit.

- ⇒ Red clause credit
- ⇒ Green clause credit
- ⇒ Back to back credit
- ⇒ Stand by letter of credit, etc.

#### **Parties involved to letter of credit**

- ⇒ Importer/ buyer
- ⇒ Opening/ issuing bank
- ⇒ Exporter/ Seller/ Beneficiary
- ⇒ Advising bank/ Notifying bank
- ⇒ Confirming bank
- ⇒ Negotiating bank
- ⇒ Reimbursing bank.

Parties to the documentary credit may be an issuing bank, an advising bank, a confirming bank, a reimbursing bank or a negotiating bank.



**Figure: Parties involved to letter of credit**

### **Issuing Bank**

The Issuing Bank or the Opening Bank is one which issues the credit, i.e., undertakes, independent of the undertaking of the applicant, to make payment provided the terms and conditions of the credit have been complied with. The payment may be at sight if the credit provides for sight payment or at maturity dates if the credit provides for deferred payment. Especially the issuing bank should satisfy himself on the credit worthiness of the applicant. The credit application must be in accordance with UCP 500 and in a workable format.

### **Advising Bank**

The Advising Bank advises the credit to the beneficiary thereby authenticating the genuineness of the credit. The advising bank is normally situated in the country/place of the beneficiary.

### **Confirming Bank**

A Confirming Bank is one which adds its guarantee to the credit opened by another bank, thereby, undertaking the responsibility of payment/negotiation/acceptance under the credit in

addition to that of the issuing bank. A confirming bank normally does so if requested by the issuing bank and it is normally the advising bank.

### **Negotiating Bank**

A Negotiating Bank is the bank nominated or authorized by the issuing bank to pay, to incur a deferred payment liability, to accept drafts or to negotiate the credit.

### **Reimbursing Bank**

A Reimbursing Bank is the bank authorized to honor the reimbursement claims in settlement of negotiation/acceptance/ payment lodged with it by the negotiating bank or accepting bank. It is normally the bank with which the issuing bank has account from which payment is to be made. Generally confirmed irrevocable letter of credit without recourse is considered as the best type of documentary letter of credit.

Mainly letter of credit was used for settlement of transactions related to international trading. It is about a decade, for settlement of local transactions letter of credit is used in our country. So, it may also be termed as media of settlement of trade transactions.

Letter of credit is guided by (UCPDC) Uniform Customs and Practice for Documentary Credit issued by international Chamber of Commerce (ICC) an apex body of international traders.

Responsibilities of all concerned, involved in documentary credit operation have been categorically stated in the UCPDC.

On the contrary each and every country has its own trade and exchange control policy. Accommodating this entire acute situation, international trades are performed and transactions there against are settled.

In Bangladesh we are also controlled in trade and exchange, so we can't entertain any approach by our client importer if the approach does not fall under the purview of existing trade and exchange control regulation

Example can be cited, all items are not freely importable, import of some items are restricted, like wise we can't send advance remittance against import except some few exceptions while in case of export, we are getting advance payment frequently.

Generally for import of commercial and industrial items under private sector, the following papers and documents are required-

- ✓ Application of opening letter of credit duly signed by the importer.
- ✓ Indent/ pro-forma invoice stating details of the merchandise to be imported.
- ✓ Marine Insurance cover note.
- ✓ Certificate of membership of chamber or similar approved association.
- ✓ Prof. of renewal of the IRC for the current import year.
- ✓ Declaration of payment of income tax for the preceding year in three folds.

- ✓ Copy of TIN and VAT.
- ✓ LCAF duly filled and signed.
- ✓ IMP form duly signed.

Any other forms/ registration/ permission if necessary as per existing I.P.O.

On scrutiny of the papers and documents as submitted with the L/C application, authorized dealer will process L/C opening, margin will be fixed on the basis of relation between customer and bankers.

On observance of the internal formalities, as per L/C application L/C is prepared for advising to beneficiary through correspondent bank. A gradual feature of L/C operation is appended overleaf.

Some times beneficiary requests for add confirmation to the L/C, the bank add their confirmation to the L/C is known as confirming bank, means the very bank undertakes for payment of the L/C to beneficiary.

As per contractual agreement the beneficiary will ensure shipment of the goods and will present documents in line with the letter of credit to their bank, known as negotiating bank.

Negotiating bank after scrutiny of the documents if found in order will negotiate the documents and will lodge claim on the designated bank for reimbursement simultaneously will forward the original set of the documents to L/C issuing bank for settlement as well.

Issuing bank on receipt of the documents will check the documents carefully if found in order will lodge to PAD for settlement of the transaction both with foreign reimbursing bank and importer.

## **AUTHORIZED DEALER**

In administering exchange control and foreign trade, Central Bank of the country (Bangladesh Bank in case of Bangladesh) authorizes few branches of commercial banks to deal in foreign exchange. These branches are known as "Authorized Dealers". They act as agent of the Central Bank and work under the exchange control regulations and guidelines issued from time to time.

### **IFIC, Federation BR. AS AN AUTHORIZED DEALER**

The Federation Branch is one of the 27 branches of IFIC Bank Ltd. That works as an "Authorized Dealer" for the financing of foreign trade and dealing with foreign currency. This branch does have a good reputation with the importers and exporters. The concerned officials of "Foreign Exchange Department" are vastly experienced in this respect and working here for a long time.

In Federation Branch, the Foreign Exchange Department is mainly divided into two (03) wings in accordance with two major activities –

- i. Import-oriented Foreign Exchange Activities and
- ii. Export-oriented Foreign Exchange Activities

The Import Section deals with L/C in the perspective of the importers and the Export Section deals with L/C in the perspective of the exporters.

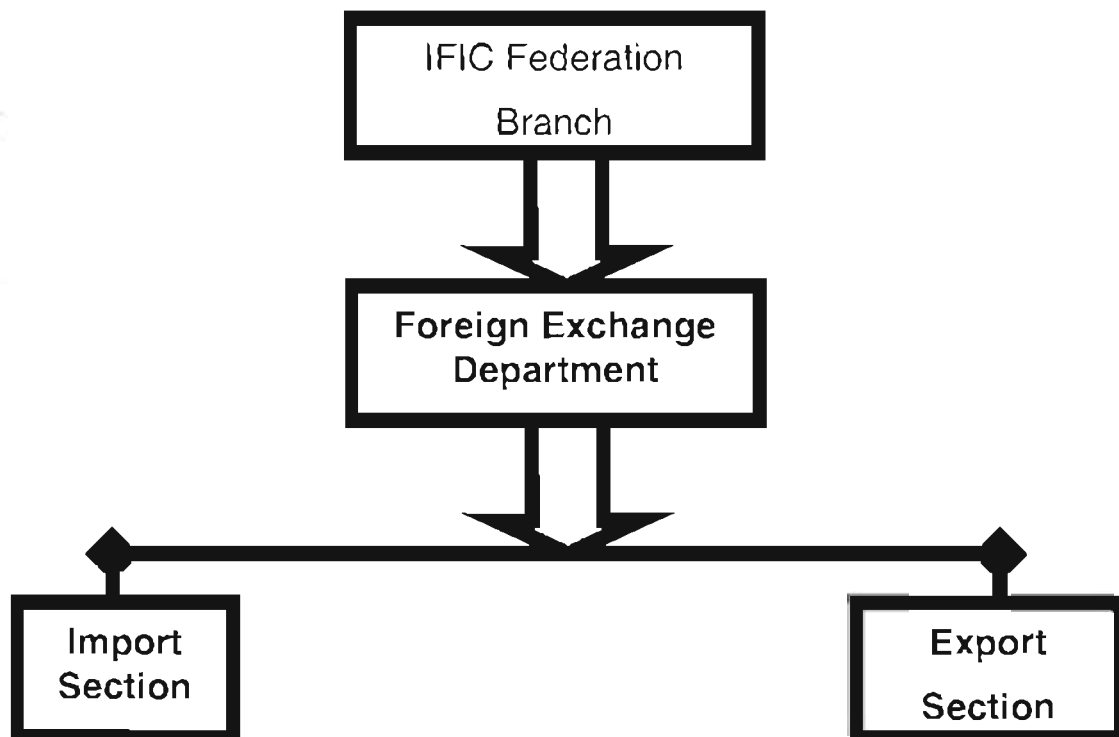
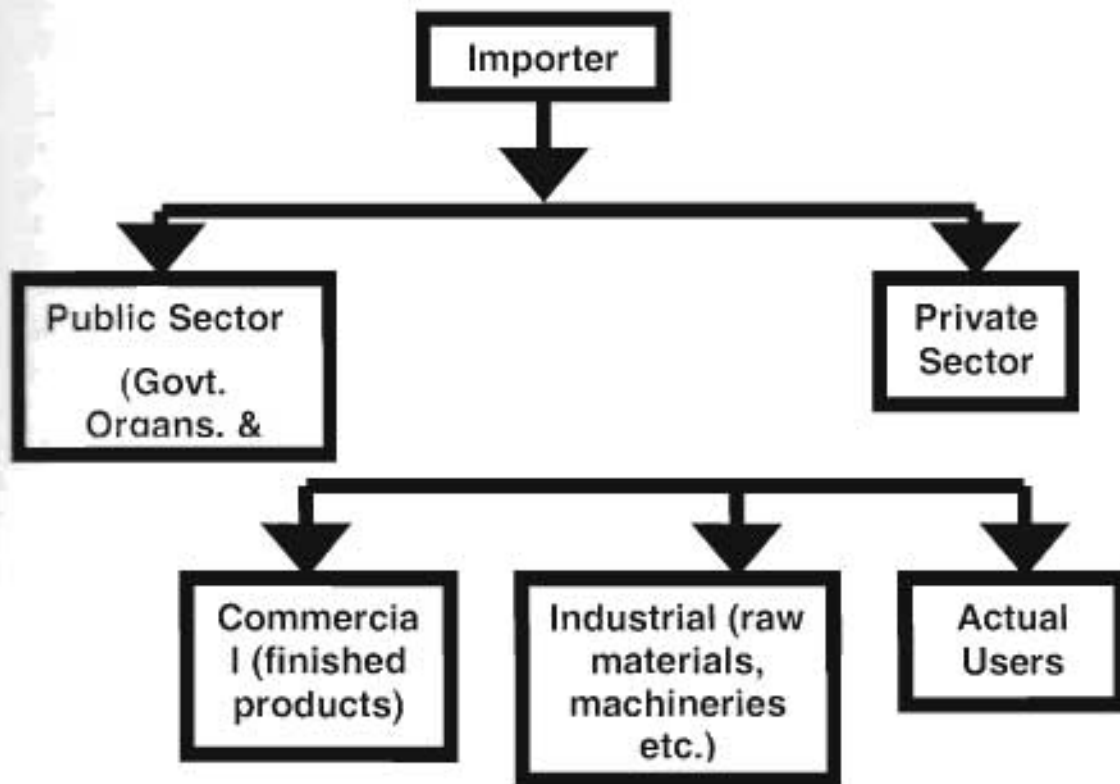


Figure: IFIC FD. BR. AS AN AUTHORIZED DEALER

### IMPORT SECTION AND IMPORT FINANCING

Import is the flow of goods and services purchased by economic agents located in one country from economic agents located in another. Hence, import of merchandise essentially involves two things: bringing of goods physically into the country and remittance of foreign exchange towards the cost of the merchandise and services connected with its dispatch to the importer.

In case of import, the importers are asked by their exporters to open letters of credit so that their payment against goods is ensured.



### IMPORT PROCEDURE

An importer is required to submit the following documents in order to get a license to import through Federation Branch of IFIC Bank Ltd. –

- ⇒ A bank account with the branch
- ⇒ Import Registration Certificate (IRC)
- ⇒ Tax Payer's Identification Number (TIN)
- ⇒ Pro-forma Invoice Indent
- ⇒ Membership Certificate from a recognized Chamber of Commerce & Industry or Town Association or registered Trade Association
- ⇒ Letter of Credit Authorization (LCA) Form properly filled in quintuplicate signed by the importer
- ⇒ L/C Application duly signed by the importer
- ⇒ One set of IMP Form
- ⇒ Insurance Cover Note with money receipt
- ⇒ VAT Registration Certificate (for Commercial Importers)

- ⇒ In case of Public Sector, attested photocopy of allocation letter issued by the allocation authority, Administrative Ministry or Division specifying the source, amount, purpose, validity and other terms and conditions against the imports
- ⇒ Any such documents as may be required as per instructions issued/to be issued by the Chief Controller of Imports & Exports (CCI&E) from time to time.

On receipt of the LCA Form and the other documents, the branch officials carefully scrutinize the documents and lodge the same in their respective registration books and duly verify the signature of the importer put on the LCA Form.

To import, a person should be competent to be an "Importer". According to the "Import & Export Control Act, 1950", the office of the Chief Controller of Imports & Exports (CCI&E) provides the registration (IRC) to the importer. After obtaining the IRC, the person has to secure a "Letter of Credit Authorization" (LCA) registration from the Registration Unit of Bangladesh Bank. After getting the LCA registration, a person becomes a qualified importer. He is the person who requests or instructs the opening bank to open an L/C. he is also called the "Opener" or "Applicant" of the credit. Besides importers may seek for post shipment financing like LIM or LTR.

### **LIM**

In LIM (Loan against imported merchandise) goods are released by bank paying duty and other charges and kept in either banks go-down or clients go-down but under absolute control of bank.

On payment of the value of goods either in proportion or in full bank release goods to importer, thus LIM accounts are adjusted.

### **LTR**

LTR (Letter of Trust Receipt) is a temporary facility extended to the integrated and well-reputed importer client. In LTR, documents are released to importer for clearance of the consignment while the goods remain in custody of the importer, Normally LTR is extended for 30 to 120 days within which the importer adjust the liability.

In case documents are discrepant, issuing bank will advise the negotiating bank the discrepancies as per article 14D of UCPDC, ICC publication 500 and will hold documents at the risk and disposal of the negotiating bank, also will advise applicant for disposal instruction.

## **EXPORT SECTION & EXPORT FINANCING**

In the Export Section, two (02) types of L/Cs are handled –

- 1) Back-to-Back L/C
- 2) Export L/C

Export financing can be done in two ways. These are –

- 1) Pre-shipment Financing
- 2) Post-shipment Financing

Pre-shipment financing can be done by opening of back-to-back L/C and pre-shipment cash credit. In case of pre-shipment financing, 90% is financed by the bank. Of the portion, 75% is for back-to-back L/C and 15% is for pre-shipment cash credit. Example of post-shipment financing by bank is FBPN (Foreign Bill Purchase & Negotiation).

### **BACK-TO-BACK L/C**

In case of a "Back-to-Back" letter of credit, a new L/C (an import L/C) is opened on the basis of an original L/C (an export L/C). Under the "Back-to-Back" concept, the seller as the beneficiary of the first L/C offers it as a 'security' to the Advising Bank for the issuance of the second L/C. The beneficiary of the back-to-back L/C may be located inside or outside the original beneficiary's country. In case of a back-to-back L/C, no cash security (no margin) is taken by the bank; bank liens the first L/C. In case of a back-to-back L/C, the drawn bill is usage/time bill.

In Federation Branch, papers/documents required for opening of back-to-back L/C are as follows –

- ⇒ Master L/C
- ⇒ Valid Import Registration Certificate (IRC) and Export Registration Certificate (ERC)
- ⇒ L/C Application and LCAF duly filled in and signed
- ⇒ Pro-forma Invoice or Indent
- ⇒ Insurance Cover Note with money receipt
- ⇒ IMP Form duly signed
- ⇒ In addition to the above documents, the following papers/documents are also required to export oriented garment industries while requesting for opening of back-to-back letter of credit –
- ⇒ Textile Permission
- ⇒ Valid Bonded Warehouse License
- ⇒ Quota Allocation Letter issued by the Export Promotion Bureau (EPB) in favor of the applicant for quota items

In case the factory premises is a rented one, Letter of Disclaimer duly executed by the owner of the house/premises to be submitted. A checklist to open back-to-back L/C is as follows –

- ⇒ Applicant is registered with CCI&E and has bonded warehouse license
- ⇒ The master L/C has adequate validity period and has no defective clause
- ⇒ L/C value shall not exceed the admissible percentage of net FOB value of relative Master L/C
- ⇒ Usage Period will be up to 180 days.





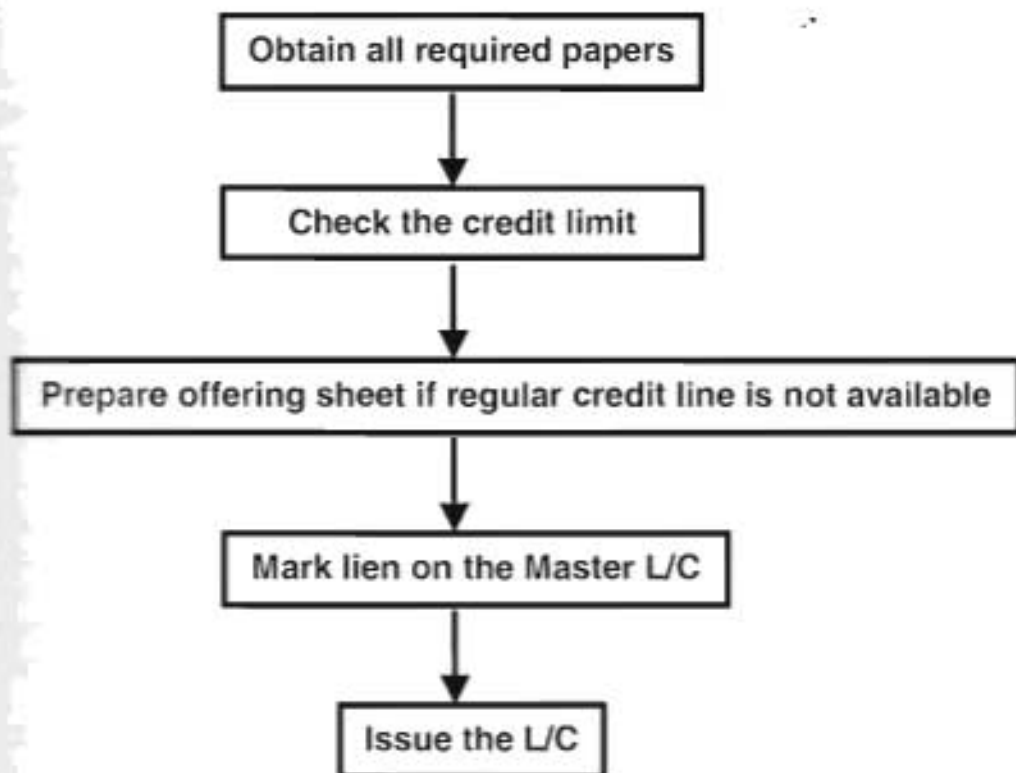


Fig: Flow Chart for issuing back-to-back L/C

#### PAYMENT FOR BACK-TO-BACK L/C

In case of back-to-back L/C for 30-60-90-120-180-360 days of maturity period, deferred payment is made. Payment is given after realizing export proceeds from the L/C Issuing Bank. Generally payment is made on negotiation date. But if there is any discrepancy in the documents payment should be made on acceptance date. But in EDF (Export Development Fund) payment should be made at sight. So if there is any discrepancy \$50 and \$20 is cut by bank from foreign and local L/C respectively. For Garments Sector, the duration can be maximum 180 days. For importing machinery, without permission from Bangladesh Bank, Federation Branch can authorize for 360 days. In such cases, the Manager of the branch used to exercise his discretionary power.

# LOANS AND ADVANCES

Presently banking is a very dynamic sector in our country. Its impact in our country economy is quite vast. Banking business is little bit different from other business. It mainly deals with organizations with money and credit activity. Banks are profit-oriented organization. A bank invests its fund in many ways to earn more and more profit and most of its income is derived from loans and advances. Bank makes loan and advances to traders, businessmen, industrialists and many other persons against security of some cautious policy and sound lending principle in the matter of lending. Federation Branch is one of the leading branches of IFIC in loans and advances and it grants loans in various sectors, especially in industry and trade & commerce.

One of the primary functions of commercial banks is sanctioning of credit to the potential borrowers. Bank credit is an important catalyst for bringing about economic development in a country. Without adequate finance there can be no growth or maintenance of a stable economy. Bank lending is important for the economy, for it makes possible the financing of agriculture, commercial and industrial activities of a nation. At the same time, a bank will, therefore, distribute its funds among various sectors in a manner as to derive sufficient incomes.

IFIC Bank Ltd., is one of the largest commercial bank of the country, has some prejudice to finance directly on priority basis to agriculture, industry and commerce sector for strengthening the economic base of the country. A large amount of the total economic activities of the country transacts along with IFIC Bank Ltd. itself. Hence, it is very clear that, it plays the key role to move the economic wheel of the country.

## Credit Risk Management

This is a dynamic process which enables bank to proactively manage loan portfolios. Four major areas of CRM are:

- Policy--lending guidelines
- Procedure—evaluating viability associate risk of business enterprise
- Organizational structure—segregation of risk taking and risk approving authority
- Responsibility—decision making and accountability

As a financial enterprise, IFIC bank is also in business and maximizing stake holder's value is bank's prime objectives. The loan portfolio of the bank is primary source of earnings. It generates most of the income and it also consumes most of resources i.e. deposits. But it may also be bank's greater concern for survival and sustainable growth in an ever changing environment.

## Types of Credit Facility

- Term financing for new project and BMRE for existing projects
- Working capital for industries, trading, services and others

- Import and export finance
- Lease finance
- Consumer finance
- Fee business
- Islamic mode of finance.

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

1. The total credit facilities by a bank to any single person or enterprise or organization of a group shall not any point of time exceed 35% of the bank's total capital subject to the condition that the maximum outstanding against fund based financing facilities shall not exceed 15% of the total capital.
2. Non funded credit facilities, e.g. letter of credit, guarantee etc. can be extended to a single large borrower.
3. However in case of export sector, single borrower limit shall be 50% of the bank's total capital. But funded facilities in the form of exports credit shall not exceed 15% of total capital.

### Large Loan

Loan sanctioned to any individual or enterprise or any organization of a group amounting to 10% or more of bank's total capital shall be considered as large loan. Generally if the organization has the amount of total capital 50 lac or more or no. total employees are 200 or more that organization considered as large organization and if they take loan from banks that is considered as large loan. The bank shall be able to sanction large loans as per the following limits set against their respective classified loans:

Rate of net classified loans	The highest rate fixed for large loans against bank's total loans & advances
Upto 5%	56%
More than 5% but upto 10%	52%
More than 10% but upto 15%	48%
More than 15% but upto 20%	44%
More than 20%	40%

### Term Financing

Like large volume of loan, long term financing is one of the riskiest areas of the bank because of long duration of repayment. Long duration casts uncertainties on repayment as variables with which financial and other projections are made vary widely in a dynamic global economic scenario.

Thus utmost care is to be exercised while considering long term financing.

- Long term relationship with the borrower is prerequisite for considering term financing.

- Due diligence is to be exercised for accessing viability of the projects in terms of management ability, market gap, technical suitability, financial viability.
- Information on projects should be adequate and reliable. -1
- Minimum information for project viability analysis are to be given.

### **Syndication**

Syndication means joint financing by more than one bank to the same clients against a common security basically, to spread the risk. It also provides a scope for an independent evaluation of risk and focused monitoring by the agent/lead bank.

In syndication financing banks also enter into an agreement that one of the lenders may act as lead bank, who has to coordinate the activities at various stages of handling the proposal i.e. appraisal, sanction, documentation, sharing of security, disbursement, inspection, follow-up, recovery etc. It may also call meeting of syndication members, whenever necessary to finalize any decision.

### **Credit Assessment**

A thorough credit and risk assessment is to be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of these assessments shall be present in a credit appraisal that originates from the Relationship Manager. The RM should be the owner of the customer relationship, and will be held responsible to ensure the accuracy of the entire credit application submitted for approval. It is essential that RMs know their customers and conduct due diligence on new borrowers, principals and guarantors to ensure such parties are in fact who they represent themselves to be. Here the following risk areas are to be addressed:

#### **Borrower analysis**

The majority shareholders, management team and group of affiliate companies shall be assessed. Any issue regarding lack of management depth, complicated ownership structures of inter group transactions shall be addressed and risk mitigated.

#### **Industry analysis**

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

#### **Historical financial analysis**

An analysis of a minimum of three years historical financial statements shall also be analyzed. The analysis shall address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Especially cash flow, leverage and profitability must be analyzed.

#### **Projected financial performance**

Where term facilities are being proposed, a projection of the borrower's future financial performance should be provided. Indicating an analysis of the sufficiency of cash flow to

service debt repayments. Loans should not grant if projected cash flow is insufficient to repay debts.

### **Loan structure**

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

### **Security**

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

## **LENDING PRINCIPLES FOLLOWED BY IFIC BANK LTD.**

As liquidity and profitability are conflicting considerations, IFIC Bank Ltd., as a bank, while employing the funds pays due regard to both profitability and liquidity. In order to secure a balance between liquidity, profitability and security, IFIC Bank Ltd. follows the following principles of sound lending –

- ⇒ **Liquidity:** It means that while lending, adequate care has to be taken so that the liquidity is not compromised. That's why; IFIC Bank Ltd. chooses such securities which possess sufficient liquidity.
- ⇒ **Safety:** IFIC Bank Ltd. exercises the lending function only when it is safe and that the risk factor is adequately mitigated and covered. Safety depends on –
  - a) The security offered by the borrower; and
  - b) The repaying capacity and willingness of the debtor to repay the loan with interest.
- ⇒ **Diversity:** In order to minimize risk, IFIC Bank Ltd. invests its funds in different types of securities of different industries situated in different regions of the country.
- ⇒ **Yield:** From the commercial point of view, IFIC Bank Ltd. considers sufficient yield or return while financing a project.
- ⇒ **Productive Purpose:** IFIC Bank Ltd. exercises its lending function only on productive purpose.

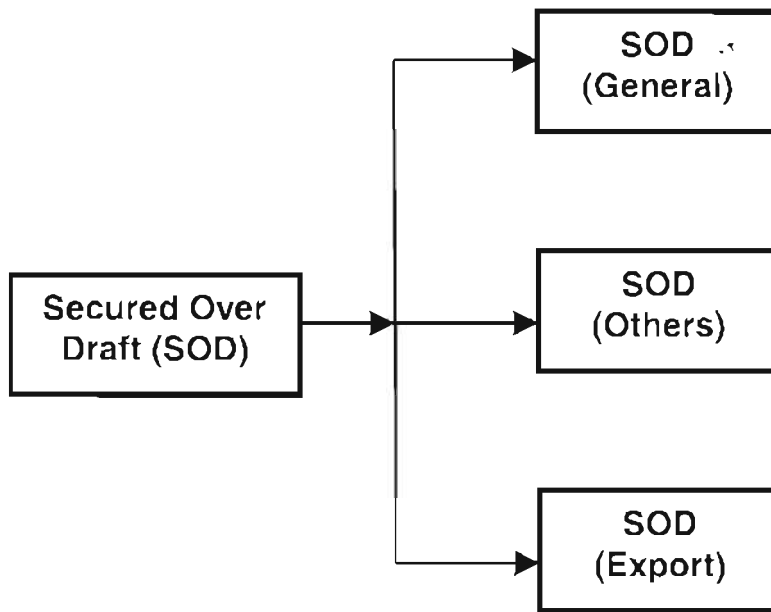
## **TYPES OF LOANS & ADVANCES OFFERED BY IFIC BANK LTD.**

IFIC Bank Ltd. offers two types of loan account:

- (1) Secured Overdraft (SOD)
- (2) Cash Credit (CC)

### **Secured Overdraft (SOD)**

It is a continuous advance facility. By this agreement, the banker allows his customer to overdraft his current account up to his credit limits sanctioned by the bank. The interest is charged on the amount, which he withdraws, not on the sanctioned amount. IFIC Bank Ltd. sanctions SOD against different security. Based on different types of security, we can divide SOD in the following categories –



#### **SOD (General)**

Advances allowed to the individuals/firms against financial obligations i.e. lien of F.D.R or Defense Savings Certificate (P.S.P), ICB Unit Certificate etc.

#### **SOD (Others)**

Advances allowed against assignment of work order for execution of contractual works falls under this head. The advance is generally allowed for a specific purpose. It is not a continuous loan.

#### **SOD (Export)**

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

The processes of extending SOD are as follows –

- a. The party must have a current A/C with the branch
- b. If the ownership of the firm is proprietorship, then a trade license must be submitted and in case of a limited company, all the documents required to open a current A/C should be submitted. The financial statements of the concerned firm should also be submitted.
- c. The party must maintain a good transaction with the branch and have a good turnover rate.
- d. The party will apply to the officer in charge of credit department of the branch for SOD arrangement
- e. The concerned officer of the branch will give him a Credit Application Form and the party will have to fill up this form. In this form he discloses all the information about his concern, purpose of the loan, description of security, etc.

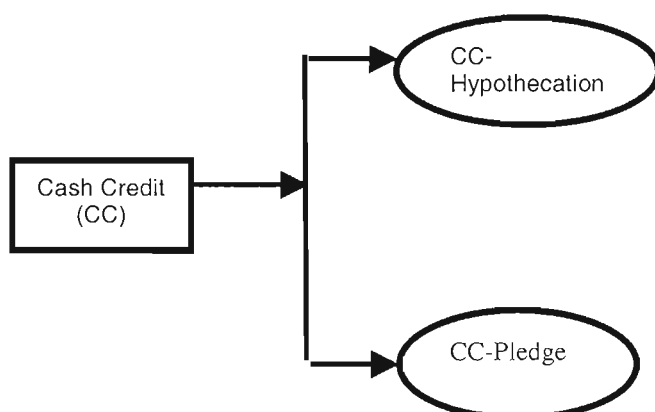
- f. The concerned officer will prepare a “Credit Line Proposal”, where he writes about the business concern, details of proprietors/directors of the concern, management structure, the existing credit facilities, the particulars about the facilities that asked for – such as margin limit, date of expiry, details of security, and any other relevant information. Then the proposal is sent to the Head Office, General Advances Division for approval.
- g. The responsible Department of the General Advances Division will appraise the proposal and if it seems to a viable then the loan will be sanctioned.
- h. After the loan is sanctioned, the branch will issue two copies of a sanction advice, where all the terms and conditions set by the bank is mentioned. The borrower is advised to write, “accepted” on the original copy if he is satisfied with the terms and conditions of the bank and retain the duplicate one as record.

### Cash Credit (CC)

Cash Credit (CC) is an arrangement by which a banker allows his customer to borrow money up to a certain limit. CC is a favorite mode of borrowing by traders, industrialists etc. for meeting their working capital requirements. It is operated like overdraft account. Depending on the needs of the business, the borrower can draw on his cash credit account at different time and when he gets money can adjust the liability. IFIC Bank Ltd. charges interest on the daily balance in the account. Depending on charging security there are two (02) forms of cash credit –

### Cash Credit (Hypothecation)

The mortgage of movable property for securing loan is called hypothecation. Hypothecation is a legal transaction whereby goods are made available to the lending banker as security for a debt without transferring either the property in the goods or either possession. The banker has only equitable charge on stocks, which practically means nothing. Since the goods always remain in the physical possession of the borrower, there is much risk to the bank. So, it is granted to parties of undoubted means with the highest integrity.

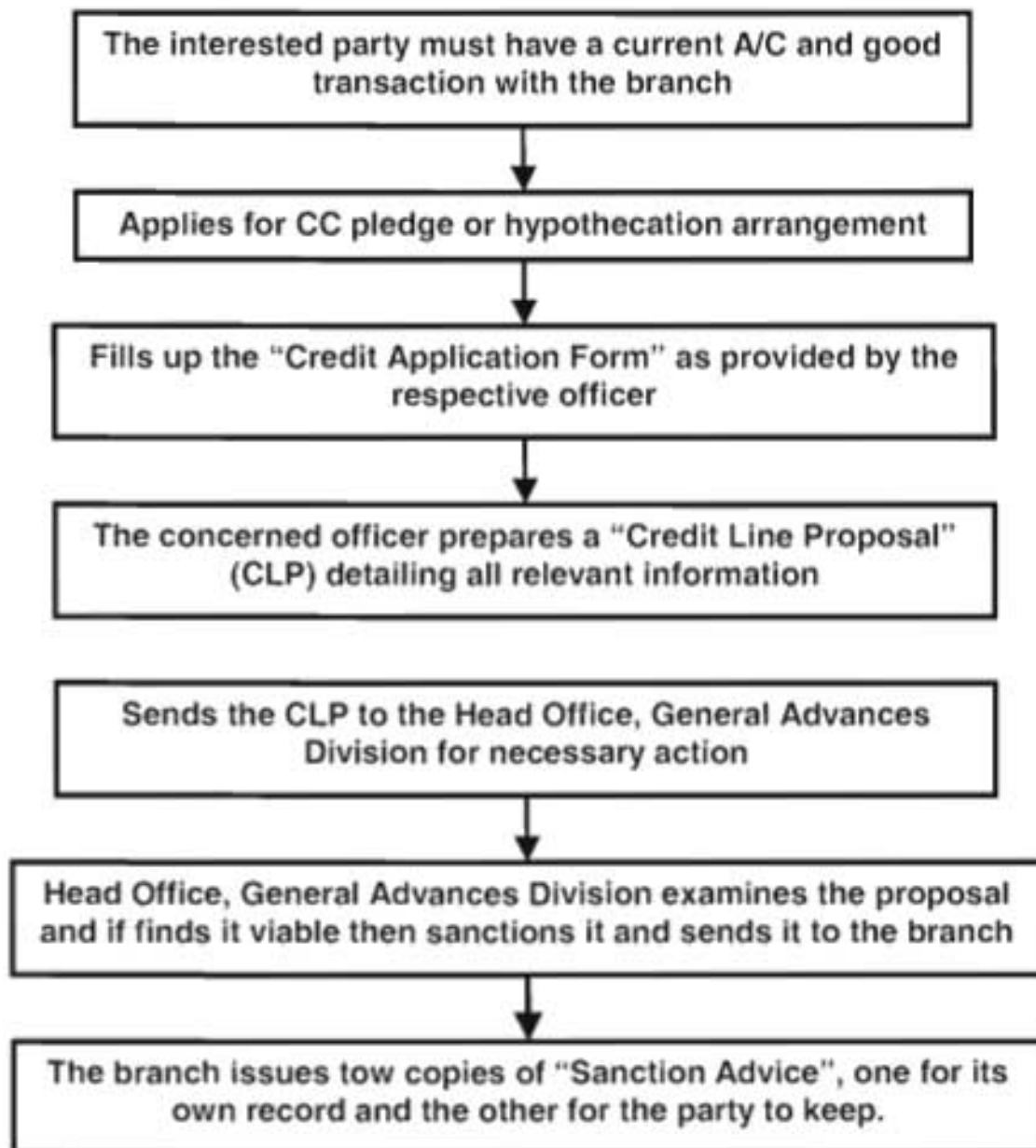


**Figure: Types of Cash Credit (CC)**

## Cash Credit (Pledge)

Pledge is the bailment of goods as security for payment of a debt or performance of a promise. Bailer in this case is called the "Pawnor" and the bailee is called the "Pawnee". In a contract of pledge, pawnor must deliver the goods pledged to the Pawnee either actually or constructively. Transfer of possession in the judicial sense, is essential in the valid pledge. In case of pledge goods the bank acquires the possession of the goods or a right to hold goods until the repayment for credit with a special right to sell after due notice to the borrower in the event of non-repayment.

The processes of opening a CC A/C are shown in the following flow chart –





After getting the cash credit arrangement, the banker will issue a chequebook for withdrawing cash from the account. Whenever the CC account holder wants to withdraw cash from the account, the cash officer will scrutinize the amount of cheque in order to make sure that the total drawings does not exceed the sanctioned limit.




**The charge documents required for opening a CC account are as follows –**




- Demand Promissory Note (DP Note)
- Letter of Agreement
- Letter of Continuity
- Letter of Hypothecation/Pledge
- Personal guarantee of the owner of the property
- Memorandum of Deposit of Title Deed (in case of CC hypothecation arrangement)
- Deed of legal mortgage for the loan amount drafted by panel lawyer duly registered with sub registrar
- Stock Report
- Insurance coverage on hypothecated stock
- Letter of Disclaimer
- Letter of authority to debit the account


**IFIC Bank Ltd. Provide Different Types of Loan to Its Customer**

1. Easy loan (Secured personal loan)
2. Consumer durable loan
3. Education loan (Parua)
4. House building loan (Thikana)
5. Flexi loan (Personal loan)
6. Loan for professional (Peshajeebi loan)
7. Auto loan
8. Festival loan



Types of loan	Purpose	Loan Size	Rate of Interest	Tenor	Repayment Method	Disbursement Method	Loan Processing Fee	Service Charge
 <p><b>Your Easy Loan</b></p>	To meet personal financial requirement	Max 95% of the face value of FDR	16.5%	Max 36 months.	Repayment will be made in lump sum within expiry or as per acceptable terms.	Overdraft/Loan general/Term loans	Tk 300	1% of loan amount at the time of disbursement of loan
 <p><b>Your Consumer Loan</b></p>	Purchase of consumer durable loan for personal/family use: TV/A.C	Max Tk. 100,000	16.5%	1-3 years	Equal monthly installment	Payment to the vendor; crediting customer's CD/SB a/c.	TK 1000 at the time of disbursement of loan.	1% of loan amount at the time of disbursement of loan.
 <p><b>Your Porua Loan</b></p>	Higher education of children/spouse/dependent self.	Tk 3 lac with collateral security	16.5%	1-4 years	Equal monthly installment	Crediting to customer's CD/SB a/c. disbursement would be submitting grade sheet.	TK 1000 before the time of disbursement of loan.	1% of loan amount before the time of disbursement of loan.

Types of loan	Purpose	Loan Size	Rate of Interest	Tenor	Repayment Method	Disbursement Method	Loan Processing Fee	Service Charge
 <p><b>Your Possession Loan</b></p>	Purchase of items to support professional needs such as to set up an office chamber	Max 10 lac with collateral security	16.5%	1-4 years	Equal monthly installment	Pay order to vendor/creditor to customer CD/SB a/c.	Tk 100 at the time of disbursement of loan.	1% of loan amount at the time of disbursement of loan.
 <p><b>Your Flexi Loan</b></p>	Marriage expense, holiday expense, emergency medical needs, interior decoration.	Max 20 times of basic pay but not exceeding TK. 3 lac.	16.5%	1-3 years.	Equal monthly installment	Crediting to CD/SB a/c.	Tk 1000 before the time of disbursement of loan	1% of loan amount before the time of disbursement of loan.
 <p><b>Your Thikana Loan</b></p>	Purchase of flat or construction of own house.	Max 75 lac.	15%	1-3 years	Equal monthly installment	Tk 5000 at the time of disbursement of loan		1% of loan amount at the time of disbursement of loan.

Types of loan	Purpose	Loan Size	Rate of Interest	Tenor	Repayment Method	Disbursement Method	Loan Processing Fee	Service Charge
	Purchase of new/reconditioned car.	Max 20 lac.	15.5 %	1-5 years	Equal monthly installment	After registration vendor will be paid the total value of the car in the form of payment order with registration cost.	Tk 2000 at the time of disbursement of loan	1% of loan amount at the time of disbursement of loan

## PROCEDURES FOR GIVING ADVANCES

The General Advances Department of Federation Branch usually follows the below-mentioned procedures and steps for sanctioning any kind of advances as available with the branch –

In the **first step**, the prospective borrower has to apply to Federation branch for loan by filling up of a specific Application form. The Application form (Request for Credit Limit) contains following particulars –

- Name of the Borrower
- A/C No.
- Business address (with telephone no.)/Residential address and Permanent address
- Introducer's name, A/C no. & address
- Date of establishment/ Incorporation
- Trade license number, date and expiry date (Photocopy of trade license enclosed)
- GIR/ TR no. & amount of income tax paid last year
- Constitution/Status (Mention whether sole proprietorship/ partnership/ Public Ltd. company/ Private Ltd. company)
- Particulars of Individual/ Proprietor/ Partners/ Directors (Name & Designation, Father's/ Husband's name, present & permanent address with Telephone no., % of shares held)
- Experience and background of Individual/ Proprietors/ Partners/ Directors
- Full particulars of assets in the personal name of Individual/ Proprietor/ Partners/ Directors with valuation

Names of Subsidiaries/ Affiliates, percentage of share holding and nature of business

- m) Nature and details of business/ products (for which credit facility is applied for), Markets (Present market price per unit, Factory price), Estimated sales for next one year
- n) Credit facilities required (type, amount, period, purpose and mode of adjustment)
- o) Details of securities offered with estimated value (Primary security, Collateral security, market value of the security)
- p) Details of liabilities in the name of the client or in the name of any other partners/ Directors or Subsidiaries/ Affiliates with IFIC Bank Ltd. and other banks, if any (Name of the Bank, A/C no., Nature of advance, amount, security and validity of limit)
- q) Balance Sheet/ Income Statement or Statement of Accounts of the following years attached (Preferably last 3 years)
- r) Other relevant information
- s) Proposed debt/equity ratio
- t) Signature of the Applicant

In the second step, after receiving the loan application form, Motijheel Br. sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Credit Information Bureau) Report. This report is essential if the loan amount exceeds Tk.50 lac. But Motijheel Br. usually collects this report if the loan amount exceeds Tk.10 lac. The purpose of this report is to being informed that whether the borrower has taken loan from any other bank; if 'yes', then whether these loans are classified or not.

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

In the fourth step, i.e., the processing stage, the branch will prepare a Proposal. A proposal contains following relevant information –

- u) Name of the Borrower
- v) Nature of Limit
- w) Purpose of Limit
- x) Extent of Limit
- y) Security
- z) Margin
- aa) Rate of Interest
- bb) Repayment
- cc) Validity

The branch incumbent has the discretionary power to sanction loan (SOD) up to Tk.25 lac against financial obligations by informing Head Office. But in that case, the DGM of the branch has to give attention to the following matters –

- The interest rate of the loan must not be less than 14.5%; and
- The borrower must maintain 10% margin.

Except this case, the branch has to send the proposal to the Head Office. Head Office will prepare a minute and submit it before the Executive Committee (EC). The minute has to be passed by the EC. After passing the minute, it will be sent to Bangladesh Bank for approval in case of the followings –

- If the proposed limit exceeds 15% of bank's equity
- If the proposed limit against cash collateral securities exceeds 25% of bank's equity.

After getting the approval from Bangladesh Bank, it will again come to the Head Office. The HO then prepares a "Sanction Advice" and sends it to the branch. A Sanction Advice usually contains the following particulars amongst other details –

- Name of borrower.
- Facility allowed.
- Purpose.
- Rate of interest.
- Margin
- Period of the loan and mode of adjustment.
- Security.
- Other terms and conditions.

The borrower receives the advice and returns a copy of this letter duly signed by him as a token of having understood and accepted of the specified terms and conditions.

In the fifth step, after receiving the sanction advice, the branch will collect necessary documents. Documents mean any written record, which serves as evidence in respect of a transaction and may be described as anything that is obtained for recoding a transaction. **Documentation** is a very important aspect of loans and advances. It may be described as the process or technique of obtaining the relevant documents/papers for securing advances. A banker must obtain proper documents to be executed by the borrower to protect the Bank's interest. Moreover, when money is lent against security of some assets, the document must be got executed in order to give to the banker a legal and binding charge against those assets. The documents for loans and advances can be classified into the two categories namely **charge documents** and **security documents**. Charge Documents are a set of printed and prescribed forms, which are executed by the borrowers to protect Bank's interest while bank is providing loan/advances. Different types of advances are allowed to the customers against different types of securities. All securities are not suitable for all types of advances. There is common type of charge documents for types of advances.

There are as follows –

- (a) Demand Promissory Note
- (b) Letter of Arrangement
- (c) Letter of Disbursement
- (d) Balance Confirmation Certificate

Specific types of charge documents are required for commensuration types of securities/facilities. The types of advances made by the Federation Br. to its customers and probable securities offered by them are listed in the following page–

Types of Advances	Probable Securities
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Types of Advances	Probable Securities
LAOS	Lien of various kinds of Sanchaypatras, Govt. Securities, Debentures etc.
LSM	Mortgage of Immoveable Properties
LIM	Pledge of Imported Merchandise
TR	Trust Receipt obtained in lie of import documents
Secured Overdraft	Sanchaypatra, Non-resident foreign currency deposit (NFCD) etc.
Cash Credit	Pledge or Hypothecation of stock-in trade, Goods produce and merchandise

### Classification and Provisioning

In order to strengthen credit discipline and to improve the recovery portion of loan Bangladesh Bank from time to time has given broad outline for loan classification. All good loans are treated as unclassified loan and overdue loans are classified into 4 categories. (1) Special mention (SM). (2) Sub standard (SS). (3) Doubtful (DF). (4) Bad loss (BL).

#### For Continuous Loans and Demand Loans

##### Period of arrear

Less than 3 months

3 months or more but less than 6 months

6 months or more but less than 9 months

9 months or more but less than 12 months

12 months or more

##### Classification status

UC

SM

SS

DF

BL

#### Term loan upto 5 years

##### Period of arrear

Less than 3 months

3 months or more but less than 6 months

6 months or more but less than 12 months

12 months or more but less than 18 months

18 months or more

##### Classification status

UC

SM

SS

DF

BL

Less than 3 months	UC
3 months or more but less than 12 months	SM
12 months or more but less than 18 months	SS
18 months or more but less than 24 months	DF
24 months or more	BL

### Term loan for more than 5 years

<u>Period of arrear</u>	<u>Classification status</u>
Less than 3 months	UC
3 months or more but less than 12 months	SM
12 months or more but less than 36 months	SS
36 months or more but less than 60 months	DF
60 months or more	BL

### Provision

- In case of classified loan bank is required to make provision in the following scale:

Sub-standard	20%
Doubtful	50%
Bad	100%

- Provision is to be made after deducting amount held in interest suspense a/c and value of eligible securities from outstanding balance of classified loans. General provisions at the rate of 1% have to be made as provision against unclassified loans.
- Eligible securities are considered in the following manner:

Eligible securities	Particulars of value of securities eligible for deduction
Lien on deposits	100%
Pledge of gold or gold ornaments kept in the bank as per present market value	100%
Lien on Govt Bond/Sanchayapatras	100%
Govt or Bangladesh Bank guarantee	100%
Force sale value of easily marketable pledged goods	50%
Forced sale value of the mortgaged/land & buildings	50%
Pledged of stock/securities	50%



## Writing-Off Loans

Some borrowers do not follow discipline of payment of their loans and default. Despite persuasion loan becomes stuck-up and are classified to special mention, sub standard, doubtful and ultimately turns to bad loan. Prospect of recovery of certain cases remains uncertain. Bank shall keep sufficient provision against those loans. Such loans are required to be written-off as per international practice. After writing-off such loans, bank's right to recover the loan through legal action are fully protected by the law of the country. In order to check unnecessary and artificial inflation of balance sheet, Bangladesh Bank has issued prudential guidelines for writing -off loans.

### Prudential guidelines for writing-off loans and advances

- Bank can write-off any loan and advances at any time which has been classified as bad loan. Loan accounts which have been classified for 5 years and above and against which 100% provision has been kept shall be written off immediately.
- In case provision falls short of 100% outstanding dues, a loan a/c may be written off debiting current year's income a/c.
- All out efforts shall be taken to recover written off loans/advances. If suit is not filed for any reason against any loan a/c selected for writing off, suit must be filed before writing off.
- Responsibility for recovery of written off loans shall be entrusted to a separate "debt collection unit" formed in the bank.
- Outside agencies can be engaged to expedite disposal of suits relating to written off loans or to recover written off dues.
- Written off loans/advances shall be maintained in a separate ledger and written off loan for current year and cumulative written off loan are to be reported separately at the notes to the a/c of annual report/balance sheet of the bank.
- Concerned borrower shall be treated as defaulting borrower even after writing off their loans/advances. Written off loan/advances along with their loans and contingent liabilities should be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.
- Bangladesh Bank's approval is mandatory while writing off loans/advances where Directors of former Directors of the bank have had interest.



## **Findings and Recommendation**

In the working period of IFIC Bank Limited I personally find some lacking in the branch banking. These lacking are not a major one but management need to improve those area. Areas where the bank needs to improve are as follows:

- Lack of initiative to develop and expand new product.
- Lack of enthusiastic scheme for export & import, loans & advances.
- Lack of skilled employees.
- Irregularity of training in various perspectives.
- Not to take commission/charges to issue Pay Order/DD.
- Not to ensure Retail Banking.
- Lower rate of FDR & Savings A/C.
- Lack of arranging annual sitting (continuous) with shareholders & clients.
- Lack of employees' satisfactions.
- Unavailable of advertisement.
- Insufficient number of branches.

For the improvement of the service, the following measures should be taken.

Initiating to expand new product:

Management should take initiative to expand new product, which will be profitable for IFIC. Such as:

- DPS (Deposit Premium Scheme)
- SME (Small & Medium Enterprise) loan.
- Islami Banking.

By expanding those products IFIC can earn more profit and minimize the risk proportion.

### **Ensure Sufficient Manpower and Skilled Employees**

The number of human resources in credit section and in clearing section is really insufficient to give services to huge number of customers. So number of staff should be increased and only skilled employees should be scrutinized.

### **Providing Continuous Training Program:**

Management should provide training program continuously for the employees to improve the skill ness at a standard marked.

### **Taking Commission to Issue Pay Order**

IFIC should take commission/ charges to issue P.O for which they will earn a large portion of profit. IFIC must take initiative to protect the misuse of “free cost of issuing P.O. for the account holders”.

### **Ensure the Retail Banking**

IFIC should provide the Retail Banking facilities for the customers and employees for their betterment. Such as:

- Personal loan
- Credit card
- Car loan
- Special savings scheme for the retired person
- Consumer credit scheme.

#### **Increasing the Rate of FDR, Savings A/c:**

The rate of FDR & SB A/C in IFIC is comparably lower and not competitive. To compete with others in competition market, IFIC should increase and maintain the competitive rate for holding and creating customers.

#### **Arranging Special Program for the Shareholders and Clients in a Continuous Basis**

Management should arrange special program for the shareholders and clients to improve the relationship with them and give them opportunity to express their opinions valuable suggestions.

#### **Ensuring Employees Satisfaction**

In IFIC employees are satisfied but not highly motivated to perform their best. So, IFIC should increase the salary and other facilities to motivate them.

#### **Expand the Branch Network**

In presently banking, the number of branches in IFIC is not so sufficient. Yet IFIC does not cover the divisional area. So, management should place the attentive looking on this corner.

#### **More Gifts and Discounts for the Premium Customers**

Premium customer should be offered occasional gifts and discounts, which can make the premium service more attractive and keep consumer delight. The interest rates on several loan and deposit schemes should be differentiated for the Premium Customers.

### **CONCLUSION**

IFIC Bank Limited is one of the most potential Banks in the banking sector. It has a large portfolio with huge assets to meet up its liabilities and management of this bank is equipped with the expert bankers and managers in all level of management. So it is not an easy job to find out the drawbacks of this branch. I would rather feel like producing my personal opinion about the ongoing practices in Federation Branch.

There are computers almost in every branch in the IFIC Bank Limited; it is maintaining a network among them. The networking system obviously charges a high installation cost, but it will definitely reduce the overhead cost and an error free banking may be in progress. Moreover by adopting this system the bank join the modern banking along with e-commerce concept. The main problem is that the foreign banks and other private commercial banks have

started providing these facilities. So introduction of these facilities are very necessary for surviving and thriving in the modern competitive banking.

IFIC Bank Limited uses most modern and internationally recognized banking software. The bank used Bexi-Load bank solution software. It produce large amount of investment. IFIC Bank Limited provides an up-to-date training program to its all employees from top to bottom. This program helps the employees to provide a better service to their respective customer.

IFIC Bank Limited is a socially responsible bank in the country. The bank maintains a regular donation program to all over the country.

## **LIMITATIONS OF THE STUDY**

The following limitations are apparent in the report—

- ⇒ Lack of time serves as one of the limitations of this report.
- ⇒ Another limitation of this report is Bank's policy of not disclosing some data and information for obvious reason, which could be very much useful.

The bank's employees were very much busy in banking hour. So it was very difficult to get them in time.

## **Bibliography**

[www.ificbd.com](http://www.ificbd.com)

Annual Report and Brochure of IFIC Bank Ltd.

All the Officers of IFIC Bank Ltd.