

Chapter One

Introduction

1.1 Introduction

The report basically deals with “**Evaluation of Credit Performance of National Bank Ltd.**”. The credit management policy of National Bank Limited is prepared in line with the guidelines of Bangladesh Bank in Credit Risk Management and for the guideline of the officers or executives in handling affairs relating to credit in a disciplined way. Credit department plays a very important role in bank as they evaluate the risk and take decision about giving loan to the customers. In this report I have tried to study the literatures statements about credit management and also the credit operation of National Bank Ltd. I made a comparison study between literatures statements and the actual activities of the bank.

1.2 Background of the Report

This dissertation report is originated as a partial fulfillment of the MBA program of Jahangirnagar University. This report is a mandatory requirement for MBA completion. I have collected data from National Bank Ltd. It has helped me to match my theoretical knowledge with practical understanding. I was provided with the topic “**Evaluation of Credit Performance of National Bank Ltd.**”

1.3 Significance of the report

Education will be the most effective when theory matches with practical understanding. Theoretical knowledge gets its perfection with practical application. Everyone knows that there is no alternative of practical understanding which is more beneficial than theoretical aspects. The prime reason of this study is to become familiar with the practical understanding about banking system. Theoretical knowledge gets its perfection with practical application and the dissertation bridge the gap between theoretical knowledge and practical understanding. By this dissertation program students can establish contacts and networking. Contacts may helps to upgrade practical life.

1.4 Scope of the report

What we are doing is financial performance indicator analysis, recommendations and justifications on the basis of both qualitative and quantitative analysis. This report has been prepared on the basis of experience gathered during the period of study. This study is limited with function of credit operation system and credit management and credit performance of

National Bank Ltd. Most of the data used in the reporting of the study are from secondary sources. All the data related to the reporting requirements are not available due to confidential reservation practice for the benefit of the organization. This report is prepared using secondary data and covers ten years from 2005 to 2014.

1.5 Objectives of the report

1.5.1 General objective

The prime objective of the report is to analyze *Credit Performance of National Bank Ltd.*

1.5.2 Specific objectives

- To know the credit assessment, approval & disbursement process of National bank ltd.
- To know the credit recovery process of National Bank Ltd.
- To perform trend analysis during the last five years loan & advance of National Bank Ltd.
- To analyze product, sector and geographical location wise performance of loan & advances of National Bank Ltd
- To evaluate credit performance of National Bank Limited from the view point of their clients.

1.6 Methodology

The study requires a systematic procedure from selection of the topic to preparation of the final report. The data sources of this study were to be identified and collected, to be classified, analyzed, interpreted and presented in a systematic manner and key points were to be found out. The overall process of methodology is given in the followings:

1.6.1 Research Design

This is a Descriptive Research, which briefly reveals the Credit operation of National Bank Limited and also analyzes the “Credit Performance” of this bank. To prepare this report all the necessary information are collected from both primary and secondary sources of data. This study has been conducted by collecting data for the period of last ten years from 2005 to 2014.

1.6.2 Sources of Data

To prepare this report all the necessary information collected from both primary and secondary sources of data.

- ❖ Primary sources
- ❖ Secondary sources

1.6.2.1 Primary sources of data

In the preparation of this report, data was collected from different primary sources. Different questionnaire for the credit officer and clients of the bank used to come to Mirpur Branch was designed to collect the required data. The techniques were used to collect data are:

- Observation
- Informal Discussion
- Questionnaire survey

1.6.2.2 Secondary sources of data

Secondary sources of data are of two kinds:

- **Internal:** Annual Reports of National Bank Limited from 2005-2014.
- **External:** Books, Articles, Journals, Newspaper, Web browsing.

1.6.3 Questionnaire Design

Questionnaire was prepared with close ended questions.

1.6.4 Sampling Plan

Sampling plan is a definite plan for obtaining a sample from a given population

1.6.4.1 Population

The target population is the borrowers of National Bank limited.

1.6.4.2 Sample Unit

Among total population, borrowers who come to the bank regularly were considered as sample unit.

1.6.4.3 Sample Frame

A sample frame is a list that includes every member of the population from which a sample is to be taken. There is no well-structured sampling frame for my report.

1.6.4.4 Sample Size

Total sample size was 36. The total sample was borrowers of National Bank Limited, Mirpur Branch, Dhaka.

1.6.4.4 Sampling Method

I have used non-probability judgmental process for sampling as I have collected information from borrowers of National Bank Limited.

1.6.6 Data Analysis and Reporting

Both the quantitative analysis (Trend analysis) and qualitative analysis (Questionnaire analysis) have been used to collect the data and to analyze the gathered data and different types of computer software's are used for reporting the gathered information from the analysis, such as- Microsoft Word, Microsoft Excel, Microsoft PowerPoint.

1.7 Limitations

Due to time shortage it was not possible to conduct field survey in different branches. So it may not be show actual performance of the bank only show one individual branch performance. Lack of available information about the selected Bank is the real problem when preparing this report. Large-scale research was not possible due to constrain and restrictions posed by the organization. Unavailability of sufficient written documents as required making a comprehensive study. In many cases up-to-date information was not available. Lack of experiences has acted as constraints in the way of meticulous exploration on the topic. The bankers are very busy with their jobs, which lead a little time to consult with them. As some of the fields of banking are still not covered by our courses, there was difficulty in understanding some activities.

Chapter Two

Company Overview

2.1 Introduction

In this chapter we briefly discussed about the National Bank Ltd. Company.

2.2 Literature Review

With respect to the Performances of Bangladeshi Banking sector, foreign and national experts undertook number of studies. Pandey (2006) stated that the easiest way to evaluate the performance of a firm is to compare its present ratio with the past ratio. It gives an indicator of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remained constant over time.

Chowdhury and Ahmed (2009) observed that all the selected private commercial banks are able to achieve a stable growth of branches, employee, deposit, loans and advances, net income, earning per share during the period of 2002-2006. They indicate that the prospect of private undertook number of studies. Commercial bank in Bangladesh is very bright.

Chowdhury (2002) observed that the banking industry of Bangladesh is a mixed one comprising nationalized, Private and foreign banks. Many efforts have been made to explain the performance of these banks. Understanding the performance of the bank requires knowledge about the profitability and the relationship between variables like market size, banks risk and banks market size with the profitability.

Chowdhury and Islam (2007) stated that deposit and loan advances of nationalized commercial banks (NCBs) are less sensitive to interest changes than those of Specialized Banks (SBs). So, SBs should not make abrupt change in lending or deposit by following the NCBs. If NCBs change their lending rate, their deposit or loan and advances will be affected less than those of CBs. Moreover, deposits of NCBs have higher volume and higher volatility than those of SBs. However SBs offer higher deposit rates and charge higher lending rate than NCBs, which is why the interest rate spread of SBs was higher than that of NCBs.

Siddique and Islam (2001) pointed out that the commercial banks, as a whole are performing well and contributing to the economic development of the country. The average profitability of all Bangladeshi Banks collectively was 0.09% during 1980 to 1995 which means that a profit of Tk.0.09 was earned by utilizing assets of Tk.100 in every aspect of profit; banking

sector contributes the national economy as well as the individual organization. Despite overall growth of the banking sector positive the performance of different categories of banks were not equally attractive.

Mujeri & Younus (2009) stated that the higher the non interest income as a ratio of total assets of banks the lower interest rate spread. Similarly market share of deposit of a bank, statutory reserve requirement and NSD certificate interest rate affects the IRS. The analysis in terms of banks group shows that IRS is significantly influenced by operating cost and classified loan of state owned commercial bank and specialized banks while inflation, operating cost market share of deposit, statutory reserve requirement and taxes are important for the private commercial banks. On the other hand non-interest income, inflation, market share and taxes matter for the foreign Commercial banks.

Khan (2008) stated that bank is evaluated based on profit and loss as the same way for other business. If the shareholders of the bank get more profit then the bank is identified as successful. Banks can attain success if relevant risks are effectively controlled.

Van Horne & Wachowicz (2005) stated that to evaluate a firm's financial condition and performance the financial analyst need to perform "checkups" on various aspects of a firm's financial health. A tool frequently used these checkup is a financial ratio.

2.3 Corporate Profile

| | |
|-----------------------------|---|
| Name of the company: | National Bank Ltd. |
| Chairman: | Zainul Haque Sikder |
| Managing Director(CC): | Mr. A F M Shariful Islam |
| Legal status: | Public Limited Company |
| Date of Incorporation: | March 23 1983 |
| Registered Office: | 18, Dilkusha commercial area Dhaka-1000 |
| Authorized Capital: | TK.17,500 million |
| Paid up capital: | TK.17,177.20 million |
| Stock Exchange Listing: | 1984(DSE)& Nov 6 , 1995 (CSE) |
| Phone: | 88-02-956-3081,88-02-966-6584 |
| Fax: | 88-02-956-3953, 88-02-966-9404 |
| Swift: | NBLBDDH |
| E-Mail | ho@nblbd.com |
| Website: | www.nblbd.com |

(Source- Annual Report 2014s)

2.4 Historical Background of National Bank Limited

National Bank Limited (NBL) has a proud history of traditional heritage. The bank saw its birth on March 23 1983 as the dream child of some renowned entrepreneurs, reputed business magnets and eminent philanthropists. As the first private sector commercial bank in the post-liberation Bangladesh, NBL started its journey with a commitment to provide best services to the clients. Making its due contribution to the prosperity of the nation economy through productive and profitable investment of the hard-earned savings of the depositors is also one of the core objectives of establishing this Bank. NBL is the forerunner of private sector banks established in the first-half of the Eighties, which has been able to quickly earn enchanted attraction of the people through its prompt and cordial customer services. The tradition of providing speedy and quality services to all clients including depositors and borrowers continues still today with even more novelty.

Passing through various ups and adversities over the last two decades. National Bank Limited has established itself as one of the largest private sector commercial banks in Bangladesh. The Bank has a network of 91 branches across the country. The Bank is smoothly conducting its foreign transactions through its 415 correspondents in 75 countries. It has drawing arrangements with 32 exchange companies including the Gulf Overseas Exchange Company. It is serving the expatriate worker by arranging to remit their hard-earned money to their near and dear ones at the shortest possible time through the world famous Western Union Financial Service International. In order to provide high technology based modern and quick service to the people, all branches of the bank have been brought under a computer network. Besides, to ensure round-the-clock communication with the external world, the bank has at its business desk the world's best information technology services of SWIFT and REUTERS. NBL has a plan to introduce on line banking in the near future to give improved service to the valued clients.

National Bank Limited has been able to create a special image at home and abroad by introducing different banking products. At the infancy of our garment industry during the Eighties, NBL pioneered allowing the entrepreneurs back-to-back LC facility without any margin, thereby helping the industry thrive to its present position. This foolhardy but unique and generous endeavor of the bank has not only paved the way for enrichment of the country's foreign reserves but also opened employment opportunities for a large number of labor force of the country. In the history of development and expansion of garment industry of Bangladesh, NBL's name will remain engraved in golden letters.

2.5 Mission of National Bank Limited

Efforts for expansion of our activities at home and abroad by adding new dimensions to our banking services are being continued unabated. Alongside, we are also putting highest priority in ensuring transparency, account ability, improved clientele service as well as to our commitment to serve the society through which we want to get closer and closer to the people of all strata. Winning an everlasting seat in the hearts of the people as a caring companion in uplifting the national economic standard through continuous up gradation and diversification of our clientele services in line with national and international requirements is the desired goal we want to reach

2.6 Vision of National Bank Limited

Ensuring highest standard of clientele services through best application of latest information technology, making due contribution to the national economy and establishing ourselves firmly at home and abroad as a front ranking bank of the country are our cherished vision.

2.7 Objectives of National Bank Limited

- ❖ Objective may be defined as a specific desired result to be achieved.
- ❖ The objectives of NBL have outlined hereunder:
- ❖ Ensure full recovery of all advances.
- ❖ Ensure a satisfied work force.
- ❖ Make sound loan and investment
- ❖ Build up a low cost fund base.
- ❖ Meet capital adequacy requirement at all the time.
- ❖ Focus on fee based income.
- ❖ Install a scientific MIS to monitor banks activities.
- ❖ Adopt an appropriate management technology

2.8 Core Values of National Bank Limited

NBL's core values consist of six key elements. It binds their people together that the employees are essential to everything being done in the bank.

- ❖ **Integrity:** NBL protects and safeguards all customer information. NBL treats everyone in an equitable and consistent manner. NBL creates an environment, which earns and maintains customer trust.

- ❖ **Open Communication:** NBL builds customer relationships based on integrity and respect. NBL offers a full line of products and excellent service. NBL is committed to the prosperity of the customers and shareholders.
- ❖ **Performance Driven:** In NBL, customers and employees are judged in terms of their performance.
- ❖ **Continuous Self Improvement:** Continuous learning, self-challenge and strive make ways for self improvement of workforce at NBL.
- ❖ **Quality:** NBL offers hassle free better service quality. NBL builds-up quality assets in the portfolio.
- ❖ **Teamwork:** Interaction, open communication, and maintaining a positive attitude reflect NBL's commitment to a supportive environment based on teamwork.

2.9 Core Strengths of National Bank Limited

- ❖ Transparent and Quick Decision Making
- ❖ Efficient Team of Performers
- ❖ Satisfied Customers
- ❖ Skilled Risk Management
- ❖ Diversification
- ❖ Internal Control and Compliance

2.8 Core Competencies of National Bank Limited

- ❖ Knowledge
- ❖ Experience and Expertise
- ❖ Customer Focus
- ❖ Determination
- ❖ Transparency
- ❖ Reliability

2.10 Commitments to clients

- ❖ **In serving customers:**
 - ✓ Customer-first
 - ✓ Quality-focus
 - ✓ Credibility and secrecy

❖ **In serving the Bank:**

- ✓ Loyalty
- ✓ Total commitment and dedication
- ✓ Excellence through teamwork

❖ **Carrying ourselves at work:**

- ✓ Discipline
- ✓ Integrity
- ✓ Sincerity
- ✓ Caring
- ✓ Creativity

2.11 Functions of National bank Ltd

Some general function of National Bank are given below-

- ❖ Maintain all types of deposit Accounts.
- ❖ Make investment in different sectors.
- ❖ Conduct of reign exchange business.
- ❖ Perform other Banking services.
- ❖ Perform social welfare activities.
- ❖ To work for continues business innovation and improvements.
- ❖ Ensure the best uses of its creativity, well disciplined, well manages and perfect growth

2.12 Management Structure of National Bank Limited

2.12.1 Board of Directors

| | |
|---------------------------------|-------------------------|
| Mr. ZainulHaqueSikder | Chairperson |
| Mrs. MonowaraSikder | Director |
| Ms. ParveenHaqueSikder | Director |
| MR. ZAKARIA TAHER | Director |
| AlhajKhalilur Rahman | Director |
| Mr. Moazzam Hossain | Director |
| Mr. Rick HaqueSikder | Director |
| Mr. Ron HaqueSikder | Director |
| Mr. Mabroor Hossain | Director |
| Mr. Jonas Khan Sikder | Director |
| Mr. Md. Anwar Hussain | Director |
| CAPT. ABU SAYEED MONIR | Director |
| <u>Mr. A F M Shariful Islam</u> | Managing Director & CEO |

2.12.2 Executive Committee of National Bank Limited

| | |
|--------------------------------|-------------------|
| MsParveenHaqueSikder | Chairperson |
| Mrs Monowara Sikder | Member |
| Alhaj Khalilur Rahman | Member |
| Mr. Moazzam Hossain | Member |
| Mr. A K M Enamul Hoque Shameem | Member |
| Mr. Rick Haque Sikder | Member |
| Mr. Ron Haque Sikder | Member |
| Mr. A F M Shariful Islam | Ex-officio Member |

Board of Directors is selected by AGM. All of the shareholders of bank give their vote and elect board members. Finally Board of Directors is selected Executive Committee and appointed Managing Director.

2.12.3 Management Hierarchy of National Bank Limited



Figure 2.1: Management Hierarchy of National Bank Limited

2.13 Products and Services National bank Ltd

National Bank's product and services are categorized into three sections-

| Deposit products | Credit Products | Cards |
|---|---|---|
| <ul style="list-style-type: none"> ❖ Current Deposit. ❖ Savings Banks Deposits. ❖ NBL Serious Savers (SSA). ❖ Monthly Savings Scheme (MSS). ❖ NBL Monthly Scheme. ❖ Special Deposits Scheme (SDS). ❖ Fixed Deposits.(FDR) ❖ Foreign Currency Deposits ❖ NBL Super Saver's (STA) ❖ Special Notice Deposit ❖ National Monthly Savings(NMS) ❖ NBL Deposit Scheme(NDS) ❖ Monthly Benefit Scheme(MBS) ❖ Double Benefit Scheme(DBS) ❖ Monthly Income Scheme(MIS) ❖ School Banking Deposit(SBD) NBL Millionaire Deposit (MDS) | <ul style="list-style-type: none"> ❖ Secured Overdraft (SOD) ❖ Cash credit (cc) ❖ Term Loan ❖ Rural Credit Account(RCA) ❖ Consumer Credit Scheme(CCS) ❖ Packing Credit (PC) ❖ Small Enterprise Finance(SEF) ❖ Medium Enterprise Finance(MEF) ❖ Small House Loan(SHL) ❖ NBL Housing Loan(NHL) ❖ Lease Finance scheme(LFS) ❖ NBL Micro Loan(MCL) ❖ Any Purpose Loan ❖ Trade Finance ❖ Payment Against Document (PAD) ❖ Foreign Documentary Bill Purchase (FDBP) ❖ Local Documentary Bill Purchase (LDBP) | <ul style="list-style-type: none"> ❖ NBL Visa Card ❖ Power Card Others ❖ Export ❖ Import ❖ Remittance |

2.14 Five Years Performance at a Glance

The five year performances of National Bank Ltd are given the following table:

Table-2.1: five year performance of National Bank Ltd. (taka in million)

| Item | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Authorized Capital | 2,450.00 | 7,450.00 | 17,500.00 | 17,500.00 | 17,500.00 |
| Paid up Capital | 1,872.72 | 2,845.54 | 4,412.13 | 8,603.65 | 14,196.03 |
| Reserve Fund & Surplus | 4,253.55 | 6,070.22 | 14,693.47 | 12,918.92 | 8,178.24 |
| Deposit | 60,187.89 | 76,834.13 | 102,471.83 | 128,215.97 | 157,331.73 |
| Loan & Advances | 50,665.07 | 65,129.29 | 92,003.56 | 115,388.89 | 126,169.79 |
| Investment | 9,156.61 | 12,315.20 | 24,993.33 | 30,334.63 | 54,326.46 |
| Import Business | 78,226.32 | 77,539.77 | 96,442.57 | 104,570.90 | 94,137.40 |
| Export Business | 36,284.44 | 38,398.85 | 47,812.47 | 60,893.90 | 69,062.90 |
| Foreign Remittance | 39,877.80 | 44,381.50 | 49,145.30 | 54,469.40 | 66,513.90 |
| Gross Income | 8,893.07 | 11,006.15 | 18,612.11 | 21,932.47 | |
| Gross Expenditure | 5,769.24 | 7,608.45 | 9,670.80 | 12,339.52 | 12339.52 |
| Profit Before Tax | 2,828.82 | 3,197.50 | 8,809.40 | 9,591.94 | 9591.94 |
| Profit After Tax | 1,517.43 | 2,070.47 | 6,860.34 | 6,085.70 | 1,487.91 |
| Fixed Assets | 1,981.60 | 2,200.85 | 2,609.46 | 2,310.94 | 2340.19 |
| Total Assets | 72,205.50 | 91,931.63 | 13,4732.31 | 16,9037.38 | 205,207.33 |
| Return on Assets | 2.36% | 2.52% | 6.05% | 4.01% | 0.80% |
| Return on Equity | 28.38% | 27.53% | 48.96% | 29.96% | 6.78% |
| No. of Branches | 106 | 131 | 145 | 154 | 165 |
| No. of Employees | 2,737 | 2,960 | 3,442 | 3,758 | 3,919 |

Chapter Three

Overview of Loan and Advances of National Bank Ltd.

3.1 Loan and Advances

The credit schemes provided by **NBL** are appended below:

- ❖ Overdraft
- ❖ Lease Financing
- ❖ House Building
- ❖ Small and Medium Enterprise
- ❖ Consumer Credit Scheme
- ❖ Trade Finance

NBL maintains Over Draft opportunity for corporate clients to facilitate their day to day business operations. This is offered against deposit receipt or mortgage of property. The bank provides Lease finance facility for Capital machinery, Different equipment, Gas /Diesel generator, Power Plant, Medical equipment, Lift/Elevator, Information Technology equipment, Construction equipment, and Consumer durables. The pay back is in easy installments.

A home of your own is not too far. You can have a loan from **NBL** for purchasing an apartment or for building a house. Maximum allowable loan is 70% of total value or Tk. 7,500,000 which one is higher. You may have a grace period of 9 to 12 months. **NBL** has come forward to support financially the small businesses and small enterprises with new products named Festival Small Business Loan and **NBL** Small Business Loan. Maximum limit of loan is Tk. 300,000 and Tk.500,000 respectively for the two schemes.

Consumer credit is available from this bank for electronic consumer goods and for computer/computer peripherals. Interest rate is competitive

3.2 Types of Loan and Advances

3.2.1 Classification on the basis of time duration

a) Current or Continuous loan

Current loan is also called revolving credit. Current loan holder can deposit or withdraw money in his/her account several times within the loan period. These are the advances having no fixed repayment but have a date at which it is renewable on satisfactory performance of the clients.

Continuous loan mainly includes

- ❖ Cash credit both hypothecation and pledge
- ❖ Overdraft

b) Demand loan

- ❖ Loan general
- ❖ Demand loan against ship breaking
- ❖ Payments against document(PAD)
- ❖ Loan against import merchandise(LIM)
- ❖ Loan against trust receipt(LTR)
- ❖ Forced loan
- ❖ Packing credit
- ❖ Foreign documentary bills purchased (FDBP)
- ❖ Local documentary bills purchased (LDBP)

c) Term Loan

- ❖ Project loan
- ❖ Transport loan
- ❖ House building loan
- ❖ Small business loan
- ❖ Consumer finance loan
- ❖ Lease finance
- ❖ Personal loan

d) Special fee earning product

- ❖ Letter of Credit(L/C)
- ❖ Bank Guarantee
- ❖ Foreign Bank Guarantee
- ❖ Credit card

3.2.2 Types of Loan from the View Point of Loan Holders

From the view point of loan holders, loan are divided into two types this are as follows:

- ❖ Performing loan
- ❖ Non-performing loan

Performing Loan

Loan on which payments of interest and principal are less than 90 days past due. A performing loan as defined by the Federal Financial Institutions Examination Council, a loan that is less than 90 days past due, has not been placed on nonaccrual, or is not in workout status.

Non-performing Loan

Simply non-performing loan refers to those loans that are classified. It is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 3 months, but this can depend on the contract terms. More appropriately “A loan is nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full”.

Process of identifying a non-performing loan or a classified loan:

A loan is classified based on its due period. As per rules of the NBL cash credit, CC Loan is classified as under.

a) Special mentioned account (SMA) loan

When a loan is due over three months but less than Six months from its maturity date then it is treated as special mentioned account (SMA) loan.

b) Sub-standard loan

When a loan is due over Six months but less than nine months from its maturity date then it is considered as sub-standard loan.

c) Doubtful loan

When a loan is due over nine months but less than twelve months then it is considered as doubtful loan.

d) Bad/Loss loan

When a loan is due over twelve months then it is considered as bad/loss loan.

3.3 Overview of Credit Products**a) General Loan**

When an advance is made in a lump sum repayable either in fixed monthly installment or in lump sum and no subsequent debit is ordinarily allowed except by way of interest, incidental charges, etc it is called a loan. The whole amount of loan is debited to the customer's name on a loan account to be opened in the ledger and is paid to the borrower either in cash or by way of credit to his current/ savings account. It is given against Personal guarantee, hypothecation of goods and land & building.

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

Interest Rate: 16%

Loan disbursement system: One time.

Terms and Conditions

- ❖ Disbursement will be made after
- ❖ Bank reserve the right to cancel or amend the terms and conditions partly or wholly at its directions without assigning any reason whatsoever.
- ❖ When the principal debtor fails to fulfill this obligation or promise, liability bestow on guarantor.

b) Cash Credit (CC) Hypothecation

Cash credit is another method of lending by NBL. Under this system, the banker specifies a limit called the cash credit limit, for each customer is permitted to borrow against the security of tangible assets or guarantees. Cash credit in its truest sense is against pledge of goods. Cash credit is sometimes allowed against hypothecation of goods. In case of cash credit hypothecation the ownership a possession of the goods remain with the borrower. By virtue of the hypothecation agreement the bank can take possession with the borrower defaults

Eligibility: Hypothecation advances are normally allowed by bank to limited companies and businessmen for their working capital and not for any capital investment.

Interest Rate: 16%-17.5% which depends on the relationship between the banker and the client.

Renew System: It can be renewed after one year

Terms and Conditions

- ❖ Insurance policy to be obtained against the stocks to be hypothecated to cover in fire and RSD at the cost of the customer.
- ❖ Stock report to be submitted on monthly basis.
- ❖ Bank reserve the right to cancel or call back the sanctioned credit limit.

c) House Building Loan

Another form of consumer credit is house building loan. The main objectives of the bank is to provide financial assistance for the construction, repair and remodeling of residential houses. Loan is also allowed to buy apartment. The feature of this loan is that the customer get 50% loan of the land value. Usually a deposit has to be paid the customer and the rest of the purchase price is spread over in a period of six months, two years or sometimes even longer; the article being regarded as the property of the bank until the final payment has been made.

Eligibility: This loan is allowed for the business person and service holder.

Interest Rate: 15.5%

d) Packing Credit

Packing credit is essentially a short-term advance granted by NBL a to an exporter for assisting him to buy process, pack and ship the goods. The credit is generally extended for payment of freight, handling charge, insurance and export duties. The packing credit advances does not normally extend 180 days and has to be liquidated by negotiation/purchase of the export bill covering the particular shipment for which the packing credit was granted.

Eligibility: Packing credit facility has given for small-scale indigenous manufactures or exporters.

Interest Rate: 15.5%

Terms and Conditions

Disbursement will be made after completion of all formalities as per sanction terms .

- ❖ The amount of advance against packing credit will be adjusted from the amount payable to exporter on negotiation or purchase of bill.
- ❖ The exporter's letter of credit should be irrevocable, constricted and valid and confirming bank must mark lien on it.

e) LTR (Loan against Trust Receipt)

NBL has given the facility of LTR under this arrangement, credit is allowed against trust receipt and the exportable goods remain in the custody of the exporter but he is required to execute a stamped export trust receipt in favor of the bank. Where in declaration is made that he holds goods purchased with financial assistance of bank in trust for the bank.

Eligibility: Loan against trust receipt is generally granted to Exporter for exportation of good.

Interest Rate: 14.5%-15.5% which depends on relation and frequency of taking loan.

Terms and Condition:

- Disbursement will be made after completion of all formalities as per sanction terms.
- Supplier credit report to be obtained before opening of L/Cs.
- Excess drawing over the sanction limit is strictly prohibited.
- Customer will maintain effective and constant supervision and follow up to ensure timely adjustment of the loan to avoid overdue.

f) Any purpose loan:

Any purpose loan is actually an unsecured personal loan. Purpose might be considered

- House renovation
- Interior decoration
- Marriage in the family
- Advance rental payment
- Hospitalization or others emergency medical appliances
- Trips aboard
- Purchase of miscellaneous household appliances
- Purchase of personal computer

- Purchase of audio video equipment
- Purchase of furniture
- Education expenses
- Training expenses
- Other legitimate purpose

| | |
|------------------|-------------------------------|
| Loan amount | Minimum tk.50,000 |
| | Maximum tk. 10,00,000 |
| Interest rate | 17% in simple rate per annual |
| Repayment tenure | Min 12 months |
| | Max 36 months |

g) Product program guidelines- professional loan

NBL loan for professional is partially secured and terminating loan facility for professional only support their small scale purchase of different equipment tools and small machineries for installation for at office.

Product features:

Purchase of professional equipment (purchase X-ray machine, medical ultra sonogram machine, engineering mechanical tools, computer so an.

| | |
|------------------|-------------------------------|
| Loan amount | Minimum tk.50,000 |
| | Maximum tk. 10,00,000 |
| Interest rate | 17% in simple rate per annual |
| Repayment tenure | Min 12 months |
| | Max 48 months |

h) Education loan

Education loan provide for student who is not afford their academic fees. NBL provide loan for student and when a student full fill their study and get any types job after repayment to bank.

Requirements of NBL are public university, private university, college, undergraduate postgraduate level.

Professional degrees CA, ACCA, FIA, MBA and so an.

| | |
|------------------|---|
| Loan amount | Minimum tk.50,000 Maximum tk. 5,00,000 |
| Interest rate | 16% in simple rate per annual |
| Repayment tenure | Min 12 months Max 36 months |

i) Consumer durables loan

NBL consumer durables loan is a personal loan scheme for purchasing various consumer durables such as television refrigerator, air conditioner, washing machine, computer and other household furniture etc.

| | |
|------------------|---|
| Loan amount | Minimum tk.25,000 Maximum tk. 3,00,000 |
| Interest rate | 16% in simple rate per annual |
| Repayment tenure | Min 12 months Max 36 months |

j) PAD (Payment against document)

A loan facility provided by the banks to the customers against document/bills, like, Bill of Lading, Warehouse keepers Certificate/receipts, Railway receipt. Delivery order, Dock Warrant. In other word, payment made by the Bank against lodgment of shipping documents of goods important through L/C falls under this head. It is an interim advance connected with import and is generally liquidated shortly against payments usually made by the party for retirement of the documents for release of imported goods from the customer's authority. It falls under the category "Commercial Lending".

Eligibility: This type of credit facilities is given generally Exporter and importer.

Interest Rate: 15.5%

Terms and Conditions

- ❖ In the of default by the borrower bank has the right to sell the goods.
- ❖ Insurance policy to be obtained against the goods covering fire and RSD risk at the cost of customer.

- ❖ Bank reserve the right to cancel or amend the terms and conditions partly or wholly at its direction without any reason whatsoever.

k) Secured Overdraft (SOD)

It is a continuous advance facility. By this agreement, the banker allows his customer to overdraft his current account up to his credit limits sanctioned by the bank. The interest is charged on the amount, which he withdraws, not on the sanctioned amount. When a current account holder is permitted by the banker to draw more than what stands to his credit, such an advance is called an overdraft. The banker may take some collateral security or may grant such advance on the personal security of the borrower. MBL has given this overdraft facility to clients.

Eligibility: Overdraft facilities are generally granted to businessmen for expansion of their business, against the securities of FOR, MSP, MUDS, DBDS, SSS, against earnest money, work orders and general/others.

FDR, MSP, MBDS, DBDS are together called secured overdraft against Financial Obligation.

For this, it can be classified in three types of SOD. These are follows:

- i. SOD Financial Obligations
- ii. SOD against Earnest Money
- iii. SOD Work Order

i) SOD Financial Obligation

1) FDR (Fixed Deposit rate)

When deposited by a customer is not repayable on demand and is payable only after the expiry of a specified period from the date of deposit or after a specified period of notice.

Interest Rate: Either FDR +2.5%

Or DBDS, MPS, SSS, MBDS+3%

2) MSP (Monthly Sanchay Prokolpo)

It is also known as "Monthly Saving Scheme". The prime objective of this scheme is to encourage people to build up a habit of saving. Under this scheme, one can save a fixed amount of money every month and get a lucrative amount of money after five, eight or ten years.

3) MBDS (Monthly Benefit Deposit Scheme)

Under this scheme, one can deposit certain amount of money for five or more years and in return he will receive benefits on monthly basis. Benefits start right from the first month of opening an account under the scheme and continue up to five or more years.

4) DBDS (Double Benefit Deposit Scheme)

Under this scheme, depositor's money will be doubled in 08-year period and the scheme is one of the highest yielding deposit schemes in Bangladesh.

5) SSS (Special Saving Scheme)

Under this scheme, depositor's money will be tripled in 11-year period. The main attraction of the scheme is that one can get his money after one year and onward with attractive benefits.

ii. SOD against Earnest Money

Contractors have to participate in tender for being awarded of the work. For getting better probability, contractors usually participate in various names in the tender. Bank makes finance to the participating contractors for acquiring the works. If a contractor wish to participate in 10(ten) works. Bank receives the value of 1 (one) earnest money and finance the rest 9(nine) earnest money. Bank also keeps certain percentage of margin for adjustment of the interest amount no collateral security is required for this finance.

Interest Rate: 17.5%

iii. SOD Work Order

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

l) Car Loan

Car loan is a kind of consumer credit scheme. But the maximum limit on this specified type is different from others. The maximum limit is higher than other types of consumer credit scheme.

Eligibility: This is one kind of consumer credit scheme. So the qualification should be the same as required for consumer credit scheme.

Interest Rate: 16%

m) Lease Finance

This scheme has been designed to assist and encourage the genuine and capable entrepreneurs and professionals for acquiring capital machineries, medical equipment, computers and other items which may help them to be economically self-reliance.

Eligibility: Help the entrepreneurs to buy Capital Machinery, Medical Equipment, Automobiles, Lift and Generator etc.

Interest Rate: 17 %

Financing Area

- ❖ Capital machinery.
- ❖ Different equipments.
- ❖ Gas, Diesel generator and Power plant.
- ❖ Medical equipments.
- ❖ Lift or elevator.
- ❖ Information technology equipments.
- ❖ Construction equipments.
- ❖ Consumer durables.

Benefits

- ❖ Competitive monthly rental.
- ❖ Tax benefit.
- ❖ Fast processing.
- ❖ Easy handover after leasing period

n) Micro Credit

The credit program that promotes small credit to the poor people for creating self-employment with a view to alleviating their poverty and attaining sustainable development is referred here as micro-credit program. It is especially related to micro level development. But NBL thinks about

micro-credit in different way. They are providing micro-credit facilities (mainly) among the mid level people. NBL has some strong reason behind it. Their main objective for providing micro-credit program in banking sector are given below-

To small entrepreneurs for developing his business,

- ❖ Newly established doctors-for better treatment in the society,
- ❖ Purchase household equipment's- for leading comfort life and fulfill the hope of humanity,
- ❖ Rural development.
- ❖ Increase self-employment.

o) SME Loan

There are times when businesses need capital and small businesses are not external to this. One option they have to raise this is small business loans assisted by SBA. In fact the capital necessities start from the concept stage itself. NBL offers financial support to small businessmen/enterprise with new products named "Festival Small Business Loan" and "NBL Small Business Loan" has been introduced in the Bank.

Benefits

- Maximum Tk.3.00 lac (Festival Scheme) and Maximum Tk.5.00 lac (Small Business Scheme)
- 3 Months (Festival Scheme) and 5 years (including 1 month grace period (Small Business Scheme))
- Collateral Free Advance.

Eligibility: Any genuine and small businessmen/ entrepreneurs/enterprise having honesty, sincerity, and integrity.

p) Consumer Credit Scheme (CCS)

Consumer credit is a relatively new field of micro-credit activities; people with limited income can avail of this credit facility to buy any household effects including car, computer and other commercial durable National Bank Limited plays a vital role in extending the consumer credit.

Eligibility: The borrower must be confirmed official of any of the following organization-

- ❖ Government Organization

- ❖ Semi-Government Organization
- ❖ Multinational Organization
- ❖ Bank and Insurance companies
- ❖ Reputed Commercial Organization
- ❖ Professionals

Interest Rate: 16%

Terms and Conditions

- ❖ Creditor will procure the specified goods from the dealer / agent / shop(s) acceptable to the bank.
- ❖ All the papers/ cash memos etc. related to the procurement of the goods will be in the name of the ensuring ownership of the goods. The ownership shall be transferred in the name of the client after full adjustment of bank's dyes.
- ❖ The client shall have to bear all the expenses of license, registration and insurance etc. of the articles wherever necessary.
- ❖ The client shall have to bear all the cost of repair and maintenance of the acquired articles.

q) Letter of Credit

Opening or issuing letter of credit is one of the important services provided by NBL. A letter of credit is a document authorizing a bank to pay the bearer a specified sum of money; it provides a useful means of settlement for a foreign trade transaction, the purchase establishing a credit in favor of his credit at a bank. Letters of credit are of two types:

- ❖ Traveler's letter of credit issued for the convenience of the traveling public and
- ❖ Letter of commercial credit issued for the purpose of facilitating trade transaction.

Eligibility: Letter of Credit facilities are given to exporter/manufacturer/producer and importer for exportation and importation of good.

Interest Rate: 17.5%

Terms and Conditions

- ❖ It should stipulate the name of the loan.

- ❖ It should bear the name of the designated bank.
- ❖ Items mentioned in LCA form must contain with the permissible items.
- ❖ The bank officer periodically inspect the goods and verify that they conform the top quality and quantity etc. as mentioned in the particular letter of credit.
- ❖ In case of first class customer , the facility may, however , be granted against firm's contracts with overseas buy

Chapter Four

Credit Operation of National Bank Ltd.

4.1 Credit Principles of NBL

To achieve goal for maximizing the stockholders value and protect the interest of the depositors as well improve the quality of the bank's assets NBL follows credit principles:

- ❖ Assessment of the customer's character, integrity, willingness to repay will form basis of lending.
- ❖ Customers having capacity and ability to repay shall only be lent.
- ❖ Possibility of default will be worked out before lending.
- ❖ Credit will be extended in the areas risks of which can be sufficiently understood and managed.
- ❖ Independent Credit participation in the credit process shall be ensured.
- ❖ Ethical behavior in all credit activities shall be ensured.
- ❖ Be proactive in identifying, managing and communicating credit risk.
- ❖ Risk and reward to be optimized.
- ❖ Diversification credit portfolio to be built and maintain.
- ❖ All credit extension must comply with the requirement of banking companies' Act 1991 and amendments thereof from time to time.

4.2 Sound Principles of lending

Sound principle of lending is obvious to avoid loan default tendency and risk elements to safeguard of public money as well as business of a bank. So, there must be a principle of advance and efforts should be made to make it a sound one for which in depth study must be made on the following points by this bank.

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

- a) **Safety of Fund:** Safety means the assurance of repayment of distributed loans. This depends mainly on integrity, business behavior, reputation, past experience in the

particular line of business, financial solvency, quantum of own equity in business, capability to run business efficiently, capacity and willingness to repay the loan etc. of the loan.

- b) **Security:** It must be ensured that repayment of the loan is secured and for this purpose manager must retain security against loan to fall back upon in case of borrower's default. The securities must possess required basic qualities such as possession, title deed, parches etc.
- c) **Liquidity:** The borrower should have liquid assets so that he can adjust liability on demand and as much as possible loan itself should be quasi liquid so that it can be realized on demand in case of need.
- d) **Purpose:** Purpose of a loan should be production, development and economic benefit oriented.
- e) **Profitability:** This is applicable both for bank and the borrower.
- f) **Diversification:** Diversification means to distribute the loan to a large number of borrowers rather to a small number of borrowers. This will increase the services of the bank and it will reduce the risk of loan recovery.
- g) **National Interest:** Nothing can be done legally if it jeopardizes national interest in any way.
- h) **Credit restriction imposed by Central Bank:** At the time of sanctioning loan, the commercial banks must have to follow the restrictions that are imposed by Bangladesh Bank from time to time.

4.3 Tools for Appraisal Credit

In formulating a credit judgment and making Quality Credit Decisions, the lending officer must be equipped with all information needed to evaluate a borrower's character, management competence and capacity, ability to prove collaterals and external conditions which may affect his/her ability in meeting financial obligations.

✓ **Capital**

The evaluation of the applicant's capital refers to an analysis of the applicant firm's financial position. What are the applicant firm's financial strengths and weaknesses?

To assess the capital denomination, the credit analyst considers the data obtained from the applicant's financial statements. The usual procedure is to perform an extensive ratio analysis, comparing the applicant's financial ratios to ratios for the applicant's industry and performing trend analysis of the applicant's ratios over time.

✓ **Character**

In assessing character, the credit analyst considers all the information that relates to willingness to pay by the applicant's management. What is the applicant's history of payments to the trade? Has the firm defaulted to other trade suppliers? Does the applicant's management made a good-faith effort honor debts as they come due? Information in these areas assists the analyst's assessment of the applicant's character.

✓ **Collateral**

If the applicant experiences financial difficulty, it may be forced to liquidate. In such a situation, the recoveries to trade creditors will depend on-

- The recoveries on assets sold
- The amount of debt owned by the firm
- The extent to which these debts are secured

If the firm liquidates, the recoveries on assets that are security for debt will go to the holders of that secured debt. That is the secured creditors get paid first from the revenues of selling the assets that have been granted to them as security. Since, in general, it is very difficult for trade creditors to obtain secured positions, this means that the recoveries to trade creditors are significantly lower when the applicant has financed by using secured borrowings. Information on secured borrowing is gleaned from the applicant's financial statements, from the applicant's bank, from credit reports on the applicant, or directly from conversations with the applicant.

✓ **Capacity**

This dimension has two aspects-

- Managements capacity to run the business
- The applicant firm's plant capacity

Management's capacity to run the business relates to the competency of the management personnel in the applicant's operation. Any information relevant to this capacity is assessed, including personal impressions, the history of success or failure by the managers running the applicant's business, the number of years the applicant has been in business, and so forth. The better is management's capacity to run the firm; the lower is the chance of default.

Physical capacity refers to the value and technology of the applicant's production or service facilities. The more up-to-date and well maintained are the applicant's facilities, the more likely that the applicant will be able to stay in business and to take advantages of business upturns

✓ **Conditions**

These are the economic conditions in the applicant's industry and in the economy in general. If there is a good deal of foreign and domestic competition in the applicant's industry, the possibility of failure and default to trade creditor is larger, since profit margins are likely to be lower. If the economy in general is passing a recession, failure are more likely to occur than during an expansionary period.

4.4 Credit policy

The bank should have established credit policies containing:

- 1) Lending guidelines
- 2) Credit assessment process and
- 3) Approval authority

4.4.1 Lending guidelines

Lending guidelines should clearly outline the senior management's view of business development priorities and the term and condition that should be followed for loans to be approved. The lending guidelines should provide the key foundations to formulate recommendations for loan approval and should include the following:

- ❖ Industry and business segment focus
- ❖ Types of loan facilities
- ❖ Singles borrower/group exposure limit
- ❖ Lending caps for a specific sector
- ❖ Discouraged business types
- ❖ Loan facility parameter (e.g. maximum size, maximum tenor, security requirement).

4.4.2 Credit Assessment

Before extension of loans, a comprehensive credit risk appraisal is done and annual reviews are made. A credit memorandum (CM) is prepared by the Relationship Manager (RM) which includes the findings of such assessment. The RM used to be the owner of the customer relationship and he / she is held responsible for complying with all the policies and guidelines of Bangladesh bank, bank laws, NBL policies and guidelines etc.

The credit assessment procedure can be segregated into two segments:

- ❖ Call report
- ❖ Credit Memorandum

1) Call report

At the time inception of a relationship, the relationship manager tries to gather more and more information about the client. He / she sometimes visit the business premises to get an idea about the financial and operational condition of the prospective client. The market reputation, competitive position etc. are also duly assessed. Branch manager along with the relationship manager is also connected in this process. These initial visits or enquiries are referred to as 'calls'. Based on the findings of such calls, RM and the branch manager send a call report to the Head of Marketing, Head of Credit and Managing Director for initial review.

The call report contains some basic information about the client such as:

- a. Client's background
- b. Business
- c. Market share
- d. Reliability
- e. Credit exposure
- f. Existing banking relationships
- g. Credit requirements
- h. Pricing of the proposed credit facility

2) Credit Memorandum (CM)

If the Head Office conveys positive sign for a call report, then only the branch RM goes for preparing a CM. The preparation of CM includes the in-depth analysis of credit risk factors, critical assessment of the client in the light of credit policy guidelines of the bank. Then it is sent to the Head of Marketing to enclose the necessary recommendations and to commence the credit

approval process. The CM has to be accompanied with all the required legal documents and the financial information of the prospective client.

The CM generally contains the followings:

- a) A specific control number and base number for each client.
- b) The credit risk grading score.
- c) The authorization for the approval process.
- d) The description of the proposed facility.
- e) Rationale behind the loan extension.
- f) Financial information of the client mainly the income statements for the past years, earnings forecasts in normal and adverse conditions.
- g) Forecasted earnings from the relationship to be established.
- h) Lending agreement.
- i) Compliance of the policies and guidelines of Bangladesh Bank and NBL.

The CM also contains the assessment of the following areas:

❖ **Borrower analysis**

The majority shareholders, management team and group or affiliate companies are assessed. Any issues regarding lack of management depth, complicated ownership structures or intergroup transactions are addressed, and risks mitigated.

❖ **Industry Analysis**

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

❖ **Supplier/Buyer Analysis**

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

❖ **Historical Financial Analysis**

An analysis of a minimum of 3 years historical financial statements of the borrower is presented. Where reliance is placed on a corporate guarantor, guarantor financial statements are also analyzed. The analysis addresses the quality and sustainability of earnings, cash flow and the

strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability are analyzed.

❖ **Projected Financial Performance**

Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance is provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans are not granted if projected cash flow is insufficient to repay debts.

❖ **Account Conduct**

For existing borrowers, the historic performances in meeting repayment obligations (trade payments, interest and principal payments, etc) are assessed.

❖ **Adherence to Lending Guidelines**

Credit Applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of Credit or Managing Director/CEO approve Credit Memorandum that does not adhere to the bank's Lending Guidelines.

❖ **Mitigating Factors**

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

❖ **Loan Structure**

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

❖ **Security**

A current valuation of collateral is obtained and the quality and priority of security being proposed are assessed. Loans are not granted based solely on security. Adequacy and the extent of the insurance coverage are also assessed.

4.5 Credit Risk Grading

Credit Risk Grading is an important tool for credit risk management as it helps a Bank to understand various dimensions of risk involved in different credit transactions. According to Bangladesh Bank guidelines, all Banks should adopt a credit risk grading system.

The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage. At the pre-sanction stage, credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the pricing for a particular exposure, what should be the extent of exposure, what should be the appropriate credit facility and the various risk mitigation tools. At the post-sanction stage, the bank can decide about the depth of the review or renewal, frequency of review, periodicity of the grading, and other precautions to be taken. The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure.

4.6 Credit (Loan & Advance) Approval process of National Bank Ltd.

NBL conducts its banking operation under branch banking system. Credit proposals are generally originated at branch. However may also be received at Head Office for syndication and from big clients, Financial Institutions.

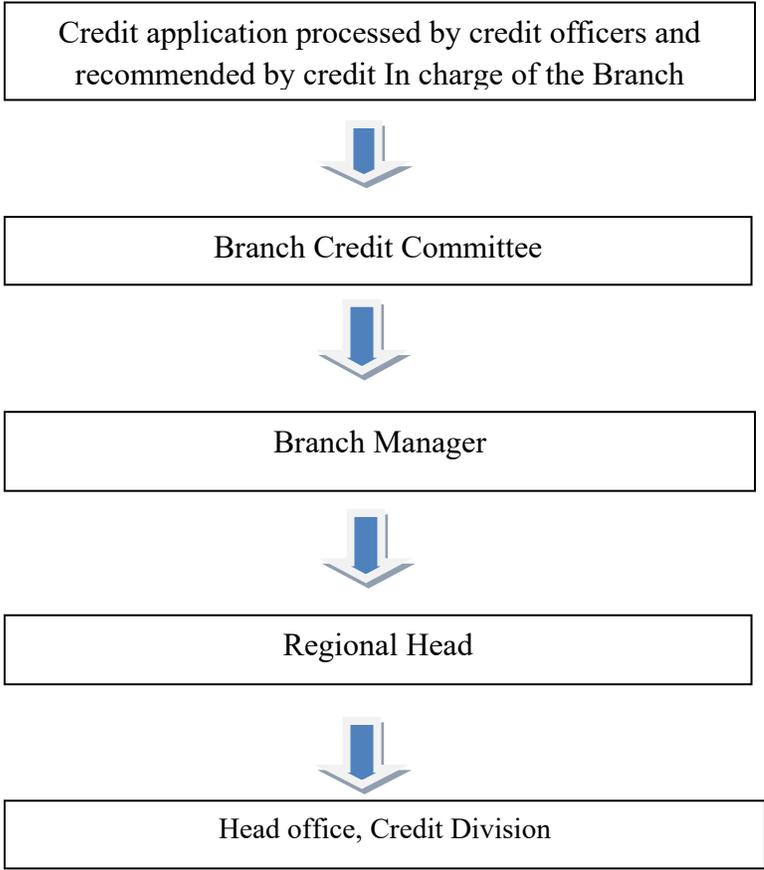
At the branch level, the credit officers/executives along with Branch Manager ensure sufficiency and consistency of the documents after obtaining credit applications. They will originate credit proposals, prepare detailed credit memorandum after undertaking a thorough credit check. Branch credit committee after thoroughly & critically examining the proposal will recommend to Branch Manager. When the proposal falls beyond the power of the Branch manager then it will be sent to Regional Manager. When the proposal falls beyond Regional Manager's power then it will be sent to Head Office Credit Division. Divisional Head, Credit will get credit and risk assessed by credit officials. The proposal being found acceptable will be placed to Head Office credit committee if the proposal falls under delegated authority of the management. If a proposal does not meet the basic lending criteria as per CRM guidelines and banking norms, it will be declined and Credit Operations Division will inform the decision to the branch accordingly.

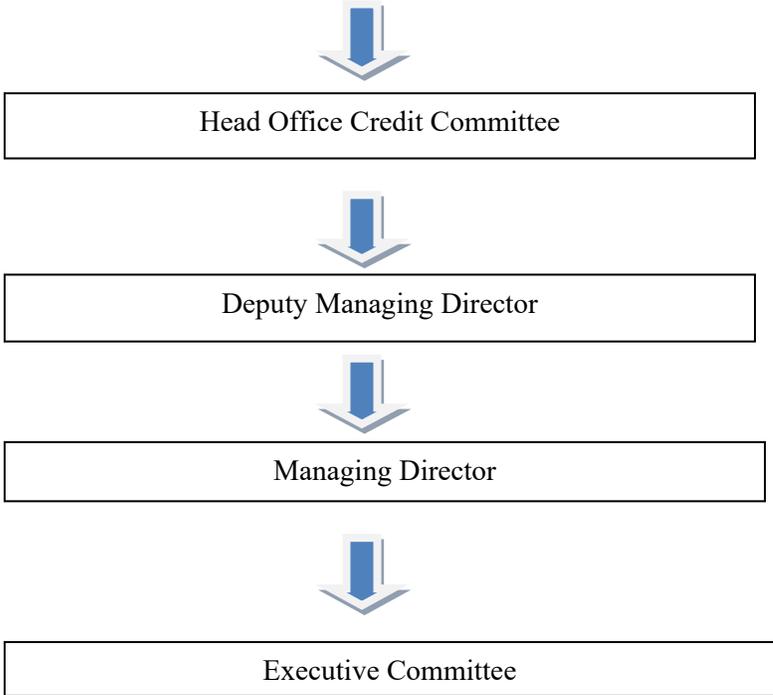
Mandatory Checking for Credit (Loan & Advance) Approval:

NBL mandatorily checking the following rules before approving a loan.

- ❖ Proposed credit facilities are compliant of the existing banking regulations.
- ❖ CRG has been done.
- ❖ Other analysis and assessment has been done properly.
- ❖ Competent authority as per Bank’s policy approves facilities in writing.
- ❖ All credit approvals are given on a one –obligor basis.
- ❖ Limit is approved as per authority delegated in the rule book.
- ❖ Standard facilities are described using standard language.
- ❖ Large loan are approved within the ceiling advised by Bangladesh Bank.
- ❖ Approval authorities’ checks that pricing of the facilities are within the Bank’s declared band.
- ❖ Proposal incorporates that facilities are subject to banking regulation, which shall be mentioned in the sanction letter also.
- ❖ Fresh approvals, renewal, rescheduling, compromise agreement for large loan accounts are placed for approval by the Board as per Bangladesh Bank Guidelines.

Flow chart for approval Process of Loans and Advances:





Sources: CRM Policy Guideline

4.7 Credit Management

The credit risk management process of NBL has the function of consistent monitoring of the transactions within approved limits and recovering the bank's dues in time. The key responsibilities of the credit risk management process are as follows:

- a) Oversight of the bank’s credit policies, procedures and controls relating to all credit risks arising from corporate/commercial/institutional banking, personal banking, & treasury operations.
- b) Oversight of the bank’s asset quality.
- c) Directly manage all Substandard, Doubtful & Bad and Loss accounts to maximize
- d) Recovery and ensure that appropriate and timely loan loss provisions have been made.
- e) To approve (or decline), within delegated authority, Credit Applications recommended by RM. Where aggregate borrower exposure is in excess of approval limits, to provide recommendation to MD/CEO for approval.
- f) To provide advice/assistance regarding all credit matters to line management/RMs.
- g) To ensure that lending executives have adequate experience and/or training in order to carry out job duties effectively.

The credit management process of NBL includes the following operations:

- ❖ Loan Administration
- ❖ Credit Monitoring

4.8 Loan Administration

The main responsibilities performed by the loan administration department are as follows:

- a) To ensure that all security documentation complies with the terms of approval and is enforceable.
- b) To monitor insurance coverage to ensure appropriate coverage is in place over assets pledged as collateral, and is properly assigned to the bank.
- c) To control loan disbursements only after all terms and conditions of approval have been met, and all security documentation is in place.
- d) To maintain control over all security documentation.
- e) To monitor borrower's compliance with covenants and agreed terms and conditions, and general monitoring of account conduct/performance.

4.9 Documentation

Credit administration department ensures the following in connection with documentation:

All approvals and documents are in place.

- ❖ Documents are prepared in accordance with the approved terms and conditions and are legally enforceable
- ❖ Vetting of required documents is done.
- ❖ Protection of the bank's security interest.
- ❖ Any exception from the standard loan facility is duly authorized from the Head of Credit.

4.10 Disbursement

The loan administration department performs the following responsibilities in connection with the disbursement to ensure that:

- ❖ All standard security and charge documents are in place.
- ❖ Documentation check list has been prepared.
- ❖ Credit administration department has duly authorized the disbursement.
- ❖ Disbursement authorization form is documented as an evidence of document.
- ❖ A proper back up of all the documents is maintained in the computer system.

- ❖ Incomplete documentation has received temporary waiver from the authority.
- ❖ Pricing of the facility is appropriate.
- ❖ All disbursements / drawings are in the form of approved credit facility.
- ❖ Excess over limit are allowed under pre-fact approval.
- ❖ A clean updated CIB report is obtained before disbursement.
- ❖ The lending cap of the bank is duly maintained.

4.11 Credit Monitoring

To minimize credit losses, monitoring procedures and systems are in place that provides an early indication of the deteriorating financial health of a borrower. Credit monitoring process at NBL tries to monitor the following:

- ✓ Past due principal or interest payments, past due trade bills, account excesses, and breach of loan covenants
- ✓ Loan terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow-up.
- ✓ Timely corrective action is taken to address findings of any internal, external or regulator inspection/audit.

4.12 Loan Review Committee

The IT system of NBL produces overdue positions on 3 period's viz. 30 days, 60 days and 90 days and above. It also produces expired limits and excess over limits (EOLs). The loan MIS are duly distributed to branches, HOM, HOC, HOO, HOCA and MD. A designated loan admin officer follows up the position on a daily basis. Besides, the loan review committee of the bank formally follows up the overdue positions, expired limits and EOL with the branches on a monthly basis which is minute for taking actions at the earliest, before the account further deteriorates.

4.13 Early Alert Process

An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention by management. If these weaknesses are left uncorrected, they may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date with a likely prospect of being downgraded to CG 5 or

worse (Impaired status), within the next twelve months. Early identification, prompt reporting and proactive management of Early Alert Accounts are prime credit responsibilities of all Relationship Managers and must be undertaken on a continuous basis. An Early Alert report is completed by the RM and sent to the approving authority in CRM for any account that is showing signs of deterioration within seven days from the identification of weaknesses. The Risk Grade is updated as soon as possible.

4.14 Credit Recovery

Despite a prudent credit approval process, loans may still become troubled. Therefore, it is essential that early identification and prompt reporting of deteriorating credit signs be done to ensure swift action to protect the Bank's interest.

4.14.1 Recovery Procedures

It is the duty of the Bank to recover the landed fund within the stipulated time and if the borrower fails to repay the money within the pointed period Bank will declare him as a defaulter and recover the fund by selling the securities given by the borrower or by freezing his account or make a suit against him.

4.14.2 Strategies for recovery

Recovery of loan can be made in the following 3 methods.

- 1) Persuasive
- 2) Voluntarily
- 3) Legally

1. Persuasive recovery

If the borrower didn't paid the due amount of credit in time then the first step of bank is private communication with him. It creates a mental force on borrower to repay the credit amount. In this case bank can provide some advice to the borrower for repaying the credit.

2. Voluntarily recovery

In this method, some steps are followed for recovering credit. This are-

- Building Task Force
- Arranging seminar
- Credit rescheduling policy

- Waiver of interest rate

3. Legal recovery

If the above procedures fail to keep an account regular and the borrower does not pay the installments, then bank take necessary legal action against the borrower. In this case Bank sues in “**Artha Rin Adalat Law-2003**” that plays a vital role for collecting the credit.

Recovery procedure of United Commercial Bank Limited follows five procedural steps to recover the lending amount, which is joint effort of Bank and legal institutions, which are shown below:

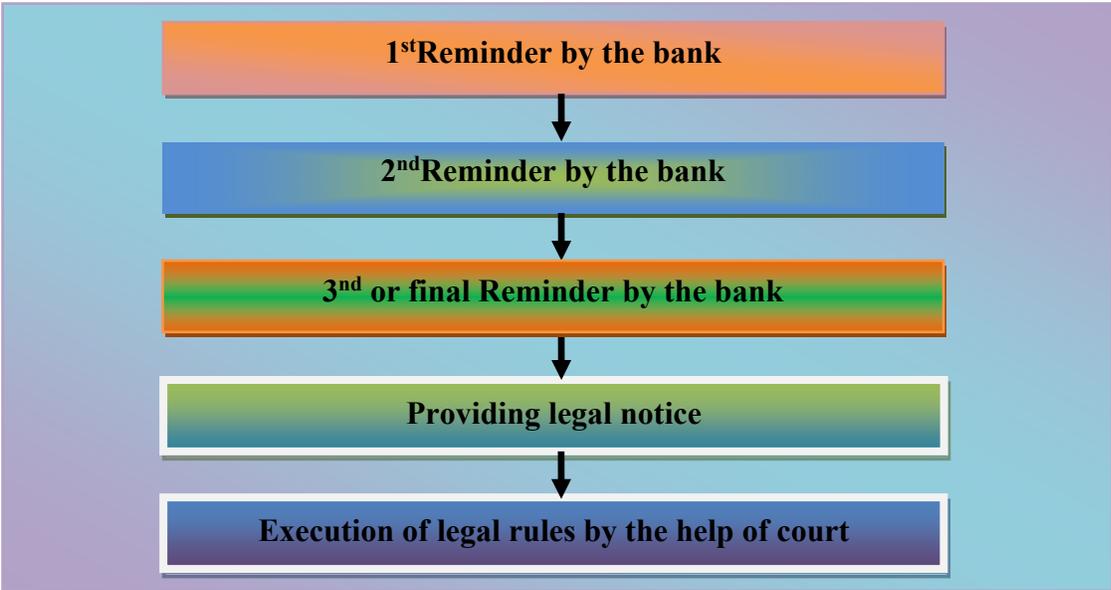


Figure-3.7.7.1: Recovery Procedure

Chapter Five

Analysis of Loan & Advances performance

5.1 Year wise Credit and Growth

Loan and advances are stated in the balance sheet on gross basis. Loan and advances are on the basis of their maturity/ repayment term.

| Year | Credit | Growth of credit in percentage |
|------|-------------|--------------------------------|
| 2005 | 27020.21 | 21.05% |
| 2006 | 32709.68 | 11.51% |
| 2007 | 36475.74 | 38.90% |
| 2008 | 50,665.07 | 43.89% |
| 2009 | 65,129.29 | 28.55% |
| 2010 | 92,003.56 | 41.26% |
| 2011 | 1,15,388.89 | 25.42% |
| 2012 | 1,26,169.79 | 9.34% |
| 2013 | 151098.98 | 19.76% |
| 2014 | 172964.72 | 14.47% |

Source: National Bank Ltd Annual Report (2010-2014)

The line chart of year wise credit and growth are given in the following

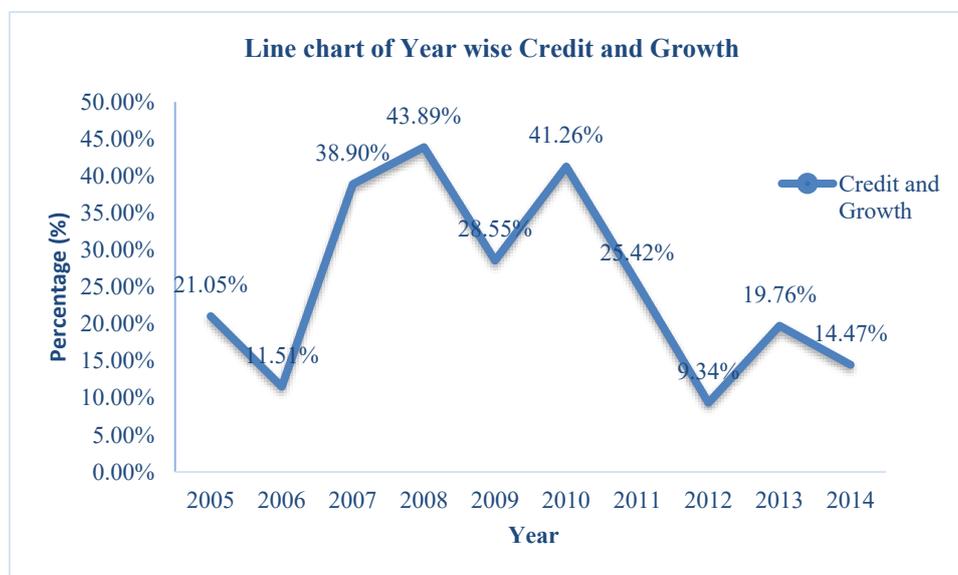


Figure 5.1: Line chart of year wise Credit and Growth

From the above figure it is evident that, the credit and growth percentage is fluctuated according to year from 2005 to 2014. We also seen the credit and growth percentage is increased from 11.51% to 43.89% in year 2006 to 2008 and decreased from 41.26% to 9.34% in year 2010 to 2012. Finally in current year credit and growth of National Bank Ltd is decreased compare to 2005 that is decreased from 21.05% to 14.47%. Because bank has taken lower of loan due to poor economy condition of the country.

5.2 Sector wise distribution of loan

National Bank Ltd. Distribute the loan on the basis of their credit policy. National Bank provides loan to the following area:

| Sector | Amount in Million | Sector wise loan portfolio |
|---------------------------------------|-------------------|----------------------------|
| Agriculture | 1811.28 | 1.05% |
| Term loan to small cottage industries | 507.37 | 0.29% |
| Term loan to large &medium industries | 32219.06 | 18.63% |
| Working capital industries | 36217.10 | 20.94% |
| Export credit | 10406.22 | 6.02% |
| Trade finance | 43751.89 | 25.30% |
| Consumer credit | 1.83 | 0.001% |
| Credit card | 1028.31 | 0.59% |
| Other | 47021.66 | 27.19% |

The pie chart of sector wise distribution of loan are given in following

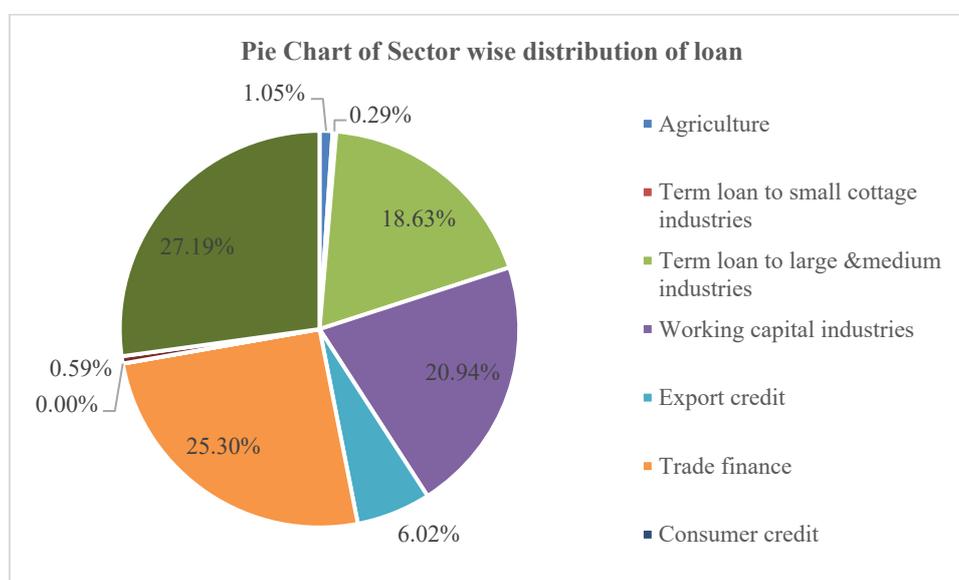


Figure 5.2: Pie Chart of Sector wise distribution of loan

National Bank is provides highest amount of loan 25.30% of their total loan amount in trade finance sector. They also provide 39.86% in industry (Term loan to small cottage industries, Term loan to large &medium industries, working capital industries), 6.02% Export credit, both 0.001% consumer credit, 0.59% credit card provide and other provide 27.70%in total loan amount. National Bank provide maximum portion of loan in their total loan amount in commercial sector because this sector earn profit rapidly so that it has low risk to default.

5.3 Geographical location wise credit distribution

The data of Geographical location wise credit distribution of National Bank ltd are:

| Division | Taka in million | Percentage |
|------------|-----------------|------------|
| Dhaka | 106202.08 | 61.40% |
| Chittagong | 48229.16 | 27.88% |
| Khulna | 4626.33 | 2.67% |
| Sylhet | 1048.31 | 0.60% |
| Rangpur | 2392.82 | 1.39% |
| Barisal | 1507.27 | 0.87% |
| Rajshahi | 8958.77 | 5.17% |

(Source: Annual Report 2014)

The pie chart of geographical location wise credit distribution are given the following

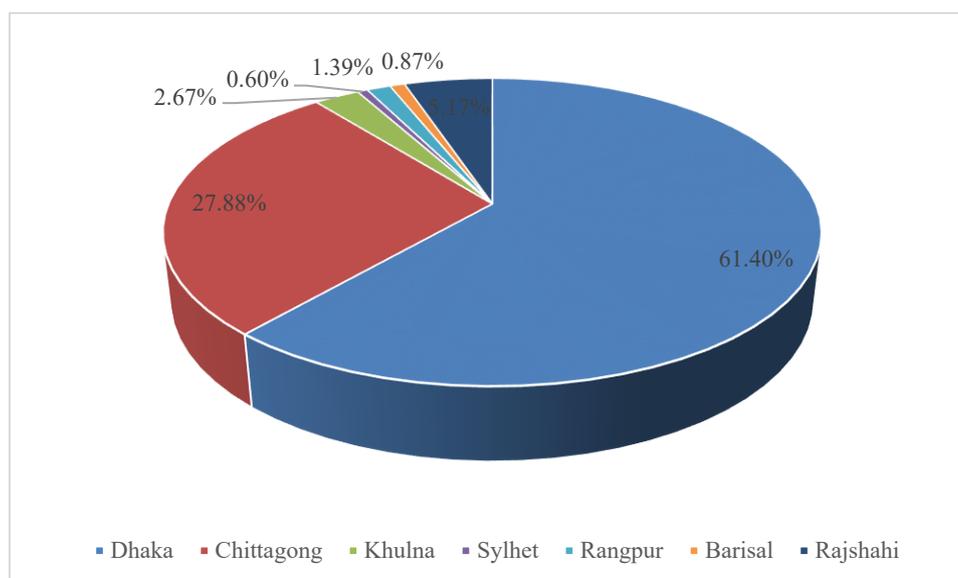


Figure 5.3: pie chart of geographical location wise credit distribution

From the above graph it has seen that NBL distribution a large portion of credit in Dhaka division. In Dhaka division the bank distribution near about 61.40%, where Chittagong

division is 27.88% and Rajshahi division is 5.17%. It has been viewed that only 2.67% of their geographical credit distribution goes to Khulna, Sylhet division is 0.60%, Rangpur division is 1.39% and Barisal division is 0.87%. Dhaka and Chittagong division are industrial area but most of the business and investment are centralized of Dhaka city and profitability high in the industrial area. The recovery rate of loan and advance from there areas is higher than other division.

5.4 Analysis of classified loan

Classified loan is categorized under following 03(three) categories

- ❖ Sub-standard
- ❖ Doubtful
- ❖ Bad & Loss

| Year | Classified loan (taka in millions) | Total loan(taka million) | % of classified loan as total loan |
|------|------------------------------------|--------------------------|------------------------------------|
| 2005 | 1910.32 | 27020.21 | 7.07% |
| 2006 | 1965.85 | 32709.68 | 6.01% |
| 2007 | 1652.35 | 36475.74 | 4.53% |
| 2008 | 2,730.85 | 50,665.07 | 5.39% |
| 2009 | 3,881.71 | 65,129.29 | 5.96% |
| 2010 | 3,643.30 | 92,002.56 | 3.96% |
| 2011 | 3,265.51 | 1,15,388.89 | 2.83% |
| 2012 | 5,430.53 | 1,26,169.79 | 4.32% |
| 2013 | 4895.60 | 151098.98 | 3.24% |
| 2014 | 14286.89 | 172964.72 | 5.26% |

Source: National Bank Ltd Annual Report (2014)

The line diagram of Analysis of classified loan are given the following

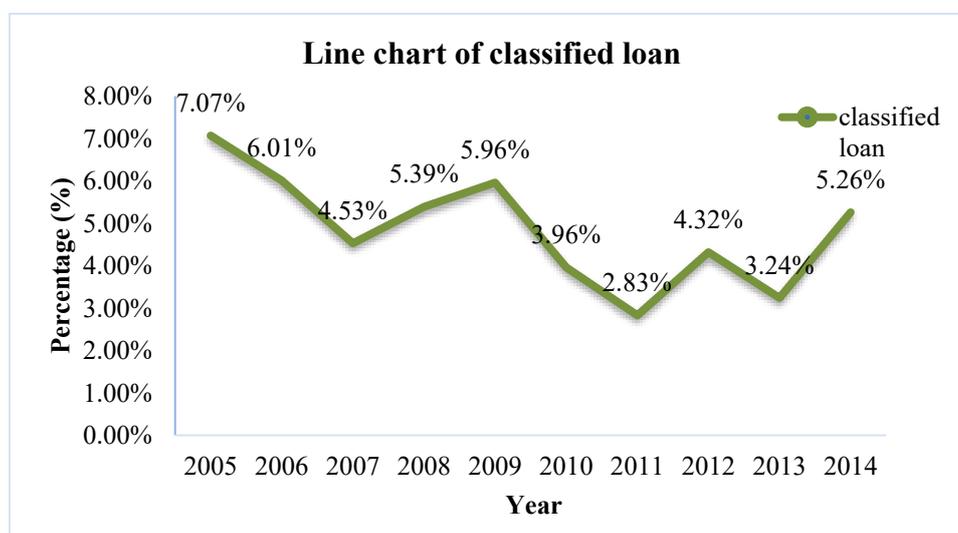


Figure 5.4: line diagram of Analysis of classified loan

From the above graph it has been seen that, percentage of classified loan fluctuated from the year 2005 to 2014. Classified loan is decreased from 7.07% to 4.53% in year 2005 to 2007 after this the loan increased up to 5.96% in 2009. We also observed that, the classified loan is also decreased from year 2009 to 2011. Finally in current year classified loan of National Bank Ltd is decreased compare to 2005 that is decreased from 7.07% to 5.26%. So Bank should try to give more concentration to reduce their classified loan, and to become more efficient in managing its classified loan.

5.5 Category Wise Loan Classification (for the most recent years)

Any classified loan will be categorized as

- ❖ ‘Sub-standard’ if it is past due/ overdue for 6 month or beyond but less than 9 month.
- ❖ ‘Doubtful’ if it is past due/ overdue for 9 months or beyond but less than 12 months.
- ❖ ‘Bad/Loss’ if it is past due/ overdue for 12 month or beyond.

| | 2013 | | 2014 | |
|-----------------|----------------------|---------------------------------|-----------------------|---------------------------------|
| Classified loan | Classified loan inTk | Classified loan as a % of total | Classified loan In Tk | Classified loan as a % of total |
| Sub-Standard | 1105598335 | 22.57% | 1577622000 | 17.33% |
| Doubtful | 339671000 | 6.9% | 855842000 | 9.4% |
| Bad/ Loss | 3453559739 | 70.49% | 6668997000 | 73.26% |

Source: National Bank Ltd Annual Report (20013-2014)

The pie chart of category wise loan classification (for the most recent years) are given in following

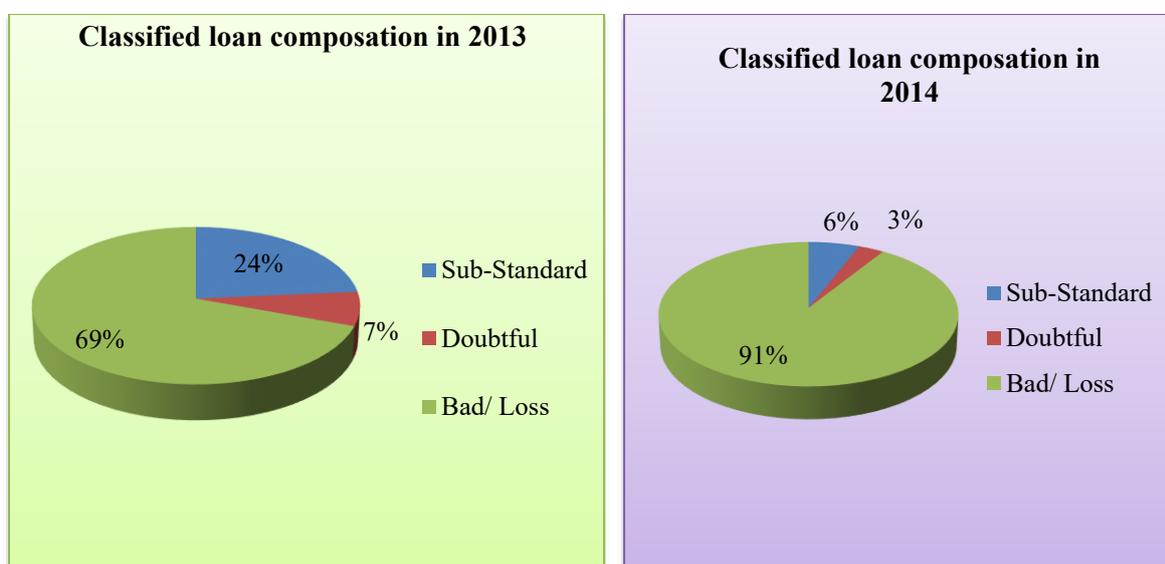


Figure-5.5: Classified loan Composition

From the above graph it is seen that, major portion of classified loan is bad and loss category. In 2013 their substandard is 24%, in 2014 it was decreased to 6%. Doubtful is decreased from 2013 to 2014. In 2013 doubtful is 7% but it decreased in 2014 to 3%. There was 69% and 91% of classified loan is bad/loss in 2013 and 2014 respectively. The bank should try to give more concentration to decrease their bad/loss, and to become more efficient in managing its classified loan.

5.6 Recovery in Percent:

The recovery rate of National Bank Ltd is shown below:

| Year | Recovery in Percent |
|------|---------------------|
| 2005 | 81.92% |
| 2006 | 81.06% |
| 2007 | 76.05% |
| 2008 | 84.18% |
| 2009 | 84.76% |
| 2010 | 89.78% |
| 2011 | 90.00% |
| 2012 | 80.19% |
| 2013 | 78.03% |
| 2014 | 85.08% |

Sources: Annual Report (2014)

The frequency polygons of Recovery in Percent are given in the following:

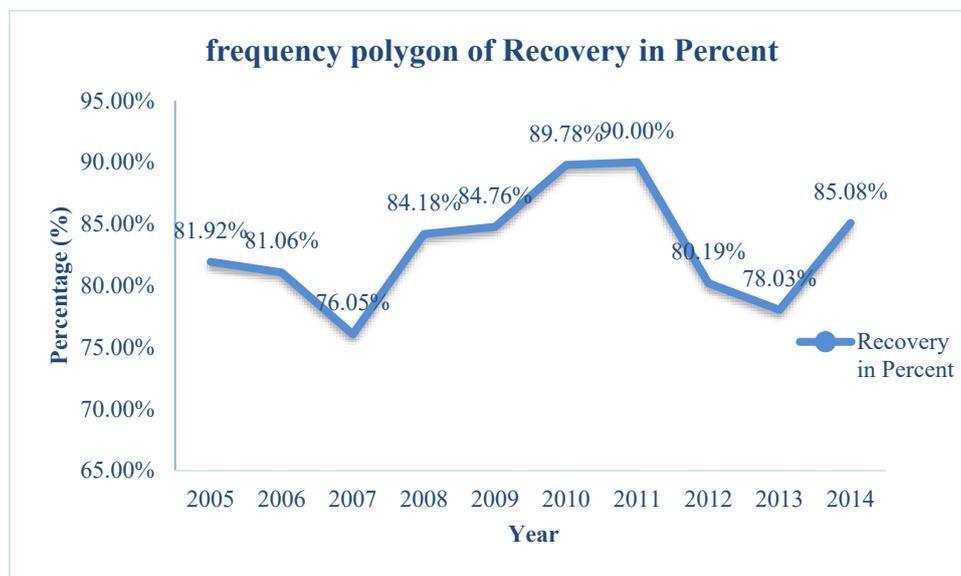


Figure 5.6: scatter diagram of recovery

From the figure it has seen that, in 2005 the recovery was 81.92%, 81.06% in 2006, 76.05% in 2007 that is decreased and then increased from 76.05% to 90% in year 2007 to 2011. However the National bank recovery rate is increased compare to 2005 in 2014 that is from 81.92% to 85.08%.

5.7 Income on loan and Advance & Total Income

| Year | Income on loan and Advance in million | Total income |
|------|---------------------------------------|--------------|
| 2005 | 2512.17 | 4202.52 |
| 2006 | 3674.32 | 5728.82 |
| 2007 | 4288.80 | 7182.63 |
| 2008 | 5,787.92 | 8918.17 |
| 2009 | 7,006.63 | 10982.12 |
| 2010 | 9,616.14 | 18669.58 |
| 2011 | 14,434.75 | 22255.19 |
| 2012 | 19103.18 | 26043.39 |
| 2013 | 18981.41 | 26957.78 |
| 2014 | 20621.01 | 29027.30 |

Source: Annual Report (2010-2014)

The frequency polygons of Income on loan and Advance & Total Income are given in the following

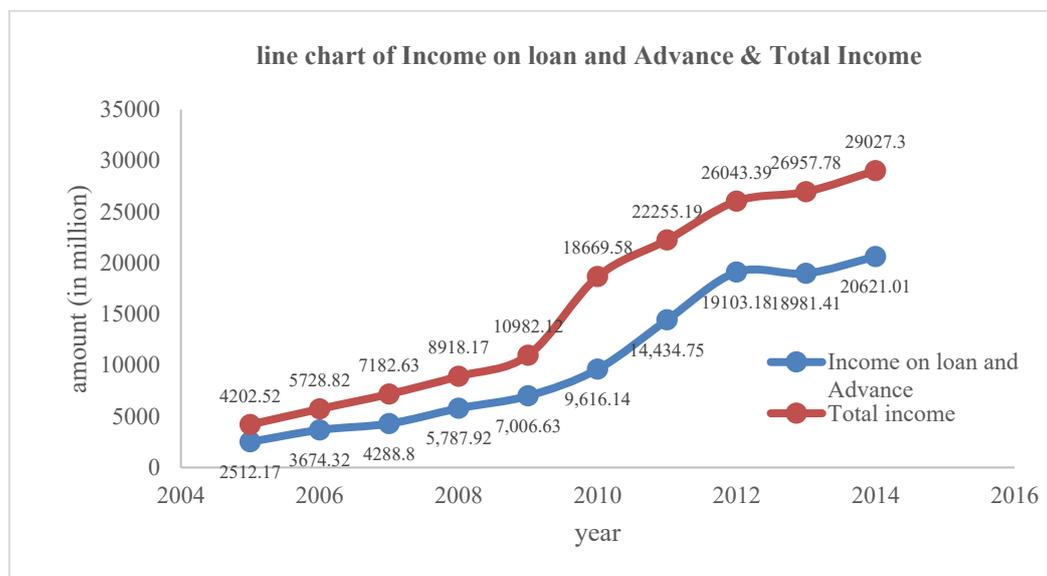


Figure-5.7: Income on loan and Advance & Total Income

From the above graph it has seen that, the income on loan and advance are increasing day by day. In 2005 it was 2512.17 million than it was increased in 2014 it was highest 20621.01

million.as will as total income increased day by day. It was increased 4202.52 to 29027.3. Finally both are increased from 2005 to 2014.

5.8 Contribution of loan and advance of total income

| Year | Percentage of loan and advance of total income |
|------|--|
| 2005 | 59.78% |
| 2006 | 64.14% |
| 2007 | 59.71% |
| 2008 | 64.90% |
| 2009 | 63.80% |
| 2010 | 51.50% |
| 2011 | 64.86% |
| 2012 | 73.35% |
| 2013 | 70.41% |
| 2014 | 71.04% |

Source: Annual Report (2010-2014)

The line chart of Contribution of loan and advance of total income are given in the following

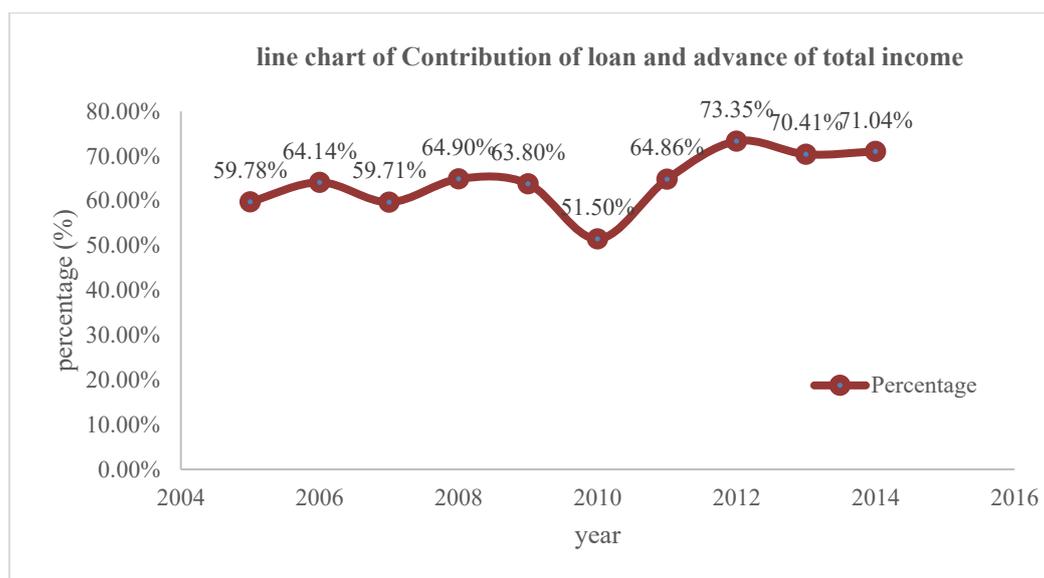


Figure-5.8: Contribution of loan and advance of total income

Loan and advance division is a heart of any bank. A big portion of income NBL earn from advance division. In 2005 the total income was 4202.52 million and income from loan was 59.78%, than it was increased year 2009 total income 10982.12 million and income from loan was 63.8. But it was again increased in 2013 it from 51.50% to 73.35% and again increased.

In the year 2014 it was contribute 20621.01 million the total income 29027.30 million for 71.04%.So NBL as well as the total income increased day by day.

5.7 Capital Adequacy Ratio

Capital adequacy ratio determines the capacity of the bank in terms of meeting the liabilities and other risk such as credit risk, operational risk etc.

| Year | Capital Adequacy Ratio |
|------|------------------------|
| 2005 | 10.45% |
| 2006 | 10.10% |
| 2007 | 13.11% |
| 2008 | 13.42% |
| 2009 | 8.61% |
| 2010 | 12.29% |
| 2011 | 12.65% |
| 2012 | 12.79% |
| 2013 | 11.69% |
| 2014 | 11.71% |

Source: Annual Report (2010-2014)

The frequency polygon of capital adequacy ratio are given in the following

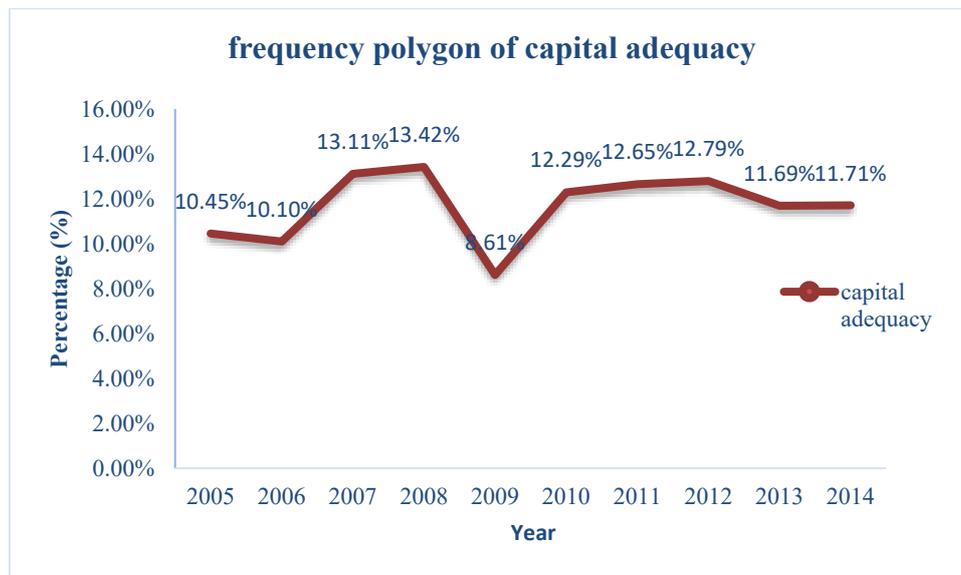


Figure 5.7: scatter diagram of capital adequacy ratio

Capital Adequacy ratio determines the capacity of the bank in terms of meeting the liabilities and other risk such as credit risk, operational risk etc. Generally, 10% acceptable line for this

ratio in that senses the bank is good enough to maintain this requirement .Because the last ten years 2005 to 2014 the ratio was above to the 10% but in the year 2009 the capital adequacy ratio was 8.61% which is below the 10%. That the bank's capacity to meet the liabilities and other risk such as credit risk, operational risk were satisfactory.

5.12 Questionnaire Analysis

5.12.1 Age and Income level of Respondents

| Opinions | No. of Respondents | Percentage |
|----------|--------------------|------------|
| 25-35 | 3 | 12% |
| 35-45 | 13 | 40% |
| 45-55 | 11 | 36% |
| 55+ | 9 | 12% |
| Total | 36 | 100% |

Interpretation: 40% of the respondent's age was between 35 to 45 years. 36% of the respondent's age was between 45 to 55 years. Between 25 to 35 and above 55 years old respondents were 12% respectively.

Income Level

| Opinions | No. of Respondents | Percentage |
|---------------|--------------------|------------|
| 10,000-24,999 | 4 | 12% |
| 25000-39,999 | 13 | 36% |
| 40,000-54,999 | 11 | 32% |
| 55,000+ | 8 | 24% |
| Total | 36 | 100% |

Interpretation: 12% respondent's income level is between 10,000 to 24,999. 36% respondent's income level is between 25,000 to 39,999. 32% respondent's income level is between 40,000 to 54,999. 24% respondent's income level is above 55,000 taka.

5.12.2 Satisfaction level of customers

NBL provide high quality banking service

| Opinions | No. of Respondents | Percentage |
|----------------|--------------------|------------|
| Strongly Agree | 4 | 12% |
| Agree | 16 | 44% |
| Neutral | 9 | 24% |

| | | |
|-------------------|----|------|
| Disagree | 7 | 20% |
| Strongly Disagree | 0 | 0% |
| Total | 36 | 100% |

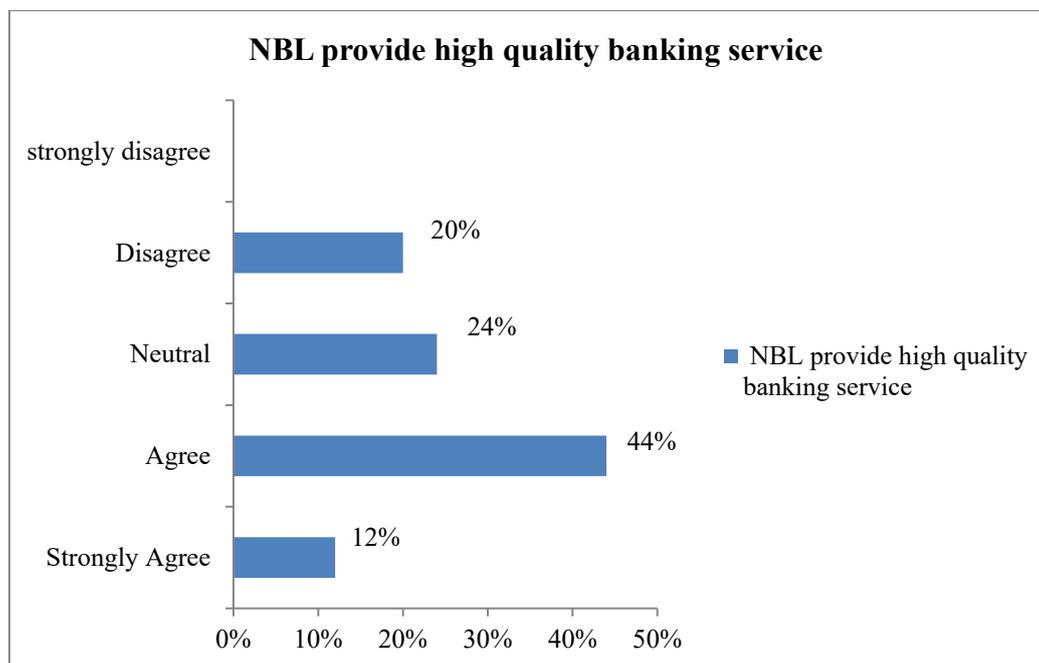


Fig 5.10 NBL provide high quality banking service

From the above graph it has seen that, 44% customers agree that NBL provide quality service, 24% customers are neutral, 20% customers are disagree, 12% customers are strongly agree and none of the customer are strongly disagree with the statement.

5.12.3 Easy on obtaining loans from NBL

Easy on obtaining loans

| Opinions | No. of Respondents | Percentage |
|-------------------|--------------------|------------|
| Strongly agree | 3 | 8% |
| Agree | 19 | 52% |
| Neutral | 9 | 24% |
| Disagree | 5 | 16% |
| Strongly disagree | 0 | 0% |
| Total | 36 | 100% |

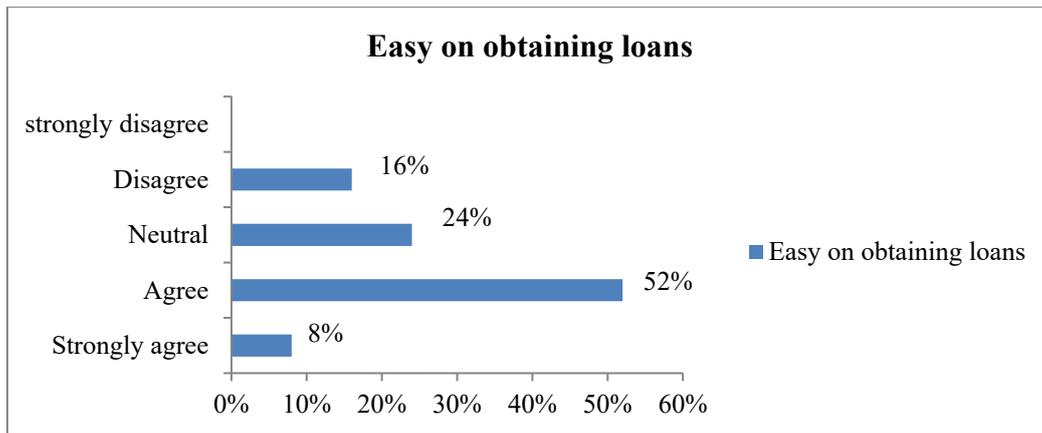


Figure: 5.11: Easy on obtaining loan

From the above graph it has seen that, 52% customers are agree with the statement, 24% was neutral, 8% strongly agree, 16 % customers disagree and none of the customer are strongly disagree with the statement.

5.12.4 Satisfaction level on the procedure of credit policy of NBL

Credit policy of NBL is easy to understand

| Opinions | No. of Respondents | Percentage |
|-------------------|--------------------|------------|
| Strongly Agree | 6 | 16% |
| Agree | 14 | 40% |
| Neutral | 7 | 20% |
| Disagree | 9 | 24% |
| Strongly disagree | 0 | 0% |
| Total | 36 | 100% |

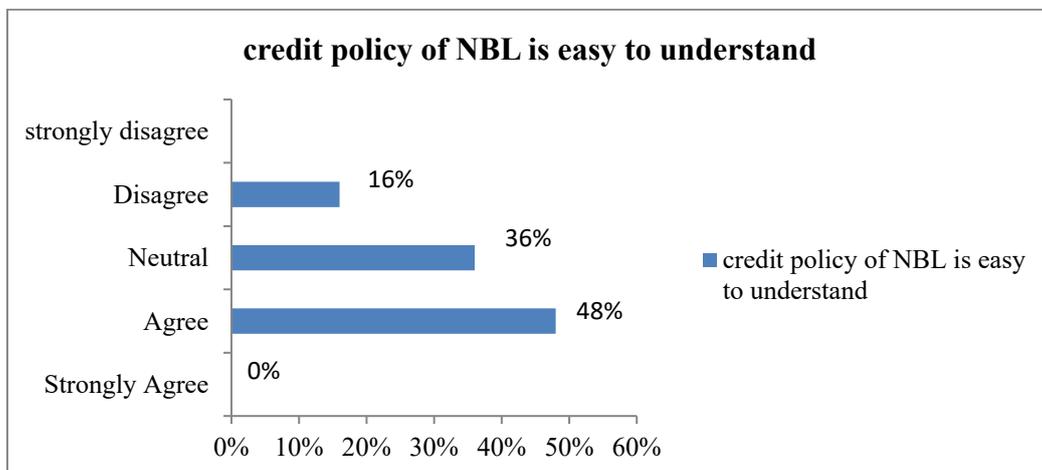


Fig 5.12: credit policy of NBL is easy to understand

From the above graph it has seen that, 48% customers said that credit policy of NBL is easy to understand. 36% customers are neutral, 0% strongly agrees, 16% disagree and none of the customer are strongly disagree with the statement.

5.12.5 NBL has a good satisfactory interest rate on loan

NBL has a good satisfactory interest rate on loan

| Opinions | No. of Respondents | Percentage |
|-------------------|--------------------|------------|
| Strongly Agree | 6 | 16% |
| Agree | 14 | 40% |
| Neutral | 7 | 20% |
| Disagree | 9 | 24% |
| Strongly disagree | 0 | 0% |
| Total | 36 | 100% |

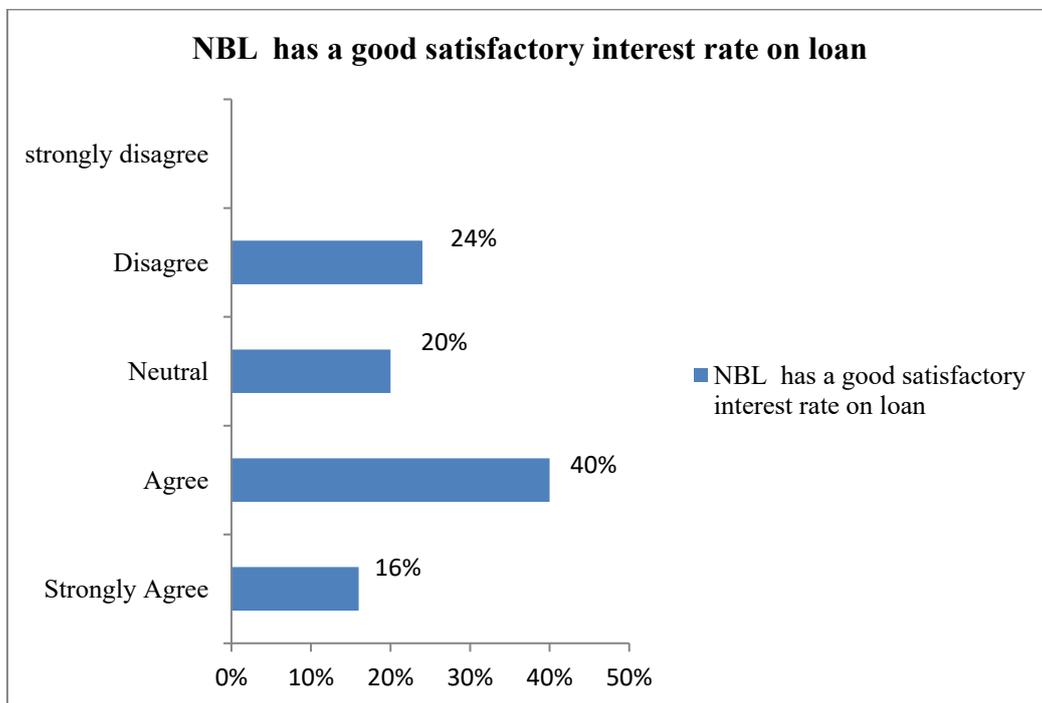


Fig 5.13: NBL has a good satisfactory interest rate on loan

From the above graph it has seen that, satisfactory level regarding interest rate is 40% and dissatisfactory level is 24%. They think interest rate is high and it should be reduced. 20% customers are neutral, 16% customers are strongly agreed with the statement and none of the customer is strongly disagree with the statement. These customers are NBL's regular and loyal customers.

5.12.6 NBL's loan processing fee is good

NBL loan processing fee is good

| Opinions | No. of Respondents | Percentage |
|-------------------|--------------------|------------|
| Strongly Agree | 1 | 4% |
| Agree | 17 | 48% |
| Neutral | 9 | 24% |
| Disagree | 9 | 24% |
| Strongly Disagree | 0 | 0% |
| Total | 36 | 100% |

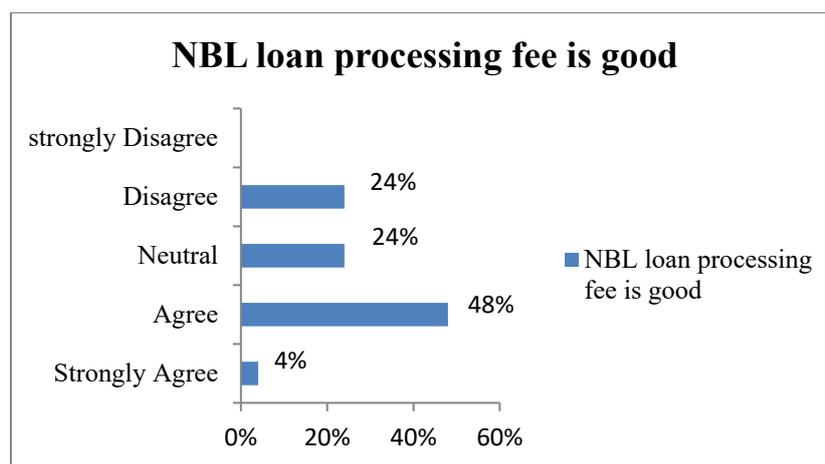


Fig 5.14: NBL loan processing fee is good

From the above graph it has seen that, 48% customers said that NBL's loan processing fee is good. 4% customers strongly agree, 24% are neutral and 24% customers disagree with the statement, none of the customers are strongly disagree with the statement.

5.12.7 Loan processing time is good

Loan processing time is good

| Opinions | No. of Respondents | Percentage |
|-------------------|--------------------|------------|
| Strongly Agree | 3 | 8% |
| Agree | 10 | 28% |
| Neutral | 7 | 20% |
| Disagree | 13 | 36% |
| Strongly Disagree | 3 | 8% |
| Total | 36 | 100% |

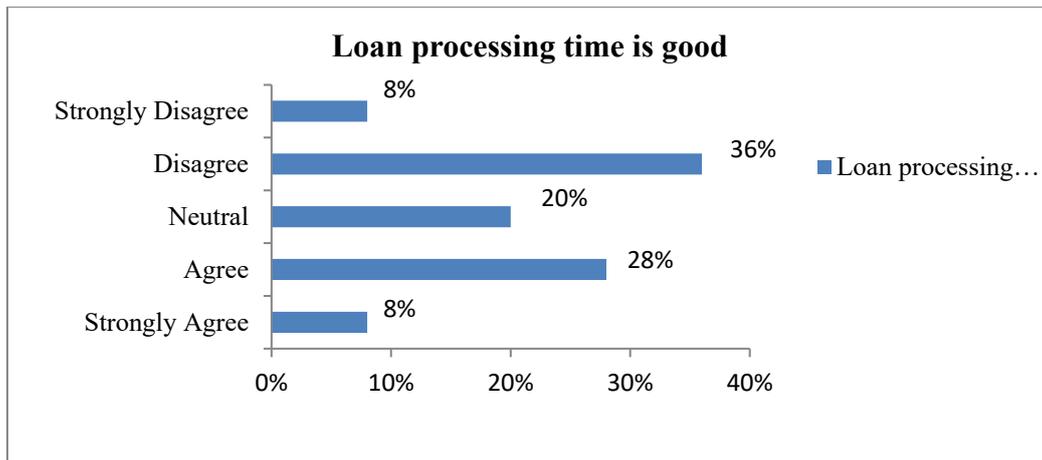


Fig 5.15: Loan processing time is good

From the above graph it has seen that, 28% customers said loan processing time is good.8% strongly agree, 20% are neutral. 36% disagree and 8% strongly disagree with the statement. For this reason customers may divert to other financial institutions.

5.12.8 Monthly installment amount is satisfactory

Monthly installment amount is satisfactory

| Opinions | No. of Respondents | Percentage |
|-------------------|--------------------|------------|
| Strongly Agree | 4 | 12% |
| Agree | 13 | 36% |
| Neutral | 7 | 20% |
| Disagree | 12 | 32% |
| Strongly Disagree | 0 | 0% |
| Total | 36 | 100% |

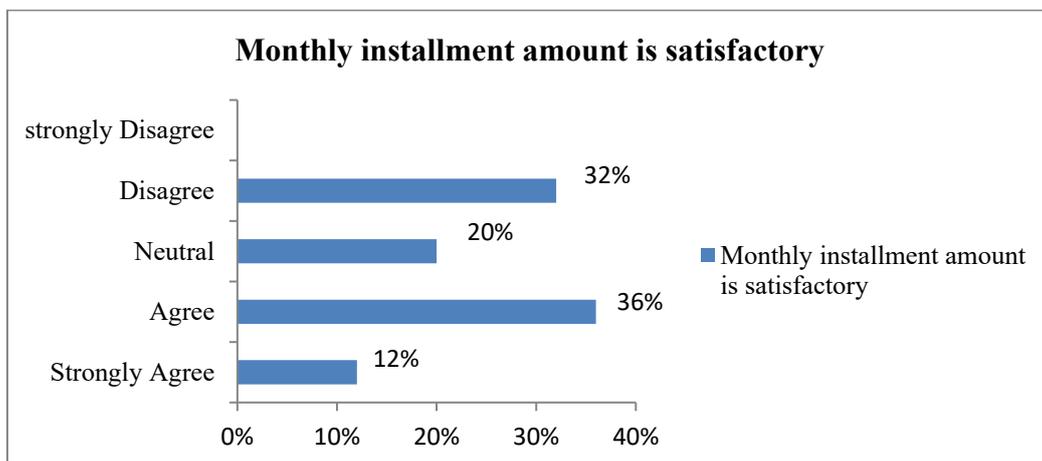


Fig 5.16: Monthly installment amount to you

From the above graph it has seen that, 36% customers agree that monthly installment amount is satisfactory for them. 12% strongly agree, 20% customers are neutral and 32% customers disagree with the statement, none of the customers are strongly disagree with Monthly installment amount.

5.12.9 Overall Credit department service is satisfactory

Overall Credit department service is satisfactory

| Opinions | No. of Respondents | Percentage |
|-------------------|--------------------|------------|
| Strongly Agree | 1 | 4% |
| Agree | 17 | 48% |
| Neutral | 9 | 24% |
| Disagree | 9 | 28% |
| Strongly Disagree | 0 | 0% |
| Total | 36 | 100% |

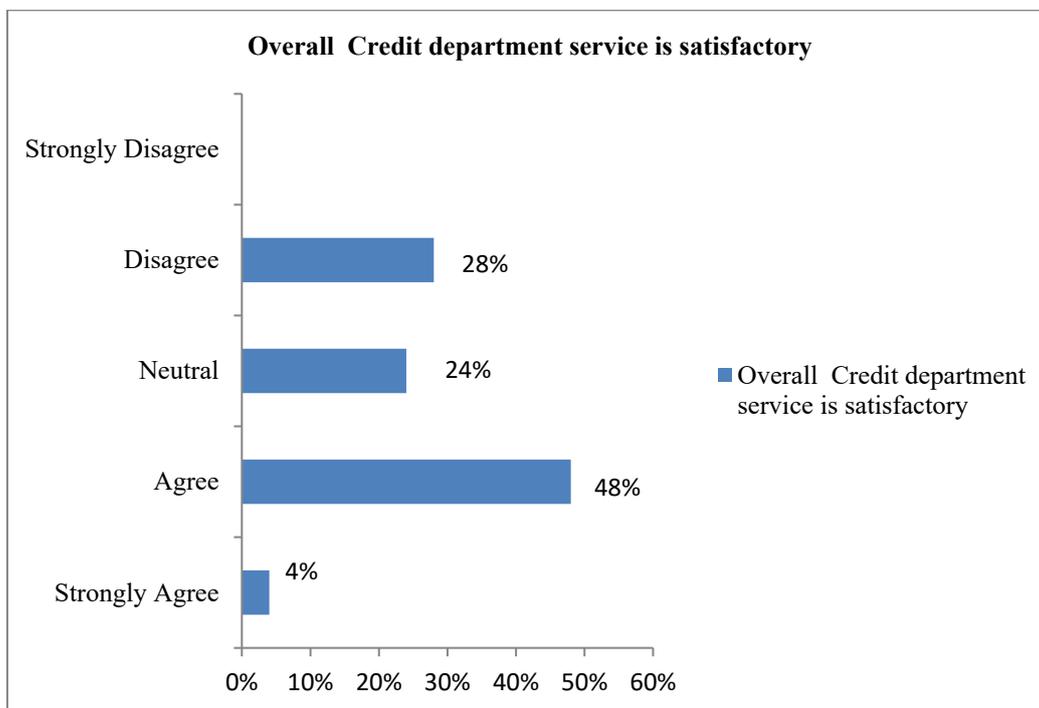


Fig 5.17: Overall Credit department service

From the above graph it has seen that, 48% customers said overall credit department service is satisfactory for them. 4% strongly agree 24% neutral and 28% customers disagree with the statement; none of the customers are strongly disagree of credit department service.

5.12.10 NBL is Different from other bank(s)**NBL is Different from other bank(s)**

| Opinions | No. of Respondents | Percentage |
|-------------------------|--------------------|------------|
| Low interest rate | 10 | 28% |
| Easy to obtain | 14 | 40% |
| Easy terms & conditions | 9 | 24% |
| Other | 3 | 8% |
| Total | 36 | 100% |

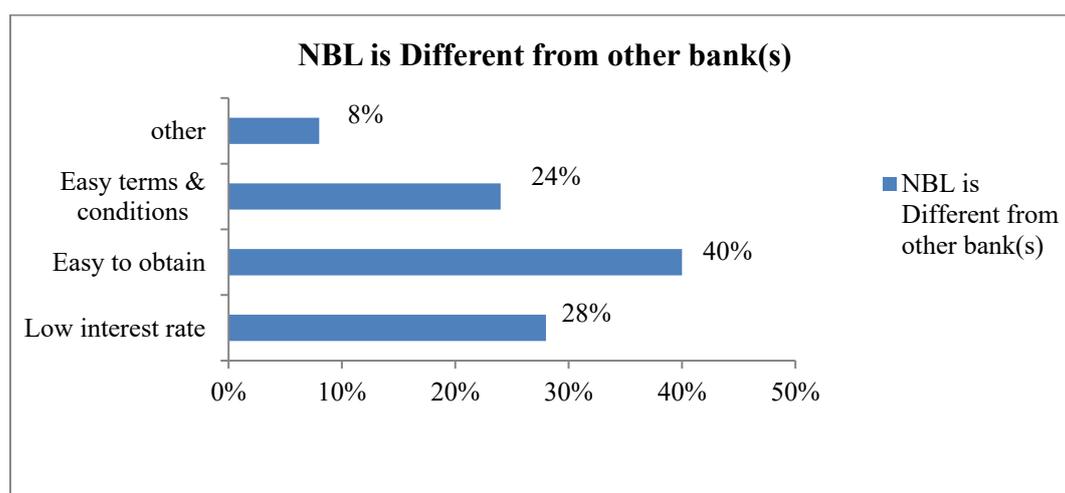


Fig 5.18: NBL is Different from other bank(s)

From the above graph it has seen that, 40% customers said that NBL is good for easy to obtain loan, 28% said interest rate is low, 24% said terms & conditions are easy and 8% said other reason.

5.12.11 In which area(s) do you think that they should take care of?**In which area(s) do you think that they should take care of?**

| Opinions | No. of Respondents | Percentage |
|----------------------|--------------------|------------|
| Interest rate | 11 | 28% |
| Installment Period | 6 | 16% |
| Service charge | 7 | 20% |
| Loan processing time | 12 | 32% |
| Total | 36 | 100% |

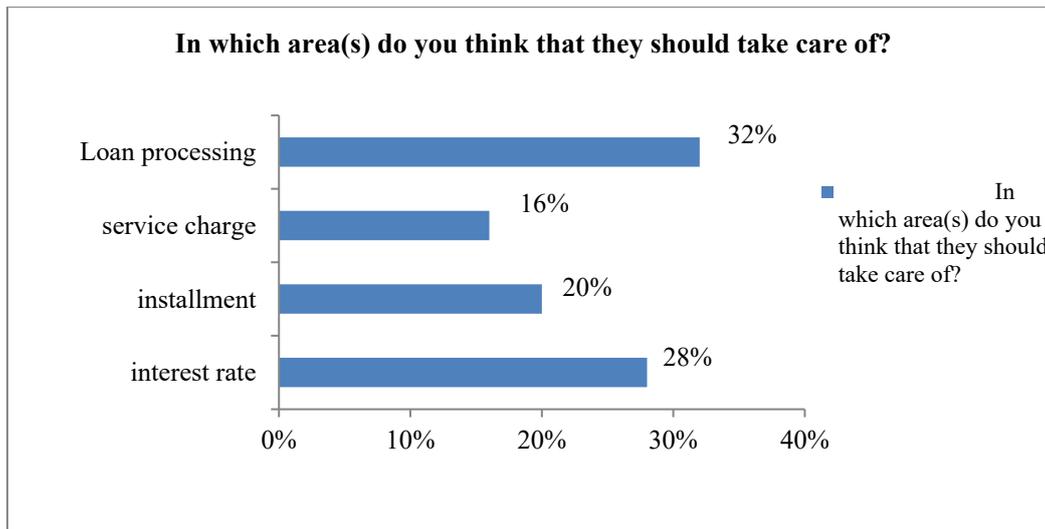


Fig 5.19: In which area(s) do you think that they should take care of?

From the above graph it has seen that, 32% customers think that NBL should reduce its loan processing time, 16% think that NBL should reduce its service charge, 20% think that NBL should adjust its installment period and 28% customers think that NBL should reduce its interest rate.

5.12.12 Will you come again for another loan?

Will you come again for another loan?

| Opinions | No. of Respondents | Percentage |
|----------|--------------------|------------|
| Yes | 7 | 20% |
| No | 4 | 12% |
| Not sure | 25 | 68% |
| Total | 36 | 100% |

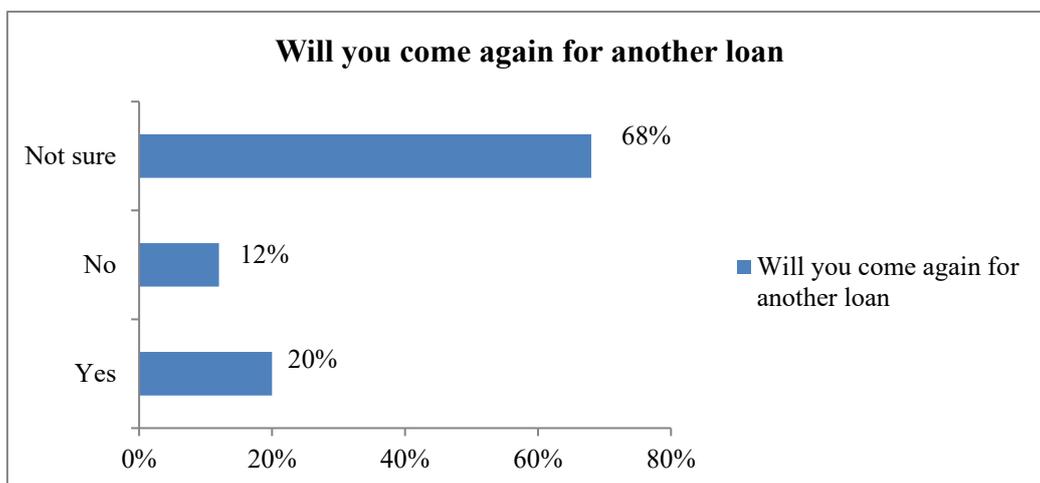


Fig 5.20: Will you come again for another loan

From the above graph it has seen that ,Only 20% customers has said they will come again for another loan, 68% said 'Not sure' and 12% said 'No'.

Chapter Six

Findings & Recommendation

6.1 Major Findings

It is difficult to say what are their findings due to time shortage of it was not possible to conduct field survey in different branches. So it may not be show actual performance of the whole bank it only show one individual branch performance. So my findings all are come from only Mirpur branch.

- ✚ In current year credit and growth of National Bank Ltd is decreased compare to 2005 because bank has taken lower of loan due to poor economy condition of the country.
- ✚ According to the lending guideline of Bangladesh bank every bank need to separate its credit to different sector. In my report it has been seen that National Bank LTD is giving 30.30% of credit in Trade Finance. The other sectors like agricultural, Industry and Transport are negated.
- ✚ In geographical wise loan and advance, NBL give much attention in Dhaka and Chittagong division. It did not attention in Sylhit and Barisal.
- ✚ The amount of classified loan in 2014 is 14286.89 million which is 5.26% of their total credit; in the year of 2005 the classified loan was 7.07% to its total credit. So it is a bad sign for bank and it indicating the bank is doing bad to recover the loan which also indicating that the bank is managing its credit risk ineffectively.
- ✚ In the classified loan the amount of “Bad & loss” was 69% in 2013, which was increased 91% in the year 2014. Doubtful loan decreased 7% in 2013 to 3% in 2014 and sub-standard loan decrease 24% to 6% in 2011 to 2012.
- ✚ It has seen that, in 2005 the recovery was 81.92%, 81.06% in 2006, and 76.05% in 2007 that is decreased and then increased from 76.05% to 90% in year 2007 to 2011. However the NBL recovery rate is increased compare to 2005 in 2014 that is from 81.92% to 85.08%.
- ✚ Capital adequacy ratio of national bank is good enough to maintain requirement and meet the liabilities and other risk such as credit risk, operational risk were satisfactory. From Questionnaire survey analysis it has been seen that 48% customers

said that credit policy of NBL's is easy to understand. 36% customers are neutral, 0% strongly agree and 16% disagree with the statement.

- ✚ 48% customers said that NBL's loan processing fee is good. 4% customers strongly agree, 24% are neutral and 24% customers disagree with the statement

- ✚ 36% customers agree loan processing time is lengthy. 8% strongly agree, 20% are neutral, 28% disagrees and 8% strongly disagree with the statement. For this reason customers may divert to other financial institutions.

- ✚ 48% customers said overall credit department service is satisfactory for them. 4% strongly agree, 24% neutral and 28% customers disagree with the statement.

6.2 Recommendations

National Bank Limited is a second generation private commercial bank in the country with commendable operating performance. Some recommendations regarding bank's betterment are described below. The recommendations given below are not decisions; rather they are only suggestions to improve the performance in order to fulfill the customer satisfaction so that clients give more preference to National Bank Limited. The recommendations are made on the basis of findings and analysis and these are:

Some recommendations that may help National Bank Ltd. to their credit performance-

- ✚ National Bank Ltd should remove complexity and reduce time to sanction loan. If they can remove complexity & reduce time, they will be able to disburse more loans.

- ✚ NBL does not provide enough loans in agriculture and consumer credit sector. In 2014 they provide 0.97% and 0.0021% of total loan and advance in this sector. They should give more concentration in this sector for development our country.

- ✚ For the geographical allocation it has seen that NBL give lose concentration at sylhet, Rangpur and Barishal but more concentration at Dhaka and Chittagong, the should give concentration at sylhet, Rangput and Baroshal division by providing enough fund so that create a balanced economy in the country.

- ✚ As the Classified loan of National Bank LTD was increasing trend in last year, so they should take necessary action for reducing the classified loan. Bank should carefully identify the lending source, it may help to reduce classified loan.

- ✚ As a bank earns its principal revenue from loan interests. It must follow the rules and regulation to make the repayment and the collection of interest more smoothly. Before

sanctioning any loan the officer must observe whether every aspects of principles of lending is filled and other things such as credit requirement, accountability, prepayment of loans, collections, insurance and other required fields are covered.

- ✚ In order to improve bank's financial position, banks have to invest in new area to preserve its market share and to penetrate new market share through diversification of its product range, such as: Educational loan, doctor's loan, CNG conversation loan, hospitalization loan etc.
- ✚ Though 48% customer said credit policy is easy to understand. After that bank should try to make the credit policy is more ease to understand to encourage the clients and should modify its process for making it appropriate.
- ✚ Loan processing time should be reduce by appointing experienced employees and trained up the existing employees.
- ✚ Service charge, loan installment amount and interest rate should be reduced as possible.
- ✚ Bank should try to improve their overall investment performance by taking all possible means.

6.3 Conclusions

Banks play a very vital role in the economic development of the country. The popularity of banks is increasing day by day which leads to increase competition as well. National Bank Limited has been trying to operate its business successfully since 1983. The bank has already developed good image and goodwill among its clients by offering excellent services. All the Commercial banks are offering almost the same products and services. But the way they provide the services are different from each other. So people choose their bank according to their satisfaction and need. On the other hand, Bank innovate new products and services to attract their desired customers. Consumer Credit Scheme & Credit Card are the new innovation of NBL. Within 29 years of its operation, the bank has grabbed a position in the banking sector. So we can say that overall performance of NBL is splendid in banking sector of Bangladesh. From the practical implementation of customer dealing procedure during the whole period of my practical orientation in National Bank Limited Bank I have reached a firm and concrete conclusion in a very confident way. I believe that my realization will be in

harmony with most of the banking thinkers. It is quite evident that to build up an effective and efficient banking system to the highest desire level computerized transaction is must. Success in the banking business largely depends on effective lending. Less the amount of loan losses, the more the income will be from credit operation s. the more the income from credit operations the more will be the profit of the National Bank Limited and here lays the success of credit financing.

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