

INTERNSHIP REPORT ON

CREDIT RISK MANAGEMENT OF NCC BANK LIMITED



INTERNSHIP REPORT ON "CREDIT RISK MANAGEMENT OF
NATIONAL CREDIT AND COMMERCE BANK LIMITED (NCCBL)"

Prepared By

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Submitted In Partial Fulfillment of the Requirements for the Degree
Bachelor of Business Administration



Date of Submission: 08 June 2021

Internship Report Approval Form

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INTERNSHIP/PROJECT INFORMATION

Internship Organization: NCC Bank Limited

Internship Report Topic: Credit Risk Management of NCC Bank Limited

Semester (Tick one): ☐ Spring 2021 ☐ Summer 2021 ☐ Fall 2021

SUPERVISOR APPROVAL

(Please place a Tick)

☐ Approved

☐ Not Approved

☐ Partial Re-write

☐ Full Re-write

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2. I acknowledge and understand that plagiarism is wrong.
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Name: MUSKAN AKTER

ULAB ID # 171011028

Signature_____

Date: 04 June 2021

Letter of Transmittal

24 April, 2021

Liliping

Senior Lecturer

ULAB School of Business (USB)

University of Liberal Arts Bangladesh (ULAB)

House 56, Road 4/A Dhanmondi, Dhaka - 1209

Dear Madam,

Please find attached the proposal for an internship in the partial fulfillment of Bachelor of Business Administration (BBA) requirement. I want to write an internship report on Credit Risk Management (CRM) of NCC Bank Limited.

If you have any questions, please call me at my Mobile number (01876294066) or you can email me at muskan.akter.bba@ulab.edu.bd.

Your Sincerely,

Muskan Akter

ID: 171011028

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Executive summary

The target of NCC Bank Limited is to become the best commercial bank in Bangladesh. However performance of NCC Bank Limited is mainly depended on proper managing credit risk system.

This report is about the Credit Risk Management of NCC Bank. For banks credit is the primary source of income. In this report Part A describes about overall background of NCC Bank Limited, the internship experience in NCC Bank limited. In this report Part B explains about overall theoretical concepts of credit risk management of NCC Bank Limited.

Credit risk simply defined as the borrower will fail to fulfill its obligations in accordance with agreed terms and conditions. Credit risk management is a complex and lengthy procedure.

The main goal of risk management is not to minimize risk fully but to make sure that risks are taken with due concern. Before giving loan to the client bank need to check client's CRG sheet and CIB report properly. Without that bank can't manage credit risk systems. Effective credit risk management system helps the bank to improve its current and future financial performance.

NCC Bank applies the best effort to determine risk associated with loan. But sometimes due to influence of political persons and influencer persons the credit rating may not be given accurate information about clients. NCC Bank should be stopped the influence of political and influencer persons for getting future benefits. Otherwise, the goodwill or the reputation of NCC Bank will decrease day by day. Bank can make decision for giving loan to the clients on the basis CRG score. That's way credit risk grading system is an essential tool for managing credit risk system.

Part A: Internship Experience

Chapter One: Overview of NCC Bank Limited

1.1 NCC Bank Limited

National Credit and Commerce Bank Limited (NCCBL) is a Private Commercial Bank which is incorporated in Bangladesh under the company Act 1994. The NCC Bank Limited started its operation on 25th November 1985 as a non-banking financial institution under the name of National Credit Limited (NCL). The company aimed to mobilize resources from within and invest them in such a way to develop the country's Industrial and Trade Sector and playing a catalyst role in the formation of the capital market as well. Since its inception, National Credit and Commerce Bank Limited have acquired a commendable reputation by providing sincere personalized service to its customers in a technology-based environment. National Credit and Commerce Bank Limited bears a unique history of its own. Its membership with the browse helped the company to a great extent in these regards. 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. The Bank's various deposit & credit products have also attracted the clients-both corporate and individuals who feel comfort in doing business with the Bank. Now it has 2296 employees and many 122 branches all over the country. The banking system of Bangladesh has gone through three-phase of development Nationalization, Privatization, and Financial Sector Reform. National Credit and Commerce Bank is one of the largest Private Commercial Bank from 1993 with new hope and promises to serve the countrymen.

1.2 Nature of the Business

The bank is offering a loan to the customers and collects deposits from the customer. This bank is a public listed commercial bank. There are many other services like L/C opening, consultation services, social welfare works, publishing economic journals, etc. It operates under the Bank Company Act 1991 and Bangladesh Bank Ordinance 1972.

1.3 Corporate Vision

To become a leading Commercial Bank in serving the Nation as a progressive and socially responsible financial institution by bringing credit & commerce together for increased shareholders' value and sustainable growth.

1.4 Corporate Mission

Its mission is to deliver excellent financial service to communities based on strong customer relationships. Moreover, it is creating a cohesive and friendly environment where customers and people can excel.

1.5 Slogan of NCC Bank Limited

“With You. Always.”

1.6 Corporate Profile

FEATURES	VALUES
NAME OF COMPANY	NATIONAL CREDIT & COMMERCE BANK LIMITED (NCCBL)
REGISTERED OFFICE	NCC BANK BHABAN 13/1 - 13/2, TOYENBEE CIRCULAR ROAD MOTIJHEEL C/A, DHAKA – 1000, BANGLADESH.
LEGAL STATUS	PUBLIC LIMITED COMPANY (GOVERNED BY THE BANK COMPANIES ACT 1991)
DATE OF INCORPORATION	MAY 15, 1993
DATE OF COMMENCEMENT OF BUSINESS (LICENSE ISSUED BY BANGLADESH BANK)	MAY 17, 1993
AUTHORIZED CAPITAL (31.12.2019)	TK. 20000 MILLION
PAID-UP CAPITAL (31.12.2019)	TK. 9273.79 MILLION
FACE VALUE PER SHARE	TK.100 PER SHARE
CHAIRMAN	ALHAJ MD. NURUN NEWAZ
MANAGING DIRECTOR & CEO	MR. MOSLEH UDDIN AHMED
CHIEF RISK MANAGEMENT OFFICER	MR. MOHAMMED MIZANUR RAHMAN, FCA
YEARS OF SERVICE	27 YEARS
NUMBER OF EMPLOYEES (31.12.2019)	2148 EMPLOYEES
NUMBER OF BRANCHES (13.04.2021)	122 BRANCHES
NUMBER OF ATM (13.04.2021)	135 ATM
SUBSIDIARY COMPANIES	NCCB CAPITAL LIMITED, NCCB SECURITIES AND FINANCIAL SERVICES LIMITED
CREDIT RATINGS	

LOCAL RATING: LONG TERM SHORT TERM	AA (VERY STRONG CAPACITY) ST-1(SUPERIOR CAPACITY)
INTERNATIONAL RATING (BY MOODY'S):	B1
PHONE PABX	+880 2 9561902-4, 9566283, 9563981-3
FAX:	+880 2 9566290
E-MAIL	info@nccbank.com.bd
WEBSITE	www.nccbank.com.bd
SWIFT CODE	NCCLBDDH

Table 1: Corporate Profile

1.7 Products and Services of NCC Bank Limited

Products and Services of NCCBL



Figure 1: Products and Services of NCCBL

Chapter Two: Host Organization in Context

2.1 SWOT Analysis

To develop a marketing strategy SWOT analysis is very vital. In the process of making a SWOT marketer identifies the strength and weaknesses of the company and also the opportunities and threats to the company.

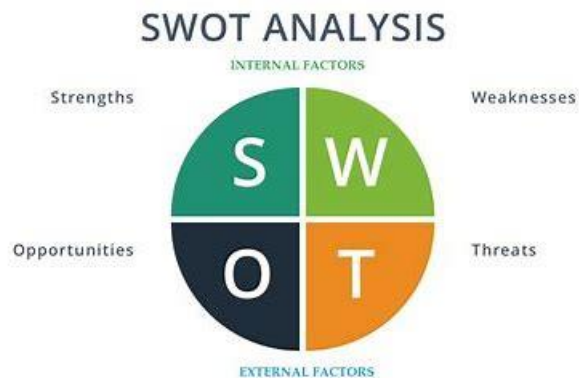


Figure 2: SWOT Analysis of NCCBL

The SWOT analysis of NCC Bank is given below:

2.1.1 Internal Strengths and Weaknesses

Internal Strengths

- Strong corporate identity
NCC Bank is the leading provider of financial services countrywide. With its strong corporate image and identity, it can better position itself in the minds of customers. This image has helped NCC Bank grab the personal banking sector of Bangladesh very rapidly.
- Distinct operating Procedure
NCC Bank is known countrywide for its distinct operating procedures. The company's Managing committees of Value Strategy satisfy customers' needs better and also keep the organization profitable.
- Strong employee bonding and belongings

NCC Bank employees are one of the major assets of the company. The employees of NCC Bank have a strong sense of commitment towards the organization and also feels proud and a sense of belonging towards NCC Bank. The strong organizational culture of NCC Bank is the main reason behind this strength.

- **Efficient Performance**

NCC Bank provides hassle-free customer service to its client base comparing to the other financial institutions of Bangladesh. Personalized approaches to the needs of customers are its motto.

- **Young enthusiastic Workforce**

The selection & recruitment of NCC Bank emphasizes having skilled graduates & postgraduates who have little or no previous work experience. The logic behind this is that NCC Bank wants to shape their employees at the nature of their own culture and a fresh workforce stimulates the whole working environment of NCC Bank.

Internal Weaknesses

- **Narrow Operating Span**

NCC Bank has a very narrow operating span in Bangladesh. NCC Bank still has not reached different districts with their service. Various geographic segments are currently not availing the services of NCC Bank due to inconvenient branch location or absence of neighborhood branches.

- **Absence of strong Marketing Activities**

NCC Bank currently doesn't have any strong marketing activities through mass media e.g. Television. TV ads play a vital role in awareness building. NCC Bank has neither such TV ad campaigns nor even newspaper ads.

- **More Innovative Products must be offered**

To be more competitive in the market, NCC Bank should come up with more new attractive products. This is one of the weaknesses that NCC Bank is currently passing through.

- **Lack of Customer Confidence**

NCC Bank is opened most of the new branches within 8 to 5 years in different areas. As average customers lack confidence in NCC Bank and judge the bank as an average new bank.

2.1.2 External Opportunities and Treats

External Opportunities

- Countrywide network

The ultimate goal of NCC Bank is to .expand its operations to the whole of Bangladesh. Nurturing this type of vision & mission & to act as required, will not only increase NCC Bank's profitability but also will secure its existence in the long run.

- Experienced Managers

One of the key opportunities for NCC Bank is its efficient managers. NCC Bank has employed experienced managers to facilitate its operation. These managers have already triggered the business for NCC Bank as being new in the market.

- Huge Population

Bangladesh is a developing country, to satisfy the needs of the huge population, a large amount of investment is required. On the other hand building, EPZ areas, and some Govt. policies easing foreign investment in our country made it attractive to foreigners to invest in our country. So, NCC Bank has a large opportunity here.

External Threats

- Upcoming Banks

The upcoming private local & multinational bank poses a serious threat to the existing banking network of NCC Bank. It is expected that in the next few years more commercial banks will emerge. If that happens the intensity of competition will rise further and banks will have to develop strategies to compete against and win the battle of banks.

- Similar Products

Similar products are offered by other Banks. Now a day's different foreign and private banks are also offering a similar type of product with an almost similar profit margin. So, if all competitors fight with the same weapon, the natural result is declining profit.

- Default Culture

This is a major problem in Bangladesh. NCC Bank also goes through with the problem of non-performing loans or default loans.

2.2 Analysis of Porter's Five Forces Model

The stock or capital market in Bangladesh is immature. People are unwilling to invest in the stock market because of the continued collapse of the stock market or the decline in stock prices. Therefore, the economy depends to some extent on the banking industry. The number of banks and financial institutions is increasing. In order to meet these challenges and make it a leader in Bangladesh's banking industry, banks/financial institutions have followed and analyzed various strategies. The influence of the five forces in the banking industry in Bangladesh is discussed below:



Figure 3: Porter's Five Forces Model Analysis

1. Rivalry among Existing Competitors

Bangladesh's banking industry has a high level of competitive rivalry. Banks compete on interest rates for both deposits and loans, as well as a variety of services and products, terms and conditions, the number of ATM booths, available branches, mobile banking, and internet banking.

2. Bargaining Power of Buyers

When a buyer has the ability to demand cheaper pricing or better service from a corporation, their bargaining power can be a competitive advantage. Bank customers who take out loans and services from the banks are referred to as purchasers. The products or services that banks provide, as well as the interest rates that they charge, are essentially the same. Every bank offers the same kind of loans at the same interest rate. The banking sector has an

extremely low switching cost as a result of this. When a consumer is dissatisfied with a bank's service, terms, and conditions, he or she can easily switch to another bank.

3. Bargaining Power of Suppliers

Supplier bargaining power can be a threat if it allows them to raise the price that a firm must pay for its inputs, reducing the company's profitability. Banks rely on depositors as a source of funds. Despite the fact that the bank receives funds from its directors, depositors are the primary source of funds. Suppliers of money might sometimes pose a risk to the bank in terms of interest rate. . But there are thousands of depositors from area of professions. The banking industry's bargaining power is moderate as a result of these suppliers.

4. The threat of New Entrants

Companies who are not already competing in an industry but have the potential to do so are considered potential rivals. Bangladesh's banking sector is presently thriving and conservative. Existing national and global banks are extending their businesses by offering a wide range of services and products, creating a significant barrier to entry for newcomers. Before allowing new banks to open, the government considers carefully. Aside from that, a number of existing laws and regulations adopted by Bangladesh Bank to manage the banking sector cannot be easily understood by newcomers to the industry.

5. The threat of Substitute Services

In the financial industry, there exist replacement financial institutions and leasing institutions that execute financial activities with minor amounts. These institutions, such as IDLC Finance Limited, Lanka Bangla Finance Limited, IIDFC, BIFC, and others, may pose a threat to commercial banks' profit margins. IDLC is a financial company. They also offered similar products such as deposit plans, home loans, car loans, personal loans, registration loans, small business finance, and medium business finance, among others (source: IDLC Website). The threat of substitute product intensity is low in the banking industry because they do not operate a substantial percentage of their company. Substitutions threats are increasing and it's high for the banking industry in Bangladesh

Chapter Three: Intern's Roles and Responsibilities

3.1 Roles and Responsibilities

The internship program is essential for every student, especially for the students of Business Administration, which helps them to know real-life situations. For this reason, a student takes the internship program at the last stage of the BBA Program, to launch a career with some practical experiences. I was doing internship under NCC Bank Limited, Babubazar Branch, Mitford Road, Babubazar, Dhaka. Before selecting my Internship topic, I was doing many different types of work. I was doing the paperwork for opening new accounts, form verification, communicating important information in forms to the relevant officers. My bank supervisor taught me how to do these works and how to manage these important files. Then I was selecting my internship report topic on Credit Risk Management. So I was doing work in the Loan section to review the credit risk management, the duration time from February 11 to May 11, 2021. I was working on many important sections like loan classifications, overdue calculations, making a list of defaulters, notice to the defaulter, form fill up for loan sanction, etc. I was working 10.00 am to 2.00 pm every day. During this period I found many challenges like bargaining with customers, managing loan sections, notice giving, etc. under Credit Risk Management (credit risk grading system) helps the bank to give the loan to the best borrower.

My Roles and Responsibilities:

- Sometimes help in new account opening form fill up to the customers.
- To fill up the Credit Risk Grading (CRG) Sheet of the customers.
- Match the Credit Risk Grading (CRG) forms with the given sample.
- Communicate corporate client or customer to give missing information of loans.
- Sequentially record the document of the clients and other organizations.
- Review the loan sanction application.

3.2 Observation

I am learning many things from my observation. I am communicating with my senior sirs.

I am also interacting with the customers. There are some merits and demerits I am finding in my internship period.

- The loan department is very dear to the customers.
- Bank has nice and employee-friendly premises.
- Customers have to wait a long time to deposit money.
- Many formalities need to do to sanction a loan.
- More training should be needed for the entry-level managers because they don't understand many banking operations clearly.
- Target by the bank should be reduced to decrease the pressure from the officers.

Chapter Four: Recommendations, And Conclusion

4.1 Recommendations

Based on my experience in working at National Credit and Commerce Bank Limited as an intern, I would like to put some of my suggestions such as:

- The number of branches should be increased yearly.
- Target by the bank should be reduced to decrease the pressure from the officers.
- Loan distribution should be made after more verification by the rating agencies.
- Credit risk grading should be exercised more strictly and no political influence should consider.
- More employees are needed in loan department to provide better service to the customers.
- Bonus and salary scale need to restate to value the employees.
- A sufficient workforce is required to allocate a standard risk assessment time.

For the betterment of the National Credit and Commerce Bank Limited credit risk management system, must consider the above recommendations. An efficient credit risk management can lead NCCBL to a high position.

4.2 Conclusion

For me, the internship experience was great. Here, I learned a lot of interesting and useful things. I could communicate with many resourceful personals. They are very dear to me. I was taught about debt collecting procedures in the loan department. In the loan department I was learned about loan disbursement procedure and also the collection procedure. At least most important I was known about credit risk grading of NCC bank which is very essential for the bank. Credit risk will help the bank to distribute loan properly. Without risk grading system the loan may be default. Credit helps the bank in the assessment of risks by analyzing the credits and determining the probability of defaults and risks of losses.

Part B: Research Project

Chapter One: Research Design

1.1 Background of the Study

Financial institutions play an important role in the development of the economic conditions of any country. The banking industry is one of the most important sectors. Bangladesh is a developing country. There are two types of banks, like private banks and public banks. Banks are mainly working in areas such as capital promotion to encourage entrepreneurship and job opportunists. The bank receives deposits with a low interest rate (6%) and provides loans with a high interest rate (9%). The main goal of the bank is not only to make a profit, but also to contribute to the country's economy. A bank is a very old institution that contributes to the growth of any economy and is treated as an important service industry in the modern world. Due to globalization, transfer money and other important tasks is quickly

done by banks. Most institutions borrow from banks, and they also give payment to the buyers through banks. Financial institutions (banks) which are play important role to make relationship between two party's lenders and borrowers. The four main divisions/departments of NCC Bank are mentioned as follows: Department of General Banking, Commercial Finance, Investment / Credit and Cash Department. NCC Bank also offers different types of DPS such as Special Savings Scheme (SSS), Special Deposit Scheme (SDS). There are also having savings account and current account. NCC Bank Ltd. provides all general banking facilities such as Letters of Credit (LC), clearing and forwarding, and also offers different types of loans for businessmen.

1.2 The Objective of the Study

- To know about NCC Bank Limited's credit risk management terms and conditions.
- To review the credit risk management systems, tools, and approaches currently in use by banks.
- To determine the existing credit risk management system's flaws and limits.

1.3 Methodology of the Study

This report includes qualitative method. Secondary sources are used and also personal observation is made to present the report.

The methodology of the study will be based on primary and secondary data sources.

➤ The primary sources are:

- Consulting with my honorable supervisor.
- Practical work experience at a different desk.
- Close observation of the several tasks by the different department's officers.

➤ The secondary sources are:

- Annual Report of NCC Bank Limited (2014-2019).
- Official website of NCC Bank Limited and Bangladesh Bank.
- Credit risk grading manual prepared by Bangladesh Bank.
- Websites, Journals, Books, and Reports.

➤ Type of study

This study is a qualitative type. Here I want to understand the credit risk management system of NCC Bank.

1.4 Limitation of the study

Working in NCC Bank is a great opportunity for me. But for some internal policy I couldn't collect all the necessary information for the report. The limitations I faced those are mentioned as follows –

- They have some rules, regulations, norms, restrictions. So the officers did not disclose much information (confidential matter).
- Annual reports are not that much informative.

- Could not take interview of higher level authority.
- Given time to prepare a report is not enough.
- Could not get chance to visit other branches to take interviews.
- Credit risk management system is a too big to cover wholly in this limited scope of time. It required huge time and huge space to cover.

1.5 Literature Review

Credit is a term used in the accounting and financial fields, and it has also different meanings. Credit is an agreement between two parties' lender and borrower, where the lender agrees to lend the borrower a specified amount of money. On the other side, the borrower agrees to repay the money in future with an interest on the outstanding balance. Creditworthiness refers to a borrower's capacity to repay the credit provided by the due date.

In terms of accounting, credit refers to an accounting entry which decreases assets or increases liabilities in the balance sheet (Corporate Finance Institution, 2020). In 1520s, the concept of credit was first used (Corporate Finance Institution, 2020). Lender made lending decisions based on the personal opinions and beliefs about the borrowers. Nowadays, the process of assessing the creditworthiness of a potential borrower becomes a more objective approach, compared to a subjective approach in past (Corporate Finance Institution, 2020). Now lenders made lending decisions not only the based on personal beliefs and opinions rather than lenders evaluate the past credit history of a borrower by looking at their credit report which is called CIB report provided by Bangladesh Bank. The credit report shows the credit information regarding the borrower. Like the amount of money, the borrower has borrowed for last one to seven years, how much he/she has paid, and also the schedules of repayments, history of defaults etc (Corporate Finance Institution, 2020).

Credit risk is a type of risk of loss that occurs when a borrower refuses to repay the due amount. Credit risk is the risk that a lender's cash flow will be disrupted if a borrower refuses to pay due amount with interest. Credit risk became higher because of the borrower doesn't have enough money to pay lender, or the borrower doesn't have enough assets to liquidate to repay the due amount of lender. When the risk of nonpayment is becoming higher, then the lender is more likely to demand compensation with a higher interest rate.

Chapter Two: Theoretical Concepts about CRM

2.1 Basic Terms

- **Credit:** The term credit comes from the Latin word “Credo”. The meaning of “Credo” is “I believe/trust”. The definition of credit means lender’s trust about capability and intention of the borrower to repay the due amount. Credit is an agreement between two parties’ lender and

borrower, where the lender agrees to enhance certain amount of money and the borrower needs the money to utilize. On the other side, the borrower agrees to repay the money with an interest on the outstanding balance at some certain period of time in the future. Credit is a bank's primary source of revenue. On the other hand, the improper use of credit would bring disaster not only for the bank but for the entire economy.

- **Credit Risk:** Credit risk is a type of risk in which the borrower is unable to return the loan or meet his or her financial commitments to the bank. Credit risk is the risk that a lender's cash flow will be disrupted if a borrower refuses to pay the due amount plus interest.
- **Short-Term Loan:** A short term loan is a special commitment loan that's taking for single-purpose with a maturity of less than one year.
- **Long-Term Loan:** A long-term loan is such kind of loan that's taking for multipurpose with a maturity of more than one year. Example: car loan, home loan etc.

2.2 Importance of Credit

Credit has its unique contribution to our national economy. In the following way:

- Credit helps to provide working capital for industrialization.
- It helps to create employment opportunities.
- It helps to maintain social equity.
- It helps to create a new entrepreneur.
- It helps to boom new industry.

2.3 Credit Risk Management

Credit risk is most commonly defined as the borrowers will fail to fulfill its responsibilities according with agreed terms and conditions. The purpose of credit risk management is to reduce risk and raise the risk-adjusted rate of return of a bank by assuming and maintaining credit exposure within acceptable parameters. The credit risk management department is responsible for maintaining the bank's risk and return profile's integrity. CRM ensures that risks are assessed properly. Credit risk management's overall success is mostly determined by the bank's credit policy, portfolio of credit, credit monitoring, supervision and follow-up of the loan and advance. For a bank, the credit risk management is a complex procedure. But it helps the bank in the assessment of risks by analyzing the credits and determining the probability of defaults and risks of losses. For a bank credit risk management is a useful system. Effective credit risk management system helps the bank to improve its current and future financial performance. NCC Bank target is to become the best commercial bank in Bangladesh however the overall performance of the bank is mainly depended on proper managing credit risk system.

2.4 Credit Risk Management Process

Credit risk is the risk that the borrower will fail to meet his or her obligations in accordance with agreed terms and conditions. Effective credit risk management system will help the bank to improve its current

and future financial performance. The objective of risk management is not to minimize risks fully but to make sure that risks are taken with due concern.

Some important points of credit risk management process are mentioned as follows:

- Credit processing/appraisal.
- Credit approval/sanction.
- Credit documentation.
- Disbursement.
- Credit monitoring.
- Managing problem credits/recovery.

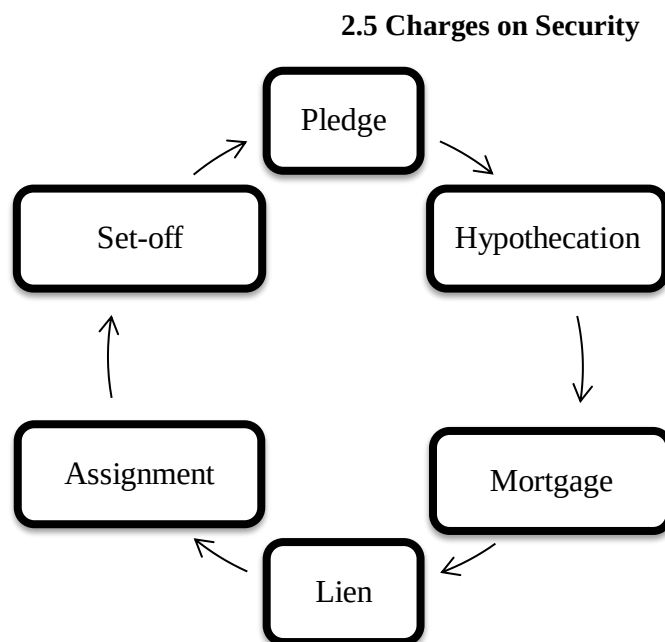


Chart 1: Charges of Security

The charges on security are required to protect the banks' interest. Charges are created on borrowers' assets to ensure the bank get its money back by selling these assets if the borrower defaults.

2.6 Credit Analysis

Two types of approaches are followed to assess credit risk:

1. Qualitative approach.
2. Quantitative approach.

2.6.1 Qualitative approach:

Here used five C's to assess the prospective borrower's risk:

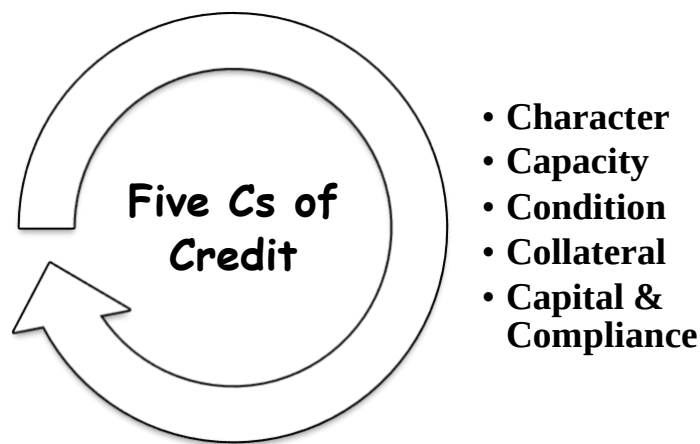


Chart 2: Five Cs of Credit

- **Character:** Character defines as the willingness of the customers to pay the loan.
- **Capacity:** The customer's ability to pay back loans.
- **Capital:** Capital is a term that refers to a customer's financial reserves.
- **Collateral:** Collateral (Security) means borrowers' assets that the bank can sell if the borrower defaults. A sufficient net worth to back up the loan.
- **Condition:** Condition refers to current (economic) trends in a borrower's line of credit. After the loan is made, the business and economic situations can and will change.
- **Compliance:** Legal and regulatory.

After measuring this Five Cs of Credit a bank will take decision that the bank will provide the loan to the customers or not. Before giving the loan the bank must think of five Cs.

2.6.2 Quantitative approach:

In this approach financial data are used in assessing the client's risk.

In that concern, the Bank follows the following steps to analyze and assess the prospective client's risk:

- Gathering the applicant's loan details.
- Collecting business information for which a loan is being sought.
- Gathering the most important risk-related data.
- Getting all of credit information together.
- Examining sensitive dangerous credit data.
- Analyzing highly precise and critical risk data.
- Making a decision based on a loan analysis.

2.7 Credit Risk Grading:

Credit risk grading plays an important role in measuring the credit risk. Credit risk grading system helps the bank to understand the risk in different credit events. Bangladesh Bank has issued a guideline for understanding the CRG. The manual provides by Bangladesh Bank, there clearly mentioned about the systematic process of calculating the CRG score of a company. There also mentioned about various types of ranking according to the CRG score. The bank can make decision on providing loans based on the CRG score. The survival of a bank mainly depends on the expectation for the change in the policy and environment. The committees of risk management, credit policy, and asset liability are mainly responsible for managing credit risk process. A primary indicator of the risks associated with a credit exposure is credit risk grading system. For managing credit risk management system, credit risk grading system plays a vital role. Credit risk grading system helps the bank to know about the different categories of risk involved in different credit transactions. Well-managed credit risk grading systems helps the bank to managing credit risk properly.

The five credit risks components are mentioned in the table as follows:

Five broad head of credit risk components, weight & separate parameters:

Number	Principal Credit Risk Components:	Weight	Key Parameters
1	Financial Risk	50%	Leverage, Liquidity, Profitability, and Coverage Ratio
2	Business /Industry Risk	18%	Size Of Business, Age Of Business, Business Outlook, Industry Growth, Competition and Barriers to business
3	Management Risk	12%	Experience, Succession, & Teamwork
4	Security Risk	10%	Security Coverage, Collateral Coverage & Support
5	Relationship Risk	10%	Account Conduct, Utilization of Limit, Compliance of Covenants/Conditions & Personal Deposit.

Table 2: Five Components of Credit Risk

Source: *CREDIT RISK GRADING MANUAL Bangladesh*

These parameters need to be selected and evaluated very carefully by the NCC bank.

The credit risk grading based on total score:

Number	Risk Grading	Short Name	Score
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1	Superior	SUP	100% cash covered Government guarantee International Bank Guarantees
2	Good	GD	85+
3	Acceptance	ACCPT	75-84
4	Marginal/Watch list	MG/WL	65-74
5	Special Mention	SM	55-64
6	Sub-Standard	SS	45-54
7	Doubtful	DF	35-44
8	Bad & Loss	BL	<35

Table 3: Credit Risk Grading Total Score

Source: *CREDIT RISK GRADING MANUAL Bangladesh*

2.8 General Procedure of Sanctioning Loan

The following procedure is applicable for giving advance to the customer. These are:

- For taking loan from the respective branch of a particular bank, the client needs to submit an application form. Then the client needs to clarify the reason why he or she needs to take loan. After receiving the application form from the client, then the bank officer main responsibility is to check all necessary document carefully. If the client have any account in the bank, then the bank officer also check the client bank records that he/ she maintains his / her account properly or not? If the bank officer finds all the required documents are genuine which are provided by the client, then he gives the green signal to the client. After that the bank officer provides a prescribed application form of the bank to the client.
- Before taking the decision to give loan to the client, NCC Bank sends a letter of Bangladesh Bank for getting a credit report from there against the client. This credit report is known as CIB (Credit Information Bureau). CIB report contains some important information regarding the client such as the information about how much money the client has borrowed for last 1 to 7 years, how much amount he/ she has paid, the schedule of repayments, and history of default loans etc.
- After receiving the CIB report which is provided by Bangladesh Bank, then the respective branch prepares an investment proposal which contains some terms and conditions about the loan. Then the branch officer submits this proposal to the head office of NCC Bank for taking approval.
- Before giving loan bank prepares some necessary documents which are required to be signed by the client. The client gives promise to the bank. If he / she not repay the due amount in certain of time, then the bank have the rights to take legal action against his/ her.

Documentation is an agreement where all the terms and conditions and securities are written and signed by the borrower. It specifies the rights and liabilities of both the banker and the borrower. In the documentation, each type of advance requires a different set of documents. It also differs from the nature of securities.

Necessary Documents are needed for taking Loan:

- Loan Application Form Duly Signed By the Customer.
- 1 Copy Trade License Photocopy.
- Demand Promissory Note: Here the borrower promises to pay the loan as and when demand by a bank to repay the loan.
- Letter of Arrangement.
- Letter of Continuity.
- Letter of Hypothecation of Stocks and Goods.
- Letter of Hypothecation of Plant and Machinery.
- Letter of Revival.
- Letter of lien for an advance against FDR.

Other Required Documents for taking Loan:

- 2 Copies Passport Size Photograph.
- 1 Copy Passport/National ID/Driving License Photocopy.
- 1 Copy Visiting Card/Company ID Photocopy.
- 1 Copy Trade License and TIN Certificate (For Businessman) Photocopy.
- 1 Copy Utility Bill (Electricity/Wasa/Gas) Photocopy- Any of Them.
- Bank Statement- last 6 Months.
- Partnership Deed (For Partnership Firm) Photocopy.
- Company Memorandum Photocopy.
- Guarantor.

2.9 Credit Monitoring

NCC bank needs to perform some monitoring activities regarding the collection of a loan after the loan is disbursed. Proper monitoring of the loans which helps the bank to become the loans collected and not being nonperforming. The risks of bad debt loans are increasing because of lack of proper monitoring activities of loans. NCC Bank usually monitor their loans through weekly, monthly, annually basis auditing. Generally auditing is performed by both internal and external auditors. For identify weaknesses of managing credit system, NCC Bank uses Enterprise Resource Planning (ERP) software. For monitoring loans, NCC Bank checks the terms and conditions of loan disbursement, the interest rates, and the provision maintained against loans amounts etc.

2.10 Credit Recovery

Prevention is better than cure. Precautions at the appraisal stages are better for the recovery of advances. The following precautions are taken at the time of appraisal of the application of advances the recovery will improve:

- Bank should have a clear knowledge about four “C”s – Character, Capacity, Capital, Condition and Collateral.
- It should generate enough surpluses to repay the loan.
- Over finance & under finance both are risky.
- The repayment amount should be fixed keeping in view of the consumption needs.
- Collect up-to-date credit information from CIB, Bangladesh Bank.
- The repayment schedule should be fixed keeping in view of the time periods during which cash will be available with the borrowers.

2.11 Legal Action

Legal action is a very complex & longer procedure, for this reason it is the most extreme measure. Before filing case against the loan defaulter in the court NCC Bank makes serious follow-up efforts with the client in the following ways:

- Contact with the client (borrower) and request to repay of bank dues.
- Sending out reminder letters to clients for requesting to repay the due amount as soon as possible.
- If the client didn't come to the bank or didn't want to communicate with the bank. For not sharing the reason why he or she can't repay the due within a specific time.
- Then bank have the rights to talk with bank legal advisor to take legal action against the client.

2.12 Performance of NCC Bank

1. Overall Exposure (in %) in the Portfolio

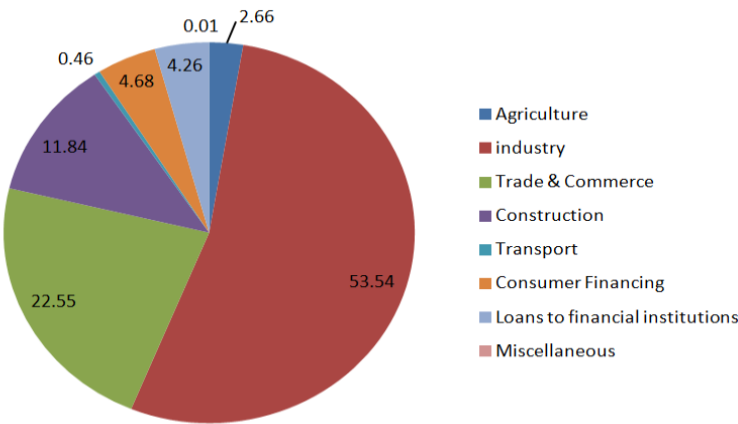


Chart: 3

2. Exposure (in %) in Industrial Credit Portfolio

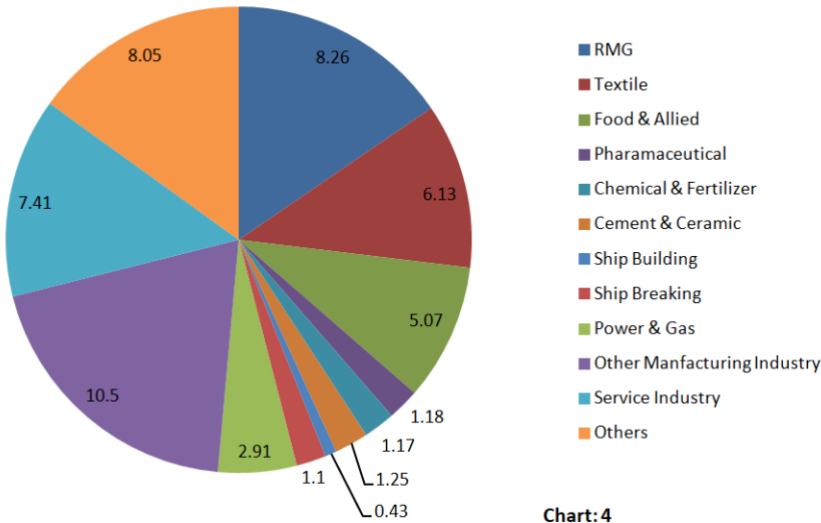
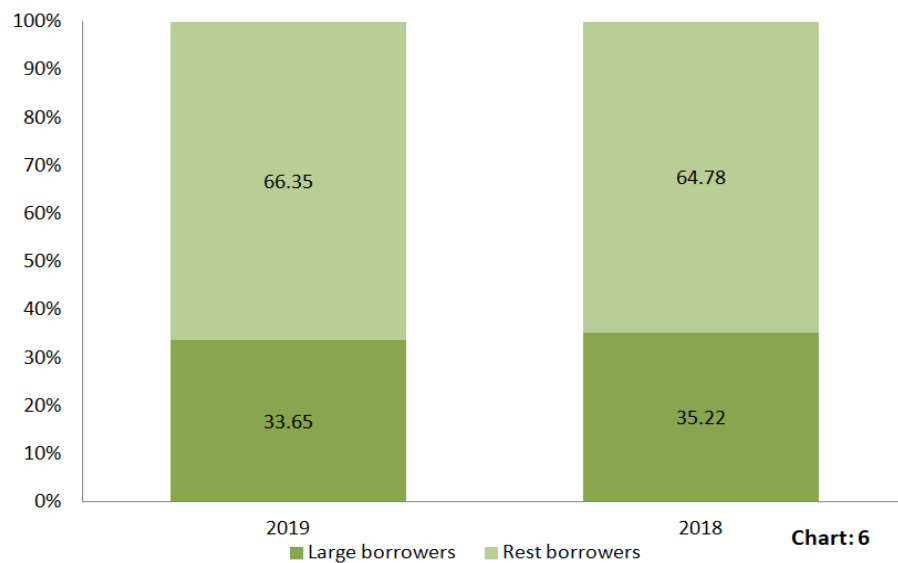
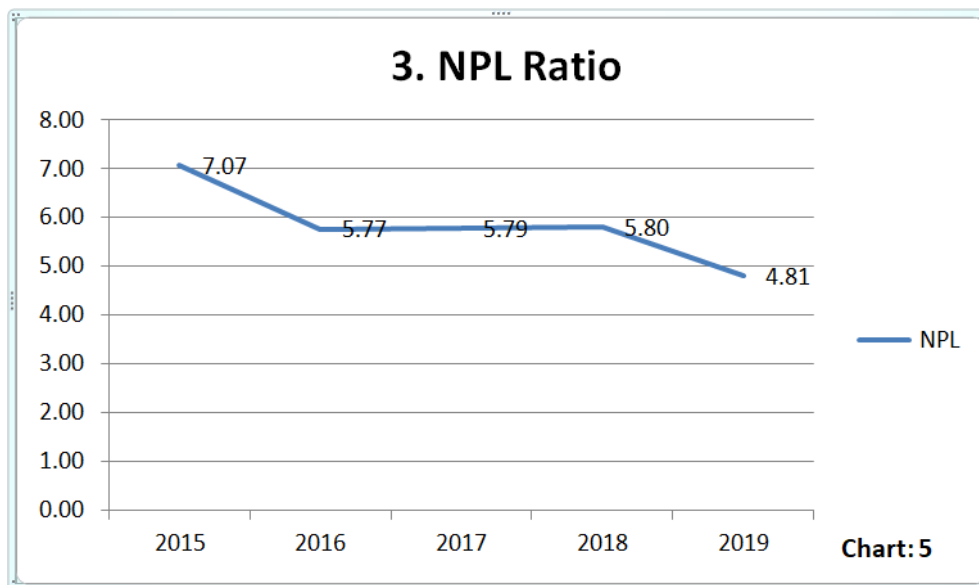


Chart: 4



Source: NCC Bank Limited, Annual Report (2019).

Comments:

1. Nonperforming loan is kind of loan in which the borrower is in default for the reason of they don't make the scheduled payments for a specified period of time. In the graph chart no 5 NPL ratios show a downward trend which indicates the improvement of the quality of the loan portfolio. In the graph chart no 5 shows NPL has decreased over the years because of NCC bank put their best efforts to manage credit risk properly.
2. In the graph chart no 6 shows NCC Bank is now focusing on increasing exposure in SME (Small and Medium Enterprise) and retail loans (Individual loans) for reducing corporate loan exposure in the portfolio.
3. In the graph chart no 3 & 4 show the overall portfolio of risk management. NCC Bank is ensuring well diversified portfolio concentrating in different sectors which is the key issue to minimize credit risk.

Chapter Three: Findings, Recommendations, and Conclusion

3.1 Findings

Every study has its own set of findings, and my paper is no exception. During my internship, I had the opportunity to witness several of National Credit and Commerce Bank Limited's less-noticed aspects (NCCBL). I summarize my conclusions here based on the data collected during my study period, and I believe this will assist me in achieving my goals.

- Looking back to NCCBL's history, we can see that the company's goal isn't to make a profit, but to promote the economic well-being of the people as a whole.
- NCCBL provide a lot of facility to a borrower that's why the amount of loans and advances is increasing day by day.
- To expand women empowerment NCCBL provide women empowerment loan with low interest rate.

3.2 Recommendations

This report is prepared based on credit risk management. The study tries to go into detail on credit risk management. It is recognized in the preparation of this report that credit risk management is not a straightforward task for a bank.

Based on my internship experience at National Credit and Commerce Bank Limited, I'd like to provide some suggestions, such as:

- National Credit and Commerce Bank Limited should enhance its credit risk management department in order to avoid potential defaulters.
- National Credit and Commerce Bank Limited should ensure that the borrowers can use the loan for the desired purpose.
- National Credit and Commerce Bank Limited should increase its credit monitoring speed because without strong monitoring the bank cannot control its increasing bad/loss.
- National Credit and Commerce Bank Limited should be flexible in its interest so that NCCBL can expand its loans and advances.
- National Credit and Commerce Bank Limited has to expand their lending product in various areas in order to enhance profits.
- National Credit and Commerce Bank Limited should concentrate on the credit recovery system. A good credit recovery system can save a lot of money from loss.
- All types of political influence should be avoided to provide loan and make false CRG sheets in NCC Bank.

For the betterment of the National Credit and Commerce Bank Limited credit risk management system, must consider the above recommendations. An efficient credit risk management can lead NCCBL to a high position.

3.3 Conclusion

During the covid-19 pandemic situations, the banking sector is the most vulnerable and is going through a difficult period. This industry is currently quite competitive, as several new banking institutions have received licenses. Credit risk will assist the bank in correctly distributing loans. In a period of economic uncertainty, National Credit & Commerce Bank Limited (NCCBL) is adopting new banking norms. Effective credit risk management is critical to a bank's performance. Successful credit risk management is necessary not just for a bank's performance, but also for an economy's development. National Credit and Commerce Bank Limited is in a good place right now. However, in today's competitive environment, if a bank does not deliver exceptional, outstanding services, it will be difficult to continue banking because everyone wants to preserve quality. National Credit and Commerce Bank Limited is having some issues with loans and advances. The quantity of debt recovery and loan allocation is poorly planned. If National Credit and Commerce Bank Limited can solve this challenge, it will be more structured than any other bank operating in Bangladesh, whether local or international. Finally, I'd like to state that National Credit and Commerce Bank Limited's credit risk management processes are excellent. But it must be concentrated on the whole disbursement and collection of credit than within a few times NCCBL's credit risk management systems will become the pioneer for all banks in Bangladesh.

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