



## **INTERSHIP REPORT ON**

### **CREDIT RISK MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITIES OF NATIONAL BANK LIMITED**

#### **A CASE STUDY OF LAKE CIRCUS BRANCH**



**NATIONAL BANK LIMITED**

# **INTERSHIP REPORT ON**

## **CREDIT RISK MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITIES OF NATIONAL BANK LIMITED**

### **A CASE STUDY OF LAKE CIRCUS BRANCE**

#### **Supervised By:-**

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Department of Business Administration  
Date of Submission: .....**

**Daffodil International University**

**DEDICATED**

**TO**

**MY BELOVED PARENTS AND**

**MY HONARABLE SUPERVISOR**

# **PART ONE**

## **PREFATORY PART**

## Preface

As a student of business administration, it is my pleasure to have successfully completed my Internship in National Bank Limited on “CREDIT RISK MANAGEMENT AND SOCIAL RESPONSIBILITIES”. During Internship program. I have tried my best to collect the information related to the study topic and prepared the report within a very short time .That is why, there may have some unexpected mistake in the Report.

I worked in NBL lake Circus Branch, as full time internee and the aim of the internship are allowing fresh candidates to get an insight view of the overall function of NATIONAL BANK LIMITED.

The intership program has given us huge Opportunities to minimize the gap between theoretical and practical knowledge. As BBA Student, it was our pleasure to be in touch with the Organization as NATIONAL BANK LIMETED Which is undoubtedly the most efficient and best programming banking institution in our country. My practical experience through performing different activities of the bank as well as the Internship increased my overall experience about real world phenomenon.

Md.Shohag Parvez

ID: 111-11-1772

Date.....

# ACKNOWLEDGEMENT

First and foremost, all credit goes to my Almighty. Then I would like to express my gratitude to all the people those were involved both directly and indirectly in the preparation of this report. I apologize to the people whose names that I have not mentioned, and their contribution is highly appreciated by me. At first, I would like to thank and convey my gratitude to my honorable Supervisor, M Mekarrom Hossain, professor, Department of Business Administration (DIU) for guiding me and for giving me the opportunity to initiate this report. More specifically, I would like to thank him for imparting his time and wisdom.

I want to thank all the officials of National Bank Limited who were involved. I would especially like to thank Mr. Maruf Hossain (SVP), Mr. Md. Asif Ahmed (PO), Mr. Saker Uddin Bhuyan(EO), Mr. Md. Tanzim Rahman(EO), Mr. Golam Rabbani (JO)(Gen), Mr. Nayeem Hassan(JO)(Gen), Mis. Nurjahan Poly(Com operator), Mr. Sayed Fahim Al Hoque(JO)(Gen) of Lake Circus branch for giving an opportunity of 3 month internship program and when any problem rose, they solved that and all time guided and supervised me friendly. I would like to thank them for giving me the required information to complete this report.

# Letter of Transmittal

**Date:** .....

**M. Mokarrom Hossain**

**Professor**

**Faculty of Business & Economics**

**Daffodil International University**

**Subject: Submission of Internship Report.**

Dear Sir,

With immense pleasure, I am submitting my internship report of “**Credit Risk Management And Corporate Social Responsibilities of National Bank Ltd. - A Study On lake Circus Branch**” which was assigned to me as a part of my BBA Program. I have tried my level best to complete this report with necessary information and suggested proposal that you provided me.

I hope that the report will be up to as your expectations.

Thank you

Sincerely,

.....

Md. Shohag Parvez

ID No: 111-11-1772

BBA Program, Batch- 28th

Department of Business Administration

Daffodil International University (DIU)

# Certificate of Approval



I am pleased to certify that the Internship Report on “**Credit Risk Management And Corporate Social Responsibilities Of National Bank Limited (NBL) - A Study On lake Circus Branch**” prepared by **Md. Shohag parvez** bearing **ID NO: 111-11-1772** of the **Department of Business Administration (Major in Finance)** is approved for Presentation and Defense. **Md. Shohag parvez** worked with “**National Bank Limited (NBL)**” as an intern under my supervision. He completed the work during the Spring -2014 semester. I am also pleased to certify that the data and the findings presented in the report seem to be authentic.

**Md. Shohag parvez** bears a good moral character and a pleasing personality. I wish him all success in future.

**Supervisor,**

.....

**M.Mokarrom hossain**

**Professor**

**Department of Business Administration**

**Faculty of Business & Economics**

**Daffodil International University**



# Declaration

**I** do hereby solemnly declare that the work presented in this internship report named **“Credit Risk Management And Corporate Social Responsibilities Of National Bank Limited – A Study On Lake Circus Branch”** has been carried out by me and has not been previously submitted to any university/ college/ organization for an academic qualification/certificate/ degree.

The work I have presented here does not breach any existing copyright and no portion of this report is copied from any work done earlier for a degree or otherwise.

I further undertake to indemnify the department against any loss or damage arising from breach of the foregoing obligations.

**Md. Shohag Parvez**

**ID. 111-11-1772**

**BBA Program 28<sup>th</sup> Batch**

**Department of Business Administration**

**Daffodil International University**

# EXECUTIVE SUMMARY

The internship is designed to bridge the gap between the theoretical knowledge and real life experience. It is designed to have a practical experience while passing through the theoretical understanding. The report is the result of 3-month internship program in National Bank Limited- Lake circus Branches. Today, necessity of a bank as a financial institution is undeniable. These institutions play a vital role in the field of financial stability of a country. Banking sector is one of the most stable financial institutions of any economy.

In the 1st chapter I have discussed the Introduction.

I have discussed about the profile of National Bank Ltd. overview by which we will know history, important vision and mission and objective of NBL & also objective of my report. On the next Chapter, I have discussed Credit risk management and corporate social responsibilities. Basically I have discussed my work related activities in NBL –lake Circus Branch. On next, I mentioned SOWT analysis and findings associated with the organization and this report. I have also discussed about what I have learnt during the internship at Lake Circus Branch.

Lastly I have given recommendations, conclusion and references.

## ACRONYMS AND ELABORATION

<b>AD</b>	<b>Authorized Dealer</b>
<b>ALCO</b>	<b>Asset Management Liability Committee</b>
<b>ALM</b>	<b>Asset Liability Management</b>
<b>AML</b>	<b>Anti Money Laundering</b>
<b>B/L</b>	<b>Bill Of Lading</b>
<b>BB</b>	<b>Bangladesh Bank</b>
<b>BOE</b>	<b>Bill Of Exchange</b>
<b>BTB</b>	<b>Back To Back</b>
<b>CC</b>	<b>Cash Credit</b>
<b>CEO</b>	<b>Chief Executive Officer</b>
<b>CLR</b>	<b>Classified Loan Recovery</b>
<b>CRR</b>	<b>Cash Reserve Ratio</b>
<b>CCU</b>	<b>Central Compliance Unit</b>
<b>CSR</b>	<b>Corporate Social Responsibility</b>
<b>DSE</b>	<b>Dhaka Stock Exchange</b>
<b>DD</b>	<b>Demand Draft</b>
<b>DP NOTE</b>	<b>Demand Promissory Note</b>
<b>EPS</b>	<b>Earnings Per Share</b>
<b>EXP FORM</b>	<b>Export Form</b>
<b>ERC</b>	<b>Export Registration Certificate</b>
<b>FA</b>	<b>Financial Analysis</b>
<b>FC</b>	<b>Foreign Currency</b>

<b>FDD</b>	<b>Foreign Demand Draft</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>FDR</b>	<b>Fed Deposit Receipt</b>
<b>FDBP</b>	<b>Foreign Document Bill Purchase</b>
<b>GCRO</b>	<b>Group Chief Risk Officer</b>
<b>HO</b>	<b>Head Office</b>
<b>HRD</b>	<b>Human Resource Division</b>
<b>IBTA</b>	<b>Inter Branch Division</b>
<b>IBC</b>	<b>Inwards Bill For Collection</b>
<b>IBP</b>	<b>Inwards Bills Purchase</b>
<b>IMP</b>	<b>Import Form</b>
<b>IRC</b>	<b>Import Registration Certificate</b>
<b>ITS</b>	<b>Information Technology Service</b>
<b>ICT</b>	<b>Information &amp; Communication Technology</b>
<b>JV</b>	<b>Journal Voucher</b>
<b>KYC</b>	<b>Know Your Customer</b>
<b>L/C</b>	<b>Letter Of Credit</b>
<b>LCA</b>	<b>Letter Of Credit Authorization</b>
<b>LBC</b>	<b>Local Bill Collection</b>
<b>MIS</b>	<b>Management Information System</b>
<b>NBL</b>	<b>National Bank Limited</b>
<b>NP</b>	<b>Net Profit</b>
<b>OBC</b>	<b>Outward Bill For Collection</b>
<b>OBU</b>	<b>Off-Shore Banking Unit</b>
<b>PO</b>	<b>Payment Order</b>
<b>PAD</b>	<b>Payment Against Documents</b>

<b>ROE</b>	<b>Return On Equity</b>
<b>ROA</b>	<b>Return On Assets</b>

<b>STD</b>	<b>Short Term Deposits</b>
<b>STR</b>	<b>Suspicious Transaction Report</b>
<b>SOD</b>	<b>Secured Overdraft</b>
<b>TT</b>	<b>Telegraphic Transfer</b>
<b>TP</b>	<b>Transaction Profile</b>
<b>VAT</b>	<b>Value Added Tax</b>
<b>VAN</b>	<b>Value Added Network</b>
<b>WB</b>	<b>World Bank</b>
<b>XPL</b>	<b>Export Performance</b>
<b>YTM</b>	<b>Yield To Maturity</b>

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# Chapter-1

## INTRODUCTION



# CHAPTER-ONE

## 1.1 Introduction of the Report:

The National Bank limited is the first private sector bank fully owned by Bangladeshi entrepreneurs. The bank was opened on March 28, 1983 but the first branch at 48, Dilkusha Commercial Area, [Dhaka](#) started commercial operation on March 23, 1983. The 2nd Branch was opened on 11 May 1983 at Khatungonj, [Chittagong](#).

At present, NBL has been carrying on business throughout all over the country. NBL was the first domestic bank to establish agency arrangement with the world famous Western Union in order to facilitate quick and safe remittance of the valuable foreign exchanges earned by the expatriate Bangladeshi nationals. NBL was also the first among domestic banks to introduce international Master Card in Bangladesh. In the meantime, NBL has also introduced the Visa Card and Power Card. The Bank has in its use the latest information technology services of [SWIFT](#) and [REUTERS](#). NBL has been continuing its small credit programme for disbursement of collateral free agricultural loans among the poor farmers of Barindra area in [Rajshahi](#) district for improving their lot. Alongside banking activities, NBL is actively involved in sports and games as well as in various Socio-Cultural activities. Up to September 2006, the total number of workforce of NBL stood at 2239, which include 1689 officers and executives and 550 staff.

A total asset of the Bank was Tk. 123,441,855,653 on September 30, 2010, equivalent to 1.7 billion U.S. dollars. The Bank invested 25% equity in Gulf Overseas Exchange Company LLC, a joint venture Exchange Company in Oman, operating since November, 1985 under the management of our Bank. The Bank received Riyal Omani 11875 equivalent to Tk.2.10 million as dividend for the year 2006.

## 1.2 Origin of the Study:

As a part of the Internship Program of Bachelor of Business Administration, I took the opportunity to do my internship in National Bank Limited, Lake Circus Branch. My faculty supervisor **Professor M. Mokarrom Hossain** Department of Business Administration also approved and helps me to prepare this intern report. The purpose of this report is to focus practical experiences of my day-to-day work as a part of my internship period.

### **1.3 Background of the Study:**

Internship program has been included to BBA curriculum for providing talent, up to date, smart and efficient executives. Internship means gaining supervised experience. Internship program offers an opportunity to know the environment of a particular organization. By doing this program, I have developed and refined my theoretical knowledge gained in the classroom. This program provides exciting experience of planning, culture, behavior of employee and management style of that organization, which helps me to fill the gap between theoretical and real practical world. Theoretical knowledge does not make a person perfect. To implement the academic knowledge, practical knowledge related to it, is important. A perfect consideration between theory and practice is important in the context of modern business world. Under the internship program, every student is assigned to an organization with a view to acquire practical knowledge. After taking practical knowledge, each student is required to prepare a report on the selected organization under the guideline of his /her assigned teacher. As a participant in this program, I was placed at National Bank Limited, Lake Circus branch that is well reputed for trade and commerce in Dhaka city, for a period of three months.

### **1.4 Scope of the Report:**

This report has two broad divisions. One is the organization part and the other is the learning part. The organization part describes about NBL. The learning part deals with the specific assignment that I carried out on my NBL. This specific assignment or the learning is to identify and evaluate the credit risk management policy of NBL.

### **1.5 Objectives:**

OF Study are as follows:

The Specific Objectives:

- To identify the various types of credit disbursed by NBL.
- To evaluate the credit management practices of NBL.
- To examine the credit recovery performance of NBL.
- To put forward some recommendations based on findings.
- To prescribe some suggestions to overcome the problems.

## 1.6 Methodology:

**Sources of Information:** Both primary and secondary sources of information were used to complete this report.

### 1.6.1 Sources of Data:

This report is based on both primary & secondary source of information. For the development of this paper, data have been collected from the various sources like different publications, library sources, books, articles, etc.

The primary sources are-

Primary data and information were collected by interviewing relevant persons at NBL. The interviewed personnel were given their own data based on their experience. They are the employee of the NBL of Lake Circus branch.

The secondary sources are –

Annual Report 2009 to 2013 of National Bank Ltd. NBL  
website “ [www.nationalbankbd.com](http://www.nationalbankbd.com) ” Periodicals  
published by the Bangladesh Bank;

### 1.6.2 Data Collection Procedure:

**Primary Data :** Primary data were collected personal observation, daily desk work and face to face conversation with clients & employees.

**Secondary Data:** Secondary data were collected from their Annual Report and the website “ [www.nationalbankbd.com](http://www.nationalbankbd.com) ” and periodicals published by the Bangladesh Bank, different publications regarding banking functions, operation, and transactions policies.

## 1.7 Population Size:

The report has prepared on **Credit Risk Management** of National Bank Limited. Therefore, for the purpose of the study , all the branches of National Bank Limited have been considered as the population of the study. Here total number of employee are 14 and total number of client are 1000.

## 1.8 Sample Size:

Only one branch of National Bank Limited has been taken as the sampling unit for the study, i.e. Lake Circus branch. Total number of employee are 14.

## 1.9 Sampling Method:

Random sampling method has been used for collecting data.



### **1.10 Data Analysis Process:**

The report is based on both primary and secondary sources of information. Interviewing the managers and officers of the bank, talking to the customers, the primary data have been collected. Further more different publications of the bank annual reports and the bank websites have been used for the purpose of collecting secondary data.

### **1.11 Limitations of the Report:**

Anything, which will adversely affect the image of the bank, could not be disclosed.

The annual report of the banks is not a well report. Some terms are not happened in future.

National Bank Limited (NBL) is a private bank and they are conservative about their data as a result it was not possible for the report to get all the data required. Sometimes the officials had been unable to provide information because of their huge routine work.

Due to lack of experience, there is a chance of having some mistake in the report though.

# Chapter-2

## PROFILE OF NATIONAL BANK LIMITED



## CHAPTER -TWO

### 2.1 Corporate Overview:

Name of the Company	National Bank Limited.
Date of Registration	15 March, 1983
1 <sup>st</sup> Branch	Dilkusha Branch, Dhaka.
Opening Ceremony	23 March, 1983
Number of Branch	166
Nature of Business	Commercial Banking
Registered Office	Head Office 18, Dilkusha Commercial Area Dhaka-1000 Bangladesh.
Telephone No.	716872931,95508235,95630815,9550897
Fax No.	+880-2-956-3953, 966-9404
SWIFT Code	NBLBBDDH
E-mail	<a href="mailto:ho@nblbd.com">ho@nblbd.com</a>
Web Page	<a href="http://www.nblbd.com">www.nblbd.com</a>

### 2.2 Mission

To launch a welfare-oriented banking system.

To allow customer deposits on profit-loss sharing basis.

To found participatory banking instead of banking on debtor creditor relationship.

To provide high quality financial services in export and import trade.

To maintain corporate and business ethics.

## 2.3 Vision:

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.

## 2.4 Commitments:

<b>In Serving Customers</b>	<b>In Serving the Bank</b>	<b>In Carrying Ourselves at Work</b>
Customer- first Quality –focus Credibility & Secrecy	Loyalty Total commitment & dedication Excellence through teamwork	Discipline Honesty Sincerity Creativity

## 2.5 Organizational Structure:

Organizational structure plays an important role on the profitability of any organization. National Bank Limited is a centralized organization and it's activates designed on the basis of traditional banking business process; Such as Credit, International Division, Investment, Administration, and Operation etc. NBL has a formal organizational structure that is highly specialized and centralized.

### 2.5.1 Planning:

The strategic planning approach in NBL is top-down. Top management formulates strategy at the corporate level, and then it is transmitted through the division to the individual objectives. Board of directors or Executive committee usually takes the decision. In this process lower level manager are detached in making process, even brainstorming of lower level manager is absent in decision-making and planning process.

### **2.5.2 Organizing:**

Organizing of the National Bank Limited is based on departmentalization. The Organization is divided into twelve departments headed by Executive Vice president or Senior Vice President. In the NBL the whole operation is centralized and authority is delegated by written guidelines. These guidelines are:

Advance manual including advances limit for different management level.

Bad and doubtful recovery manual. Code of conduct.

Foreign banking guidelines.

Central bank directives.

### **2.5.3 Staffing:**

Entry level recruitment process of the National Bank Limited is conducted in three ways. One way is recruitment of probationary officer. Each probationary officer has one year probation period. The career path of probationary officer is headed toward different management positions. Second way of recruitment is to recruit non probationary officer who joins as an assistant officer. The career path of an assistant officer is lengthier than probationary officer. The third way of recruitment is recruitment of staff and sub staff such as typist, messenger, driver, guard, attendant, cleaner and other lower level positions. Promotion policy of NBL is basically based on seniority basis. Sometimes, employees are promoted to the higher position for their outstanding performance.

### **2.5.4 Controlling:**

The bank has strict control over its all organizational activities. The Bangladesh Bank directives indicate some control measures. The central bank conducts credit inspection by a team. The National Bank Limited has audit and inspection department to take controlling measures in internal operations. Audit and inspection team send to the branches and then is responsible for preparing report that will be submitted to the chief administration to take necessary actions.

## **2.6 Correspondent Banking Relationship**

The Bank has established correspondent relationship across the world with a number of foreign banks. Through its correspondent relationship network, NBL continues to follow needs and business opportunities of its clients. NBL also enjoys sufficient credit lines from correspondent banks for add conurbation to LC to facilitate international trade.

## **2.7 Capital Adequacy**

As per the guidelines of Bangladesh Bank, the Bank has implemented Basel II successfully in the Bank. The consolidated Capital Adequacy Ratio (CAR) of the Bank is 10.60% as on December 31, 2013 against the minimum requirement of 10%.

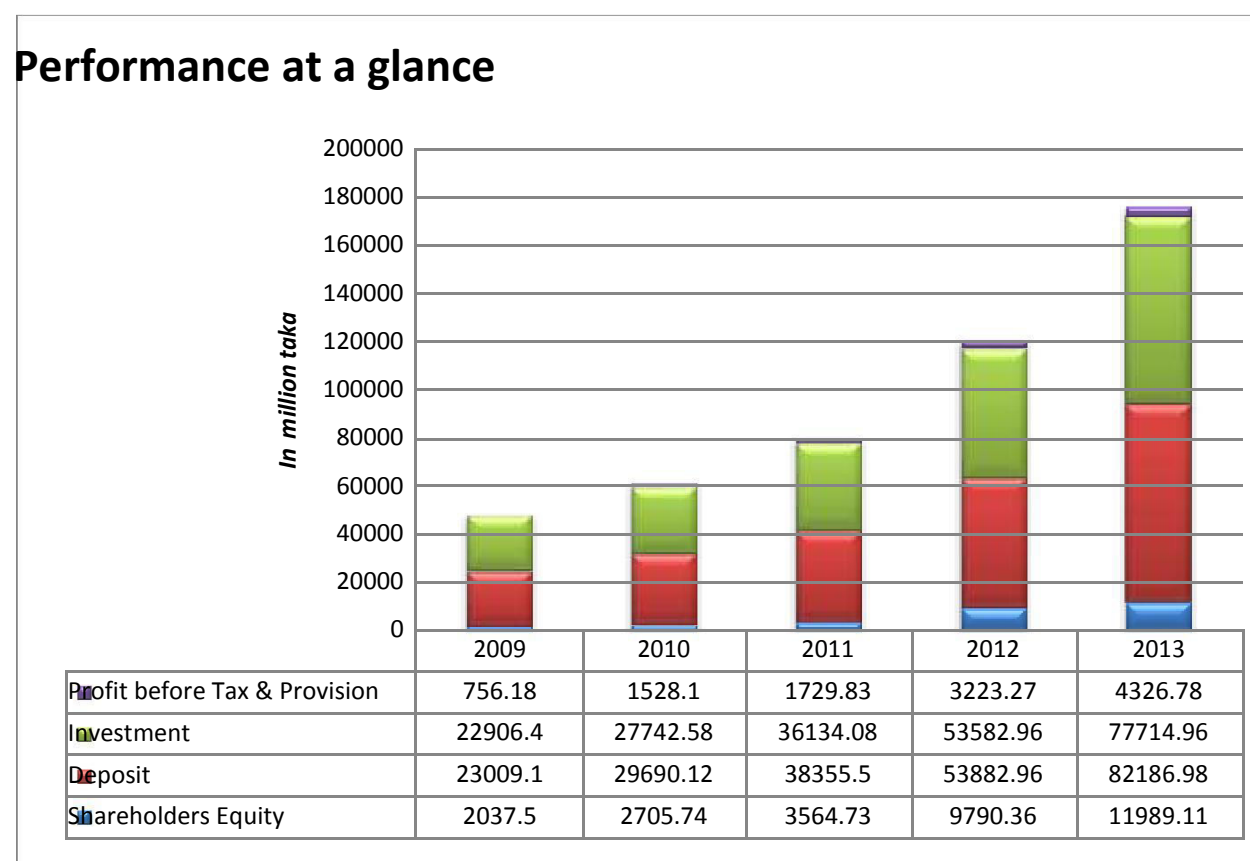
## **2.8 Authorized and Paid Up Capital**

The Authorized Capital of the Bank was BDT 8,000.00 million of 800,000,000 Ordinary Shares of BDT 10 each as on December 31, 2013. Paid-up Capital of the Bank was BDT 4,968.09 million of 496,809,200 Ordinary Shares, face value of BDT 10 each and listed both in Dhaka and Chittagong Stock Exchange. The shares of the Bank are trading at prices higher than the book value.

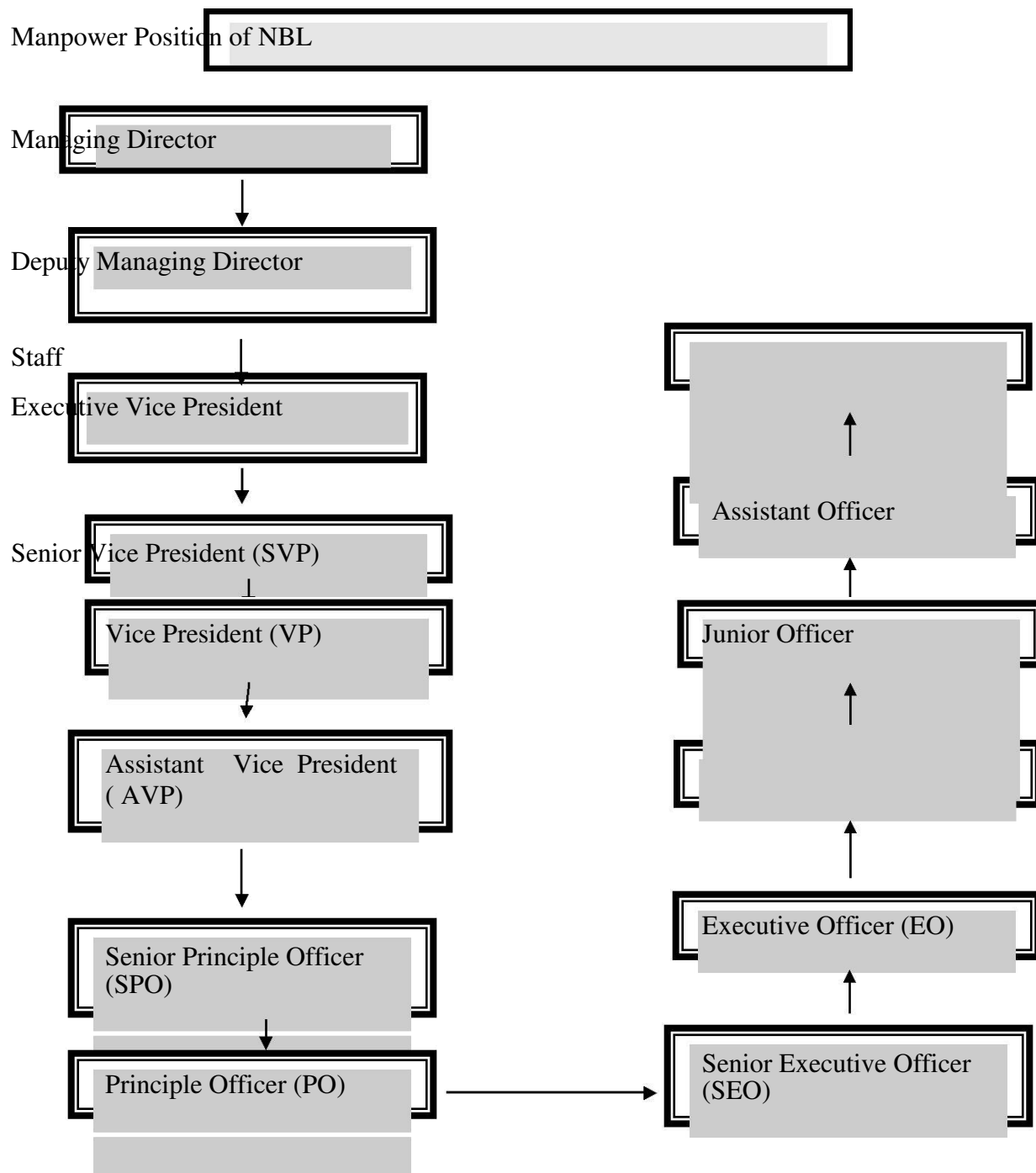
## **2.9 Deposits & Deposit Mix**

Deposit is the major source of fund for Commercial Banks. All the banks wants that they have sufficient deposits to expand their business with a continuously increasing trend. In 2013, the bank mobilized total deposits of BDT 102,262.02 million compared to that of BDT 75,629.14 million up to 2012 end. The growth rate is 35.22%.

## 2.10 Performance at a Glance



## 2.11 Manpower Position of National Bank Ltd :





## **Source - Service Rule of NBL**

### **2.12 Product and Services**

#### **2.12.1 Deposits Product**

Saving Deposit

Current Deposit

Term Deposit

Foreign Currency Deposit

Monthly Saving Scheme

Monthly Income Scheme

Double Benefit Scheme

Millionaire Income Scheme

#### **2.12.2 Credit Products**

Overdraft

Lease Financing

House Building

Small Medium Enterprise

Consumer Credit Scheme

Trade Finance

#### **2.12.3 Cards Products**

Credits Card

NBL Po

# Chapter-03

## **CREDIT RISK MANAGEMENT PROCESS OF NATIONAL BANK LIMITED**



## **CHAPTER-THREE**

### **3.1 Credit Policy Framework**

#### **3.1.1 Credit**

In banking terminology, credit refers to the loans and advances made by the bank to its customers or borrowers. Bank credit is a credit by which a person who has given the required security to a bank has liberty to draw to a certain extent agreed upon. It is an arrangement for deferred payment of a loan or purchase.

#### **3.1.2 Credit Risk**

Risk may be defined in terms of the variability of possible outcomes from a given investment. If the outcome is certain and there is no variability-hence no risk. Another way Risk means the exposure to a chance of loss or damage. Risk is the element of uncertainty or possibility of loss that exist in any business transaction. Credit risk is the likelihood that a borrower or counter party will be unsuccessful to meet its obligation in accordance with agreed terms and conditions.

#### **3.1.3 Credit Risk Management**

Risk Management is a discipline at the core of every financial institution and encompasses all the activities that affect its risk profile. It involves Identification, Measurement, Aggregation, Planning and Management, as well as monitoring.

Identification. A bank's risks have to be identified before they can be measured and managed. Typically banks distinguish the following risk categories:

- Credit risk
- Market risk
- Operational risk

## Measurement

The consistent assessment of the three types of risks is an essential prerequisite for successful risk management. While the development of concepts for the assessment of market risks has shown considerable progress, the methods to measure credit risks and operational risks are not as sophisticated yet due to the limited availability of historical data.

### Calculation of Credit risk

Credit risk is calculated on the basis of possible losses from the credit portfolio. Potential losses in the credit business can be divided

**Expected losses** are derived from the borrower's expected probability of default and the predicted exposure at default less the recovery rate, i.e. all expected cash flows, especially from the realization of collateral. The expected losses should be accounted for in income planning and included as standard risk costs in the credit conditions.

**Unexpected losses** result from deviations in losses from the expected loss. Unexpected losses are taken into account only indirectly via equity cost in the course of income planning and setting of credit conditions. They have to be secured by the risk coverage.

### Aggregation

When aggregating risks, it is important to take into account correlation effects which cause a bank's overall risk to differ from the sum of the individual risks. This applies to risks both within a risk category as well as across different risk categories.

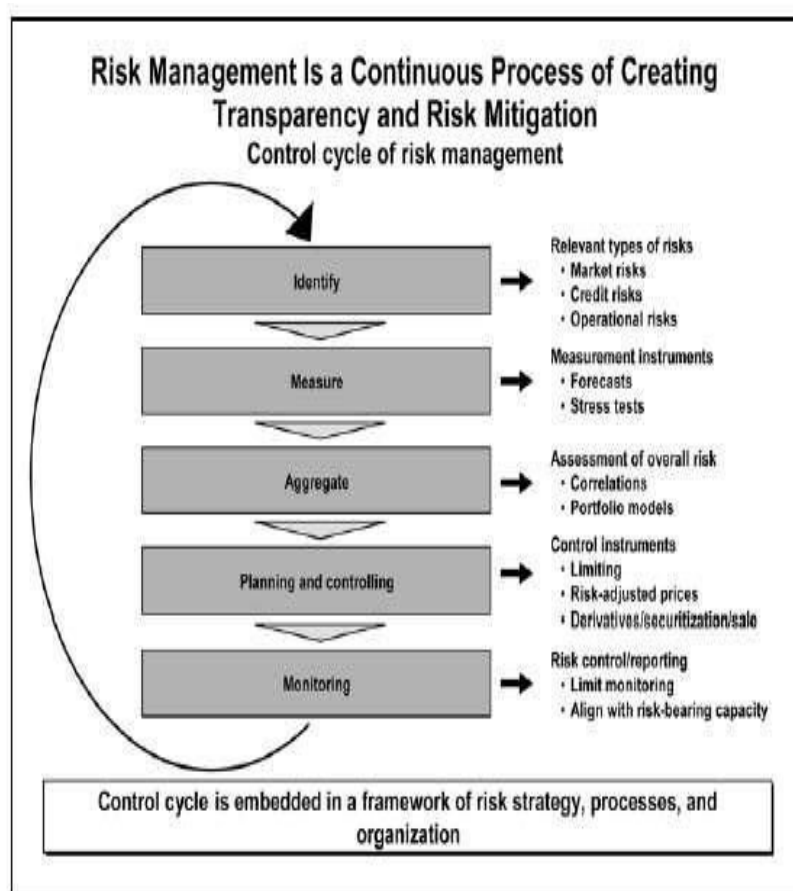
## Planning and Management

Furthermore, risk management has the function of planning the bank's overall risk position and actively managing the risks based on these plans. The most commonly used management tools include:

- Risk-adjusted pricing of individual loan transactions
- Setting of risk limits for individual positions or portfolios
- Use of guarantees and credit insurance
- Securitization of risks
- Buying and selling of assets

## Monitoring

Risk monitoring is used to check whether the risks actually incurred lie within the prescribed limits, thus ensuring an institution's capacity to bear these risks. In addition, the effectiveness of the measures implemented in risk controlling is measured, and new impulses are generated if necessary.



## **3.2 General Credit Principle**

### **3.2.1 General Guidelines:**

- In the normal course of conducting business, the Bank will prefer trade financing in the form of short term (up to 12 months) self liquidating cash flow supported and collateralized trade transaction.
- The bank will consider lending short-term working capital finance to well established entities engaged in manufacturing, assembling, processing of goods and commodities for consumption in domestic as well as international market.
- The Bank will selectively, on a case-by-case basis, carefully approve term loans (loans with original tenor exceeding one year) with proper credit risk assessment supported by satisfactory cash flow statement.
- The Bank will, on a case-to-case basis, approve disclosed participations in syndications.
- The bank will consider financing construction contractors. However, all such transactions should be properly analyzed in line with the status of contract proceeds and proper cash flow justifications.

### **3.2.2 Product and Services:**

The Bank shall sell suitable credit products and services in the market. For this purpose, Bank will design new product from time to time, reengineer the existing ones to keep the same competitive in the market. While designing new products and/or reengineering the existing ones Bank will always take into consideration the customers demand. Product innovation and/or reengineering shall be a continuous process.

### **3.2.3 Loan-Deposit Ratio:**

Loans and advances shall normally be financed from customers deposit and sometimes from capital fund of the Bank. However, it will be ensured that Loan-Deposit Ratio should not exceed 90% at any particular point of time and regulatory compliance of CRR/SLR would be maintained. Generally loans and advances shall not be extended out of temporary fund or borrowing from money market.

### **3.2.4 Risk Acceptance Criteria:**

The Management will review and prepare periodically Risk Acceptance Criteria (RAC) duly approved by the Executive Committee/Board and disseminate to the concerned executives at operational level. In preparation of RAC the following area would be covered with flexibility for deviations by the competent authority:

- a) Maximum amount in each type of facility line
- b) Maximum limit to a single obligor and group
- c) Acceptable Leverage, Current ratio, Interest coverage, Operating margin for an industry.
- d) Geographical location
- d) Security & Support

National Bank Limited will extend credit only to qualified borrowers where the amount and intended purpose are clear and legitimate. Credit facilities shall be allowed in a manner that the expansion in credit does not compromise the asset quality of the Bank.

### **3.2.5 Compliance:**

All credit sanction must comply with the requirements of Bank's Memorandum and Articles of Association, Banking Companies Act, 1991 as amended from time to time, Bangladesh Banks instruction circulars, guidelines and other applicable laws, rules and regulations, Banks Credit Risk Management Policy, Credit Operational Manual and all relevant circulars in force. The officer originating a credit proposal shall specifically declare that it complies with all above mentioned rules, regulations, policy etc.

### **3.2.6 Deviation:**

Any deviation from the Credit Policy of the Bank must be justified in the proposal and well documented. Specially, all credit assessment form shall invariably include the deviations from the policy, if any. Proposal that does not comply with the Credit Risk Management Policy should be approved by Head Office. However, no regulatory regulations shall be compromised.

### **3.2.7 Return:**

Credit operation of the Bank should contribute return at optimum level within the defined risk limitation. In other words, credit facilities should be extended in such a manner that each deal becomes a profitable one so that Bank can achieve its targets and has a superior return on capital. Besides, Credit extension shall focus on the development and enhancement of customer's relationship and shall be measured on the basis of the total yield for each relationship with a customer.



### **3.2.8 Repayment Capacity:**

Borrowers should have a source of repayment established at the inception of credit. Credit analyst should also endeavor a secondary source of repayment to protect the interest of the bank. All repayments should be legitimate and consistent with the type of business. Satisfactory security and collateral is required as appropriate. However, Bank's main consideration will be Cash Flow Statement of the business rather than on collateral security.

### **3.2.9 Single Customer Exposure Limit:**

An important element of risk management is to establish exposure limits for single obligors and group connected obligors. To spread the risk and to ensure that funds of the Banks are not used for a limited number of clients, Bangladesh Bank has laid down guidelines. As per prevailing regulation, Bank will take maximum exposure on a single customer (Individual, Enterprise, Company, Corporate, Organization, Group) for the amount not exceeding 35% of Bank's total capital. However, for single customer of the export sector maximum exposure limit shall be 50% of the total capital subject to the condition that total funded facility shall not exceed 15% of the total Capital of the Bank. National Bank Limited will follow the ceiling set by Bangladesh Bank.

### **3.2.10 Diversification and Sector Allocation:**

The portfolio shall be well diversified to reduce the risk of dependence on a particular sector. The management will review periodically the existing sectoral performance, economic trends both local and global with respect to that sector, industry saturation, industry structure, geographical advantage, Government policy, Risks specific to the industry etc. to provide guidelines for annual industry/sector allocation in credit portfolio.

## **3.3 Product**

### 3.3.1 Lending Sector:

As initiated by Bangladesh Bank vide BCD Circular No. 33 dated 16/11/89 different kinds of lending were subdivided into 11 categories w.e.f. 01/01/90 which was subsequently reduced to 9 vide BCD Circular No. 23 dated 09/10/93 and again to 7 prime sectors vide BCD Circular No.8 dated 25/04/94.

Loan and advances have primarily been divided into three major groups:

**a) Fixed Term Loan:** These are the non-revolving loans made by the Bank with fixed repayment schedules. Fixed term loans are categorized into three categories based upon its tenure which is defined as follows:

Short term	: Upto 12 months
Medium term	: More than 12 and upto 36 months
Long Term	: More than 36 months

**b) Continuous Loans:** These are the revolving loans having no fixed repayment schedule, but have an expiry date at which it is renewable on satisfactory performance of the customer.

**c) Demand Loan:** These are the non-revolving loans which are neither continuous nor fixed but have to be repaid on demand. Furthermore all categories of loans are accommodated under the 7 prime sectors which are as under.

#### 3.3.1.1 Agriculture:

Credit facilities provided to the customers who transact agro business falls under this category. It is divided into two major sub-sectors:

**a) Loans to Primary Producers:** This sub-sector of agricultural financing refers to the credit facilities allowed to production units engaged in farming, fishing, forestry or livestock.

**b) Loans to Input Dealers/Distributors:** It refers to the financing allowed to input dealers and (or) distributors in the agricultural sectors. Loan to Agriculture sector may include short, medium and long term loans as well as continuous credits.

### **3.3.1.2 Term Loan to Large & Medium Scale Industry:**

This category of advances accommodate the medium and long term financing for capital asset formation of new Industries or for BMRE of the existing units who are engaged in manufacturing of goods and services. Term loan to tea gardens may also be included in this category depending on the nature and size. As the financing under this category have fixed repayment schedule it may fall under the heads Term Loan/Time Loan /Hire-Purchase/Lease Financing etc.

### **3.3.1.3 Working Capital:**

Loans allowed to the manufacturing units to meet their working capital requirements, irrespective of their size - big, medium or small, fall under this category. These are usually continuous credits and as such fall under the head "Cash Credit" or "Overdraft".

### **3.3.1.4 Export Credit:**

Credit facilities allowed to facilitate export of all items against Letter of Credit and/or confirmed export orders fall under this category. It is accommodated under the heads Packing Credit (PC), Foreign Documentary Bill Purchased (FBPD), Local Documentary Bill Purchased (LBPD) etc.

### 3.3.1.5 Commercial Lending:

Short term Loans and continuous credits allowed for commercial purposes other than exports fall under this category. It includes import financing for local trade, service establishment etc. No medium and long term loans are accommodated here. This category of advance is allowed in the form of (i) Loan against Imported Merchandise (LIM), (ii) Loan against Trust Receipt (LTR), (iii) Payment Against Documents (PAD), (iv) Overdraft (OD), (v) Cash Credit etc. For commercial purposes.

### 3.3.2 Types of Credit Facilities:

The following are the existing credit products of National Bank Limited covering term loan, export lending, working capital & commercial lending. The products are subject to review and amendment of the product/launching new product will be carried out on a continuous basis. Depending on the various nature of financing, all the credit facilities have been brought under two major groups: (a) Funded Credit and (b) Non-funded Credit. Under **Funded Credit**, following are the products of NBL:

Serial No.	Name of the Facility	Description	Purpose	Tenor(Max)
<b>Funded</b>				
1.	(S OD)	Secured Overdraft 100% cash covered	General purpose	12 months
2.	(OD)	overdraft	To finance business operations/Industry operations	12months
3.	Time Loan	Time Loan against Other Security/Collateral/Support	To finance business operations/work order/Industrial working capital To finance fixed asset To finance duty/tax General purpose	12 months

4.	Term Loan	Term Loan against fixed assets	To finance fixed asset	Over 1 year max 7 years
5.	(PC)	Packing Credit against Export L/C & Export Order	To finance against Export L/C To finance against Export Order	120 days
6.	(PAD)	Payment against Document	Advance against L/C Forced Loan	21 days
7.	(LTR)	Loan against Trust Receipt	To finance import L/C	180 days
8.	CC (Hypo)	Cash Credit against hypothecation of Inventory and Book Debts	To finance Inventory Other Business operations	12 months
9.	CC(Pledge)	Cash Credit against Pledge of Inventory	To finance pledged Inventory	12 months
10.	LDBP	Local documentary bill purchased	To purchase /discount against local usance L/C	As per LC Terms 180 days
11.	FDBP	Foreign documentary bill purchased	To purchase /discount/ negotiate export documents against Sight/Usance Export L/C	As per LC Terms
12.	Lease Financing (New)	Lease finance	To finance capital machinery, equipment and vehicle Exclusive right to use the asset by the	Over 1 year max 5 years
13.	HBL(Com) Residential	House Building Loan - Commercial	To finance commercial house/ apartment	36-96 months 12.
14.	HBL(Res)	House Building Loan -	To finance residential building / apartment	60-120 Months

### **3.4 Pricing Credit Facility**

#### **3.4.1 Credit Pricing:**

Credit facilities to the customer are the prime source of the Bank income. More specifically, interest from loans account forms the lion share of the total revenue of the Bank. On the other hand, the market of our country is very competitive due to presence of **52 (fifty two)** banks in our small financial market. As such, it is quite apparent that pricing is very crucial for the profitability and the continuous growth of the Bank. National Bank Limited has been fixing/ refining price of different type of credit facilities from time to time considering changes in the market condition.

#### **3.4.2 Basis of Pricing:**

Price of all credit facilities will be fixed by the Bank based on Bank priorities and market conditions within the guidelines of Bangladesh Bank from time to time. Rate of interest will be the reflection of risk inherent in a particular transaction i.e. the higher the risk, the higher the rate of interest. Price of any credit facility depends on the level of risk and type of security offered. According to the regulatory guidelines Bank can reduce 1.5% higher or lower than the mid rates circulated. However, any change in pricing other than the mid rate should be approved by the Managing Director.

#### **3.4.3 Types of Rate:**

Usually, Bank will charge fixed interest rate which will be subject to changes by the Management. In this respect, all loan contracts will contain a provision to the effect that rate of interest is subject to changes by the Management. Interest rates will be revised as and when a significant fluctuation occurs in the cost of fund of the Bank due to volatility of interest rate in the market. The Bank will charge floating interest only in SOD. In all other cases, fixed interest rate will be applied.

For fixed interest rate, the Board of Directors will fix a Band on recommendation of ALCO for a particular Sector/Industry/Product. Customers will be charged a fixed rate within that band. Any deviation from the approved interest rate should be mentioned in the Credit Assessment Form with proper justification. The Managing Director may sanction a credit facility at a rate within the Band.

#### **3.4.4 Revision of Rates:**

The Management of the Bank will continuously monitor interest rate situation offered by other financial institutions as well as cost of fund and discuss the same in the Asset Liability Management Committee (ALCO) meeting at least once in a month. As per recommendation of the Asset Liability Management Committee (ALCO), the Management of the Bank may approach the Board of Directors to revise rate of interest, commission, charges etc and after approval that will be communicated to all concerned.

### **3.5 Credit Risk Assessment**

#### **3.5.1 Risk Assessment:**

The primary purpose of a bank is to borrow money from those who have a surplus funds the lend this money out to those who are in need of funds. It is essential that when it lends out money than the bank has a certain confidence that the money will be repaid at the given time, together with interest. Risk assessment or analysis is all about understanding the risk associated with lending money. Until and unless risks are not assessed and measured it will not be possible to control risks. The primary factor determining the quality of the Bank's credit portfolio is the ability of each borrower to honor, on timely basis, all credit commitments made to the Bank. Therefore a thorough credit risk

assessment shall be conducted prior to the sanction of any credit facilities. Credit risk assessment process in the Bank shall be governed by the following principles:

### **3.5.2 Assessment Frequency:**

A comprehensive Credit Assessment (Due Diligence) shall be conducted before sanction of any loan. Thereafter, it will be done annually for all types of credit facilities i.e Demand Loan, Continuous Loan and Term Loan.

### **3.5.3 Assessment Documentation:**

The result of the Credit Assessment shall have to be presented in the Credit Assessment Form enclosed in. Initially, it will be originated by the Relationship Officer of the Branch and reassessed in Corporate Banking Division. Credit Review Department of Credit Risk Management Division will review the risk factors and facility structure to determine that all the risks have been properly assessed and Risk mitigation measures have been taken and all bank's policy requirements & regulatory requirements have been addressed. All evidences of credit assessment have to be filed properly in the respective Credit File.

### **3.5.4 Accountability:**

The Relationship Manager (presently Head of Branch) shall be the owner of the customer relationship and be held responsible to ensure the accuracy of the entire credit application/assessment form submitted for approval. He/she will be responsible for conducting due diligence on the borrower, principals and guarantors.



### **3.5.5 Filling up Credit Assessment Form:**

Bank requires sufficient information to enable comprehensive assessment of the true risk profile of the borrower. Hence, Credit Assessment Form must be filled in with accurate information in full. No field in the assessment form should be erased or left vacant. If information is not available, concerned field should be filled in with “Information Not Available” with proper justification.

### **3.5.6 Credit Requirement:**

Credit requirement of the borrower must be assessed properly. The relationship officer will apply prudence to find out actual credit requirement of the borrower and place his/her findings in the Credit Assessment Form.

### **3.5.7 Repayment Source:**

Repayment source of the borrower is to be validated in the Credit Assessment Form by cash flow and other financial analysis. For such analysis, at least three years financials are to be reviewed. Loan amount and tenor must commensurate with the repayment capacity of the borrower.

### **3.5.8 Risk & Mitigating Factors:**

Risks inherent in a credit proposal shall have to be identified and appropriate mitigating factors should be applied. Critical success factors should be analyzed. These are to be summarized in the Credit Assessment Form.

### **3.5.9 Collateral:**

Collateral offered against a credit facility shall properly be valued and verified by the concerned Relationship Officer and/or Relationship Manager and revalued and re-verified annually in the subsequent period. In addition to the valuation of the Relationship Officer/Manager, the same collateral must be

valued and verified by an enlisted surveyor of the Bank if the total credit facility to the concerned customer exceeds Tk 25.00 lac (Taka Twenty Five Lac). Any valuation of collateral must be supported by the photograph and site map, where applicable.

### **3.5.10 Insurance Coverage:**

Adequacy and extent of insurance coverage must be assessed in the Credit Assessment Form. Customer's preference for not taking required insurance policy must be justified properly and it must be mentioned as deviation. The policy must be obtained from approved insurer of the Bank.

### **3.5.11 Adherence to Policy:**

It should be clarified whether the customer has agreed to comply with banks internal policy and external regulatory requirements. Any deviation from the policy or other internal or external requirements must be justified properly and mentioned as Deviation in the Credit Assessment Form. Furthermore, the originating officer will affix a declaration in the Credit Assessment Form that the proposal does not contradict with any rules and regulations of the Bank, Banking Companies Act, any circulars of Bangladesh Bank etc.

### **3.5.12 Syndicated Loans:**

Proposal for syndicated loans shall be analyzed with respect to risk and return in the same manner as directly sourced loans. In case of participation in a syndication deal, Bank will independently assess the proposal and will not solely depend on the credit assessment of the Lead Arranger.

### **3.5.13 Change in Pricing:**

Any changes in the pricing of an existing credit facility must be highlighted and to be justified in the Credit Assessment Form.

## **3.6 Credit Risk Grading**

### **3.6.1 Credit Risk Grading:**

While providing credit facility to a customer, Bank undertakes many risks among which credit risk is considered to be the most important one. Bank needs to manage the credit risk inherent in the entire portfolio as well as the risks in individual credit or transaction. One of the strategies employed in managing credit risk is Credit Grading of borrower accounts. Credit Risk Grading framework is essential to avoid the limitations associated with a simplistic & broad classification of loans into “good” or a “bad” category. Credit Risk

Grading helps a bank to understand various dimensions of underlying risk involved in different credit transactions. The Risk Grading framework is used for following purposes:

- Single point indicator of diverse risk factors of a loan portfolio and talking credit decisions in a consistent manner.
- It's a tool for measurement of various risks associated with lending. It provides basis for risk pricing and fixation of rate of interest on lending to different borrowers based on their credit rating.
- Reveals the weak parameters based on the points scored
- Facilitates the bank to monitor/focus on the weaker areas and follow up with the borrower for bringing improvement.
- To identify the parameters which have improved/deteriorated by comparing with earlier rating.
- Overall health of the advances.

- Assessing the aggregate risk profile of a bank.

### **3.6.2 NBL's Risk Grading Framework:**

Effective risk management requires an accurate and forward looking estimation of the probability of default over the next 12 months. It should be noted that Credit Risk Grading is not a replacement of comprehensive credit appraisal. Credit Risk Grading is a dynamic process for measuring credit risk to help the sanctioning authority in taking decisions. All credit proposals whether new or renewal must be supported by Credit Risk Grading. It will encompass the following two things: (a) Risk Grading Scorecard and (b) Risk Grading Sheet. No proposal will be processed until Risk Grading is completed, submitted for approval and the result is shown in proposal. It is the responsibility of the originating officer to ensure that analysis has been carried out with authentic and reliable information.

#### **3.6.2.1 Risk Grading Scorecard:**

As per instruction of Bangladesh Bank, Risk Grading Score Card has been developed for all exposures of NBL (irrespective of amount) other than those covered under Consumer and Small Enterprise Financing Prudential Guidelines and also under The Short-Term Agricultural and Micro-Credit. The Score Card will be updated if required. The score of the risk grading scorecard will be weighted one. Score Cards are tools to determine a borrower's aggregate score based on assessment of quantitative and qualitative factors. Score Cards shall records the Assigned rating through a combination of the Aggregate Score as well as exercise of judgment. Judgment plays an important role in the scoring of qualitative factors as well as recommendations made to change the risk rating in case of disagreement. A snapshot of Principal Risk components and corresponding Parameters and weight assigned to each Component is as follows:

SL No.	Components	Parameters	Weight(%)
1.	Financial Risk	a) Leverage b) Liquidity c) Profitability d) Coverage	50
2.	2) Business Risk	a) Turnover of Business b) Age of Business c) Business Outlook d) Technology/Resource e) Industry Growth f) Inventory/Receivables g) Market Competition h) Entry/Exit Barriers	18
3.	3) Management Risk	a) Business experience b) Expertise of the Management c) Second line /Succession d) Team Work	12
4.	4) Security Risk	a) Security Coverage(Primary) b) Security Coverage (FSV) c) Security Coverage(Location) d) Support/Guarantee	10
5.	5) Relationship Risk	a) Account Conduct b) Utilization of limit c) Compliance of Covenants/Conditions	10

The Relationship Officer of the Branch will prepare Risk Grading Scorecard in case of new proposal, renewal and/or enhancement of existing facility, any deterioration in the borrowers business position, any breach of contract by the borrower or as and when he/she feel it necessary. In addition, aggregate weighted score of the customer is to be affixed in the relevant field of the Credit Assessment Sheet.

### 3.6.2.2 Risk Grading:

After preparation of Risk Grading Scorecard, concerned Relationship Officer will assign risk grade to the customer within the following definition of Credit Risk Grading:

<b>Risk Grade</b>	<b>Numeric Grade</b>	<b>Definition</b>
Superior – Low Risk	1	Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentations are in place
Good – Satisfactory Risk	2	The repayment capacity of the borrower is strong. The borrower has excellent liquidity and low leverage. The company demonstrates consistently strong earnings and cash flow. Borrower has well established market and very good management skill. All security documentation should be in place. Aggregate Score of 85 or greater based on the Risk Grade Scorecard.
Acceptable – Fair Risk	3	These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. Borrowers have adequate liquidity, cash flow & earnings. Credit is normally be secured by acceptable collateral (1st charge over stocks / debtors / equipment / property). Acceptable management. Acceptable parent/sister company guarantee. A Aggregate Score of 75-110 based on the Risk Grade Scorecard.

Marginal - Watch list	4	Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. Weaker business credit & early warning signals of emerging business credit detected. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.
Substandard	5	Financial condition is weak and capacity or inclination to repay is in doubt. These weaknesses may jeopardize the full settlement of loans. Loans should be downgraded to 6 following Bangladesh Bank criteria of classification. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.
Doubtful and Bad (nonperforming)	6	Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as specifically identifiable pending factors, such as litigation liquidation procedures or capital injection, the asset is not yet classified as Loss. Bangladesh Bank criteria of classification should apply. An Aggregate Score of 35- 44 based on the Risk Grade Scorecard Loss (nonperforming) 8 Assets graded 8 are long outstanding with

### **3.6.2.3 Procedural Guidelines:**

i) The credit Risk Rating system is to be used by all Credit/Relationship Officer for all exposures except the loans under Retail Credit Division. The Credit Risk Rating system would be useful in analyzing credit proposal, new or renewal for regular limits or specific transactions, if the basic information on a borrowing client to determine the degree of each factor is:

- Readily available
- Current
- Dependable
- The factors are assessed judiciously and objectively

Therefore, factors are to be evaluated and weighted very carefully, on the basis of most up-to-date and reliable information and complete objectivity must be ensured to assign the correct rating.

ii) Risk rating exercise should be originated by Relationship Officer and countersigned by Relationship Manager. The exercise should be an on-going and continuous process. It is to be understood that the objective and effectiveness of the system will be jeopardized if total objectivity is not ensured.

iii) If Credit Risk Grading Form is approved by Credit Risk Management Division, the rating is to be considered final.

### **3.6.3 Subjective Grading:**

The more conservative risk grade (higher) should be applied if there is a difference between the personal judgment and Risk Grading Scorecard result. This will remain at the absolute discretion of the concerned Relationship Officer of the Branch or Corporate Banking Division, Head Office. Upgrade or Down Grade by one level will be approved by Head of Credit Risk Management Division. Upgrade or Down Grade by two levels should be approved by Additional Managing Director/Managing Director.



### **3.6.4 Asset Migration:**

Risk Grading Model will be used for assessing / measuring risk in the credit exposure taken on a particular customer. It is the key measurement of Bank's asset quality irrespective of classified and unclassified accounts. Therefore, all facilities will be assigned a risk grade. And, asset portfolio of the Bank will be reviewed quarterly. At each quarter end, Credit Administration Department, CRMD will report summarizing the migration of the assets with respect to risk grade and place before the management for review. The Management will ensure no concentration of assets in lower grades.

### **3.6.5 External Rating:**

At least top twenty five clients/obligors of the Bank may preferably be rated by an outside credit rating agency.

### **3.6.6 System Review:**

Credit Risk Management Division will review a certain percentage of the Risk Grading Scorecard and Risk Grading Sheet of a Branch for effective application of risk rating in Credit operation every year. Furthermore, consistency of the judgment in qualitative factors by the concerned officers/executives will also be reviewed at the same time.

### **3.6.7 General Conditions:**

Apart from risk rating of the credit exposure done at the time of first sanction, the Risk Grading should be reviewed annually. Below Numeric Grade 3, i.e., Acceptable, the risk assessment is to be undertaken at half yearly intervals and in critical cases, at quarterly basis. In case an account is rated marginal/watch list/special mention or unacceptable risk as per Credit Risk Grading Score sheet, this may be substantiated and credit risk may be accepted if the exposure is

additionally collateralized through cash collateral, good tangible collaterals, strong guarantee or proper structure and covenants.

### **3.7 Credit Approval Authority**

#### **3.7.1 Delegation of Approval Authority:**

The overall lending authority rests with the Board of Directors within the framework of the Bank's Memorandum and Articles of Association. It is the responsibility of credit approval authority. National Bank Limited believes in decentralization of powers and credit approval authority has been delegated to different tiers of both the Board of Directors and the Management. Authorities who enjoy delegation of business power i.e credit approval authority are as follows:

1. Board of Directors
2. Executive Committee of the Board
3. Chief Executive Officer/Managing Director
4. Deputy Managing Director

However with an objective to facilitate quick disposal and timely renewal of large number of credit proposals and developing efficient credit officers for future the following approval authority has been framed:

1. Board of Directors
2. Executive Committee of the Board
3. Chief Executive Officer/Managing Director
4. Additional Managing Director
5. Deputy Managing Director
6. Head of Branch

The approval limits for each of the above sanctioning authority level for different type of facilities would be defined in “Credit Approval Authority” that to be approved by the Board of Directors and reviewed time to time.

### **3.7.2.1 The Board of Directors:**

The Board of Directors have the supreme authority to sanction any loan for the amount not exceeding the regulatory limit the Bank can provide to a single customer. Besides, all proposals for waiver of interest, rescheduling and principal must be approved by the Board of Directors in line with regulatory restrictions.

### **3.7.2.2 The Executive Committee of the Board:**

The Executive Committee of the Board of Directors may sanction any loan for the amount not exceeding the regulatory limit the Bank can provide to a single customer as delegated by the Board. Any proposal beyond the delegated authority of the Managing Director will be placed before the Executive Committee of the Board for approval.

### **3.7.3 Process of Delegating Approval Authority at Management Level:**

Credit Approval authority will be given to different levels of the Bank duly approved by the Board of Directors. Delegation of credit approval authority to different tiers at management level approved by the Board for various executives forms the upper limit of the authority other than Managing Director and will be treated as the maximum indicative limit. An officer does not automatically get the approval authority by virtue of his functional title. Specified approval authority will be delegated by the Managing Director to approved by the Board after taking into consideration his proven credit judgment, knowledge and experience. Authorities given to an incumbent will not automatically be transferred to a replacement. The latter will have lending

authorities delegated to him in writing and amount delegated will depend upon the individual.

#### **3.7.4 Revision of Credit Approval Authority:**

Managing Director may suspend exercise of delegated credit approval authority of any executive through specific or general order with the prior approval of the Board/Executive Committee. In case of emergency, he may also suspend exercise of delegation of credit approval authority subject to obtaining post-facto approval by the Board/Executive Committee within one month from the date of such suspension. The performance of each individual lending authority is to be reviewed periodically.

#### **3.7.5 Responsibility of Credit Approval Authority:**

Approving executives are expected to make balanced decisions following Bank's Credit Policy and general credit norms, weighing risk against reward, and most importantly must exhibit independence in decision making and have reservations about a credit. Delegated powers shall be exercised by the authorized officials judiciously keeping in view the interest of the Bank, credit restrictions, regulatory requirements and after conducting due diligence. No sanctioning officer can sanction any credit to any of his near relations and to any firm/company where his relations have financial interest. Such cases should be sent to Head Office for consideration.

#### **3.7.6 Criteria for Individual Credit Approval Authority:**

Credit approval authority will be granted to individuals on the basis of experience and nature of their duties and responsibilities, and not on the basis of title/designation. Relationship Managers, although are required to perform the same basic credit functions in addition to marketing and business development,

may or may not be delegated approval authority. Delegated approval authorities are expected to make balanced decisions, weighing risk against reward. The eligibility criteria usually expected when approval authority would be delegated to an individual to carry out their responsibilities effectively are as follows:

- ✓ Basic academic qualification
- ✓ Number of working experience in Credit Division/Corporate Banking Division
- ✓ Advanced credit training
- ✓ Adequate knowledge of credit analysis, negotiation and structuring of facility
- ✓ Understanding the business cycle and its effects
- ✓ A good understanding of the local industry/marketing dynamics
- ✓ Ability to make prompt, rational and independent decisions

### **3.7.7 Reporting Approval:**

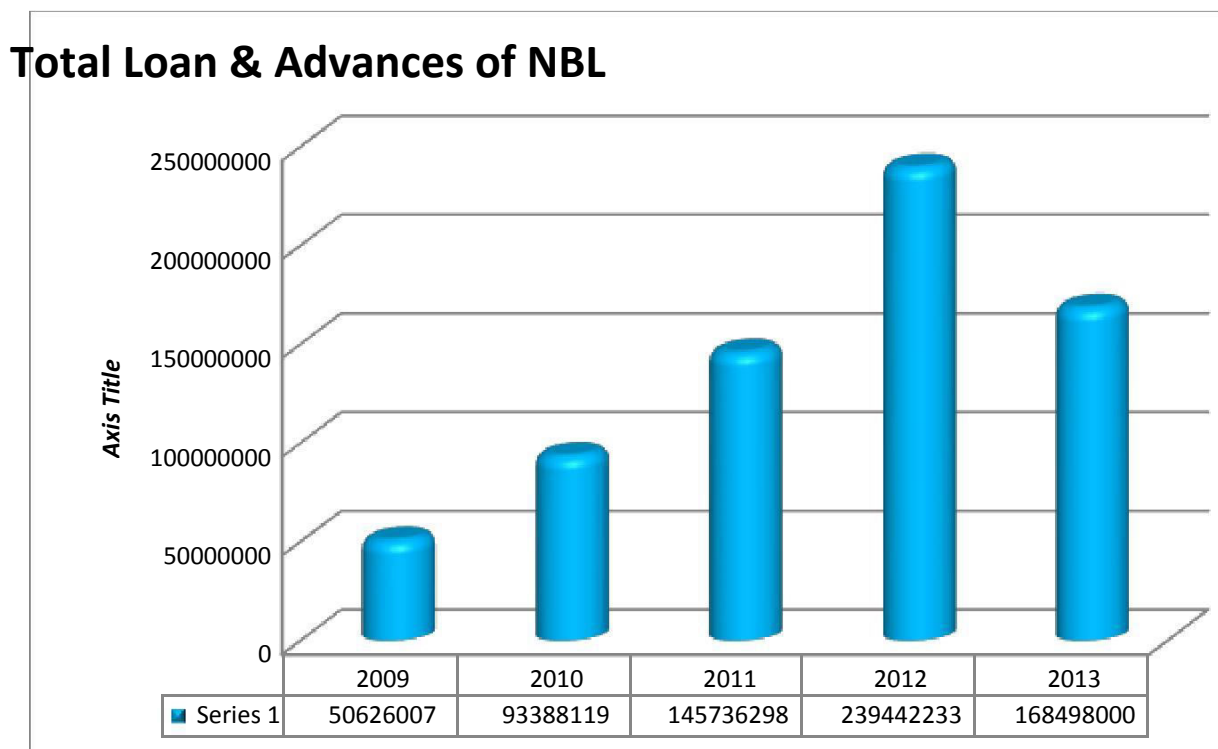
The sanctions made by the branches during the month should be sent to the Credit Risk Management Division, Head Office for reviewing the proposals as well as the competency of the approving authority. Copies of appraisal notes, sanction advice should be attached along with formats. Credit Risk Management Division, Head Office should review at least 10% of such approvals to assess the competency of the approving officers, adherence to Credit Policy and quality of advances.

## **3.8 Graphically Analysis:**

### **3.8.1 Amount of Total Loans and Advances at NBL (Last Five Years):**

<b>Year</b>	<b>Amount (Fig in Tk.)</b>
<b>2009</b>	<b>5,06,26,007</b>
<b>2010</b>	<b>9,33,88,119</b>
<b>2011</b>	<b>14,57,36,298</b>
<b>2012</b>	<b>23,94,42,233</b>
<b>2013</b>	<b>16,84,98,000</b>

**Table 4: Total Loan and advances**



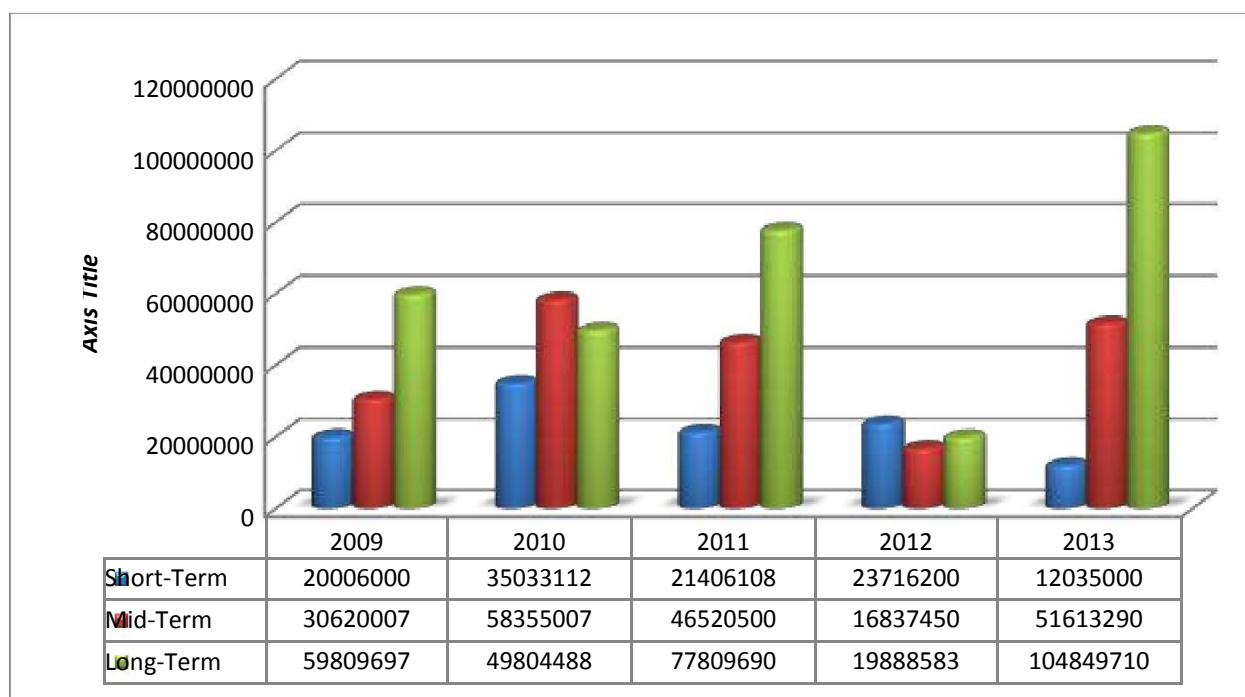
**Graph-1: Total Loan and Advances of NBL (Lake Circus Branch).**

This branch was started 30<sup>th</sup> December. Their total loan and advance is growing year by year. But it was not satisfactory. In 2012 their total loan and advances was approximately 23 core 94 lac and up to June 2013 there total loan and advance was approximately 16 core 84 lac.

### 3.8.2 Amount of Short Term, Mid Term and Long Term Loan at NBL:

Year	Short-term Loan	Mid-term Loan	Long-term Loan
2009	2,000,6000	3,062,0007	59809697
2010	3,50,33,112	5,83,55,007	49804488
2011	2,14,06,108	4,65,20,500	7,78,09,690
20012	2,37,16,200	1,68,37,450	19,88,88,583
2013	1,20,35,000	5,16,13,290	10,48,49,710

**Table 5: Short- term Mid-term & Long- term Loan**



**Graph-2: Short-term Mid-Term & Long-Term Loan (Lake Circus Branch)**

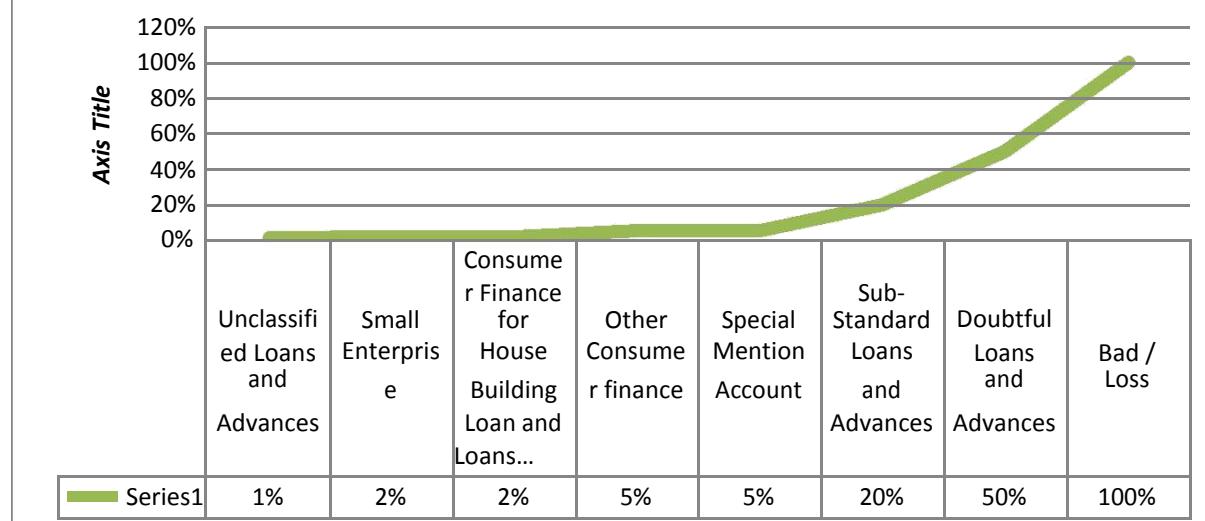
In this graph we can see that in 2009 and 2010 there have a some long- term loan. And short term loan are varying from year to year.2011 and 2012 mid-term is quite satisfactory. And In 2013 Investment of Long-Term loan is higher than the year 2011 & 2012 (up to June).

### 3.8.3 Provisioning:

Particulars	Rate
General Provision On:	
Unclassified Loans and Advances	1%
Small Enterprise	2%
Consumer Finance for House Building Loan and Loans for Professional Setup	2%
Other Consumer finance	5%
Special Mention Account	5%
Sub-Standard Loans and Advances	20%
Doubtful Loans and Advances	50%
Bad / Loss	100%

**Table 6: Rate of Provisioning**

**Chart Title**



**Graph 3: Rate of Provisioning**

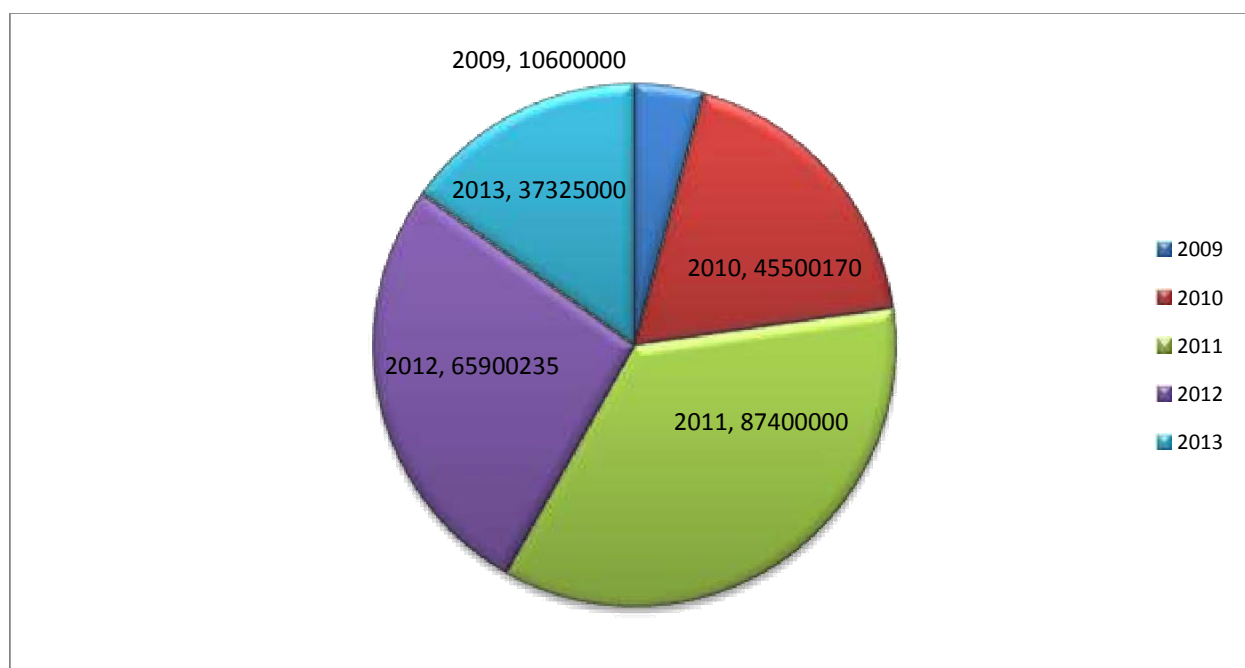
Here we can see that bad / loss has 100%. But doubtful loans and advance is 50%, sub standard loans and advance is 20%, special mention account is 5%, other consumer finance is 5%, consumer finance for house building loan and Loans for Professional Setup is 2%, small enterprise is 2%, Unclassified Loans and Advances is 1%.

### 3.8.4 Recovery of Loan at NBL (Last Five Years):

Year	Recovery(Amount)
2009	1,06,00,000
2010	4,55,00,170
2011	8,74,00,000
2012	6,59,00,235
2013	3,73,25,000

**Table 7: Recovery of Loan (Lake Circus Branch)**





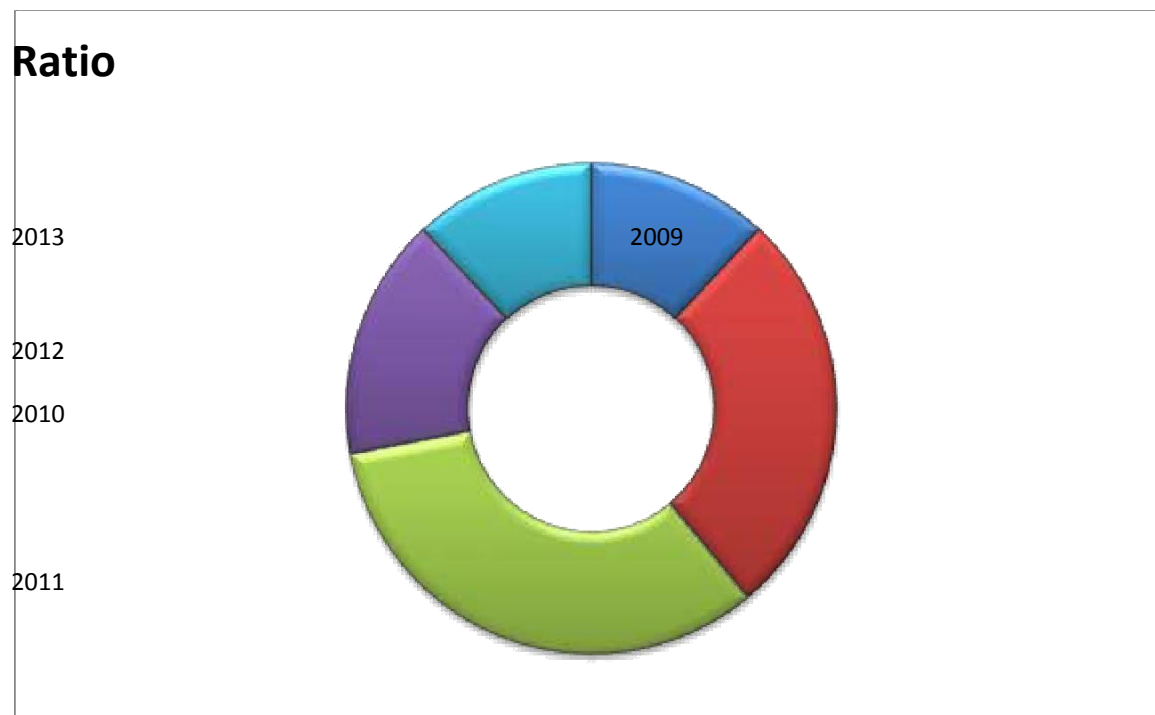
**Graph 4: Recovery of Loan.**

The recovery of loan was not satisfactory. In 2009 their total recovery loan amount was Tk 1 core 6 lac only. After that 2010 to 2011 (up to June) their loan recovery amount was varying. In this graph we can see that in 200 they recover amount was Tk 8 core 74 lac but in 2012 it was decreased the total recovery amount was Tk 6 core 59 lac 235. 2013 it was also decreased .In 2013 (up to June) total loan recovery amount was Tk 3 core 73 lac 25 thousand.

### 3.8.5 Recovery Ratio of Total Loan Disbursement at NBL (Last Five Years):

Year	Total Disbursements	Total Recovery	Ratio
2009	5,06,26,007	1,06,00,000	21%
2010	9,33,88,119	4,55,00,170	49%
2011	14,57,36,298	8,74,00,000	60%
2012	23,94,42,233	6,59,00,235	28%
2013	16,84,98,000	3,73,25,000	22%

**Table 8: Recovery Ratio of Loan (Lake Circus Branch)**



**Graph 5: Recovery Ratio of Loan**

Here we can see that loan recovery ratio was increasing trend till 2011. But it was decline in 2012. In 2009 recovery ratio was 21% but the ratio comes to 60% in 2011. In 2012 recovery ratio was decline it was 28%.

# Chapter-04

## **CORPORATE SOCIAL RESPONSIBILITY IN NATIONAL BANK LIMITED.**



## **CRS Practices in National bank limited:**

### **AN OVERVIEW**

National Bank limited, being the leading financial institutions in the country has long since started its stride towards building a more stable and sustainable economy by adapting to strategies and policies as per the needs of the stakeholders. Aside from excelling in financial figures, NBL has taken various initiatives that very clearly depict its dedication towards its Corporate Social Responsibility mission. The focus of the Bank is on achieving commercial success in a manner that honors ethical values, respects society and communities in meeting their needs in such a manner that the ability of future generations to meet their needs with pride and dignity is not compromised.

The Bank truly realizes its agenda and thus has formularized strategic areas of focus for the accomplishment of its corporate social goals. The Bank is running a full-fledged CSR Program to benefit the community at large mainly by investing in projects related to development of critical socio-economic sectors. Additionally, Bank is also active in extending support to a number of recognized charitable institutions for the uplift of underprivileged members of our society. To serve the purpose, Bank selects initiatives that are sustainable and have a meaningful impact on society and a strong connection with the business and core competencies.

The foremost area of focus for CSR initiatives are directed towards promotion of education, health, woman and child welfare, special persons, culture, sports and relief for Affects of natural disasters. Various steps have been taken in this regard and Bank is investing huge funds for bringing positive change and improving the quality of life of members of the society.

Giving Human Face to the Global Market by sharing values and principles is an international initiative for which National Bank limited is showing its full support through its CSR efforts and strategies. It is truly a matter of pride that

National Forum for environment and Health recognized the efforts of NBL and awarded the CSR Business Excellence Award 2012.

Corporate Social Responsibility (CSR) reporting focuses vary by business, by size, by sector and even by geographic region. The area of CSR reporting is quite big and it includes all the good practices that increase the business profitability and can preserve interest of all stakeholders. Bangladesh is a developing country and thus compared to global competitiveness and demand, the CSR practices and standards are being implemented in Bangladesh (Alimullah, 2006) poorly. We are yet go a long way and is still lagging behind. For better and enhanced performance CSR rules and reporting implementation is thus now need, not merely demand. The study has taken an attempt to observe the CSR reporting practices of Private Commercial Banks in Bangladesh in consideration with finance act 2010 and 2011.

## **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

### **EDUCATION**



National Bank Limited foundation was established in 1989 to fulfill the responsibilities of welfare for the society. National Bank Public School and College in Moghbazar, Dhaka has been established where about 997 students are studying in the school section from class 1 to class 10, while 121 students

are at the college section . In 2010, 93 students appeared at the SSC examination and 92 at the H.S.C examination and in both the examinations 100% came out successfully. Total contribution was 3392922 taka .

## SPORTS & CULTURE



National Bank Limited has a tradition of patronizing and sponsoring sports and cultural activities of the Country. The "National Bank Volleyball league - 2007" was arranged under the patronization of the Bank. It has also arranged annual picnics as a means of recreation for its executives, officers and staff. In 2009 the amount of donation in sports was 1450000 lakh Taka and it is increased substantially Day by Day.

## EMPLOYMENT



National Bank Limited has been continuously creating new fields of employment every year by way of expansion of its business activities and

branch networks. The Bank consolidated the "One-Bank One-Family" concept since its inception and sought to create a work culture that excites and motivates staff. The Bank's goal is to make it "the best place" to work in by creating an exciting, healthy, caring and

productive environment for all levels of staff. NBL recurrently arranges cultural programs, annual picnics etc for their staffs. NBL, which has 3,442 employees provides due importance for the well being of its employees by offering attractive remuneration and other fringe benefits. So far NBL has contributed Tk. 1870580 Lac as medical expenses to its employees and others.

## **DISASTER RELIEF**



National Bank Limited has always extended its .helping hand and has stood by the helpless people in times of natural calamities. In 2007, National Bank Limited donated Tk. 4022670 Lac to help the victims of flood, Tk. 20.00 Lac for relief operation of landslide victims and Tk. 50.00 Lac for Sidr victims to the relief fund of the Chief Advisor and the Army Chief. The Bank has also taken a pilot project for post flood agricultural rehabilitation at Sirajgonj.

On 10th March, 2009 a Payment Order for Tk.25.00 Lac has been handed over to the Hon'ble Prime Minister as a donation/financial assistance to the bereaved

family members of the martyred Army Officers killed in the BDR carnage held on 25th February, 2009.

On 1st April, 2009, NBL donated Tk. 24.00 Lac to the Honorable Prime Minister to hand over the same to the family members of the martyred Army Officers. This was given to 5 (five) families, each being given Tk. 40,000/- per month for 1 year which will continue for 10 years. Hence, the total amount of donation would amount to Tk. 35.66 lac.

In 2013, NBL contribute fourty lac taka.various sports league of the nation.

## **DAILY EXCHANGE RATE ENVIRONMENT**

In 2013, the Bank rolled out a campaign across the bank's branch network with a target to plant and sustain over two million trees Planted among 2017. This was as part of our contribution to national development and improving the well being of the communities where we do business. Our efforts aim to increase Kenya's forest cover to the desirable standards and protect the environment for present and future generations.

## **HEALTH**

National Bank has keen in our efforts to reach out to the sick and unfortunate members of the society and so we are working to complement the efforts of the government in provision of better healthcare. The Bank offers long term solutions to health care all over the country through the construction of health facilities, donation of machines and equipments for government hospitals among many others. In 2013, bank donated six dialysis machines to Coast and Rift Valley provincial general hospitals as well as Moi Teaching and Referral hospital at an estimated total cost of 2530980 lakh. This donation aimed to



alleviate suffering for people with kidney related ailments while reducing the congestion at Kenyatta National Hospital. At the same time this will save time and money for dialysis patients travelling from these regions to Nairobi. In Molo, the bank donated a fridge for storing blood to Elburgon Nyayo Hospital to ensure the hospital has a reliable blood

## WOMEN AND CHILD WELFARE

### **Drinking Water Storage Tank in Dhaka city**

In the absence of water storage tank women & Children of Dhaka city suffered severally as they need to travel long distances to fetch drinking water. Although to cover the shortage, bowsers arranged by the Union Council both, however, it is unhygienic and not safe for drinking. With the help of local NGO, Bank developed 8 storage tanks for residents of one Goth of Dhaka city. About 175-200 families are the beneficiaries.

### **Vocational Training to Destitute Women.**

To make Baluchistan women self-reliant, bank sponsored a Vocational training program for the Poor and needy women of Baluchistan at Quetta. At the end of course every participant was given sewing machines so they can start their own small business and contribute for their families.

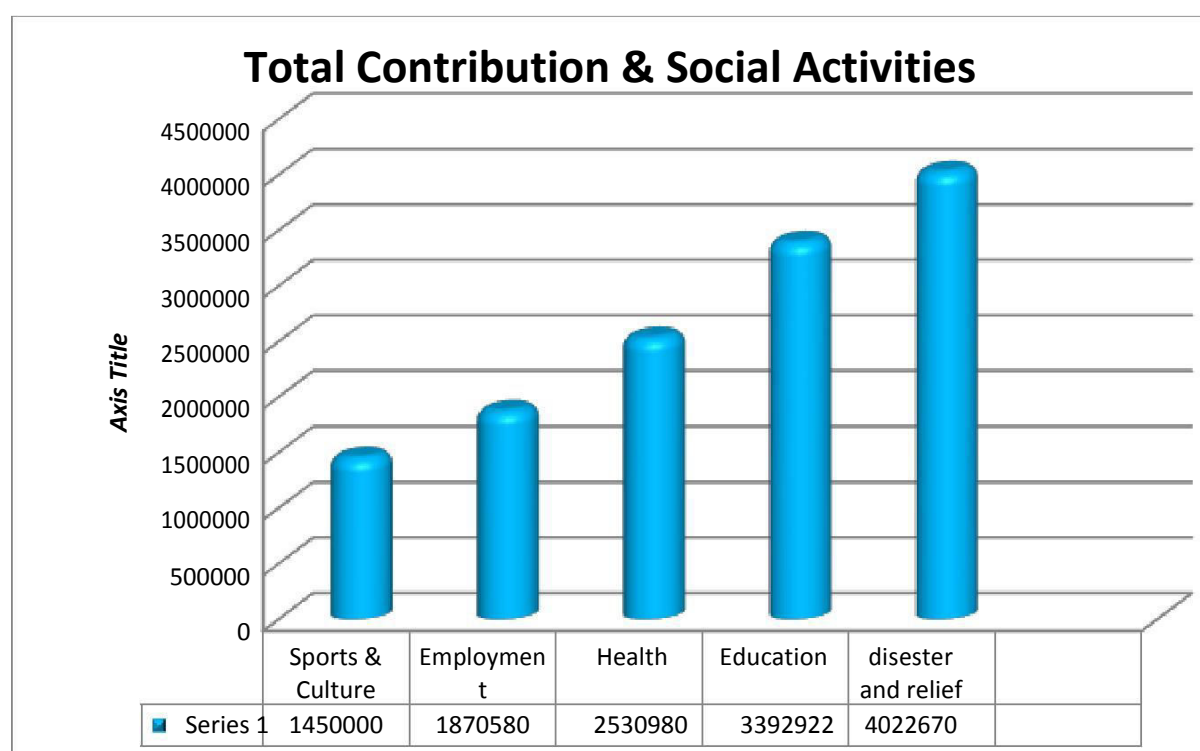


## Create job Opportunity for women.

Dhaka, densely populated area majority of residents are semi skill worker. Their monthly income is very nominal. To feed the family and live dignified life women has to share burden and to take up work in facotries. Bank with the help of NGO arranged vocational training program at LRC. At the end of the training, sewing machines were distributed to each participant.



## Total Contribution & Social Actives of NBL:



# Findings

While analysis the current scenario of corporate social responsibility practices in the banking industry of Bangladesh .I have found the following to which corporation should pay more attention.....

- Some bank have report embracing commitment for environment sustainability in own and client business their action have not however gone beyond compliance with relevant government laws and regulations Banks are yet to adopt separate reporting of their CSR activities.
- It is very concerning that bank are contributing a little amount of their profit for CSR activities.
- In the SRO there are 22most of the bank are participation in limited 10 to 12areas.
- There are many areas where there is no participation like engaged in clear water management, waste management, accommodation for the slum deem dwellers, women's right ,anti-dowry practices etc.
- Thought every bank is contributing highest amount of their CSR Expenditure in Education and Health but it is not enough as required. Good attention should pay to the technical education.
- The common belief of the corporate mindsets that CSR being a cost center rather than a profit center.
- There is no newsletter where CSR initiatives can publish to encourage more corporate to come forward.

## RECOMMENDATIONS

Corporate social responsibility has strong social ramification in Bangladesh ,where at least forty percent of the people live in property. In order to gain momentum in Bangladesh for corporate social responsibility some of the following ideas may be in corporate.

- Corporate social responsibility, Corporate giving, philanthropy, community giving etc, must be clear define and invite corporate to build more innovation CSR practice within their organizations.
- Corporate social responsibility has strategic and financial value which to be properly communicated by value mapping the benefits of CSR.
- Companies should design their CSR program by clearly depicting CSR and publicity to take strategic advance.
- CSR has a tertiary level focus in Bangladesh and therefore more advocacy campaigns may be rolled out citing real stories of CSR impacting the bottom line profitability of a company.
- Corporations may retain CSR/partnership learning aid as they had nebulous idea of how CSR practices can offer value to both society and the organization .
- Corporate social responsibility initiative should be taken in the SME Sector
- Corporations need to activity develop CSR department so as to support corporate social responsibility partnership. Some pressure may be accorded by the government, NGOs .trade bodies, trade facilities organizations and research bodies amental to bring in some fundamental change in the way the corporation of Bangladesh run.
- Tax rebate for expenditures in CSR may be introduced by the government
- Corporate may introduce CSR newsletter to potential client for building their interest.
- Corporate may support in solving some persistent social issues that may ultimately bye- in the commitment to champion other partnership projects.

## CONCLUSION

In modern concept of Corporate social responsibility is evolving gradually despite several hindrances. CSR is becoming an increasingly important activity to business in our country as well as other countries around the globe .In recent years CSR has become a fundamental business practices and has gained much attention from all the concerned.

The market review showed that the corporation bodies pay less attention to CSR due to not being particularly convinced that it can add to strengthening company image and ensure sustainability. The common belief of the corporate mindsets that CSR being a cost center rather than a profit center. Though National bank is an exception since inception in 1999 the term “Social Responsibility”. is much more emphasized that the term “Profit Maximizing”. NATIONAL BANK is carrying out CSR activities in the most planned and orderly manner.

# Chapter-5

## SWOT ANALYSIS OF NBL



# SWOT ANALYSIS

## 5.1 SWOT Analysis of NBL

SWOT analysis provides an opinion and adjustment whether organizations currently position is satisfactory or not.

## 5.2 Strengths

- All the level of the management is solely directed to maintain a culture for the betterment of the quality of the service.
- The bank has earned customer loyalty as organizational loyalty.
- Skilled personals have developed professional relationships with their customers and clients, which is an emotional tie on regular business.
- NBL is always trying to add new and modern equipments.
- Employees are sharing good atmosphere in NBL so that it gave them reason to work efficiently and to become dedicated in banking.
- The top management officials all have had reputed of banking experience, skill and proficiency.

## 5.3 Weaknesses

The advertising and promotional activities of this bank are up to the mark. Reference appointment is very much effective in NBL. As a result of this there are many who are only drawing salaries at the end of the month but making a minimum contribution towards the organization. There are some officers who work hard but are not appreciated by the authority. NBL has not set up proper network system among branches. A remarkable portion of the total human resources is inefficient.

## **5.4 Opportunities**

The bank can introduce more innovative and modern customer service to better survive in the competition.

They can also offer micro credit business for individual and small business.

It is high time that they should move toward the online banking operation; because some banks are already introduce the online banking operation.

Bank will be able to accommodate knowledgeable. Skilled, experience and hard working person by offering attractive remunerations and fringe benefits with nice working environment.

By expending the financial policy with credit facility customer are very much secure in business environment.

## **5.5 Threats**

Central bank (Bangladesh bank) is always supervising the local and foreign banks in Bangladesh and sometimes it is hampering the normal operation of private bank.

Through the innovation working is in continuous process, but the other rival banks are copying it within the short time.

The world is advancing toward technology very fast. Though NBL taken effort to join the stream, it is not possible to complete the mission due to the poor technological infrastructure of our country.

They are carrying out aggressive campaign to attract lucrative corporate client as well as big time depositor.

Local competitors can also capture a huge market share by offering similar products and services provided by the bank.



# Chapter-SIX

## PROBLEM IDENTIFICATION, RECOMMENDATIONS, CONCLUSION



# PROBLEMS IDENTIFICATION

- Working process of the credit department seems to be slow, therefore ,clients cannot get the loan time, NBL may loss some of its customer.
- Borrower's information about credit does not sufficient. Therefore it is difficult for the banker to assess the borrower properly.
- Some borrower does not prepare audited balance sheet as a result ,it is difficult for the banker to assess the proper condition of the business.
- Number of employees of the credit department was not sufficient. This credit problem to provide efficient service to the customer.
- To copies with ever changing world every organization even every person need to be up- to –dated. Employees of the credit debarment do not have sufficient number of training program for upgrading their skill.
- Some client has lack of honesty repay the loan amount, hence recovery loan amount become difficult.

# RECOMMENDATIONS

- Speed up processing of loan application
- Bank should collect borrower, information properly to assess borrower properly.
- Employees of the credit department can be participated various Training programs for upgrading their skill.
- Some discretionary power should give to the Branch management for collecting and disbursement of loan amount.
- Detail credit manual should be prepared to make the credit operation accurate.
- New and innovation product should be introduced in the section of credit to increase the number of new client.
- Information system should be developed.

## **Create a CSR policy:**

It would be helpful if the government created a CSR policy setting out expectations that the government has of companies to work on CSR issues, and providing guidance on the kinds of activities possible.

## **Awareness building Program:**

It would be useful if there was a greater awareness amongst businesses about corporate social responsibility and the kinds of CSR activities they could undertake.

## **Worker's Rights ensured :**

Those undertaking CSR must ensure that they are complying with the law in relation to labour rights and any legal obligations they may have in protecting the local community and environment.

### **Capacity building :**

Companies should consider seeking assistance from outside bodies in considering what CSR activities they should or could undertake.

### **Corporate CSR strategy :**

Companies should be encouraged to integrate CSR into their core values and articulate a specific CSR strategy. They should not wait for government pressure, they should boldly practice CSR activity for their sustainable business.

# CONCLUSION

Today business is very competitive and complex. To survive in the market the organization need competent people and has to take some effective policy. Banking sector being a service sector of Bangladesh continues to contribution to a great deal in the economy of Bangladesh.

National bank is one of the third generation banking providers, but they need employs to provide prompt service providers. But they need employees to provide prompt service for the new and potential customers from the practical implementation of customer dealing procedure during the whole period of my practical orientation national bank limited. I have reached a firm and concrete conclusion in a very confident way. Performance of national bank limited during the last five years has proved that with strong desire and will power on achieving whatever target they may have. In this report I find that only in credit risk sectors in highly up and down other financial risk are not highly up and down so it can be said that they are effective and efficient in opening and taking the right decision in case of finance. Almost all the leading banks in our country have various extra facilities in offer for the customers than other competition. this has been possible only because of strong customer relation and excellent customer service .thought there are some drawbacks in implementing credit facilities in national bank limited as per manual, it can be overcome through involvement of more financial expert. In the decision making process and utilizing the tolls to judge integrity of the customer , finally it can be argue that though the result achieved so far are not satisfaction, credit risk is a modern scientific technique for enhancing national bank's strength and there lies the opportunities to make it more effective in the future for their own benefit.

## PART –THREE

### APPENDED PART

#### A: BIBLIOGRAPHY



## **A: Bibliography**

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Credit Policy and risk management guide (Revised In 2013) of National Bank Ltd.

## **B: APPENDICES**



### **APPENDIX-1**



### **APPENDIX-2**



# **APPENDIX-1**

## **National bank Report**

Annual Report of National Bank Ltd., Year 2013.

Annual Report of National Bank Ltd., Year 2012.

Annual Report of National Bank Ltd., Year 2011.

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## **APPENDIX-2**

- **ANNUAL REPORT**
- **INCOME STATEMENT**
- **CASH FLOW STATEMENT**