CHAPTER – 1

INTRODUCTION

1.1 Background of the Report

The report is an attempt to provide an orientation to real life scenario wherein one can observe and evaluate the uses and applicability of theoretical concepts that were taught in BBA program. As a partial fulfillment of Program, every student has to undergo an internship program. The author of the study is employed with NCC Bank Limited; a well reputed private sector commercial bank has been assigned to prepare a project paper on **"Financing Bank Products, Risk Management & Administration of Credit: Look from NCC Bank Limited"**. Eventually a report with proper analysis and possible solutions of the organization is hereby submitted to **Md. Masud Rana**, Assistant Professor, Department of Business Administration Sonargaon University.

1.2 Objectives of the Study

General Objective

To examine the overall credit risk management of NCC Bank Limited- a commercial Bank of Bangladesh.

Specific Objective

- To analyze various credit policies of NCC Bank Limited.
- To examine the credit appraisal procedures followed by NCC Bank Limited.
- To study the control mechanisms followed by NCC for lending.
- To observe the overall asset quality of NCC.
- To recommend some suggestions for further development of NCC.

1.3 Methodology

Sources of data:

Both Primary and Secondary data have been used in preparing this report. The details of the sources of data are as follows:

1.3.1 Primary Sources:

Practical work exposure with NCC Bank Limited

Face to face conversation / Interview with the Bank Officials Observations

1.3.2 Secondary Sources:

- Annual Report of NCC Bank Limited
- Credit Operational Manual
- Training materials of the Bank
- Periodicals published by Bangladesh Bank
- Various books, journals, articles etc.
- Web Sites.

Areas Covered

Risk is the chance that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. It is usually measured by calculating the standard deviation of the historical returns or average returns of a specific investment. A fundamental idea in finance is the relationship between risk and return. The greater the amount of risk that an investor is willing to take on, the greater the potential return. The reason for this is that investors need to be compensated for taking on additional risk. All credit extension must comply with the requirements of Bank's Memorandum and Article of Association, Banking Company's Act, Bangladesh Bank's instructions, other rules and regulation as amended from time to time. Loans and advances shall normally be financed from customer's deposit and not out of temporary funds or borrowing from other banks. The Bank shall provide suitable credit services for the markets in which it operates. It should be provided to those customers who can make best use of them. The conduct and administration of the loan portfolio should contribute within defined risk limitation for achievement of profitable growth and superior return on bank capital. Interest rate of various lending categories will depend on the level of risk and types of security offered. By analyzing the total risk, some indexes have taken to analyze only the credit risk of NCC Bank Limited except other risks e.g. market risk, operational risk etc. The credit risk has been taken into consideration for analyzing because of the fact that it is our related matter. For that purpose firstly the deposit of the branch is analyze. Then calculation of the cost of deposit is needed, which helps to set the lending rate. Thus samples of the full set of data are taken to analyze the total scenario of risk management of NCC Bank Limited. Sample of data is taken such a way to ensure that the sample reflects over the full dataset and gives a detail overview about the risk of credit management. For analyzing the credit risk Balance sheet, Income Statement and Cash Flow Statement of NCC Bank Limited from year 2007 to 2011 have been taken.

1.4 Scope of the Study

In modern banking concept one of the most important functions of a Bank or Financial Institute is "Financing Bank Products, Risk Management & Administration of Credit: Look from NCC Bank Limited" Risk is inherent in all aspects of commercial operations. However for Banks Credit risk is an essential factor that needs to be managed. The present economic state of Bangladesh demands immediate development of the efficient and strong financial institutions. Banking sector has lot of areas to improve upon. One of the measures to improve this condition is to develop and design the effective system for Management of Credit Risks which requires continuous study and research there-upon.

- The study will help to understand the needs of Management of Credit Risks.
- A brief but complete idea about Credit Risks Management (CRM) is provided in this study, which includes the problems and prospects in this regard.
- The Knowledge as to Management of Credit Risks will be gained/ augmented.
- The research has the potential for connecting to efficient system of Management of Credit-Risks and measuring the long–term effects thereof to improve the asset quality of the Banks.

1.5 Limitations of the Study

The report is prepared with a view to provide a brief but complete idea about the Management of Credit Risks. In this report it is tried to include the comprehensive analysis of different important aspects and effects of Managing Credit Risks. But this study is not for comparing among different views and concepts rather the area of activities of this report is bounded in how the Banks adopt the means and ways for effective and efficient management of credit risks. During the course of preparation of the report I faced some problems that might be termed as the limitations of the study. The problems that I faced are as follows: on–disclosure of some basic information. Time Constraint/Limitation– time for the study was short for preparation of an indepth report. Further more, some information was withheld to retain the organizational confidentiality.

CHAPTER - 2

An overview of banking sector in Bangladesh

2.1 Definition of Bank

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers that have capital deficits to customers with capital surpluses. The word bank was borrowed in Middle English from Middle French banque, from Old Italian banca, from Old High German banc, bank "bench, counter". Benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transactions atop desks covered by green tablecloths. Due to their critical status within the financial system and the economy generally, banks are highly regulated in most countries. Most banks operate under a system known as fractional reserve banking where they hold only a small reserve of the funds deposited and lend out the rest for profit. They are generally subject to minimum capital requirements which are based on an international set of capital standards, known as the Accords. Banking business" means the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and includes such other business as the Authority may prescribe for the purposes of this Act receiving from the general public money on current, deposit, savings or other similar account repayable on demand or within less than [3 months] or with a period of call or notice of less than that period; paying or collecting checks drawn by or paid in by customers.

2.2 Objective of Bank

People have traditionally used banks as a way to safeguard those things most important to them. Not only were banks used to save deposits and withdraw money, they were also used for loans, document safety deposits, and financial consulting. Today there are a variety of banks that serve different purposes. In order to understand the main objective of a bank, it is important to know what a commercial bank is. Unlike a traditional bank, a commercial bank is a financial institution that provides services primarily from one business to another. Commercial bank activities are different than investment or traditional banks in that commercial banks act as intermediaries between an issuer of security and the investing public, facilitating mergers and other corporate reorganization, acting as a broker for institutional clients, and underwriting for commercial acquisition. The main objective of a commercial bank is to maintain making money, and they do so in a variety of ways. One way is to keep money moving, from person to person, business to business. Some banking institutions associated with credit unions, schools or other entities may not make their primary objective clear. However, commercial banks clearly articulate their main objective as profitability. A commercial bank having lucrative assets positively affects the community it's in, as well as having far reaching positive outcomes. As businesses thrive and grow, more people are employed, more money is spent in the marketplace, and the cycle of generating money repeats to keep the economy afloat. The main objective of commercial banks is to maintain higher profitability by maintaining circular and efficient flow of amount of money deposited by the customers and the lenders. Commercial banks contribute to the economic cycle by keeping the money circulation among households, government and corporate businesses. The commercial banks lend money to the economic agents through their various products and services by earning interest income on the borrowed money. Commercial banks design their short term and long term loans and other products to cater to the need of customers while enhancing their own returns. Their objective is to attract more customers and build profitable relationships with the new and existing customers. Also the main objective of a commercial bank is to provide high standard facilities for transfer of funds, financing the business operations and purchase of households, security and adequate return on savings and earns income from these activities to provide optimum return to its shareholders.

2.3 Historical Background of the Bank

The history of banking began around 1870, according to most historians Banking in the modern sense of the word can be traced to medieval and early Renaissance Italy, to the rich cities in the north like Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. Perhaps the most famous Italian bank was the Medici bank, set up by Giovanni Medici in 1397. The earliest known state deposit bank, Banco di San Giorgio (Bank of St. George), was founded in 1407 at Genoa, Italy. The first banks were the merchants of the ancient world that made loans to farmers and traders that carried goods between cities. The first records of such activity dates back to around 2000 BC in Assyria and Babylonia. Later, in ancient Greece and during the Roman Empire, lenders who were based in temples made loans but also added two important innovations: accepting deposits and changing money. During this period, there is similar evidence of the independent development of lending of money in ancient China and separately in ancient India. In ancient China starting in the Qin Dynasty (221 to 206 BC) the Chinese currency developed with the introduction of standardized coins which allowed the much easier trade across China and led to the development of letters of credit. These letters were issued by merchants that acted in ways that today we would understand as banks. The development of banking spread through Europe and a number of important innovations took place in Amsterdam during the Dutch Republic in the 16th century and in London in the 17th century. During the 20th century, developments in telecommunications and computing resulting in major changes to the way banks operated and allowed them to dramatically increase in size and geographic spread. The Late-2000s financial crisis saw significant number of bank failures, including some of the world's largest banks, and much debate about bank regulation. The history of banking is closely related to the history of money but banking transactions probably predate the invention of money. Deposits initially consisted of grain and later other goods including cattle, agricultural implements, and eventually precious metals such as gold, in the form of easy-to-carry compressed plates. Temples and palaces were the safest places to store gold as they were constantly attended and well built. As sacred places, temples presented an extra deterrent to would-be thieves.

2.4 Banking Operations in Bangladesh

After the liberation war, and the eventual independence of Bangladesh, the Government of Bangladesh reorganized the Dhaka branch of the State Bank of

Pakistan as the central bank of the country, and named it Bangladesh Bank. This reorganization was done pursuant to Bangladesh Bank Order, 1972, and the Bangladesh Bank came into existence with retrospective effect from 16 December 1971. The 1971 Mujib regime ran a pro-socialist agenda – in 1972, the government decided to nationalize all banks in order to channel funds to the public sector and to prioritize credit to those sectors that sought to reconstruct the war-torn country – mainly industries and agricultural sectors. However, government control at the wrong sectors prevented these banks from functioning well. This was compounded by the fact that loans were handed out to the public sector without commercial considerations, that banks had poor capital lease, provided poor customer services and didn’t have any market-based monetary instruments. But mostly, because loans were given out without commercial sense, and because they took a long time to call a loan non-performing, and once they did so, recovery under the erstwhile judicial system was so abjectly expensive, and their loan recovery was abysmally poor. While the government made a point of intervening everywhere, it didn’t set up a proper regulatory system that would diagnose such problems and correct them. Hence, banking concepts like profitability and liquidity was alien to bank managers, and capital adequacy Took backseat. In 1982, the first reform program was initiated, where the government denationalized two of the six nationalized commercial banks and permitted local private banks to create competition in the banking sector.

In 1986, a National Commission on Money, Banking and Credit was appointed to recover the problems of the banking sector and a number of steps were taken for the recovery targets for the nationalized commercial banks and development financial institutions and prohibiting defaulters from getting new loans, yet, the efficiency of the banking sectors could not be improved. Virtually all banking services were concentrated in urban areas.

The newly independent government immediately designated the Dhaka branch of the State Bank of Pakistan as the central bank and renamed it the Bangladesh Bank. The bank was responsible for regulating currency, controlling credit and monetary policy, and administering exchange control and the official foreign exchange reserves. The Bangladesh government initially nationalized the entire domestic banking system and proceeded to reorganize and rename the various banks. Foreign-owned banks were permitted to continue doing business in Bangladesh. The government's encouragement during the late 1970s and early 1980s of agricultural development and private industry brought changes in lending strategies. Managed by the Bangladesh Krishi Bank, a specialized agricultural banking institution, lending to farmers and fishermen dramatically expanded. The number of rural bank branches doubled between 1977 and 1984, to more than 3,330. Denationalization and private industrial growth led the Bangladesh Bank and the World Bank to focus their lending on the emerging private manufacturing sector. Scheduled bank advances to private agriculture, as a percentage of sectoral GDP, rose from 2 percent in FY 1979 to 11 percent in FY 1987, while advances to private manufacturing rose from 13 percent to 43 percent.

List of banks in Bangladesh

The commercial banking system dominates Bangladesh's financial sector. Bangladesh Bank is the Central Bank of Bangladesh and the chief regulatory authority in the sector. The banking system is composed of four state-owned commercial banks, five specialized development banks, thirty private commercial Banks and nine foreign commercial banks. The Nobel-prize winning Grameen Bank is a specialized microfinance institution, which revolutionized the concept of micro-

credit and contributed greatly towards poverty reduction and the empowerment of women in Bangladesh.

Central Bank

Bangladesh Bank Pursuant to Bangladesh Bank Order, 1972 the Government of Bangladesh reorganized the Dhaka branch of the State Bank of Pakistan as the central bank of the country, and named it Bangladesh Bank with retrospective effect from 16 December 1971.

Nationalized Commercial Bank of Bangladesh	**04 Nos.**
Private Commercial Banks	47 Nos.
Foreign Commercial Banks	09 Nos.

CHAPTER - 3

Overview of the Organization

3.1 Background of the Organization

National Credit and Commerce Bank Ltd. bears a unique history of its own. The organization started its journey in the financial sector of the country as an investment company back in 1984. The aim of the company was to mobilize resources from within and invest them in such way so as to develop country's Industrial and Trade Sector and playing a catalyst role in the formation of capital market as well. Its membership with the browse helped the company to a great extent in these regard. The company operated up to 1992 with 16 branches and thereafter with the permission of the Central Bank converted into a full fledged private commercial Bank in 1993 with paid up capital of Tk. 39.00 crore to serve the nation from a broader platform.

Since its inception NCC Bank Ltd. has acquired commendable reputation by providing sincere personalized service to its customers in a technology based environment. The Bank has set up a new standard in financing in the Industrial, Trade and Foreign exchange business. Its various deposit & credit products have also attracted the clients-both corporate and individuals who feel comfort in doing business with the Bangladesh.

3.2 Board of Directors

Alhaj Md. Nurun Newaz	Chairman
Mostafizur Rahman	Vice-Chairman
Fakhrul Anwar	Chairman Executive Committee of the Board
Mahbubul Alam	Chairman Audit Committee of the Board
A.S.M. Main Uddin Monem	Director
Nurul Islam	Director
Md. Abdul Awal	Director
Amjadul Ferdous Chowdhury	Director
S.M. Abu Mohsin	Director
Lutfun Nahar Begum	Director
Abdus Salam	Director
Mrs. Sohela Hossain	Director
Ainul Kabir	Director
Khondkar Zakaria Mahmud	Director
Sultana Yasmen	Director
Yakub Ali	Director
Ali Imam	Director
Tofazzal Hossain	Director
Md. Humayun Kabir	Director
Din M. Rana	Director
Md. Abul Bashar	Director
Md. Harunur Rashid	Director
Khairul Alam Chaklader	Director
Md. Moinuddin	Director

3.3 Vision

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

3.4 Mission

To mobilize financial resources from within and abroad to contribute in Agriculture's, Industry & Socio-economic development of the country and to play a catalytic role in the formation of capital market.

3.5 Organization Structure /Hierarchy of the Organization

The Hierarchy of the Bank is as follows:

MANAGING DIRECTOR

➢

ADDITIONAL MANAGING DIRECTOR

➢

DEPUTY MANAGING DIRECTOR

➢

SENIOR EXECUTIVE VICE PRESIDENT

➢

EXECUTIVE VICE PRESIDENT

➢

SENIOR VICE PRESIDENT

➢

VICE PRESIDENT

SENIOR ASSISTANT VICE PRESIDENT

ASSISTANT VICE PRESIDENT

FIRST ASSISTANT VICE PRESIDENT

JUNIOR ASSISTANT VICE PRESIDENT

SENIOR EXECUTIVE OFFICER

EXECUTIVE OFFICER

FIRST EXECUTIVE OFFICER

PROBATIONARY OFFICER

OFFICER (GENERAL/ TECHNICAL/ CASH)

Fig: The Hierarchy of the Bank

3.6 Product & services

Loan & Advanced Products

- Working Capital Financing
- Commercial & Trade Financing
- Long Term capital Financing
- Retail & consumer Financing
- Agricultural Financing
- Import & Export Financing

Deposit Products

- Current A/C
- Savings Bank Deposit A/C
- Special Notice deposit A/C
- Term Deposit A/C
- Premium term Deposit A/C
- Instant Earnings Term Deposit
- Special Savings Scheme
- Special Fixed Deposit Scheme
- Money Double Program
- Special Deposit Scheme

- RFCD

Retail/Consumer Loan Product

- Personal Loan
- Car Loan Scheme
- Education Loan
- House Building Financing
- Consumer Finance Scheme
- House Repairing & Renovation Loan
- Home Improvement Loan

SME Banking

- Small Business Loan
- Lease Finance
- Working Capital Loan
- Festival Business Loan
- Festival Personal Loan

Remittance products

- Wage Earners Welfare Deposit Pension Scheme
- Overseas Employment Loan Scheme
- Special Interest rate on Deposit and Loan

Providing Services

- NCCBL Securities & Financial Service
- Treasury Service
- Remittance Service
- Locker Service
- Schedule of Charge

Card Service

- Credit Card
- Debit Card
- M Bridge Card

SME Banking

- Small Business Loan
- Lease Finance
- Working Capital Loan
- Festival Business Loan
- Festival Personal Loan

3.7 Bank Operational Area

NCC bank basically performs their operation in all of district in Bangladesh. The company operated up to 1992 with 16 branches and thereafter with the permission of the Central Bank converted into a full fledged private commercial Bank in 1993 with paid up capital of Tk. 39.00 core to serve the nation from a broader platform. Since its inception NCC Bank Ltd. has acquired commendable reputation by providing sincere personalized service to its customers in a technology based environment. The Bank has set up a new standard in financing in the Industrial, Trade and Foreign exchange business. Its various deposit & credit products have also attracted the clients-both corporate and individuals who feel comfort in doing business with the Bank.

3.8 Achievement

The year 2010 marked the addition of yet another golden stair in the chronicle of NCC success story. Meanwhile, the Bank has achieved some noteworthy feats within a time span of 20 and over year since its inception.

The major achievements of the Bank are enumerated below:

As of 31st December, 2010the Paid–up capital has been raised to Tk.4401.24 million; Total Assets has stood at Tk. 82444.18 million and Total Equity stood at Tk.10272.34 million. The Bank has been able to introduce Real time On–Line any branch banking throughout the country. The Bank has formulated a comprehensive Credit Risk Management Policy Document in line with the guidelines issued by Bangladesh Bank. The Bank marks continuous growth in its operations. The Bank offers different types of banking services involving all segments of the society backed by latest technology. The Bank has established a Library to enrich the knowledge and upgrade the professionalism of its human resources.

3.9 List of Branch

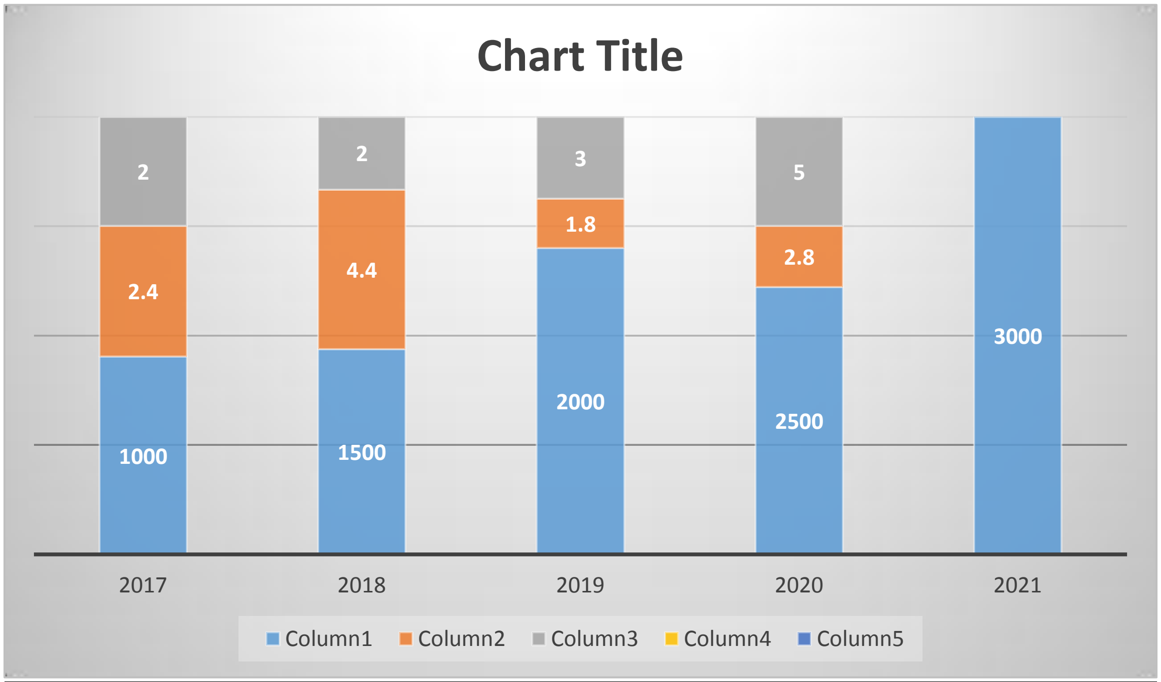
Agrabad	Jubilee Road Branch
Akhaura Branch	Kadamtali Branch
Aman Bazar Branch	Kamal Bazar Branch
Anderkilla Branch	Karanirhat Branch
Babubazar Branch	Kawran Bazar Branch
Banani Branch	Khatungonj Branch
Baneswar SME/Agri Branch	Khulna Branch

Bangshal Branch	Kushtia Branch
Baralekha Branch	Laldighirpar Branch
Barisal Branch	Laxmipur Branch
Bijoy Nagar Branch	Madambibirhat Branch
Boalkhali Branch	Madaripur Branch
Bogra Branch	Madhabdi Branch
Brahmanbaria SME/Agri Branch	Madunaghat Branch
CEPZ Branch	Maijdee SME/AGRI.Branch
Chagalnaiya Branch	Majhirghat Branch
Chakaria Branch	Malibagh Branch
Chowhatta Branch	Mirpur Branch
Chowmuhuni Branch	Mitford Branch
Comilla	Modhupur Branch
Cox's Bazar Branch	Moghbazar Branch
Dhanmondi Branch	Motijheel Main Branch
Dilkusha Branch	Moulvibazar Branch
Dinajpur Branch	Mymensing Branch
Elephant Road Branch	Nababgonj Branch
Faridgonj SME/Agri Branch	Nabigonj Branch
Feni Branch	Naogaon Branch
Foreign Exchange Bra	Narayangonj Branch
Gouripur Branch	Narsingdi Branch
Gulshan Branch	Nawabpur Road Branch
Hajigonj Branch	Nazirhat Branch
Halishahar Branch	O.R. Nizam Road Branch
Islampur Branch	Jatrabari Branch

3.10 Capital and Reserve

The company operated up to 1992 with 16 branches and thereafter with the permission of the Central Bank converted into a full fledged private commercial Bank in 1993 with paid up capital of Tk. 39.00 core to serve the nation from a broader platform and their total reserve is 4771.09 Million BDT.

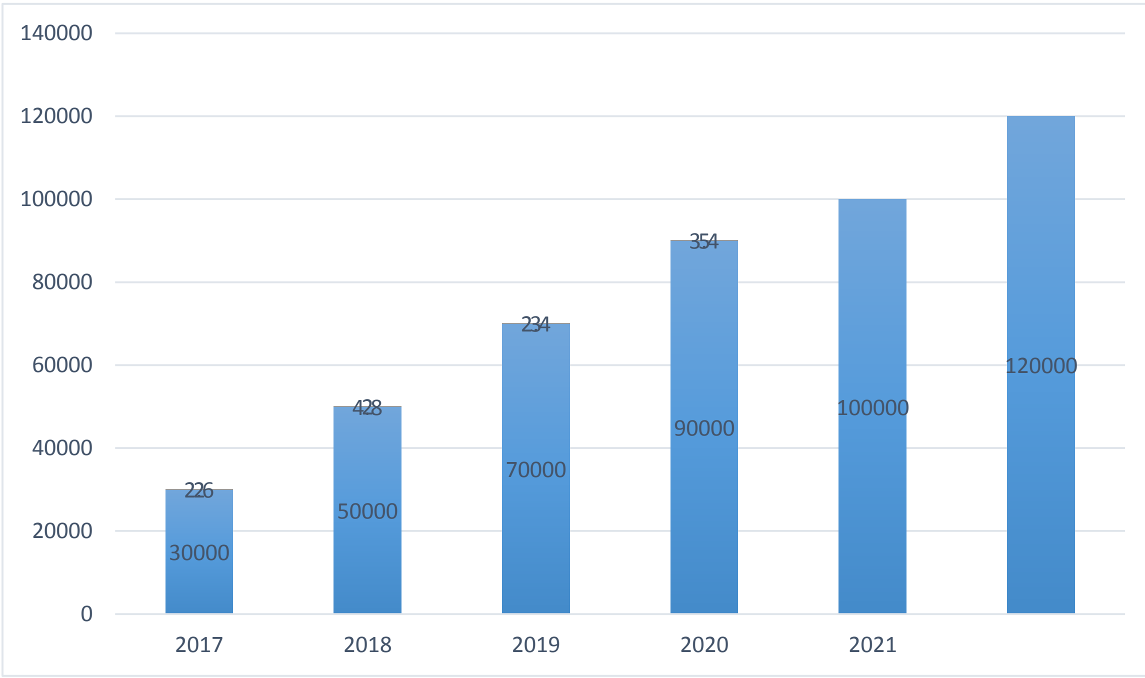
3.11 At a Glance Profitability Position (Last 5 Years)



Year	2017	2018	2019	2020	2021
Profit after Tax (Million in Tk.)	778	995	1940	3262	3482.77

Fig-3.2: At a Glance Profitability Position (Last 5 Years)

3.12 Total Asset Position: (Million)



Year	2017	2018	2019	2020	2021
BDT (Million)	53,644	68,477	77,900	92,665	212,614

Fig-3.3: Total Asset Position (Million)

CHAPTER – 4

Financing Products & Credit Risk Management

4.1 Overview of Financing Products & Credit Risk Management

The word credit comes from the Latin “credo” means “I believe”. It is a lender’s trust in a person’s/firm’s/company’s ability or potential ability to command goods or services of another in return for promise to pay such goods or services of another in return for promise to pay such goods or services at some specified time in the future. The making of loans and advances has always been prominent profitable function of the banks. Sanctioning credit to customers out of the funds at its disposal is one of the principal services of a modern Bank. As a financial intermediary the primary objective of a bank is to collect deposits from the surplus units (who have surplus fund) and utilize the same by lending the deficit units (whose requires funds). Bank is the proper medium of those parties to utilize the capital properly. Bank guild the surplus parties where to invest. Bank collect deposits from surplus parties in return bank give them some percent of benefits that are gained out of the different loan or credit extended to the borrowers. Bank takes residual portion of benefit from the credits. As Bank deals with the money collected from the depositors repayable on demand. So, it can not afford to lock up it fund for long or uncertain periods. Consequently, Bank must safeguards its deposits through effective management of all possible risks associated with its credits. One of the most significant risks of a bank is exposed to is, what is generally termed as “Credit Risk”, which is the primary risk in the banking system. Since the largest slice of income generated by a bank and a major percentage of assets is subject to this risk, it is obvious that prudent management of this risk is fundamental to the sustainability of a bank. Management of Credit Risks needs to be a robust process that enables the Banks to proactively manage the credit portfolio in order to minimize losses and earns an acceptable level of return for the Shareholders. Risk is inherent in all aspects of commercial operation. However for Banks Credit risk is the fundamental to the sustainability of a bank. Thus Credit Risk is an essential factor that needs to be managed.

Credit Risk

Credit risk is the possibility that a borrower will fail to meet its obligation in accordance with agreed terms. Credit risk, therefore, arises from the Bank’s dealings with or lending to corporate, individual and other Banks or financial institutions. To prevent excessive flow of credit and proper use of it, banks require taking on the appropriate credit appraisal procedure to impose financial discipline on borrowers. The procedure that organize, control and motivate the borrowers will called credit management. Some Definitions related with Credit Risk are quoted below: "The concept of high quality loan cannot exist in the absence of objective credit standards." **- R. Taggart Murphy**

"Asset quality is the most important fundamental dimension of bank analysis. Asset quality ultimately drives everything, including margins, capital adequacy, underlying profitability, investment sentiment and valuations." – Roy Ramos, Head of Banking Analysis, Goldman Sachs, Hong Kong.

4.2 Financing of Credit Risk Management

Banking in the new century is even more prosperous than the past owing to revolutionary advancement in technology, as well as, development of new ideas and systems. Consequently, every Bank has to be well–equipped to coup with the modern banking system and to adopt effective means and ways to negotiate its all possible risks especially the Credit Risk. Credit constitutes the major part of the Bank's asset portfolio and managing credit risk is by far the most important concern of the Bank. The failure of a commercial Bank is usually associated with the problems in Credit portfolio and is less often the result of shrinkage in the value of other assets. As such, Credit portfolio not only features dominates in the assets structure of the Bank, it is critically important to the success of the Bank as well. While Banks have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties. This experience is common in both G–10 and non G–10 countries. For most banks, loans and advances are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans and advances, including acceptances, inter bank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. Management of Credit Risks needs to be a robust process that enables Banks to proactively manage credit portfolio in order to minimize losses and earns an acceptable level of return. Given the fast changing dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that Banks have robust Credit risk management polices and procedures that are sensitive and responsive to these changes. On the other hand, NCC is a new generation Bank. It is committed to provide high quality financial services/products to contribute to the growth of G.D.P. of the country through stimulating trade & commerce, accelerating the pace of industrialization, boosting up export, creating employment opportunity for the educated youth, poverty alleviation, raising standard of living of limited income group and over all sustainable socio-economic development of the country. Hence, NCC has changed a lot as credit culture has been shifting towards a more professional and standardized Credit Risk Management approach.

Core Risks of Banking:

The risks of banking are complex and multi–dimensional. Banks are exposed to a number of risks of different types. Resultantly, managing risk is an art of identifying, measuring and mitigating the risks. In view of the above, Bangladesh Bank has identified 04(five) core risk area relating to banking business which are as follow:

- Credit risk
- Asset liability / Balance sheet risk
- Foreign exchange risk
- Internal control & compliance risk
- Money laundening risk

The Management of above Core Risks of Banking is described below: Credit Risk Management – It has already been stated in this report that Management of Credit Risk is the most significant and key task of the bank. Credit Risk refers the probability of loss arising from the failure of a counterparty/ customer to perform as per agreement with the Bank.

Asset Liability/ Balance Sheet Risk Management – A Bank assets are mainly developed with and backed by its liabilities. Thus successful banking requires efficient and effective management of its assets and liabilities. Banks should have well organized Asset Liability Management desk to monitor Balance Sheet Risk and Liquidity Risk.

Foreign Exchange Risk Management – Since Foreign Exchange involves purchase and sale of foreign currencies against local currency, thus Foreign Exchange risk is the risk or chance of loss due to unexpected movement of market price of the currencies of different countries or the price of the assets denominated by foreign currencies. For effective and efficient management of Foreign Exchange Risk, Banks should have well–developed and well–structured Foreign Exchange Risk Manual and International Standard Dealing Room Manual.

Internal Control & Compliance – Internal Control & Compliance is the key of good management and a strong core of an organization. It ensures safe and smooth operations within the organization. All the rules and regulation practiced in the banking industry are meant to safety and efficiency in banking operations of all kind.

The procedure of Managing the Core Risks in NCC are described below: Being a compliant bank NCC pursues the guidelines of Bangladesh Bank meticulously, in consequence of which the bank is being able to keep the risks at low bb. NCC Bank has formulated a comprehensive Credit Risk Management Policy Document in line with the guidelines issued by Bangladesh Bank, which s discussed here in after. The bank contemplates to have its assets assessed by an independent agency for the purpose of working out strategy to manage credit risks.

4.3 Bangladesh Bank's Guidelines for Management of Credit Risks

Bangladesh Bank has provided directional guidelines to the banking sector with a view to improve the Credit Risk Management culture, establish minimum standards for segregation of duties and responsibilities and assist in the ongoing improvement of the banking sector in Bangladesh. These guidelines were prepared and endorsed by the senior credit executives from private sector, foreign and nationalized commercial banks operating in Bangladesh. Credit Risk Management is of utmost importance to Banks, and as such, policies and procedures should be endorsed and strictly enforced by the MD/CEO and the Board of the Bank. The guidelines of Bangladesh Bank related with Management of Credit Risks have been organized into the following segments:

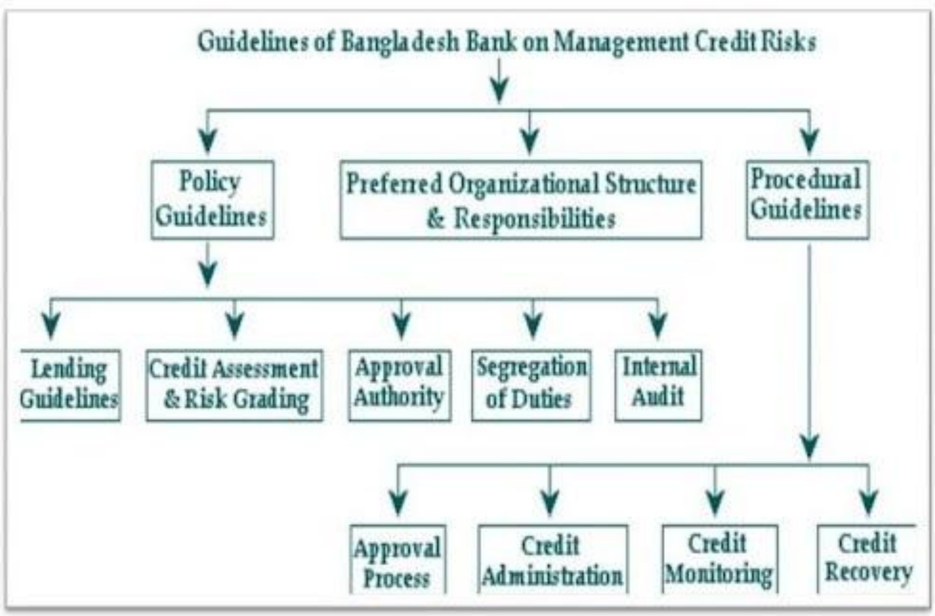


Fig 4.3: Guidelines of Bangladesh Bank on Management Credit Risks

Policy Guidelines:

Policy Guidelines focus on fundamental credit risk management policies that are recommended for adoption by all banks in Bangladesh. The guidelines outline general principles that are designed the implementation of more detailed lending procedures and risk grading systems within individual Banks.

Different segments of Policy guidelines are discussed as follows:

All banks should establish Credit Policies (Lending Guidelines) that clearly outline the management's view of business development priorities and the terms and conditions that should be adhered to in order for credits to be approved. The lending guidelines should be updated at least annually to reflect changes in the economic outlook and the evaluation of the bank's credit portfolio. The lending guidelines should be approved by the MD/ CEO and the Board of Directors of the Bank based on the endorsement of the bank's Head of Credit Risk Management and the Head of Corporate. Any departure and deviation from the lending guidelines should be explicitly identified in credit applications and a justification for approval provided. Approval of credits that don't comply with lending guidelines should be restricted to the bank's Head of Credit or Managing Director/ CEO and the Board of Directors. The lending guidelines should provide the key foundations for account officers/ relationship managers to formulate their recommendations for approval and should include the following ones:

Industry and Business Segment Focus – The lending guidelines should clearly identify the business/ industry sectors that should constitute the majority of the bank's credit portfolio. For each sector, a clear indication of the bank's appetite for growth should be indicated for example Textiles: Grow; Cement: Maintain; Construction: Shrink.

Types of Credit facilities – The type of credits that are permitted should be clearly indicated, such as Working Capital, Trade Finance, Term Loan, etc.

Single Borrower/ Group Limits – Details of the Bank's single Borrower/ Group limits should be included as per Bangladesh Bank guidelines. Banks may wish to establish more conservative criteria in this regard.

Lending Caps – Bank should establish a specific industry sector exposure cap to avoid over concentration in any one industry sector.

Credit Assessment & Risk Grading:

Credit Assessment – A thorough credit and risk assessment should be conducted prior to the granting of credits and at least annually thereafter for all facilities. The results of this assessment should be presented in a credit application that originates from the Account Officer/ Relationship Manager (RM), and is approved by Credit Risk Management (CRM). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit proposal submitted for approval. RM(s) must be Familiar with the bank's Lending Guidelines and should conduct due diligence on new borrowers, principals and guarantors. All Banks should have established KYC (Know Your Customer) and Money Laundering guidelines which should be adhered to at all times. Credit Applications should summaries the results of the risk assessment and include, as a minimum, the following details:

- Amount and Type of Credit(s) proposed.
- Purpose of Credit(s) applied for.
- Credit Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangements.

In addition the following risk areas should be addressed:

Borrower Analysis: The majority shareholders, management team, and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter–group transactions should be addressed and risks mitigated.

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

Supplier/ Buyer Analysis: Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

Historical Financial Analysis: An analysis of a minimum of 03(three) years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow, leverage and profitability.

Projected Financial Performance:

Where term facilities are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Credit should not be granted if projected cash flow in insufficient to repay debts.

Account Conduct:

For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc.) should be assessed.

Adherence to Lending Guidelines:

Credit applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines.

Mitigating Factors:

Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and /or volatility, high debt load (leverage/ gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/ product expansion; management changes or succession issues; customer or supplier concentration; and lack of transparency or industry issues.

Credit Structure: The amount(s) and tenor(s) of financing proposed should be justified based on the projected repayment ability and credit purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.

Security:

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

Risk Grading –

All banks should adopt a credit risk grading system. 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 a 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. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit proposal.

Approval Authority:

The authority to sanction/ approve credits must be clearly delegated to senior credit executives by the Managing Director/ CEO and the Board based on the executive's knowledge and experiences. Approval authority should be delegated to individual executives and not to committees to ensure accountability in the approval process. The following guidelines should apply in the approval/ sanctioning of credits:

- Credit approval authority must be delegated in writing from the MD/CEO and Board acknowledged by recipients and records of all delegation retained in CRM.
- Delegation approval authorities must be reviewed annually by MD/ CEO/ Board.
- The credit approval function should be separate from the marketing/ relationship management (RM) function.

- The role of Credit Committee may be restricted to only review of proposals i.e. recommendations or review of bank's credit portfolios.

- All credit risks must be authorized by executives within the authority limit delegated to them by the MD/ CEO/ Board. The "pooling" or combining of authority limits should not be permitted.

- Credit approval should be centralized within CRM function. Regional Credit Centers may be established.

- Any Credit proposal that does not comply with the Lending Guidelines, regardless of amount, should be referred to Head Office for approval.

- MD/ Head of Credit Risk Management must approve and monitor any cross–border exposure risk.

- Any breaches of lending authority should be reported to MD/CEO, Head of Internal Control and Head of CRM.

Successfully completed and assessment test demonstrating adequate knowledge of the following areas:

- Introduction of accrual accounting.
- Industry/ Business Risk Analysis
- Borrowing causes.
- Financial Statement Analysis.
- The Asset Conversion/ Trade Cycle.
- Cash Flow Analysis.
- Projections.
- Credit Structure and Documentation.
- Credit Management.

Internal Audit: Banks should have a segregated internal audit/ control department charged with conducting audits of all departments. Audits should be carried out annually and should ensure compliance with regulatory guidelines, internal procedures, Lending Guidelines and Bangladesh Bank requirements.

4.4 Preferred Organizational Structure & Responsibilities

The appropriate organizational structure must be in place to support the adoption of the policies. The key feature is the segregation of the Marketing/ Relationship Management/ Administration functions. Credit approval should be centralized within the CRM function. Regional Credit Centers may be established; however, all applications must be approved by the Head of Credit and Risk Management or MD/ CEO/ Boards or delegated Head Office Credit executives.

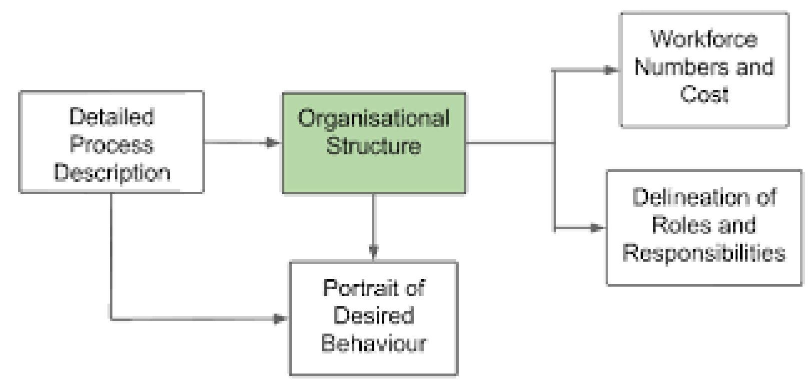


Fig 4.4: Preferred organizational structure

Procedural Guidelines:

Procedural Guidelines outline of the main procedures that are needed to ensure compliance with the policy guidelines.

Approval Process:

The approval process must reinforce the segregation of Relationship Management/ Marketing from approving authority. The responsibility for preparing the Credit Applications should rest with the RM within the corporate/ commercial banking department. Credit applications should be recommended for approval by the RM team and forwarded to approval team within CRM and approved by individual executives. The recommending or approving executives should take responsibility for and be held accountable for their recommendations or approval. Delegation of approval limits should be such that all proposals where the facilities are up to 14% of the bank's capital should be approved at CRM level, facilities up t 24% of capital should be approved by CEO/MD, with proposals in excess of 24% of capital to be approved by the Executive Committee/ Board only after recommendation of CRM, Corporate Banking and MD/ CEO.

Administration of Credit Monitoring:

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. At a minimum, systems should be in place to report the following exceptions to relevant executives in CRM and RM team:

- Past due principal or interest payments, past due trade bills, account excesses and breach of credit covenants.

- Credit terms and conditions are mentioned, financial statements are received on a regular basis and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow–up.

- Timely corrective action is taken to address findings of any internal, external or regulator inspection/ audit.

- All borrower relationships/ credit facilities are reviewed and approved through the submission of credit application at least annually.

- Computer systems must be able to produce the above information for central/ Head Office as well as local review. Where automated systems are not available, a manual process should have the capability to produce accurate exception reports.

Early Alert Process:

An Early Alert account is one that has risks or potential weaknesses of material nature requiring monitoring, supervision or close attention by management. If these weaknesses are left uncorrected, they may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date with a likely prospect of being downgraded to CG 4 or worse (Impaired status), within the next twelve months.

Early identification, prompt reporting and proactive management of Early Alert Accounts are prime credit responsibilities of all Relationship Managers and must be undertaken on a continuous basis. The Risk grade should be updated as soon as possible and no delay should be taken in referring problem accounts to the CRM department for assistance in recovery.

Credit Recovery:

The Recovery Unit (RU) of CRM should directly manage accounts with sustained deterioration (a Risk Rating of Sub Standard i.e. 6 or worse). Banks may wish to transfer EXIT accounts graded 4–4 to the RU for efficient exit based on recommendation of CRM and Corporate banking. Whenever an account is handed over from Relationship Management to Recovery Unit, a Handover/ Downgrade Checklist should be completed. Determine Account Action Plan/ Recovery Strategy. The management problem loans (NPL) must be a dynamic process and the associated strategy together with the adequacy of provisions must be regularly reviewed. A process should be established to share the lessons learned from the experience of credit losses in order to update the lending guidelines.

Account Transfer Procedure:

Within 07(seven) days of an account being downgraded to substandard (grade 6), a Request for Action (RFA) and handover/ downgrade checklist should completed by the RM and forwarded to RU for acknowledgement. The account should be assigned to an account manager within the RU, who should review all the documentation, meet the customer and prepare a Classified Loan Review Report (CLR) within 14(fifteen) days of the transfer. The following formula is to be applied in determining the required amount of provision:

Particulars	Amount
Gross Outstanding	XXX
Less : (i) Cash Margin held or Fixed Deposits/ SP under lien (ii) Interest kept in Suspense Account	(XXX) (XXX)
Credit Value (for which provision is to be created before considering estimated realizable value of Collateral Security held)	XXX
Less : Eligible Security (the value of Eligible security is determined as half of the estimated Force Sale Value of the Collateral security held)	(XXX)
Net Credit Value	XXX

4.5 Credit Risk Grading (CRG)

Identifying and assessing credit risk is essentially a first step in managing it effectively. Credit risk grading is an important tool for credit risk management as it helps the Banks and financial institutions to understand various dimensions of risk involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a bank or a branch. The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage.

In 1993, Bangladesh Bank as suggested by Financial Sector Reform Project (FSRP) first made the first regulatory move to introduce best practices in this area and directed to use Credit Risk Grading system in the Banking Sector of

Bangladesh under the caption "Lending Risk Analysis (LRA)" for all lending exposures undertaken by a bank in excess of Tk.10 Million. The Banking sector since then has changed a lot as credit culture has been shifting towards a more professional and standardized Credit Risk Management approach. However, the LRA manual suffers from a lot of subjectivity; sometimes creating confusion to the lending Bankers in terms of selection of credit proposals on the basis of risk exposure. The LRA forced banks to take a systemic approach towards risk analysis. LRA however made no attempt to introduce a Risk Grading System (RGS) for unclassified accounts.

Credit Risk Grading system is a dynamic process and various models are followed in different countries & different organizations for measuring credit risk. The risk grading system changes in line with business complexities. A more effective credit risk grading process needs to be introduced in the Banking Sector of Bangladesh to make the credit risk grading mechanism easier to implement. With the world moving towards Basle II the need to introduce a Risk Grading System (RGS) for the industry is essential. Meanwhile, keeping the above objective in mind, the Lending Risk Analysis Manual (under FSRP) of Bangladesh Bank has been amended, developed and re-produced in the name of **"Credit Risk Grading Manual"** that was made mandatory in 2003. Bangladesh Bank provided guidelines for credit risk management of Banks wherein it recommended, the introduction of Risk Grade Score Card for risk assessment of credit proposals. All Banks should adopt a credit risk grading system outlined in this manual. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. The CRGM is a mandatory replacement of the LRA and is applicable for all exposures (irrespective of amount) other than those covered under Consumer and Small Enterprises Financing Prudential Guidelines and also under The Short-Term Agricultural and Micro – Credit.

Financing of Credit Risk Grading:

- The Credit Risk Grading (CRG) is a collective definition based on the prespecified scale and reflects the underlying credit-risk for a given exposure.
- A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure.
- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

Functions of Credit Risk Grading:

Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

How to Compute Credit Risk Grading:

The following step–wise activities outline the detail process for arriving at credit risk grading:

Step -1: Identify all the Principal Risk Components

Credit risk for counterparty arises from an aggregation of the following:

- Financial Risk.
- Business/Industry Risk.
- Management Risk.
- Security Risk.
- Relationship Risk.

Fig 4.6: The above Risk Components can be divided

Each of the above mentioned key risk areas require be evaluating and aggregating to arrive at an overall risk grading measure.

<u>Evaluation of Financial Risk:</u>

Risk that counterparties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. analysis of leverage, liquidity, profitability & interest coverage ratios. To conclude, this capitalizes on the risk of high leverage, poor liquidity, low profitability & insufficient cash flow.

Evaluation of Business/ Industry Risk:

Risk that adverse industry situation or unfavorable business condition will impact borrowers' capacity to meet obligation. The evaluation of this category of risk looks at parameters such as business outlook, size of business, industry growth, market competition & barriers to entry/exit. To conclude, this capitalizes on the risk of failure due to low market share & poor industry growth.

Evaluation of Management Risk:

Risk that counterparties may default as a result of poor managerial ability including experience of the management, its succession plan and team work.

Evaluation of Security Risk:

Risk that the bank might be exposed due to poor quality or strength of the security in case of default. This may entail strength of security & collateral, location of collateral and support.

Evaluation of Relationship Risk:

These risk areas cover evaluation of limits utilization, account performance, conditions/covenants compliance by the borrower and deposit relationship.

Step -2: Allocate weights to Principal Risk Components

According to the importance of risk profile, the following weights are proposed for corresponding principal risks:

Principal Risk Components	**Weight**
Financial Risk	*40%*
Business/ Industry Risk	*18%*
Management Risk	*12%*
Security Risk	*10%*
Relationship Risk	*10%*
TOTAL	***100%***

Step -3: Establish the Key Parameters

According to the importance of risk profile, the following weights are proposed for corresponding principal risks:

Principal Risk Components	Principal Risk Components
Financial Risk	Leverage, Liquidity, Profitability & Coverage ratio
Business/ Industry Risk	Size of Business, Age of Business, Business Outlook, Industry Growth, Competition & Barriers to Business
Management Risk	Experience, Succession & Team Work.
Security Risk	Security Coverage, Collateral Coverage and Support.
Relationship Risk	Account Conduct, Utilization of Limit, Compliance of covenants/conditions & Personal Deposit.

Step -4: Credit Risk Grading Process:

Credit Risk Grading should be completed by a Bank for all exposures (irrespective of amount) other than those covered under Consumer and Small Enterprises Financing Prudential Guidelines and also under the Short–Term Agricultural and Micro Credit. For Superior Risk Grading (SUP-1) the score sheet is not applicable. This will be guided by the criterion mentioned for superior grade account i.e. 100% cash covered, covered by government & bank guarantee. Credit Risk Grading Matrix would be useful in analyzing credit proposal, new or renewal for regular limits or specific transactions, if basic information on a borrowing client to determine the degree of each factor is a) readily available, b) current, c) dependable, and d) parameters/risk factors are assessed judiciously and objectively. The Relationship Manager as per Data Collection Checklist should collect require information. Relationship manager should ensure to correctly fill up the Limit Utilization Form in order to arrive at a realistic earning status for the borrower.

Credit Risk Grading Review:

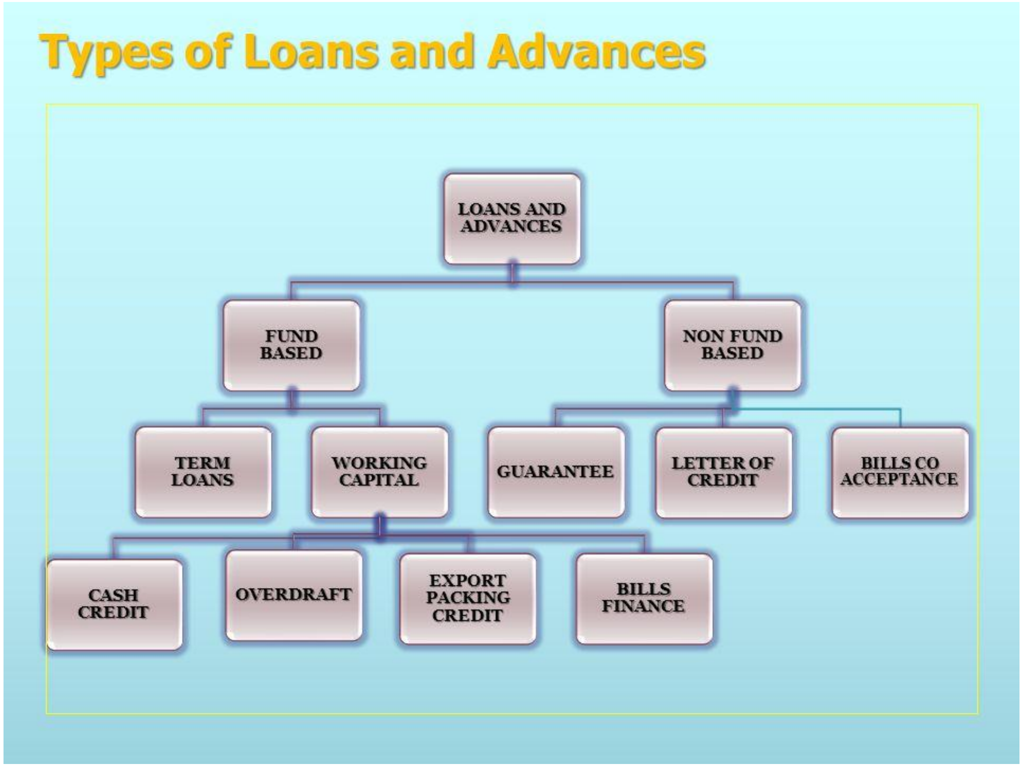
Credit Risk Grading for each borrower should be assigned at the inception of lending and should be periodically updated. Frequencies of the review of the credit risk grading are mentioned below:

Number	Risk Grading	Short Name	Score
1	Superior	SUP	Annually
2	Good	GD	Annually
3	Acceptable	ACCPT	Annually
4	Marginal/ Watch List	MG/ WL	Half yearly
5	Special Mention	SM	Quarterly
6	Sub–Standard	SS	Quarterly
7	Doubtful	DF	Quarterly
8	Bad & Loss	BL	Quarterly

4.6 Financing Products & Provisioning of loans & Advances

In order to strengthen credit discipline and improve the recovery positions of Loans and Advances by the Banks, Bangladesh Bank vide BCD Circular No.34/ 1989 introduced a new system covering loans and advances classification, the suspension of interest due and the making of provisions against potential loan loss. Later on, as part of the process i.e. regarding the changes meanwhile Bangladesh Bank has already introduced “Special Mention Account” vide BRPD Circular No. 02/2004 and 09/2004 for the banks and raise early warning signals for accounts showing first signs of weakness and making appropriate provisioning therein. As a further move towards this end, changes in the formats for classification and provisioning have been made vide BRPD Circular No. 08/2004. Moreover, some changes have been made in the provisioning requirement for Consumer Financing and Small Enterprise.

Categories of Loans and Advances:



4.7 Financing Credit Operations in NCC Bank Ltd

Organizational Structure for Credit Operations:

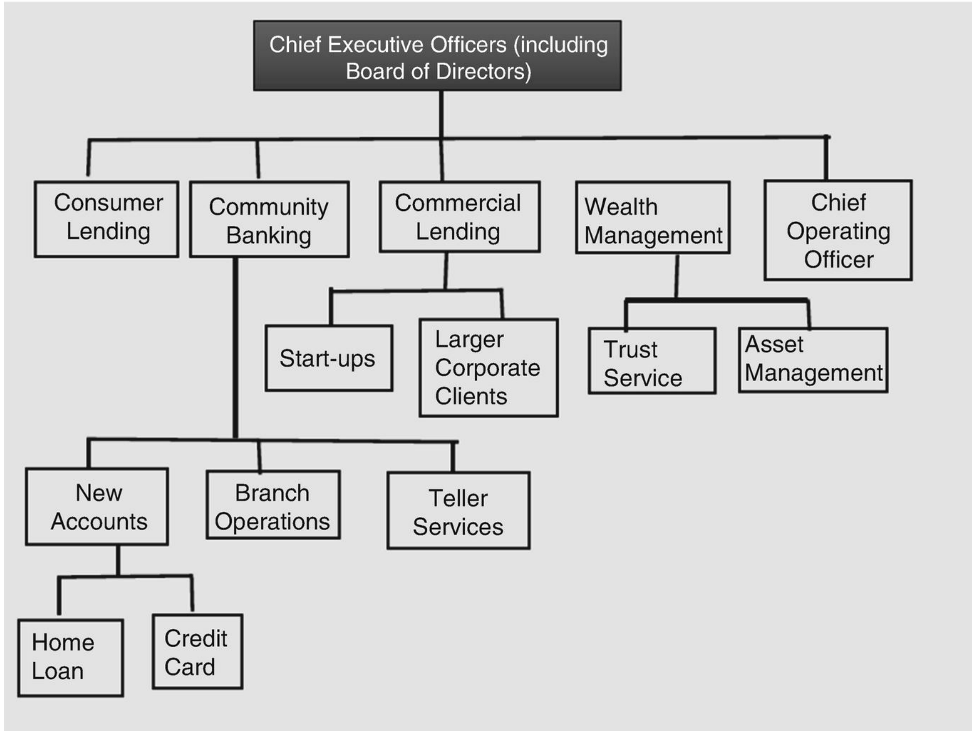


Fig 4.7: Structure of Credit operation at Head Office

4.8 Credit Principles of NCC Bank Ltd

- The Bank shall provide suitable credit services and products for the market in which it operates. Product innovation shall be a continuous process.

- Loans and advances shall normally be financed from customers deposit and not out of temporary fund or borrowing from money market.

- Credit facilities shall be allowed in a manner so that credit expansion goes on ensuring quality i.e. no compromise with the Bank's standard of excellence. Credit is extended to customers who will complement such standards.

- All credit extension must comply with the requirements of Bank's Memorandum and Articles of Association, Bank companies Act as amended from time to time, Bangladesh Bank's instructions Circulars, Guidelines and other applicable laws, rules and regulations.

• Credit advancement shall focus on the development and enhancement of customer's relationship and shall be measured on the basis of the total yield for each relationship with a customer (on the global basis), though individual transactions should also be profitable.

Diversification: The portfolio shall be well diversified sector wise, Industry wise, geographical area wise, maturity wise, size wise, mode wise, and purpose wise. Concentration of credit shall be carefully avoided to minimize risk.

Remunerative: If Credit facilities are granted on a transaction/one-off basis, the yield from the facility should be commensurate with the risk.

Pricing: Pricing of Credits shall depend on the level of risk and type of securities offered. Rate of interest is the reflection of risk in the Transaction.

Procedure of Management of Credit Risks in NCC Bank Ltd.:

Segregation of Duties:

Following credit related functions of the Bank are segregated/separated and done by separate units/set of people:

- Credit marketing/Relationship (Corporate Division);
- Credit Approval/Credit Risk Management (CRM);
- Credit Administration (Documentation & Disbursement & Monitoring);
- Credit Recovery.

The purpose of the segregation is to improve the knowledge level and expertise in each department, to impose control over the disbursement of sanctioned loan facilities to avoid conflict of interest, compromise and to ensure quality of assets through transparent process.

Segregated function of different units is as follows:

Corporate Division

Major Functions:

- To solicit customers and maintain effective relationship with them.
- To collect sufficient credit information and process the same to conduct due diligence (Credit Analysis).
- To prepare well-dressed credit proposal and recommend the same to the Credit Risk Management department of the Credit Division.

Duties and Responsibilities:

Broadly the responsibilities of the division should be, but not limited to, the following:

- To set short, medium and long term business goals and forward the same to the Credit Risk Management (CRM) unit of Credit Division for its ratification.
- To formulate plans and strategies to achieve specific business goals.
- To identify target customers, initiate/establish new customer relationships and renew/strengthen existing ones.
- To carry out credit analysis with due diligence, assess credit requirement of the customer, structure credit facilities, identify potential credit risks and mitigating factors.
- To solicit customers and prepare credit information memorandum for specific syndication deal.
- To appraise and recommend proposals for participation in loan syndications arranged by other banks.
- To prepare well-dressed credit memo, addressing credit worthiness of borrower (with regard to character, capacity, cash, collateral, condition and control aspects).
- To ensure compliance of bank’s own policies and regulatory requirements. The Relationship Managers (RM) should be the owner of the customer relationship and must be held responsible to ensure accuracy of the entire credit application submitted for approval. It is essential that RMs know their customers and conduct

due diligence on new borrowers, principals, guarantors to ensure such parties are in fact who they represent themselves to be.

4.9 Administration Credit Approval/Credit Risk Management (CRM)

The Credit Risk Management Unit shall perform the following duties: Assess risks inherent in the credit proposal sent by Corporate Division and also evaluate proposed facility pricing based on risks, security, structuring and terms and conditions to suit the business condition and to protect Bank's interest. Compliance to the existing rules and regulations of the Bank and all regulatory authorities and laws of the country and to advise the Corporate Division for rectification, if required. Review the performance of the customer on Off-site Basis and prescribe appropriate remedial measures, if required until the loan account becomes a "Special Mention" one. Review/revise risk grading of the customer from time to time based on the "Early Alert Report" and Downgrade Proposal submitted by Corporate Division. Handover credit to the Credit Monitoring & Recovery Unit as and when it is degraded to Special Mention or below.

Major Functions of CRM:

- To update Bank's Credit Policy/Lending Guideline, procedures and control mechanisms related with all credit risks arising from corporate/commercial banking and retail banking etc.

- To approve/decline credit proposal received from Corporate Division (presently from Branches) within delegated authority and to recommend to the higher authority if it is beyond delegation. Periodical review of different types of credits, maintain effective follow-up and supervision and take all possible measures in time to save from classification.

- Examine/review credit proposals (new/renewal) sent by corporate division/branches to: Process for approval, placing credit proposals in the Head Office Credit Committee, Decline credit proposals if they do not meet criteria. Prepare facility sanction letter and send copies to:

1. Branches/ Corporate division.
2. Credit Administration Division.

Table: Typical Characteristics of Early Alert System:

Expired Limited	*EA6*	- Facilities expired for more than 30 days - Security documentation pending after 30 days from the approved time frame.
Performance	*EA4*	- Payments default: Interest or principal 14 days overdue - Temporary overdraft 90 days or more which has not been regularized via formal limit and security documentation
Cash Flow	*EA4*	- Liquidity strained and there is a need for additional borrowing or capital now or in the near future. - Cash flow is unlikely to cover both mandatory debt service (Principal plus interest) and other business needs. - Ability to reduce working capital bank lines is limited or nonexistent. - Evidence of misuse of funds or monies diverted into non-core activities.
Balance Sheet	*EA3*	- Delay in submission, stale financial and /or deterioration. - Operating results are deteriorating and/or working capital cycle deteriorating. - Highly geared relative to peers/ industry and on upward trend. - Rapid acquisition of acquisition of assets without proper financial structuring - Declining asset cover for short-term debt.
Owner Ship	*EA2*	- Concerns over the ability of management to effectively manage existing operations, and/ or the business expansions, and/ or the business expansion plans. - Owners show lack of commitment to support business operation.
Definition of Early Alert		Weaknesses or potential weaknesses which

Account	require close monitoring and pro-active account management to protect the bank's position. If these weaknesses are not corrected they may result in deterioration of repayment prospects, with the likelihood of downgrade to CG12 within 12 months.

4.10 Effects of Management of Credit Risks in NCC Bank Ltd.

Identifying and assessing credit risk is essentially a first step in managing it effectively. As per Financial performance of NCC it is observed that the Profit After Tax, Earnings per Share (EPS), Net Assets per Share (NAV) turned down significantly over the last couple of years i.e. in 2006 and 2007 with respect to the previous ones, though the Deposit and Credits Portfolio, Total Income, Operating Profit, Number of Branches increased during the said period. The reasons behind the fact were during the period under reference a sizeable amount of Bank's credits got classified adversely as those were sanctioned and disbursed with stacks of defects and flaws in the previous years which was the early stage of the Bank. Meanwhile, recently the Bank has been able to improve the quality of its assets significantly through efficient Management of Credit Risks, which is mentioned below:

- The Bank has been able to recover around Tk.212.40 million in cash out of its adversely classified loans and advances during 2006 up to 31st instance of August. Consequently, the percentage of Classified and Non performing loans and advances of Total Loans & Advances has gone down to .86% as on 31st August, 2007 from 9.82% as on 31st December, 2007, which can be termed as remarkable progress.
- The Bank has successfully developed an integrated and well–coordinated system of Analysis, Appraisal and Sanction of Credits through its Credit Operation Division followed by proper and strict Control and Disbursement process through its Credit Administration Division backed by fully automated structure.

- Notable that almost entire classified loans and advances were extended at the initial stage of the Bank i.e. from 2001 to 2004, which became classified during the last couple of years and thus Bank suffered adversely in 2006 and 2007. While, the bulk of the recently sanctioned credits sound good. Consequently, the Bank has been able to mark an upward trend in its operational and financial performance.

4.11 Problems in Management of Credit Risks in NCC Bank Ltd.

Competitive Banking Market: Different kinds of commercial Banks both local and foreign are serving in our commercial Banking Market. Therefore, competing with other bank for weak credit management it is hard to survive. Besides, the whole banking sector in our country is undergoing a critical stage due to political unrest and depressed economic condition.

Credit Sales: Now a day, Businessperson is bound for credit sales to increase their sales in the competitive market. Resultantly, Business organizations need less working capital and Banking companies are loosing their opportunities to invest in Business organization.

Lack of Trained personnel for Credit related Operations: NCC suffers shortage of efficient and well–trained personnel for its various credit related operations. NCC bank should arrange adequate training. Though NCC has its own training institute, it is not adequate for its employees. Because it is not well furnished to with this modern world.

Lack of Marketing Activities: The promotional activities and marketing of different products of NCC are not sufficient for catering its services to the public or the Business organization.

Lack of Scope : Since the bulk of the Deposits, Capital and investable funds have already been employed in different loans and advances out of which a large portion have been stuck up as classified and non performing assets. Resultantly, under the prevailing condition it is difficult to increase the credit portfolio and ensure the proper Management of Credit Risks.

CHAPTER – 5

Recommendation & Conclusion

5.1 Recommendations

NCC bank is a third generation bank in Bangladesh. Meanwhile, its contribution in socio–economic aspect of Bangladesh has greater significance. During the preparation of the Report and working in the Credit Division, Head Office of the Bank I have found a fewer number of factors, which impede the achievement of ultimate goals of NCC. It is not easy to find out the by and large solutions on a vast issue like Management of Credit Risks through the study of an individual. But I do believe that the suggestions and recommendations mentioned below will obviously increase the efficiency of NCC Bank Ltd. in Management of Credit Risks:

- NCC bank should emphasize on reducing the classified and non–performing credits by concerted efforts.

- The Bank should develop the detail outlines and courses of actions to be taken for recovery of classified loans and advances so as to the classified barometer would not rise again.

- For the greater interest to save clutch of bad loans. Over and above, constant monitoring and supervision of the credit plays a vital role for keeping the credit portfolios out of risk. Bank should exert constant efforts on keeping the existing credits up to the mark through regular follow-up and visiting to the customer that could help the Bank to identify the reasons much earlier and right early treatment by taking preventive/ remedial measures might save the accounts from being classified.

- The bank should focus on procedural guidelines that have been devised for meticulous compliance by the branches for effective Management of Credit Risks.
- For efficient Management of Credit Risks the Bank should emphasize on building cordial rapport and relationship with the customers to ensure that neither the business nor the business relationship between the Banker and the Customer does hamper in any manner whatsoever. Rather it gives an impetus to enhance the same and improves the standard of Customers service of the Bank.

- Interest expenses on Deposits of the Bank may be tried to keep low with due regard to balances Deposit mix for minimizing the cost and maximizing the profit.

• The research cell of this Bank should be strengthening with the efficient manpower by studying the feasibility of introduction of new products, analysis of manpower productivity and similar other research works and eventually the efficient Management of Credit Risks.

• For sustainable growth, the Bank should identity and reinvests in productive sector and terminates unproductive operations/divisions.

• NCC should establish investment priorities and develop corporate Budgets that steer resources into those internal activities critical to strategic success. It should be involved in channeling resources into areas where earning potentials are higher and away from areas where they are lower.

• NCC bank should initiate responses to change under way in the industry, the economy at large, the regulatory and political arena and other relevant areas.

• NCC bank should observe the competitors closely to analyze any new course of actions taken by them and react competitively to that action. It can be accomplished by the following ways:

1. Can get information about a certain competitor's Business policies by recruiting their employees.

2. Can get information from the people who do Business with those rivals.

3. Can get information about other Banks from published materials and published documents.

• NCC bank should enhance its market exposure and create a favorable image because its market value per share is very low than its book value.

• The bank should increase the number of Credit Analyst to reduce the extra work loads and to ensure efficient Management of Credit Risks.

• It has to arrange to train up its personnel through adequate training programs and workshops so as to they can carry out their jobs properly and up to the mark.

5.2 Conclusion

At the finale, I feel myself fortunate to get the chance of preparing a Report on the topic like Management of Credit Risks. The preparation of report will help me a lot to augment my experience and knowledge as to negotiating the risks associated with the Credits of the Banks.

NCC Bank Limited, the pioneer private bank of the country has created a sense of mass participation through its diversified activities over the last 28 years. The number of client's service recovers and supporters have been increased rapidly. For its diversified banking service, it has got a wide range of publicity and created a special image the banking area of the country. NCC has started making profit from 1985 to still now. NCC Bank Limited s is the driving force of removing disparity and establishing justice in the economy. To alleviate poverty and construct socio economic infrastructure and ample employment opportunities NCC Bank Limited s are committed and they strive for. NCC Bank Limited is the root of exploitation and is responsible for large scale inflation and unemployment.

NCC Bank Ltd. is a growing and profitable bank in Bangladesh that has been rendering service to customer since 1984. I have been working in the Bank and it was an immense pleasure for me to carry out the case study of the Bank in connection with Management of Credit Risks. At last I want to say that NCC performance based on customer service is very much appreciable, outstanding and qualitative. If they can maintain these services for their customers then I hope they could be one of the top banks in Bangladesh within 3 to 4 years.

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Acronyms

A/C	Accounts
AD	Authorized Dealer
ADB	Asian Development Bank
BB	Bangladesh Bank
NCCBL	National Credit & Commerce Bank Limited
BIC	Branch Investment Committee
BOD	Board of Directors
CCH	Cash Credit Hypothecation
C & F	Clearing & Forwarding
CIB	Credit Information Bureau
DD	Demand Draft
DP	Drawing Power
ECC	Export cash Credit
EOL	Excess over Limit
ERC	Export Registration Certificate
EXP	Export Form
FDBP	Foreign Documentary Bills Purchased
FDR	Fixed Deposit Receipt
FE	Foreign Exchange
GB	General Banking
IBC	Inter Bank Clearance
IBCA	Inter Bank Credit Advice
ICC	International Chambers of Commerce
IRC	Import Registration Certificate
L/C	Letter of Credit
LDBP	Local Documentary Bills Purchased
LIM	Loan Against Imported Merchandise
LRA	Lending Risk Analysis
MT	Mail Transfer
MIS	Management Information Systems
NFCD	Non-Resident Foreign Currency Deposit Account
NGO	Nongovernment Organization
PAD	Payment Against Documents

PO	Payment Order
ROI	Return on Investment
STD	Short Term Deposit
SWIFT	Society for World Wide Inter Bank Telecommunication
TT	Telegraphic Transfer
TC	Travelers Check
TR	Trust Receipt
TIN	Tax Identification Number
UCPDC	Uniform Customs & Practices for Documentary Credit