

# Internship Report



On

**Financing in Bank Products. Sources of Fund, Policy of Utilization & Monitoring there of: NCC Bank Limited perspective**

In

**NCC Bank Ltd.**

**Submitted by:**

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Date of Submission: 23<sup>rd</sup> August, 2009



## Certificate of Supervisor

This is to certify that the Internship report on "Financing in Bank Products. Sources of Fund, policy of Utilization & Monitoring there of : NCC Bank Limited perspective" submitted as a partial fulfillment of the requirements for the degree of Bachelor of Business Administration, East West University carried out by **Mohammad Nahidul Amin**, ID No: 2006-3-10-070 under my supervision and guidance the collection of the information of this report is specific and coherent. No part of this report has been submitted for the award of any other degree, diploma, fellowship or other similar titles or prizes and the work has not been published in any journal or magazine. The whole report is uniquely done by the student.

Certified

  
23/08/09

Quazi Sagota Samina

Senior Lecturer

Department of Business Administration

East West University





## Declaration

I hereby declare that the Internship report on “Financing in Bank Products. Sources of Fund, policy of Utilization & Monitoring there of : NCC Bank Limited perspective” submitted as a partial fulfillment of the requirements for the degree of Bachelor of Business Administration, to East West University is my original work. I tried to gather a collection of the information to make my report specific and coherent. This report is not submitted for the award of any other degree, diploma, fellowship or other similar titles or prizes. The whole report is uniquely done by me.

.....  
Mohammad Nahidul Amin  
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## Letter of Transmittal

23<sup>rd</sup> August, 2009

To

Ms. Quazi Sagota Samina

Supervisor

Department of Business Administration

East West University



### Re : Submission of Internship Report

Dear Sir / Mam :

Here is the Report on "Financing in Bank Products. Sources of Fund, policy of Utilization & Monitoring there of : NCC Bank Limited perspective". This report was the partial fulfillment of BBA program.

I have tried my best to submit a good report with as much information as I could gather during the short time span allotted for writing the report. I made sincere efforts to study related materials, documents, observe operations performed in NCC Bank Limited and Examine relevant records for preparation of the report.

So, I hope that you would be kind enough to accept my Internship Report & oblige thereby.

Sincerely yours,

.....  
Mohammad Nahidul Amin

ID No: 2006-3-10-070

Department of Business Administration,

East west University



## Acknowledgement

At first, I would like to express my gratitude to almighty God for enabling me the strength and opportunity to complete this report within the schedule time successfully. I was assigned to three month internship program at NCC Bank Limited and prepare this internship report on "Financing in Bank Products. Sources of Fund, policy of Utilization & Monitoring there of : NCC Bank Limited perspective".

This report would not have been possible without the dedication and contributions of a number of individuals as it involved diverse field of knowledge and experience. The list of those great persons, who helped me and guided me to prepare the report is very long and cannot be accommodated within this limited space. But it will be unfair to ignore acknowledging some of them as they contributed so much to my effort of writing a worthy report.

First and foremost, I would like to express my gratitude to **Ms.Quazi Sagota Samina**, honorable supervisor, Department of Business Administration, East West University and **Mohammad Ghulam Sarwar**, Senior Vice President, NCC Bank Limited, Motijheel Main Branch, Dhaka for agreeing to supervise me during the internship period. Their eagerness to help me every step of the way encourage me to propel myself higher.

I am also very grateful to Mr. Saadat Muhammad Ayub; Asstt. Vice President of National Credit and Commerce Bank Ltd., Motijheel Main, Dhaka. He has given his endless effort to guide me in the right direction during the internship period and processing of this report.

I also thank all officers and staffs of NCC Bank Limited specially Mr. AKM Sarwar-E-Alam Chowdhury, Head of General Banking; Ms. Nigar Sultana, PO; Mr. Mamun, PO; Mr. Zahid Alam, Probationary Officer; and Mr. Ahmed Nazmus Saqib, Probationary Officer; for their advice and suggestion. Without encouragement it was impossible to prepare this report.

And I shall be grateful to those persons who will read this report and who shall be benefited from this report at present and in future.



## Executive Summary

From the inception of the civilization the banking sector dominates the economic development of a country by mobilizing the saving from the general people and channeling those saving for investment and thus economic development and growth. To satisfy the demand as well as to improve the commercial banking service in our country, NCC Bank Limited, a scheduled bank, was incorporated to initiate its operation with the aim to play the vital role on the socio-economic development of the country.

At present NCC Bank Limited is one of the most top level private sector banks in our country in terms of quality services to the customers & value addition for the shareholders. Financial soundness of any financial institution is the prime concern for its survival in the competitive & changing business environment. This is more important in case of the banking institutions. In this report "Financing in Bank Products, Sources of Fund, policy of Utilization & Monitoring there of : NCC Bank Limited perspective" have been described. It has given a successful year in terms of profit & turnover. The Bank solidified its position as one of the most successful financial institutions & maintained satisfactory growth across many of its business lines. This indicates that NCC Bank Limited is running ahead of the peak.

I was assigned to NCCBL for the purpose with an aim of discovering the intricacies of a profit oriented financial institution. While preparing this report it has been tried to reveal the insights of the Foreign remittance, Local remittance and Loans & Advance department of a banking system of the bank. Simultaneously efforts have been make to provide an in depth analysis on the functions of other department in the light of the theoretical aspects. The report also focuses on the impact of the source and utilization of the bank. Finally it incorporates few recommendations and suggestions were also prescribed based on the observation and findings.

Analysis on the findings in basically done to sort out the major aspects of the "Remittance and Loans & Advance" and to draw some significant inferences. At the same time for easier understanding of the report, supporting topics and terms are explained in the light of textbooks and regulatory guidelines. Utmost care has been given to explain all necessary aspects related to the subject matter for easier and quick understanding of the report.



## Table of Contents

Topics	Page no.
<b>Chapter 1 : Introduction</b>	
1.1 Introduction	1
1.2 Origin of the report	2
1.3 Objectives	2
1.4 Scope of the report	3
1.5 Analytical tool	3
1.6 Methodology of the study	4
1.7 Limitation	5
1.8 Report organization	5
<b>Chapter 2 : What is Bank</b>	
2.1 Bank	6
2.2 Evaluation of Banking institution	6
2.3 Classification of Bank	7
2.4 Commercial Bank	7
<b>Chapter 3 : An Overview of NCCBL</b>	
3.1 Organizational profile	11
3.2 Historical background	11
3.3 Management of NCCBL	12
3.4 Vision & Mission statement	14
3.5 Corporate objective	14
3.6 Strategies	15
3.7 Values considering as guiding factors	15
3.8 Training	16
3.9 Ownership pattern	18
3.10 Credit rating of the bank	19
3.11 Branch network	19
3.12 Nature of Business	19
3.13 Financial Highlights	20
3.14 Ratio table	20
3.15 Some graphical representation	21
<b>Chapter 4 : SWOT Analysis</b>	
4.1 Strength	24
4.2 Weakness	25
4.3 Opportunities	26
4.4 Threats	27
4.5 PEST Analysis	27
4.6 Future prospect of NCCBL	28
4.7 Competitive condition in the business	28
4.8 Challenges	28
4.9 Summary	29
<b>Chapter 5 : Financial Product &amp; Services</b>	
5.1 Product and services	30
5.2 Personal Banking	30



	Topics	Page no.
5.3	Corporate banking	33
5.4	Islami banking	36
5.5	Financial product	36
5.6	Special service	37
5.7	Local remittance department	38

#### Chapter 6 : Credit profile of NCCBL

6.1	Introduction	41
6.2	Major job responsibility of other department	42
6.3	Credit policy	46
6.4	Credit strategies	50
6.5	Direct facilities	51
6.6	Indirect facilities	55
6.7	Security for loan and advance	55
6.8	Types of Security	56
6.9	Documentation against advance	57
6.10	Regulation introduced by Bangladesh Bank	58
6.11	Classification of advance practiced by NCCBL	59
6.12	Mortgage	60
6.13	Approach to the bank	62
6.14	Important factors as consideration before sanction	64
6.15	Credit procedure followed by NCCBL	67
6.16	Different activities in lending process	67
6.17	Role of different organizational level	71
6.18	Allocation of loanable fund	72
6.19	Lending interest of NCCBL	72

#### Chapter 7 : Credit monitoring and review

7.1	Purpose of credit monitoring	73
7.2	Credit administration	73
7.3	Risk grading	74
7.4	Early warning system	76
7.5	Loan monitoring through continuous reporting	78
7.6	Recovery of advance	78
7.7	Loan default	79
7.8	Summary and conclusion	80
7.9	An evaluation of credit management	82
7.10	Identification of some problems	87

#### Chapter 8 : Recommendation & conclusion

8.1	Recommendation	89
8.2	Conclusion	90

#### Others

	Reference	92
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# Introduction

## 1.1 Introduction

The Jews in Jerusalem introduced a kind of banking in the form of money lending before the birth of Christ. The word 'Bank' was probably derived from the word 'Bench' as during ancient time Jews used to do money lending business sitting on long benches.

First modern banking was introduced in 1668 in Stockholm as 'Savings Pis Bank', which opened up a new era of banking, activates through out the European Mainland.

In the North Asia region, the Afghan traders popularly known as Kabliwallas introduced early banking system. Muslim businessmen from Kabul, Afghanistan came to India & started money lending business in exchange of interest sometime in 1312 A.D. they were known s 'Kabuliwallas'.

Banks are now beyond those old concepts. Now bank represents a significant & influential sector of business worldwide. Most individuals and originations make use of the Banks, either as depositors and borrowers. Bank play a major rule in maintaining confidence in the monetary system through their close relationship with regulatory authorities & governments the regulation imposed on them by those government.

One of the most important factors for industrialization and economic development of a country is the availability of the credit facility. The continuing crisis of accumulation of non- performing and default banking loans has emerged as most of the serious constraint in the path of economic development of Bangladesh as banking remains the main intermediary vehicles in harnessing capital for accelerating the growth of the productive sectors in Bangladesh in the absence of a healthy capital market. But providing loans without proper appraisal are even more dangerous as the depositors are put into great risk of losing their money and at the end, the crisis might go beyond overcome. So, I think it is very important to gather the technical know-how regarding the critical analysis of credit approval procedure practiced by the National Credit and Commerce bank ltd. by preparing



this report. So, I think, my study on credit activities is extremely justified in the light of today's financial competitive world.

## 1.2 Origin of the Report

For a student of BBA, it is a requirement after the examination of BBA to attach with a financial institution and prepare a thesis report, which is a part of the program. To fulfill this requirement I was worked as an intern in National Credit and Commerce Bank Ltd. for three months. This not only fulfills the requirement of the programmed but also facilitates the dissemination of knowledge in the banking arena of Bangladesh and helps me a lot to compare theoretical knowledge with practical experience. The proposed topic is "**Financing in Bank Products, Sources of Fund, Policy of Utilization & Monitoring there of : A NCC Bank View**". The topic is assigned by Saadat Muhammad Ayub; Asstt. Vice President of National Credit and Commerce Bank Ltd.

## 1.3 Objectives

The main objective of preparing this report is to analysis the sanction and performance of loans and advances. Beside this to determine whether any change in the approval procedure is needed or not. So, I can find out some specific objectives, which are:

- To analysis-, the pros and cons of the conventional ideas about credit operation of National Credit and Commerce Bank Ltd.
- To identify the credit approval, their securities and monitoring process of National Credit and Commerce Bank Ltd.
- To identify the different sectors that have or had been provided the different credit facilities and also to identify sectors getting highest or lowest credit facility and. reasons behind for this.
- To identify the amount of outstanding credits and disbursement of different sectors and comparison of them.
- To identify the recovery rates of the loans in different sectors and have a comparison among them.
- To identify the classified loans of different sectors in the last several years and analyzing the changes that had been occurred to them.



- To identify the nature wise loan recovery from written-off and classified loan.
- To identify the default problem and its reason of the National Credit and Commerce Bank Ltd.
- To compare the existing credit-, policy of National Credit and Commerce bank limited with that of best practices guideline given by Bangladesh Bank, the central bank of Bangladesh.
- To identify and suggest scopes of improvement in credit management of NCCBL.
- To get an overall idea about the performance of National Credit and Commerce Bank Ltd.

These are main objectives, which encouraged me to perform this study.

## 1.4 Scope of the Report

The study would focus on the following areas of National Credit and Commerce Bank Limited.

- Credit appraisal system of National Credit and Commerce Bank Limited
- Procedure for different credit facilities.
- Portfolio (of Loan or advances) management of National Credit and Commerce Bank Limited.
- Organization structures and responsibilities of management.
- Each of the above areas would be critically analyzed in order to determine the efficiency of NCCBL's Credit appraisal and Management system.

## 1.5 Analytical Tools

- To show performance of activities, analytical framework is prepared systematically that the report topic could be assessed easily.
- To visualize the current position of different products and also its trend, financial reports are arranged in methodically.
- Relevant data included in the report are descriptive enough to fulfill report requirement.
- Tables and graphs are prepared for financial performance analysis.
- All the data represent different areas and particular institution.



- Data are segregated in different dimensions and all the dimensions are discussed one by one.
- Recommendations are given which would help to enhance performance of foreign exchange activities.

And lastly the report is prepared under the guidance of my course instructor. I have tried my best to include all possible data for making a complete report. I have also consider carefully all other aspects of a conventional report.

## **1.6 Methodology of the Report**

It is an explanatory study that has tried to determine the performance of loans and advances and then evaluates the process of appraisal system. Information was collected from the internal or primary sources and external or secondary sources.

### **1.6.1 Source of Data**

This report is based on both primary & secondary sources of information that has been collected from the various sources like different publications, library sources, books, articles, etc.

#### **The primary sources are –**

For collecting primary data,

- I ask the respective officer(s). Others are like –
- Exposure on different desk of the bank;
- File study.

#### **The secondary sources are –**

- I have also used Auditors' Report of 2003, 2004 and 2005.
- I have also used the Annual Reports of 2003, 2004 and 2005.
- I have taken help in different credit related issues from credit officials.
- I have used different leaflets of National Credit and Commerce Bank Ltd.
- Different publications of Bangladesh Bank.



### 1.6.2 Time preference

The time preference of the study relates to the period covering the years 2003 to 2005. These three years has been taken for different analysis purposes.

### 1.6.3 Data processing and analysis

Data processing has been done manually after checking and editing. For analyzing Ms excel, Ms word are used.

## 1.7 Limitations

Like any other study the limitations of this study is not out of questions. But the following factors seem to us the main points of weakness of this study, Despite all out co-ordination from the bank officials:

- Learning all the banking functions within just three months was really tough.
- Another limitation of this report is Bank's policy of not disclosing some data and information for obvious reasons, which could be very much useful.
- Entrance to every nock and corner of the bank was not possible for us.
- This report will only consider credit risks of National Credit and Commerce Bank limited. It will not cover; Asset and liability/ balance sheet risk, Foreign Exchange Risk, Internal control And compliance risk, & Money laundering Risk.

## 1.8 Report Organization

This report is divided in four sections. The following sections are:

- The organization part i.e. this section will give an overview of National Credit and Commerce Bank Limited.
- Credit management policy and practice of NCCBL is critically analyzed followed by Bangladesh Bank.
- Best practice guideline for credit management.



# What is a Bank?



## 2.1 Bank

Bank can be defined as an organization that provides financial services, for example keeping and lending money. It does not have its own working fund. Bank build up its working fund by way of accepting deposits from surplus unit of the economy, wherein bank's position is that of a debtor and on the other hand bank invests major portion of working fund by way of loans and advances to the deficit unit of the economy with the object of financing trade. Hence, banks work as a financial intermediary.

The maximum satisfactory services it can render to the customers the maximum amount of working capital it can build up and invest. We can therefore, define bank as a service industry. Customer's satisfaction is the keystone around which all operations and expansion of a bank revolves. The quality of services and success of a bank depends upon some determinants such as:

- Behavioral pattern of the top management
- Training and orientation
- Selection of personnel
- Motivation of employees
- Systems of procedures
- Physical and social environment
- System of reward and punishment
- The quality of branch manager etc.

## 2.2 Evaluation of Banking Institution

The 2,000 B.C. Babylonians had developed a system of banks. In the ancient Greece and Rome the practice of granting credit was widely prevalent. From the loan banks, the poor citizen received loans without paying interests. They lent money for a period of three or four years on the security of loan. The bank of Venice, established in 115, is supposed to be the most ancient bank. Originally, it was not a bank in modern sense, being simply an office for the transfer for the public debt.



In the early 1349, the Drapers of Barcelona carried on the business of banking. During 1401, a public bank was established in Barcelona. It used to exchange money, receive deposits and discount bills of exchange. The Bank of Amsterdam was established in 1609 to meet the needs of the merchants of the city. It accepted all kinds of specie deposits. These deposits could be withdrawn on demand or transferred from the account of one person to another. The bank also adopted a plan by which a depositor received a kind of certificate to withdraw his deposit within six months. These written orders, in course of time, came to be used in the same manner as the modern cheques. It is interesting to note that most of the European banks now in existence were formed on the model of the Bank of Amsterdam.

The beginning of English banking may correctly be attributed to the London Goldsmiths. They used to receive their customers valuables and funds for safe custody and issue receipts acknowledging the same circulation. In fact, the goldsmith's note may be considered as the precursor of the bank note, the run of Goldsmiths marks a turning point in the history of English banking which led to the growth of private banking and the establishment of the "Bank of England" in 1694. In India, as early as the Vedic period, banking, in the crudest form, existed. True banking in those days largely meant money lending and the complicated mechanism of modern banking was not known to them.

## 2.3 Classification of Bank

Mainly bank can be classified in two different class Commercial bank and Central Bank. Commercial bank can be again classified in different class. However, our scope is limited to only commercial bank.

## 2.4 Commercial Bank

"Banking" means accepting deposit for the purpose of lending or investment of deposit of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise". The business of a Commercial Bank is primarily to hold deposit and make loans and investments with the object of profit for its shareholders.



There are many kinds of Banks Commercial Banks, Savings Banks, Investment banks, Industrial Banks, co-operative Banks, Central Bank, but when we use the term “Bank” without any prefix qualifications, it refers to the “Commercial Bank”.

### 2.4.1 Functions of a Commercial Bank

The Functions of modern commercial Banks are numerous and overlap those of such other financial institutions as savings Banks, finance companies, and investment trust etc. Only Commercial Banks hold demand deposits, which constitute the most important component of many money supplies.

Beginning with the simple functions of accepting deposits for the purpose of lending, Commercial Banking has progressively wider functions and greater responsibilities in the economic area. It may not be possible to give an exhaustive account of all its functions and services. However, some of the fundamental functions usually discharged by a commercial Bank are indicated in the next page.

#### 1. Receiving of Deposit from the Public

The most important function of a commercial Bank is to attract deposits from the public. The Bank has to maintain a variety to accounts that may suit the needs and tastes of a large body of depositors. Generally speaking, Deposits are three types: Fixed Deposit, Current Deposit & Savings Deposits.

**a) Fixed Deposits:** Fixed deposits are those, which are withdrawal only after a specified period. The longer the period of deposit, the more attractive the rate of interest. Fixed deposits are also known as time liabilities of the Bank.

**b) Current Deposit:** Current Deposits accepted on accounts, on the other hand, are withdrawal any time by the depositors by means of cheques. These are demand liabilities of the Bank. As a rule, the Banks do not pay any interest on these deposits.





**c) Savings Deposit:** Savings Bank deposits are subject to certain restriction on the amount so receivable or withdrawal. These deposits carry a lower rate of interest. A Bank collects its funds mainly through its deposits.

In addition to the above, commercial bank also maintains short term deposit A/C (STD), Deposit Pension A/C, and many other types of Deposit Scheme accounts.

**d) Scheme Deposit:** Bank also offers different types of scheme deposits such as Money Making Scheme, Benefit Deposit Scheme, Lakhopati Savings Scheme, Money Double Scheme etc.

## 2. Making Loans and Advances

The other major function of a commercial Bank is to make loans and advances to businessmen, traders and others against documents of title to goods, collateral and marketable securities. Loans are also made against personal security of the borrowers with or without surety. A Bank makes advances in different ways. Money at call comprises such loans, which are given for very short periods. These are repayable at call or a short notice of a fortnight or less. Overdraft facilities are allowed to the Bank's customers to overdraw their current accounts up to an agreed Limit, to tide over temporary financial difficulties. Cash Credit granted to a customer is drawn by him as and when needed and not all at once. Discounting a bill of exchange is the most popular method of lending by a Bank. The bank may advance direct loan against some collateral securities to traders and producers. Thus a Bank acts as an intermediary in mobilizing savings of the businessmen to drive the wheels of industry and float the vessels of commerce.

## 3. Money Creation

The most distinctive function of commercial banks is creation and destruction of money because demand deposits serve as money in community. Demand deposits are created in two ways either by converting cash into a demand deposits with the bank or by borrowing from the bank and lodging the some amount with the bank as a demand deposit. The lasted form of deposit is most popular and provides the main channel through which banks create credit.



#### 4. Agency Service

A commercial bank performs certain functions as an agent for and on behalf of its customers. Some of these functions relate to:

- Collection and payment of promissory notes, cheques, bills and other commercial instruments, interest dividends, subscriptions, rents or other periodical receipts and payments like insurance premium.
- Buying and selling of shares, bonds, securities etc. on behalf of its customers.
- Remitting of funds on behalf of customers by drafts or mail or telegraphic transfers.
- Acting as executor, trustee and attorney for its customers, and
- Acting as correspondent, agent or representative of its clients. All these functions are described as agency service.

#### 5. General Utility Services

Commercial bank performs certain general utility services, such as:

- Issuing of letters of credit to its customers.
- Issuing of Bank Drafts and Travelers Cheques etc. for transfer of funds from one place to another.
- Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange.
- Servicing as referee to the financial standing and credit worthiness of its customers.
- Underwriting loans to be raised by public bodies and corporations.
- Providing safety vaults or lockers for the safer custody of valuables and securities of the customers.
- Acting as a trustee and executing the will of the deceased, and Compiling statistics and information relating to trade, commerce and industry.



# An Overview of NCCBL

## 3.1 Organizational profile

The prosperity of a country depends on its economic activities. Like any other sphere of modern socio-economic activities, banking is a powerful medium of bringing about socio-economic changes of a developing country. Without adequate banking facility agriculture, commerce and industry cannot flourish. A suitable developed banking system can provide the necessary boost for the economic growth of the country. Because banking system is linked with the whole economy.

National Credit and Commerce Bank Limited (NCCBL) is a private commercial bank. It is also contributing to the growth of our country's economy. It is a progressive commercial bank in private sector. It creates new opportunities for its clients. It gives customized services and maintains harmonious banker-client relationship. It contributes towards formation of national capital, growth of savings and investment in trade, commerce and industrial sector.

## 3.2 Historical Background

The National Credit and Commerce Bank Limited (NCCBL) started its operation in 25th November 1985 as a non-banking financial institution under the name of National Credit Limited (NCL). 26 businessmen sponsored it as a public limited company under the Companies Act 1913 with an authorized capital of taka 300 million. NCC Bank was incorporated as a banking company under the Companies Act 1994. In end 2001 it had 30 branches all over Bangladesh. Now it has 58 branches all over the country. It carries out all its banking activities through these branches among which 17 branches are authorized dealer of foreign exchange. The bank is listed in the Dhaka and Chittagong Stock Exchanges as a publicly quoted company for its general class of shares. The authorized capital of the bank is now taka 2500 million. The Bank raised its paid up capital from Taka 607.81 million during the year 2004 to Taka 1757.62 million during the year 2008. Through IPO of which sponsor directors/ shareholders equity stood at Taka 4055.30 million. With the increase of paid up capital to Taka 1150 million, the capital base of the Bank has become strong.



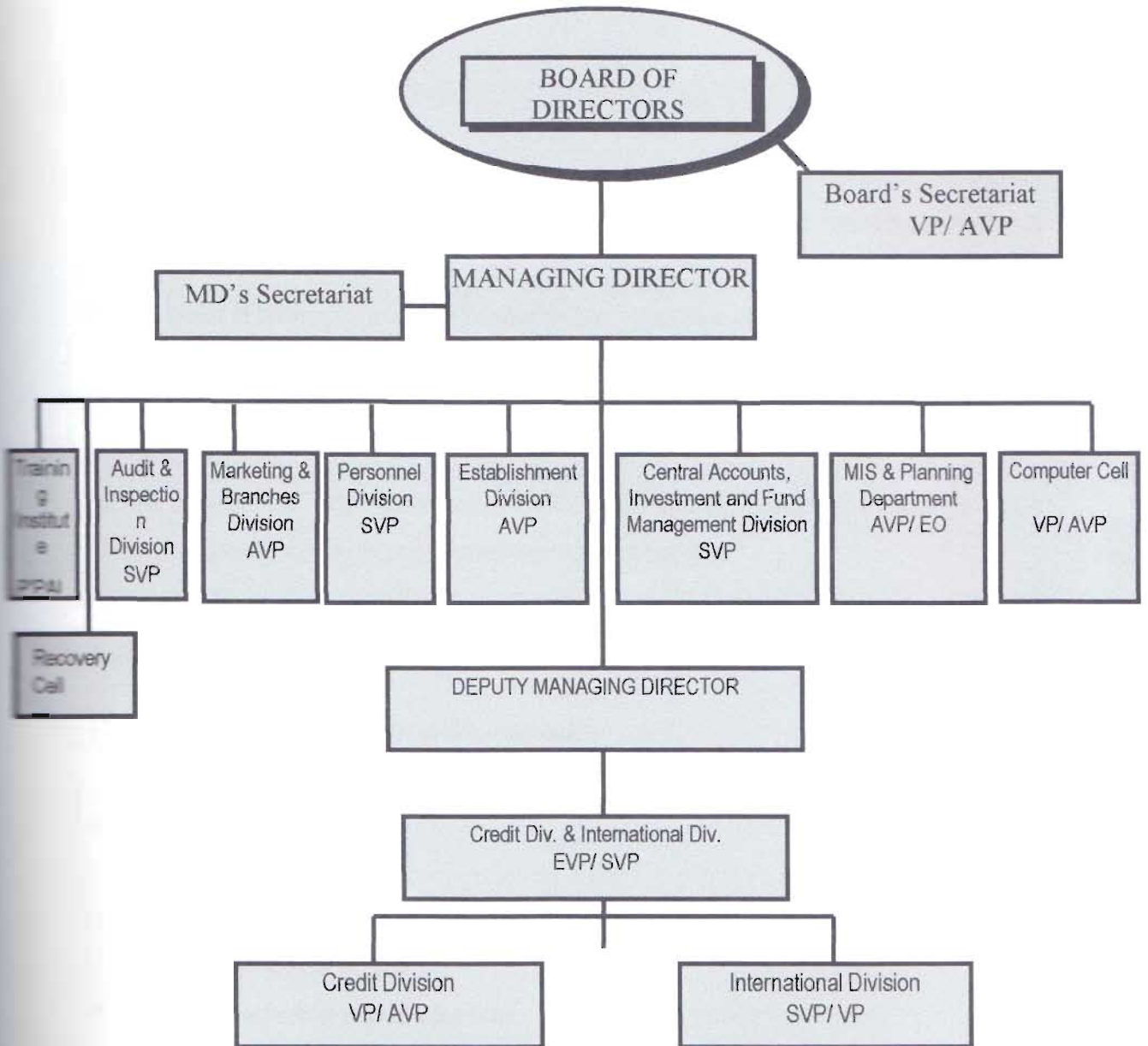
NCC Bank is now positioned to best suit the financial needs of its customers and make them partners of progress.

### 3.3 Management of NCCBL

Management of NCCBL is professional and experienced. Top management and the policy formulation of the Bank is vested on the Board of Directors. The board of directors consists of 26 members headed by chairman. Most of the directors are owners of large business groups having high net worth. The executives and officers of the bank execute the policies and programs formulated by the board. The Managing Director is the chief executive of the bank and he is assisted and supported by other qualified executives like Senior Executive Vice Presidents, Executive Vice President (EVP), Senior Vice President (SVP), Vice President (VP), Senior Assistant Vice Presidents and other officers and staffs. There are nine divisions in this Bank and one training institute.



# ORGANOGRAM OF NCCBL



**Figure :** Organogram of NCCBL



### 3.4 Vision & Mission Statement

#### 3.4.1 Vision

To become the Bank of Choice n serving the Nation as a progressive and Socially Responsible financial institution by bringing credit & commerce together for profit and sustainable growth.

#### 3.4.2 Mission Statement of NCCBL

- To mobilize financial resources from within and abroad to contribute to Agriculture, Industry & Socio-economic development of the country and to play a catalytic role in the formation of capital market.
- To assist in bringing high quality service to their customers and to participate in the growth and expansion of our national economy.
- To set high standards of integrity and bring total satisfaction to their clients, Shareholders and employees.
- To become the most sought after bank in the country, rendering technology driven innovative services by their dedicated team of professionals.

### 3.5 Corporate Objectives

NCCBL's objectives are reflected in the following areas:

- Highly personalized service.
- Customer-driven focus.
- Total commitment to quality.
- Contribution in the economy.
- Quality of human resources.
- Commitment to its clients at each level.

The company believes that communication with, and feedbacks from its clients help it achieve its goal of providing world-class product and services. NCCBL regularly conducts client satisfaction surveys and make immediate accommodations and adjustments where needed. It also constantly monitors its standards, and strives to meet clients' requirements.



### 3.6 Strategies

- To manage and operate the bank in the most efficient manner to enhance financial performance and to control cost of fund.
- To strive for customer satisfaction through quality control and delivery of timely services.
- To identify customers' credit and other banking needs and monitor their perceptions towards our performance in meeting those requirements.
- To review and update policies, procedures and practices to enhance the ability to expand better service to customers.
- To train and develop all employees and provide them adequate resources so that customers' needs can be responsibly addressed.
- To promote organizational effectiveness by openly communicating company plans, policies, practices and procedures to all employees in a timely fashion.
- To cultivate a working environment that fosters positive motivation for improved Performance.
- To increase direct contact with customers in order to cultivate a closer relation between the bank and its customers.
- To diversify portfolio both in the retail and wholesale market.

### 3.7 Values Considered as Guiding Factors

All the activities and decisions of NCCBL are based on, and guided by, these values:

- Placing the interests of clients and customers first.
- A continuous quest for quality in everything the company does.
- Treating everyone with respect and dignity.
- Conduct that reflects the highest standards of integrity.
- Teamwork- from the smallest unit to the enterprise as a whole.
- Being good citizens in the communities, in which they live and work.



### 3.7.1 Value

- Trustworthy
- Dependable
- Reliable
- Professional
- Dynamic
- Fair



## 3.8 Training

### 3.8.1 Human Resource Development (HRD)

Human Resources Development is focused on recruitment and in-house training for both on the job and off the job Bank staff members through the Bank's Academy. NCC Bank Limited Academy is one of well equipped institutions in the private sector – was conceived of as an in-house training center to take care of the training needs of the Bank internally.

Academy is fully equipped with a professional library, modern training aids and professional faculty. Library has different books on banking, economy, accounting, management, marketing and other related subjects.

Main training activities consists of in-depth foundation programs for entry level Probationary Officer. Specialized training programs in the areas like general banking, advance, foreign exchange, information technology, marketing and accounts etc. are also organized by the Academy depending on need.

Frequently outreach programs are organized to meet demand for new and specialized skills.

Since its inception Academy has not only conducted courses, workshops and seminars as required by the Bank, but it has also organized training programs abroad for the officials.





The academy also re-design its courses, programs etc, regularly to meet the requirement of new skills arising out of various directives, guidelines of the Central Bank and significant changes in the banking sector from time to time.

In addition the IT & Card division offers the following training activities for its employees.

### **3.8.2 Software Training**

- Flora Banking Software (Head Office and Branch Level)
- Real Time Problem Solution

### **3.8.3 Network Training**

- Branch Network Support
- IP phone Maintenance
- Internet Communication
- Anti Virus Update and Maintenance
- E-mail Server Admin

### **3.8.4 Hardware Training**

- Basic Hardware Setup Training

### **3.8.5 Card Division Training**

- All Credit Card Related Training
- International Visa Compliance
- Internal Credit Card Marketing

### **3.8.6 Human Resources Management**

NCC Bank follows a structured service rules and compensation package for its workforce at all levels. The bank provides various benefits like Provident Fund, Gratuity Scheme for its eligible staff.



The Bank has adopted a new Human Resource Policy for recruitment, promotion and training. The new policy includes detailed and specific criteria for recruitment of competent candidates on the basis of merit only.

### **3.8.7 Management Information System (MIS)**

The Management Information System (MIS) of NCC Bank Limited is at developing stage. The bank is currently using MIS Report only for customer account related information and bank's financial position.

The bank has recently launched online banking services at front office operations which facilitate any branch banking, ATM Banking and Internet Banking to all customers. Except one, all branches of the bank are currently using Centralized Banking Software for their daily transaction processing and routine reporting. Credit risk management is also available in the centralized banking software. Besides, the bank has subscribed to ATM, VISA Debit and Credit cards, which will be an important milestone in automation of banking services. It is expected that with the introduction of new technology, the bank will be able to render better and efficient services to its customers that will enhance bank's competitive value. The bank has taken sufficient safeguard against disaster management and recovery. The bank has a Disaster Recovery Site (DRS) in place replicating the Data Center and its DR site is equipped with compatible hardware and telecommunications equipment to support the live systems in the event of any disaster. Yet the Bank is to develop modern "MIS" for use of management and other offices for timely availability of vital data for planning and decision making purposes at the appropriate time to augment profitability. Under the forthcoming Basel II implementation plan of BB, banks will be required to have its IT system Basel II compliant.

### **3.9 Ownership Pattern**

Total Authorize Capital is BDT 2500 million in 2008 whereas Paid-up Capital is BDT 1757.62 million. And the percentage of this paid-up capital is



*\*Fig in BD Taka\**

Particulars	% of Holdings	Amount
Local sponsors	49.29	866,406,800
Financial Institution	14.89	261,622,900
Foreign investors	0.24	4,218,200
Public issue	35.58	675,367,877

*Source: NCCBL Annual report 2008*

### 3.10 Credit Rating of the Bank

As per the BRPD instruction circular no. 6 dated July 5, 2006, the bank has done its credit rating by the Credit Rating Agency of Bangladesh (CRAB) based on the financial statement dated December 2007, the following ratings has been awarded :

	Long Term	Short term
Entity Rating	A2	ST3

*Source: NCCBL Annual report 2008*

### 3.11 Branch Network

Bank's branch network has reached to 57 in 2008 with opening of 04 new Branches. Bangladesh Bank has already approved opening of 10 more branches and 05 SME Service Centers in 2009. Bank is now engaged in selecting suitable sites and completing other necessary works to open the proposed Branches and Centers well ahead of expiry of license.

### 3.12 Nature of Business

NCC Bank Limited offers full range of banking services that include deposit banking, loans & advances, export, import and financing national and international remittance facilities etc.



### 3.13 Financial Highlight

\*Fig in BDT million\*

Particulars	2008	2007	2006	2005	2004	
Authorized capital	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00	
Paid up capital	1,757.62	1,352.01	1,201.79	975.04	607.81	
Reserved fund & other reserve	2,863.62	1,995.36	1,215.58	884.90	761.18	
Equity fund	4,621.24	3,326.52	2,417.37	1,859.94	1,368.99	
Deposits	46,904.66	34,901.77	28,147.34	21,478.22	16,069.23	
Loans & Advance	46,332.69	32,678.75	24,678.36	20,533.13	15,211.15	
Investment	6,526.82	6,266.62	3,552.08	3,010.45	4,385.23	
Import business	38,796.88	28,779.21	17,646.80	16,296.30	13,274.08	
Export business	12,522.04	9,577.92	8,557.00	7,776.30	5,771.65	
Operating income	7,417.64	5,269.03	3,913.19	2,932.00	2,283.32	
Operating expense	5,054.15	3,488.78	2,645.62	1,913.66	1,562.88	
Operating profit	2,363.49	1,780.25	1,267.57	1,018.34	720.49	
Profit before tax	1,788.96	1,356.32	1,056.51	687.60	445.50	
Profit after tax	882.28	677.18	497.22	352.08	285.16	
Retained profit	5.34	8.13	7.83	10.31	14.28	
Total asset	57,365.32	42,522.85	32,615.01	26,114.13	21,469.02	
EPS	50.20	38.53	35.44	36.11	46.91	
Dividend	Cash (%)	-	-	10.00	10.00	-
	Bonus	30.00	30.00	12.50	10.00	30.00
Volume of non-performing loan	1,902.58	13,53.31	1,212.26	981.54	1,188.40	

Source: NCCBL Annual report 2004 - 2008

### 3.14 Ratio Table

\*Fig in %\*

Particulars	2008	2007	2006	2005	2004
Return on equity (ROE)	21.76	20.23	19.82	18.93	20.83
Return on asset (ROA)	1.54	1.59	1.47	1.35	1.33
Capital adequacy ratio	10.61	10.61	9.78	9.02	9.05
Non-performing loans as % of total advance	4.14	4.17	4.95	4.82	7.87
Advance deposit ratio	98.78	93.66	87.68	95.60	94.60
Credit deposit ratio	0.98 : 01	0.94 : 01	0.88 : 01	0.96 : 01	0.95 : 01
% of classified loans against total loans & advance	4.14	4.17	4.95	4.82	7.87
Cost of fund	11.64	10.86	10.51	9.45	9.83
Return on investment (ROI)	9.77	8.30	7.47	8.00	9.24
Price earning ratio (times)	7.29	8.81	7.25	8.66	11.61
Tier1-toal risk weighted asset (%)	8.71	8.82	8.44	7.81	7.82
Tier2-toal risk weighted asset (%)	1.90	1.79	1.33	1.21	1.23

Source: NCCBL Annual report 2004 - 2008



### 3.15 Some Graphical representation

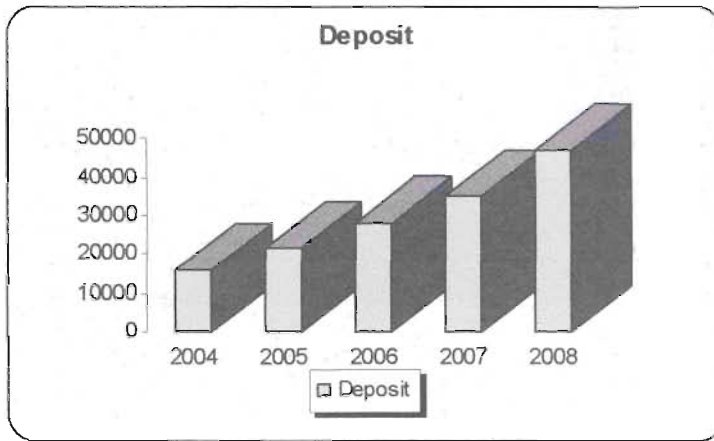


Figure : Amount of Deposit 2004-2008

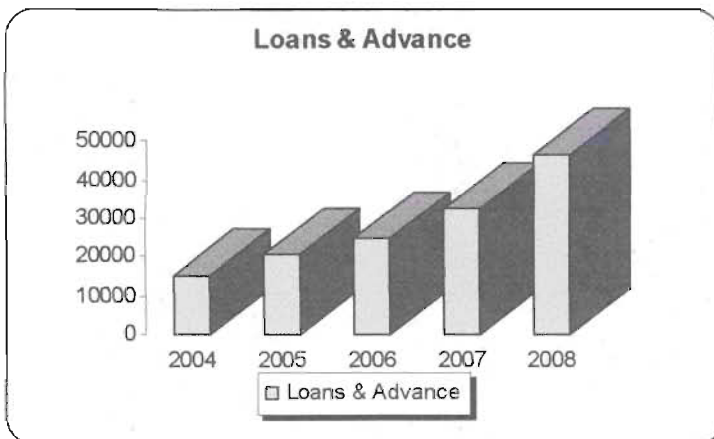


Figure : Amount of Loans & Advance 2004-2008

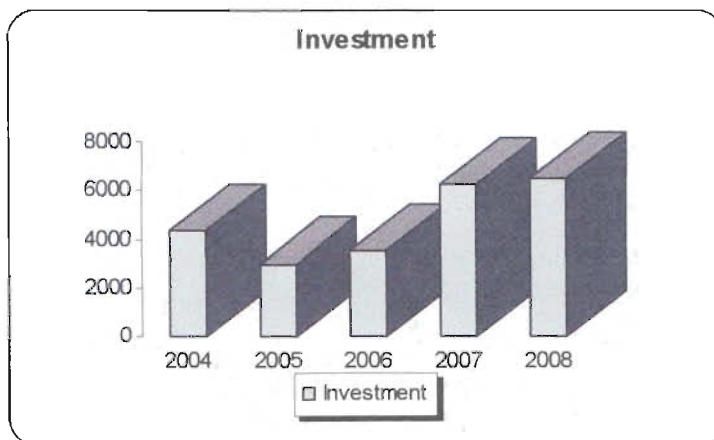


Figure : Amount of Investment 2004-2008

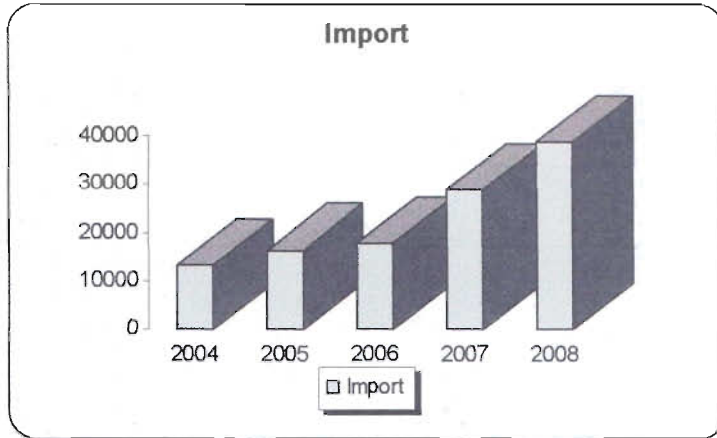


Figure : Amount of Import 2004-2008

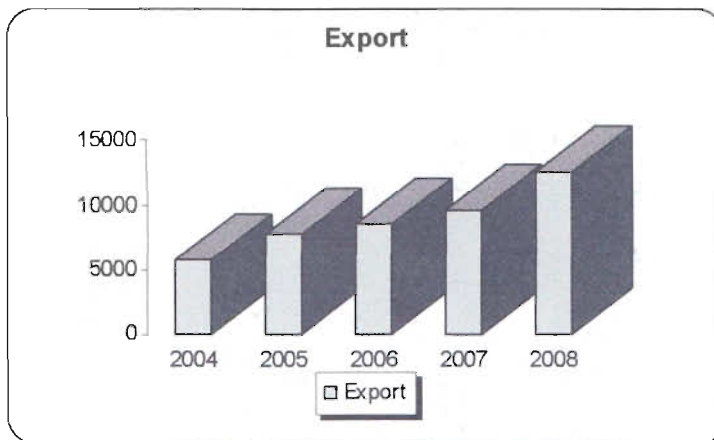


Figure : Amount of Export 2004-2008

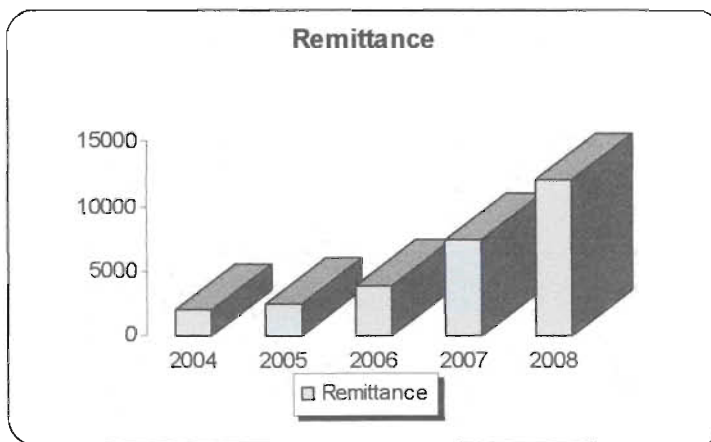
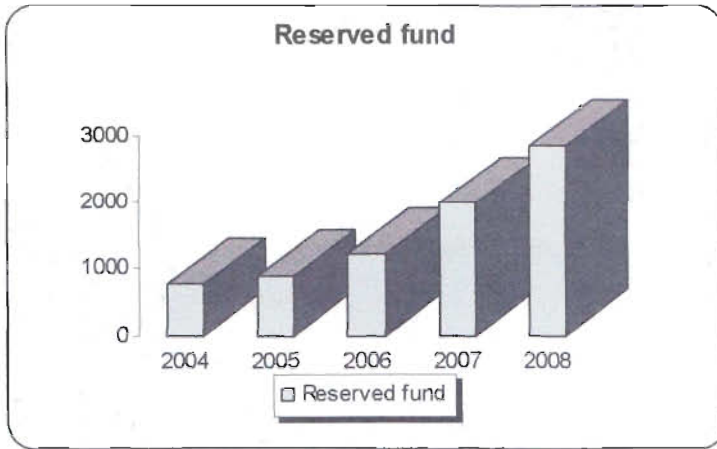
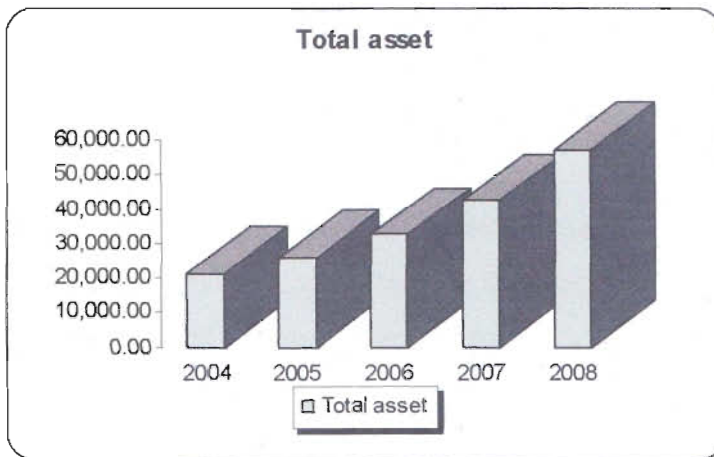


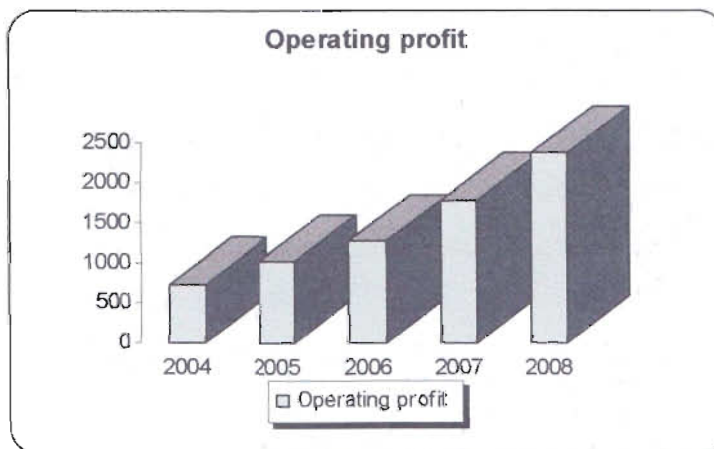
Figure : Amount of Remittance 2004-2008



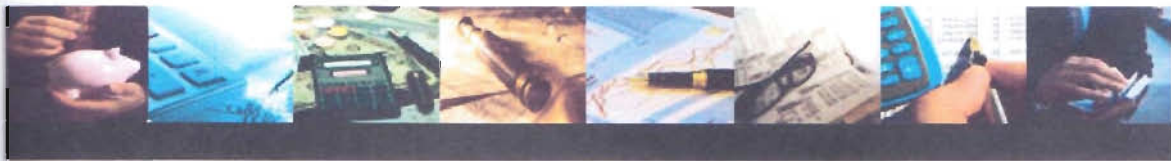
**Figure :** Amount of Reserved Fund 2004-2008



**Figure :** Amount of Total asset 2004-2008



**Figure :** Amount of Operating profit 2004-2008



# SWOT Analysis of NCCBL

Every organization is composed of some internal strengths and weaknesses and also has some external opportunities and threats in its whole life cycle. The following will briefly introduce the customer to the NCCBL's internal strengths and weaknesses, and external opportunities and threats as I have explored in the past ten weeks.

## 4.1 Strength

### Superior Quality

NCCBL provides its customers excellent quality of service. It gives the first priority to customer satisfaction.

### Dynamism

NCCBL draws its strength from the adaptability and dynamism it possesses. It has quickly adapted to world class standard in terms of banking services. NCCBL has also adapted state of the art technology to connect with the world for better communication to integrate facilities.

### Financial Strength

NCCBL is a finally sound company backed by the enormous resource base of the mother concern Rangs Group. As result customers feel comfortable in dealing with the company.

### Efficient Management

All the levels of the management of NCCBL are solely directed to maintain a culture of the betterment of the quality of the service and development of a corporate brand image in the market through organization wide term approach and open communication system.

### State of the Art Technology

NCCBL utilizes state-of-the-art technology to ensure consistent quality and operation. The corporate office is equipped with SWIFT (SWIFT is a banking software, used by NCCBL). All other branches are also equipped with SWIFT system.





## Experts

The key-contributing factor behind the success of the NCCBL is its employee, who is highly trained and most competent in their own field. NCCBL provides their employees training both in-house and out side job.

## In-House Utility

NCCBL is free from dependence on ever disruptive power supply of our public sources. The company generates the required power through generator fed on diesel. Water generation is done by deep tube wells on site and in abundance.

## Excellent Working Environment

NCCBL provides its workforce an excellent place to work in. Total complex has been centrally air-conditioned. The interior decoration was done exquisitely with choice of soothing colors and blend of artistic that is comparable to any overseas bank.

## Other strength

- Satisfactory asset quality.
- Good internal capital generation.
- Satisfactory operating efficiency.
- Diversified product lines.
- Low human resource turnover.
- Experienced Management team

## 4.2 Weaknesses

### Limited Workforce

NCCBL human resources compared to its financial activities. There are not many people to perform most of the tasks. As a result many of the employees are burdened with extra workloads and work late hours with out any overtime facilities. This might cause high employee turnover that will prove to be too costly to avoid.



### **Problem in Delivery**

Few of the NCCBL's products offered to its clients like "Personal Credit (PC)" is lying idle due to proper marketing initiative from the management. These products can easily be made available in attractive ways to increase its client base as well as its deposit status.

### **Other weakness**

- Limited market share.
- Dependency on Term Deposit.
- Moderate MIS.
- High cost of fund.
- Moderate corporate governance.

## **4.3 Opportunities**

### **Government Support**

Government of Bangladesh has rendered its full support to the banking sector for a sound financial status of the country, as it has become one of the vital sources of employment in the country now. Such government concern will facilitate and support the long-term vision of NCCBL.

### **Evaluation of E-Banking**

Emergence of e-banking will open more scope for NCCBL to reach the clients not only in Bangladesh but also in the global banking arena. Although the bank has already entered the world of e-banking but yet to provide full electronic banking facilities to its customer. A proper blend of Banking and information technology might give the bank leverage to its competitors. Nevertheless there are ample opportunities for NCCBL to go for product innovation in line with the modern day need. The bank has yet to develop credit card facility, lease financing and merchant banking.

### **Other opportunities**

- Investment in SME.
- Basel-II compliance for capital adequacy.
- Creation of brand image.
- Dual currency credit card and online products & services.



## 4.4 Threats

### Merger and Acquisition

The worldwide trend of merging and acquisition in financial institution is causing concentration. The industry and competitors are increasing in power their respective areas.

### Poor Telecommunication Infrastructure

As previously mentioned, the world is advancing e-technology very rapidly. Though NCCBL has taken effort to join the stream of information technology, it is not possible to complete the mission due to poor technology and infrastructure of our country.

### Frequent Currency Devaluation

Frequent devaluation of Taka exchange rate fluctuations and particularly South-East Asian currency crisis adversely affects the business globally.

### Emergence of Competitors

Due to high customer demand, more and more financial institutions are being introduced in the country. There are already 52 banks of various types are operating in the country. Many banks are entering the market with new and lucrative products. The market for banking industry is now a buyer dominated market. Unless NCCBL can come up with attractive financial products in the market, it will have to face steep competition in the days to come.

## 4.5 PEST Analysis

PEST analysis is very important that an organization considers its environment. In fact, environmental analysis should be continuous and feed all aspects of planning. The organization's environment is made up from:

1. The internal environment e.g. staff (or internal customers), office technology, wages and finance, etc.
2. The micro-environment e.g. our external customers, agents and distributors, suppliers, our competitors, etc.



3. The macro-environment e.g. Political (and legal) forces, Economic forces, Sociocultural forces, and Technological forces. These are known as PEST factors.

#### **4.6 Future prospect of NCCBL**

The events of September 11th last year in the USA and the events that followed have aggravated the global economic situation. In such situation, economic outlook for the country does not seem very bright and will take some time for recovery. Moreover, with the opening of branches of newly opened Private Banks and Foreign Banks, the competition will be intensified. Consequent upon lowering of bank rate by Bangladesh Bank, this bank had to reduce their lending rate from 1% to 3% to provide increased loans to private sector for productive purpose. To overcome the situation as well as for higher profitability of the bank during the year 2005, the bank will explore new fields of investment and introduce new products through pragmatic and market friendly policies. With the opening of more new branches, the network will expand and volume of business will increase substantially which will contribute to the profitability of the bank. The bank will go for immediate automation of all branches through computer network and a tight control of cost so as to minimize the overall operational cost. The bank will hope to achieve a satisfactory level of progress in all areas of its operation.

#### **4.7 Competitive Conditions in the Business**

The Banking Sector comprises of consisting of four major Nationalized commercial banks, two agricultural banks and three DFI and a large number 35 private commercial banks including about a dozen foreign owned private banks. They severely compete for savings/deposits and are in search of sound investment/lending targets. Despite stiff competition, the private sector banks earning have gone up significantly, especially for those having professionally managed operations.

#### **4.8 Challenges**

Different challenges are :

- Increasing cost of fund.
- Market pressure for.
- Increasing the SLR.



- Implementation of Basel-II.
- Increased Market competition & Product Risk.

## 4.9 Summary

Modern commercial banking is a very tough business; the rewards are modest but the penalties for bad banking are dangerous. Still then, it has a great importance in general welfare of the country. In the context of our country, NCCBL has a vast opportunity to perform its regular functions with confidence and accuracy. From the inception date, NCCBL has been carrying liabilities from the erstwhile NCL, which ultimately obligate the bank to its every step very cautiously. Now it is almost free from that horrible experience. Now it is the time to grow at a faster rate. NCCBL offers most of the banking services offered by other commercial banks. But it also need to introduce innovative and advanced services which are available in the present competitive banking world. NCCBL should start online banking service to make the service faster and attractive. NCCBL should make proper utilization of its opportunities to minimize the weaknesses.





# Financial Product and Service

## 5.1 Products and Services

Since the commencement of banking operation; The National Credit and Commerce Bank Limited (NCCBL) has not yet only gained enormous popularity but also been successful in mobilizing deposit and loan products. The bank has made significant progress within a very short time period due to its dynamic management and introduction of various consumer-friendly loan and deposit products. There are also have other departments that can be termed as support and these are Operations, Credit Administration, Financial Control and Human Resource.

All the products and services offered by the bank can be classified under three major heads:

## 5.2 Personal Banking

### 5.2.1 Deposit Schemes

#### a) Savings Account

The bank provides savings account services for the case of its clients. It offers both personal and corporate savings account to its clients in every branch. The current rate on the deposit amount is 6% and the minimum balance requirement is Tk.5000. The bank requires no other service charge for this account is Tk.250.

#### b) Current Deposit Account:

NCCBL opens current accounts for its clients to facilitate their day-to-day operations. The amount deposited in the current account can be withdrawn at any time. No interest is given on the current account. In certain cases, however, interest is available at an agreed rate where withdrawals are subject to a written notice for a specified period. The minimum balance requirement for this account is Tk.1000 and Tk.250 is deducted from the account in case of closing the current account.



### c) Fixed Deposit

Fixed Deposit is very much important for its contribution to the bank's deposit creation process, because the highest amount of Bank fund from its direct customers comes in the form of Fixed Deposit. For increasing the deposit base every commercial bank offers its customers various rates according to the amount of deposit. NCCBL also offers its valuable customers some significant rates for different amounts. Those are:

Table : Interest charge of Fixed deposit

Type	Interest rate
Fixed Deposit/Bearer Certificate of Deposit for 1 Month	9.50%
Fixed Deposit/Bearer Certificate of Deposit for 3 Months	10.00%
Fixed Deposit/Bearer Certificate of Deposit for 6 Months	10.25%
Fixed Deposit/Bearer Certificate of Deposit for 1 Year	10.50%
Fixed Deposit/Bearer Certificate of Deposit for 3 Year and above	10.50%

Source: NCCBL

### d) Bearer Certificate of Deposit

It is an instrument of Deposit, where depositors name and address is not mentioned; only a receipt number is there. Just two or three years ago Government of Bangladesh ruled on this type of deposit. They are discouraging about bearer certificate of deposit. As a result bearer certificate of deposit of every bank is declining. Some amount of bearer certificate of deposit is keeping by the banks, which are not yet matured.

### e) Short Term Deposit (STD)

According to characteristics, short term deposit is similar to current deposit except interest. Though it is CD account but bearing some interest. Currently this interest rate is 4.50%.

### Rules and Regulation for opening Short Term Deposit (STD) Account

STD account rules and regulation are just like current deposit account except following rules:

STD Account holder enjoys interest by following cases:

Account Holder Type	Amount (Daily)	Interest Rate
Collection account of DESCO, T&T	Above Tk.10.00 lac	4.5%
Other type of Customer	Above Tk.1.00 lac	4.5%

Source: NCCBL.



## 5.2.2 Special Deposit Schemes / Products

NCCBL is now offering various depository products for mobilizing the savings of the general people. To get the deposit from the little saver portion of the country, NCCBL has started few Scheme which by this time gained high popularity among the depositors. To ensuring risk free and profitable investment of limited income of majority of people & thereby provide maximum benefits, NCCBL has lunched following savings schemes:

- Special Savings Scheme
- Special Fixed Deposit Scheme

### a) Special Savings Scheme

- Two types of Account can be opened under this scheme. One for term of 5 years and another for a term of 10 years. Rules for both the accounts shall be the same.
- Monthly installments of deposit will be Tk.500 and its multiple up too Tk.10,000 only as mentioned below to be deposited every month during the entire period of the scheme as fixed at the time of opening of the account. Account may be opened for any installment later on the same is changeable.

### b) Special Fixed Deposit Scheme

- Minimum Tk.50, 000 or multiple amount is acceptable under this scheme.
- The duration of the Scheme shall be 5 years after which depositors can take back the principal amount, if not renewed.
- The duration of time between deposit and payment of first profit must be minimum on month.

## 5.2.3 Credit & Loans

- Consumer Credit Scheme
  - Education Credit Scheme
  - Multipurpose Loan
  - Loan General
- Education Credit Scheme





- Multi Purpose Loan
- Loan General

#### 5.2.4 Foreign Currency Account

- Resident Foreign Currency Account
- Non-Resident Foreign Currency Account

### 5.3 Corporate Banking

#### 5.3.1 Small & Medium Business

##### a) Cash Credit (Hypothecation)

This type of credit is allowed to the traders and industrial borrowers for promoting trade and commerce and industries. In case of hypothecation the possession of goods is not given to the bank. The goods remain at the disposal and in the go downs of the borrower. This is given access to goods whenever it so desires. The borrower furnishes periodical return of stock with the bank.

##### b) Cash Credit (Pledge)

Allowed for promoting trade, commerce and industries of the country against pledge of stock in trade under Bank's control. In case of the pledge, the goods are placed in custody of the bank with its name on the go down where they are stored. The borrower has no right to deal with them.

##### c) Secured overdraft

Secured overdrafts are loans which have collateral attached to them in the form of a lien. A lien is a monetary claim against a property to be fulfilled before repeat ownership can take place.

Secured overdrafts divided into two forms. There are- (i) Secured overdrafts financial obligation (SOD-FO) (ii) Secured overdrafts general (SOD General).

- SOD (FO): Allowed against financial obligation (Like- FDR, SSS etc.) for promotion of economic and business activities.
- SOD (General): Generally allowed to the traders for business promotion and economic activities. In case of SOD (General), bank keeps the land as collateral.



### 5.3.2 Large Business

- Short Term Industrial Loan
- Mid Term Industrial Loan
- Long Term Industrial Loan
- Transport Loan
- Commercial House Building Loan

### 5.3.3 Foreign Trade

The National Credit and Commerce Bank Limited (NCCBL) provide solutions in the fields of international business and trade finance.

- Letter of Credit (L/C)
- Back to Back Letter of Credit (BTB)
- Export Development Fund (EDF)
- Bank Guarantee

Other fields are -

#### a) Loan against Imported Merchandise (LIM)

Usually, importer fails to retire the documents in spite of repeated reminders of the banker or the bank has to clear the goods imported under the letter of credit at the request of the importer (borrower). In both the cases, whether the importer fails to retire the documents or request for clearance of goods, the outstanding under PAD or BE is transferred to "Loan against Imported Merchandise (LIM)" account and the overdue interest from the date of accompanying Bills of Exchange or negotiating date to the date of transfer to LIM account is charge. At the time of opening of letter of credit the banks obtain from the importer an arrangement on stamped paper which provides for financing and, if necessary, clearance and storage of goods by debiting importer's account at their risk and responsibilities. After clearance, consignments are taken delivery by the importer on full payment of bank's liability.



Normally part delivery is not allowed while on LIM account. When the delivery in part is desired by the importer, the LIM is converted into cash credit account retaining proper margin and executing charge documents, the delivery is affected thereafter on obtaining pro rata payment.

#### **b) Loan against Trust Receipt (LTR)**

Under this arrangement, credit is allowed to the importer to retire documents and release the consignment from the customs authority against trust, receipt keeping the goods under importer's control. The rate of interest of NCCBL on LTR @ 13.5%.

#### **c) Payment against Documents (PAD)**

The bank that opens the letter of credit is bound to honor its commitment to pay for import bills when these are presented for payment, if drawn strictly in terms letter of credit.

The foreign correspondent bank, who negotiates the documents, debits the account of the opening bank and in fact, the amount thus stands advance<sup>3d</sup> on behalf of the importer. The opening bank will lodge the shipping documents to their book and will respond to the debit advice originated by the foreign correspondent to the debit of "Payment against Documents (PAD)" account or "Bills of Exchange (B/E)" accounts and present the bill to the importer for payment. The rate of interest of NCCBL on PAD @ 13.5%.

#### **d) Loan against Packing Credit:**

Packing credit is a short term advance granted by bank to an exporter for assisting him to buy, process, packs and ships the goods. The credit is gradually extended for payment of freight, handling charges, insurance and export duties. A packing credit advance does not normally extend beyond 180 days and has to be liquidated by negotiation/purchase of the bills of exchange. The rate of interest of NCCBL on this packing credit @ 7%.

### **5.3.4 Micro Credit Financing**

To fulfill its commitment to play a vital role in socio-economic development of the country NCC Bank Ltd has introduce a small and medium scale credit scheme for its customers. The objective of the scheme is-

- To encourage and develop medium and small entrepreneurs.



- To provide credit with minimum complexity and
- To generate employment.

This scheme covers agricultural sector, small and cottage industry, service industry, household durable and consumers credit, information technology sector and energy sector. The amount of small and medium credit ranges from Tk 5 lac to Tk 50 lac.

### **5.3.5 Lease Financing**

An entrepreneur, under this scheme, may avail of the lease facilities to procure industrial machinery (without having to purchase it by down payment) with easy repayment schedule. The clients also get special rebate in their income-tax payment under the scheme.

### **5.4 Islami Banking**

Some of the branches of NCC Bank open profit-loss sharing term/savings deposit accounts and also allow loans on Mudaraba, Musharaka, Murabaha system. Attractive profit is given at the end of the year after deducting the bank's service fee through proper accounting.

### **5.5 Financial Products**

Financial Products of The National Credit and Commerce Bank Limited (NCCBL) are mainly in 03(three) different categories: These are:-

- Short Term Financing Products
- Mid Term Financing Products
- Long Term Financing Products

Above categories of financing covers the following areas, which are drafts with at General Credit Division.

- Agricultural Sector.
- Large & Medium Term Loan.
- Working Capital Financing in Industrial Units including small industries.



- Commercial Credit Scheme and any other new product as and when launched for.
- Term Loan in Small Industries.
- Term Loan in Commercial House Building at urban area & Transport Loan.
- Commercial Loan.

## 5.6 Special Services

Consistent with the modern age and competing in a perfectly competitive market, The National Credit and Commerce Bank Limited (NCCBL) has introduced some innovative banking services that are remarkable in a country like Bangladesh. The services offered by the bank are as follows:

### a) ATM service

The bank has joined the shared ATM Network Bangladesh with a pool of seven banks. The client of any member bank will have access to any ATM situated at different locations of Dhaka city. This bank's clients will get 24 hours cash withdrawal and utility bills payment facility. 16 ATMs will be installed gradually in Dhaka city and the network will be extended to other cities of the country in the near future.

### b) Credit Card

To provide best possible customer services to its clients, the bank is going to launch Master Credit Card shortly.

### c) Money grams

Money Gram is represented in over 115 countries and is available at more than 25,000 locations worldwide. In the USA alone Money Gram is available at more than 15,000 locations. Besides in the UK Money Gram is available through 1700 Postal Branches and 500 Thomas Cook travel shops making it the UK's largest money transfer network. Finally using the Money Gram Service could not be simpler. All one has to do is to visit a conveniently situated Money Gram agent any where in the world and hand over the money they want to send their relatives or friends along with the one off transacting fee.



- Sender completes a "Send" form and gets a Receipt. Money Gram Agent gives a Ref. No. which has to be passed to the Receiver.
- Recipient goes to NCC Bank Branch in Bangladesh. Fills out a "Receive" form and show proper identification.
- NCC Bank makes an inquiry on the Money Gram computer network to obtain authorization to pay Recipient and Recipient receives the fund.

#### d) Swift

NCC Bank is a member of the society of inter bank financial telecommunication. Through this fast, secure, global communication NCC bank has gained 24 hours connectivity with 7000 financial institution in 200 countries for transmission of LCs, Guarantees, funds transfers, payment etc. SWIFT is a bank owned non profit cooperative based in Belgium servicing the financial community worldwide. It ensures secure messaging having a global reach of 6,495 Banks and Financial Institutions in 178 countries, 24 hours a day. SWIFT global network carries an average 4 million message daily and estimated average value of payment messages is USD 2 trillion.

SWIFT is a highly secured messaging network enables banks to send and receive Fund Transfer, L/C related and other free format messages to and from any banks active in the network.

Having SWIFT facility, bank will be able to serve its customers more profitably by providing L/C, payment and other messages efficiently and with utmost security. Especially it will be of great help for our clients dealing with Imports, exports and Remittances etc.

## 5.7 Local Remittance Departments

Remittance is significant part of the general banking. The bank receives and transfers various types of bills through the remittance within the country. Obviously the bank charges commission on the basis of bills amount. NCCBL remittances are safe, swift, inexpensive and simple.

### 5.7.1 Types of Remittance

- PO (Pay Order)
- DD (Demand Draft)
- TT (Telegraphic Transfer)
- MT (Mail Transfer)



### a) Pay Order

Pay order is an instrument that contains an order for payment to the payee only in case of local payment whether on behalf of the bank or its constitution. Unlike checks, there is no possibility of dishonoring pay order. NCCBL charges different amount of commission on the basis of pay order amount.

### b) Demand Draft

By DD any person can send money from one branch to another branch of NCC bank. To send the money he/she must fill up the NCCBL's prescribed form of DD and paid charge commission and receive DD block. The following information is included in the DD Block:

- Name of the sender branch
- Name and account of the party who receive the money
- For security purpose a confidential test number are included in the DD Block.
- Amount of money to be transferred.
- Name of receiver Branch.

The sender sends this block to the Receiver branch of DD. When this DD block receive by the receiver branch. The authorized officer of the receiver branch tests the DD confidential number and if the test is proved then he/she give the money to the payee.

### c) Telegraphic Transfer

To send money urgently NCCBL may be requested for TT on payment of a nominal charge and telegram charges. Any person urgently sends money from one branch to another branch within NCCBL through TT. When a message of TT send through phone from one branch to another branch in that time the message received by the authorized officer who has a right of power of Attorney. After that, he/she fill up the TT form. Following things are included in the TT form:

- TT Number
- TT Test Number
- Name and Account number of the payee
- Power of attorney number of the sender and receiver of TT.
- The amount to be transferred.



After fill up of TT form he tests the Test number of TT. If he/she ensured through testing the test number then he credit the account of the payee. On the other hand, if the Test number is not proved then he/she callback to the sending branch of TT and request to send a new TT.

#### **d) Mail Transfer**

Money can be sent through mail transfers to any body who has an account in any other branch of the same bank for this purpose the sender shall have to furnish details like:

- The name of the beneficiary and his/her account number
- The amount to be transferred
- The name of the branch where the account is maintained.







# Credit Profile of NCCBL

## 6.1 Introduction

The basic functions of bank are deposit extraction and credit extension. Credit is the hub of banking business. It helps this kind of organizations to earn around 80% of the total revenue. Managing credit operation, thus, is the crying need for any bank. In case of failure in credit management, a bank may face extinction. It is, therefore, necessary that a bank have a proper credit profile that guides the credit operation of the bank in an effective manner. For proper management of credit each and every bank follows the profile for smooth approval, direction, monitoring and review of lending operation. This chapter describes the credit profile of NCCBL.

### 6.1.1 Importance of credit

Credit plays a very vital role in national economy in the following ways-

- It provides working capital for industrialization.
- It helps to create employment opportunities.
- Credit controls almost all kinds of production activities of the country.
- People's purchasing power increases for it.
- It brings social equity.
- Cash generation occurs for its successful performance.
- Business cycle can run well only by the help of lending system.

### 6.1.2 Credit Administration

The board of directors being at the highest level of organization structure plays an important role on the credit administration. The board of directors is not directly concerned with the day-to-day operation of the Bank. The board has delegated the authority to the managing director. The Head Office credit committee and other assigned credit officers under the guidance of the managing director approve, direct, monitor and review lending operations throughout the bank and ensure that the credit policies are adhered to and the credit operation is conducted in an effective way.



In order to ensure the effective credit portfolio, the board, in turn, monitors the credit department and ensures placement of qualified officials who have got the right aptitude, formal training in finance, risk analysis, bank credit procedures as well as required experience.

## 6.2 Major Job Responsibility of the Department

### 6.2.1 Security & Facility Offer Letter (FOL)

- Preparations of Facility Offer Letters
- Processing security documents.
- Preparation and dispatch of security documents.
- Charge creation with Registrar of Joint Stock Companies (RJSC).
- Creation of Legal and Equitable mortgage of Land.
- Coordinate legal matters with lawyers.
- Attending customer queries regarding FOL, securities, Limits and interest related queries.
- Issuance of Bank Certificate.
- Coordinate Search and Inspection Report.
- Responding to auditors of Customers.
- Renewal of Hold covers.
- Cancellation of facilities.
- Circulating Security tracking List to Senior Management on a monthly basis after having RMs comments.
- Update and monitor one off facilities of Trade Services.

### 6.2.2 Limit & NCCBL Banking

- Monitoring exception reports and taking necessary action. 2. Loan disbursement
- Loan Rollover.
- Loan Repayment.
- Interest Adjustment.
- Limit / security loading.
- Canceling securities & limits from NCCBL



- Updating & Circulating Preferential Pricing.
- Update open insurance policies in NCCBL.

### 6.2.3 Preparation and Dispatch of Facility Offer Letter

- Receive approval for CARM (Credit And Risk Management) application through Lotus Notes.
- Review the approval terms of CRM.
- Check whether the facilities are in line with Bangladesh Bank and Banking Companies Act directives.
- Check the CIB (Credit Information Bureau) Report from Bangladesh Bank, Memorandum of Articles & Association and Search report.
- Prepare FOL in standard format as per set up Service Level Agreement (SLA).
- Hand over the draft FOL to the *respective* RM (Relationship Manager) for checking, amendment and conformation.
- Discuss with RM regarding different issues (Terms & Conditions) of the FOL.
- Finalize the FOL; take two copies of FOL printed on Bank's Letterhead, take signature form the concerned RM/SRM and the MGR CDT ADM (Manager Credit Administration).
- Mail the FOL long with security papers to the client for their signing.
- Receive the duplicate FOL duly signed by the customer as an indication of the acceptance of the offer.
- Update SLA tracking, security-tracking list.
- Review fees will be finalized according to the FOL terms.

### 6.2.4 Preparation and dispatch of Security Documents

- Receive approval for CARM application through Lotus Notes. Prepare security documents as per CARM and FOL as per SLA
- Mail the security papers to the client for signing.
- Receive the signed security documents from their customer.
- Update SLA tracking, security-tracking list.



### 6.2.5 Issuance of Bank Certificate

- Receive request from the customer or from the auditor issuance of Bank's certificate.
- Verify the signature.
- Prepare the certificate as the standard format.
- Realize charges and VAT.
- Take signature from authorized signatories of the Bank.
- Keep a copy of the certificate in credit file.

### 6.2.6 Cancellation of Facilities

- Check the CARM approval for cancellation of facility.
- Send Lotus Notes (L/N) to related departments and RM for "no claim" confirmation.
- Upon recipient confirmation from concern departments, delete securities, limits & pre facility from NCCBL
- Prepare Memorandum of Satisfaction for vacation of Charges.
- Advise lawyer for preparing the Deed of Redemption for mortgage.
- Cancel the securities and transfer them to central store.

### 6.2.7 Loan Disbursement

- Receive customer's request letter and verify the signature.
- Check FOL for terms and conditions.
- Check the invoices.
- Process the Loan.
- Disburse the loan through A5 Debit /Credit vouchers.
- Send the customer's advice through courier.
- File the documents after final checking.

### 6.2.8 Loan Rollover

- Receive customer's request letter and verify the signature
- Check FOL for terms and conditions



- Process the Rollover.
- File the documents after final checking in credit file.

### 6.2.9 Loan Repayment

- Receive customer's request letter and verify the signature.
- Check FOL for terms and conditions.
- Cross the letter with red ink and write "entry passed on (dated)".
- Process the repayment through A5 debit/credit.
- File the documents after final checking in repayment file.

### 6.2.10 Limit / Security Loading

- Check and confirm that all securities are in place.
- In case of pending security, check dispensation in CARM and/or file note.
- Release limits and pre facility.
- Maintenance to be raised and approval to be obtained.
- File the maintenance in limit/security maintenance file.

### 6.2.11 Clearing Exception

- Receive telephone call from NSC.
- Respective RM/RO (Relationship Officer) are informed for decision for corporate customers and inform PCM for non-facility customers.
- Obtain decisions from RM /RO/PCM and checked by Senior Manager of Credit Administration (CDT ADM).
- File the exception in clearing exception file.

### 6.2.12 Preferential Pricing

- Receive approval copy of the preferential pricing from RM.
- Send a copy to HTV (Trade Services) with acknowledgement.
- Update credit and preferential pricing files.



### 6.2.13 Open Insurance Policies

- Obtain original open insurance policy from HTV.
- Send a copy of the policy to HTV (Trade Services) with acknowledgement.
- As and when exception generates for renewals send a L/N to HTV for renewal.

### 6.2.14 Principles of Lending

The principles of lending can be considered under the following heads:

- Profitability.
- Make sure about the sources of repayment by analyzing cash flow situation of the borrower.
- To judge the intentions and ability of the borrower to use the credit facilities to his advantage.
- The purpose of advance should be studied with a view to understanding whether it is within the policy of the bank.
- Having agreed the period of repayment, the branch manager must ensure that repayment is received within stipulated period.
- To safeguard banks interest over the entire period of the advance a comprehensive view of the client.

## 6.3 Credit Policy

Lending is the most important function of a commercial Bank. It is necessary to have a prudent Credit Policy in a bank. NCCBL's credit policy generally aims at

- Creating healthy loan assets to ensure good interest earnings for the bank.
- Ensuring safety of invested fund through judicious selection of borrowers
- Improving discipline and skill on use of resource of resources.

### 6.3.1 Sound principles of lending

Sound principle of lending is obvious to avoid loan default tendency and risk elements to safeguard of public money as well as business of a bank.



So, there must be a principle of advance and efforts should be made to make it a sound one for which in depth study must be made on the following points by this bank:

- When the loan is to be given
- Why the loan is to be given
- How the loan is to be given
- What may happen after disbursement of the loan
- Generally what happen (from past experience) after disbursement of the loan
- Is it hopeful that the borrower will repay the loan?
- Whether loan should be given only in private sector or also in government sector as well.
- Whether only secured loan will be extended or provision should be kept for clean loan also
- Whether only short term and mid term loan will be considered or long term will also be considered?
- Whom to be financed?
- Whether loan will be extended to trading sector only or industrial sector will also be considered.



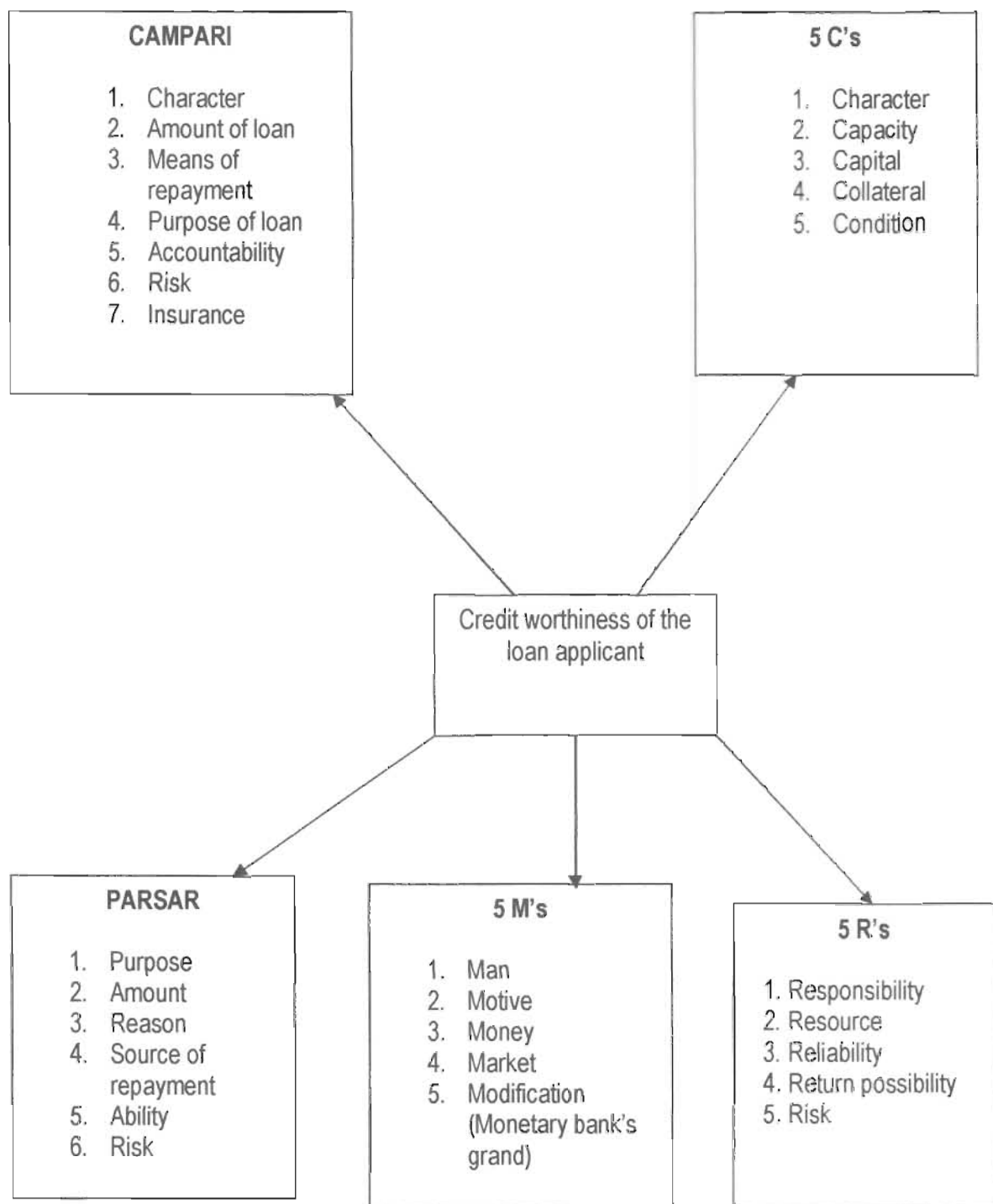


Figure : Creditworthiness of the Loan Applicant





Besides the above-mentioned decision, the managers must ensure materialization of following safe guards for proper use and timely realization of loans, commission. Interest etc and minimize the risk and hazards:

### **Safety of Fund**

Safety means the assurance of repayment of distributed loans. This depends mainly on integrity, business behavior, reputation, past experience in the particular line of business, financial solvency, quantum of own equity in business, capability to run business efficiently, capacity and willingness to repay the loan etc. of the loan.

### **Security**

It must be ensured that repayment of the loan is secured and for this purpose manager must retain security against loan to fall back upon incase of borrower's default. The securities must possess required basic qualities such as possession, title deed, parches etc.

### **Liquidity**

The borrower should have liquid assets so that he can adjust liability on demand and as much as possible loan itself should be quasi liquid so that it can be realized on demand in case of need.

### **Purpose**

Purpose of a loan should be production, development and economic benefit oriented.

### **Profitability**

This is applicable both for bank and the borrower.

### **Diversification**

Diversification means to distribute the loan to a large number of borrowers rather to a small number of borrowers. This will increase the services of the bank and it will reduce the risk of loan recovery.

### **National Interest**

Nothing can be done legally if it jeopardizes national interest in any way.



### **Credit restriction imposed by Central Bank**

At the time of sanctioning loan, the commercial banks must have to follow the restrictions that are imposed by the Bangladesh Bank from time to time.

## **6.4 Credit Strategies**

### **6.4.1 General**

The Bank shall provide suitable credit services and products for the market it operates. Credit will be allowed in manners, which will in no way compromise the Bank's standers of excellence and to customers who will complement such standers. Loans and advances shall normally be financed from customers' deposits and not out of short-term temporary funds or borrowing from other banks. All credit extension must comply with the requirement of Bank Companies Act-1991 and Bangladesh Bank's instructions as may be amended from time to time.

### **6.4.2 Administration**

The administration of the loan shall ensure compliance of all laws and regulations at both local and global levels. Proper analysis of credit proposals is complex and requires a high level of analytical ability. To make the overall credit portfolio of the bank healthy proper stuffing of the credit departments shall be done through placement of qualified officials who have got the right aptitude, formal training in finance, credit risk analysis etc.

Lending in areas from where repayment and servicing performance deteriorates shall be identified at the early stage and closely monitored in order to avoid loan losses. Customers who show sign of weakness in repayment shall be put on a watch-list. Related security against loans shall be monitored and reviewed by a separate unit not connected with the credit approval process on a regular basis in order to assess the collect ability of the loans, cases have to be evaluated and recommended through credit committees.



### 6.4.3 Nature of Credit or Advance sanctioned by NCCBL

Lending of money to different kinds of borrowers is one of the most important functions of National Credit and Commerce Bank Ltd (NCCBL). Major amount of income of this Bank comes from its lending. NCCBL makes advances to different sectors for different purposes, such as financing in trade and commerce, imports and exports, industries, transport, house building, agriculture etc.

### 6.5 Direct Facilities (Funded)

- Term Loan
- Continuous Loan
- Demand Loan

#### 6.5.1 Term Loan

- Short Term Industrial Loan, Mid Term Industrial Loan and Long Term Industrial Loan.
- Transport Loan
- House Building Loan (Commercial)
- Loan against Fixed Deposit Receipt/Eligible Financial Instrument.

##### a) Short /Mid/ Long Term Industrial Credit

By "Industrial Credit" we mean financing of industrial enterprise in the form of term loan. This may be categorized as follows:

- Short term industrial finance: Term of the loan is equal or less than one year.
- Mid term industrial finance: Term of the loan is up to 5 years.
- Long term industrial finance: Term of the loan is more than 5 years.

An industrial finance is allowed for the purposes:

- To set up a manufacturing facility i.e. acquire land, buildings, plant and ; equipment etc, collectively known as fixed assets.
- To finance for BMRE where "B" means for balancing, "M" modernization, "R" for replacement and "E" expansion.



- Purchasing of adequate inventories comprising of raw materials, stock in process and finished goods, retaining sufficient cash and extending credit to their customers.

### **b) Transport Loan**

Any finance, which is given against the hypothecation of vehicles like trucks, buses, marine vessel etc is termed as transport loan. Advance under Transport Sector may be allowed for the following purposes:

- Purchase of imported/locally assembled Buses, Minibuses, Trucks, and Scooters
- Import of reconditioned buses is subject to import regulations.
- Construction or Purchase of Water vessels- passenger & cargo vessels locally built.
- Repair of watercrafts including purchase of engine.

### **c) House Building Loan (Commercial)**

House Building Loan (Commercial) means Loans that are given for construction of buildings or structures to be used not for residential accommodation of the borrower but for commercial utilization like renting or sale after the construction.

This is given for Land development, civil construction and renovation of building. Sometimes it is allowed for procuring Escalators, Air condition, Generator, Electrical equipment, Furniture & Fixture etc.

### **d) Loan against Fixed Deposit Receipt/Other eligible financial instrument (FI)**

This kind of loan is allowed by marking lien or creating charge against fixed deposit receipt(s) or other financial instruments.

The purpose of the credit is to meet the client's urgent need where depositor/holder would not like for the time being to liquidate his or her deposit receipt or financial instruments.



## 6.5.2 Continuous Credit (as working capital Finance)

### a) Overdrafts

#### 1) SOD against Fixed Deposit Receipt/Financial Instrument (FI)

Like fixed loan allowed against FOR or Financial Instruments there can be overdraft (OD) allowed by marking lien on FOR or creation of charges on financial instruments. An OD credit line is more flexible compare to a fixed loan limit.

The purpose of the credit is to meet the, client's urgent need where depositor/holder would not like for the time being to liquidate his or her deposit receipt or financial instruments.

#### 2) SOD against Work Order

This loan is specialized for contractor and suppliers. Bank makes finance to the customers after being awarded of a work order. The work order is assigned with the bank so that payment of bill is paid only through the account marinating with the lending bank. Maximum 20% value of the work order is paid to the contractor as loan. The loan amount is credited to the account of the borrower and from each bill certain percentage is debited for adjustment of the loan. Maximum validity period of the credit facility is up to the validity period of the work order.

This kind of advance is allowed against the work order of a contractor involving construction, supply of goods or services.

### b) Cash Credit

Cash credit or continuous credits are those, which form continuous debits and credits up to a limit and have an expiration date. A service charge that in effect an interest charge is normally made as a percentage of the value of purchases. Cash credit is generally allowed against hypothecation or pledge of goods. Hence cash credits are of two types:

#### Cash Credit (Hypothecation)

Cash credit allowed against hypothecation of goods is known as cash credit hypothecation. In case of hypothecation, borrower retains the ownership and possession of goods on which charge of the



lending bank is created. The documents, which create charge of the lending bank on the hypothecated goods is called letter of hypothecation.

### **Cash Credit (Pledge)**

Under this arrangement a cash credit is sanctioned against pledge of goods or raw materials. By signing the letter of pledge, the borrower surrenders the physical possession of the goods under the banks effective control as security for payment of bank dues. The ownership of the goods, however, remains with the borrower. The pledge creates an implied lien in favor of the bank on the underlying merchandise.

### **6.5.3 Demand loan**

- LIM (Loan against imported merchandise)
- LTR (Loan against Trust receipt)
- EDF (Export Development Fund)
- Packing Cash Credit (PCC) / Export Cash Credit (ECC)
- Cash Incentive & Advance against incentive.

#### **a) LIM; (Loan against imported merchandise)**

LIM is post shipment import finance. Under this facility bank temporarily finances. Clearing of the imported goods/merchandise and takes effective control on them. The importer pays import duty and other expenses /client in exceptional cases bank would pay these on realization of additional margin. Merchandise/goods are always Clear through banks nominated clearing agent.

#### **b) LTR (Loan against Trust receipt)**

LTR is also post shipment import finance like LIM. The essential difference is that in LTR, shipping documents are delivered to the client on trust. The act of trust is based on past experience with and credit worthiness of client. LTR facilities usually have validity of 60 to 90 days. In industrial units, period of limit may be higher. In case of this facility the client always pays duty and charges.



### c) EDF (Export Development Fund)

Export Development Fund (EDF) is a source of foreign currency loan from Bangladesh Bank, initiated originally under co-sponsorship of International Development Association and the Government of the Bangladesh. This fund enables an Authorized Dealer (AD) to issue sight import letter of credit against lien of export letter of credit giving away the need to open usage letter of credit. The Authorized Dealer use its own fund to pay import bills and claims re-financing under EDF Scheme from Bangladesh Bank. Bangladesh Bank lends to AD at prevailing London Inter Bank Offered Rate (LIBOR) plus 1% as instructed by Bangladesh Bank from time to time. The AD is entitled to a spread of 3.5% on financing to new non-traditional exporter and 2.50% on all other financing.

## 6.6 Indirect Facilities (Non-funded)

### Guarantee

A credit facility in contingent liabilities form extended by the banks to their clients for participation in development work like supply of goods and services.

### Letter of credit

A credit facility in contingent liabilities form provided to the clients by the banks for import/procurement of goods and services.

### Other

All other non-funded facilities, which are not included in any other non-funded facilities.

## 6.7 Security for Loans and Advances

Security is a Cover against loans and advances. It ensures recovery of loans and advances. Though now-a-days greater emphases are put on the purpose of the loan rather than securities, nevertheless the securities play an extremely important role to take a decision.



Security is an insurance or cushion to fall back upon in emergency if borrower fails to repay the loan amount. Importance of charging security is

- Protection of Interest
- Ensuring the recovery of the money lent
- Provision against unexpected change
- Commitment of the borrower.



## 6.8 Types of Security

The types of securities offered vary from place to place. In metropolitan cities, it may be Govt. bonds / share / assignment of Book debt / Bills receivable etc. whereas, in the industrial area raw materials & finished goods etc. may be offered as securities. Again agricultural produce is the principal securities in the agricultural centers. Further, a bank also accepts moveable & immovable properties, life insurance policy like securities.

Classification of Securities are :

- Collateral securities
- Guarantee
- Margin

### a) Collateral securities

The tangible securities pledged / assigned by the borrower to the bank and additionally held by the bank to secure a loan are called Collateral Securities. In case of advances against pledge / hypothecation of goods, bank may insist on immovable properties as collateral.

Good collateral security must have the following characteristics:

- Tangible
- Transferable / negotiable
- Easily marketable
- Price stability
- Durability (not perishable)





- Ascertain ability of market value
- Genuineness of title (free from encumbrance)

### **b) Guarantee**

At times when the personal security of the borrower is not considered sufficient or when the risk involved is a border line case and the borrower is not in a position to offer sufficient collateral to the loan, the bank may ask for a guarantee of a third party whose financial ability and credit standing is acceptable to the bank. A guarantee is an undertaking given to the bank by a third party, called the guarantor to be answerable to the bank for the debt of the borrower upon his default in repayment of the loan. It should be remembered that such security for the loan depends on the continued solvency of the guarantor. To safeguard the bank's interest a continuing guarantee in the bank's standard form should be obtained.

### **c) Margin**

The difference between the market value / asset valued of the goods, merchandise and produces pledged / hypothecated to secure a loan / advances and the amount of the loan/ advance (normally the drawing power) is known as Margin. The margin to be retained for each type of loan / advances will be in accordance with instructions issued from time to time by Bangladesh bank / Head office of the bank. In case where minimum margin is specified, the percentage may be increased according to market conditions, salability / durability / storage capacity and inspection facility of the goods.

## **6.9 Documentation Against Advances**

Document is the written statement of facts or evidence in regard to a particular transaction, which on placement may bind the parties answerable and liable to the court of law.

### **6.9.1 Importance of Documentation**

Documentation formalities against loans and advances should be properly completed prior to extension of the facility to safeguard the Bank's interest. Complete and correct documentation enables the Banker to take legal recourse against the borrower in case of non-realization of dues.



### 6.9.2 Purpose of Documentation

Documentation is necessary for acknowledgement of debt by the borrower and for charging of securities to the Bank against loans and advances.

### 6.9.3 Types of Documentation

Documents related to securing loans and advances are classified into the following 2 (Two) categories:

- **Charge documents** are preformatted and printed required to create charge on securities against loans and advances and the documents are provided by the Bank to the client for execution.
- **Legal documents** are legal papers provided by the client certifying the legal status of the borrower, borrowing power, title to goods and property; legal deeds and power of attorney related to creation of charge on securities.

## 6.10 Regulations Introduced By Bangladesh Bank Regarding Loan Classification

In 1989 Bangladesh Bank introduced a uniform rule for loan classification under BCD circular No. 34. The rules were subsequently revised. At present the loan classification exercise is done on quarterly basis as per Bangladesh Bank's circular BRDP 16 dated 16.12.98.

In the past loans were classified by Bangladesh Bank and sparingly by the bank themselves carry out the classification of their loans. Bangladesh Bank will verify such loan classification and in the case of any difference in assessment, their (Bangladesh Bank) will be final. Bangladesh Bank circular requires the banks to carry out the classification on all their loans on quarterly basis in accordance with the guidelines given in their circular.

Loans judged to have a reduced chance of repayment are classified according to the following scale.



#### **a) Substandard**

This is the loan, the value of which is impaired by evidence that the borrower is unable to repay but there is a reasonable prospect that the loan's condition can be improved is considered as substandard.

#### **b) Doubtful**

This is the loan, which is doubtful when its value is impaired by evidence that it is unlikely to be repaid in full but special collection efforts eventually result in partial recovery.

#### **c) Bad and Loss**

This is the loan, which is considered as bad/loss when it is very unlikely that the loan can be recovered.

### **6.11 Classification of Advances practiced by NCCBL**

The *prime* asset of any financial institution consists of its loans and advances and other investments. These assets are created primarily out of funds received from the depositors, loans and some other liabilities. The depositors as well as the investors in the institution are interested in real /realizable value of the assets of the institutions. The creditors are interested, as they want to know the depth of risk on their deposits, while the equity holders desire to be acquainted with viability of their source of income. The management of the institution as well as their supervising authority i.e. the Central Bank, evaluate the assets of the institution keeping in view the aforesaid aspects. This evaluation at stipulated intervals is called " Classification of Advances". It is in fact, placing all loans and advances under pre-determined different heads/ classes based on the depth of risk each and every loan has been exposed to and to bring discipline in financial sector so far risk elements concerned in credit portfolio of banks.

At present loans and advances are classified under three heads according to degree of risk element involved these are-

- Sub-standard
- Doubtful
- Bad



### 6.11.1 Substandard

A loan value of which is impaired by evidence that the borrower is unable to repay but where there is a reasonable prospect that the loan's condition can be improved is considered as substandard.

### 6.11.2 Doubtful

A loan is doubtful when its value is impaired by evidence that it is unlikely to be repaid in full but that special collection efforts might eventually result in partial recovery.

### 6.11.3 Bad or loss

A loan is considered as bad when it is very unlikely that the loan can be recovered.

Good loans are classified as un-classified loans. Naturally depth of risk is more in doubtful or bad loans than unclassified ones.

### 6.11.4 Criterion of classification

Formerly, loans used to be classified by Bangladesh Bank on qualitative aspect only. Under the revised system status of loans are determined on the basis of the following five criterion

- Overdue Criteria
- Required payment in required period i.e. analysis of payment position of a loan within stipulated period
- Legal action i.e. analysis of possibility to realize a loan by legal action
- Limit overdrawn criteria
- Qualitative judgment.

## 6.12 Mortgage

As per Transfer of Property Act-1882, section 58 (a), a 'mortgage' is the transfer of an interest in specific immovable property for the purpose of securing:



- The payment of money advanced or to be advanced by way of loan,
- An existing or future debt or,
- The performance of an engagement, which may give rise to a pecuniary liability.

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

NCCBL exercise only **two types** of mortgage which are:

### 6.12.1 Legal Mortgage

Where without delivering possession of the mortgaged property, the mortgagor bind himself personally to pay mortgage money and agrees expressly or impliedly that in the event of his failing to pay according to his contract, the mortgagee shall have a right to cause the mortgaged property to be sold and the proceeds of sale to be applied so far as may be necessary in payment of the mortgage money, the transaction is called a simple or legal mortgage. But the mortgagee has no power to sell the property without the intervention of the court. Therefore when an interest of the specific property under such mortgage is transferred by registration of deed i.e. mortgage deed is termed as registered mortgage or legal mortgage.

### 6.12.2 Equitable Mortgage

According to section 58 (f) of the Transfer of Property Act, where a person delivers to a creditor or his agent documents of title to immovable property, with the intention to create a security thereon the transaction is called a "mortgage by deposit of title deeds" or "equitable mortgage".

### 6.12.3 Documents Required for Legal Mortgage

- Chain of documents regarding title (if available).
- Original title deed of the mortgagor (if available).
- C.S, S.A., & R.S. Parch Up to date rent receipt.
- Valuation certificate from concerned authority.



- Clearing certificate from local body/development authority.
- Non-encumbrance certificate of Legal opinion from legal adviser.
- Power of attorney authorizing the bank to sell the mortgaged property.
- Site plan/location map Certified copy of mortgage deed along with receipt

#### **6.12.4 Documents Required for Equitable Mortgage**

In case of equitable mortgage all the documents that are required for legal mortgage are also required for equitable mortgage. In addition the following documents are required for equitable mortgage:

- Original title deed.
- Memorandum of deposit of title.
- A registered power of attorney.
- Any other documents as stated in the sanction letter.

### **6.13 Approach to the Bank**

When a borrower approaches to NCCBL for a loan s/he is required to fulfill the following criteria-

- S/he has to be a client of this bank.
- S/he needs to apply properly describing the purpose of the loan amount needed and his/her capability of repayment.

After receiving the application from the client, the branch manager scans the papers and decides if s/he will be allowed for an advance or not. For this manager goes through the following process.

#### **6.13.1 Borrower Selection**

In borrower selection emphasis is given firstly on 3Ms, which are

- Man
- Management
- Money.



### **a) Man**

The manager has to study the man applied for an advance. For this s/he gathers information about the applicant's character, credit worthiness and social status. To judge the credit worthiness of borrowers NCCBL follows some basic principles of lending. These are safety, liquidity, diversification, profitability, suitability, integrity, reliability etc. The manager can obtain information from Branch Records, Credit Information Bureau (CIB) of Bangladesh Bank, Personal interviews with the client, Credit Report, Market Information, Financial Statements (Balance sheet, income statement) etc.

### **b) Management**

Management is the heart of the business concern. So a careful judgement has to be made about it. It is sought if there are enough experts and technical know how in the management of the firm. Management's integrity is also need to be evaluated.

### **c) Money**

If management is heart of the business concern, money is blood, which is another vital factor to survive. A credit manager needs to analyze the debt- equity ratio of the firm. S/he also needs to be sure if there are sufficient assets to recover the advance.

## **6.13.2 Financial Data Analysis**

Secondly, the credit manager has to compare financial statements of at least three years. For this s/he takes help of different ratios such as liquidity ratio, solvency ratio, profitability ratio and activity ratio. S/he also needs to examine bank account statement of the applicant very keenly. In addition to analysis, the manager should visit the business concern to get a true picture of it.

## **6.13.3 Industry Analysis**

In this part, the manager is required to study the business behavior, which includes market demand, competitors and government barriers.



#### **6.13.4 Lending Risk Analysis**

It is a systematic and structural way to assess lending risk, which covers all the factors described above. Here a form has to be completed by the lending officer. If lending risk is found to be low, financing can be done and vice versa.

If the applicant is found to be OK after going through all the above process, the branch manager sends it with other necessary papers to the credit division of the Head Office with his/her own recommendation. The credit division after appraisal sends it to the Board (in the case of amount more than 10 lac) or to the credit committee. The credit committee consists of Managing Director, one Executive Vice President and one Vice President from International Division. If the Board/Credit Committee agrees, the proposal is accepted and is sent back to the credit division. The credit division informs it the branch manager. Following this the branch manager, maintaining other law and regulation sends a sanctioning letter to the applicant.

### **6.14 Important Factors Considered by NCCBL Before Sanctioning Credit**

Though off balance sheet activities play a vital role in a bank's earnings, still income earned out of lending accounts for major portion of income of it. This lending in other words advance may raise the standard of success of a bank to the highest possible level and at the same time can be a sole instrument for liquidation (i.e. premature death of a bank) depending on how this portfolio is handled. So following factors should be given great emphasis.

#### **6.14.1 Who shall get credit**

It is easier to find out a depositor than finding out a good borrower. Public money in hands of a bad borrower, is never safe and secure. Then the question comes whom to lend? In a nut shell the answer is the entrepreneur who, for attaining his own pecuniary interest as well as mental satisfaction together with offering additional services and well being to the society at large, undertakes efforts to collect together various types of necessary goods, labor materials, other wealth etc and by means of application of his wisdom, foresight, creativity, devotion and self confidence, takes initiative to add additional utility and value to the collected materials and wealth





by bringing change and or modification in their form. It is widely accepted that a good entrepreneur is a good borrower.

#### **6.14.2 How much to lend**

Over financing and under financing is very common phenomenon in credit portfolio; neither of which is desirable as a sound principal of advance. The highest priority of consideration is that bank credit must not be extended for speculative purpose and sound credit policy always finds out actual credit need depending on nature, volume, turnover of business as well as capability of the prospective borrower, which in turns depends on the test of good entrepreneurship. The most important aspects for consideration is how much a bank can lend taking into consideration its liquidity position, loanable fund and commitment already made.

#### **6.14.3 Why to lend**

The recommending as well as sanctioning authority must ascertain and satisfy himself that all advance are for productive purpose, genuine business and trade need based and neither for speculative nor for unproductive purpose. It is primary responsibility of recommending officer to visualize whether the loan, he is recommending for will generate cash to desired extent benefit to the bank, to the borrower and to the society at large. Bank cannot afford a loan turning bad to the detriment of institution and the society and for this purpose, the recommending and sanctioning officer must be acquainted with sound principles of advance and the ways and means to analyze the risks involved with the proposal processes and the limit sanctioned.

#### **6.14.4 Where to Finance**

Financial activities of a bank, depends upon portfolio management of its funds through deposit. Bank's lending activities may be classified into following broad segments-

##### **a) Trade and Commerce**

This segment encompasses large, medium and small business houses dealing with imported consumer items as well as shopkeepers, distributors, whole sellers, retailers and small



manufacturers scattered throughout the country. Lending activities of commercial banks in this segment of trade has traditionally been carried out based on bank-client relationship built up through interaction and past track record.

### **b) Industries**

The domain of industrial financing basically comprises of capital financing in the form of term loans, working capital financing and financing of small and cottage industries. The term loan is financed for establishment of new industries or for BMRE of existing industries. The core of NCC Bank's lending activities shall be the working capital financing to large, medium and small-scale industries. While track record of operational performance of the industries, credit worthiness of the entrepreneur and reasonable security coverage shall form the basis of lending policies. NCC bank also set aside some budgetary allocation to finance small-scale industries.

### **c) Lease Financing**

NCC Bank to keep its contribution to the growth of national GDP, accelerate the total economic development by infusing the fund in productive sector in more efficient and effective way; that's why this bank diversify its portfolio and satisfy the customers' need and go for lease finance for various reasons. These are setting up of small and cottage industries/projects, BMRE of existing projects, transports, medical equipment, construction equipment and fixed assets of other productive and service oriented ventures.

### **d) Consumer Financing**

For the economic development and to help the fixed income group in fulfilling their demand to upgrade the living standard NCC bank introduce consumer finance scheme for:

- Household appliances.
- Furniture & fixture.
- Air conditioner.
- Fax machine and cellular phone.
- Motor cycle/ car/ microbus
- Other equipments.



### e) Real Estate and Civil Construction

NCC bank financed in this sector on selective basis.

### f) Agro-based

Agriculture is the mainstay of Bangladesh economy being major contributor to the GDP. That's why NCC Bank has the keen interest to contribute towards the growth of economy by financing in the agro-based firms/ industry specially- poultry, fishery and hatchery. Financing will also be provided to export oriented shrimp culture and fish processing industries.

## 6.15 Credit procedure followed by NCCBL

Lending is the main profit generating activity of NCCBL. Every bank should possess a lending procedure that provides correct borrower selection, quick processing, assurance of repayment and effective monitoring and supervision. NCCBL is yet to develop its written operational lending procedure.

The lending procedure followed by NCCBL consists of a set of sequential activities. In these sequential activities, both bank officials and potential borrowers play significant role.

## 6.16 Different Activities in Lending Process

The lending procedure starts with building up relationship with customer through account opening. The stages of credit approval are done both at the branches and at the corporate office level. The lending procedure as observed in NCCBL is described below in sequential order:

**Step-1:** A loan procedure formally starts with a loan application from a client who must have an account with the Bank. At first it starts from the branch level. Branch receives application from client for a loan facility. In the application client mention what type of credit facility he/she wants from the bank including his/her personal information and business information. Branch Manager or the Officer-in-charge of the credit department conducts the initial interview with the customer.



**Step-2:** After receiving the loan application from the client, the bank sends a letter to Credit Information Bureau of Bangladesh Bank for obtaining a credit inquiry report of the customer from there. This report is called CIB (Credit Information Bureau) report. This report is usually collected if the loan amount exceeds fifty thousand taka. The purpose of this report is to be informed that whether or not the borrower has taken loans and advances from any other banks and if so, what is the status of those loans and advances i.e. whether those loans are classified or not.

**Step-3:** If Bangladesh Bank sends positive CIB report on that particular borrower and if the Bank thinks that the prospective borrower will be a good one, then the bank will scrutinize the documents. Required documents are:

- In case of corporate client, financial documents of the company for the last three to five years. If the company is a new one, projected financial data for the same duration is required.
- Personal net worth of the borrower(s).
- In this stage, the bank will require whether the documents are properly filled up and duly signed. Credit in charge of the relevant branch is responsible to enquire about the ins and outs of the customer's business through discussing with them.

**Step-4:** Bank officials of the credit department will inspect the project for which the loan is applied. Project existence, its distance from the bank originating the loan, monitoring cost and possibilities are examined.

**Step-5:** Any loan proposal needs to be evaluated on the basis of financial information provided by the loan applicant. Financial spreadsheet analysis, which consists of a series of quantitative techniques, is employed to analyze the risks associated with a particular loan and to judge the financial soundness and worthiness of the borrower. Besides lending risk analysis is also undertaken by the bank to measure the borrower's ability to pay considering various risks associated with the loan. These quantitative techniques supported with qualitative judgment are the most important and integral part of the credit approval process used by NCCBL. This is the credit analysis phase.



**Step-6:** Obtain legal opinion on the collateral provided by the applicant, whether those are properly submitted- regular and up to date or else those documents will be asked to regularize by the applicant.

**Step-7:** The branch starts processing the loan at this stage. Based on the analyses (credit analysis) done by the branch, the branch prepares a loan proposal. The proposal contains following important and relevant information:

- Name of the borrower (s).
- Nature of credit.
- Purpose of the credit.
- Extent of the credit.
- Collateral.
- Margin.
- Rate of interest.
- Repayment schedule.
- Validity.

**Step-8:** If the proposal meets NCCBL's lending criteria and is within the manager's discretionary power, the credit line is approved. The manager and the sponsoring officer sign the credit line proposal and issue a sanction letter to the client. If the value of the credit line is above the branch manager's limit then it is send to head office or zonal office for final approval with detailed information regarding the client (s), credit analysis and security papers.

**Step-9:** Head office processes the credit proposal and afterwards puts forward an office notice if the loan is within the discretionary power of the head office credit committee or board memorandum if the loan requires approval from the board of directors.

**Step-10:** If the zonal office, credit committee of the head office or the board as the case may be approves the credit line, an approval letter is sent to the branch. The branch then issues a sanction letter to the borrower with a duplicate copy. The duplicate copy duly signed by the borrower is returned to the branch of the bank. This duplicate copy returned by the applicant proves that the borrower agrees with the terms and conditions of the credit line offered by the bank.



**Step-11:** After issuing the sanction advice, the bank will collect necessary charge documents. Charge documents vary on the basis of types of facility, types of collateral.

**Step-12:** Finally the branch through a loan account in the name of the borrower disburses loan and monitoring of the loan starts formally.

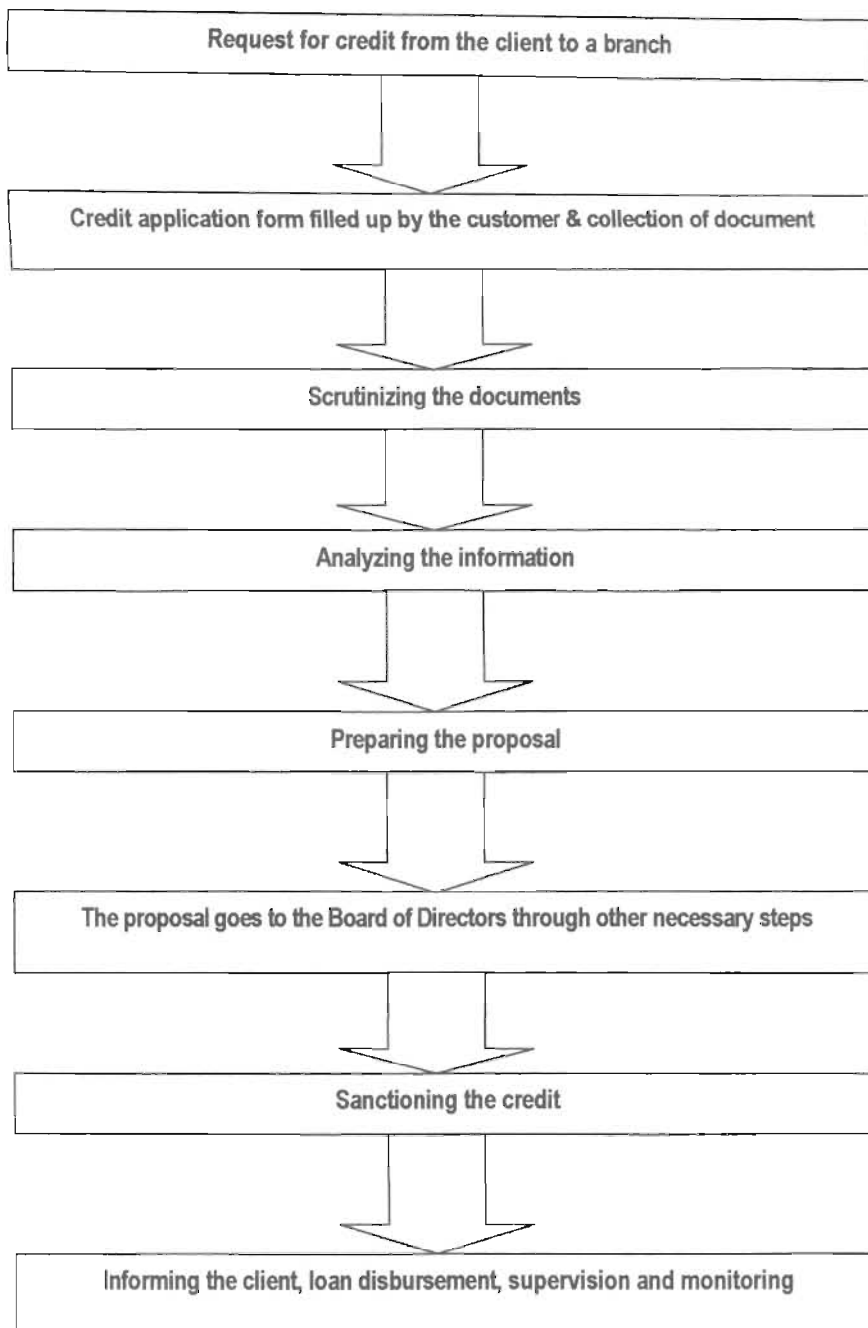


Figure : : Lending Procedure Followed by NCCBL



## 6.17 Role of Different Organizational Levels in Lending Process

NCCBL's organizational structure has two levels- Branch and Head Office. The credit proposal moves through different management approval levels according to the amount of risks associated with the loan. There are four approval levels in NCCBL with regards to credit lending process:

- Branch Manager and Branch Credit Department.
- Zonal Head of the Bank.
- Credit Committee of the Corporate Office.
- Board of Directors of the Bank.

### 6.17.1 Branch Level

- Adherence to the policy guidelines of the Head office and the supplementary policy guidelines of the Regional Office.
- Analysis of the command area.
- Determination of the requirements of incremental loan able funds.
- Allocation of the said funds to different sector and client groups during the budget period.

### 6.17.2 Zone Level

- Analysis and settlement of the branch credit plan in a branch managers' meeting in a democratic way.
- Transmission of the regional credit plan to the Head Office.

### 6.17.3 Regional Level

- Adherence to the policy guidelines of the Central Bank regarding deployment of credits.
- Correction of zonal as well as sectoral imbalances if any.
- Settlement of credit plan of the bank for the budget year.



## 6.18 Allocation of Loanable Funds

Here is a table of percentage of allocation of loanable fund.

Particulars	Percentage (%)
Trade & working capital	45%
Industries	25%
Small industries & various sectoral finance under Govt.	15%
Real estate & civil construction	5%
Agro-based financing	5%
Lease financing	3%
Consumer financing	2%

Source: NCCBL

## 6.19 Lending Interest of NCCBL

Here is a table of lending interest rate of NCCBL.

Special HBL	Figure in %
Loan general	15%
Loan against HB	15%
Consumer finance scheme (CFS)	15%
Project loan/ demand loan	15%
Small business loan scheme (SBLS)	17%
House renovation LS	17%
Export Finance (Packing credit, CC export etc)	15.50%
Import Finance (PAD, LIM, LTR etc)	15.50%
Lease Finance	15%
Personal loan scheme (PLS)	17%
SOD general	15.50%
SOD fin. Obligation	15.50%
CC (hypo)	15.50%
Festival SBL	15.50%
Staff car loan	At bank rate; minimum 8%
Loan against provident fund	Do
LDBP	15.50%
All other commercial lending	15%

Source: NCCBL





# Credit Monitoring and Review

In the implied credit rules by NCCBL it is the manager's responsibility to monitor the profile and risk aspect of the credit portfolio. Such monitoring shall be evidenced from the comments of the manager in monthly call or time to time call and visit reports of the assigned officers and be kept in the credit file with copy to Head Office. All extensions of credit have to be reviewed and graded at intervals prescribed by the Head Office. The purpose of this procedure is to monitor lending performance and to identify potential delinquent credits. The basis of review and classification are: risk of the transaction, repayment record of the borrower, collateral conditions, supporting information and documentations and the degree of conformity to bank facilities. The responsibilities for review and classification of credit facilities start at branch level and finally ends at the Head Office. Regardless of any formalized times for facility to be reviewed and formally classified by the branch manager or the concerned credit officer.

## 7.1 Purpose of Credit Monitoring in NCCBL

The purposes of credit monitoring are pointed out below:

- To prevent loan classification.
- To return flow of fund.
- To ensure compliance of terms and conditions.
- To obtain feedback from the borrowers.
- To take timely corrective action regarding a particular loan.



## 7.2 Credit Administration as a Tool for Credit Monitoring

- To ensure that all security documentation complies with the terms of approval and is enforceable.
- To monitor insurance coverage to ensure appropriate coverage is in place over assets pledged as collaterals and is properly assigned to the bank.
- To control loan disbursement only after all terms and conditions of approval have been met, and all security documentation is in place.



- To maintain control over all security documentation.
- To monitor borrowers compliance with covenants and agreed terms and conditions, and general monitoring of account conduct/performance.
- To minimize credit losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of a borrower.
- Past due principal or interest payments, past due trade bills, account excesses and breach of loan covenants.
- Loan terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions needs timely actions Timely corrective action is taken to address findings of any internal, external or regulator inspection/audit.
- An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention by the management.
- Despite a prudent credit approval process, loan may still become troubled. Therefore, it is essential that early identification and prompt reporting of deteriorating credit signs be done to ensure swift action to protect the Bank's interest.

Moreover, regular contact with customers will enhance the likelihood of developing strategies mutually acceptable to both the customer and the Bank. Representation from the Bank in such discussions should include the legal advisor when appropriate

- Banks should take immediate measure to EXIT-Strategy implementing recovery strategy.
- Determine Account Action Plan Recovery Strategy.
- Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- Regular review of bad accounts.

### **7.3 Risk Grading as a Tool of Credit Monitoring**

The system should define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved.



Risk grading is key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. It is recognized that the banks may have more or less risk grades; however, monitoring standards and account management must be appropriate given the assigned Risk Grade.

**Table : Risk Grading**

	<b>Risk-rating</b>	<b>Grade</b>	<b>Definition</b>
i)	<b>Superior-Low risk</b>	1	Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank.
ii)	<b>Good-Satisfactory Risk</b>	2	The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow.
iii)	<b>Acceptable-Fair Risk</b>	3	Adequate financial condition though may not be able to sustain any major or continued set backs, but should still demonstrate consistent earnings, cash flow and have a good track record.
iv)	<b>Marginal - Watch list</b>	4	Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, their cash flow and/or inconsistent earnings.
v)	<b>Special Mention</b>	5	In this grade assets have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deteriorating of the repayment prospects of the borrower.



Vi)	<b>Substandard</b>	6	Financial condition is weak and capacity or inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans. Still may not be considered non-performing as the correction of the deficiencies may result in an improved condition and interest can still be taken into profits.
Vii)	<b>Doubtful and Bad (Non performing)</b>	7	Full payment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as loss. Loan loss provisions must be raised against the estimated, unrealizable amount of all facilities.
Viii)	<b>Loss (Non performing)</b>	8	Assets under this category are long outstanding assets with no progress in obtaining repayment or in the late stages of wind up liquidation. The prospect of recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for.

## 7.4 Early Warning System in Credit Monitoring

NCCBL uses early warning system for effective monitoring of its loans and advances. Early warning system consists of a watch list, which addresses problems while adequate alternative actions are available.



#### 7.4.1 Early Warning Signals

The components of early warning system consist of current or anticipated alternations in the followings:

- Industry patterns or structures.
- Management composition or succession.
- Impact of national or international political and economic trends.
- Nature of the lender/borrower relationship.
- Borrower performance versus budget or forecast.
- Nature of joint venture arrangements or relationships.
- Any undesirable alternations in the above act as precaution for NCCBL to take corrective or preventive action before the situation get worsened.

#### 7.4.2 Preventive Measures in Early Warning System

When early warning system signals about a situation that might cause alteration in the credit relationship with the borrower, NCCB undertakes and reviews the following preventive measures:

- Understand clients' business.
- Analyses clients' financial statements.
- Frequent visit to client so that he becomes alert regarding the loan 100% security cover for bank's risk.
- Investigate market rumors.
- Use of credit bureau checklists

#### 7.4.3 Corrective Measures

When it becomes inevitable to face an adverse situation regarding a particular loan, NCCBL takes corrective measure to mitigate the situation as much as possible. The following corrective measures are taken in this regard:

- Reviewing the documents and situation from legal point of view.
- Working out strategy and action to face the problem.
- Loss is evaluated against the security realization value.
- Deciding on whether to stay or leave the project and reclassification is done accordingly.



- Visiting the client continuously to find any way out.
- Then all efforts are put forward for negotiation.
- Ultimately legal actions are taken when all measures fail.

## 7.5 Loan Monitoring Through Continuous Reporting

NCCBL also monitors its credit portfolio through continuous reporting to Bangladesh Bank. For this purpose Bank uses six forms (CL-1, CL-2, CL-3, CL-4, CL-5 and CL-6) in accordance with the nature of loan and advances.

- CL-1 is the compilation of the 5 other reports, which covers different loan categories including the staff loan.
- CL-2 is used to report continuous loan.
- CL-3 is used to report demand loan.
- CL-4 is used to report for loan repayable within maximum 5 years.
- CL-5 is used to report term loan of over 5 years.
- CL-6 is used to report short-term agricultural loan.

## 7.6 Recovery of Advance

A bank's profitability and sustainability mostly depends on the recovery of its outstanding amount. Outstanding amount includes both principal and interest because, 80% of bank's earnings comes from advances. A poor recovery rate indicates the weak condition of the banking operation and vice versa. But in the mid 80s, there started a loan defaulting culture, which is still in practice. As a result, banking sectors as well as the whole economy is facing a great threat from the defaulters. Money circulation has come down at its minimum level. If this cannot be checked, whole banking system of our country will collapse one day.

### 7.6.1 Recovery Procedure

Recovery procedure is a lengthy one that requires efforts of the bank, society and legal institutions. It also takes time and money. Like other banks, NCC Bank follows four steps to recover the outstanding amount. These are-



These four steps are described in detail below-

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

## 7.7 Loan Default

A borrower can default for many intentional and unintentional reasons. There has been a mal practice of loan defaulting since the mid 80s. This creates a great threat to the financial institutions.

### 7.7.1 Location of main risk elements and reasons of loan default

If the manager/sanctioning authority is aware of the prominent reasons of loan default and risk elements, he/she can take precautionary measures to minimize risk elements in recommending / sanctioning / disbursing a loan. There may be hundreds of reasons for loan default out of which following are the prominent causes-

- Sick Management
- Sick Marketing
- Sick Product
- Sick Operation
- Sick Finance
- Sick entrepreneur.

a. Sick Management: Sick Management means lack of integrity, co-operation, financial/ marketing knowledge and experience, endurance and judgment.



- b. Sick Marketing: It means lack of freedom, no restriction, openness (no monopoly), depth, growth and stability.
- c. Sick Product: Sick product means lack of quality, competitiveness, demand and durability.
- d. Sick Operation: It indicates lack of efficient machineries, skilled labor, good labor relation, utilities, raw materials, access to transport etc.
- e. Sick Finance: It is lack of fund, repayment period, flexible rate of interest, matching to assets, collateral, efficient capital market etc.
- f. Other reasons: They include lack of reputation, analysis of balance sheet, Lending risk analysis, adequate margin, past satisfactory performance, credit need analysis, good relation with other banks, credit information bureau report, other bank report, quality of security offered, demand etc.

## 7.8 Summary and Conclusion

Policy means a set of rules and regulations to achieve a goal. Any kind of policies should be specified in written form. Otherwise different people will take its advantage. NCCBL does not have a written credit policy. As a result, branch managers as well as head office executive differ in implementing the policy. Policy should be published and maintained for the sack of NCCBL's own interest. A large portion of the advance becomes overdue every year. It happens because of two main reasons. They are misevaluation of the borrower and economic instability of the country. NCCBL does not have a proper monitoring cell to evaluate the project financed by it at a specific interval. But NCCBL should always remember the proverb "prevention is better than cure". It needs to be much more cautious and careful in evaluation of the borrower and the project. Then it has to monitor the advancement of the project. If the progress is not satisfactory, disbursement can be postponed. NCCBL should keep it in mind that it is dealing with the money of the general public who earn at the cost of their great hardship. So it should not play with the lives of these people. NCCBL must take a great care for credit policy making and its proper implementation.

Here are some tables which show the scenario of loans and advance of NCCBL :







\*Fig in BDT million\*

Loans & Advance	2008	2007	2006	2005	2004
Loan, cash credit, overdraft	44394.49	30616.55	23038.76	19124.05	14246.55
Bill purchase & Discounted	1938.19	2071.19	1511.92	1269.35	915.91
Payable in Bangladesh	1784.32	1269.35	1511.92	1269.35	915.91
Payable outside Bangladesh	153.86	139.70	1639.65	139.70	48.67

Source: NCCBL Annual report 2004 - 2008

\*Fig in BDT million\*

Maturity grouping loans advance	2008	2007	2006	2005	2004
Payable on demand	9520.69	7521.69	145.26	153.34	3405.54
Less than 3 months	10120.14	5378.18	139.85	-	3559.08
More than 3 months, less than 1 yr	13129.85	8400.66	706.13	7.48	3005.95
More than 1 yr, less than 5 yr	10247.48	8093.14	736.55	2776.77	4056.61
More than 5 yr	3056.66	3045.61	1824.27	72.84	1183.94

Source: NCCBL Annual report 2004 - 2008

\*Fig in BDT million\*

Concentration on advance	2008	2007	2006	2005	2004
Advnc. to allied concern of director	22.29	30.25	27.32	10.73	3.37
Advance to group wise clients	18955.77	12554.64	6167.90	6726.30	4287.50
Staff loan	350.90	238.11	177.55	149.33	134.17
Others	2215.85	923.73	18305.57	13464.75	10786.10

Source: NCCBL Annual report 2004 - 2008

\*Fig in BDT million\*

Sector wise loan & advance	2008	2007	2006	2005	2004
Agricultural	185.62	291.93	202.10	420.24	133.26
Industry	17271.18	11650.11	8935.15	8285.25	5459.20
Construction	1354.61	1337.95	2185.41	1119.63	140.29
Water works	-	-	-	2.54	9.87
Transport & communication	610.59	737.26	831.05	342.29	339.41
Storage	184.85	-	0.01	4.55	4.56
Business	6903.91	4794.00	8529.25	7987.43	6728.60
Others	843.83	1291.36	3995.36	2371.16	2395.92

Source: NCCBL Annual report 2004 - 2008

\*Fig in BDT million\*

Division wise loan & advance	2008	2007	2006	2005	2004
Dhaka	30674.54	21478.83	16852.10	13253.00	9934.04
Rajshahi	641.37	409.21	481.60	364.34	243.45
Chittagong	12776.11	9134.33	6476.01	6097.56	4355.21
Sylhet	295.50	247.92	207.99	201.79	162.53
Khulna	794.42	723.36	660.63	616.40	515.90

Source: NCCBL Annual report 2004 - 2008



"Fig in BDT million"

Classification of loan & advance	2008	2007	2006	2005	2004
Unclassified standard	44265.37	30659.40	23290.77	19370.75	14023.85
Unclassified special mention a/c	164.72	675.03	175.32	180.82	-
Substandard	267.04	146.67	159.95	101.36	42.22
Doubtful	166.02	211.96	189.64	204.06	65.73
Bad or loss	1469.50	994.66	862.66	676.10	1079.34
<b>Total</b>					

Source: NCCBL Annual report 2004 - 2008

## 7.9 An Evaluation of Credit Management and Monitoring Techniques of NCCBL

The lending process of NCCBL starts with a customer who has an account with the bank or is intended to open account with the bank. The lending generally starts at the branch level. The relationship manager plays an important role in the initiation of the lending process. The critical evaluation of the lending process has been done taking various components and phases of the lending process into consideration.

### 7.9.1 Borrower Selection

- Borrower selection is the most important part of lending process, because the subsequent success largely depends on the right selection of the potential borrower. Generally any body that is an employee of NCCBL can bring credit customer for the bank or the customer can present himself for the approval of credit line for him. Bank's officers and employees are especially encouraged to bring customer for the bank especially in NCCBL because it is still new in the banking sector and wants to grow its credit portfolio.
- While selecting borrower the loan officers are instructed to take utmost care so that adverse selection is not made. In this connection NCCBL can be said conservative lender because it carefully chooses its borrowers.
- The most important guiding rule for selecting the right borrower is the KYC or Know Your Customer. This KYC methodology is designed by Bangladesh Bank to select right customer for the bank. It has been observed by the Bangladesh Bank that most of the financial crimes arise from the selection of wrong customers. The KYC guideline is so designed that it helps to *generate a clear picture* of the bank's customer.



### 7.9.2 Problems in Borrower Selection

Though Bank takes protective measures so that wrong customer selection is not made but in reality often adverse selection is made. The major problem that the loan officers face in selecting borrower is the availability of information about a particular borrower. There are instances that customers provide fabricated information to prove him/her a worthy" and financially viable customer.

Buyers often manipulate their financial statements so that it provides a healthy picture to the bank. Borrowers' speculative behavior and non co-operation in providing data is acute in Bangladesh.

Bangladesh is a small country but there are 52 commercial banks operating here. Therefore the credit market is a borrower-dominated market. Number of potential borrowers is insufficient as compared to the number of banks operating. Therefore an unhealthy competition has occurred in capturing customers.

Bank cannot keep its deposit idle because deposit is entitled to give interest to the depositors. That's why bank is in constant search for potential borrowers to mobilize its deposits. Therefore sometimes-adverse selection is made arising out of emergency need for rotating the bank's deposit.

### 7.9.3 Evaluation of the Branch Activities

- Branch plays the key role in lending process. Usually branch credit department targets the potential borrowers, generates the credit relationship and complete the credit analysis and prepares a well-written credit proposal. The approval of a loan depends on how well proposal is prepared supported with relevant information and analysis.
- Bank collects information through pre-designed form filled up by customer. These forms include PNW (Present Net Worth) form, bank facility application form, and personal credit information form. It's very easy to provide false and distorted information in these forms. Therefore the bank officials must not depend only on the information collected through questionnaires but also should visit the customers' work place, house, seek information from the customers' peer groups and enquire about the customer so that he or she does not get insulted.



- If the information collected by the branch does not represent the real picture of the borrower, then all the subsequent lending activities will carry risks. Particularly credit analysis based on wrong information might prove very dangerous.
- Branch main purpose regarding a credit application is not to create obstacle for the customer but to depict the clear and real picture from an unbiased position.
- Branch generally cannot sanction credit except in the case of Over Draft lined with Fixed Deposit Receipt (FDR). The manager of any branch can approve 85% of the value of FDR as Over Draft limit and requires zonal head approval if the amount exceeds 85%.
- The success of a credit approval largely depends on how well and how quickly branch can prepare the credit proposal. Based on the proposal prepared on the basis of qualitative and quantitative analysis, the head office takes decision whether to sanction the loan or not.

#### **7.9.4 Evaluation of the Corporate Office Activities**

- Corporate office credit committee and board of directors play key role in the final sanction of the lending process. If the amount of credit exceeds Taka one crore, board approval is necessary.
- Credit committee of the corporate office reviews all the credit proposals sent by different branches of NCCBL. If any drawbacks are found the proposal is either sent to the branch or rectified by the credit committee itself.
- The time required for the approval of a particular credit proposal largely depends on the level coordination between branches and the corporate office credit committee.
- Besides credit committee also over views the whole credit process of NCCBL and if any intervention is required at any stage, they play the required role. At the corporate office each officer of the credit department is assigned to supervise few branches to facilitate better communication and smooth functioning of the lending process. Currently credit committee of NCCBL is working out for a written credit manual, which can be of great help to the operational level credit practices.



### 7.9.5 Evaluation of the Credit Analysis

- Credit analysis is one of the most important components in the lending process. To minimize the risk lending financial information of the borrower is calculated with the scientific method named Spread Analysis. Financial spread sheet analysis consisting of balance sheet, income statement and cash flow statement proved very effective in judging the financial health of the borrows.
- Some times credit analysis fails to remove the bridge between the selection of borrower and the final approval of the loan due to lack of valid information provided by the borrower. In such case financial spread sheet analysis generates faulty results. Therefore it is
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suggested that the quantitative credit analysis should be supplemented with subjective judgment.

### 7.9.6 Evaluation of the Credit Risk Grading (CRG)

- The Credit Risk Analysis package provides a systematic procedure for analyzing and quantifying the potential risk. Bangladesh Bank has made it mandatory for commercial banks to use CRG for evaluating credit proposals amounting Tk. One crore and above. The main problem with CRG is that it is manipulated as per the requirement of the borrower. Sometimes CRG is not even conducted at the loan processing stage. After approval of the credit CRG is done just to maintain the office record and to meet the Bangladesh Bank Credit Policy. Fortunately such instances are almost absent in the case of Bank Asia or at least the writer did not find such cases during his internship period.
- CRG Format is mainly designed for all type of loans except micro credit & agricultural credit. But it is really impossible to represent all needs in a single format. So, credit officer judgments are needed in this case.
- CRG at the initial stage relies too much on subjective judgment and Financial Risk has been given the maximum weight. Therefore there is always a chance to manipulate the ultimate risk grading.



- Another major impediment to the successful Credit Risk Analysis is that the information provided by the borrower often does not suit to feed into the CRG format. Therefore the credit officers need to employ extra time and effort to collect the relevant information from the borrower.
- Credit Risk Analysis is a lengthy process requiring sometimes even more than a month due to the lack of information and its subjective nature.

### 7.9.7 Evaluation of the Charge Creation

- Charge creation is very important in the lending process in that it establishes the legal right on the property of the borrower so that the bank can get the repayment by selling the property in case of default.
- NCCBL does not create charge through pledge, which is strong mode charge creation. The security obtained through pledge is much safer than hypothecation, which is a weaker mode of creating charge.
- Negligence in creating proper charge might seriously jeopardize the bank's interest as far as the credit is concerned.
- Charge documents can never be sent to the borrower but such instances have been found to occur in NCCBL.

### 7.9.8 Evaluation of the Loan Monitoring Techniques

NCCBL employs several techniques for loan monitoring. It is usually done through physical verification of the borrower's work place, mortgaged property or hypothecated stocks. So far NCCBL's loan monitoring has been done very effectively which is evident from its zero default rates.

Although the bank maintains standard monitoring technique, it has some internal deficiencies in conducting the loan monitoring process. NCCBL faces occasional problem in loan monitoring due to the shortage of manpower. Loan monitoring is a continuous task requiring reasonable number of manpower.



But it is not always possible for the bank to involve its credit officers to monitor loan. Proper monitoring requires the establishment of separate loan monitoring cell.

## **7.10 Identification Some Problems regarding Credit Mgt.**

Proper Credit Management is the most important function of any Bank. But the credit management activities suffer from some kinds of problems that are learnt from discussion with officers, clients and also problems identified from the job observations. The problems are as follows:

### **1. Lack of Deposit for Credit Extensions**

Discussion with officers of the Head Office revealed that if the Bank collects more deposit, it would be able to advance credit to more viable projects.

### **2. Mentally of not to repay the loan**

A culture has been developed among the common people that Bank loans need not to be repaid.

### **3. Defective Legal System**

Existing bad legal system is another greatest blow and curse to the credit management system and alarming factor recovering loan from defaulter. In reality it is very difficult, lengthy and expensive to have a verdict in favor of the Bank.

### **4. Delays in Loan Sanction**

Lengthy process of loan sanction or delay is a common problem of credit management.

### **5. Higher Rate of Interest for Credit**

Clients generally complain that rate of interest for various type of credit are quite high. In many cases productivity from loaned investment is inadequate that borrower become incapable in repaying loan.

### **6. Changes in Policies**

Due to changes in the export, import, foreign exchange policy as well as monetary and fiscal long term financing suffer a lot.



## 7. Irregularity in Providing Loan

Usually Banks are responsible to provide loan to those who are eligible for the loan. But in reality, small investors do not get the loan easily. They have to fulfill more terms and conditions than those who have greater influence in the business community.





# Recommendation & Conclusion

## 8.1 Recommendation

Based on the evaluation of different aspects of the credit process of NCCBL, the following recommendations have been made:

- In the face of competitive and borrower dominated credit scenario NCCBL must come up with innovative loan products to meet up *the* demand of time. In this connection NCCBL can focus on some more loan products like: Leasing, Apartment loan and Credit card.
- To combat the problem of mobilizing deposit in the form of credit, NCCBL should focus on intensive marketing effort.
- Entrepreneurship lending should be given due emphasis.
- As borrower selection is the key to successful lending, NCCBL should focus on the selection of true borrower. But at the same time it must be taken into account that right borrower selection does not mean that NCCBL has to adopt conservative lending policy but rather it means that compliance with the KYC or Know Your Customer to ascertain the true purpose of the loan.
- Care should also be taken so that good borrowers are not discarded due to strict adherence to the lending policy.
- At the branch level credit department must be adequately capable of collecting *the correct* and relevant information and analyzing the financial statements quickly and precisely.
- Credit officer must be skilled enough to understand the manipulated and distorted financial statements.
- Credit committees at all levels must work in co-ordination with each other for quick approval of loans and to reduce the loan processing cost.
- To expedite the lending process, board credit committee meeting should be held twice a month instead of once a month.
- Monitoring of a loan should be conducted at regular interval to enhance the borrower is properly maintaining the mortgage property and utilizing the borrowing money. The bank should benchmark the monitoring techniques practiced by the successful and established banks in Bangladesh. It should take the counseling service from the experienced expatriate



to further improve the monitoring techniques. Furthermore it should also aware of the monitoring techniques adopted by the established banks around the world.

- In case of mortgage, care must be taken to accept collateral on second charge.
- In case of assignment the bank must ensure that the assignment debtor has given undertaking.
- Reporting of all loans should be periodically made to Bangladesh Bank.
- Loan monitoring is a continuous task and requires expert manpower. Therefore it is suggested that NCCBL should set up a separate loan-monitoring cell, which will be responsible for monitoring its total loan portfolio with special care to the problem loan.

During 2005, the entire economy's growth was increased to 5.5%, which helped the banking industry to widen their business at different sectors. The success of banks depends on how effectively they can deliver their services to the customers and earn maximum amount of profit. Hence, to achieve the objective of credit services the monitoring techniques should be updated and the assessment financial information provided by the customers should be done carefully.

## 8.2 Conclusion

In the last decade there has been a revolution in the communication media through the introduction of Internet and other forms of secure dial-up media. This had an immense impact on all the sectors of the industry specially the banking sector. Traditionally in order to execute a banking transaction a customer would require coming at the bank. But due to the introduction of electronic banking, customers now can have access to their account 7 days a week 24 hours a day and execute the transaction from their office. . Now due to electronic Banking except for cash customers are no longer require coming at the bank. It has not only benefited the customers but the bank as well. From Banks point of view this has helped prevent customers queuing up at the bank counters thus helping to minimizing the cost as well as the workload for the employees.

NCCBL can focus on their strengths to materialize the opportunities hidden for them in the banking industry and also they can work on their weaknesses to develop the product effectively and grab more opportunity hidden in the banking industry. With their strengths NCCBL can also reduce the threats existing in the market.



They have strength with their solid brand image and experience and skills as well, with which they are being able to satisfy the customers with their wide range of products and services.

The National credit and Commerce Bank Limited (NCCBL) is one of the best banks in respect of service, profitability and strength among the private commercial banks; in our country and also to play a catalyst role in the formation of capital market. National Credit and commerce Bank Limited bears a unique history of its own. The bank has set up a new standard in financing in the Industrial, Trade and Foreign Exchange Business. Its various deposit and credit products have also attracted the clients both corporate and individuals who feel comfort in doing business with the bank.

NCCBL can overcome, these hurdles and utilize the strengths, as the Bangladeshi banking industry has possessed some positive sides. Bangladesh is growing market where new businesses are coming up and in this emerging market and NCCBL can introduce its products and services effectively to the upcoming corporate. Moreover, it is an emerging market, various multinationals operating in the country will expand and new multinationals will come. These multinationals have huge need of electronic banking products for Payment, Collection and Delivery need to manage their expanding business. They also need liquidity management for proper funding and by focusing on these opportunities; NCCBL can create an effective system.

The National Credit and commerce Bank Limited (NCCBL) is now been called a modern bank that undertakes all its operations at an international standard. Over the years, NCCBL has built itself as one of the pillars of Bangladesh's financial sector and is playing a pivotal role in extending the role of the private sector of the economy.



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