Internship Report

on

"Analysis of Credit Risk Management at NCC Bank PLC"

Supervised by:

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Date of Submission: December 24, 2024

"Analysis of Credit Risk Management at NCC Bank PLC"

Letter of Transmittal

December 6, 2024

Professor Dr. Mostafa Kamal

Department of Business Administration

Faculty of Business & Entrepreneurship

Daffodil International University

Subject: Submission of Internship Report.

Sir,

I am pleased to submit my internship report titled **"Analysis of Credit Risk Management at NCC Bank PLC"** as part of my academic requirements. During my three-month internship, I gained a deep understanding of the bank's credit risk management practices and overall banking operations. This opportunity allowed me to apply theoretical knowledge to real-world scenarios by analyzing financial statements and observing daily banking activities.

I am very grateful to you for giving me the opportunity to work on this topic and for your support throughout the process. I have put in my best effort to complete the report and I hope the report meets your expectations and fulfills the requirements.

Sincerely,

Tahsin Bhuiyan

……………………......

Tahsin Usha Bhuiyan

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Supervisor's Certificate

This is to certify that the internship report titled "Analysis of Credit Risk Management at NCC Bank PLC" has been prepared by Tahsin Usha Bhuiyan as a requirement for the Bachelor of Business Administration (BBA) program at Daffodil International University.

The report was completed under my supervision and reflects the student's genuine effort and successful work.

…………………………………...

Professor Dr. Mostafa Kamal

Department of Business Administration

Faculty of Business and Entrepreneurship

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Declaration by the Student

I hereby declare that the report titled "Analysis of Credit Risk Management at NCC Bank PLC" has been prepared by me and has not been submitted to any other university, college, or organization for any academic qualification, certificate, degree, or recognition.

I also confirm that this work does not violate any copyright laws, and no part of the report has been copied from any book or previous work done for a degree or other purpose.

Additionally, I accept responsibility for any loss or damage that may arise from violating the above conditions.

Tahsin Bhuiyan
………………….................

Tahsin Usha Bhuiyan

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Acknowledgement

First of all, I want to thank the Almighty for giving me the strength and chance to finish my internship report. Without His blessings, this would not have been possible.

I am very grateful to my parents for their love and support. They are my biggest source of motivation, and I could not have done this without them.

I want to thank my academic supervisor, Professor Dr. Mostafa Kamal, for guiding me and giving me helpful advice while I worked on this report, "Analysis of Credit Risk Management at NCC Bank PLC." His support made it easier for me to complete this work. I also thank his assistant for their help during this process.

I am thankful to the HR Division of NCC Bank PLC for letting me do my internship at their Savar Branch. A special thanks to Mr. Kamal Hossan, the Deputy Manager of the branch, for his guidance and support. He helped me learn a lot about banking during my time there.

Finally, I want to thank all the staff at NCC Bank PLC, Savar Branch, for being so welcoming and helpful. Their support made my internship a great learning experience and enjoyable.

Executive Summary

This report is part of the BBA program at Daffodil International University and focuses on "Analysis of Credit Risk Management at NCC Bank PLC." It looks at how the bank handles risks related to giving loans and credit.

The report starts by explaining the purpose, goals, and methods used to gather information, along with the challenges faced during the study. It sets the foundation for analyzing how the bank manages credit risks.

Next, it gives an overview of NCC Bank PLC, including its history, mission, vision, values, and management structure. It also discusses the bank's products, services, employee grading system, and a SWOT analysis that highlights the bank's strengths, weaknesses, opportunities, and challenges.

The report then explains the basics of credit risk management, including the tools and strategies the bank uses to manage risks. It also looks at how the bank categorizes its customers and reviews its financial performance over the last five years, using key financial ratios to assess its approach.

It further analyzes the bank's credit risk performance using important ratios like the Non-Performing Loan (NPL) Ratio, Loan Loss Provision (LLP) Ratio, and Capital Adequacy Ratio (CAR). This helps to understand how well the bank manages its credit risks.

Finally, the report shares the findings from the analysis, suggests ways to improve credit risk management, and concludes with reflections on the bank's current performance and future potential.

This report combines theory and practical analysis to give a clear picture of how NCC Bank PLC manages lending risks and plans its strategies for the future.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Banks are essential institutions in the financial system, providing services that enable the smooth flow of money within an economy. They accept deposits from individuals and businesses and use those funds to provide loans, which helps drive economic growth. Due to their significant role in financial stability, banks are carefully regulated to ensure they operate securely and responsibly. Most banking systems follow a fractional reserve system where banks keep only a portion of their deposits as reserves to meet withdrawal needs. This system allows banks to lend money while maintaining enough liquidity for day-to-day operations. Additionally, banks must follow international standards like the Basel Accords to maintain adequate capital and safeguard their financial health. Simply, banking is about managing the collection, borrowing, and lending of money. The core functions of a bank include receiving deposits, making loans, facilitating payments and providing other financial services. Effective bank management aims to strike a balance between minimizing risks and maximizing returns to increase shareholder value. This requires clear objectives, well-defined strategies and a focus on sustainable growth. In this report, I focus on NCC Bank PLC, a growing private bank that has made significant contributions to our economy. During my three-month internship at its Savar Branch, I analyzed the bank's credit risk management practices. Established in 1985 as a leasing company and transformed into a bank in 1993, NCC Bank PLC has built a strong presence with its diverse services and branch network. This report highlights how NCC Bank PLC manages credit risk while supporting its customers and contributing to the broader financial system.

1.2 Origin of the Study

As part of my BBA program, I had to complete a three-month internship and prepare a report under the supervision of a faculty advisor. I had the opportunity to do my internship at National Credit and Commerce (NCC) Bank PLC, which was an exciting and valuable experience for me. The internship gave me a chance to step into the professional world and see how a bank operates on a daily basis. My topic was approved by NCC Bank PLC's head office and working on it. This experience not only allowed me to learn new things but also helped me face real challenges in the workplace.

1.3 Objectives of the Study

General Objective

The objective of this report is to fulfill the internship requirement of my BBA program.

Specific Objectives

i. To relate theoretical knowledge with practical experience at NCC Bank PLC.
ii. To analyze the impact of credit risk management practice at NCC Bank PLC.
iii. To examine the relationship between credit risk indicators (e.g. LDR, RWA & CoR) and the bank's profitability & performance.
iv. To identify key findings and propose some recommendations.

1.4 Methodology of the Study

This report was prepared using information gathered during my three-month internship at NCC Bank PLC. Both primary and secondary sources were used to make the study complete and accurate.

Primary Data: The primary data came from my direct experience during the internship. I observed the work in different departments and had informal conversations with bank staff, which helped me understand the credit and risk management processes in practice.

Secondary Data: To support my findings, I used:

- Books and articles on banking and risk management.
- Reports and official documents like annual reports and brochures from NCC Bank PLC.
- Reliable information from financial websites.

1.5 Limitations of the Study

This report has a few limitations:

- **Time Limitations:** With only three months for the internship, it was difficult to cover every aspect of banking operation in depth.
- **Restricted Information:** Some internal data was not accessible due to the bank's confidentiality policies, which limited the analysis.
- **Scope:** The report focuses solely on credit risk management at NCC Bank PLC. It does not include other risks like balance sheet, foreign exchange, or compliance risks.

CHAPTER TWO

ORGANIZATION OVERVIEW

2.1 Overview of NCC Bank PLC

National Credit and Commerce (NCC) Bank PLC has a remarkable history in Bangladesh's financial sector. It started in 1985 as an investment company, aiming to support the country's industrial and trade growth while contributing to the development of the capital market.

In 1993, the company became a private commercial bank with approval from the Central Bank. It started with 16 branches and a paid-up capital of Tk. 39.00 crore, expanding its services to reach more people and businesses.

Since then, NCC Bank PLC has built a good reputation for its personalized customer service and use of modern technology. The bank has been successful in financing industries, trade, and foreign exchange. Its range of deposit and loan products attracts both individual and corporate clients, making it a trusted choice for many.

Today, NCC Bank PLC continues to grow, serving the nation and contributing to its economic progress.

2.2 Background of NCC Bank PLC

NCC Bank PLC (National Credit and Commerce Bank PLC) is one of the prominent private commercial banks in Bangladesh. It started its journey in 1985 as an investment company under the name "National Credit Limited," with the primary objective of mobilizing resources and promoting industrial and commercial development.

In 1993, it was converted into a full-fledged commercial bank and renamed NCC Bank PLC. Since then, it has been operating as a scheduled bank under the supervision of Bangladesh Bank, the central bank of Bangladesh. The bank started with an initial authorized capital of Tk. 75 crore and a paid-up capital of Tk. 19.50 crore. At present, the authorized capital has increased significantly to Tk. 2000 crore, while the paid-up capital stands at approximately 1,110.4 crore. The shares of NCC Bank PLC are publicly traded on the Dhaka and Chittagong Stock Exchanges. The average share price in recent months is reported at around Tk. 165 per share, with a face value of Tk. 100 per share.

NCC Bank PLC is renowned for its customer-centric approach, innovative financial products, and commitment to supporting economic growth. It offers a wide range of banking services, including:

- Corporate Banking
- SME Banking
- Retail Banking
- Islamic Banking
- Foreign Exchange and Trade Services
- Online and Mobile Banking

The bank emphasizes modern banking technologies, efficient customer service, and sustainable financial practices. It has a nationwide presence through a vast network of branches, ATMs, and sub-branches, ensuring accessibility for individuals and businesses across urban and rural areas.

NCC Bank PLC is also dedicated to corporate social responsibility (CSR), contributing to education, healthcare, and environmental initiatives in Bangladesh.

2.3 Mission of NCC Bank PLC

NCC Bank PLC focuses on using technology to provide high-quality banking services. Its mission is to:

- ✓ Build strong customer relationships by offering excellent financial services.
- ✓ Use modern technology and experience to create effective solutions.
- ✓ Provide a friendly environment where customers and employees can grow together.

2.4 Vision of NCC Bank PLC

NCC Bank PLC aims to become one of the top and most trusted commercial banks in Bangladesh. The bank is committed to achieving sustainable growth while also benefiting its customers and the wider community. Their vision includes:

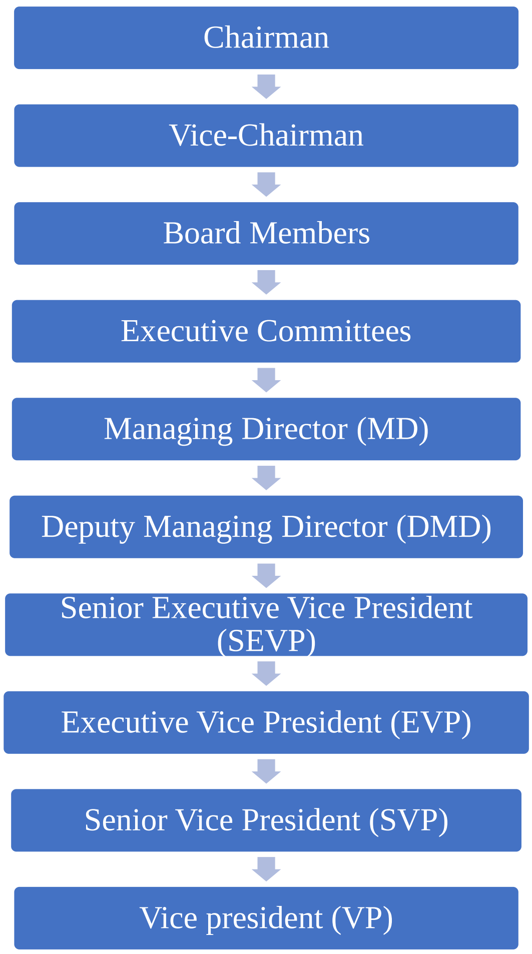
- ✓ Gaining recognition as one of the most respected banks in the country.
- ✓ Providing progressive services that also consider social responsibility.
- ✓ Connecting credit and commerce to create value and promote long-term growth.

2.5 Objectives of NCC Bank PLC

- ✓ **Sustainable Growth:** Striving for long-term business growth while enhancing operational efficiency and resource productivity.
- ✓ **Customer-Centric Approach:** Prioritizing excellent financial services and maintaining strong customer relationships.
- ✓ **Technological Innovation:** Leveraging cutting-edge technologies to improve service delivery and operational systems.
- ✓ **Risk Management:** Strengthening credit health and mitigating risks through prudent policies and robust management practices.
- ✓ **Sustainability and Community Engagement:** Committing to environmental responsibility, community development, and promoting sustainable practices.
- ✓ **Corporate Governance:** Upholding integrity, ethics, and transparency in all spheres of operations.

2.6 Core Values of NCC Bank PLC

2.8 Management and Employee Hierarchy of NCC Bank PLC



Senior Assistant Vice President (SAVP)

↓

Assistant Vice President (AVP)

↓

First Assistant Vice President (FAVP)

↓

Senior Executive Officer (SEO)

↓

Executive Officer (EO)

↓

Senior Officer (SO)

↓

Officer

↓

Assistant Officer (AO)

2.9 Products and Services of NCC Bank PLC

Deposit Products:

1. **Current Deposit Account:** A non-interest account where you can deposit and withdraw money as often as you need.

2. **Savings Bank Deposit Account:** An interest-earning account with a mix of 10% demand deposit and 90% fixed deposit.

3. **Special Notice Deposit Account:** A time deposit that earns interest and allows withdrawals with prior notice.

4. **Interest First FDR:** A fixed deposit where you get the interest upfront for terms of 3, 6, 12, or 24 months.

5. **Special Savings Scheme:** A monthly savings plan for 2 to 12 years, with flexible deposit amounts.

6. **Special Fixed Deposit Scheme:** A fixed deposit with monthly interest payments for up to 3 years.

7. **Money Double Program:** A plan to double your deposit over a specific period.

Loan Products:

1. **Personal Loan:** For covering medical, marriage, or personal expenses.

2. **Education Loan:** For paying tuition fees and other education-related costs.

3. **Car Loan:** To buy personal vehicles from approved sources.
4. **House Building Loan:** For buying, building, or extending a house.
5. **Home Improvement Loan:** For renovating or upgrading your home.
6. **Marriage Loan:** For wedding expenses.
7. **Health Loan:** To cover medical bills for you and your family.
8. **Professional Loan:** For starting or expanding a professional business.
9. **Startup Loan (NOBIN):** Support for new and innovative business ideas.

Services:

1. **Digital Onboarding (Sanchayee):** Open an account online through the bank's app with e-KYC verification.
2. **Remittance Services:** Manage cheques, drafts, and payments efficiently.
3. **Locker Services:** Securely store your valuables in the bank's lockers.

2.10 SWOT Analysis of NCC Bank PLC

During my internship at NCC Bank PLC, I prepared a SWOT analysis to better understand the bank's strengths, weaknesses, opportunities, and threats. This analysis highlights what the bank does well, where it can improve, the opportunities it can take advantage of, and the challenges it faces. The information comes from the bank's 2023 Annual Report and my own observations during the internship.

Strengths:

- **Sustainability Efforts**: NCC Bank PLC is serious about protecting the environment, using green banking practices, and supporting renewable energy projects.
- **Use of Technology**: The bank uses modern technology, like automated systems and online account opening, to make things easier for customers.
- **Community Work**: It's clear the bank cares about its community, with programs that improve education, healthcare, and job opportunities. This helps build a strong and positive reputation.
- **Wide Branch Network**: With 128 branches and sub-branches, NCC Bank PLC is easily accessible to people across the country.

Weaknesses:

- **Non-Performing Loans (NPL)**: The bank has worked to reduce bad loans, but managing and recovering them is still a challenge.
- **Dependence on the Economy**: Issues like currency problems or global crises can directly impact the bank's trade and remittance activities.

- **Limited Global Presence**: Although the bank works with some foreign banks, it doesn't have a strong international reach to compete globally.

Opportunities:

- **More Remittances**: By offering better benefits for remittance services and partnering with more money transfer companies, the bank can bring in more foreign currency.
- **Digital Banking Growth**: As more people prefer online banking, NCC Bank PLC has a big opportunity to improve its digital services and attract tech-savvy customers.
- **Islamic Banking Services**: Islamic banking is becoming more popular, and expanding these services could help the bank attract new customers.

Threats:

- **Economic Uncertainty**: Political and economic problems, both in Bangladesh and around the world, can impact the bank's performance and profits.
- **Tough Competition**: With so many banks in Bangladesh, NCC Bank PLC needs to keep improving and innovating to stay ahead.
- **Regulatory Changes**: New government policies, like changes in interest rates or stricter regulations, can make it harder for the bank to operate smoothly.

CHAPTER THREE

THEORETICAL ANALYSIS

3.1 Credit Risk Management

Credit risk is the risk that a borrower or business partner might not be able to repay their loan or meet their financial obligations, causing the bank to lose money. Effective credit risk management means identifying, understanding, and reducing these risks in a clear and organized way. The steps involved include:

- **Risk Identification**: Finding areas where the bank might face financial risks, like lending, trade finance, and investments.
- **Risk Assessment**: Analyzing the risks by using tools like credit scoring, past data, and industry standards.
- **Risk Mitigation**: Taking steps to reduce the risks, such as asking for collateral, setting credit limits, or sharing risks with other parties.
- **Monitoring and Reporting**: Keeping an eye on the loan portfolio to catch problems early and address them quickly.

NCC Bank PLC's Credit Risk Management Approach:

1. **Segregation of Functions**: Credit-related activities are divided among three units:
   - ✓ **Credit Risk Management Unit**: Handles risk assessments, policy formulation, and credit sanctioning.
   - ✓ **Credit Administration Unit**: Manages documentation and operational processes.
   - ✓ **Credit Monitoring and Recovery Unit**: Focuses on loan portfolio quality and recovery of non-performing assets.
2. **Comprehensive Risk Assessment:** Before approving loans, the bank checks the borrower's financial condition, the industry they work in, their past record, and the security (collateral) they provide. It uses its own Internal Credit Risk Rating System (ICRRS) along with outside ratings to measure risk.
3. **Approval Process:** The bank follows a step-by-step process to approve loans. For large loans, the board of directors must approve them. The bank also has strict rules about how much it can lend to a single borrower.
4. **Monitoring and Mitigation:** The bank regularly reviews its loan portfolio to spot overdue payments or risky loans. It also uses stress tests to see how loans would perform in bad economic conditions, helping management plan for financial needs.
5. **Policy Framework:** The bank updates its policies regularly, including rules for restructuring loans and managing risks, to adapt to changes in the economy.
6. **Non-Performing Loans (NPL) Management:** A special team works on reducing Non-Performing Loans (NPL)-loans that are not being paid back. By the end of 2023, this team helped lower the NPL rate to 5.66% through effective recovery efforts.

7. **Regulatory Compliance:** NCC Bank PLC strictly follows the rules set by Bangladesh Bank. This means they save money to cover risky loans, keep enough cash on hand to meet any needs, and regularly check their systems to make sure everything is running smoothly and safely.

This integrated approach helps NCC Bank PLC maintain asset quality, minimize financial losses, and support sustainable growth.

3.2 Tools and Strategies for Effective Credit Risk Management

NCC Bank PLC uses several tools and strategies for effective credit risk management. These include:

1. **Internal Credit Risk Rating System (ICRRS)**: Used to evaluate borrowers based on quantitative and qualitative factors to assess their creditworthiness.
2. **Credit Rating by External Agencies**: Credit ratings from authenticated external agencies complement internal assessments.
3. **Credit Policies and Manuals**: Guidelines and procedures that define credit extension standards and risk management practices.
4. **Collateral and Risk Mitigation**: Use of collateral such as cash, real estate, marketable securities, and guarantees to secure loans and mitigate potential losses.
5. **Stress Testing**: Evaluates the bank's shock resilience capacity and identifies vulnerable areas, advising senior management on maintaining adequate capital.
6. **Monitoring and Follow-Up**: Regular oversight of loan portfolios, overdue and stressed loans, and borrower repayment behaviors.
7. **Segregation of Duties**: Separate units for credit approval, administration, and recovery to ensure effective risk management.
8. **Concentration Risk Management**: Monitoring credit concentration within set caps for sectors, products, and counterparties.

3.3. Target Customers

The target customers of NCC Bank PLC include:

1. **General Customers**: A broad range of individuals and businesses seeking standard banking services.
2. **Underprivileged and Marginalized Groups**:
    - Farmers.
    - Ready-Made Garment (RMG) workers.

- Extreme poor and beneficiaries of Social Safety Net (SSN) programs.

3. **Students**: School Banking Accounts (SBAs) are tailored for students under 18 years, allowing them to open accounts with an initial deposit as low as Tk. 100.
4. **Non-Resident Bangladeshis (NRBs)**: The bank offers tailored services to NRBs, focusing on remittance handling and expatriate banking.
5. **Corporate Clients**: The Corporate Business Unit supports businesses with financing solutions and trade services.

These groups reflect NCC Bank PLC's focus on inclusivity and diversification in its customer base.

3.4 NCC Bank PLC Credit Rating Reports

NCC Bank PLC has been assigned a long-term credit rating of 'AA+', reflecting its high credit quality, strong financial safety, and robust operational reliability. In the short term, the bank has been rated 'ST-1', signifying the highest assurance of timely payments, exceptional short-term liquidity, and a risk profile comparable to government-backed short-term instruments. A stable outlook further indicates that these ratings are expected to remain consistent over the foreseeable future.

Rating Details	2023	2022
Long-Term Rating	AA+ (Higher Safety, High Credit Quality)	AA (Higher Safety, High Credit Quality)
Short-Term Rating	ST-1 (Highest Certainty of Timely Repayment)	ST-1 (Highest Certainty of Timely Repayment)
Outlook	Stable	Stable
Validity Period	June 24, 2024 - June 23, 2025	June 22, 2023 - June 21, 2024
Rating Action	Surveillance	Surveillance
Rated By	Credit Rating Information and Services Ltd. (CRISL)	Credit Rating Information and Services Ltd. (CRISL)

3.5 Five Years Performance at a Glance

Particulars	Y-2023	Y-2022	Y-2021	Y-2020	Y-2019
Balance sheet metrics					
Authorized capital	20,000	20,000	20,000	20,000	20,000
Paid up capital	11,104	10,575	10,169	9,459	9,274
Statutory reserve	11,104	10,575	9,693	8,835	8,034

Other reserve	375	564	668	1,096	476
Retained earnings	1,514	1,317	1,667	1,439	1,583
Shareholders' equity	24,098	23,033	22,196	20,829	19,367
Deposits	221,835	203,750	203,244	197,021	200,018
Loans and advances	228,697	209,738	189,490	178,159	179,037
Investments	54,676	53,594	49,298	43,482	37,739
Fixed assets	3,024	2,774	2,585	2,692	2,734
Interest earning assets	286,401	268,383	246,043	231,901	222,270
Non-interest earning assets	32,554	33,425	28,993	25,768	34,617
Total assets (excluding contra items)	318,955	301,808	275,037	257,668	256,887
Total assets (including contra items)	435,312	410,402	374,831	337,372	340,926
Capital metrics					
Total risk weighted assets (RWA)	207,762	220,852	205,011	210,227	190,878
Tier-I capital	28,546	27,285	25,986	19,658	18,802
Tier-II capital	4,514	5,455	6,535	8,112	6,803
Total capital	33,060	32,741	32,521	27,770	25,605
Tier-I capital adequacy ratio	13.74%	12.35%	12.68%	9.35%	9.85%
Tier-II capital adequacy ratio	2.17%	2.47%	3.19%	3.86%	3.56%
Capital to risk weighted assets ratio (CRAR)	15.91%	14.82%	15.86%	13.21%	13.41%
Asset quality					
Amount of non-performing loans (NPLs)	12,955	14,359	8,665	8,879	8,617
Non-performing loans as % of total loans	5.66%	6.85%	4.57%	4.98%	4.81%
Specific provision against classified loans	10,864	8,475	6,680	5,148	5,356
General provision against un-classified loans	2,656	2,875	3,240	3,353	2,084
General provision against off-balance sheet items	1,058	981	936	839	839
Percentage of net classified loan	0.91%	2.81%	1.05%	2.09%	1.82%
Interest suspense balance	8,920	7,762	5,674	4,418	3,286
Cumulative amount of bad debts written off	11,339	10,212	10,112	9,406	9,305
Trade/Foreign exchange business metrics					
Import	173,552	144,541	132,891	96,148	107,718

Export	82,483	87,600	71,237	58,355	68,293
Remittance	72,129	55,127	46,018	44,616	42,850
Interest-related metrics					
Interest income on loans & advances	17,293	13,906	13,518	15,955	20,415
Interest paid on deposits & borrowings	11,793	9,049	7,806	11,619	14,018
Net interest margin	5,501	4,857	5,712	4,336	6,397
Net interest margin (%)	1.98%	1.89%	2.39%	1.91%	2.97%
Income & expenses					
Non-interest income	9,001	7,818	5,936	5,787	5,147
Total operating income	14,501	12,675	11,647	10,123	11,544
Non-interest/operating expenses	6,264	5,521	5,168	4,879	4,827
Total income	26,294	21,724	19,453	21,742	25,562
Total expenses	18,057	14,570	12,974	16,497	18,845
Operating profit	8,237	7,154	6,479	5,244	6,717
Specific provision against classified loans	3,176	1,882	2,067	0.7	2,033
General provision against UC Loans	(219)	(365)	(114)	1,269	270
General provision against off-balance Sheet	77	45	97	-	78
Provision for other inv. fluctuation, asset & others	392	381	30	(33)	356
Total provision for loans & others	3,427	1,943	2,079	1,237	2,737
Profit metrics					
Profit before tax	4,810	5,211	4,399	4,007	3,980
Provision for tax	2,515	2,570	1,786	1,775	1,847
Profit after tax	2,295	2,641	2,614	2,232	2,133
Earnings per share (EPS)	2.06	2.42	2.55	2.43	2.30

3.6 Selection of Ratios, Formulas, and Calculation Methodology

Purpose of Ratios in the Analysis

In this report, we have chosen a set of financial ratios that offer valuable insights into NCC Bank PLC's performance over the past five years (2019-2023). These ratios cover a broad spectrum of the bank's operations, including profitability, asset quality, liquidity, risk management and capital adequacy. By analyzing these key metrics, we can assess the bank's financial health, identify trends over time, and compare its performance with industry benchmarks.

The selected ratios are designed to provide a comprehensive picture of how well the bank is managing its resources, credit risk, and profitability, while also ensuring adequate provisions and capital to withstand financial challenges. These ratios are:

1. Non-Performing Loan (NPL) Ratio

- **Definition**: The NPL Ratio indicates the percentage of loans that are not generating income because they are in default or close to default.
- **Assumption**: It is assumed that loans categorized as non-performing are unlikely to generate interest income or principal repayment.
- **Significance**: This ratio highlights the asset quality of the bank. A high NPL ratio signals poor loan quality and increased credit risk, whereas a low NPL ratio indicates effective credit risk management.
- **Formula**:

  NPL Ratio= $\left(\frac{\text{NPLs}}{\text{Loans and Advances}}\right) \times 100$

- **Justification**: Analyzing the NPL Ratio helps assess the effectiveness of a bank's lending policies and credit monitoring practices. It is also an essential indicator of financial stability and long-term profitability.

2. **Loan Loss Provision (LLP) to Total Loans Ratio**

- **Definition**: This ratio measures the proportion of total loans that the bank has set aside as provisions to cover potential losses from bad loans.
- **Assumption**: Provisions are made based on the bank's assessment of potential risks in its loan portfolio.
- **Significance**: A higher LLP to Total Loans Ratio indicates a conservative approach to managing credit risk, ensuring the bank is prepared for potential defaults.
- **Formula**:

  LLP to Loans Ratio= $\left(\frac{\text{Specific + General Provisions}}{\text{Loans and Advances}}\right) \times 100$

- **Justification**: This ratio reflects the bank's ability to absorb losses arising from loan defaults, safeguarding its financial health and protecting stakeholders.

3. **Capital Adequacy Ratio (CAR)**

- **Definition**: CAR measures the bank's capital strength and its ability to absorb potential losses, ensuring financial stability.

- **Assumption**: It is assumed that the higher the CAR, the more capable the bank is of withstanding financial stress or unexpected losses.
- **Significance**: CAR ensures that the bank maintains sufficient capital to cover its risk-weighted assets and remain solvent during economic downturns.
- **Formula**:

$$\text{CAR}= \left(\frac{\text{Tier 1 Capital}+\text{Tier 2 Capital}}{\text{Risk}-\text{Weighted Assets}}\right) \times 100$$

- **Justification**: Regulatory authorities, such as those implementing Basel III standards, use CAR to ensure banks maintain adequate capital buffers to protect depositors and maintain confidence in the banking system.

4. **Loan to Deposit Ratio (LDR)**

- **Definition**: LDR shows the proportion of deposits utilized for lending purposes, indicating how efficiently the bank is utilizing its resources.
- **Assumption**: It assumes that a balanced ratio demonstrates efficient lending practices without jeopardizing liquidity.
- **Significance**: A high LDR indicates aggressive lending, which may lead to liquidity issues, whereas a low LDR suggests underutilization of funds.
- **Formula**:

$$\text{LDR}= \left(\frac{\text{Loans and Advances}}{\text{Deposits}}\right) \times 100$$

- **Justification**: Monitoring LDR helps in maintaining a balance between liquidity and profitability. It ensures that the bank is neither over-lending nor keeping idle funds.

5. **Cost of Risk (CoR)**

- **Definition**: CoR represents the annual cost of credit risk as a percentage of the loan portfolio, reflecting the expense incurred due to provisioning for bad loans.
- **Assumption**: It assumes that higher provisioning costs are directly related to a deteriorating loan portfolio.
- **Significance**: A rising CoR signals increased credit risk, while a declining CoR indicates improved loan quality and reduced provisioning needs.
- **Formula**:

$$\text{CoR}= \left(\frac{\text{Provisions for Loans and Others}}{\text{Loans and Advances}}\right) \times 100$$

- **Justification**: This ratio helps assess the effectiveness of the bank's risk management policies and provisioning strategies.

6. **Coverage Ratio**

- **Definition**: The Coverage Ratio measures how well the bank's provisions cover its non-performing loans.
- **Assumption**: It assumes that higher provisions relative to NPLs ensure better financial stability.
- **Significance**: A coverage ratio above 100% indicates adequate provisioning, reducing the risk of capital erosion due to bad debts.
- **Formula**:

  Coverage Ratio= $\left(\frac{\text{Total Provisions}}{\text{NPLs}}\right) \times 100$

- **Justification**: This ratio demonstrates the bank's preparedness to handle bad loans without adversely affecting its capital base.

7. **Risk-Weighted Assets (RWA) Ratio**

- **Definition**: The RWA Ratio shows the proportion of the bank's assets that are considered risky, based on their potential to incur losses.
- **Assumption**: Risk weights are assigned based on the type of asset and its likelihood of default.
- **Significance**: A lower RWA Ratio reflects better asset quality and lower exposure to high-risk assets.
- **Formula**:

  RWA Ratio= $\left(\frac{\text{RWA}}{\text{Total Assets}}\right) \times 100$

- **Justification**: The RWA Ratio helps evaluate how effectively the bank manages its risk exposure and allocates its capital.

8. **Return on Risk-Weighted Assets (RoRWA)**

- **Definition**: RoRWA measures the profitability of the bank's risk-weighted assets.
- **Assumption**: It assumes that higher returns relative to risk-weighted assets reflect better risk-adjusted profitability.
- **Significance**: This ratio helps assess how effectively the bank is utilizing its risky assets to generate income.
- **Formula**:

  RoRWA= $\left(\frac{\text{Profit After Tax}}{\text{RWA}}\right) \times 100$

- **Justification**: RoRWA enables banks to evaluate their risk-return trade-off and ensure they are taking calculated risks to enhance profitability.

CHAPTER FOUR

ANALYSIS & DISCUSSION

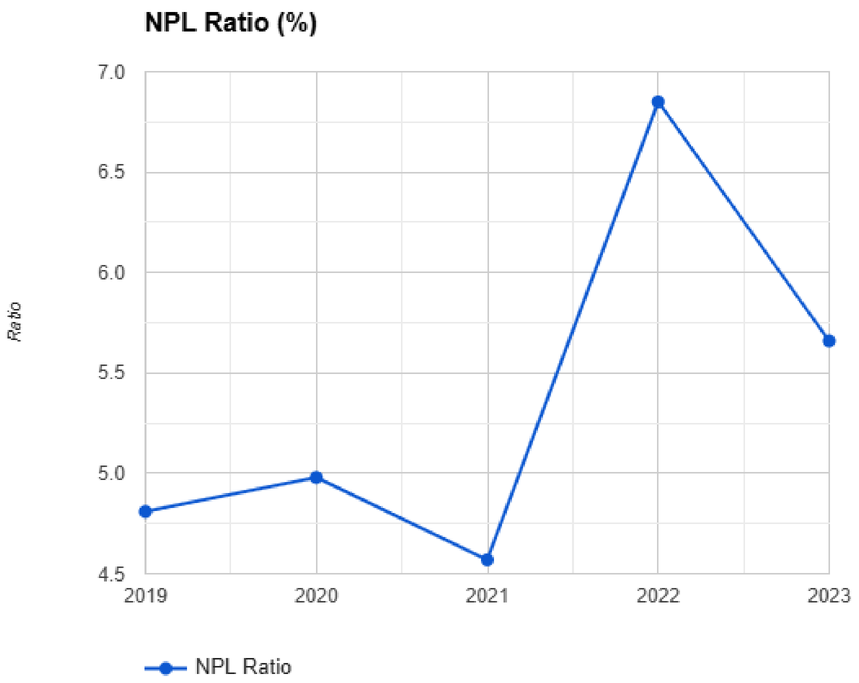
4.1 Objective of Calculating the Ratios

The objective of calculating these financial ratios is to evaluate NCC Bank PLC's credit risk management practices, financial stability, and overall efficiency. These ratios provide insights into the bank's asset quality, risk preparedness, capital adequacy, resource utilization, and profitability. By analyzing trends and benchmarking against industry standards, we aim to identify strengths, weaknesses, and opportunities for improvement, supporting strategic decision-making to enhance credit risk management and ensure sustainable growth.

4.2 Non-Performing Loan (NPL) Ratio

The NPL Ratio is a key indicator of the bank's asset quality, showing the percentage of loans that are in default or close to default and not generating any income. It reflects how effectively the bank is managing credit risk and the overall health of its loan portfolio. A lower NPL Ratio suggests better credit management and a sounder portfolio, while a higher ratio indicates potential weaknesses in lending or recovery processes.

Ratio	**2023**	**2022**	**2021**	**2020**	**2019**
NPL Ratio (%)	5.66	6.85	4.57	4.98	4.81



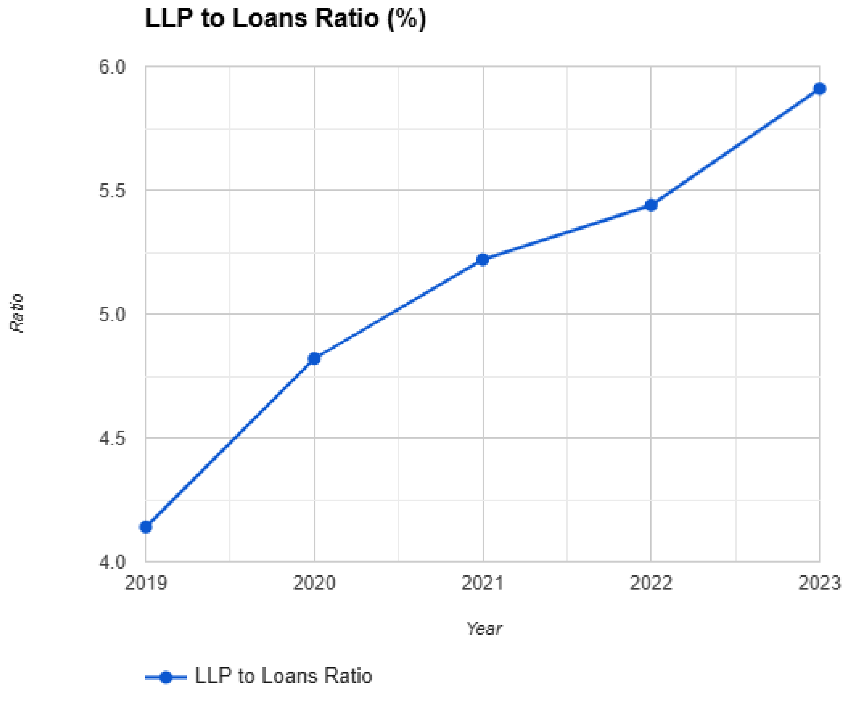
Interpretation: NCC Bank PLC's NPL Ratio decreased from **6.85% in 2022** to **5.66% in 2023**, reflecting significant improvement in its loan portfolio quality. This indicates better risk management, stricter borrower screening, and enhanced recovery efforts. In 2022, the higher ratio may have been influenced by external economic conditions or weaker recovery strategies.

The trend over the five years highlights NCC Bank PLC's gradual success in reducing credit risks, although maintaining this downward trajectory will require continued focus on monitoring and recovery practices.

4.2 Loan Loss Provision (LLP) to Total Loans Ratio

This ratio measures how much of the bank's total loans are set aside as provisions to cover potential losses from bad loans. It shows the bank's readiness to deal with loan defaults and reflects its risk appetite. A higher LLP ratio indicates a more conservative approach to managing credit risk and a focus on safeguarding the bank's financial health.

Ratio	2023	2022	2021	2020	2019
LLP to Loans Ratio (%)	5.91	5.44	5.22	4.82	4.14

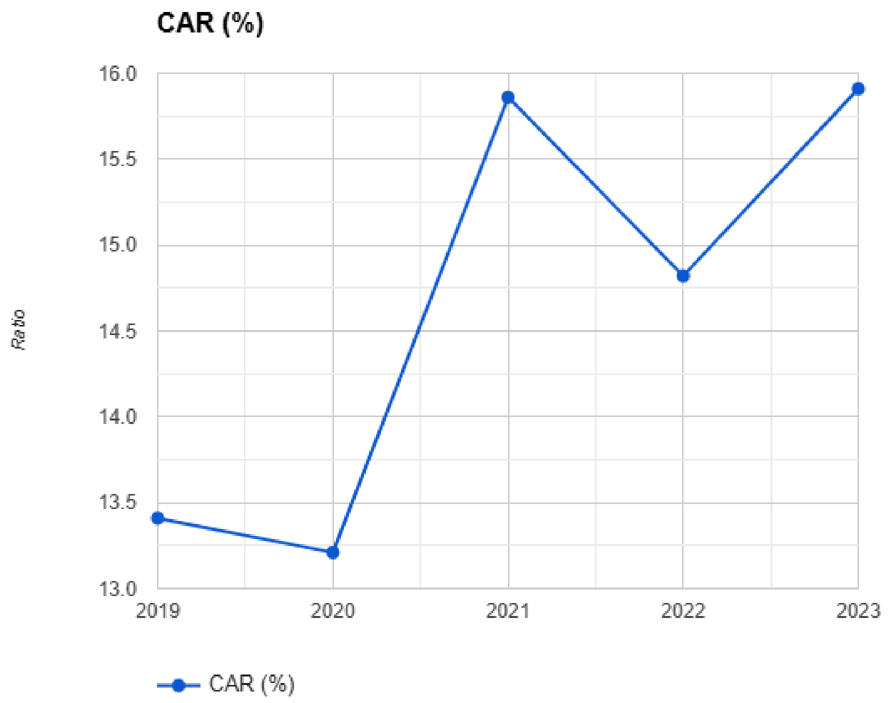


Interpretation: The LLP ratio rose to **5.91% in 2023** from **5.44% in 2022**, reflecting the bank's cautious stance in allocating resources to cover potential losses. This increase, even as NPLs declined, demonstrates NCC Bank PLC's proactive approach to maintaining financial stability. By consistently setting aside adequate provisions, the bank reduces the risk of sudden financial shocks. However, higher provisioning can also impact profitability, as it represents a cost to the bank. The steady rise in LLP over the years underscores the bank's commitment to managing credit risk effectively.

4.3 Capital Adequacy Ratio (CAR)

The CAR measures the bank's capital strength relative to its risk-weighted assets, ensuring the bank has enough reserves to absorb potential losses and protect depositors. It is a critical metric for regulatory compliance and financial stability. A higher CAR reflects a strong capital base and the bank's ability to handle unexpected risks.

Ratio	2023	2022	2021	2020	2019
CAR (%)	15.91	14.82	15.86	13.21	13.41

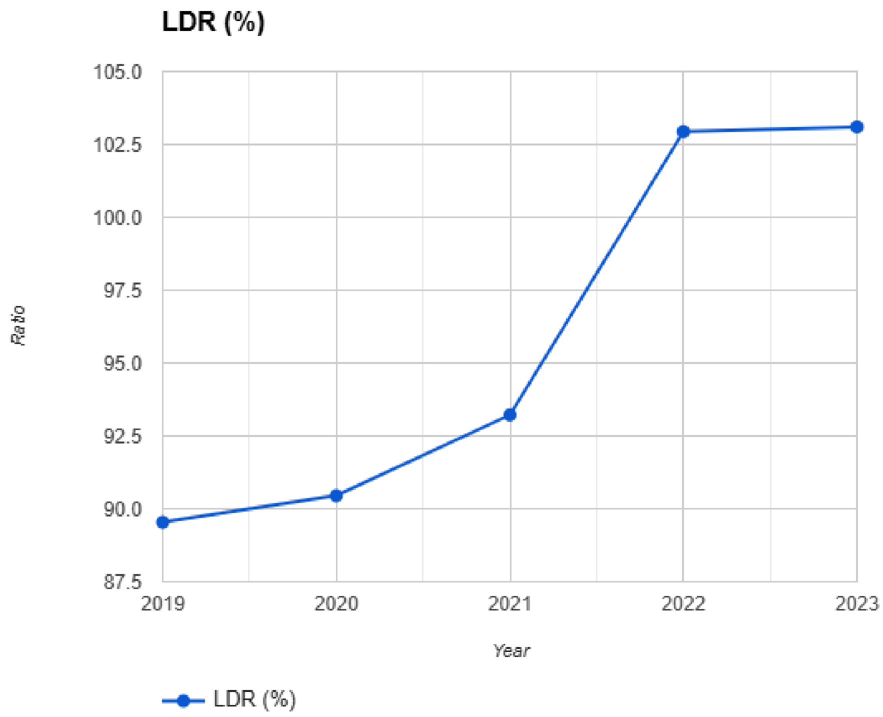


Interpretation: NCC Bank PLC's CAR improved to **15.91% in 2023**, consistently staying above regulatory requirements. This highlights the bank's ability to maintain a robust capital buffer, safeguarding itself against economic uncertainties and potential credit losses. The improvement over 2022 reflects better capital management, ensuring confidence among regulators, investors, and depositors. Maintaining a high CAR also positions the bank to expand its lending activities without compromising financial stability.

4.4 Loan to Deposit Ratio (LDR)

The LDR reflects the proportion of deposits utilized for lending activities. It indicates the bank's efficiency in using its deposit base to generate loans and income. A balanced LDR ensures optimal resource utilization while maintaining sufficient liquidity to meet withdrawal demands.

Ratio	2023	2022	2021	2020	2019
LDR (%)	103.10	102.94	93.22	90.45	89.54

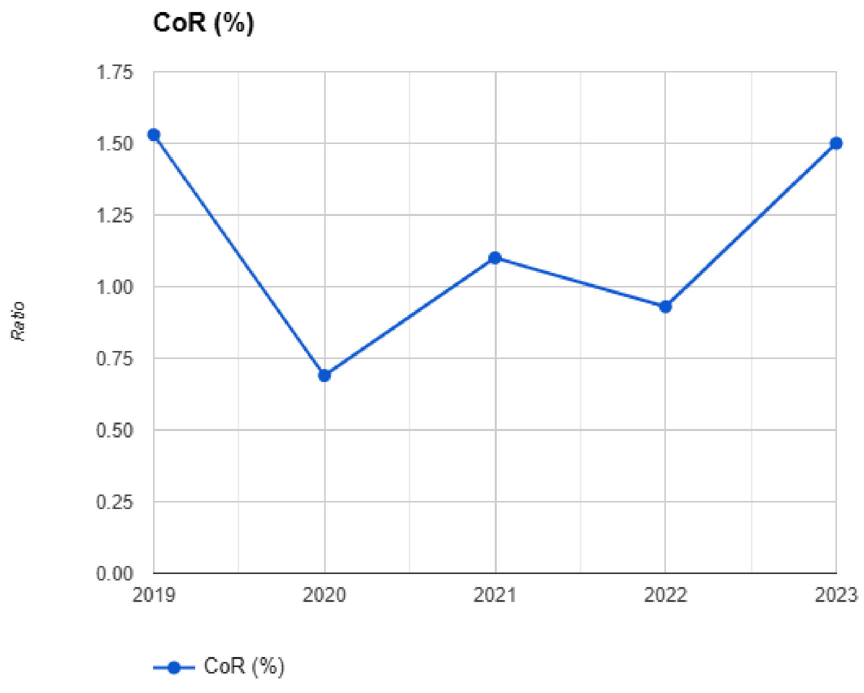


Interpretation: NCC Bank PLC's LDR increased to **103.10%** in **2023**, indicating that the bank lent more than its total deposits. While this shows aggressive lending, which boosts interest income, it raises concerns about potential liquidity challenges. Over the years, the steady increase in LDR highlights the bank's focus on utilizing its resources for growth. However, the bank must ensure that this ratio does not climb too high, as it may impact its ability to meet short-term liquidity needs.

4.5 Cost of Risk (CoR)

CoR measures the annual cost of managing credit risk as a percentage of the total loan portfolio. It includes the cost of provisions made for potential bad loans. A lower CoR reflects better loan quality and reduced credit risks, while a higher CoR indicates increased provisioning or deteriorating asset quality.

Ratio	2023	2022	2021	2020	2019
CoR (%)	1.50	0.93	1.10	0.69	1.53

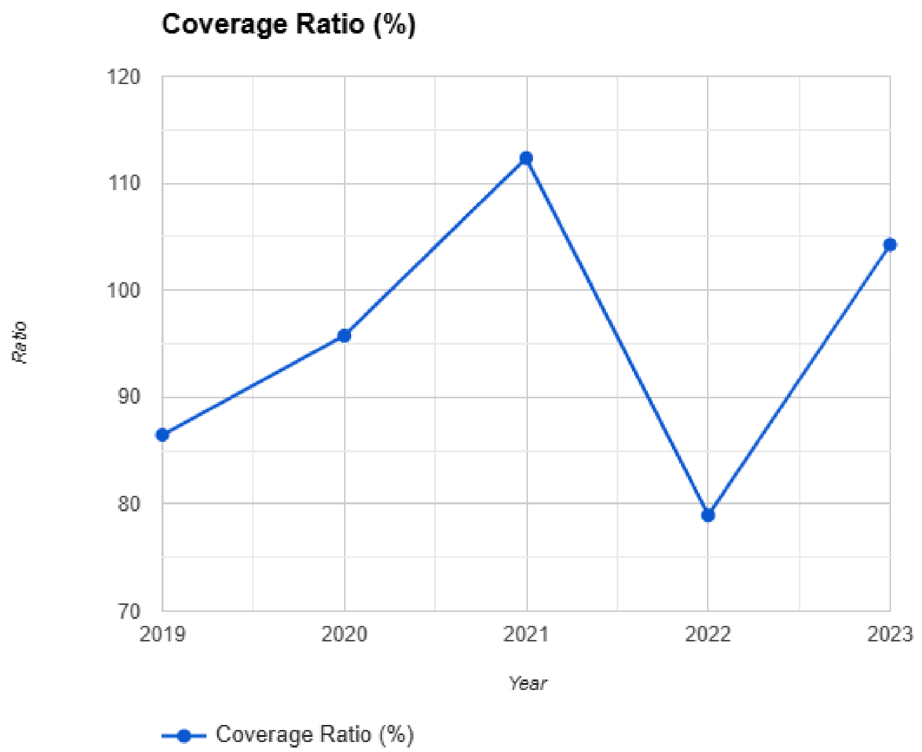


Interpretation: The CoR rose to **1.50% in 2023** from **0.93% in 2022**, signaling increased provisioning efforts to cover potential credit risks. This could indicate either a cautious approach to provisioning or an increase in riskier loans. Over the years, the fluctuations in CoR highlight the bank's response to varying credit risk environments. A higher CoR in 2023 suggests that while the loan portfolio has improved, the bank is investing more resources to maintain its stability against unforeseen defaults.

4.6 Coverage Ratio

The Coverage Ratio shows the percentage of non-performing loans (NPLs) covered by provisions. A higher coverage ratio indicates strong risk management, as it ensures the bank has sufficient provisions to absorb potential loan losses.

Ratio	2023	2022	2021	2020	2019
Coverage Ratio (%)	104.25	78.96	112.35	95.74	86.47

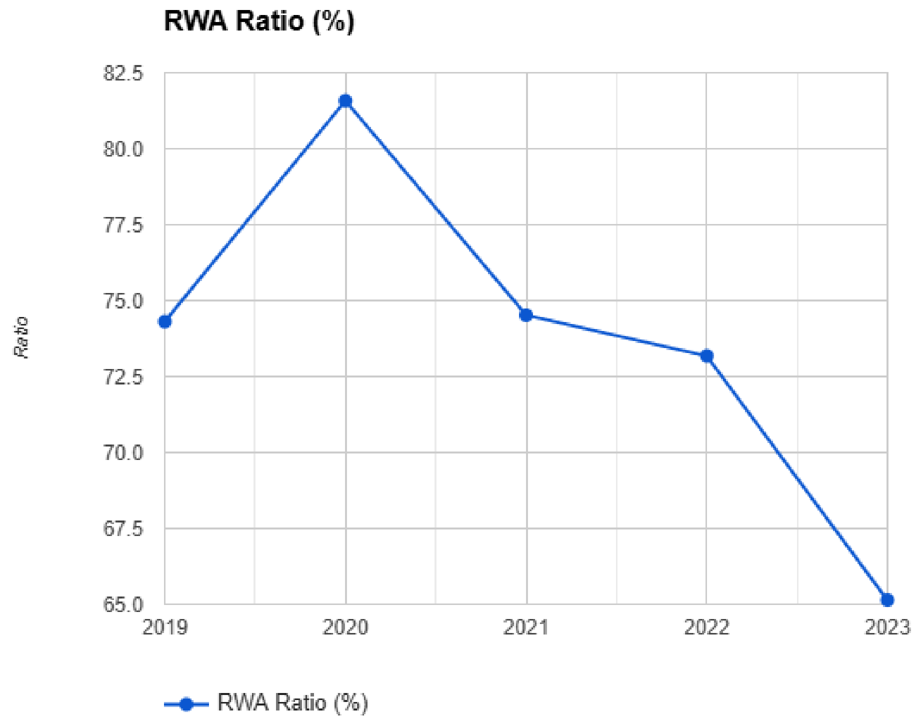


Interpretation: The Coverage Ratio improved significantly to **104.25% in 2023** from **78.96% in 2022**, indicating that NCC Bank PLC has more than enough provisions to cover its NPLs. This improvement reflects a strong commitment to risk management and financial stability. Over the years, the coverage ratio has fluctuated, but the upward trend in 2023 ensures the bank's resilience in dealing with bad loans. A coverage ratio above 100% also reassures stakeholders about the bank's ability to protect its capital against defaults.

4.7 Risk-Weighted Assets (RWA) Ratio

The RWA Ratio measures the proportion of a bank's total assets considered risky based on their potential credit risk. It is used to assess the bank's overall risk exposure and its ability to manage risk-weighted assets. A lower ratio suggests better asset quality and reduced risk exposure.

Ratio	2023	2022	2021	2020	2019
RWA Ratio (%)	65.14	73.18	74.52	81.58	74.31

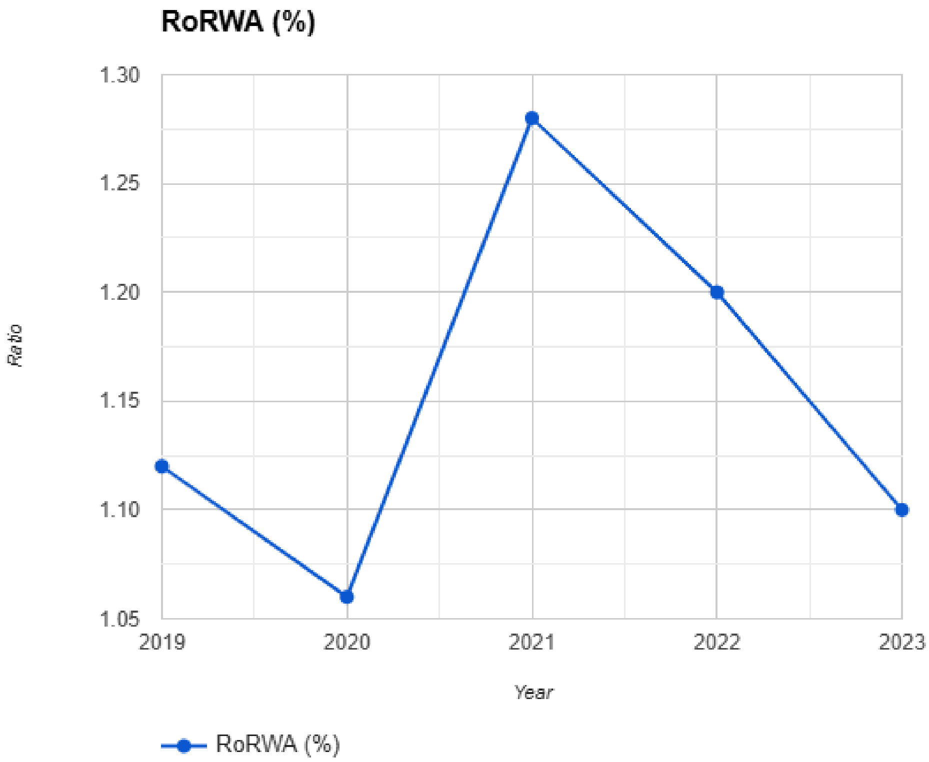


Interpretation: The RWA Ratio declined to **65.14% in 2023**, indicating that NCC Bank PLC has been actively reducing its exposure to high-risk assets. This steady decline over the years reflects strategic risk management and portfolio diversification, focusing on lower-risk loans and investments. By improving the quality of its assets, the bank ensures greater stability while reducing the likelihood of significant losses.

4.8 Return on Risk-Weighted Assets (RoRWA)

RoRWA measures the profitability of the bank's risk-weighted assets, showing how efficiently the bank generates returns from its risk exposure. A higher RoRWA reflects better utilization of risky assets to maximize profitability.

Ratio	2023	2022	2021	2020	2019
RoRWA (%)	1.10	1.20	1.28	1.06	1.12



Interpretation: The RoRWA decreased slightly to **1.10% in 2023** from **1.20% in 2022**, indicating stable but moderate profitability. While this shows that NCC Bank PLC has been maintaining consistent returns, it highlights room for improvement in enhancing profitability without increasing risk exposure. Over the years, the steady RoRWA reflects the bank's ability to balance risk and reward effectively, although exploring higher-yielding opportunities could improve this ratio further.

CHAPTER FIVE

Findings, Recommendations & Conclusion

5.1 Findings

Based on the analysis of NCC Bank PLC's operations and its credit risk management practices, the following key findings have been identified:

1. **Non-Performing Loan (NPL) Trends**:

   The bank has reduced its NPL ratio from 6.85% in 2022 to 5.66% in 2023, showing better credit risk management. However, the ratio is still higher than the industry standard, meaning more work is needed to manage bad loans.

2. **Loan Loss Provisioning (LLP)**:

   The bank has increased its provisioning for bad loans, with the LLP to Loans ratio growing from 4.14% in 2019 to 5.91% in 2023. This shows a cautious and responsible approach to managing potential risks.

3. **Capital Adequacy Ratio (CAR)**:

   The CAR has improved significantly, from 13.41% in 2019 to 15.91% in 2023. This indicates that the bank has enough capital to handle potential losses and maintain financial stability.

4. **Loan-to-Deposit Ratio (LDR)**:

   The bank's LDR has increased from 89.54% in 2019 to 103.10% in 2023. While this shows active lending, it also suggests the bank is lending more compared to its deposit base, which could be risky if the economy slows down.

5. **Cost of Risk (CoR)**:

   The Cost of Risk went up from 0.93% in 2022 to 1.50% in 2023. This means the bank is spending more to handle risky loans, likely because of economic challenges or setting aside more money to cover potential losses.

6. **Coverage Ratio**:

   The coverage ratio improved from 78.96% in 2022 to 104.25% in 2023, meaning the bank is better prepared to handle potential losses from bad loans.

7. **Risk-Weighted Assets (RWA) Ratio**:

   The Risk-Weighted Assets ratio dropped from 81.58% in 2020 to 65.14% in 2023. This shows that the bank is choosing safer investments and doing a better job of reducing risks in its loan and asset portfolio.

8. **Return on Risk-Weighted Assets (RoRWA)**:

   The RoRWA has stayed steady, decreasing slightly from 1.20% in 2022 to 1.10% in 2023. While the bank's profitability is stable, there is room to use its assets more efficiently to improve returns.

5.2 Recommendations

Based on the findings, here are some simple ways NCC Bank PLC can improve how it manages credit risk and stay financially healthy:

1. **Lower Bad Loans (NPLs):** NCC Bank PLC should make sure it only gives loans to people who are likely to repay by checking their credit history carefully. The bank should also set up stronger teams to recover overdue loans and try to get as much money back as possible.
2. **Diversify Loan Portfolio:** The bank should avoid giving too many loans to one type of business or industry. By spreading out the loans across different industries, like technology and manufacturing, the bank can protect itself if one sector faces problems.
3. **Maintain a Healthy Loan-to-Deposit Ratio (LDR):** NCC Bank PLC should make sure it isn't lending out more money than it has in deposits. Keeping the Loan-to-Deposit Ratio (LDR) below 95% will help prevent the bank from taking on too much risk. The bank should also try to grow its deposits by offering better savings and fixed deposit options.
4. **Strengthen Risk Assessment Tools:** The bank should improve its system for checking loan risks by using new technologies like artificial intelligence (AI). Regular stress tests should be done to see how the bank would manage during tough times, such as economic downturns.
5. **Ensure Strong Capital and Liquidity:** NCC Bank PLC should always keep its capital level strong (above 15%) to protect itself from any potential losses. If needed, the bank could raise more money by using its profits or issuing new shares to help it grow in the future.
6. **Better Monitoring of Loan Concentrations:** The bank should make sure it doesn't give too many loans to one person, company, or industry. By limiting loans to no more than 20% of the total loan amount for any one group, NCC Bank PLC can reduce its risk. It should also keep an eye on where the loans are going and quickly take action if needed.

5.3 Conclusion

NCC Bank PLC has made significant strides in improving its credit risk management framework. The bank has successfully lowered its NPL ratio, enhanced provisioning for potential loan losses, and strengthened its capital adequacy position. However, challenges remain, particularly in managing high loan growth compared to deposits and addressing non-performing loans. By focusing on further diversifying its loan portfolio, enhancing credit risk assessment models, optimizing its loan-to-deposit ratio, and continuing to improve monitoring and stress testing, NCC Bank PLC can ensure sustained growth while maintaining sound financial health. The bank's commitment to strengthening its risk management practices will play a crucial role in minimizing financial losses and securing its long-term competitiveness in the highly dynamic banking sector.

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