

Internship report on
Credit Management of NCC Bank Ltd.

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Credit Management Of NCC Bank Ltd.

LETTER OF TRANSMITTAL

Date: 17 January, 2012

To

The Supervisor

BRAC Business School

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Dhaka-1212

Subject: Submission of Internship Report

Dear Madam,

I am grateful to you for the submission of the report on “Credit Management of NCC Bank”, Elephant Road Foreign Exchange Branch in the completion of the requirement for internship.

This is an excellent opportunity for me to acquaint more closely with the organization. The association and coordination of all respective officers & staffs with me are full of exciting, re-discovering and entertainment. During the period of doing this report I have discovered and gained new & practical feelings, observations and learning.

I have my utmost effort to reflect experience, skill and knowledge, which I acquired at the time of working at NCC Bank. All of my efforts will be successful if the thesis paper can serve its purpose. I have tried my best to explain everything related with the Credit Management in this thesis paper.

Yours faithfully

Md. Tahsin Shoaib

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BRAC Business School

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Md. Tahsin Shoaib

EXECUTIVE SUMMARY

In order to provide a student with job exposure and an opportunity of the transition of theoretical knowledge into real life experience, an internship is a must. A better balance between theory & practice can be gained through this program.

Banking system of Bangladesh has gone through three phase of development --- Nationalization, Privatization and Financial Sector Reform. National Credit and Commerce Bank is the largest Private Commercial Bank from 1993 with new hope and promise to serve the countrymen.

This report mainly divided into three parts. First Part deals with my practical experience as an internee in NCC Bank Ltd., Elephant Road Branch and my own observations on Management and Organizational Pattern of the NCC Bank Ltd. And final part deals with credit management of the NCC Bank Ltd.

The report is a combination of three months internship program with NCC Bank. I acknowledged different banking functions and day-to-day banking operations on my way to complete internship. In this paper I have explained my best in respect of my real life experience gathered from different departments.

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INTRODUCTION

Origin of the Report

Bachelor of Business Administration (BBA) course requires 3 months attachment with an organization followed by a report assigned by the supervisor in the organization and endorsed by the faculty advisor. I took the opportunity to do my internship in National Credit and Commerce Bank Ltd (NCCBL). My topic of internship is authorized from the head office of NCC Bank Ltd. My faculty supervisor Mrs. Tasneema Afrin, lecturer of BRAC Business School, BRAC University, also approved the topic and authorized me to prepare this report as part of the fulfillment of internship requirement.

Background of the Report

I have worked in various Department of NCC Bank Ltd, Elephant Road Branch. In this report, I will try to make an overall analysis on all activities of NCC Bank Ltd specially focuses on credit management & international trade.

Objective of the Report

The study has been undertaken with the following objectives:

- To analysis the pros and cons of the conventional ideas about credit operation of a Bank.
- To have better orientation on credit management activities specially credit policy and practices, credit appraisal, credit processing steps, credit management, financing in various sector and recovery, loan classification method and practices of National Credit and Commerce Bank Ltd(NCCBL).
- To get an overall idea about the performance of NCC Bank Ltd.
- To fulfill the requirement of the internship program under BBA program.

Scope of the Report

The study would focus on the following areas of NCC Bank Limited.

- Credit appraisal system of NCC Bank Limited.

- Procedure for different credit facilities.
- Portfolio (of Loan or advances) management of NCC Bank Limited.
- Organization structures and responsibilities of management.

Each of the above areas would be critically analyzed in order to determine the efficiency of NCC bank's Credit appraisal and Management system.

Sources of Information

Information collected to furnish this report is both from primary and secondary in nature. The secondary information was collected from the different publication, and books.

Methodology of the Report

The following methodology will be followed for the study:

Both primary and secondary data sources will be used to generate this report. Primary data sources are informal discussion with professionals and observation while working in different desks. The secondary data sources are annual reports, manuals, and brochures of NCC Bank limited. To identify the implementation, supervision, monitoring and repayment practice- interview with the employee and extensive study of the existing file was and practical case observations were done.

Limitation of the Report

This report will only consider credit management & international trade of NCC Bank limited. It will not cover

- Asset and liability/ balance sheet risk Management
- Internal control And compliance risk mgt
- Money laundering Risk mgt.

AN OVERVIEW OF NCC BANK LIMITED (NCCBL)

NCC Bank Limited is the leading private sector bank in Bangladesh offering full range of Personal, Corporate, International Trade, Foreign Exchange, Lease

Finance and Capital Market Services. NCC Bank Limited is the preferred choice in banking for friendly and personalized services, cutting edge technology, tailored solutions for business needs, global reach in trade and commerce and high yield on investments, assuring Excellence in Banking Services.

Background of NCC Bank Limited

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 1985. 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 this regard. The company operated up to 1992 with 16 branches and thereafter with the permission of the Central Bank converted in to a fully fledged private commercial Bank in 1993 with paid up capital of Tk. 39.00 corer 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.

Within this short time the bank has been successful in positioning itself as progressive and dynamic financial institution in the country. This is now widely acclaimed by the business community, from small entrepreneur to big merchant and conglomerates, including top rated corporate and foreign investors, for modern and innovative ideas and financial solution.

Mission Statement

To become a bank of choice in serving the nation as a progressive and socially responsible financial institution by bringing credit and commerce together for profit and sustainable growth.

Slogan

Where Credit & Commerce Integrates

Motto

The Bank will be a confluence of the following three interests:

Of the Bank : Profit Maximization and Sustained Growth.

Of the Customer : Maximum Benefit and Satisfaction.

Of the Society : Maximization of Welfare.

Objectives

Be one of the best banks of Bangladesh.

Achieve excellence in customer service next to none and superior to all competitors.

Cater to all differentiated segments of Retail and Wholesale Customers.

Be a high quality distributor of product and services.

Use state-of the art technology in all spheres of banking.

Values

- Customer focus
- Integrity
- Team Work
- Respect for individual
- Quality
- Responsible citizenship

Management Information System

Since its journey as commercial Bank in 1985 NCC Bank Limited has been laying great emphasis on the use of improved technology. It has gone to online operation system since 2003. And the new Banking Software Flexible is under process of installation. As a result the bank will able to give the services of international standards.

Correspondent Relationship

The Bank established correspondent relationships with a number of foreign banks, namely American Express Bank, Bank of Tokyo, Standard Chartered bank, Mashreq Bank, Hong Kong Shanghai Banking Corporation, CITI Bank NA-New York and AB Bank Ltd. The Bank is maintaining foreign exchange accounts in New York, Tokyo, Calcutta, and London. The bank has set up letter of credit on behalf of its valued customers using its correspondents as advising and reimbursing Banks. The Bank maintains a need based correspondent relationship policy, which is gradually expanding.

Departments of NCCBL

If the jobs are not organized considering their interrelationship and are not allocated in a particular department it would be very difficult to control the system effectively. If the departmentation are not fitted for the particular works there would be haphazard situation and the performance of a particular department would not be measured. NCC Bank Limited has does this work very well. Different departments of NCCBL are as follows:

- Human Resources Division
- Personal banking Division
- Treasury Division
- Operations Division
- Computer and Information Technology Division
- Credit Division
- Finance & Accounts Division
- Financial Institution Division

- Audit & Risk Management Division

Human Resources Management of NCCBL

NCC Bank Limited recognizes that a productive and motivated work force is a prerequisite to leadership with its customers, its shareholders and in the market it serves. NCC bank treats every employee with dignity and respect in a supportive environment of trust and openness where people of different backgrounds can reach their full potential.

The bank's human resources policy emphasize on providing job satisfaction, growth opportunities, and due recognition of superior performance. A good working environment reflects and promotes a high level of loyalty and commitment from the employees. Realizing this NCC Bank limited has placed the utmost importance on continuous development of its human resources, identify the strength and weakness of the employee to assess the individual training needs, they are sent for training for self-development. To orient, enhance the banking knowledge of the employees NCC Bank Training Institute (NCCBTI) organizes both in-house and external training.

The remuneration is very competitive in comparison with industry average. Beside these the recruitment procedure is comprehensive.

Product and Services

The product and services that are currently available are given below:

Deposit Product

NCC Bank Limited is now offering different types product for mobilizing the savings of the general people.

- Current A/C
- Savings Bank Deposit A/C
- Short Term Deposit A/C
- Term Deposit A/C
- Premium Term Deposit A/C
- Instant Earnings Term Deposit A/C
- Special Savings Scheme

- Special Fixed Deposit Scheme
- NFCD
- RFCD
- Money Double Program

Table 1: Interest Rate paid to different Deposit liabilities:

Serial	Application	Interest rate
1	Savings Bank Deposit A/C	6.00%
2	FDR for 3 months	12.00%
3	FDR for 6 months	12.00%
4	FDR for 1 year	12.00%
5	FDR for 24 months	11.00%
6	Special Savings Scheme	12.00%
7	Fixed Deposit for Corporate Bodies	9.50% (Maximum)
8	Special Notice Deposit (SND) A/C	Below Taka 1 (one) Crore -- 5.00%
		Taka 1 (One) Crore and above but below 25.00 Crore -- 5.50%
		Taka 25.00 Crore and above but below 50.00 Crore -- 6.00%
		Taka 50.00 Crore and above but below 100.00 Crore -- 7.00%
		Taka 100.00 Crore and above -- 8.00%

NCC Bank Ltd. (n.d.). Retrieved January 14, 2012, from NCC Bank Ltd. Web site:
<http://www.nccbank.com.bd>

Loan and Advance Product

The NCC Bank is offering the following loan and advance product to the client for financing different purpose that fulfill the requirements of the bank and have good return to the investment as well as satisfy the client. The loan and advance products are:

- Working Capital Financing
- Commercial and Trade Financing
- Long Term (Capital) Financing
- House Building Financing
- Retail and Consumer Financing
- SME Financing
- Agricultural Financing
- Import and Export Financing

Table 2: Interest rate charged on different loans & advances

Serial	Application	Interest rate
1	Working Capital Financing	14.00%
2	Commercial and Trade Financing	14.50%
3	House Building Financing	14.00%
4	Retail and Consumer Financing	16.00%
5	SME Financing	16.00%
6	Agricultural Financing	11.50%
7	Import and Export Financing	7.00%
8	Long Term (Capital) Financing	14.00%

NCC Bank Ltd. (n.d.). Retrieved January 14, 2012, from NCC Bank Ltd. Web site: http://www.nccbank.com.bd/advance_rate.php

Cards

- ATM Card
- Credit Card (Local, International and Dual)

Remittance Products

- Special Interest rate on Savings and Term Deposits
- Wage Earners Welfare Deposit Pension Scheme
- Loans for Real Estate (Land purchase and House construction/renovation)
- Advance against Regular Remittance

Brokerage House

Member, Dhaka Stock Exchange Ltd.

Full Service Depository Participant

Treasury Service

Primary Dealer of Govt. Approved Securities

Remittance Service

Correspondence arrangement with more than 330 Financial Institutions all over the World

For Wage Earners Remittance we have Agency arrangement with 12 reputed Exchange Houses covering major Locations of our Expatriates

Financial Performance of NCCBL

The NCC Bank Limited is one of the most successful private sector commercial bank in our country. It has achieved the trust of the general people and made reasonable contribution to the economy of the country by helping the people investing allowing credit facility.

Profit

NCC Bank Limited registered a operating profit of Tk. 1,267.57 million as of 31 December, 2010. Provision for tax for the year amounted to Tk. 577.29 million with a net profit of Tk. 479.22 million.

Capital

As on December 31, 2010 the authorized capital of NCC Bank Limited amounted to Tk. 2,500.00 million & paid up capital amounted to Tk. 1,201.79 million.

The total equity (capital & reserve) of the bank as on December Stood at Tk. 2,417.37 million. The Capital Adequacy Ratio is 9.78% as on December 31, 2010 which exceed the stipulated requirements for banks in Bangladesh.

Deposits

As on December 31, 2010 Total deposits of the bank stood at Tk. 28,147.34 million excluding call as against Tk. 21,478.22 million excluding call of the previous year.

Table 3: Deposit of NCCBL Tk in million

Year	Deposit
2009	21,478.22
2010	28,147.34

(2009-2010). *Annual Report*. Bangladesh: NCC Bank Ltd.

Loan and Advances

The Bank recorded a 16.80% growth in advances with a total loans and advances portfolio of Tk. 24,678.36 million at the end of December 2010 compared to Tk. 20,533.13 million in 2009.

NCC Bank is making loan and advances in different areas. The bank continues to explore and diversify its loan distribution with the objective of efficient use of resources and take utmost precaution to safeguard it. NCCBL also participated in a syndicated loan.

Table 4: Loans & Advances of NCCBL (Tk. in millions)

Year	Loans & Advances
2009	20,533.13
2010	24,678.36

(2009-2010). *Annual Report*. Bangladesh: NCC Bank Ltd.

International Trade

International Trade is an important constituent of the business portfolio of the bank. The import value stood at Tk. 17,646.80 million in 2010 with a growth of 7.73% over the volume of 16,296.30 million in 2009. On the other hand, export increased by 9.12% in the year 2010. Total export volume of the bank amounted to 8,557.00million in 2010 compared to Tk7,776.30. million in the previous year.

Investment Banking:

Lease finance, Hire purchase and Capital Market Operation besides investment in Treasury Bills and Prize Bonds constitute the investment basket of NCCBL. The investment portfolio made up of Government Securities and Shares and Debentures of different listed companies stood at Tk. 3,552.08million in 2010 indexing a 15.25% increase over Tk. 3,010.45 million in the previous year.

CREDIT MANAGEMENT IN NCC Bank Limited (NCCBL)

Overview

The word credit comes from the Latin word “Credo” meaning “I believe”. It is a lender’s trust in a person’s/ firm’s/ or company’s ability or potential ability and intention to repay. In other words, credit is the ability to command goods or services of another in return for promise to pay such goods or services at some specified time in the future. For a bank, it is the main source of profit and on the other hand, the

wrong use of credit would bring disaster not only for the bank but also for the economy as a whole.

The objective of the credit management is to maximize the performing asset and the minimization of the non-performing asset as well as ensuring the optimal point of loan and advance and their efficient management. Credit management is a dynamic field where a certain standard of long-range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund. Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default. Actually the credit portfolio is not only constitute the bank's asset structure but also a vital factor of the bank's success. The overall success in credit management depends on the banks credit policy, portfolio of credit, monitoring, supervision and follow-up of the loan and advance. Therefore, while analyzing the credit management of NCCBL, it is required to analyze its credit policy, credit procedure and quality of credit portfolio.

Credit Policy of NCCBL

One of the most important ways, a bank can make sure that its loan meet organizational and regulatory standards and they are profitable is to establish a loan policy. Such a policy gives loan management a specific guideline in making individual loans decisions and in shaping the bank's overall loan portfolio. In NCC Bank Limited there is perhaps a credit policy but there is no credit written policy.

Credit Principles

In the feature, credit principles include the general guidelines of providing credit by branch manager or credit officer. In NCC Bank Limited they follow the following guideline while giving loan and advance to the client.

Credit advancement shall focus on the development and enhancement of customer relationship.

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 with in 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.

Global Credit Portfolio limit of NCCBL

The features which deals with how much total deposits would be used as lending the proportion of long term lending, customer exposure, country exposure, proportion of unsecured facility etc. the most notable ones are:

The aggregate of all cash facility will not be more than the 80% of the customer's deposit

Long term loan must not exceed 20% of the total loan portfolio.

Facilities are not allowed for a period of more than 5 (Five) years.

Credit facilities to any one customer group shall not normally exceed 15% of the capital fund or TK. 100 crores

Types of Credit

Credit may be classified with reference to elements of time, nature of financing and provision base.

Classification on the basis of time:

On the basis of elements of time, bank credit may be classified into three heads.

Continuous loans:

These are the advances having no fixed repayment schedule but have an date at which it is renewable on satisfactory performance of the clients. Continuous loan mainly includes "Cash credit both hypothecation and pledge" and "Overdraft".

Demand loan:

In opening letter of credit (L/C), the clients have to provide the full L/C amount in foreign exchange to the bank. To purchase this foreign exchange, bank extends demand loan to the clients at stipulated margin. No specific repayment date is fixed. However, as soon as the L/C documents arrive, the bank requests the clients to adjust their loan and to retire the L/C documents. Demand loans mainly include "Payment against Documents," "Loan against imported merchandise (LIM)" and "Later of Trust Receipt".

Term loans:

These are the advances made by the bank with a fixed repayment schedule. Terms loans mainly include "Consumer credit scheme", "Lease finance", " Hire purchase", and "Staff loan". The term loans are defined as follows:

- Short term loan: Upto 12 months.
- Medium term loan: More than 12 months & up to 36 months
- Long term loan: More than 36 months.

Classification on characteristics of financing:

Table 5: Term loans

Funded	Non-funded
Overdraft	Letter of Credit
Loan	Bank Guarantee

Consumer Credit	
LTR	
PAD	
Cash Credit (Pledge & Hypo)	
Staff Loan	
Term Loan	
Packing Credit	

The varieties used by NCCBL are briefly described below with the common terms and condition. Banks generally offer different kinds of credit facilities to the customers.

The credit facilities of NCCBL may be broadly classified into five categories. They are as follows:

- Loans
- Cash Credit
- Overdraft
- Bills purchased and discounted
- Consumer Credit/ personal loan
- They are discussed below accordingly.

Loan

In case of loan the banker advances a lump sum for a certain period at an agreed rate of interest. The entire amount is paid on an occasion either in cash or by crediting in his current account, which he can draw at any time. The interest is charged for the full amount sanctioned whether he withdraws the money from his account or not. The loan may be repaid in installments or at expiry of a certain period. Loan may be demand loan or a term loan.

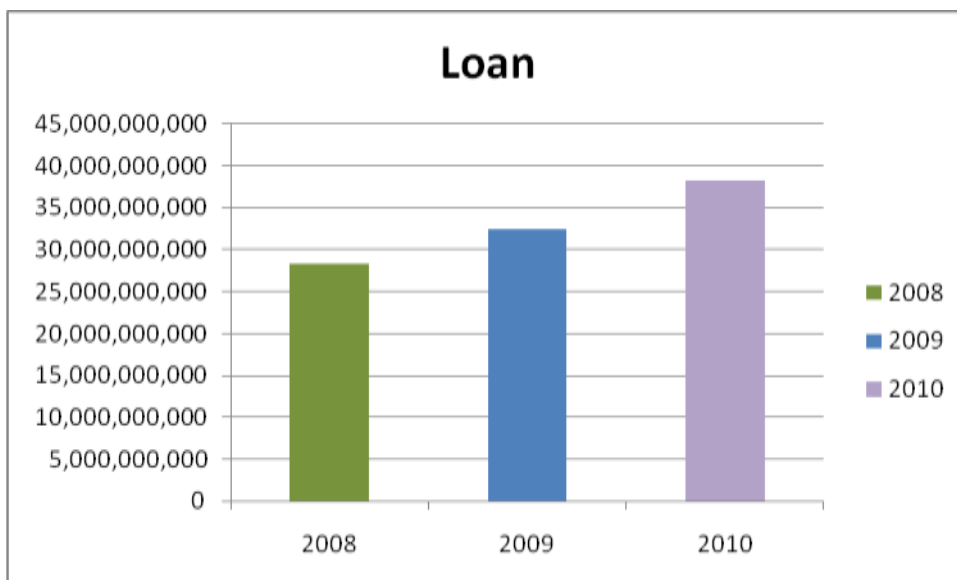
Eligibility: loans are normally allowed to those parties who have either fixed source of income or who desire to pay it in lum sum.

Interest Rate: 12%-15% per annum (Quarterly paid).

Loan	2008	2009	2010
	28,329,268,455	32,404,479,032	38,230,926,634

(2008-2009-2010). *Annual Report*. Bangladesh: NCC Bank Ltd.

Graph-1



Cash Credit

In Cash credit, banker specifies a limit called the cash credit limit, for each customer, up to which the customer is permitted to borrow against the security of tangible assets or guarantees. Cash credit is given through the cash credit account. The purpose of cash credit is to meet working capital need of traders, farmers and industrialists.

Cash credit in true sense is against pledge of goods. Cash credit is also allowed against hypothecation of goods. In case of hypothecation the ownership and

possession of the goods remain with the borrower. By virtue of the hypothecation agreement bank can take possession of the goods hypothecated, if the borrower defaults.

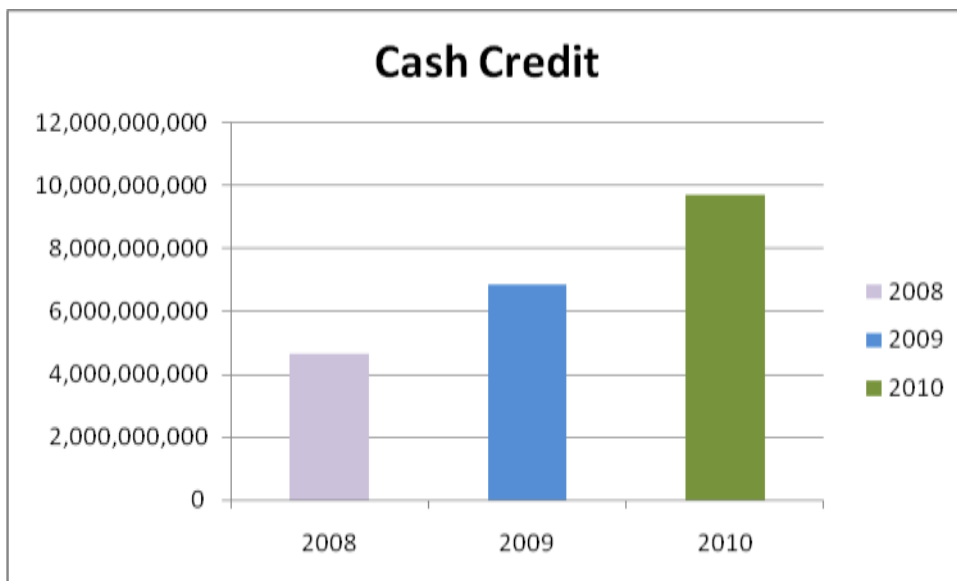
Rate of Interest: 12%-14%.

Renew System: it is renewed in periodic basis (yearly).

	2008	2009	2010
Cash Credit	4,672,261,114	6,844,353,324	9,710,795,572

(2008-2009-2010). *Annual Report*. Bangladesh: NCC Bank Ltd.

Graph-2



Overdraft

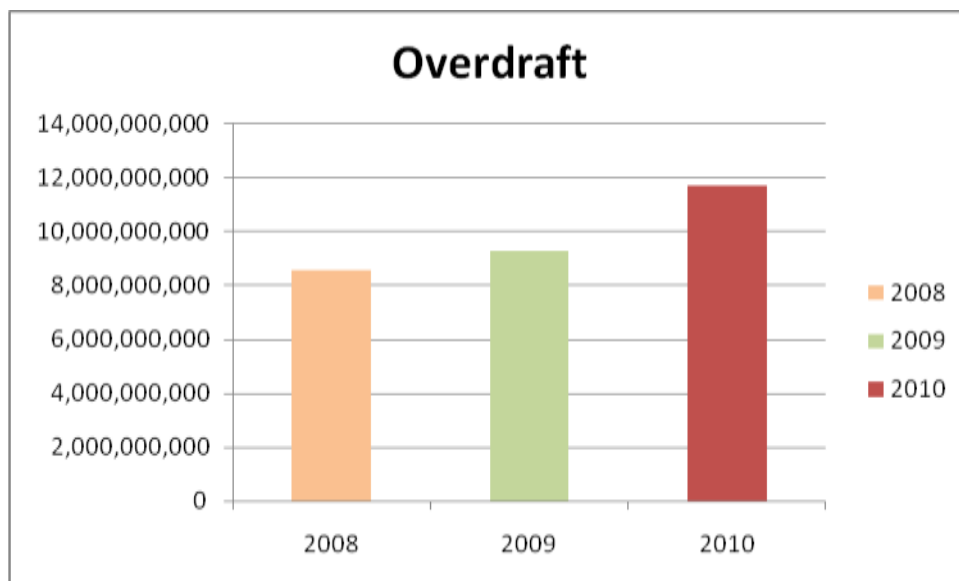
Overdrafts are those drawings which are allowed by the banker in excess of the balance in the current account up to a specified amount for definite period as arranged for. These advances are secured. The loan holder can freely draw money from this account up to the limit and can deposit money in the account off course, this loan has an expiry date after which renewal or enhancement is necessary for enjoying such facility. Any deposit in the OD account is treated as repayment of

loan. Interest is charged as balance outstanding on quarterly basis. Overdraft facilities are generally granted to businessmen for expansion of their business, against the securities of stock-in-trade, shares, debenture, Government promissory notes, fixed deposit, life insurance policies etc.

	2008	2009	2010
Overdraft	8,550,289,941	9,281,392,979	11,690,527,439

(2008-2009-2010). *Annual Report*. Bangladesh: NCC Bank Ltd.

Graph-3



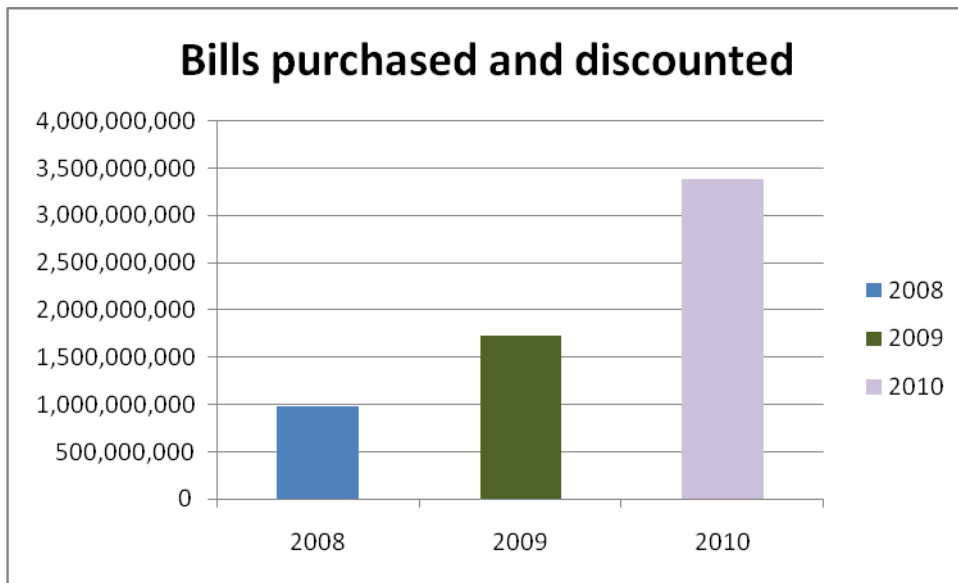
Bills purchased and discounted

Banks grant advances to their customers by discounting bill of exchange or pro-note.

	2008	2009	2010
Bills purchased and discounted	983,443,604	1,731,485,986	3,381,630,882

(2008-2009-2010). Annual Report. Bangladesh: NCC Bank Ltd.

Graph-4



Personal Loan (Consumer Credit Scheme)

Objectives :

The objectives of this loan are to provide essential household durable to the fixed income group (Service Holders) and other eligible borrowers. Car loan, loan for house renovation, vacation loan, marriage loan and loan for household equipment well as entertainment products are governed by personal loan program. The Total amount of loans along with the duration in which these loans taken, need to be repaid is given below:

Table 6: Personal loan

Type of Product Amount	Loan	(Tk) Lac	Tenure
1. Vehicle		Up to 7.00	4 to 5 years
2. Household items			
2. Household items for Businessman		1.00	2 years
3. Household items for Serviceholders		Up to 3.00	2 to 3 years
4. Others		Special Considerations	Special Considerations

Personal loan is given under personal guarantee of the borrower and another third person known to the borrower. As this loan is collateral free the rate of interest is little bit high such as 15% to 18%. There is also a processing fee of 1.5% taken at the time of disbursement of the loan.

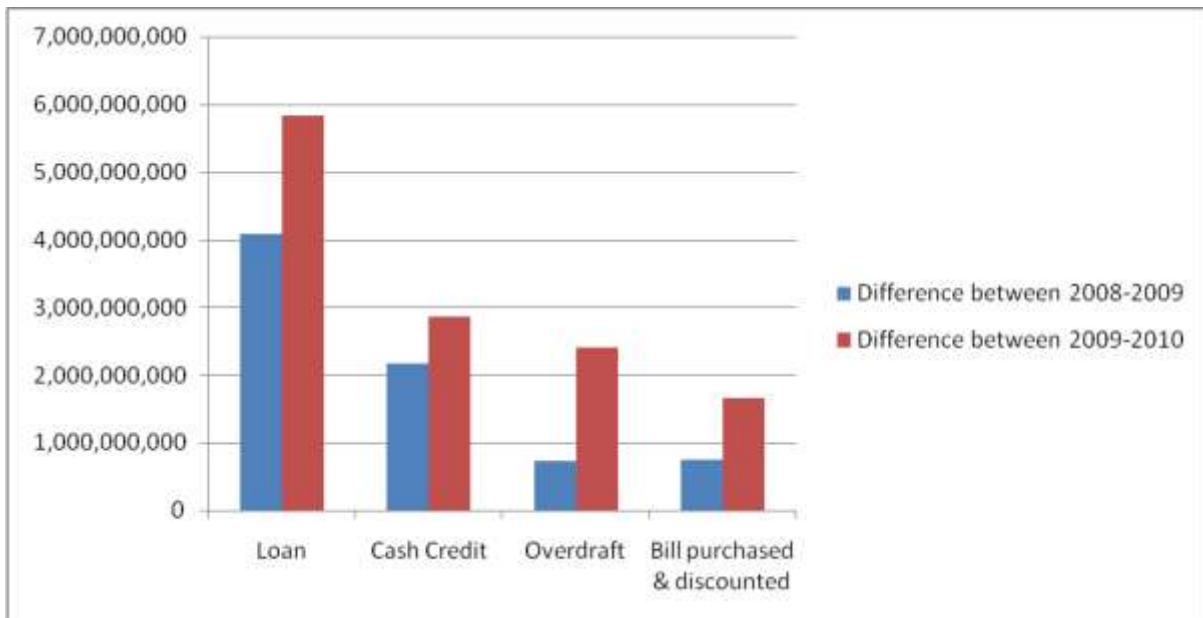
Analysis:

If we consider loan, overdraft, bill purchased & discounted and cash credit from above we can see some similarities. Like in every case we can see the amount of credit is increasing that means assets of the bank is increasing as well. Because all kinds of loan is asset from the bank's point of view. If we look at the amount from 2008-2010 in four cases we can see that they emphasis more on than any other credit scheme. After loan NCC bank emphasis more on overdraft then cash credit and after that they maintain a good position on bill purchased & discounted.

	Difference between	Difference between
--	--------------------	--------------------

	2008-2009	2009-2010
Loan	4,075,210,577	5,826,447,602
Cash Credit	2,172,092,210	2,866,442,248
Overdraft	731,103,038	2,409,134,460
Bill purchased & discounted	748,042,382	1,650,144,896

Graph-5



Here, we can see that bank invested more on loan, but in case of cash credit in 2009-2010 they emphasis more on cash credit than the overdraft. After overdraft they emphasis on bill purchased & discounted and they look after this side least than the other three sides.

Credit Ratification Authority of NCCBL:

Credit decisions are heart of all credit works. Generally branch manager and the credit in-charge of a branch are held responsible for appraising of a loan proposal.

The customer request for credit limit and the credit officer prepares a credit memo and send it to the head office, credit division. After taking all the relevant information from the branch the head office credit division sent the credit memo to the credit committee. Credit committee of NCCBL is comprised of Managing Director and other top-level executives, that is, DMDs and EVPs. If credit committee is convinced about the merit of the proposal then it is sent the board of directors. The board is final authority to approve or decline a proposal. The whole process takes a month or more. In NCCBL board meeting occurs once in every week.

Credit Evaluation Principles

Some principles or standards of lending are maintained in approving loans in order to keep credit risk to a minimum level as well as for successful banking business. The main principles of lending are given below:

Liquidity:

Liquidity means the availability of bank funds on short notice. The liquidity of an advance means its repayment on demand on due date or after a short notice. Therefore, the banks must have to maintain sufficient liquidity to repay its depositors and trade off between the liquidity and profitability is must.

Safety:

Safety means the assurance of repayment of distributed loans. Bank is in business to make money but safety should never be sacrificed for profitability, To ensure the safety of loan. The borrower should be chosen carefully. He should be a person of good character & capacity as well as bank must have to maintain eligible number of security from borrower.

Profitability:

Banking is a business aiming at earning a good profit. The difference between the interest received on advances and the interest paid on deposit constitutes a major portion of the bank income, Besides, foreign exchange business is also highly remunerative. The bank will not enter into a transaction unless a fair return from it is assured.

Intent:

Banks sanction loans for productive purpose. No advances will be made by bank for unproductive purposes though the borrower may be free from all risks.

Security:

The security offered for an advance is an insurance to fall bank upon in cases of need. Security serves as a safety value for an unexpected emergency. Since risk factors are involved, security coverage has to be taken before a lending.

National interest:

Banking industry has significant role to play in the economic development of a country. The bank would lend if the purpose of the advances can contribute more to the overall economic development of the country.

Pre-disbursement Compliance

When the credit proposal are approved the credit officer must have to be ensured that the disbursement of the credit facilities must comply with the directions written in the credit policy and circular made by time to time along with checking all the following terms and conditions.

The officer of Loan Administration must collect the acceptance of the customer's of the terms and conditions on the duplicate copy of the sanctioned advice.

They will thoroughly examine and ensure that the subject credit facility does not contradict to any law, rules and regulation of the country, Bangladesh Bank and

Deed of the Mortgage and power of the Attorney to be drafted and executed under the Supervision of the Bank's Legal Advisor.

Lawyers certificate to the effect that all the legal formalities (Equitable/ Registered Mortgaged) has been properly created on the land and building in favor of the bank & bank has acquired the effective title of the property.

Registered power of attorney has been collected from the borrower (contractor) assigning the work order favoring the NCCBL and the power of attorney has been

registered with the work order given agency and they have agreed that they will issue all the cheques favoring NCCBL.

The legal documents of the vehicle have been obtained.

Collection of the satisfaction certificate in respect of all the documents both legal and banking from the lawyer.

Entry has been made in the Safe-in and Safe-out register and the documents are preserved.

After being satisfied all the above terms and conditions the credit in-charge will disburse the loan amount to the client.

Documentation of the Loan:

Documentation is obtaining such agreement where all the terms and condition and securities are written and signed by the borrower. It specifies rights and liabilities of both the banker and the borrower. In documentation each type of advances requires a different set of documents. It also differs with the nature of securities. The documents should be stamped according to the stamp Act. There are no hard and fast rules of documentation and it varies from bank to bank. Generally, the documents are taken in the case of a secured advance by NCCBL:

- i. Demand promissory note: Here the borrower promises to pay the loan as and when demand by bank to repay the loan.
- ii. Letter of arrangement.
- iii. Letter of continuity.
- iv. Letter of hypothecation of goods and capital machinery.
- v. Stock report: This report is used for OD and CC. In this report, information about the quality and quantity of goods hypothecated is furnished.
- vi. Memorandum of deposit of title deed of property duly signed by the owners of the property with resolution of Board of Directors of the company owning the landed.
- vii. Personal guarantee of the owners of the property.

- viii. Guarantee of all the directors of the company.
- ix. Resolution of the board of directors to borrow fund to execute documents and completes other formalities
- x. Form no. XVII/XIX for filling charges with the register of joint stock companies under relevant section.
- xi. Letter of Revival
- xii. Letter of lien for advance against FDR.

Advance

Security against Advances:

The different types of securities that may be offered to a banker are as follows:

- (a) Immovable property
- (b) Movable property
 - i. Pratiksha Sanchaya Patra, Bangladesh Sanchaya Patra, ICB unit certificate, wage earner development bond.
 - ii. Fixed Deposit Receipt
 - iii. Shares quoted in the Dhaka Stock Exchange and Chittagong Stock Exchange.
 - iv. Pledge of goods
 - v. Hypothecation of goods, produce and machinery
 - vi. Fixed assets of manufacturing unit.
 - vii. Shipping documents.

Types of advance

Securities

Loans Lien or various kinds of Sanchaya patras, Govt. Securities, FDR, Collateral of immovable property, shares quoted in stock exchange

Overdraft, Pledge or hypothecation of machinery, land and building on which machinery are installed, stock in trade, goods products and merchandise.

Bills purchased, Bills itself

Modes of Charging Security:

A wide range of securities is offered to banks as coverage for loan. In order to make the securities available to banker, in case of default of customer, a charge should be created on the security. Creating charge means making it available as a cover for advance. The following modes of charging securities are applied in the NCC Bank Limited.

Lien

A lien is right of banker to hold the debtor's property until the debt is discharged. Bank generally retains the assets in his own custody but sometimes these goods are in the hands of third party with lien marked. When it is in the hand of third party, the third party cannot discharge it without the permission of bank. Lien gives banker the right to retain the property not the right to sell. Permission from the appropriate court is necessary. Lien can be made on moveable goods only such as raw materials, finished goods, shares debentures etc.

Pledge

Pledge is also like lien but here bank enjoys more right. Bank can sell the property without the intervention of any court, in case of default on loan, But for such selling proper notice must be given to the debtor. To create pledge, physical transfer of goods to the bank is must.

Hypothecation

In this charge creation method physically the goods remained in the hand of debtor. But documents of title to goods are handed over to the banker. This method is also

called equitable charge. Since the goods are in the hand of the borrower, bank inspects the goods regularly to judge its quality and quantity for the maximum safety of loan.

Mortgage:

Mortgage is transfer of interest in specific immovable property. Mortgage is created on the immovable property like land, building, plant etc. Most common type of mortgage is legal mortgage in which ownership is transferred to the bank by registration of the mortgage deed. Another method called equitable mortgage is also used in bank for creation of charge. Here mere deposit of title to goods is sufficient for creation of charge. Registration is not required. In both the cases, the mortgage property is retained in the hand of borrower.

Trust Receipt

Generally goods imported or bought by bank's financial assistance are held by bank as security. Bank may release this lien / pledge these goods against trust receipt. This means that the borrower holds goods in trust of the bank; trust receipt arrangement is needed when the borrower is going to sell these goods or process it further but borrower has no sufficient fund to pay off the bank loan. Here proceeds from any part of these goods are deposited to this bank.

Advance against Work-Order

Advances can be made to a client to perform work order. The following points are to be taken into consideration.

The client's management capability, equity strength, nature of scheduled work and feasibility study should be judiciously made to arrive at logical decision. If there is a provision for running bills for the work, appropriate amount to be deducted from each bill to ensure complete adjustment of the liability within the payment period of the final bill besides assigning bills receivable, additional collateral security may be insisted upon. Disbursement should be made only after completion of documentation formalities and fulfillment of arrangements by the client to undertake the contract. The progress of work under contract is reviewed periodically.

Advance against Approved Shares:

Credit facilities to extend against shares will be called “Investment Scheme against Shares”. Advance may be allowed against shares of companies listed with the Stock Exchange Ltd. Subject to margin or may other restrictions imposed by Bangladesh Bank/Head Office of the bank from time to time. Value of shares & margin should be worked out as per guidelines issued from time to time by Bangladesh Bank / Head Office of the bank.

Advance against Fixed Deposit Receipts:

Advance against Fixed Deposit Receipt will be subject to credit Restrictions imposed from time to time by Head Office / Bangladesh Bank. Scrutinize the Fixed Deposit Receipts with regard to the following points.

- a) The Fixed Deposit Receipt is not in the name of minor.
- b) It is discharged by the depositor on revenue stamp of adequate value & his signature is verified.
- c) Creation of liability on Fixed Deposit issued in joint names by any one of the depositors is regular.
- d) If the Deposit Receipt is offered as a security for allowing advances, a letter of lien shall be obtained from the depositors, on the appropriate form.
- e) If the Deposit Receipt has been issued by the branch-allowing advance, lien against that specific Deposit Receipt to be marked in the fixed Deposit Register of the branch.
- f) The discharged receipt, the letter of lien duly verified by the issuing branch & the letter confirming registration of the lien on the deposit receipts shall be kept along with other documents under safe custody of the bank.

Objective Basis of Classification

In classifying the loan and advance there are four classes in the loan review practiced in NCC Bank Limited. They are as follows

Unclassified:

The loan account is performing satisfactorily in the terms of its installments and no overdue is occurred. This type of loan and advances are fall into this class.

Substandard:

This classification contains where irregularities have been occurred but such irregularities are temporarily in nature. To fall in this class the loan and advance has to fulfill the following factor.

Category of Credit	Time overdue (irregularities)	
S-T Agri & Micro Credit	3 months & above but less than 6 months.	Substandard
Continuous loan		
Demand Loan	Un-recovered for 3 months & above but less than 6 months from the date of the loan is claimed.	
Fixed Term loan	<i>Repayable within 5years:</i> If the overdue installment equals or exceeds the amount repayable within 6 months.	
	<i>Repayable more than 5years:</i> If the overdue installment equals or exceeds the amount repayable within 12 months.	

The main criteria for a substandard advance is that despite these technicalities or irregularities no loss is expected to be arise for the bank. These accounts will require close supervision by management to ensure that the situation does not deteriorate further.

Doubtful:

This classification contains where doubt exists on the full recovery of the loan and advance along with a loss is anticipated but can not be quantifiable at this stage. Moreover if the state of the loan accounts fall under the following criterion can be declared as doubtful loan and advance.

Category of Credit	Time overdue (irregularities)	Doubtful
S-T Agri & Micro Credit	6 months & above but less than 12 months.	
Continuous loan		
Demand Loan	Un-recovered for 6 months & above but less than 12 months from the date of the loan is claimed.	
Fixed Term loan	<i>Repayable within 5years:</i> If the overdue installment equals or exceeds the amount repayable within 12 months.	
	<i>Repayable more than 5years:</i> If the overdue installment equals or exceeds the amount repayable within 18 months.	

Bad and Loss:

A particular loan and advance fall in this class when it seems that this loan and advance is not collectable or worthless even after all the security has been exhausted. In the following table the criteria to be fulfilled to fall in this category are summarized:

Category of Credit	Time overdue (irregularities)	Bad and Loss
S-T Agri & Micro Credit	Not recovered within more than 12 months.	
Continuous loan		
Demand Loan	Un-recovered more than 12 months from the date of the loan is claimed.	
Fixed Term loan	<i>Repayable within 5years:</i> If the overdue installment equals or exceeds the amount repayable within 18 months.	
	<i>Repayable more than 5years:</i> If the overdue installment equals or exceeds the amount repayable within 24 months.	

Responsibilities in NCCBL:

Opening new L/C and took the amount and commission to the L/C opening register.
Interest suspense calculation to make sure whether the account is classified or not.

Make a daily contact with those clients who take loan from the bank but make delay for the payment. Also look after the retail banking sides. Maintain a good relation with the regular clients. When a client came to the NCC bank to open a new L/C first they have to fill up a registration form. After filling it up the whole form is checked according to the Proforma invoice order to make sure H.S code, description of the good, beneficiary name, dispatched location all these things are maintained or not. Then with the help of IRC register I took the IRC number to the L/C registration form. Then I took signature from the authorized officer of the foreign exchange department and send it to the head office for confirmation of the L/C limit.

Findings

After go through the whole report we come up with some finding. Some of the tasks which NCC Bank do is very much traditional. In todays modern banking system much different from that. If we compare them with other local baks like City bank, Eastern Bank, Brac Bank, Prime bank we came to know about this. With the modern computerized system they make their works more easier than the NCC Bank. NCC Bank follow the same old process to save their data and they do their whole operation manually where other banks are doing with their computer. Some findings are given below.

- They save their all kinds of data in papers
- They find the interest suspense account through their computer but manually they check those out
- Some times very simple work is done by the head office which takes time and make difficult
- Some times verification is done by a new officer which dangerous both for the bank and the branch office

Conclusion:

A banker cannot sleep well with bad debts in his portfolio. The failure of commercial banks occurs mainly due to bad loans, which occurs due to inefficient management of the loans and advances portfolio. Therefore any banks must be extremely cautious about its lending portfolio and credit policy. So far NCC Bank Limited has been able to manage its credit portfolio skillfully and kept the classified loan at a very lower rate thanks go to the standard and stringent credit appraisal policy and practices of the bank. They will do better if they continue with their same policy but also they have to maintain the trend as well. (NCC Bank Ltd.)

Appendix-1



BALANCE SHEET

as at December 2010

PROPERTY AND ASSETS	Notes	2010 Taka	2009 Taka
Cash:			
In hand (including foreign currencies)	4	731,592,743	447,864,005
Balances with Bangladesh Bank and its agent bank (s) (including foreign currencies)	5	5,500,014,510	3,182,373,908
Balances with other Banks and Financial Institutions	6	567,325,877	642,905,934
In Bangladesh		331,517,804	464,746,061
Outside Bangladesh		235,808,073	178,159,873
Money at call and short notice	7	-	-
Investments	8	10,980,808,236	9,671,530,054
Government		10,262,306,887	9,188,182,140
Others		718,501,349	483,347,914
Loans and advances	9	63,230,141,628	50,387,683,203
Loans, cash credits, overdrafts, etc.		59,632,249,645	48,530,225,335
Bills purchased & discounted		3,597,891,983	1,857,457,868
Fixed assets including premises, furniture and fixtures	10	1,191,493,190	849,103,581
Other assets	11	1,352,801,369	756,030,778
Non-banking assets		-	-
TOTAL ASSETS		83,554,177,553	65,937,491,463
LIABILITIES AND CAPITAL			
Liabilities:			
Borrowings from Other Banks, Financial Institutions and agents	12	1,847,028,696	1,822,696,932
Deposits and other accounts:	13	67,961,244,777	53,900,150,635
Current deposits and other accounts		7,743,923,234	5,352,710,730
Bills payable	13.1	1,011,380,380	685,406,946
Savings Bank Deposits		7,477,106,648	6,134,648,381
Fixed Deposits		39,313,895,416	32,267,274,574
Term deposits		12,414,939,099	9,422,521,004
Bearer Certificates of Deposits		-	37,589,000
Other liabilities	14	4,388,794,697	4,180,194,989
TOTAL LIABILITIES		74,197,068,170	59,903,042,556
Shareholders' Equity			
Share Capital			
Paid up capital	15.2	4,501,253,300	2,284,900,200
Statutory reserve	16	2,543,463,417	1,893,817,316
General reserve	17	7,162,348	67,162,348
Other reserve-Assets revaluation Reserve	18	476,723,217	668,191,610
Profit and loss account-Retained Earning	19	1,828,507,101	1,120,377,433
TOTAL SHAREHOLDERS' EQUITY		9,357,109,383	6,034,448,907
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		83,554,177,553	65,937,491,463

Appendix-2



CASH FLOW STATEMENT

For The Year Ended 31 December 2010

	<u>Notes</u>	<u>2010</u> <u>Taka</u>	<u>2009</u> <u>Taka</u>
A) Cash flows from operating activities			
Interest received in cash		8,183,915,915	7,463,206,073
Interest paid by cash		(4,506,057,252)	(5,105,749,035)
Dividend received		6,721,428	4,462,269
Fees & Commission received in cash		1,035,063,188	739,421,371
Recoveries of loans previously written off		9,769,106	9,545,272
Cash paid to employees		(764,390,150)	(701,554,092)
Cash paid to suppliers		(198,461,656)	(122,900,065)
Income taxes paid		(771,948,964)	(870,989,660)
Received from other operating activities	36	510,935,185	1,031,915,301
Paid for other operating activities	37	(532,948,925)	(347,478,278)
Operating profit before changes in operating assets and liabilities		2,972,597,875	2,099,879,156
Increase/(Decrease) in Operating Assets & Liabilities			
Purchase-sale of trading securities		(1,208,534,701)	(3,051,246,313)
Loans and advances to other banks		-	-
Loans and advances to customers (Other than Banks)		(12,842,458,425)	(4,054,994,739)
Other assets	38	182,665,690	677,723,835
Deposits from other Banks		470,000,000	(1,450,000,000)
Deposits from customers (Other than Banks)		13,591,094,142	8,445,487,473
Other liabilities account of customers		(1,634,005,420)	(933,267,503)
Trading liabilities		-	-
Other liabilities	39	(61,242,876)	250,152,778
Net Cash received from operating activities		1,470,116,285	1,983,734,687
B) Cash flows from investing activities			
Proceeds from sale of securities		3,348,653,455	632,869,813
Payment for purchase of Securities		(3,044,105,139)	(579,833,561)
Purchase of property , plant and equipment		(422,505,432)	(136,780,081)
Sales proceeds of Fixed assets		4,829,000	2,599,644
Purchase-sale of subsidiary		-	-
Net cash used in investing activities		(113,128,116)	(81,144,185)
C) Cash flows from financing activities			
Received from issue of loan capital and debt securities		24,331,764	-
Payment for redemption of loan capital & debt security		-	(783,337,114)
Receipts from issue of Right share		1,142,450,100	-
Dividend paid		-	-
Net cash received from financing activities		1,166,781,864	(783,337,114)
D) Net (decrease) / increase in cash (A+B+C)		2,523,770,033	1,119,253,388
Effects of exchange rate changes on cash and cash-equivalents		-	-
E) Opening cash and cash-equivalents		4,259,396,646	3,140,143,258
F) Closing cash and cash-equivalents (D+E)	40	6,783,166,679	4,259,396,646

Appendix-3

National Credit and Commerce Bank Limited			
Cash Flow Statement			
For the year ended 31 December			
		2008	2007
		Taka	Taka
	Note		
A) Cash flows from operating activities			
Interest received in cash		5,871,637,558	4,305,963,128
Interest paid by cash		(3,756,069,498)	(2,543,166,579)
Dividend received		7,931,603	7,718,468
Fees & Commission received in cash		674,874,897	406,275,948
Recoveries of loans previously written off		13,574,744	9,100,802
Cash paid to employees		(587,634,351)	(452,801,009)
Cash paid to suppliers		(90,838,833)	(49,642,465)
Income taxes paid		(655,930,619)	(551,801,047)
Received from other operating activities	35	654,901,975	476,175,990
Paid for other operating activities	36	(228,095,191)	(218,877,897)
Operating profit before changes in operating assets and liabilities		1,904,352,285	1,388,945,339
Increase/ (Decrease) in Operating Assets & Liabilities			
Purchase-sale of trading securities		(1,113,449,810)	(1,779,014,512)
Loans and advances to other banks		-	-
Loans and advances to customers (Other than Banks)		(13,644,935,299)	(8,009,396,872)
Other assets	37	487,619,180	527,332,549
Deposits from other Banks / Borrowings		1,280,000,000	(130,000,000)
Deposits from customers (Other than Banks)		10,722,888,959	6,884,431,868
Other liabilities account of customers		(650,087,041)	(662,568,540)
Trading liabilities		-	-
Other liabilities	38	47,956,917	45,202,958
Net Cash received from operating activities		(965,654,809)	(1,735,067,210)
B) Cash flows from investing activities			
Proceeds from sale of securities		(125,490,693)	42,700,963
Purchase of property, plant and equipment		(201,378,676)	(53,371,034)
Sales proceeds of Fixed assets		202,500	2,906,704
Purchase-sale of subsidiary		-	-
Net cash used in investing activities		(326,666,869)	(7,763,367)
C) Cash flows from financing activities			
Received from issue of loan capital and debt securities		688,517,406	1,761,961,275
Payment for redemption of loan capital & debt security		-	-
Dividend paid		-	(120,178,857)
Net cash received from financing activities		688,517,406	1,641,782,418
D) Net (decrease) / increase in cash (A+B+C)		(603,804,272)	(101,048,159)
Effects of exchange rate changes on cash and cash-equivalents			
E) Opening cash and cash-equivalents		3,743,346,807	3,844,394,966
F) Closing cash and cash-equivalents (D+E)	39	3,139,542,535	3,743,346,807

Appendix-4

National Credit and Commerce Bank Limited			
Profit and Loss Account			
For the year ended 31 December			
	Note	2008 Taka	2007 Taka
Interest income	20	5,449,728,058	3,861,806,484
Less: Interest paid on deposits and borrowings	21	4,099,984,694	2,738,449,472
Net interest income		1,349,743,364	1,123,357,012
Income from investments	22	638,069,608	519,684,376
Commission, exchange and brokerage	23	1,026,013,925	707,853,807
Other operating income	24	303,832,945	179,680,977
Total operating income		3,317,659,842	2,530,576,172
Salary and allowances	25	582,245,991	449,461,009
Rent, taxes, insurance, electricity etc.	26	84,802,209	70,861,458
Legal expenses	27	3,408,235	3,931,197
Postage, stamp, telecommunication etc.	28	33,026,914	30,166,863
Stationery, printing, advertisement etc.	29	30,871,059	21,834,886
Managing Director's salary and allowances	30	5,388,360	3,340,000
Director's fees	31	1,260,000	1,456,000
Audit fees	32	120,000	120,000
Depreciation and Repair of Bank's assets	33	107,682,965	84,045,290
Other expenses	34	105,364,144	85,116,287
Total operating expense		954,169,877	750,332,990
Profit before provisions		2,363,489,965	1,780,243,182
Provision for loans and advances			
Specific Provision	14.4(a)	371,638,596	207,934,561
General Provision	14.4(b)	67,284,800	106,686,414
		438,923,396	314,620,975
Provision for Off-balance sheet exposures	14.5	57,720,309	51,688,967
Provision for Gratuity	14.9	40,000,000	30,000,000
Provision for Investment Fluctuation in Shares	8.1	26,794,390	23,607,932
Provision for NOSTRO Accounts	14.6	-	-
Provision for Other Assets	14.2	1,092,049	(1,000,000)
Total provisions		564,530,144	418,917,874
Profit after provision for Loans and Advances & other provisions		1,798,959,821	1,361,325,308
Contribution to NCC Bank Foundation	14.8	10,000,000	5,000,000
Profit before tax		1,788,959,821	1,356,325,308
Provision for tax	14.3	906,681,988	679,148,762
Current year		809,755,652	658,972,487
Prior year		76,926,336	-
Deferred Tax		20,000,000	20,176,275
Profit after tax for the year		882,277,833	677,176,546
Add: Balance of profit brought forward from last years.		8,134,824	7,826,980
Total profit available for distribution		890,412,657	685,003,526
Appropriations			
Statutory reserve 20% of net profit before tax		357,791,964	271,265,061
General Reserve		-	-
		357,791,964	271,265,061
Retained earnings carried forward	18	532,620,693	413,738,465
Earning per share	40	50.20	38.53

