Internship Report on

The loan Products and Credit Risk Management of National Credit and Commerce bank Limited.

NCC Bank

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<u>Report on</u>

"The loan Products and Credit Risk Management of National Credit and Commerce bank Limited."

<u>Prepared By-</u>

Shabrin Ara Refa

ID#16264022

An internship report submitted to the Department of MBA, BRAC Business School in partial fulfillment of the requirements for the degree of Masters in Business Administration (MBA)

Department of MBA, BRAC Business School

BRAC University.

April, 2020.

DECLARATION

It is hereby declared that

1. The internship report submitted is my own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

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Supervisor's Full Name & Signature:

DR. SALEHUDDIN AHMED
PROFESSOR
BRAC BUSINESS SCHOOL
BRAC UNIVERSITY.

Letter of Transmittal

April 27, 2020.

Dr. Salehuddin Ahmed

Professor, Department of Finance

MBA Program

BRAC Business School

BRAC University

66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report.

Dear Sir,

It is my great pleasure to submit the report on "The Loan Products and Credit Risk Management of National Credit and Commerce Bank limited." as a part of my internship program. I have tried my level best to observe different departments operations in National Credit and Commercial Bank limited in my internship period.

I enjoyed preparing this report, which has improved my practical knowledge of the theoretical knowledge. I have tried my best to finish the report with the necessary data and recommended proposition in a significant compact and comprehensive manner as possible. I am very much delighted that you have given me the opportunity to prepare this report for you and I hope that this report will meet the standard of your judgment.

Sincerely yours,

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SHABRIN ARA REFA

ID#16264022

BRAC Business School

BRAC University.

Non-Disclosure Agreement

Acknowledgement

I am delighted to get this opportunity to give special thanks to the persons without whom I would not be able to complete this report successfully. Their support, ideas and views have provided fluency to prepare this internship report and also enriched this report. I am grateful to all officials and staffs of National Credit and Commerce Bank limited for their co-operation and helpful to the persons whose books, journal, working papers and related materials give me continuous support to write down this report.

I would like to express my sincere gratitude to my academic supervisor Professor Dr. Salehuddin Ahmed, Faculty of Finance, BRAC Business School, BRAC University for his constant guidance, supervision and feedbacks which enabled me to prepare a well executed report.

I want to thank Mohammad Emdad Hossain Sr. Asstt. Vice President & Deputy Manager and Muhammad Tareq Hasan, Senior Principal Officer, National Credit And Commerce Bank, Dhanmondi Branch for their tremendous support, guidance and patience. I especially want to acknowledge Muhammad Tareq Hasan for providing me all the relevant and available information to have a clear concept on the subject. Without his help and supervision, preparing this report would have been very difficult. I would like to thank all the employees of National Credit and Commerce Bank, Dhanmondi Branch, for supervising me at the time of my internship attachment with their best efforts. So my heartiest appreciation goes to those officials.

At all I am greatly thanking to the persons whose enrich books, journals, report and working papers on financial management, credit policies have provided a guideline to me in preparing the report. Finally, I would like to thank all others whose strong support makes me able to complete this report successfully.

Above all, I want to acknowledge and most grateful to Almighty Allah (SWT), The Most Merciful, Who has blessed me with patience and tenacity of mind to complete all the requirements for the degree successfully.

Executive Summary

This internship report is prepared as the requirement for the completion of MBA program of BRAC University. The report is on “The Loan Products and Credit Risk Management of National Credit and Commerce Bank limited.” The report is planned to assist its reader in detailed understanding of the credit risk management process which has now become crucial for the financial institutions. The purpose of this report is to give an idea about credit process and credit risk management procedure of National Credit and Commerce Bank limited and how ICRRS helps to assess the credit risk of the bank.

Firstly, I have discussed about the background, objective, scopes, methodology, limitations, rationale and also the sources of data I have collected from.

Secondly, I have provided the company profile containing all the information about the organization, their mission, and vision, objective, products and services etc.

Thirdly I have discussed about the credit management of NCCBL including loans products and procedures, also the recovery system, principal of sound lending. I have also tried to give an idea about credit risk management and the internal credit risk rating system that is used for credit assessment and risk mitigation process.

Finally, I tried to give some suggestions to the base of my knowledge and experience that I have achieved during the time of doing my internship at NCCBL Dhanmondi branch, which can help them to achieve more efficiency in credit risk management.

For better understanding of the processes the whole system has been described with the help of different tables, flow charts and figures about credit approval procedures and documentation, credit management and the risk management systems.

Table of Content:

LIST OF ACRONYMS:

NCCBL- National Credit and Commerce Bank Limited

ICRRS - Internal Credit risk rating System

CRM- Credit Risk Management

SOD- Secured Overdraft

CC- Cash Credit

PC- Packing Credit

LTR- Loan against trust receipt

PAD- Payment against document

FDBP- Foreign documentary bill purchased

LC- Letter of Credit

BG- Bank Guarantee

LIM- Loan against Imported Merchandise

RM- Relationship manager

CAD-Credit Administration

CIB- Credit Information Bureau

ECAI- External Credit Assessment Institution

RMU- risk management unit

PU- Processing Unit

LDCL- loan documentation check list

CLR- Classified loan Review

KYC- Know Your Customers

GOB- Government of Bangladesh

ENVRR- Environmental Risk Rating

CIF- Customer Information File

PFS- Personal Financial Service

CPD - Credit processing department

ESRM- Environmental and Social Risk Management

CRGS- Credit Risk Grading System

CHAPTER ONE: INTRODUCTION

1.1.Introduction:

Risk is related to all aspect of business or profit making operations. Therefore, banks and other financial institutions needs to manage those risk associated with credit. Credit risk arises due to defaulting of the credit. If a bank is not being able to recover the loan they have given to the borrower from their collateral then it is known as credit risk and the borrower who is unable to pay the loan they have taken from the bank is called a defaulter in banking terms. We can say, credit risk arises from the bank's dealings and lending to the individuals, corporate and other banks or financial institutions. So, in order to manage the loan portfolio banks needs to know about credit risk management process to minimize losses and gain maximum profits for the bank.

Credit risk management is very significant for banks as the usage of banking services for any type of financial activities are increasing now a day and people are taking loans for different business and other purposes. So, to know the internal credit process of the bank has become important. Bangladesh Bank has issued guidelines on credit risk management process including policy guidelines, organization structures, different procedures and responsibilities etc.

1.2. Background of the report:

Banking sector is considered as one of the most important sector of an economy of a country. Bank is the most significant financial institution that plays a vital role by providing means of payment and in mobilizing resources. Economic development of a country greatly depends on the development of banking sector as it is related to the financial stability of the economy. At present, the changing and expanding role of banking sector has made the banking business more competitive and multifaceted. To support the growth of the business banks are adopting new specialized processes and technologies. But these technologies, creativity and specializations need to be marked in a right way and for this the bank needs to hire experts who will be able to adopt right policies in right time and in right place.

Banks offer capital in the form of loans and advances. These loans and advances are subject to non-repayment which is termed as credit risk, the probability that the loan may not be paid on time. So, the main concern of bank is the credit risk and its management because from these loan and advances they earn their income or profit. The success of the bank is related to the proper management of all sort of risk related to banking business.

NCC bank ltd is one of the leading banks in Bangladesh who arranges different retail and corporate credit. The bank has credit risk management department for controlling its credit risk and managing those risk. In the MBA program, internship is one of the most important parts that need to be done by every student for the completion of MBA. Internship program helps to relate the theoretical and practical knowledge and help to achieve some real life job experiences. I got the opportunity to perform my internship program in National Credit and Commerce Bank Limited. I have completed three months internship program in Dhanmondi branch. I have worked on the credit department mainly but I had to work on some other departments too as I was an intern. This report is originated as the requirement of MBA program and for NCC bank.

As a major in Finance and HRM I have chosen loan products and credit risk management of NCC bank as my concentration topic. This report will give us an idea about how NCC bank is managing its credit risk and how ICRRS implemented by Bangladesh is helping to analyze those risks in mitigating better management of credit risk.

1.3. Hypothesis:

With my research, I expected to see the loan products and credit risk management system of NCC Bank ltd and also that the new system in credit risk mitigation, introduced by Bangladesh Bank- ICRRS (Internal Credit risk rating System) is creating positive impact on Bank to improve its performance.

1.4. Origin of the Study:

Like any other business school, the internship opportunity is offered by BRAC University which is a partial requirement of the MBA program. It is helpful to become familiar with the practical business operations and helps to launch a career with some prior experience. After completing all the courses of MBA program every student need to complete a three months internship in any authorized organization. For the completion of the MBA program I have done three months internship in NCC Bank Ltd, Dhanmondi branch.

This report entitled ‘The loan products and the credit risk management of NCC Bank Ltd” originated for the partial fulfillment of the internship program. Credit risk management is associated with the whole loan processing from loan requesting to its maturity period including many stages like loan request, assessment, documentation, approval, schedule, disbursement, maturity etc. This is a process of loan sanctioning to loan recovery which is related to credit risk.

During my internship program, my organizational supervisor was Muhammad Tareq Hasan, Senior principal officer, National credit and Commerce bank limited, Dhanmondi branch. My University supervisor is Dr. Salehuddin Ahmed, Professor, Department of Finance, BRAC Business School, BRAC University.

1.5. Objective of the report:

1.5.1 Broad Objective:

Overall objective of this report is to obtain some practical knowledge of how a banking organization carries out its activities in order to manage its credit risk mitigation. Recently the bank has started to use ICRRS, introduced by Bangladesh Bank, in their credit risk management process. So, I will try to know about how ICRRS is using for the better improvement of credit risk mitigation and the performance of NCC Bank in ICRRS and also about their loan products and recovery system.

1.5.2 Specific Objective:

Specific Objectives are as follows:

- Firstly, fulfilling the academic requirements.
- Gathering practical knowledge and real life experience in official environment of NCC Bank Ltd.
- To give a brief overview of NCC Bank Ltd and the activities carried out by the organization.

- To have a close view and analyze the performance of the particular branch and the bank as a whole.
- To get an overview of the whole banking system of NCC Bank and identify the problems and challenges.
- Analyzing the performance of the bank and to have better orientation on credit risk management activities of NCC Bank Ltd, especially on various credit and loan services offered by the bank.
- To know about the loan processing system.
- To know about how effective is the new credit risk evaluation model (ICRRS) in credit risk mitigation.
- Finally, identify some major problems of NCCBL and provide subsequent recommendations.

1.6. Methodology of the Report:

Methodology refers to a specific process or techniques that are used to identify, select, process and analyze information about a topic and allows a reader to critically evaluate a study's overall validity and reliability. Basically methodology is related to organizing data from different sources in order to complete a successful report or study. There are two types of data that needs to be collected for the successful completion of the study. These are collection of primary data and the other is secondary data.

1.6.1 Collection of Primary data:

For my primary research, I have asked open ended questions to the officers and staffs working in the credit department of the bank about different aspects of credit risk management and credit risk mitigation processes through interview or face to face conversation. Also I tried to study relevant files provided by the officers concerned.

1.6.2 Collection of Secondary data:

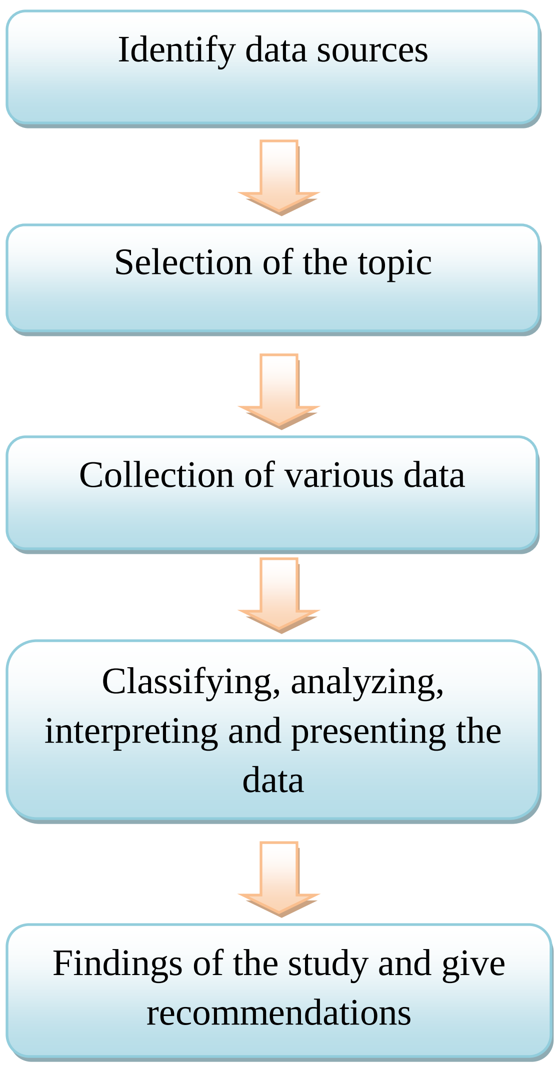
For my secondary research I have used different articles, reports, journals, newspapers, various business related papers, internet etc. regarding banking which were available in different sources.

Also I have studied ICRRS Manual published by Bangladesh Bank, banking credit risk management manual. I also took help from the daily affairs of NCC bank, dhanmondi branch and also from their credit policy guidelines.

1.7. Instruments used in the analysis of the Report:

There are some tools or instruments which are used in analysis, such as- different figures, tables, charts etc. for easy understanding of different aspects of the report.

The overall study process has done using the following steps-



1.8. Scope of the Report:

As I have worked at the credit department in NCC bank, Dhanmondi branch, so I have focused on the following areas of the bank:

- Loans and advances of NCC Bank Ltd.
- The credit process and operations of the bank.
- The credit risk management procedures under credit department of NCC Bank.
- The use of ICRRS in credit risk mitigation
- Analysis of some other factors related to credit risk management.

This report does not include any deposit service of NCC Bank ltd and the services of other banks and non-bank institutions.

1.9. Limitations of the Report:

I tried my level best to produce a well organized and comprehensive report on credit risk management of NCC Bank Ltd. Yet there were some limitations which are given below:

- NCC Bank Ltd maintains strict confidentiality about providing their financial information, so it was quiet difficult to get all the information that is necessary for the completion of my report. In some cases I have used some assumptions thus in those cases there could be a certain level of inaccuracy.
- An important part of this report is based on face to face interviews consisting of different views and opinions of the people. The executives were too busy to spare extra time for the internee. In some cases those were not able to provide concrete facts and figures.
- The duration of the internship program was only 3 months. The allocated time was not sufficient to gather all the information and knowledge to make the study a fully accurate and productive one.
- Within this short period of time it was not possible for me to understand the whole procedure of credit risk management and the procedure of ICRRS which is one of the most important parts of credit risk management process.

- One of the main limitation of my report work is the occurrence of CORONA VIRUS for which the whole country was locked down for which I have faces so many problems in gathering my required information and I have faces problems in communicating with my supervisors through direct conversation.

1.10. Rationale of the Report:

Banking sector is one of the most important sectors for any country's economy, especially a developing country like Bangladesh. There are 54 commercial banks including local and foreign ventures. So, the banking industry has become competitive and productive too. Every bank is offering new products and facilities to attract potential customers and maintain good relation with them in order to earn profit for the bank and for this appropriate borrower selection and investigation is must. Preparation of credit application, credit approval process and administration, following proper credit risk management is crucial for the bank because any lack in credit risk management can bring negative profitability for the bank. And this may run a bank in bankruptcy. I am interested to prepare the report on Credit risk management of NCCBL because I wanted to know about these issues in a more proper and in depth way.

While the time of preparing the report I found that although there is some problems exist in the bank but it is good at credit risk management with good recovery and profitability.

CHAPTER TWO: ORGANIZATION PART

NCC Bank

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2.1. History and Organization profile:

In 1985, NCC Bank was founded as an investment company in the name of National Credit Limited. It has operated with 16 branches till 1992. After receiving authorization from the central bank in 1993, it became a scheduled commercial bank. During that time it has started with a paid up capital of taka 39 crore. The point of the organization was to accumulate assets from inside and put them in such a way so as to develop country's industrial and trade sector and playing an important role in the formation of capital market as well. Since its beginning NCC Bank Ltd. has gained commendable reputation by providing sincere personalized service to its customers through establishing technology based environment. By setting up unique and new policies and systems, the bank has set up a new standard in financing in the Industrial, Trade and Foreign exchange business. Through its various deposit & credit products NCC bank is successful to attract the customers both in corporate and individuals who feel comfort in doing business with the bank. Now the bank has 121 branches operating in 35 districts in Bangladesh.

Head office: 7-8, Motijheel Commercial Area, Dhaka-1000, Bangladesh.

Known as: NCCBL

SWIFT code: NCCLBDDH

Stock code: NCCBANK

Category: Commercial

Type: Private

Origin: Local

Mission of NCCBL:

NCCBL follow the below mission statement-

- Delivering excellent financial services to the communities based on strong customer relationship.
- Providing long lasting solutions combining cutting edge technology, experience and financial strength to the clients and stakeholders.

- Creating a cohesive and friendly environment where customers and the employees can excel.

Vision of NCCBL:

The vision of NCCBL is to become one of the most profitable and attractable commercial Banks in serving the nation as a progressive and socially responsible financial institution by bringing credit and commerce together for increased Shareholder's value and sustainable growth.

Objective of NCCBL:

The main objective of NCCBL is to maximize profit through customer satisfaction and providing best and improved service along with other corporate objectives stated below-

- Providing such special and fast services so that the customers choose NCCBL over any other bank first and creating new opportunities for the clients.
- To carry on the business deals in foreign exchange including buying and selling of foreign exchange, dealing in foreign currency notes, granting and issuing letter of credit, travelers checks, circular notes and negotiating of export documents and all other matters related to foreign exchange.
- Ensuring high return on products with different service products.
- Making significant contributions in improving the country's economic condition through formation of capital, growth of savings and investment in trade, commerce and industrial sectors.
- Maintaining harmonious banker-client relationship and to create and maintain a congenial environment so that the people will be proud and eager to work with NCCBL.
- To create employment opportunities for contribution to the community.
- To built up a strong and enduring organization which employs good business practices and deliver better service of the highest quality.
- To share a significant portion of the banking sector's by utilizing available manpower and also state of the art technology for maximizing the shareholders wealth.

Departments of the Bank:

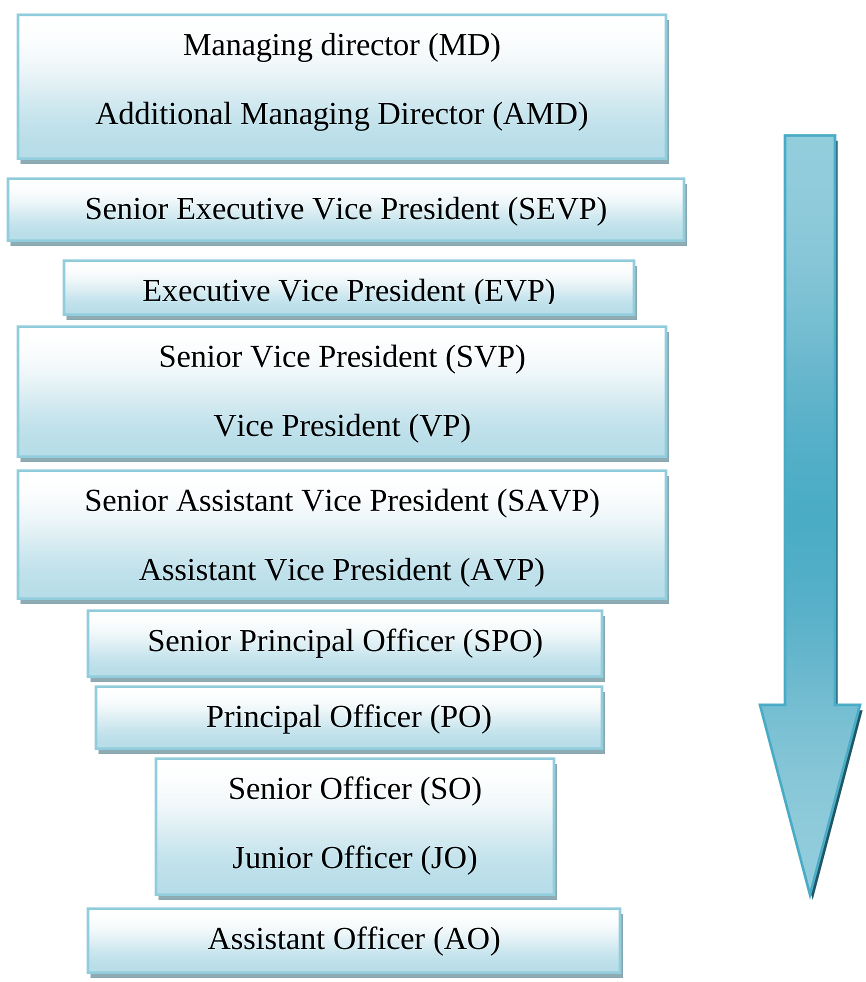
The bank has three department including-

- General banking department
- Credit department(loans and advances)
- Foreign exchange department.

2.2. Management Hierarchy of NCCBL:

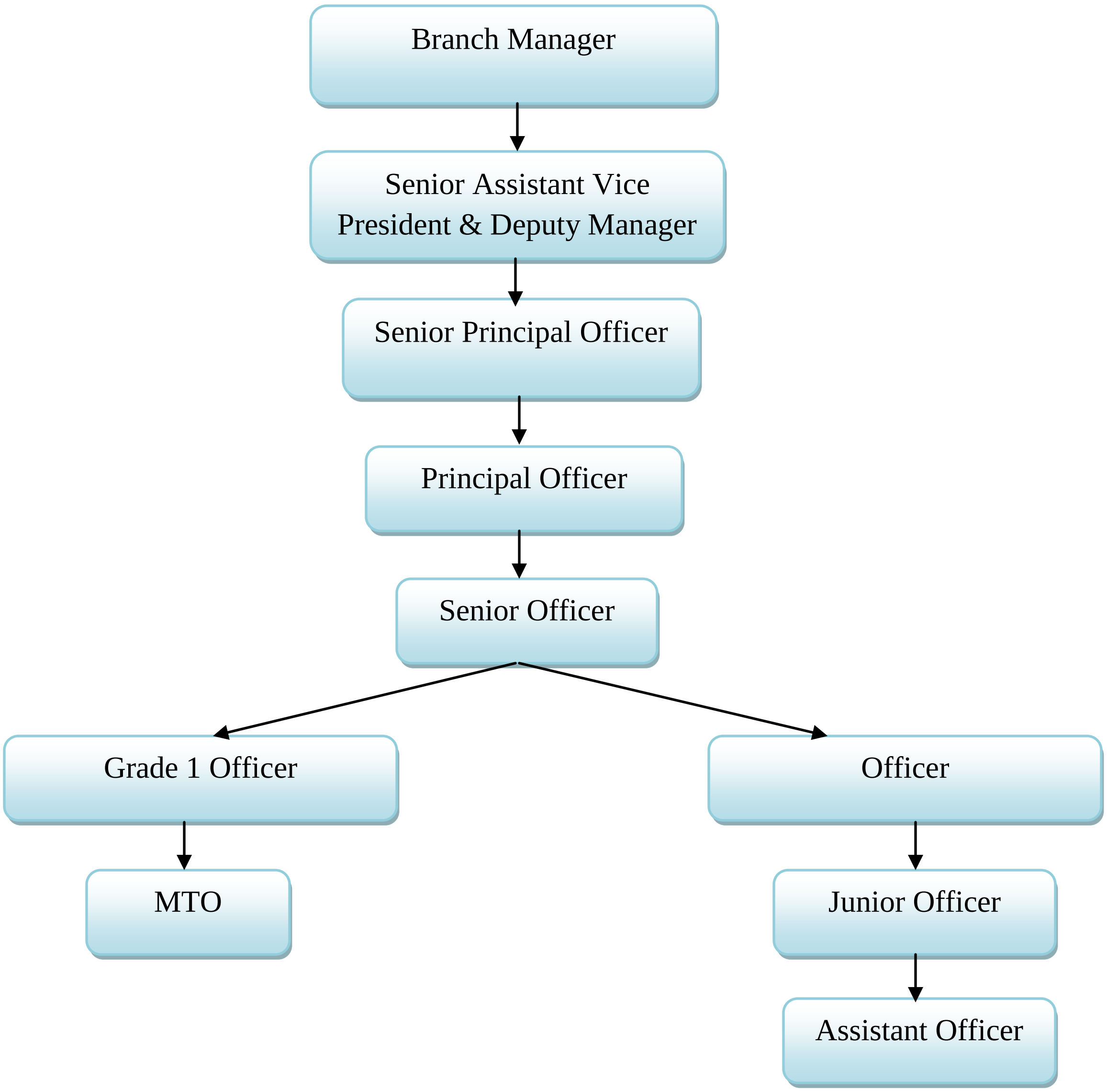
A hierarchical structure is a presentation of organizational structure where the chain of command or the level of position and ranking looks like a pyramid. This consists of many individuals where every employees in the organization, is subordinate to someone else within the organization, except the president or the CEO (The top level personnel).

The hierarchy of management includes three levels- top, middle and low-level management. The management hierarchy of NCCBL is given below-



2.3. Management Hierarchy of NCCBL Dhanmondi branch:

Management hierarchy of NCCBL Dhanmondi branch is given below-



2.4. Products and Services of NCCBL:

NCCBL is suitably equipped to meet customer expectations by offering its attractive products and services-

a. **Loan Products:**

- Personal loan
- Education loan
- Car loan scheme
- House Building Financing
- House Repairing and Renovation loan
- Home Improvement loan
- Agro Based Industrial Services
- Crop loan

b. **SME Banking:**

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

c. **Deposit Products:**

- Current A/C
- Savings Bank Deposit A/C
- Special Notice Deposit A/C
- Special Saving Scheme
- Special Deposit Scheme
- Premium Term deposit A/C
- Instant Earning Term Deposit
- Money Double Program
- Youngster Account
- Youngster Maximus Account
- Youngster Moneyplant Scheme

d. Services:

- NCCBL Securities and Fin. Services
- NCC Bank Smartpay
- Remittance Service
- Enlisted Surveyors or Valuers
- Locker Service
- Schedule of Charges
- NCCB Surecash Mobile Financial Services

e. Remittance Products:

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

f. Card Facilities:

- Credit Cards
- Debit Cards.

2.5.Target Customers:

NCCBL is interested in financing or doing business in different major sectors including readymade garments, textile and composite spinning, small and medium enterprise finance, service sector, agriculture and agro based ventures, syndication loan, non-banking financial institutions, import finance, export finance, infrastructure financing, green banking, tourism and hospitality industry, industrial long term finance, retail banking, women entrepreneurs, non-funding finance and the bank has customers in the construction sectors too involving high-rise building, heavy construction and roads and highway construction etc.

2.6. Performance at a glance (In million tk. where applicable):

Particulars	2016 (tk.)	2017(tk.)	2018(tk.)
Authorized Capital	10000.00	10000.00	10000.00
Paid up Capital	8832.18	8832.18	8832.18
Statutory reserve	5224.07	5927.55	6545.22
Retained Earnings(profit and loss account)	1416.46	1151.05	1127.88
Shareholders' equity	16542.20	17073.99	17676.61
Deposits	132800.38	159988.45	191343.75
Loans and advances	126003.48	146633.84	173866.79
Investments	23958.16	29403.28	33471.28
Fixed Assets	2500.13	2486.89	2617.13
Total assets(excluding contra items)	172706.23	202309.46	240528.12
Total assets(including Contra items)	214046.51	256665.41	316706.83
Total risk weighted assets(RWA)	147483.46	158051.15	186830.69
Import	56406.85	83722.55	101943.81
Export	16720.86	25893.60	48577.16
Remittance	17316.47	27012.09	29492.80
Total Income	14850.84	16805.55	22429.93
Total expenses	10359.62	11882.93	16211.20
Operating profit	4491.22	4922.62	6218.73
Profit after Tax	2078.11	1763.45	1815.84
Earnings Per Share	2.35	2.00	2.06
Number of shareholders	62411	51223	45924
Number of branches	106	109	116
Number of employees	2310	2146	2145

TABLE:1 Performance of NCCBL (Source: Annual report of NCCBL 2018)

CHAPTER THREE: CREDIT MANAGEMENT OF NCCBL

3.1. Credit:

Credit is a broad term that has different meaning in the financial world. Generally it is defined as a contractual agreement in which a borrower receives something of value at present date and agrees to repay the lender in future. In banking term, credit is the total amount available to a business or individual from a banking institution. It is the total amount of combined funds that a bank provides to an individual or business firm. A business or individual's bank credit depends on the borrowers' ability to repay the loan and the total amount of credit available in the banking institution. Banking institution provides different forms of short term and long term credit such as loans, overdrafts, cash credit, bill purchased and discounted, bank guarantees etc. NCCBL offers both short term and long term credits but is usually grant short term advances which are utilized to meet the working capital requirements of the borrower. Only a small portion of a banks demand and time liabilities is advanced on long term basis against regular repayment by the borrowers in installments.

3.2. Different loans and advances offered by NCCBL:

NCCBL offers different products as loans and advances and the description of those are given below-

Name	Description	Purpose	Risk/ Repayment	Tenor
SOD	Secured Overdraft	General Purpose	100% covered by any financial Instrument. No credit risk. Ever green.	12 months
SOD(general) Other than work order finance	Overdraft	General purpose	High credit risk. Recourse on sales. Ever green. Collateralize by fixed assets. Hypothecation on floating	12 months.

			assets.	
Name	**Description**	**Purpose**	**Risk/ Repayment**	**Tenor**
CC(HYPO)	Cash credit against hypothecation of inventory and book debts.	Finance inventory/receivables.	Recourse on sales. Ever green. Collateralize by fixed assets. Hypothecation on floating assets.	12 months.
Term loan	Term loan against fixed assets.	Financing fixed assets.	Recourse on fixed assets. Collateralize by fixed assets. Hypothecation on floating assets. High risk.	5 years (MAX)
Lease finance	Lease finance against machinery, equipment vehicle and others for commercial /own use	Financing fixed assets.	Recourse on leasehold asset. High risk.	5 years (MAX)
PC	Packing credit/ SOD(G)/SOD(E) against export LC/ sales contract	Pre- shipment financing for export on FOB value	Performance risk. Lien on export LC.	180 days (MAX)
LTR	Loan against trust receipt	Financing Import	Recourse on sales.	180 days (MAX)
PAD	Payment against document	Financing for payment of document under LC.	Recourse on title to import goods.	21 days as per BB rules.
Time loan(forced)	Forced loan against import under SLC/ ULC/	Loan for making payment against LG and BG under forced circumstance.	Recourse on title to import goods.	As per BB rules.

	Acceptance/ BG			
Name	**Description**	**Purpose**	**Risk/ Repayment**	**Tenor**
FDBP	Foreign documentary bill purchased	To purchase/ discount/ Negotiate export doc. Against sight/ usance export LC	Recourse on banks through acceptance. Residual on clients.	180 days (MAX)
LC sight	Letter of credit sight	To import of goods for own consumption. To import of goods for commercial use.	Recourse on title to import goods. Residual on clients.	Tenor to depend on underlying merchandise as per BB instruction.
LC Usance	Letter of credit usance			
BTB LC(against export LC)/sales contracts	Back to back Letter of credit against Master export LC and export contract	Import of raw materials and accessories for subsequent export.	Recourse to export proceeds.	180 days (MAX)
BG	Bank guarantee APG/ PG	Contractual obligations	Performance Risk Ever green	Period Open ended to be discouraged.
Agri-finance	Agriculture related loan	Agricultural finance	High risk due to climatic vulnerability	As per BB rules.
Syndications	Term finance for large project implementation	Raise term finance for setting up and BMRE of project	Risk spreads among participating banks.	Based on banker customer relationship.

TABLE-2: **Different loans and advances of NCCBL (Source: Credit Policy of NCCBL 2019)**

3.3. Types of products with nature of products:

Types of products	Nature of products
Working Capital finance	CC(Hypo), CC(Pledge)
Commercial and trade finance	Loan general, lease finance scheme, project loan, LDBP, FDBP, SOD(G), SOD(Work order), SOD-EM
Industrial/ project finance	Term loan(Medium and large), term loan(Small industries), Transport loan
Retail and consumer finance	Personal loan scheme, car loan scheme, education loan, house building finance, consumer finance, house repair and renovation, house improvement loan
SME finance	CC(H), CC(P), festival small business loan, SOD(G), LTR, LIM, PAD, lease finance scheme, small business loan scheme, term loan
Agricultural finance	Agri-credit / crops loan
House building finance	Loan against house building, special house building loan
Import and export finance	SOD-import, SOD-export, packing credit, LTR, LIM, payment against document, export against cash credit(ECC)
Women entrepreneur finance	Term loan, lease finance , working capital
Staff finance	Staff car loan, staff house building loan, staff loan PF

Table-3: Types of product with nature of product (source: Credit Policy of NCCBL, 2019)

3.4. Loan Procedure of NCCBL:

Bank usually follows a procedural guideline prepared in the light of credit risk manual given by BB for credit operation. However, bank’s own credit policy, vision, mission, as well as guidelines and policies given by BB from time to time are also reflected in procedural guideline. The activities of credit operations start with discussion between bank and client, and end up with recovery of loan either in a centralized or in a decentralized way. Steps of loan procedure of NCCBL are given below-

3.4.1. Origination of credit:

Relationship Manager/ Marketing (RM)-

- Discuss with client with credit facilities
- Ensure expected business segment or sector and expected types of loan facilities
- Review lending target-disbursement in the industry and single borrower/ group limit
- Receive request of credit from the client along with related papers, documents etc.
- Scrutinize or verify the submitted documents and information
- Collect other required information
- Appraisal of managerial, organizational, marketing, technical, socio-economic and environmental aspects.

Relationship Manager/ Marketing (RM) through credit administration (CAD)-

- Collect the client's CIB

Relationship Manager/ Marketing (RM) then do -

- Analysis the loan structure, purpose of loan etc.
- Financial analysis(Historical and projected data)
- Analyzing securities offered by clients including primary and collateral security, create charges on security through pledge, hypothecation, mortgage, lien, assignment, set off.
- Complete ICRRS score sheet
- Collection of credit rating done by ECAI of client, if possible
- Finalization of loan structure and security arrangement
- Recommendation of the credit proposal and placing for approval of HOCB or head of CRM.

3.4.2. Approval of loan proposal:

Head of CRM - Forward the proposal to risk management unit (RMU) for their observation

RMU - sends back to CRM after putting observation

Head of CRM - forward to processing unit (PU) under CRM

PU under CRM - forward to approval unit under CRM

Head of CRM (if beyond his power) - forward to managing director or CEO for approval

Managing director or CEO (if beyond his power) – forward to executive committee (EC) or board for approval

EC/ Board – return proposal on approval or rejection to CRM.

3.4.3. Documentation and disbursement:

RM – make 2 copies of approved proposal and send one to RMU and the other to CAD

CAD – issue sanction or offer letter along with loan documentation check list (LDCL) to RM

RM –

- Advise sanction or offer letter to client
- Collect acceptance of client with all documents
- Complete LDCL and forward to CAD

CAD do the –

- Documentation and stepping towards the disbursement
- Disbursement of credit ensuring compliance with all terms and conditions of sanction letter.

3.4.4. Monitoring and follow up:

RM- After disbursement, regular follow up of credit

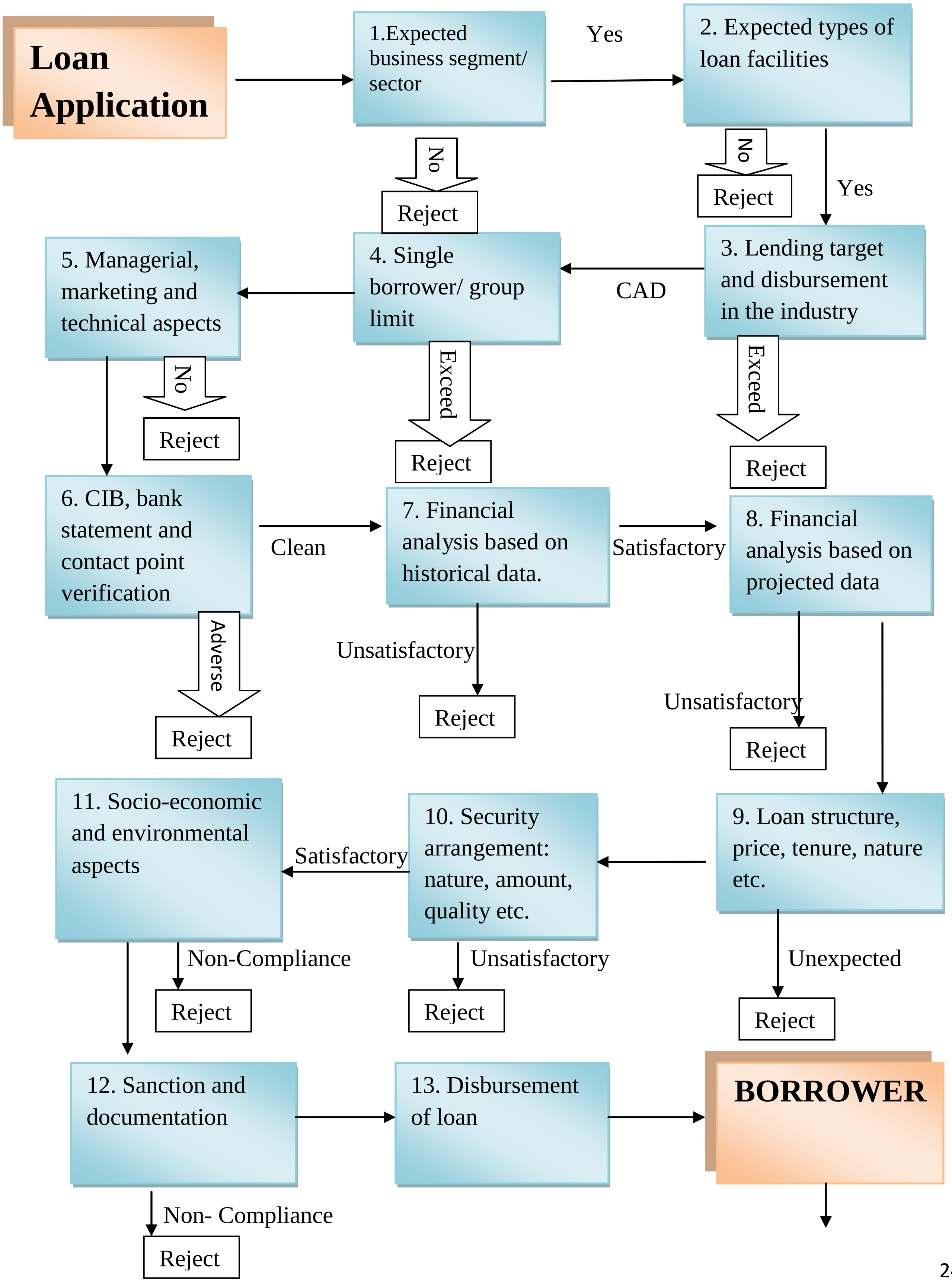
CAD/ Zone- monitor credit based on due date diary

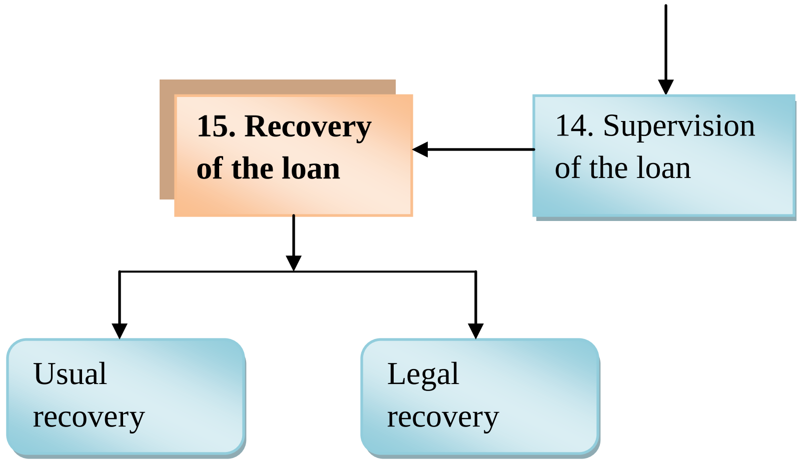
RM- identifies early alert account and report to CRM

Head of CRM (For positive change) - make conversation of early alert account to regular account status

RM – classify and make provision as per policy.

Loan Procedure of NCCBL





Flow chart-1: Loan procedure of NCCBL

3.4.5. Recovery of credit:

RM- Transfer of all account of sub standard (SS) or worse to account manager within RU

Account manager within RU-

- Determination of recovery strategy
- Pursue all options of non-legal measures to maximize recovery
- Making loan loss provisioning based on actual and expected losses
- Regular review of grade 6 (SS) or worse account.
- Preparation of classified loan review (CLR) on a quarterly basis
- Recovery of credit through legal action against Defaulted clients.

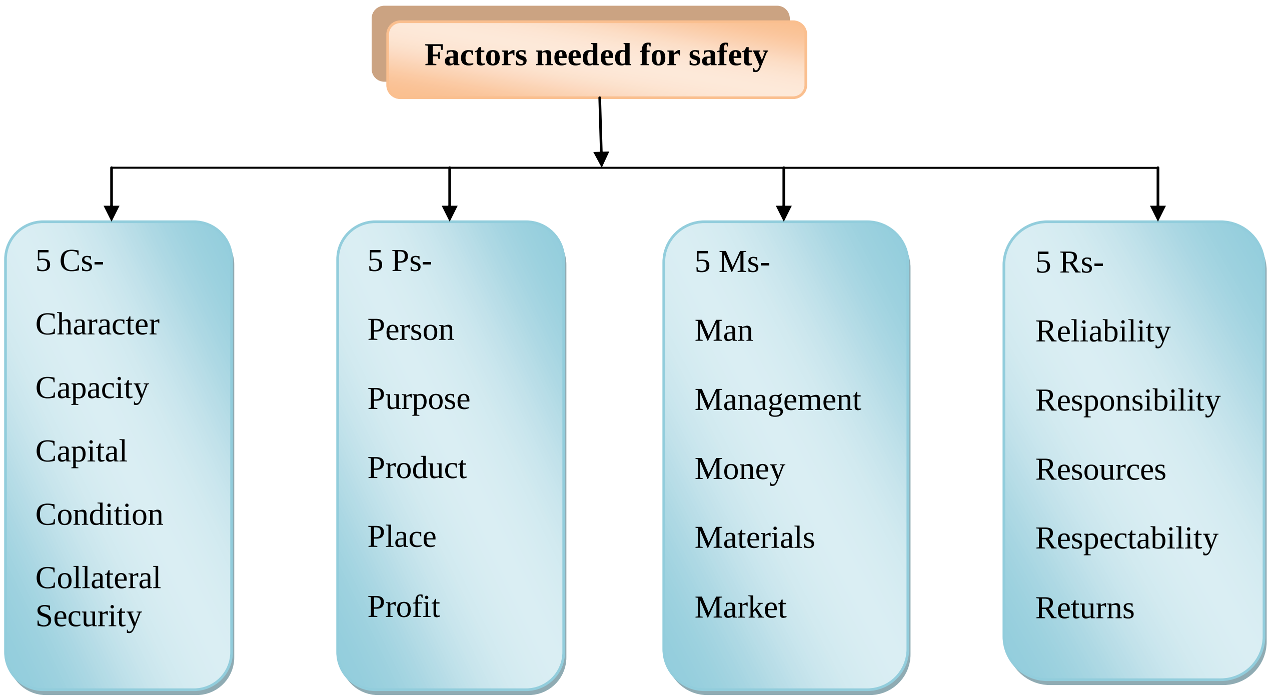
All the above steps works through three stages which is also known as – Pre sanction, Post sanction/ Pre disbursement and Post disbursement.

3.5. Principles of sound lending In NCCBL:

NCCBL follows some sound lending principles in order to reduce the risk involvement associated with loans and advances including safety, purpose, security, liquidity, profitability, diversification and national interest. These are given below-

3.5.1. Safety:

In order to ensure the safety of the lending, NCCBL follow some important factors including-



3.5.2. Purpose:

To know the purpose of lending is very crucial for the bank so that the banker have the idea whether the loan is for any productive use or not.

3.5.3. Liquidity:

Liquidity means the availability of fund on short notice. Bank needs to know whether they can get back the loan amount in liquid form or not in any short period of time.

3.5.4. Security:

In order to cover loss, bank accepted securities from borrowers in case of any default of the borrowers. It must be satisfactory, readily marketable, easy to handle and free from any encumbrances.

3.5.5. Profitability:

Banking institutions are definitely business institution which aims at earning a good profit. If there is strong possibility of fair return or good profit, the bank will absolutely invest the money what they get from deposit of the customers.

3.5.6. Spread or diversification:

The advances should be as much broad based as possible and must be in conformity with the deposit structure in order to minimize the risk of lending.

3.5.7. National Interest:

A bank should keep in mind the national development plan to play a significant role in the economic development of the country. NCCBL is not exception of that. NCCBL always try to handle its credit operation in such a way that can contribute in the overall development of the society.

CHAPTER FOUR: CREDIT RISK MANAGEMENT

4.1. Credit Risk:

Credits are the largest and most obvious source of credit risk. Credit risk can be defined as the possibility of loss (due to non-recovery) originating from the credit extended as a result of the non fulfillment of contractual obligations occurring from unwillingness or failure of the counter party to pay or for other reasons. If the probability of loss is high, then the associated credit risk is also high and vice verse. Credit risk also refers to the risk of negative effects on the financial result and capital of the bank caused by the failure of the borrowers to meet its obligations in accordance with the agreed terms. The assessment of credit risk involves evaluating both the probability of default by the borrower and the exposure or financial impact on the bank in the occurrence of default.

4.2. Credit Risk Management:

Credit risk management is the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any particular time – a process that has long been a challenge for any financial institutions. Bank needs to manage the credit risk exposure inherent in the entire portfolio as well as the risk in individual credit or transactions. The effective management of the credit risk is a critical component of a comprehensive approach to risk management and essential to the long term success of any banking organization. Different factors are used in assessing credit risk, and three are considered to have the strongest relationship: probability of default, loss given default, and exposure at default.

- Probability of default measures the likelihood that a borrower will be unable to make payments in allocated time.
- Loss given default looks at the size of the loans, any collateral used for the loan, and the legal ability to pursue the defaulted funds if the borrower goes bankrupt.
- Exposure at default looks at the total risk of default a lender faces at any given time.

4.3. Importance of Credit Risk Management:

The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure with in risk inherent in the entire portfolio as well as the risk in individual credits and transactions. Bank cannot avoid all the risk rather the bank should manage the credit risk in such a way so that it does not twist out of control. So, the only solution is the effective management of those risks. Credit risk management includes identification, measurement, matching, mitigation, monitoring and controlling of the credit risk exposure to make sure that-

- Individuals who take or manage risk clearly understand it.
- Organization's risk exposure is within the limit set up by the Board of directors (BOD) with respect to sector, group and country's prevailing situation.
- Risk taking decisions are supported by the business strategies and rules set by BOD and should be precise and comprehensive.
- Expected payoffs compensate the risks taken.
- Sufficient capital is available to take the risk.
- Mismanagement of risk can lead the bank to suffer huge cost.

4.4. Measures for mitigation of credit risk:

- Assessment of borrower in light of competence, requirement and repayment ability.
- Documented agreement according to law of the country.
- Risk based loan pricing.
- Credit enhancement/ security support/ compliance of covenants.
- Internal credit risk rating/ external credit rating of the borrower.
- Organizational structure/ segregation of duties.
- Internal auditing.
- Loan classification and loan provisioning.
- Diversification of credit portfolio.
- Ensuring proper staffing and adequate training.

CHAPTER FIVE: CREDIT RISK MANAGEMENT SYSTEM OF NCCBL

5.1. Credit Risk management process of NCCBL:

Credit risk management process covers the entire process of credit management starting from the origination of credit and ends up on recovery. The credit facilities are provided in forms of loans and advances.

Advances: The account in which transactions are made within certain limit and have an expiry date for full adjustment treated as advance. It is renewable if the terms and conditions are fulfilled.

Loans: The account which is repayable within a specific time period under a prescribed repayment schedule is treated as loan. Any withdraw is not allowed after the repayment of loan amount.

To sanction and control any risk regarding loans and advances NCCBL follows the below procedures-

5.1.1. Pre-approval stage:

The loan processing department at the branch level prepares the credit proposal through necessary evaluation/ ex-ante analysis by fulfilling NCCBL's lending criteria, ensuring perfection of the security for the advance and to provide all necessary and qualified information required on the credit worthiness of the customers. Proposal which do not fulfill these criteria are being rejected. Following steps are engaged in approval stage-

I. Origination of credit proposal:

Credit proposals are originated from RM/ Branch manager/ business unit who are the owner of the relationship, and responsible for ensuring the accuracy of the information presented in credit proposal. RM's are to adhere to NCCBL's established KYC, anti money laundering guidelines, BB's regulations and GOB guidelines/ circulars/ regulations in preparing all credit proposals.

II. Credit Proposal:

RM's help the borrowers to fill up the NCCBL standard loan application form. Once borrowers requirement is known, RM's go for credit proposal after undertaking a thorough credit check on information provided by the borrowers. Critical credit analysis and regular risk assessment are done by them on the potential exposure of the borrower in light of CRM policy guidelines of the bank. CM's are to be fully documented with all legal, business, technical, financial, market and management information of the borrower with full disclosure so that approving authority can make an informed decision. CM's are routed through business heads to CRM division to initiate credit approval process.

III. Loan Proposal Parameters:

a) A datasheet about the borrower's information:

Name of the borrower or the group of borrowers, a unique control number for each borrowers, which will include CIF Number for the client or group of clients and borrowers code, credit rating of the borrower, CIB status, legal status with date of registration, capital structure and nature of business, ICRRS, ENVRR, borrower's exposure category etc.

b) Facility schedule:

It includes types of credit products, Exiting line/ proposed line/ outstanding (as applicable), purpose, tenure, pricing, source of repayment etc.

c) Security Schedule:

Securities are based on primary and collateral. It includes valuation by professional surveyor and Branch Manager/ RM/ Credit officer as per the valuation guideline of NCCBL.

d) Support:

It includes personnel/ corporate/ third party guarantee along with guarantors details, PFS statement as per latest IT-10B, insurance with detail of coverage.

e) Disbursement

It refers to perfection of documents including vetting, valuation of securities, execution of mortgage, deposit of fees, margin, insurance cover, equity investment by the client in project or business etc. and disbursement schedule (as applicable).

f) Need Assessment:

This is basically the justification of borrowers financing need, mentioning need assessment both for capital financing requirement and working capital financing requirement.

g) Risks and mitigates:

It includes the analysis of business/ financial, managerial/ industry risk, security risk, environmental/ regulatory risks etc.

h) Lending covenant :

It includes management/ financial/ environmental/legal/ regulatory etc.

i) Visit and inspections:

It is needed to observe the inspection report from RM/ credit officer, project engineer. Inspection report on stock/ business centers, inspection report on security is also needed.

j) Repayment:

The bank also looks after the source of repayment, repayment schedule, repayment frequency, expiry and alternative way out in case of any fall back situation.

k) Assessment of repayment capacity:

Here, repayment capacity is to be verified from the cash flow forecasts and other financial indicators to test financial viability of the business.

l) Justification:

It involves the justification of the facilities; technical, financial, market and management aspects of the business or projects; and also considers the global exposure of the borrower in the banking sector; risks with mitigates and project earnings from the relationship.

IV. Loan Proposal with takeover of liability:

It is very crucial to ascertain genuine credit need of business or projects before considering loan takeover from other banks. RM's do the inspections and the verifications of the stock and receivable position of the borrower before any takeover of liability to ensure that the stock or receivable or other assets match with related liability of the borrower with other banks or financial institutions. They also verify the insurance coverage on stock.

V. Renewal or review of loan:

In NCCBL, all loan facilities are to be reviewed at least once annually. RM's send fully documented CM's to head office preferably eight weeks prior to expiry including credit check, overall exposure of the client in the banking sector, review of management competence, turnover, repayment position, earning from the relationship, review of related risk of the business, risk grade of the client and relationship policy, factor/ stock/ security inspection, documentation status and insurance status, justification of limits proposed for renewal, justification for change in pricing, business and financial projection along with justifications etc.

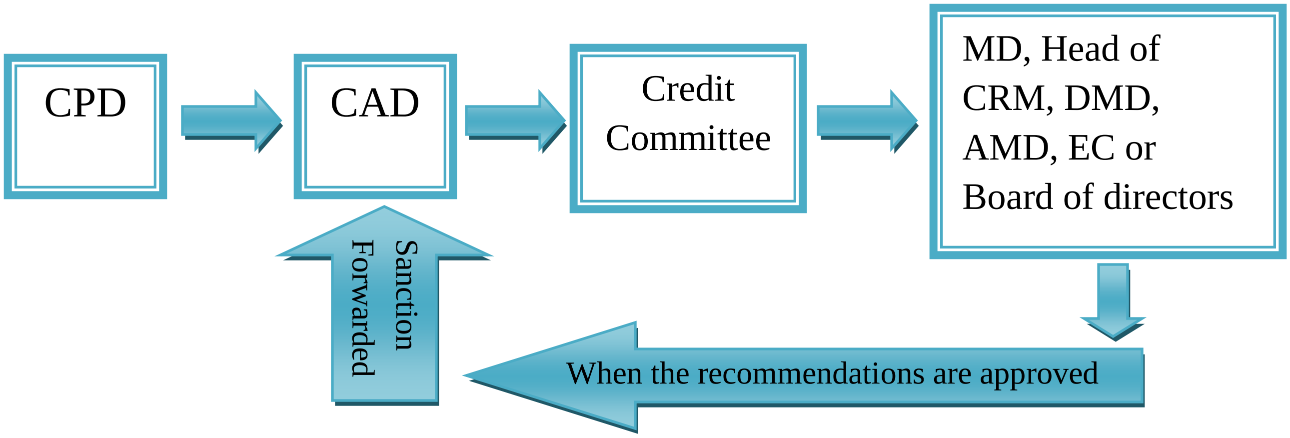
The function of each department under CRM among others include the following-

Credit processing department (CPD):

CPD makes in-depth analysis of all risk factors of all credit proposals received and recommended by the branch/ credit officer/ RM and find out all the positive and negative side of each credit proposal. If the result of the analysis is found to be very satisfactory, then the proposal is forwarded to the credit approval department with opinion or recommendation of the department for further review or analysis of the credit proposal.

Credit approval department (CAD):

After receiving the proposal from CPD with all opinion and recommendations, CAD systematically observes the credit proposal and makes sure that the proposal has been analyzed and prepared fulfilling all the necessary rules, regulations, circular, guidelines, and recommendation has been made in conformity with the credit policy, circular, guidelines and credit norms of NCCBL, BB and any other agency. If the proposal is satisfactory with all the credit norms of the bank, all the analysis and repayment, then CAD arrange for approval of the proposal recommended by the processing or recommendation department following the below process-



Flow Chart-2: Loan Sanctioning of NCCBL (Pre-approval stage).

5.1.2. Post Approval Process:

In post approval stage several restrictions, control mechanism and quality control needs to follow-

I. Protective Covenants:

The borrower should follow some certain rules including-

- Obtain and maintain in full force and effect all GOB authorizations, licenses and permits required to implement and operate borrower's business.
- Pay all duties, taxes, fees etc. that are due to the GOB when due.
- Agree that the bank shall always be at liberty to obtain and gather full financial and credit information on the borrower from other financial institution and also the liberty to publish notices and information on the borrower if he fails to repay the Bank's due.
- Maintain current ratio of not less than 1.0 time and DSRS preferably not less than 1.5 times.
- Maintain all insurance overages as detailed in loan documents and keep payment of insurance premium updated and insurance premium paid receipt.
- Keep the bank informed about any changes in the market position of its products, internal change in management, technology obsolesces, damage, accident, loss that may affect its earning and repayment of the bank loan. Etc.

II. Restrictive Covenants:

The borrower shall not do the following-

- Change in business line and execute disposal, sale by a single transaction or series of transactions of any fixed assets without prior consent of NCCBL.
- Enter into any investment activities other than regular business for which the loan facility is approved and avail any credit facility from other source without prior consent of NCCBL.
- Make any amendments or alteration in the company's memorandum and articles of association obtaining prior approval of NCCBL in writing, also applicable for partnership concerns. Etc.

III. General Covenants:

- All sanctions will be valid for 120 days only, if not otherwise mentioned in the approval.
- Satisfactory account conduct will require for the renewal of credit facilities.
- The borrower will submit require papers, documents, financials to the bank for review and renewal of credit facilities. Otherwise the bank might consider "Stop transaction".
- A signboard with the inscription that "This property is mortgaged with NCCBL……………Branch……..'' to be displaced at visible places of the mortgaged property. Etc.

There are also some facility specific covenants followed by NCCBL depending on the nature of the facilities like LC, LG, work capital finance etc.

To carry out the above mentioned activities following departments are responsible-

Credit administration and monitoring department:

After getting the forwarded sanction, disbursement under loan facilities are made when all security documents is on place with approved terms and conditions at the branch level. After getting approval of all documents and signed by the manager along with the credit officer a copy authenticity and documents are sent to CAD at head office, who takes all measures to ensure that the branches have strictly enforce all terms and conditions instructed in the sanction guidance and all the documentations have been completed before disbursement of loan or advances. CAD department stay in close touch with the branch manager or RM in order to resolve any difficulties or risks, keeping the interest of the bank protected. The department takes on close persuasion and takes all necessary steps needed for maintaining good quality of the assets. They also review the Early Alert Accounts and make follow ups on non-performing loans and ensure coordination in recovery measure with appropriate policies. The department also maintain necessary database mostly branch wise, industry wise, sector wise, nature of facility wise, tenure wise, credit grade wise, security wise, loan size wise etc. After taking all needed measures, if the loan turns non-performing then the matter is transferred to the recovery department.

Credit Recovery Department:

After receiving the non performing loan files from CAD, this department checks the NPL thoroughly and tries to find out the reason of being the loan stuck up through taking necessary actions and examinations. They make constant communications with the branches and the clients for recovery of the bank’s due payments. During the time of recovery, amicable settlements are preferable, otherwise the bank go for legal actions against the default borrowers for the recovery of bank’s credit.

Legal Action Department:

After receiving the matter from the credit recovery department, the tasks of this department starts for taking legal actions against the default borrowers. They maintain connections with the lawyers to expedite legal actions taken by the bank to recover the due payment from the borrowers.

5.2.Credit Assessment:

A through credit and risk assessment should be conducted before granting of loans and the result of this assessment should be presented in a credit application by the RM and is approved by the CRM authority. All banks should have established Know Your Customer (KYC) and money laundering guidelines which should be adheres at all times. In addition with the amount and type of loan, purpose, loan structure, security arrangements etc. the following risk areas must also be considered-

I. Borrower Analysis:

The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding management depth, complicated ownership structures or inter group transactions should be addressed and risk mitigated. Borrower's experience, business skill, management and succession should be analyzed to assess the credit requirement.

II. Industry Analysis:

The key risk factors of the borrower's industry need to be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces, SWOT analysis of the borrower's business should be addressed. This must be done by the credit officer (CO) or RM.

III. Supplier and buyer Analysis:

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

IV. Market Risk Analysis:

Borrower's market share in the industry is to be established. The demand supply gap needs to be addressed.

V. Technological Risk:

Technical aspects of the products must be addressed. The CO or RM must be satisfied with the mitigating factors technical or technological risks, associated with the products.

VI. Environmental and Social risks:

Bank must need to assess the credit proposals considering the environmental and social risk management (ESRM) perspective considering BB ESRM guideline which has a bigger focus on social and climate risks. The objective of ESRM guideline is to make banks and FIs realize to integrate environment and social (E&S) risks and incorporate appropriate risk mitigation measures in overall credit management.

VII. Historical Financial Analysis:

An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Corporate guarantor’s financial statement should also be analyzed. The analysis must include the quality and sustainability of earnings, cash flow and the strength of the borrower’s balance sheet, leverage and profitability etc.

VIII. Projected Financial Performance:

Where term facilities are being proposed, projection of the borrower’s future financial performance needs to be provided, indicating an analysis of the sufficient cash flow to service debt repayments. Loans should not be approved if the projected cash flow is inadequate.

IX. Account Conduct:

For existing borrowers, the historic performance in meeting repayment obligations such as trade payments, cheques, interest and principal payments etc. needs to be assessed.

X. Adherence to Lending Guidelines:

Credit applications or appraisals should clearly state whether or not the proposed application is in compliance with the bank’s Lending Guidelines. Bank’s head of credit/ MD/ CEO should not approve the credit applications that do not adhere to the bank’s Lending Guidelines.

XI. Loan Structure:

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

XII. Security:

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

5.3. Internal Credit Risk Rating System (ICRRS) Guideline by BB:

All banks should adopt an ICRR system that can define the risk profile of the borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. It is essential for every bank as it is a robust process. "Internal Credit Risk Rating System refers to analyze a borrower's repayment ability based on information about a customer's financial condition including their liquidity, cash flow, profitability, debt profile, market indicators, industry and operational background, management capabilities and other indicators".

ICRRS is an integral part of CRM for the bank to provide a transparent and consistent framework for the measurement and assessment of the borrower's credit risk. It describes the creditworthiness of the borrower as it helps for individual credit selection, credit pricing and setting credit limit and terms and conditions. It comprises with twenty different rating templates for twenty sectors instead of just one template for all the sectors like previous Credit Risk Grading model. It is a valuable addition to the credit risk management tools by BB, which helps the banks in developing and maintaining a better- quality credit portfolio. It is an automated credit risk scoring system that calibrates the characteristics of different scores and industries in one single model. ICRRS shall be conducted for all credit proposals including new, renewal and enhancement of the existing proposals.

5.3.1 Credit risk rating scores:

ICRR consists of 4 notched rating systems covering the quantitative and qualitative parameters. The ratings and scores are-

Rating	Scores aggregate
Excellent	≥ 80%
Good	≥ 70% to < 80%
Marginal	≥ 60% to <70%
Unacceptable	<60%

Table-4: Scores of credit risk rating

The characteristics of different categories of credit risk ratings are given below-

a) **Excellent:**
   - Aggregate score of 80 or greater in ICRR
   - Strong repayment capacity of the borrower evident by the high liquidity, low leverage, strong earnings and cash flow.
   - Borrower has well established strong market share.
   - Very good management skill and expertise.

b) **Good:**
   - Aggregate score of 70 or greater but less than 80 and the quantitative score of at least 30.
   - The borrowers are not as strong as the excellent borrowers, but still demonstrate consistent earnings, cash flow and have good track record.
   - Borrower is well established and has strong market share.
   - Very good management skill and expertise.

c) **Marginal:**
   - Aggregate score of 60 or greater but less than 70 and the quantitative score of at least 30.
   - This grade has potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of repayment prospects of the borrower.

d) **Unacceptable:**
   - Aggregate score of less than 60.
   - Financial condition is weak and no capacity or inclination to repay.
   - Severe management problems exist.

- Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted such as consecutive losses, negative net worth and excessive leverage etc.

5.3.2. Management action triggers:

a) If the borrower's ICRR is 'excellent' or 'good' then the banks are allowed to lend credit to the borrower. But if the ICRR is 'marginal' then the bank should take cautionary measures for lending new money to the customers or renewing the facilities. Banks must observe the future prospect of the business, additional coverage etc. while assessing credit proposals.

b) The borrower whose ICRR is 'unacceptable', bank should not sanction any loan to them unless the loan is 100% cash covered or fully guaranteed by Government or Multilateral Development Banks (MDBs) or the loan is for any state-owned organization or state owned project.

c) Whatever the aggregate score is, RM should evaluate the impact of loan repayment and justification of the risk mitigation, if the ICRR of the borrower is 'marginal' or 'unacceptable' for any risk criteria either qualitative or quantitative. CAD should review the justification thoroughly and make necessary decision based on that.

d) In obtaining ICRRS, whatever scores a borrower gets in the qualitative analysis if the score in the quantitative part is less than 50%, borrower's ICRRS should be 'unacceptable'. And in this case bank can make renewal and enhancement of existing loans maximum 2 times.

e) In conducting qualitative analysis, justifications for all criteria are required to be documented.

f) Bank must maintain portfolio level database for the asset base with all categories and maintain risk appetite/ tolerance level for portfolio.

5.3.3. Credit Risk Rating components:

In ICRRS, 60% are allocated for quantitative indicators and 40% weights are allocated for qualitative indicators, while in the previous CRGS 50% were for quantitative indicators and 50% were for subjective judgment.

I. Quantitative indicators and allocated weights:

In ICRR, quantitative indicators fall into 6 broad categories including- leverage, liquidity, profitability, coverage, operational efficiency and earning quality. Description of these categories and allocated weights are given below-

Quantitative Indicators		Weight	Definition
1.Leverage (10%)	a)Debt to Tangible Net Worth(DTN)	7	Total interest-bearing liabilities or Financial debt/ Total Tangible Net Worth
	b)Debt to total assets(DTA)	3	Total interest-bearing liabilities or Financial debt/Average Total Assets
2. Liquidity (10%)	a)Current ratio(CR)	7	Current asset/ Current Liability
	b) Cash ratio (Cash)	3	Cash and easily marketable securities
3.Profitability (10%)	a) Net Profit Margin (NPM)	5	Net profit after Tax/ Net sales
	b) Return on Asset (ROA)	3	Net profit after Tax/ Average Total Assets
	c) Operating profit to operating Asset(OPOA)	2	Operating Profit/ Average Operating Assets
4. Coverage (15%)	a) Interest Coverage (IC)	3	Earnings before Interest and Tax/ Interest Expense
	b) Debt service Coverage Ratio (DSCR)	5	Earnings before Interest, Tax, amortization, Depreciation/ Debts to be serviced
	c) Financial debt to Operating Cash Flow (FDOCF)	4	Financial Debt/ Operating cash flow
	d)Cash flow coverage Ratio(CCR)	3	Cash flow from operation/ debts to be serviced
5.Operational Efficiency (10%)	a)Stock turnover days (STD)	4	(Total inventory/ cost of goods sold)*360
	b)Trade Debtor Collection (TDCD)	3	(Total accounts receivable/ Sales)*360
	c)Asset turnover	3	Sales/ Average Total Assets

6.Earning Quality (5%)	a)Operating Cash flow to Sales (OCFS)	3	Operating Cash flow / Sales
	b) Cash flow based accrual ratio (CAR)	2	NI-(CFO+CFI)/ Average net operating assets

Table-5: Quantitative indicators and their allocated weights.

II. Qualitative Indicators and allocated weights:

It covers 6 broad aspects of the firms or institutions to be rated, these are- Business or industry risk, credit quality enhancement, performance behavior, management risk, relationship risk and compliance risk. Details and associated weights are given below-

Indicators	Weights
1. Performance Behavior	**10**
Performance Behavior with Banks Borrowings	9
Performance Behavior with Suppliers/ creditors	1
2. Business and industry risk	**7**
Sales growth	2
Age of business	2
Industry prospects	1
Long term external credit rating of the borrower	2
3. Management Risks	**7**
Experience of the management	2
Existence of succession plan	2
Auditing firm	2
Change in auditors in last 4 years	1
4. Security Risk	**11**
Primary security	2
Collateral	2
Collateral/ Security Coverage	5
Type of Guarantee	2
5. Relationship risk	**3**

Account conduct	3
6. Compliance Risk	**2**
Compliance with environmental rules, regulations and covenants	1
Corporate Governance	1
TOTAL	**40**

Table-6: Qualitative indicators and their allocated weights.

After the risk identification and the weight assignment process, the next steps will be to input actual parameter in the score sheet to arrive at the scores corresponding to actual parameters, through a well performed MS excel-based credit risk scoring system to arrive at a total score on each borrower. Accurate data needed to input in particular cells of the excel program in order to calculate the accurate risk grade for a particular borrower based on total score obtained.

A detail management report and executive summary report will automatically generated after giving inputs to the balance sheet, profit and loss statement, cash flow statement and qualitative analysis. A four color coding process is used illustrating the borrower who's ICRR is Excellent as green, Good ICRR as blue, Marginal ICRR as Yellow and Unacceptable ICRR as red.

For the quantitative and the qualitative analysis, if the ICRR falls under 'Marginal' or 'Unacceptable' for any risk criteria; whatever the cumulative score is, RM should assess what will be the impact of such on loan repayment and justify how those risk are mitigated; CAD should review those justifications thoroughly and make necessary evaluations on it and should be documented in the loan file.

CHAPTER SIX: FINANCIAL ANALYSIS OF NCCBL

6.1. Trends of Total Deposit, loans and advances of NCCBL (In million TK.):

Loans and advances are one of the most important parts of NCCBL. The scenario of loans and advances for 4 years are given below-

Years	2015	2016	2017	2018
Total Deposit	112722.21	132800.38	159988.45	191343.75
Loans and Advances	104854.73	126003.48	146633.84	173866.79
Advance-deposit ratio	93.02%	94.88%	91.65%	90.86%

Table-7: Total deposit, Loans and Advances of NCCBL (Source: Annual report of NCCBL, 2018)

6.2. Position of Non-Performing Loan of NCCBL (In Million TK.):

Position of non-performing loan in NCCBL for 4 years are given below-

Years	2015	2016	2017	2018
Amount of non-performing loan & advances	7409.95	7274.01	8490.07	10091.88
Non-performing loans &advances as % of total loans & advances	7.07%	5.77%	5.79%	5.80%

Table-8: Position of non-performing loan of NCCBL (Source: Annual report of NCCBL, 2018)

6.3. Distribution of Credit Exposure by Major types:

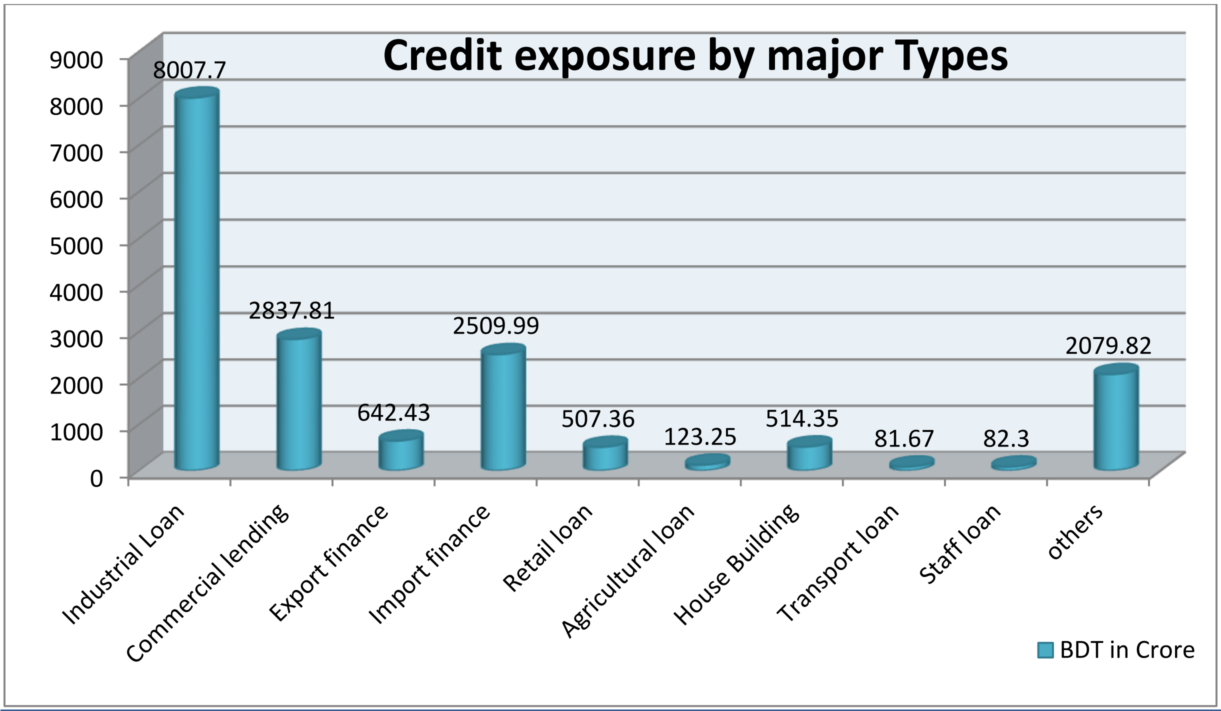


Figure-1: Distribution of Credit Exposure by Major types (Source: Annual Report of NCCBL, 2018)

6.4. Geographical Distribution of Credit Exposure:

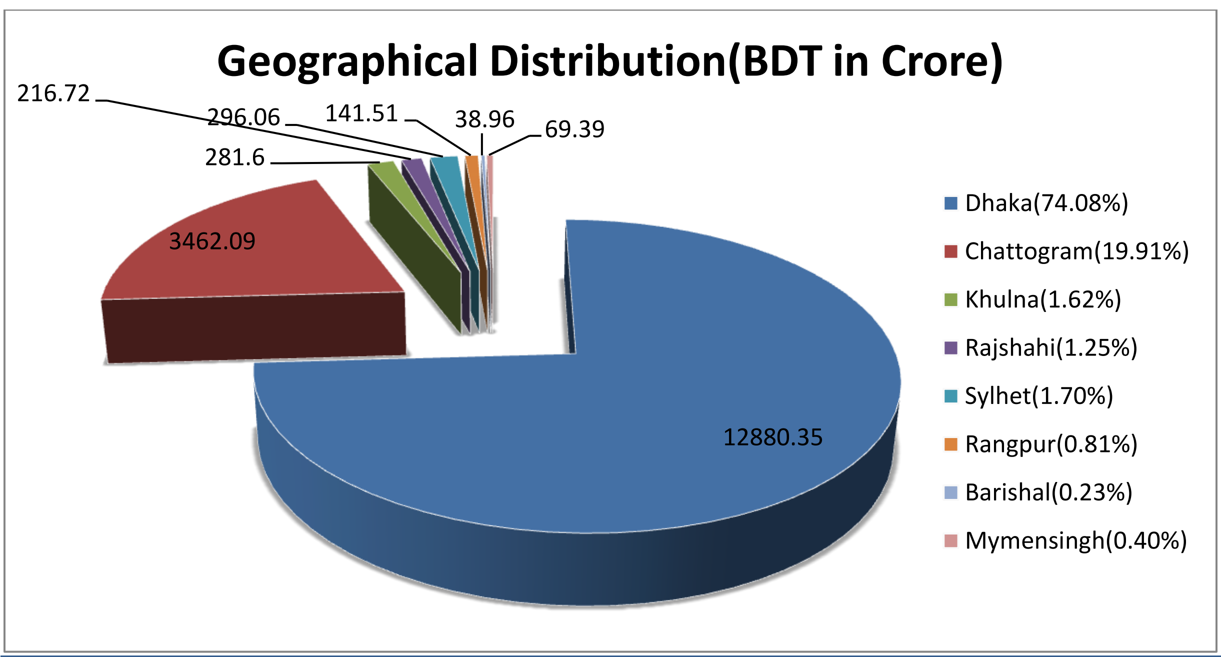


Figure-2: Geographical Distribution of Credit Exposure (Source: Annual Report of NCCBL, 2018).

6.5. Industry wise distribution of Credit Exposure:

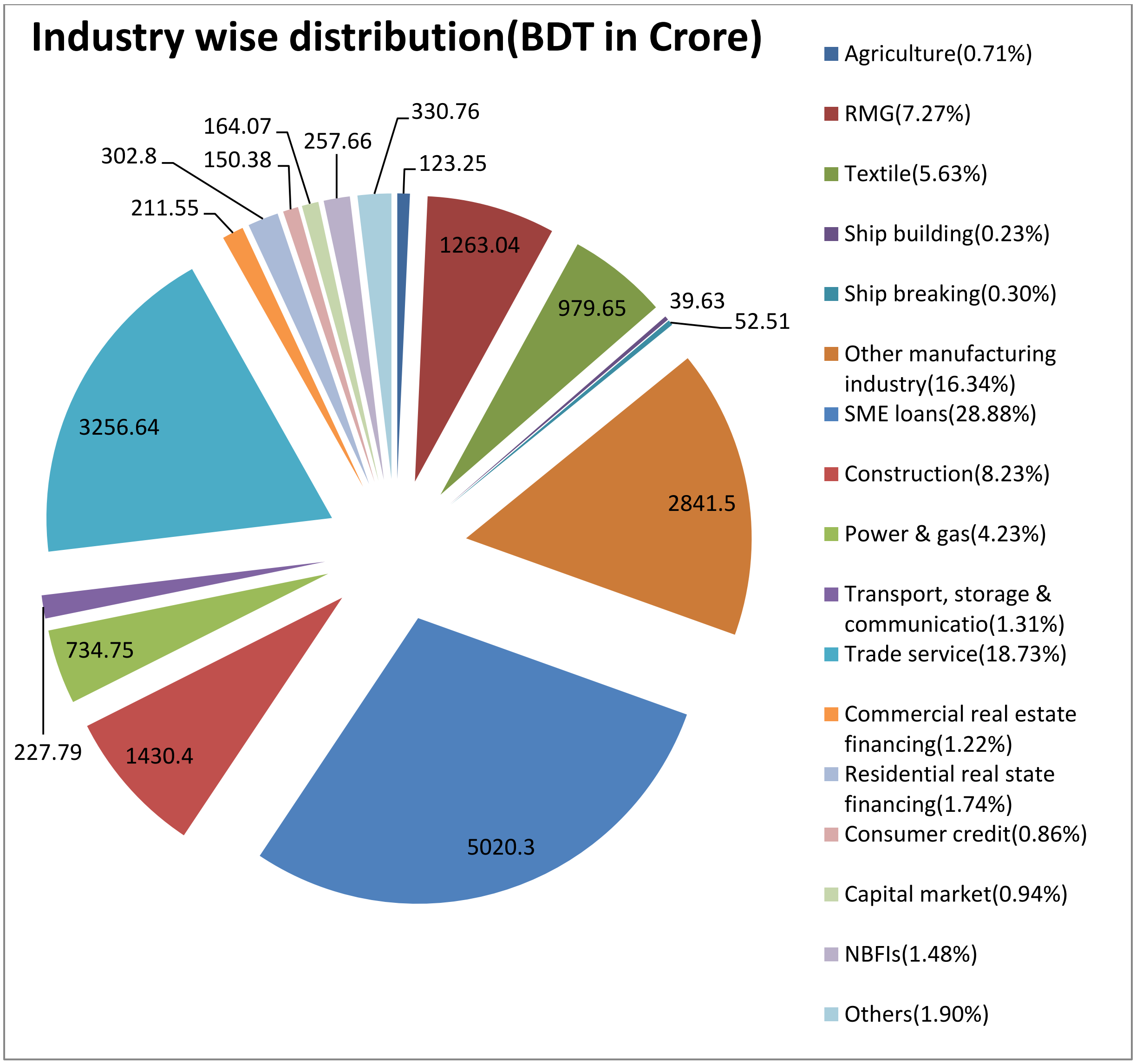


Figure-3: Industry wise Distribution of Credit Exposure (Source: Annual Report of NCCBL, 2018).

CHAPTER SEVEN: FINDINGS AND ANALYSIS

NCC Bank

With You. Always.

7.1. Findings:

7.1.1. About ICRRS:

ICRRS is a better system than the previous CRGS because-

- In previous CRGS, every sector was compiled in one template but the present ICRRS comprises with 20 different rating templates for 20 industries or sectors.
- Different yardsticks have been used for the proper assessment of the borrowers of different sectors using different unique and ideal assessment parameters for each criterion.
- In ICRRS, strict assessment is possible which was absent in CRGS.
- Only sales volume was considered in CRGS whereas in ICRRS the sales growth of the company or the business is also considered.
- In ICRRS, borrower or borrowers history and borrower's performance with other banks is considered as an important factor.
- Relevant and appropriate numbers of financial ratios are used for assessing the strength of the borrowers in ICRRS.
- New ratios like operating efficiency, earning quality have been introduced in ICRRS which was not included in CRGS.
- ICRRS is giving better identification of credit risk as it provides strong customer analysis.
- In CRGS, there is no clarification of RM but in ICRRS clarification is must.

Weaknesses-

Even if ICRRS gives better assessment of the borrowers there are some negative side too. Like in ICRRS, overall ratios of cash flow are based on current performance but there is no consideration of the future progression. Ex. Suppose the performance or profit of an NGO is negative for last year, so the coverage become negative, it does not mean that the overall performance of the NGO is bad but it is being highlighted in the ICRRS that the performance is bad. Another weakness is people are not properly become acknowledged about this new system yet, for these banks are facing problems to make people aware about this new system.

7.1.2. Other findings:

- People hide information or do not provide realistic information while taking loans from the bank for which risk increases.
- Sometimes it becomes difficult to collect proper information or essential documents so the risk increases.
- Loans are not properly diversified to different sectors for that reason credit risk rises.
- Even if there is existence of strong procedures in association with advances, there is lack of proper implementation of those procedures.
- Sometimes bank can't approve loans according to the clients' purpose as the loan portfolio is not wider.
- Some of the borrowers do not utilize the loan amount for the purpose which they didn't acknowledge the bank earlier. On the other hand there is lack of proper monitoring system after sanctioning loans and advances. These become the cause of classified loans.
- The existence of negative gap between the interest rate on deposit and interest rate on loans and advances indicates to credit risk of the bank.
- Government policies for credit and credit risk management sometimes are not favorable for banking business for which risk increases.
- While the time of approving the loan, collateral is not appropriately calculated according to the market situation for which risk rises.
- NCCBL uses credit appraisal technique comprising technical, market, financial, economic and management and organizational analysis, which is good enough itself but the problem is with the personnel involves in appraisal process. Lengthy procedure and long time involved in appraisal of the plan. Sometimes there is existence of pressure group for which many viable projects becomes ignored.
- There is lack of proper advertisement for different banking products especially the loan products which is creating negative impact on people to properly know about the credit services and hence suffering from customer ignorance.
- The number of employees on the credit section is not enough to handle the customer in a positive manner.
- Modern banking services like online banking, one stop banking, credit card facilities are available but not in an adequate way so that people can get benefitted from those easily.

CHAPTER EIGHT:

RECOMMENDATIONS AND CONCLUSION

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8.1. Recommendations:

- If the scores of ICRRS of a borrower become poor that does not mean his whole performance is bad. Bank should also consider other factors like, additional securities in the form of fixed assets, project growth etc.
- Bank should encourage borrowers to give right information about them, about their income, about the real purpose of taking loan etc. through making them aware about the disadvantages of giving false information.
- Banks should emphasize more on collecting proper information and essential documents.
- Loans should be properly diversified in different sectors which can reduce credit risk.
- Bank should develop suitable and effective monitoring system in order to prevent loan default through strictly following the principals of sound lending and should not be liberal in measuring the risk associated with the credit facility.
- Risk of default may decrease through reducing the interest on loan according to the declaration of BB.
- Bank should take necessary steps in order to ensure that the risk exposures are maintained within the parameters set by prudential standards and internal limits.
- Bank should introduce effective workout programs to manage risk in their portfolio and should strictly follow the procedures for proper selection of the borrowers.
- Through conducting periodic internal audits of the credit risk processes bank can identify the areas of weaknesses in the credit administration process and can develop policies according to that.
- Bank should improve its file management system to faster the dealings with the clients' proposals.
- Proper advertisements are needed to introduce the loan products to the customers and there should be adequate number of employees who can help the customers to get the credit facilities.
- Bank can arrange different training programs for the employees about credit risk management, so that they can become more skilled and efficient about their work.
- Website of NCCBL need to be enriched. More research and innovative ideas should be made.

8.2. Conclusion:

Banking is the backbone for every nation's economy. In Bangladesh it has now became a prospective financial sector. Even if it has become a potential sector but the banking system is heavily affected by bad loans which is discouraging investments. As a result the growth of banking industry is very slow. One of the important reasons for default loan is banks ineffectiveness of assessing credit risk of a proposed investment. Though BB has already set rules and regulations and established general guidelines including ICRRS to help banks to assess risk and mitigate credit risk, many banks fail to attract good credit and run profitably. So banks should also adopt its own policies and regulations along with the guidelines of BB to ensure maximum effectiveness of credit assessment.

In today's world business have become more complex and competitive, and credit risk management is becoming more and more important. In Bangladesh, the tools for improving CRM have advanced in recent years and as a responsible and reputed commercial bank, NCCBL has already developed an up to date CRM system. From the study, it is apparent that NCCBL is quite sincere about their approach to handle CRM though there is some lacking and more improvement is needed for the management and recovery sectors. However, NCCBL is following guidelines provided by government and also their own in-depth procedures in assessing the credit risk by using the new ICRRS which is providing them a solid ground in the time of any settlements. The bank should take serious approach in addressing the matters for credit risk and its management with up to date procedures and employ competent people who have the ability to deal with these issues.

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