

An Evaluation of Credit Policies & Foreign Exchange Operation of
NBL

PREPARED FOR



Dr. Tanbir Ahmed Chowdhury

Professor & Coordinator, MBA & EMBA Program

Department of Business Administration

PREPARED BY

Md. Imran Kabir

Bachelor of Business Administration

Major in Finance

ID: 2003-2-10-076

Course: BUS-499

Date of Submission: 26th April, 2007



EAST WEST UNIVERSITY

Letter of Authorization

January 15, 2007

Dr. Tanbir Ahmed Chowdhury

Professor & Coordinator

MBA & EMBA Program

Department of Business Administration

East West University

45-46 Mohakhali C/A, Dhaka-1212

To:

Mohammad Imran Kabir

Dear Mr. Imran

Letter of Authorization

It gives me great pleasure to assign you to write your Internship Report on “**An Evaluation of Credit Policies and Foreign Exchange Operation of National Bank Limited**”. The report is to be submitted by 26 April 2007 as par of your Internship (BUS 499) requirements. This letter can be used as an aid by you when and where necessary for the purpose of collecting information(s) for writing the report.

You can contact me for any help or support or inquiry that you might have during the making of the report.

Sincerely,

Dr. Tanbir Ahmed Chowdhury

Letter of Transmittal

April 26, 2007

Dr. Tanbir Ahmed Chowdhury

Professor & Coordinator

MBA & EMBA Program

Department of Business Administration

East West University

45-46 Mohakhali C/A, Dhaka-1212

Subject: Submission of Internship Report.

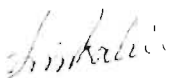
Dear Sir,

It is my great pleasure to submit the report entitled “**An Evaluation of Credit Policies and Foreign Exchange Activities Operation of National Bank Limited**” to you.

My internship program in National Bank Limited (Mohakhali Branch) is a worthwhile experience and the experience and the exposure of such reputed organization would be defining value for me. Before facing the real business world I have gathered a pre idea about the organizational culture. I had concentrated my all effort to conduct the internship program in the most realistic and professional way. The immense knowledge and experience, which I had gathered while conducting this program, will help me in every single moment of my future life.

I sincerely hope that all my effort will be a success if you go through this project.

Yours sincerely,



Mohammad Imran Kabir

ID: 2003-2-10-076

Acknowledgement

Firstly, I would like to thank the Almighty Allah for giving me the opportunity to complete the report successfully on time.

The report could never been completed without the help of some helpful and cooperative person, and accommodating authorities, I would like to unfold the names of some of those cooperative bodies.

First of all I would like to take the opportunity to thank my faculty supervisor Dr. Tanbir Ahmed Chowdhury, for giving the necessary guidance in preparing this report. He guided and showed me the way to prepare this report. Without his heart-felt care and help it would have been tough for us to prepare this report.

I would like to acknowledge gratefully to Mr. Md. Mamunur Rahman, Senior Principal Officer of Mohakhali Branch of National Bank Limited, who was my organizational supervisor. Without his help it would not be possible to enrich and complete this project paper.

I also express gratitude to Mr. Abu Jafar (Branch Manager), Mr. Md. Mizanur Rahman (Officer), Mr. Md. Maroof (Officer), Kaucaab Mazher (Senior Officer), Mr. Chandan Kumar Das (Senior Principal Officer), Mr. Md. Faruque (Senior Principal Officer), Laila Nasreen Khan (Senior Principal Officer), Mr. Md. Abdul Motin (Senior Principal Officer). They all are friendly enough to provide me with the necessary information.

Last, but not the least, I must thank to my elder brothers and sisters of East West University, for their help and support that made this report possible.

Table of Contents

Topic	Page No:
Chapter 1: Introduction	1-4
1.1 Introduction	1
1.2 Objectives of the report	2
1.3 Scope & Methodology	2
1.4 Limitation	3
Chapter 2: An Overview of NBL	5-27
2.1 An Overview of NBL	5
2.1.1 Traditional Heritage of NBL	5
2.1.2 Mission of NBL	6
2.1.3 Vision of NBL	6
2.1.4 Objectives of NBL	7
2.1.5 Ideology of NBL	7
2.2 Capital Structure of NBL	8
2.3 Trends of Branch Expansion	9
2.4 Number of Employees	11
2.5 Products & Services of NBL	12
2.5.1 Consumer Credit Schemes	12
2.5.2 Special Deposit Schemes	13
2.5.3 Monthly savings Schemes	13
2.5.4 Credit Card	14
2.5.5 ATM Service	14
2.5.6 Western Union Money Transfer	15
2.5.7 NBL Power Card	15
2.5.8 Saving Insurance Schemes	16

2.6 Types of Credit	17
2.7 Types of Deposits	24



CHAPTER 3: An Appraisal of the Credit Policies & .. 28-61

Activities of NBL

3.1 An Overview of Credit Policies of NBL	28
3.1.1 Introduction	28
3.1.2 Credit Principles	29
3.1.3 Global Credit Portfolio Limits	31
3.1.4 Credit Approval	33
3.1.5 Credit Administration	41
3.1.6 Credit Monitoring and Review	43
3.2 Deposit Credit Ratio	46
3.3 Recovery of Credit	47
3.4 Non Performing Loan as a percentage of Total Advances	55
3.5 Volume of Nonperforming Loans	57
3.6 Provision against Classified Loans & Unclassified Loans	57
3.6.1 Amount of Provision against Classified Loans	59
3.6.2 Amount of Provision against Unclassified Loans	60

Chapter 4: An Appraisal of the Foreign Exchange 62-74

Activities of NBL

4.1 Overview	62
4.1.1 Export	62
4.1.2 Import	69
4.1.3 Foreign Remittance	72
4.2 Trends of Foreign Exchange Activity	74

Chapter 5: Financial Performance Appraisal of NBL	75-85
5.1 Introduction	75
5.1.1 Return on Equity (ROE)	75
5.1.2 Return on Assets (ROA)	76
5.1.3 Net Profit Margin Ratio	78
5.1.4 Equity Multiplier (EM) Ratio	79
5.1.5 Fixed Assets Turnover Ratio	81
5.1.6 Total Assets Turnover Ratio	82
5.1.7 Price Earning Ratio	84
Chapter 6: Problems of Credit Activities and Foreign Exchange Activities of NBL	86-88
6.1 Problem Relating to Credit Activities	86
6.2 Problems relating to Foreign Exchange Activities	86
6.3 General Problems	88
Chapter 7: Suggestions for the Development of Credit & Foreign Exchange Activities of NBL	89-91
7.1 Suggestions for Improving the Credit Activities of NBL	89
7.2 Suggestions for Improving the Foreign Exchange Activities	89
7.3 General Suggestions	90
7.4 Conclusion	91
Bibliography	92

Executive Summary

The report entitled with “**An Evaluation of Credit Policies & Foreign Exchange Operation of National Bank Limited**” is based on the three months Internship Program in National Bank Limited, Mohakhali Branch. There are seven chapters in the report. Each chapter has been discussed with separate issues. In the first chapter the objectives, scope and methodology and limitation are described. In the second chapter, I have described the overview of NBL including traditional heritage, mission, vision, objectives of NBL, capital structures, products and services, types of credit, types of deposits etc. Chapter three is basically the credit policies and activities of NBL. In this chapter the credit policies of NBL, credit schemes of NBL, etc are described. Moreover there are some analysis related to credit activities have focused in this chapter such as: deposit-credit ratio, recovery of credit and volume of non performing loan of NBL. For this chapter I have used the growth percentage analysis. The chapter four is related with the foreign exchange activities of National Bank Limited. Export procedure, import procedure and foreign remittance procedure are described in this chapter. Also the trends of foreign exchange activities of NBL have illustrated in this chapter. In the chapter five I have used the ratio analysis for the financial performance of the National Bank Limited. Return on equity, return on assets, net profit margin ratio, equity multiplier ratio, fixed asset turnover ratio, total asset turnover ratio, price earning ratio etc are calculated in this chapter. From this ratio analysis we can describe the financial performance of NBL. The chapter six is problem relating to credit activities, foreign exchange activities and also general problems of NBL which I have found during my internship program. Then I have described the suggestions of those problems in the chapter seven.



CHAPTER-1

Introduction

1.1 Introduction

Knowledge and learning become perfect when it is associated with theory and practice. Theoretical knowledge gets its perfection with practical application. Our educational system predominantly text based. A poor country like Bangladesh has an overwhelming number of unemployed education graduates. As they have no project work experience they have not been able to gain normal professional experience or establish networking system, which is important in getting a job. Recognizing the importance of project work experience, Business Administration Department has introduced a three months practical exposure as a part of the curriculum of Bachelor of Business Administration program.

So this report is organized as the course requirement of the BBA program. There are twelve semesters in BBA program and in the last semester there is an internship program which has three credit hours. Students of BBA program requires to complete this internship program within three months. As my major area is in Finance, so I took the opportunity to complete my internship program in the **National Bank Limited (NBL)**. Mr. Md. Mamunur Rahman, Senior Principal Officer of Mohakhali Branch of NBL was my organizational supervisor. He asked me to do the report on “**An Evaluation of Credit Policy and Foreign Exchange Operation of National Bank Ltd.**” My faculty supervisor Dr. Tanbir Ahmed Chowdhury, Professor, Department of Business Administration, East West University, also approved the topic and authorized me to prepare this report as part of the fulfillment of internship requirement.



National Bank Limited has its prosperous past, glorious present, prospective future and under processing projects and activities. Established as the first private sector Bank fully owned by Bangladeshi entrepreneurs, NBL has been flourishing as the largest private sector Bank with the passage of time after facing many stress and strain.

1.2 Objectives of the Report

The objectives of the study are given below:

- i. To present an overview of NBL.
- ii. To appraise the credit policies and activities of NBL.
- iii. To appraise the foreign exchange activities of NBL.
- iv. To appraise the financial performance of NBL.
- v. To identify the problems relating to credit activities and foreign exchange activities of NBL.
- vi. To suggest suggestion for the development of credit and foreign exchange activities of NBL.

1.3 Scope & Methodology of the Report

The study would focus on the following areas of National Bank Limited:

- Planning and evaluation of credit policy.
- Procedure for different credit facilities.
- Foreign exchange operation of National Bank Ltd.
- Organizational structures and responsibilities of management.



For this purpose I have collected data for the last 5 years. I have used these data for ratio analysis, calculation of growth percentage, and trend equation. Collection of data can be divided into two parts:

1. Data collection:

1) Primary Data:

- Data gathered from organizational supervisor
- Discussion with the officials.
- Study of files in credit division.
- By working in different sections of the bank.

2) Secondary Data:

- Annual Report
- Credit guidelines of NBL.
- Data from published material of NBL.
- Research report of the bank
- Different books, journals, periodicals etc.
- Newspaper and Internet.

1.4 Limitation of the Study

There are some limitations of the report. These are given below:

- The report is conducted only with the credit division and foreign exchange division in NBL.
- The length of the internship program was 12 weeks. So time was very limited. It is very difficult to complete all the research work within this period. So the major limitation was mainly time constraints.



- Access to the various information of NBL was frequently strained by NBL officials on ground of secrecy.
- I could not get all information that I need because my study depends on the interview of the bank officials.
- The bank officials were very busy with their assigned work. So it was difficult for me to discuss with them.
- The bank officials were not interested to disclose all the information to me.

CHAPTER-2

An Overview of NBL

2.1 An Overview of NBL

2.1.1 Traditional Heritage of NBL:

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

Passing through various odds and adversities over the last two decades, National Bank Limited has established itself as one of the largest private sector commercial banks in Bangladesh. The bank has established 91 branches in the country. The bank is smoothly conducting its foreign transactions through its 358 correspondent's in 67 countries. It has drawing arrangements with 18 exchange companies including the Gulf Overseas Exchange Company. It is serving the expatriate workers by arranging to remit their hard-earned money to their near and dear ones at the shortest possible time through the world famous Western Union Money Transfer financial services. In order to provide high technology based modern and quick service to the people, all branches of the bank have been brought under a computer network. The bank has the world's best



information technology services of SWIFT and REUTERS. NBL has the plan to introduce on-line banking in the near future to give improved services to the valued clients.

National Bank Limited has been able to create a special image at home and abroad by introducing different banking products, at the infancy of our garments industry during the eighties. NBL pioneered allowing the entrepreneur's back-to-back L/C facility without any margin, thereby helping the industry thrive to its present position. This foolhardy but unique and generous endeavor of the bank has not only paved the way for enrichment of the country's foreign exchange. In the history of development and expansion of garments industry in Bangladesh NBL's name will remain engraved in golden letters.

2.1.2 Mission of NBL:

Providing better client services, achieving sustained growth, simultaneously making commendable contribution to the national economy and establishing ourselves as one of the country's most efficient bank of high standard through best application of information technology, are the core of the bank's aims and objectives.

2.1.3 Vision of NBL:

By adding new portion in the business sector, the bank tries to extent its activities in locally and globally. The bank is putting all its efforts to fulfill the needs of the people. For the transparency, accountability and high standard of services the valued clients and patrons are attracted by the bank.



2.1.4 Objectives of NBL:

- ⇒ Alongside up-gradation and diversification of banking services to provide maximum satisfaction to the respected clients nourishing saving habit among the general people by offering them attractive savings oriented products, thereby assisting economic development.
- ⇒ To build up a deep-rooted and harmonious banker-customer relationship by dispensing prompts and improved services to the clients.
- ⇒ To make best use of the hard-earned investment of the bank's valued shareholders. Simultaneously play our due part in developing a vibrant capital market by ensuring more effective participation of the bank in the share market.
- ⇒ To make best use of latest technologies for giving the clients/patrons a taste of modern banking so as to encourage them to continue and feel proud of banking with NBL.
- ⇒ To respond to the time by participating in syndicated large loans financing, thereby expanding the area of investment of the bank.
- ⇒ To gain confidence of all quarters involved in the economic development of the country through pursuance of a policy of continuous adjustment of coordination of the bank's external trade programs with the dynamism inherent in the international trade and payments system.

2.1.5 Ideology of NBL:

- ❖ Besides providing best services to the clients, we want to serve the society by sponsoring games & sports entertainment, literature and other social programs.



2.2 Capital Structure of NBL

Table 2.1- Capital Structure of NBL

(Figures in million Taka)

Year	Authorized Capital	Paid up capital	Growth percentage of paid up capital
1997	1000	391.16	0
1998	1000	391.16	0
1999	1000	430.27	10.00
2000	1000	430.27	0
2001	1000	430.27	0
2002	1000	430.27	0
2003	1000	430.27	0
2004	1000	516.33	20.00
2005	1000	619.59	20.00

Source: Annual Report of NBL (2001-2005)

From the year 1997 to 2005 authorized capital was same. It was Tk 1000 million. But the paid up capital was not same. The highest growth percentage of paid up capital was in the year 2004 and 2005. The growth percentage was 20% respectively.



2.3 Trends of Branch Expansion

Table 2.2- Trends of Branch Expansion of NBL

Year	No. of branches	Growth percentage
1997	66	-
1998	66	0
1999	66	0
2000	66	0
2001	75	13.64
2002	76	1.33
2003	76	0
2004	76	0
2005	76	0

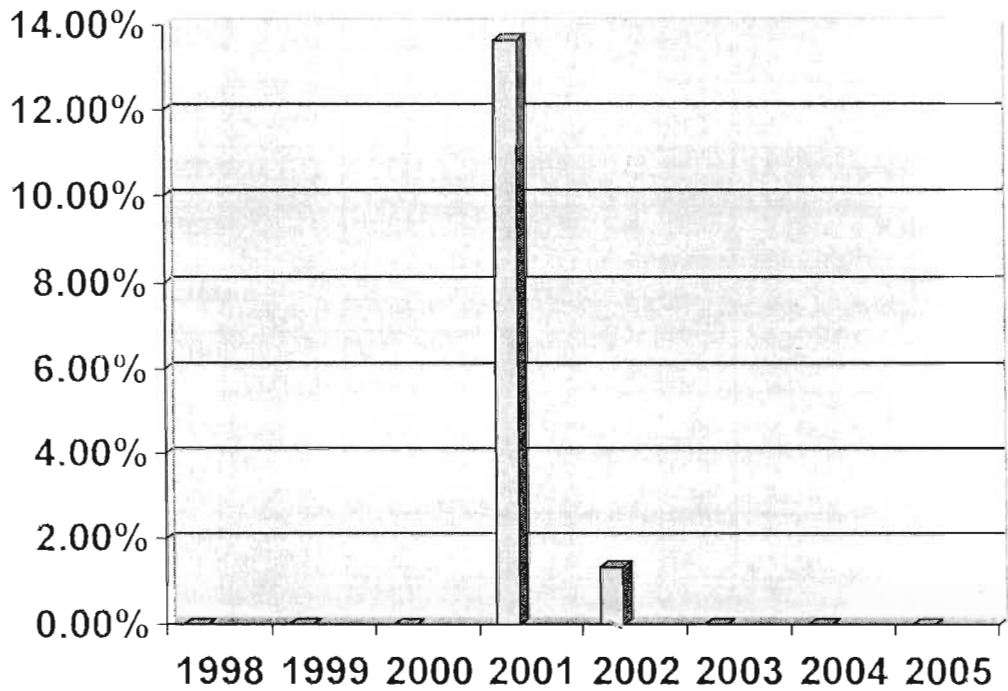
Source: Annual Report of NBL (2001-2005)

As we can see that National Bank Limited did not expand their branch from 1997 to 2000. In that time the number of branches were in a constant level of 66. In 2001 number of branches jumped into 75. So, in 2001 the growth percentage of the number of branches was 13.64%. In the year 2002 number of branches increased to 76 and the growth percentage was 1.33%. Up to 2005 this number remains same.

The growth percentage of the number of branches of NBL is shown in the following graph:



Growth Percentage



Year

Figure 2.1: Growth percentage of the number of branches of NBL.



2.4 Number of Employees

Table 2.3- Number of Employees of NBL

Year	No. of employees	Growth percentage
1997	1856	-
1998	1917	3.29
1999	1868	-2.56
2000	2025	8.40
2001	2073	2.37
2002	2171	4.73
2003	2185	0.64
2004	2133	-2.38
2005	2183	2.34

Source: Annual Report of NBL (2001-2005)

From the table 2.3, we can see that the growth percentage of the number of employees of NBL has been fluctuated enough. From the year 1998 to 1999 the growth percentage has been decreased from 3.29% to -2.56%. Then in 2000 it has been again increased to 8.40%. Then growth percentage decreased to 2.37%. We can see that growth percentage was consistently increasing in one year and decreasing in other year. In the year 1999 and 2004 the growth percentage was negative. The highest growth percentage of the number of employees was in the year 2000 and the lowest was in the year 2003.

The growth percentage of the number of employees of DBL is shown in the following graph:



Growth Percentage

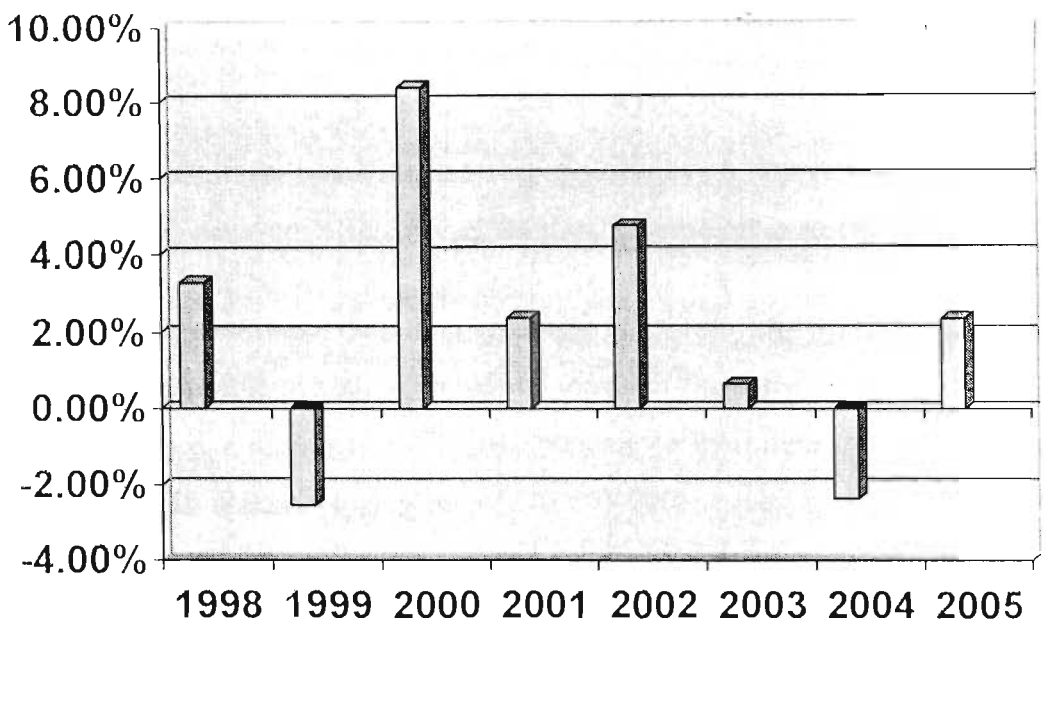


Figure 2.2: Growth percentage of the number of employees of NBL.

2.5 Products & Services of NBL

2.5.1 Consumer Credit Scheme

National Bank's Consumer Credit Scheme gives you a great opportunity to buy household and office items on easy installments. This scheme gives you the advantage of part payment to cope with the high price tags of many necessary home and office appliances.

Television, Refrigerator, VCR, Personal Computer, Photo-Copier, Washing Machine, Furniture, Microwave Oven, Car, and a number of other expensive items are now within your buying range. With this scheme NBL makes better living possible for people living



2.5.2 Special Deposit Scheme:

For most of the people on fixed income the opportunity to supplement their monthly earning is a golden one. And NBL Special Deposit Scheme gives a customer just that.

Under this scheme, customers can deposit money for a term of 5 years. The deposited money is fully refundable at the expiry of the term. At the same time, during the term period they can enjoy a monthly profit corresponding to their deposited amount. As for instance, under this scheme a deposit of Tk. 55,000/- gives a monthly income of Tk500/-.

Deposited Amount	Monthly Benefit
Tk 55,000/-	Tk 500/-
Tk 1,10,000/-	Tk 1,000/-
Tk 1,65,000/-	Tk 1,500/-
Tk 2,20,000/-	Tk 2,000/-

2.5.3 Monthly Savings Scheme:

This scheme is specially designed for the benefit of the limited income group members. This helps to accrue small monthly savings into a significant sum at the end of the term. So, after the expiry of the term period the depositor will have a sizeable amount to relish on.

A monthly deposit of Tk.500/- or Tk.1000/- for 5 or 10 years period earns in the end Tk.40,100/- or Tk.2,24,500/- respectively.



Monthly Installment	Return after 5 years	Return after 10 years
Tk. 500/-	Tk. 40,100/-	Tk. 1,12,500/-
Tk. 1,000/-	Tk. 80,100/-	Tk. 2,24,500

2.5.4 Credit Card:

Through its Credit Card, National Bank Limited has not only initiated a new scheme but also brought a new life style concept in Bangladesh. Now the dangers and the worries of carrying cash money are memories of the past.

Credit Card comes in both local and international forms, giving the client power to buy all over the World. Now enjoy the conveniences and advantages of Credit Card as you step into the new millennium.

2.5.5 NBL ATM Service:

National Bank Limited has introduced ATM service to its Customers. The card will enable to save our valued customers from any kind of predicament in emergency situation and time consuming formalities. NBL ATM Card will give our distinguished Clients the opportunity to withdraw cash at any time, even in holidays, 24 hours a day, and 7 days a week.



2.5.6 Western Union Money Transfer:

Joining with the world's largest money transfer service "Western Union". NBL has introduced Bangladesh to the faster track of money remittance. Now money transfer between Bangladesh and any other part of the globe is safer and faster than ever before.

This simple transfer system, being on line eliminates the complex process and makes it easy and convenient for both the sender and the receiver. Through NBL - Western Union Money Transfer Service, your money will reach its destination within a few minutes.

2.5.7 NBL Power Card:

The features of NBL Power Card are given below:

- ⇒ It is a prepaid card.
- ⇒ No need of any account with NBL Branch.
- ⇒ Application forms available at any NBL branch and Card Center.
- ⇒ No annual fee for the 1st year. Renewal fee Tk. 200 only.
- ⇒ Local Card limit – Tk. 1,000.00 – at minimum or its multiple.
- ⇒ International Card limit – US\$ 500.00 at minimum, maximum up to US\$ 1,000.00 for SAARC countries and Myanmar and US\$ 3,000.00 for non-SAARC countries under Personal Travel Quota. Limit would be set within the unspent amount under Personal Travel Quota in the Calendar Year.
- ⇒ May be issued and refilled from RFCID/FC account.
- ⇒ Dual Card Limit – above limits but single card for use locally and internationally.
- ⇒ Refill Through any NBL branch.

Cash withdrawal fee is fixed at 5% on the cash drawn amount or 88/- whichever is higher.

- Accepted at all VISA POS merchants.
- Cash withdrawal at all ATM booths bearing VISA and Q-Cash logo. (Except HSBC in Bangladesh).
- Utility Bill Payment.

2.5.8 Saving Insurance Scheme:

This is an uncertain World and the threatening silhouettes of future catastrophes are always looming around. This NBI scheme gives your family protection against the insecurities of the world. This scheme is the first of its kind in Bangladesh. It combines the benefits of regular savings and insurance scheme, so, you get the usual rate of interest on the deposited amount while you enjoy the protection of a comprehensive insurance coverage. Under this scheme, the beneficiary(ies) get equal the deposit in case of natural death of the account holder whereas in the event of accidental death of the account holder the beneficiary(ies) will receive twice the deposit. As for example, if a customer picks up Easy Class (Tk.50,000/-) he/she will get Tk.50,000/- for natural death and Tk.1,00,000/- for accidental death apart from his/her deposited amount and interest.



Class	Deposit	Normal Death Benefit (Including Own Deposit)	Accidental Death Benefit (Including Own Deposit)
Easy	50,000/-	1,00,000/-	1,50,000/-
Convenient	1,00,000/-	2,00,000/-	3,00,000/-
Classic	2,00,000/-	4,00,000/-	6,00,000/-
Standard	5,00,000/-	10,00,000/-	15,00,000/-

2.6 Types of Credit

Loans and advances have primarily been divided into two major groups:

a) **Fixed term loan:**

These are the advances made by the Bank with fixed repayment schedules. The term of loan are defined as follows

Short term: up to 12 months

Medium term: more than 12 and up to 60 months

Long term: more than 60 months.

b) **Continuing credits:** These are the advances having no fixed repayment schedule, but have an expiry date at which it is renewable on satisfactory performance.

Further, all categories of loans have been accommodated under the 7 prime sectors as under:



Agriculture:

Credit facilities to the agricultural sector falls under this category. It is subdivided into two major heads:

a) Loans to primary producers:

- This sector of agricultural financing refers to the credit facilities allowed to production units engaged in farming, fishing, forestry or live stock.
- Loans to processors or traders of agricultural products are not to be categorized as agricultural loans.
- Loans to tea gardens for production are treated as agricultural loan, but loans to tea gardens for export should be treated under the category "export credit" similarly medium and long terms to tea gardens are categorized as industrial term lending.

b) Loans to input dealers/ distributors:

- It refers to the financing allowed to input dealers and (or) distributors in the agricultural sectors.
- Agricultural loans may include short, medium and long fixed term loans as well as continuing credits. As such, it may fall under the head "loan (Gen)" as well as under "cash credit".

Term loan for Large & Medium Scale Industry:

This category of advances accommodate the medium and long term financing for capital structure formation of new industries or for BMRE of the existing units who are engaged in manufacturing goods and services.

Term financing 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 falls under the head "loan (Gen)".

Working Capital:

Loans allowed to the manufacturing units to meet their working capital requirements, irrespective of their size- big, medium or small fall under the category.

They are usually continuing credits and as such fall under the head "cash credit"

Export credit:

Credit facilities allowed to facilitate export of all items against confirmed export orders fall under this category. It is accommodated under this heads "Export Cash Credit (ECC)," "Packing Credit (PC)," "Foreign Documentary Bills Purchased (FDBP)," etc.

Commercial lending:

Short term loans and continuing credits allowed for commercial purposes other than exports fall under this category. It includes import financing for internal trade, service establishment, etc. No medium and long-term loans are accommodated here. This category of advances are allowed in the form of (1) Loan against Imported Merchandise (LIM), (2) Loans against Trust Receipt (LTR), (3) Payment Against import Documents (PAD), (4) Secured Overdraft (SOD), (5) Cash Credit (CC), (6) Loan (Gen), etc for commercial purposes.

Term loans to small & cottage industries:

These are the medium and long term loans allowed to small & cottage manufacturing industries. Small industry is presently defined as those establishments whose total investment in fixed capital such as land, building, machinery and equipment (excluding



taxes and duties) does not exceed 30 million Taka and investment in machinery and equipment (excluding taxes and duties does not exceed 10 million taka. Cottage industries also fall within this definition].

No short term or continuing credits are to be included in this category. Medium & long-term weaver credits are also included under this category.

Like the large & Medium Scale Industry it is also allowed in the form of loan (GFN)

Others:

Any loan that does not fall in any of the above categories is considered under the category "others" It includes loan to (1) transport equipments, (2) construction works including housing, (3) work order finance, (4) personal loans, etc.

Depending on the various nature of financing, all the lending activities have been brought under the following major heads:

Loan (General):

Short term, medium term, long term loans are provided to individual/firm/industries for a specific purpose but for a definite period and generally repayable by installment fall under this head. This type of lending are mainly allowed to accommodate financing under this categories (1) Large & medium scale industry and (2) small & cottage industry. Very often term financing for (1) Agriculture & (2) others are also included here.

House Building Loan (general):

Loans allowed to individual/enterprises for construction of house (residential or commercial) fall under this type of advance. The amount is repayable by monthly installment within a specified period. Such advances are known as Loan (HBL).



House Building Loan (staff):

Loans allowed to our Bank employees for purchase/construction of house shall be known as staff Loan (H.).

Other loans to staff:

Loans allowed to employees other than for House shall be grouped under head-staff Loan (Gen).

Cash Credit (Hypo):

Advances allowed to individual/ firm for trading as well as wholesale purpose or to industries to meet up the working capital requirements against hypothecation of goods as primary security fall under this type of lending. It is a continuous credit. It is allowed under the categories (1) "commercial lending" when the customer is other than a industry and (2) working capital" when the customer is an industry.

Cash Credit (Pledge):

Financial accommodations to individuals/firms for trading as well as whole-sale purpose or to industries as working capital against pledge of goods as primary security fall under this head of advance. It is also a continuous credit and like the obvious allowed under the categories (1) "Commercial Lending" and (2) "Working capital".

SOD (General):

Advances allowed to individuals/firms against financial obligation (i.e. lien of FDR/PSP/BSP/INSURANCE POLICY, etc) and against assignment of work order for execution of contractual works fall under this head. This advance is generally allowed for a definite period and specific purpose i.e. it is not a continuous credit. It falls under the category "Others"



Advances allowed for purchasing through currency for opening LC for import of goods fall under this type of lending. This is also an advance for temporary period which is known as pre-import finance and falls under the category "Commercial Lending".

Payment against Document (PAD):

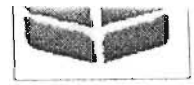
Payment made by the Bank against lodgment of shipping documents of goods imported through LC falls under this head. It is an interim advance connected with imported and is generally liquidated shortly against payments usually made by the party for retirement of the documents for release of imported goods from the customs authority. It falls under the category "Commercial Lending".

Loan against Import Merchandise (LIM):

Advances allowed for retirement of shipping documents and release of goods imported through LC taking effective control over the goods by pledge in godowns under bank's lock & key falls under this type of advance. This is also a temporary advance connected with import which is known as post-import finance and falls under the category "commercial Lending".

Loan against Trust Receipt (L/TR):

Advances allowed for retirement of shipping documents and release of goods imported through LC taking effective control over the goods delivered to the customer falls under this head. The goods are handed over to the importer under trust with the arrangement that sale proceeds should be deposited to liquidate the advances within a given period. This is also a temporary advance connected with import and known as post import finance and falls under the category "Commercial Lending".



Inland Bills Purchased (IBP):

Payment made through purchase of inland bills/ cheques to meet urgent requirement of the customer falls under this type of credit facility. This temporary advance is adjustable from the proceeds of bills/cheques purchased for collection. It falls under the category “Commercial Lending”

Export Cash Credit (ECC):

Financial accommodation allowed to a party for exports of goods falls under this head and is categorized as “Export Credit”. The advances must be liquidated out of export proceeds within 180 days.

Packing Credit (PC):

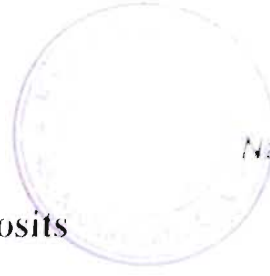
Advance allowed to a party against specific LC /firm contract for processing/ packing of goods to be exported falls under this Head and is categorized as packing credit. The advances must be adjusted from proceeds of the relevant exports within 180 days.

Foreign Documentary Bills for Purchase (FDBP):

Payment made to a party through purchase of a foreign documentary bills falls under this head. This temporary advance is adjustable from the proceeds of the negotiable shipping/ export documents. It falls under the category export credit.

Local Documentary Bills for Purchase (LDBP):

Payment made to a party through purchase of local documentary bills falls under this head. This temporary liability is adjustable from proceeds of the bill.



2.7 Types of Deposits

1. Current Deposit Accounts:

Holder of current account can freely deposit or withdraw money times, as he feels necessary in a working day. Current deposits are parts of demand deposits. There is no loan facility on current account. A current account may be opened by an individual firm, company, club association or a body corporate after duly meeting all the formalities. For opening a current account, the requirement and steps which are followed by this bank are-

➤ For person:

Requirement:

- ✓ 2 copies of passport size photographs
- ✓ Photocopy of 1-7 pages of valid passport (if no passport then driving license voter ID card/ commissioner's certificate).
- ✓ Introducer's signature and account number at the back of account holder's (person going to open the account) photographs.
- ✓ Photograph of nominee with the signature of account holder at the backside of nominee's photograph.
- ✓ Initial deposit of Tk. 5000

➤ For joint stock companies:

In case of opening a current account of a joint stock companies, association and clubs the following requirement are said to be fulfilled:



Requirement:

- ✓ True copies of certificate of incorporation or registration.
- ✓ True copies of certificate of commencement of business.
- ✓ True copies of memorandum and articles of association.
- ✓ True copy of resolution of the board of director/ managing committee.

➤ **For Partnership / proprietorship company:**

Requirement:

- ✓ Name and address of the Firm
- ✓ Partnership deed
- ✓ Trade license
- ✓ Endorsement of account holder of the same branch

2. Savings Bank Deposit Accounts:

Savings deposit account is differ than current account. Because it provides interest to the customer. In NBL, Saving Deposit Accounts shall be opened with a minimum of Tk. 5,000/-.

Interest Rate: The interest rate on savings bank deposit account is 6.00% a.

Requirement:

- ✓ 2 copies of passport size photographs
- ✓ Photocopy of 1-7 pages of valid passport (if no passport then driving license/ voter ID card/ commissioner's certificate).
- ✓ Introducer's signature and account number at the back of account holder's (person going to open the account) photographs.



nominee's photograph.

- ✓ Minimum initial deposit Tk.5000.

3. Short Term Deposit Account (STD):

- The deposit held in these accounts shall be payable on short notice.
- Minimum amount for STD Accounts: STD account shall be opened with a minimum balance of Tk. 5,000/- only.
- Interest is lower: The rate of interest in such types of deposits is lower, because the bank holds the fund for a short notice.
- Suitable for Corporation: Such accounts are suitable for the firms/corporation/public bodies etc., which have excess fund for their disposal for a short time. They earn some interest out of this.

Interest Rate: The interest rate on short term deposit account is 4.50%.

4. Fixed Deposit Accounts:

Characteristics:

1. Period of Fixed Deposit:

Fixed deposit shall be opened for a fixed period, varying from 3 month or above and are payable at a fixed date of maturity. In our bank we prefer fixed deposit for a period of 1 month, 3 months, 6 months & 1 year.

2. Rate of Interest:

Interest on fixed deposit accounts shall be paid at rates fixed by bank from time to time, depending on their period of maturity. As the duration increases, rate of interest also increases.



- FDR for one month: Interest rate is 7.00%
- FDR for 3 months to less than 6 months: Interest rate is 8.75% for below 10 lac, 10.25% for 10 lac to less than 50 lac, 11.00% for 50 lac and above.
- FDR for 6 months to less than 1 year: Interest rate is 9.25% for below 10 lac, 10.75% for 10 lac to less than 50 lac, 11.50% for 50 lac and above.
- FDR for one year and above: Interest rate is 9.75% for below 10 lac, 11.25% for 10 lac to less than 50 lac, 12.00% for 50 lac and above.

3. **Payment of interest:**

- a. Interest shall be calculated at maturity where the period of maturity is one year or less.
- b. Where the maturity of a deposit exceed one year, interest shall be calculated at the end of its anniversary.
- c. The depositor will have the option to with draw interest so accumulated or may leave the interest with the principal to be compounded.

4. **Loan can be availed:**

Against FDR loan may be granted as per rules of the Bangladesh Bank.



CHAPTER-3

An Appraisal of the Credit Policies and Activities of NBL

3.1 An Overview of Credit Policies of NBL

3.1.1 Introduction:

Credit Policy statement sets out the underlying principles and intent which the Board of Directors has determined that the Bank will carry out all of its credit activities. The board has delegate authority to the Managing Director, Head office credit committee and other officer to approve direct, monitor and review lending operation through out the bank and to ensure that the credit policies are adhered to and the credit operation is conducted in a most effective manner.

These policy guidelines refer to all credit facilities extended to customer including placement of funds on the inter-bank market for other transaction with financial institutions.

The Purpose of this policy statement that replaces all previous wants is to set out the credit policies of the board of Directors. The policies are described under the following headings: -

1. Credit principles
2. Global portfolio limits
3. Credit categories
4. Types of credit activities
5. Credit approval
6. Credit Administration
7. Credit monitoring and review



The following are the principles to be adopted for lending authority, approval, monitoring and control on a basis consistent with the global operational objectives and business strategy of the bank.

1) General:

- The bank shall provide suitable credit services and products for the markets in which operates.
- Loans and advances shall normally be financed from customers' deposits and not out of short terms temporary funds or borrowing from other banks.
- Credit will be allowed in a manner which will in no way compromise the banks standards of excellence and to customers who will compliment such standards.
- All credit extension must comply with the requirement of Banking Companies Act 1991 and Bangladesh banks instructions as amended from time to time.

2) Structural:

- The authority structure adopted will enable effective adoption to changes in the economic, technological, regulatory and competitive environment within which the bank operates.

3) Performance:

- The conduct and administration of the loan portfolio should contribute, within defined risk limitation, to the bank's achievement of profitable growth and superior return on the Bank's capital.
- Credit advancement should focus on the development and enhancement of customer relationships and shall be measured on the basis of the total yield for each relationship with a customer (on a global basis). Through individual transactions should also be profitable.
- Credit facilities will be extended to those companies' persons, which can make best use of them, thus helping to maximize our profit, as well as economic growth of the country. To ensure achievement of this objective we will base our lending decision only on the borrower's ability to repay.
- If credit facilities are granted on a transaction/ one off basis the yield from the facility should be commensurate with the risk.

4) Administration:

- The administration of the loan process shall insure compliance with all laws and resolution at both local and global levels including Bank policy as set out in this document and the Bank advances manual/ circulars.
- Proper analysis of credit proposals is complex and requires a high level of numeracy and analytical ability. To insure effective understanding of the concepts and thus to make the overall credit portfolio of the Bank healthy, proper staffing of the credit departments shall be done through placement of qualified officials who have got the right aptitude, formal training in finance, credit risk analysis, bank credit procedures as well as required experience.



- Lending's upon which repayment and interest servicing performance deteriorates shall be identified at an early stage and closely monitored in order to avoid loan losses.
- Loans/ facilities, and where appropriate, related security, shall be monitored and reviewed by a separate unit unconnected with the credit approval process on a regular basis in order to assess the collect ability of the loan and effectiveness of the security. This unit will report to the Managing Director or his designated officer.

3.1.3 Global Credit Portfolio Limits:

The nature of credit portfolio shall be governed within guidelines set down by the Head Office Credit Committee and regulatory requirements. These guidelines will however be consistent with the global limits identified below for the Banks credit portfolio in aggregate. Criteria for exposure to customers are set out below:

1) Total Facilities:

- The aggregate of all cash facilities shall not exceed 80% of customer deposits. It is further governed by the statutory and liquidity reserve requirement of Bangladesh Bank.

2) Term facilities:

Aggregate Bank facilities extended for a period exceeding one year shall not exceed 30% of the total credit portfolio. Facilities shall not be allowed for a period exceeding five years. Any exceptions will require the approval of the board of directors



3) Country/ cross border exposure:

Limits to be established by the board for individual country as well as for aggregate bank credit exposure to different countries. These limits are to be reviewed from time to time with due regard to the political and economic environment in each country. The country exposure limits may be utilized up to maximum amounts for different maturities as follows: -

- For maturities up to one year 100% of the limit
- For maturities up to two years: maximum 50% of the limit
- For maturities up to three years: maximum 10% of the limit
- For Exceptions, reference is required to the Board of Directors.

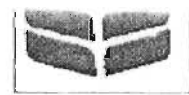
4) Unsecured facilities:

Aggregate Bank advances to corporate or individual customers, which are not secured by collateral and are allowed on the strength of customer's balance sheet, with or without hypothecation of stock shall not exceed 30% of the total credit portfolio.

For the unsecured credit facilities extended to a business dominated by one or two individuals, the bank shall insist on taking life insurance policies by the principles which is sufficient to repay the loan in the event of death or injury of any one key individual. The policy to be assigned to the bank and the premium to be paid by the customer through the bank under suitable arrangement.

5) Industry concentration:

Limits are to be established and reviewed from time to time for aggregate Bank Credit exposure to any one industrial sector. A facility will be allocated to the



industry in which the facility is to be utilized. Standard industry classifications are to be used; these will be reviewed from time to time.

6) Security:

Security accepted as collateral for credit facilities shall be properly valued and shall be affected in accordance with the laws of the country in which the security is held. An appropriate margin of security will be taken to reflect such factors as the disposal costs or potential price movements of the underlying assets.

3.1.4 Credit Approval:

The primary factor determining the quality of the Bank's credit portfolio is the ability of each individual counterpart to honor, on a timely basis, all credit commitments made to the bank. The authorizing credit personnel before credit approval must accurately determine this.

The credit approval process shall be governed by the Bank credit policy framework which can be summarized under the following headings:

Credit evaluation principles:

To have the optimum returns from the deployed funds in different kinds of lendings, more emphasis shall be given on refund of loans and advances out of funds generated by the borrowers from their business activities (cash flow) instead of realization of money by disposing of the securities held against the advance which is very much uncertain and time consuming.

Accordingly, the credit evaluation principles must be adhered to at every level of approval.

The lending risk analysis tool containing analysis of both the business risk and security risk provides overall lending of risk in a particular loan under the following lending process: -



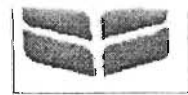
- Asses risk of failure to repay
- Decide whether to accept or reject a loan proposal.
- Set price and terms.
- Obtain sanctioning documents and disburse loan
- Monitor performance and ensure repayment/recovery.

The most pertinent and primary part of the process is assessment of risk of failure to repay which deals with the overall lending risk combining the business risk and the security risk in a matrix derived out of six segments of the business risk VIZ 1) supplies risk 2) sales risk 3) performance risk 4) Management integrity risk and two segments of the security risk VIZ 1) security control risk 2) security cover risk.

The overall matrix provides four kinds of lending risk for decision makers VIZ 1) good 2) acceptable 3) marginal 4) poor which are detailed in the lending risk analysis manual. Bank shall not approve any lending having an overall risk as “marginal” and “poor” without proper justifications except for renewal of existing facilities under compelling circumstances or for other reason such as salvage which shall also contain covenants for improvement of the position. All credit applicants rated “poor” shall require the approval of the Board regardless of purpose, tenor or amount.

Credit risk Assessment:

The importance of a detailed and complete credit risk assessment for each facility and customer relationship cannot be over emphasized. The steps that should be followed in carrying out such as assessment are set out in the Bank advances manual and in Head office circular issued from time to time. It is the absolute responsibility of the proposing officer to ensure that all necessary proposal documentation is collected before the facility request is sent to the authorizing officer.



Authority:

The Board of Directors will extend credit in accordance with the authority levels approved/delegated from time to time.

The responsibilities for credit policy, procedure, approval & review shall vest amongst the following groups: -

a) Board of Directors:

- 1) Establishing overall policies and procedures for approving & reviewing credits.
- 2) Deleting authority to approve and review credits.
- 3) Approving credit for which authority is not delegated
- 4) Approving all extensions of credit, which are contrary to Bank's written credit, polices.
- 5) Approving all credit applications in support of credit to a classified borrower.

b) Finance Committee:

Finance committee to be constituted by the Board and shall be responsible for

- 1) Exercising the power of the Board in all credit matters.
- 2) Establishing lending polices.
- 3) Establishing policies and procedure for reviewing and analyzing extensions of credit and loan portfolio.
- 4) Supervising the implementation of the directives of the Board of Directors.
- 5) Approving credit facilities beyond the delegated authority of the management.
- 6) Reviewing of each extension of credit approved by the Head Office Credit Committee/ Managing director.
- 7) Keeping the Board of Directors informed concerning all the above.



c) Head Office credit committee:

Head Office Credit Committee will be headed by the managing Director; other members will be nominated by him. The committee shall be responsible for:

- 1) Reviewing, analyzing and approving extension of credit in accordance with authority established and delegated by the Board of Directors.
- 2) Evaluating the quality of lending staff in the Bank & take appropriate steps to improve upon.
- 3) Recommending credit proposals to the finance committee which are beyond their delegated authority.
- 4) In exceptional circumstances when approval of an extension of Credit is required at short notice, the proposal may be referred by the branches directly to the head office credit division by Telex/fax. The Ha of the Credit division with the approval of Managing Director and in case where the amount exceeds the authority of the management with the approval of both the managing Director & the Chairman of the Board of Directors may approve the extension. All such approvals, together with the appropriate supporting documents, must be submitted to the Head Office credit committee (and Finance committee if necessary) for information and post facto approval at their next regular meeting.
- 5) Reviewing of credit facility approved by the Regional credit Committee & branch Credit committee.
- 6) Ensuring that all elements of the credit application i.e. forms, analysis, statement and other papers have been obtained and are in order.
- 7) Confirming that the transaction is consistent with the existing loan policy and Bangladesh bank guidelines & if not the committee may prepare a recommendation for an exception to or a change in policy for consideration by the Finance Committee/ Board of directors.

the Bank will appoint a regional manager to manage a number of branches and be constituted by the Managing Director.

The responsibilities will include:

1. Evaluation of lending officer (branch Manager/ Credit officer), approving credit within the authority delegated.
2. Ensuring that credit proposal submission to Head Office are complete and consistent with established policies and procedures.
3. Maintaining an efficient credit practices, procedure and personnel within the Region and developing program and action plan for overcoming weakness.
4. Review of credit facility approved by the branch Credit Committee.

Branch Credit Committee:

Branch Credit Committee to be headed by the Branch Manager; other members to be selected by the regional Manager in consultation with Head Office.

Responsibilities:

- 1) Know their borrower fully;
- 2) Comply with the applicable instructions, manuals, circular and other parallel rules of the Bank as well as those of Bangladesh Bank including banking companies Act 1991 (as amended from time to time)
- 3) Ensure that credit proposal submission to Regional Credit Committee and/or to Head Office Credit Committee are complete and consistent with established policies and procedures.
- 4) Review and analyze the following in connection with credit risk proposals covering any one obligor:
- 5) History of antecedent of the obligor and its management personnel.



- 6) Financial condition of the obligor evidenced by comparative statement, latest balance Sheet, income statement, operating results and supplementary facts.
- 7) Bank & Credit information bureau (CIB) checking and trade standing obtained through investigation.
- 8) Any other pertinent information.
- 9) Secure necessary and adequate legal & banking documentation as well as insurance cover, all in our favor to ensure maximum legal protection. They should also ensure that all charge documents, securities, collateral, etc as per sanction letter have been obtained prior to disbursement.
- 10) Comply with necessary and customary internal & external control & safeguard.
- 11) Ensure continuing review of the risks and exposure and compliance with limits with particular attention being paid to term loans. At the minimum the following should be done.
- 12) The Branch Manager along with other members of credit committee should review every month all credit facilities.
- 13) Ensure that all loan covenants are being complied with.
- 14) Review that regular deposits are being made in he accounts especially for cc & SOD limits and the deposits commensurate with limits and business.
- 15) Ensure verification of stock reports by his authorized officer every month.
- 16) Visit the Business establishment/ factories/ office of the borrower once in a month to review business position, profitability, future projection etc and prepare a report of the findings, which is copied to head office/ Regional office
- 17) Ensure that all facilities are covered by appropriate approval and that are kept within approved limits and ensure compliance with terms and conditions of the approval.



Documentation:

It is essential that the proposal define clearly the purpose of the facility, the sources of repayment, where appropriate the agreed repayment schedule, the value of security and the customer's relationship considerations implicit in the credit decision.

Where security to be accepted as collateral for the facility all documentation relating to the security shall be in the approved form.

All approval procedures and required documentation shall be completed and all securities shall be in place, prior to the disbursement of the facilities.

General documentations, as required for different kind of advance are enumerated below. There may be requirement of specific banking or legal documents to secure a credit according to sanction terms and conditions, which should be obtained in addition to the following:

Loan:

- 1) Demand Promissory Note (D.P Note)
- 2) Letter of partnership (in case of partnership concerns) or resolution of the board of Directors (in case of limited companies)
- 3) Letter of arrangement.
- 4) Letter of disbursement
- 5) Letter of pledge (in case of pledge of goods)
- 6) Letter of hypothecation
- 7) Trust Receipts (in case of LTR facility)
- 8) Letter of lien and ownership (in case of advance against shares)
- 9) Letter of lien for packing credit(in case of packing credit)
- 10) Letter of lien (in case of advance against FDR)
- 11) Letter of lien and transfer authority (in case of advance against PSP, BSP, etc)
- 12) Legal Documents for mortgage of property (as drafted by legal adviser)



Overdraft:

- 1) D.P note
- 2) Letter of partnership (in case of partnership concerns) or resolution of the board of Directors(in case of limited companies)
- 3) Letter of arrangement
- 4) Letter of continuity
- 5) Letter of lien(in case of advance against FDR)
- 6) Letter of lien and transfer authority (in case of advance against PSP, BSP, etc)
- 7) Legal documents for mortgage of property (as drafted by Legal Adviser)

Cash Credit:

- 1) D.P note
- 2) Letter of partnership (in case of partnership concerns) or resolution of the board of Directors(in case of limited companies)
- 3) Letter of arrangement
- 4) Letter of continuity
- 5) Letter of pledge (in case of pledge of goods)
- 6) Letter of lien (in case of advance against FDR)
- 7) Letter of lien and transfer authority (in case of advance against PSP, BSP, etc)
- 8) Documents for mortgage of property (as drafted by Legal Adviser)

Bills purchased:

- 1) D.P Note
- 2) Letter of partnership (in case of partnership concerns) or resolution of the board of Directors (in case of limited companies)
- 3) Letter of arrangement
- 4) Letter of hypothecation of bill



All required documents, as enumerated above, shall be obtained before any loan is disbursed. Disbursement of any credit facility requires approval of the competent authority that should ensure, before exercising such delegated authority, that all the required documents have been completed.

Branches shall ensure proper documentations and submission of monthly statements to Head office on prescribed format confirming such compliance.

3.1.5 Credit Administration:

The principal elements of Bank Credit administration are as follows:

- a) Credit approval
- b) Credit file maintenance
- c) Facility evidence maintenance
- d) Credit monitoring and review

Credit file maintenance

The credit file on each facility shall contain all information necessary to facilitate ready monitoring of that facility. It should contain a through history of the customer relationship to

Help credit officer's track any problems

Assist a newly assigned credit officer in understanding the customer and make the lending process transparent.

The maintenance of credit files shall be disciplined to force the lending officer to obtain all relevant information when analyzing customer risk.

Complete credit files help prevent loan losses resulting from imperfect security documentation

Primary items on credit files will include:

- a) Credit application credit approval notes/analysis. The analysis should contain information about the borrower, credit purpose, credit repayment



sources, collateral security with valuation and guarantee. It should also contain an assessment of the competence and quality of the borrower's management, the general economic and competitive environment of the borrower's industry and any other pertinent factors which may affect the borrower's ability to repay the facility.

- b) Evidence of credit approval and data upon which approval was granted together with any documents, if appropriate. Copy of sanction letter & loan agreements. A check list of all legal & banking documents obtained to be obtained
- c) Details and 6 monthly updated information of all related facilities to the same customer group (Group liabilities information)
- d) All supporting data such as financial statements and analysis there of references, credit investigation results, CIB & other bank reports and notes of all discussions with the borrower and other relevant parties with paper clipping.
- e) Correspondences, call reports, site visit reports. Each credit file shall be maintained in a secured location and access restricted to authorized personnel. Copies of the information may be kept where regular access is required.

Facility Evidence Maintenance:

All legal and banking documentation and register of security shall be maintained, at the branch, separately from the credit file in a location of utmost security. Such documentation may include:

- 1) All charge documents as prescribed by the Bank & local laws, for the relevant credit facility
- 2) Signed credit agreement
- 3) Signed guarantees or other evidence of credit security or collateral agreements



- 4) Where collateral is taken, the original documents of title reports on the collateral concerning its existence, location and value should be held in the secured location.
- 5) All legal & Banking documentation shall be kept in fire proof safe under dual custody of branch Manager or his designate alternate and another officer. A register of security documents shall be maintained under the supervision of Branch Manager.

3.1.6 Credit Monitoring and Review:

It is the responsibility of the manager to monitor the overall profile and risk aspect of the credit portfolio in accordance with the criteria set down in the Bank credit policy. Such monitoring shall be evidenced from the comments of the manager in monthly call visit reports of the assigned officers and be kept in the credit file with copy to Regional office/Head office

This review shall be formally performed at intervals prescribed by Head office but it is the responsibility of the manager to ensure at all times that the credit portfolio meets the standard set forth by the bank.

Periodic review and follow-up should, aim at ensuring

- a) That terms of approval have been adhered to;
- b) That conduct (turnover, regularity of repayments etc) of the borrowing accounts during the period under review has been satisfactory or as expected;
- c) That the continuing value of collateral is adequate;
- d) That there are no averse trends in market, economic and political conditions which may endanger the responsibility of the facility
- e) That the borrower's business is being satisfactorily conducted as reflected through a review and analysis of their financial and operating statements and detailed information such as quality of the inventory, ageing of receivables, trend in sales and profitability, liquidity and cash

flow situation, maintaining various ratios, particularly those stipulated by bank at the time the facility was granted, etc;

- f) That the business reciprocity offered and received is commensurate with the facilities allowed;
- g) That earnings from the account are cost effective (i.e. adequate to meet direct cost of funds and leave sufficient margin for adequate risk reward overheads and profits),

All extensions of credit are therefore to be reviewed and graded at intervals prescribed by The Head Office. The purpose of this procedure is to monitor lending performance and to identify potential delinquent credits.

The basis of review/ classification are risk of the transaction, repayment record, conduct of the account financial capacity and records of the borrower, collateral conditions, supporting information and documentation and the degree of conformity to bank policies.

Assessment of group exposure:

If facilities to any customer group are booked in a number of locations a designated officer shall be responsible for the management of the Bank's global exposure to that customer, shall be documented and advised to the designated officer

To ascertain repaying ability of each customer a formal assessment shall be carried out on a regular basis. Where a facility is secured, the advance should be based on the current value of the underlying asset. The frequency of these assessments will depend on the quality of the facility, which is based on the classification ratings set out below:

- a. This classification contains accounts where irregularities have occurred but where such irregularities are considered to be either "technicalities" or temporary in nature. The main criteria for a substandard advance are that deposit these "technical" or temporary irregularities no loss is expected to arise. These accounts will require close supervision by management to ensure that the situation does not deteriorate further. Provision (a) 10% of the base is required for



debts in this classification where base is the outstanding balance less interest kept in interest Suspense Account less the value of eligible securities.

- b.** Doubtful Debt: This classification contains debts where doubt exists over the full recoverability of the principal and / or interest. Although a loss is anticipated it is not possible at this stage to quantify the exact extent of that loss. Management is required to pursue such debts with the utmost resolution to either avoid or minimize the Bank's losses. Provision @ 50% of the base required for debts in this classification.
- c.** Bad Debts: These facilities are considered to be uncollectable or worthless even after all security has been exhausted and shall be provided for @ 100% of the base.
- d.** Special mention: Facilities requiring special monitoring are to be flagged or put on a watch list. Whilst this is not a debt classification as such this facility will allow the bank to monitor customer who, through not in branch of their facility.



3.2 Deposit Credit Ratio

Table: 3.1- Deposit Credit Ratio of NBL

(Figures in Million Tk)

Year	Deposit	Credit	Deposit Credit Ratio
1997	15553.87	15055.9	103.31
1998	17364.74	16056.4	108.15
1999	20258.72	18239.52	111.07
2000	23616.28	18553.66	127.29
2001	24896.64	20200.64	123.25
2002	26276.26	21677.96	121.21
2003	27762.12	22257.15	124.73
2004	28973.39	23129.65	125.27
2005	32984.05	27020.21	122.07

Source: Annual Report of NBL (2001-2005)

Table 3.1 illustrates the deposit-credit ratio of NBL. The deposit credit ratio was in the increasing level as we can see it from the growth percentage rate. In the year 1997 the growth percentage for deposit-credit ratio was 103.31%. Then in the next year it increases from the previous year. The increasing level of the ratio was consistent up to the year 2000. But the year 2001 and 2002, the growth percentage of deposit-credit ratio has been decreased. Then the growth percentage of deposit-credit ratio starts to increase up to 2004. The highest growth percentage was 125.275 in the year 2004. The lowest growth percentage was 103.31% in the year 1997.



The Growth Percentage of D/C ratio of NBL is shown in the following graph:

Growth Percentage

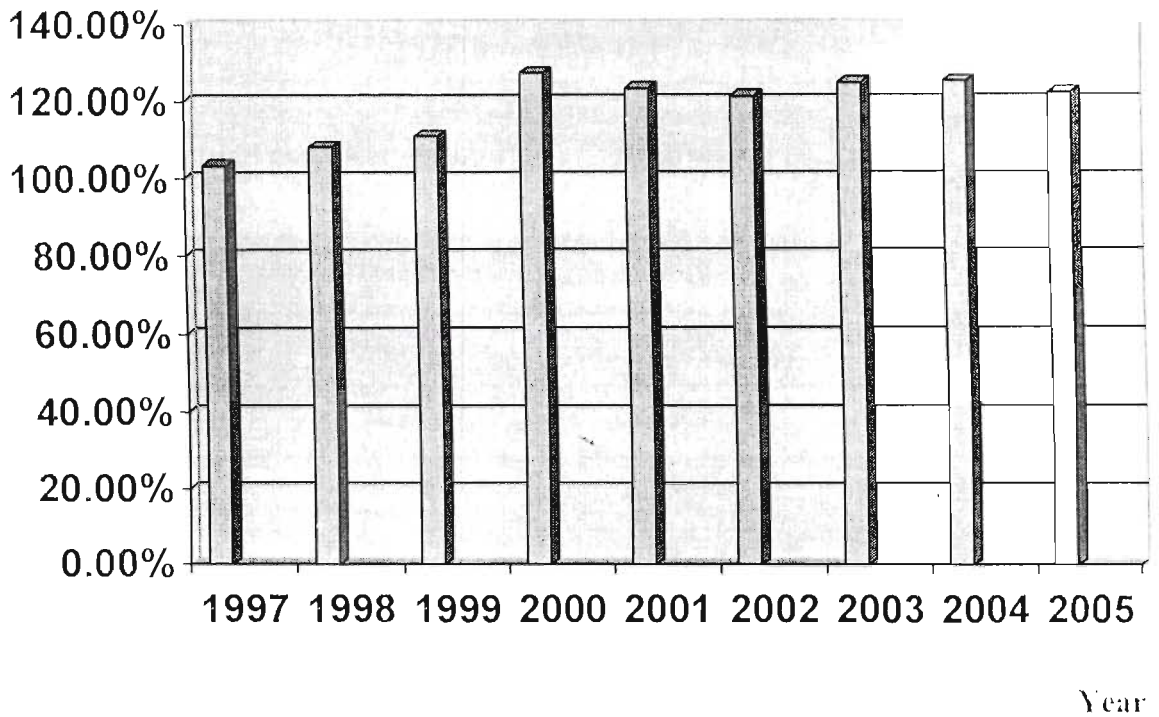


Figure 3.1: Growth Percentage of D/C ratio of NBL

3.3 Recovery of Credit

Table 3.2: Sector wise loan (fig. in million tk)

Sector	2000	2001	2002	2003	2004	2005
Agricultural	111.3	63.27	77	107	61.3	99.9
Industry	4306.92	4410.1	3563	4342	2989.4	4234.8
CCS	-	-	-	17	98.46	88.96
Export	4917.31	4960.7	-	-	3965.1	4967.5
Others	7240.32	8030.9	13645.96	13888.2	4321.36	5525.89

Source: Annual Report of NBL (2001-2005)

**Sector wise loan recovery:****1) Agricultural sector:**

**Table 3.3: Loan recovery from agricultural sectors
(Fig. in million tk)**

Year	Agricultural Loan	Recovery	Growth Percentage
2000	111.3	100.17	-
2001	63.27	56.94	-43.15
2002	77	69.3	21.70
2003	107	96.3	38.96
2004	61.3	55.17	-42.71
2005	99.9	89.91	62.97

Source: Annual Report of NBL (2001-2005)

Table 3.3 describes the agricultural loan recovery of NBL. In the year 2001 the growth percentage was -43.15%, because in that year the loan amount was not so high in the agricultural sector. Another negative growth percentage rate was in the year 2004, it was -42.71%. The highest growth percentage rate of recovery was in 2005 which was 62.97% and the lowest was -43.15%. The growth percentage of the recovery of agricultural loan suggests that in the agricultural sector the loan amount is not gradually increasing. In some years it is increasing and in some year it is decreasing.

The growth percentage of the loan recovery from agricultural sectors of NBL is shown in the following graph:



Growth Percentage

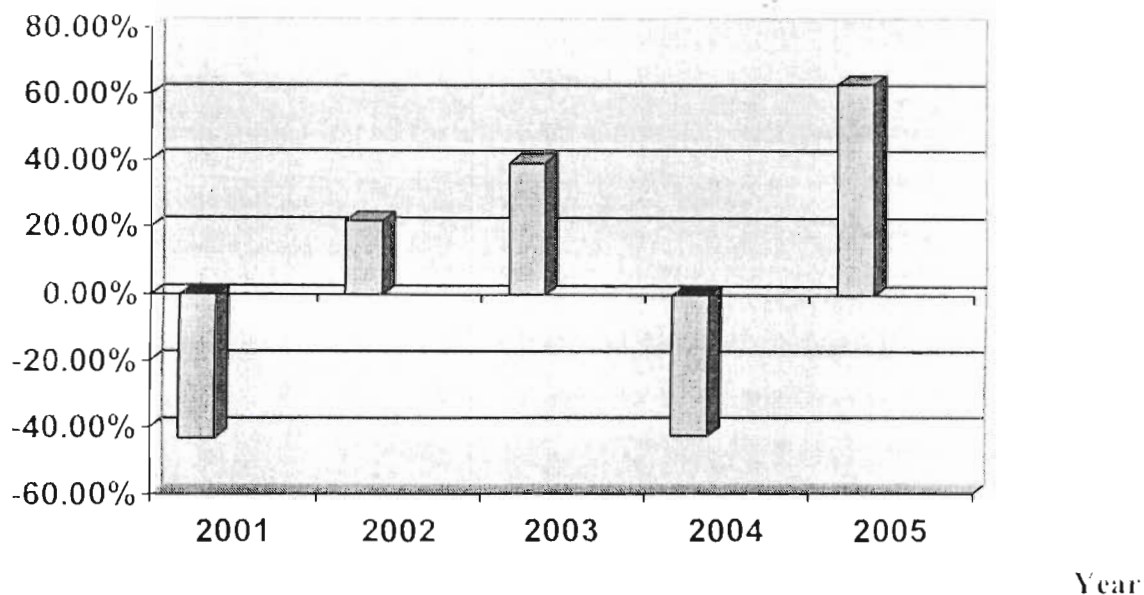


Figure 3.2: Growth percentage of the loan recovery from agricultural sectors of NBL

2) Industrial sector:

Table 3.4: Loan recovery from industrial sectors
(Fig in million tk)

Year	Industry	Recovery	Growth %
2000	4306.92	3014.844	-
2001	4410.1	3087.07	2.40
2002	3563	2494.1	-19.21
2003	4342	3039.4	21.86
2004	2989.4	2092.58	-31.15
2005	4234.8	2964.36	41.66

Source: Annual Report of NBL (2001-2005)



In case of industrial sectors the loan recovery rate was negative in the year 2002 and in 2004. The highest growth percentage was in 2005 and the lowest growth percentage was in 2004. The highest growth percentage was 41.66%, and the lowest growth percentage was -31.15%. The growth percentage of the recovery of industrial sector suggests that in the industrial sector the loan amount is not gradually increasing. In some years it is increasing and in some year it is decreasing.

The growth percentage of the loan recovery from industrial sectors of NBL is shown in the following graph:

Growth Percentage

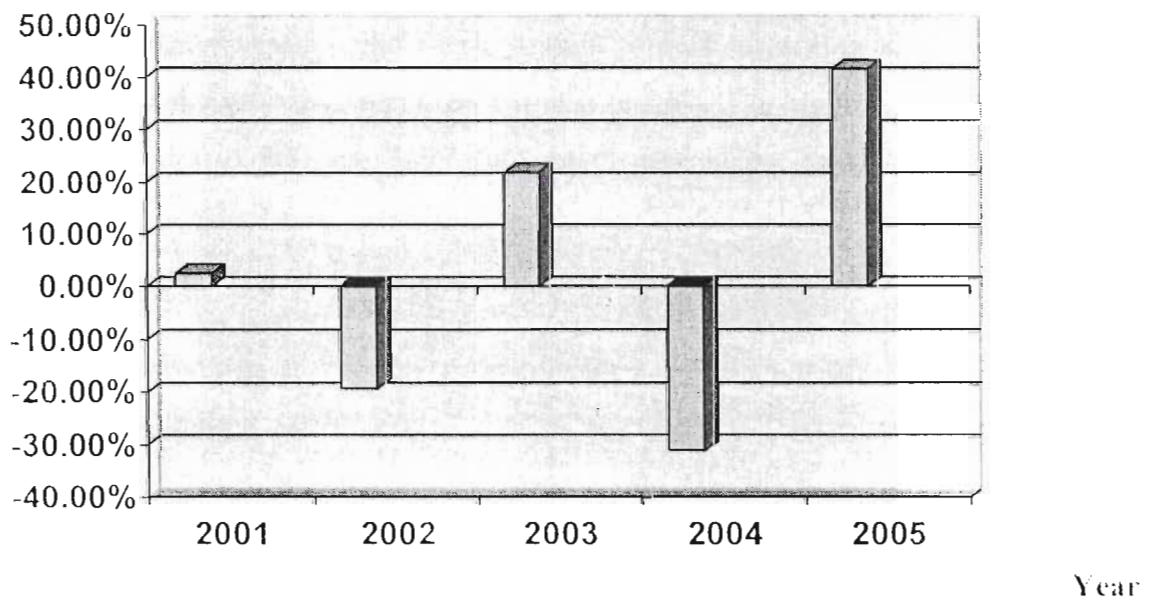


Figure 3.3: Growth percentage of the loan recovery from industrial sectors of NBL.



3) Consumer Credit Scheme (CCS):

Table 3.5: Recovery from CCS

(Fig in million Tk)

Year	CCS	Recovery	Growth %
2000	-	-	-
2001	-	-	-
2002	-	-	-
2003	17	13.6	-
2004	98.46	78.768	479.18
2005	88.96	71.168	-9.65

Source: Annual Report of NBL (2001-2005)

From the table 3.5 it is clear that in the CCS sector the loan was provided in the year 2003, 2004 and 2005. The highest loan amount was 98.46 million tk in the year 2004 and in that year the growth percentage was also highest. The highest growth percentage was 479.18% and in the year 2005 the growth percentage was the lowest. It was -9.65%.

The growth percentage of recovery from consumer credit schemes of NBL is shown in the following graph:



Growth %

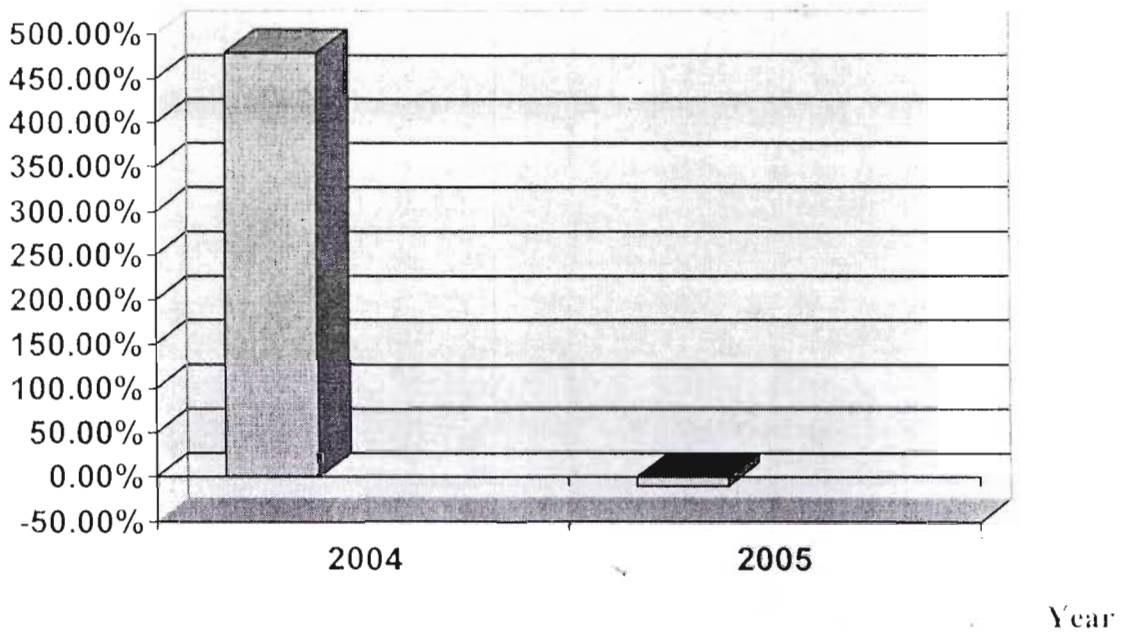


Figure 3.4: Growth percentage of recovery from consumer credit schemes of NBL

3) Export:

Table 3.6: Recovery from Export

(Fig. in million tk)

Year	Export	Recovery	Growth %
2000	4917.31	3933.848	-
2001	4960.74	3968.592	0.88
2002	-	-	-
2003	-	-	-
2004	3965.1	3172.08	-
2005	4967.5	3974	25.28

Source: Annual Report of NBL (2001-2005)



In the export sector the loan was provided in the year 2000, 2001, 2004 and 2005. The growth percentage of the recovery from export sectors was 0.88% in the year 2001 and 25.28% in the year 2005.

The growth percentage of recovery from the export sectors of NBL is shown in the following graph:

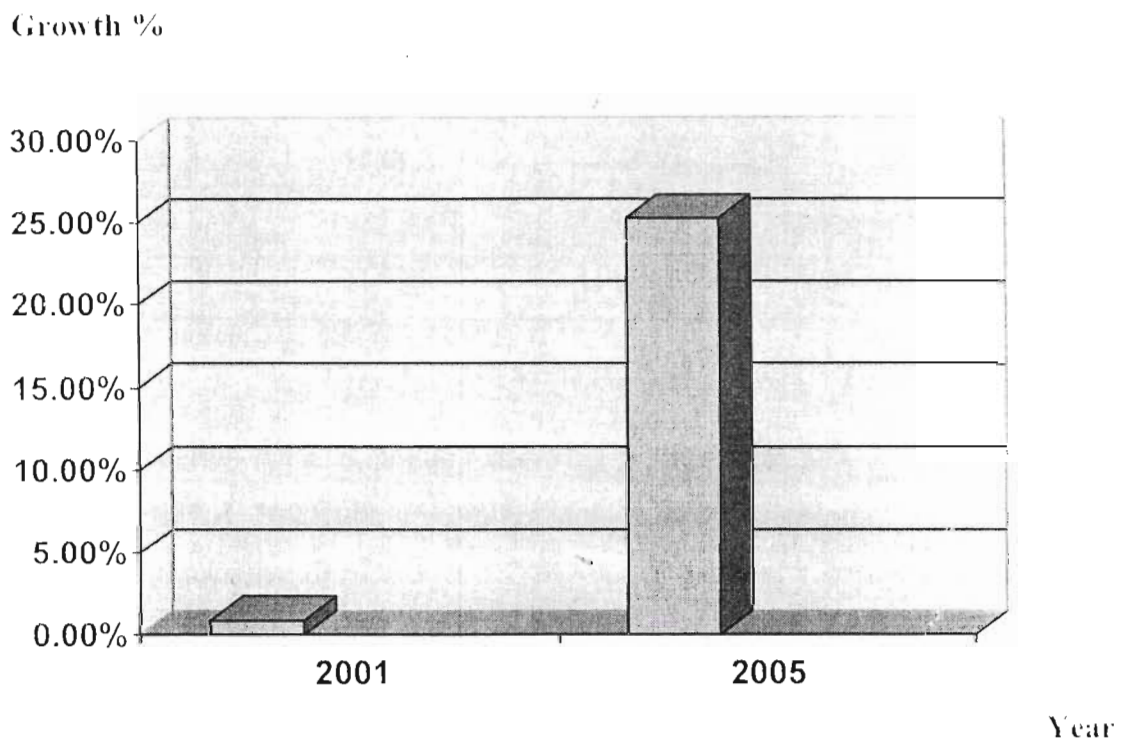


Figure 3.5: Growth percentage of recovery from the export sectors of NBL.



4) Others:

Table 3.7: Loan recovery of NBL from other sectors

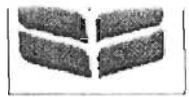
(Fig in million tk)

Year	Others	Recovery	Growth %
2000	7240.32	5430.24	-
2001	8030.9	6023.18	10.92
2002	13645.96	10234.47	69.92
2003	13888.2	10416.15	1.78
2004	4321.36	3241.02	-68.88
2005	5525.89	4144.42	27.87

Source: Annual Report of NBL (2001-2005)

Incase of others sectors the loan amount was very high in each and every year. In the first two years (2001 & 2002) the growth percentage was increasing. Then in the year 2003 the growth percentage decreases to 1.78%, and in the next year it decreases to the negative rate. Then it increases in the year 2005. The highest growth percentage was 69.92% in the year 2002 and the lowest was -68.88% in the year 2004. The growth percentage of the recovery of others sector suggests that in the others sector the loan amount is not gradually increasing. In some years it is increasing and in some year it is decreasing.

The growth percentage of the loan recovery of NBL from other sectors is shown in the following graph:



Growth Percentage

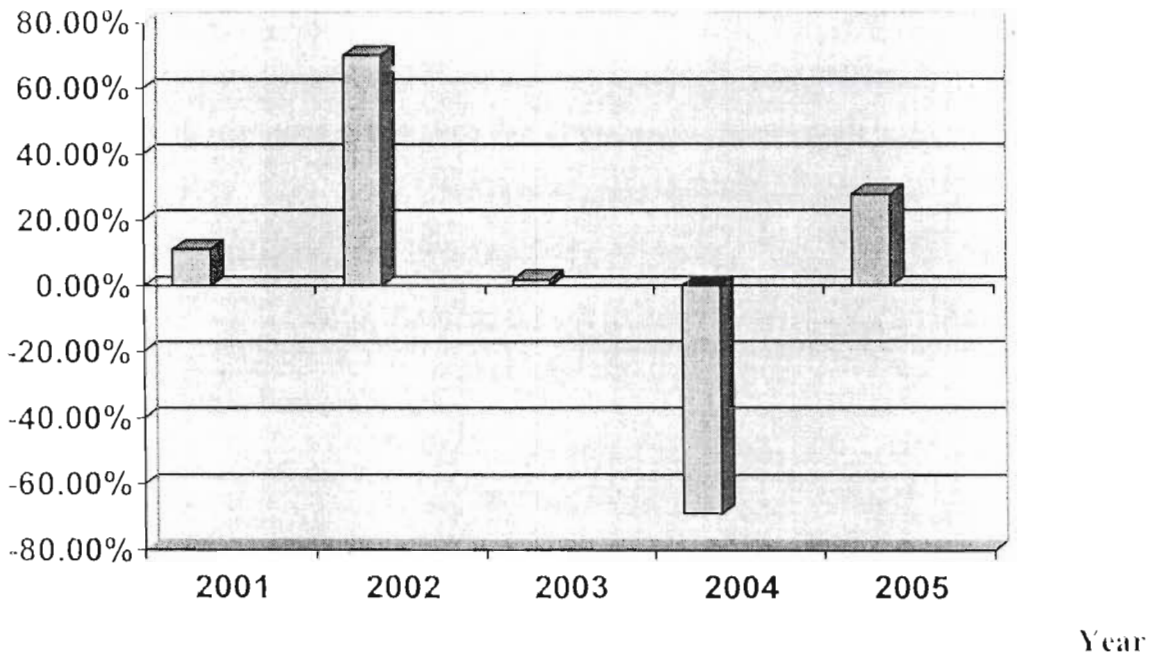


Figure 3.6: Growth % of the loan recovery from other sectors of NBL.

3.4 Non-performing loan as a percentages of total advances

Table 3.8: Non-performing loan as a percentage of total advances

Year	Non performing loan as a % of total advances	Growth Percentage
2000	31.4	-
2001	28.15	-10.35
2002	28.84	2.45
2003	25.13	-12.86
2004	17.24	-31.40
2005	7.06	-59.05

Source: Annual Report of NBL (2001-2005)



In the year 2001 the growth percentage of nonperforming loan as a percentage of total advances was negative. In 2002 the percentage ratio has been increased to the positive level. It was 2.45%. Then it was again became the negative ratio it has been started to decreasing. From the year 2003 to 2005 the growth percentage was decreasing. The highest growth percentage was 2.45% and the lowest was -59.05% in the year 2002 and 2005 respectively.

The growth percentage of the non-performing as a percentage of total advances of NBL are shown in the following graph:

Growth Percentage

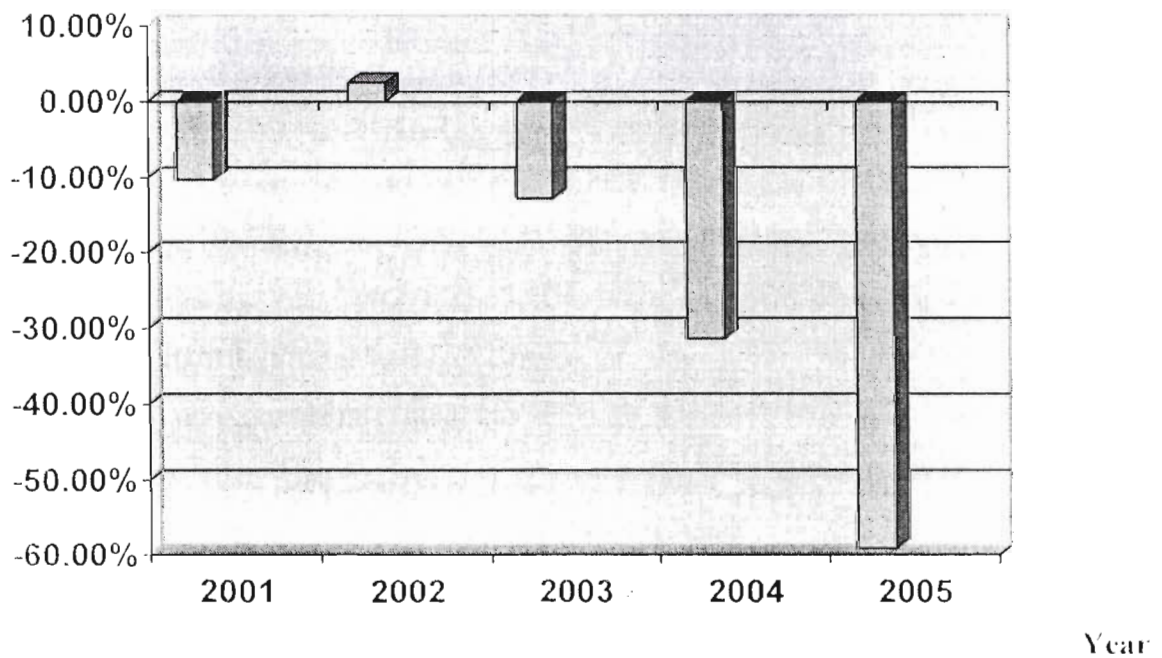
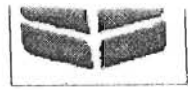


Figure 3.7: Growth % of the non-performing as a % of total advances of NBL.



3.5 Volume of Non-performing Loan

Table 3.9: Volume of non-performing loan of NBL

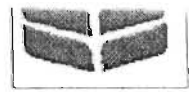
(Fig. in million Tk)

Year	Volume of non-performing loan	Growth percentage
2000	5626.31	-
2001	5686.52	1.07
2002	6252.3	9.95
2003	5592.51	-10.55
2004	3988.59	-28.68
2005	1906.4	-52.20

Source: Annual Report of NBL (2001-2005)

From the table 3.9 we can see that the growth percentage of the volume of non-performing loan has been increased from 2001 to 2002 and then it was decreasing continuously from the year 2002 to 2005. The highest growth percentage was 9.95% in the year 2002 and the lowest was -52.20% in the year 2005. The growth percentage of the volume of non-performing loan has become negative year after year which is a positive side for NBL. The volume of non performing loan has been decreased from the year 2003 to 2005. It is a very positive signal for the bank.

The volume of non-performing loan of NBL is shown in the following graph:



Growth Percentage

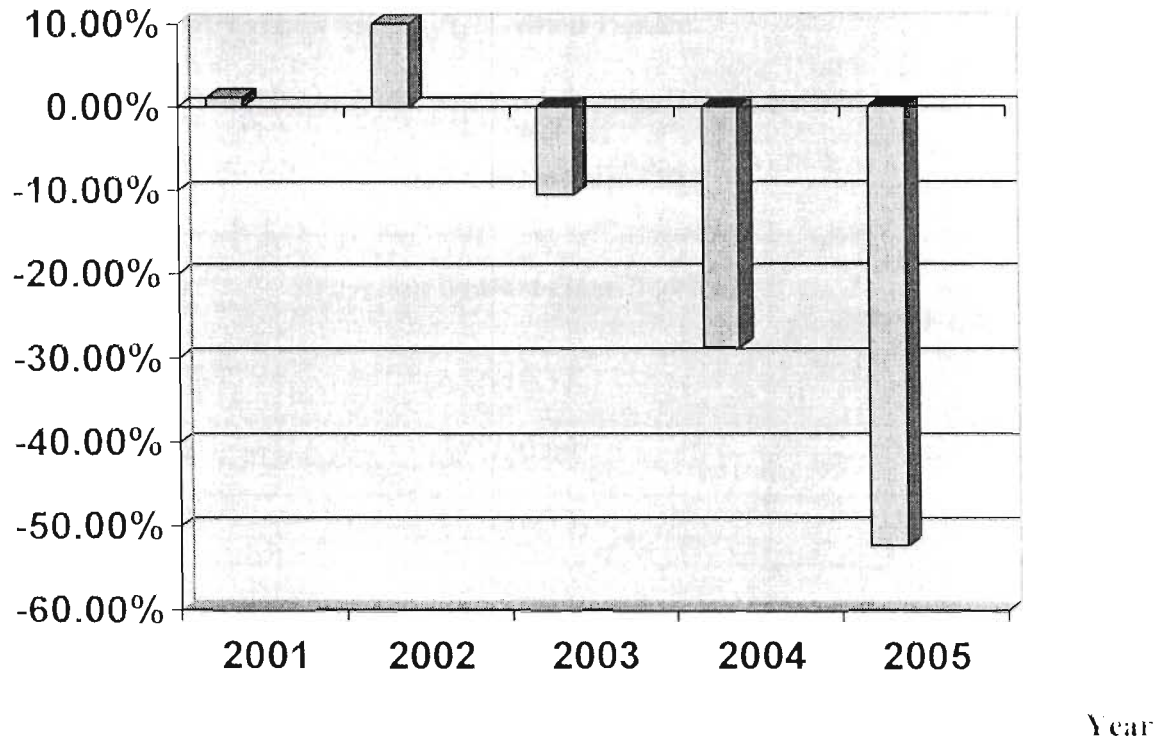


Figure 3.8: Growth percentage of the volume of non-performing loan of NBL.



3.6 Amount of provision against Classified & Unclassified Loans

3.6.1 Amount of Provision against Classified Loans:

Table 3.10: Amount of Provision against Classified Loans

(Fig. in million Tk)

Year	Provision against classified loan	Growth percentage
2000	2710.35	-
2001	2720.69	0.38
2002	3210.75	18.01
2003	3161.87	-1.52
2004	1966.65	-37.80
2005	967.21	-50.82

Source: Annual Report of NBL (2001-2005)

The growth percentage of the amount of provision against classified loans was increasing for the first two years. Then in the year 2003 the growth percentage has become negative and it continues up to year 2005. The highest growth percentage was 18.01% in the year 2002 and the lowest growth percentage was -50.82% in the year 2005.

The growth percentage of the provision against classified loan of NBL is shown in the following graph:



Growth Percentage

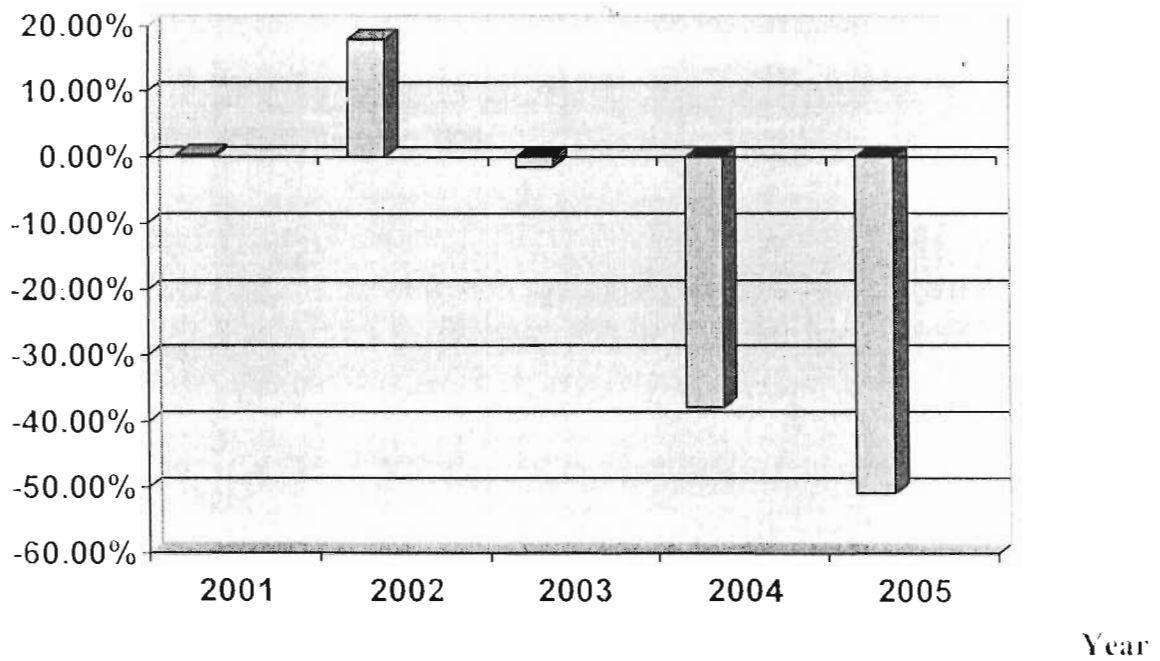


Figure 3.9: Growth percentage of the provision against classified loan of NBL

3.6.2 Amount of Provision against Unclassified Loans:

Table 3.11: Amount of Provision against Unclassified Loans
(Fig in million Tk)

Year	Provision against unclassified loan	Growth percentage
2000	158.43	-
2001	174.8	10.33
2002	184.67	5.65
2003	190.95	3.40
2004	191.41	0.24
2005	251.14	31.21

Source: Annual Report of NBL (2001-2005)



Table 3.9 states the growth percentage rate of the amount of provision against unclassified loans of NBL. The growth percentage rate was decreasing from the year 2001 to 2004. But in the year 2005 the growth percentage rate has been jumped to the highest level. The highest growth percentage rate was 31.21% in the year 2005 and the lowest rate was 0.24% in the year 2004.

The Growth Percentage of the provision against unclassified loan of NBL is shown in the following graph:

Growth Percentage

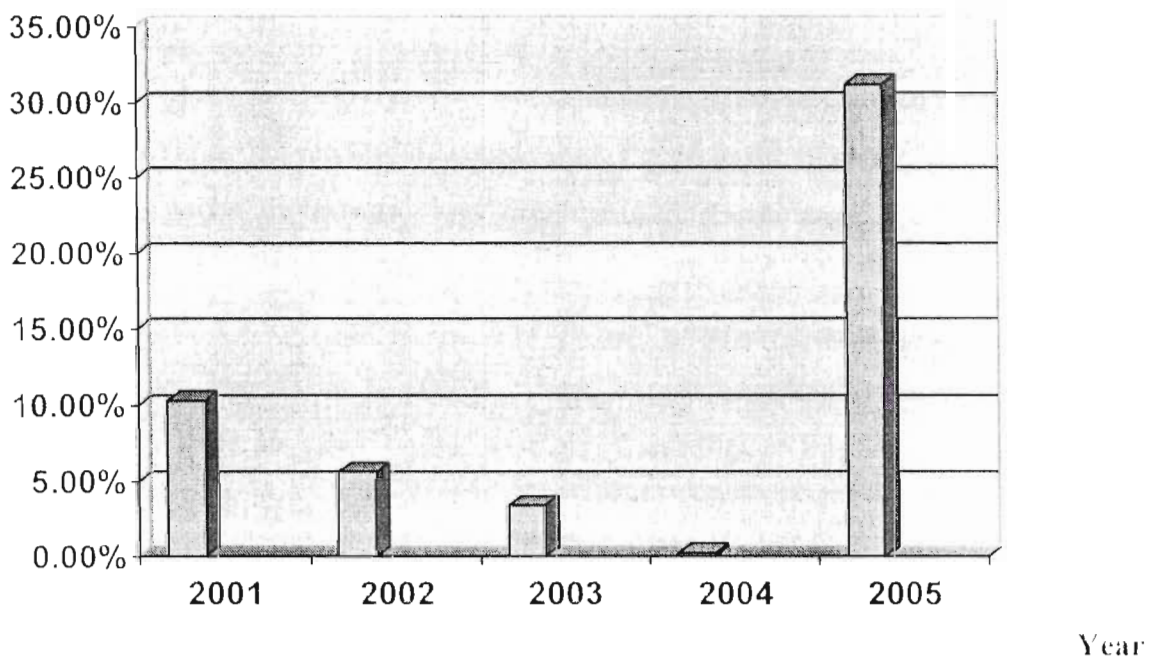


Figure 3.10: Growth percentage of the provision against unclassified loan of NBL.



CHAPTER-4

An Appraisal of the Foreign Exchange Activities of NBL

4.1 An Overview of the Foreign Exchange Activities of NBL

Foreign Exchange is divided in three parts. They are-

1. Export
2. Import
3. Foreign Remittance

4.1.1 Export:

By the term export we mean carrying out of anything from one country to another. The bank defines export as sending of visible things outside the country for sale. In a word export means goods are outwards and foreign currencies are inward.

Export trade plays a vital role in the development process of an economy. Export trade is always encouraged but anybody cannot export anything to any place. Export Registration Certificate (ERC) given by Chief Controller of Import and Export (CCI & E) is required for this purpose.

Letter of Credit (L/C):

A letter of credit (L/C) is an instrument issued by a bank on behalf of the importer (buyer) promising to pay the exporter (beneficiary) upon presentation of shipping documents in compliance with the terms stipulated therein.



National Bank of Bangladesh

Types of Letter of Credit.

There are basically 2 types of letter of credit which are described below:

1) Revocable:

A revocable credit is a credit, which can be amended or cancelled by the issuing bank at any time without prior notice to the seller.

2) Irrevocable:

An irrevocable credit constitutes a definite undertaking of the issuing bank (since it cannot be amended without the agreement of all parties thereto), provided that the stipulated documents are presented and the seller satisfies the terms and conditions. An irrevocable credit can be either confirmed or unconfirmed depending on the desire of the seller. The seller of credit is always preferred to revocable letter of credit.

The other types of Letter of Credit are given below:

- Documentary credit
- Stand-by letter of credit
- Counter credit
- Transferable credit
- Back-to-back L/C.

The Back-to-back L/C is widely used and most necessary among others letter of credit. So the Back-to-back L/C is described below:

Back-to-back Credit (BTB L/C):

A back-to-back letter of credit is a new credit opened on the basis of an original credit in favor of another beneficiary. Under the back to back concept, the seller as the beneficiary of the first credit offers it as "Security" to the advising bank for the issuance of the second credit. The original credit (selling credit) and back to back credit (buying credit) are separate instruments independent of each other and in no way legally



Parties of L/C:

There are a number of parties involved in a L/C such as:

- i. Importer/Buyer
- ii. Opening/Issuing Bank
- iii. Exporter/Seller/Beneficiary
- iv. Advising/Notifying Bank
- v. Confirming Bank
- vi. Negotiating Bank
- vii. Paying/Reimbursing Bank.

Requirements of opening a L/C:

- Current deposit A/C holder
- IRC (Important Registration Certificate)
- Import policy
- L/C authorizing from duly registered
- L/C application duly fill up and sign
- Contract/Indent
- Insurance coverage
- Income tax document
- Contingency liability voucher
- L/C registration



Requirements of opening a BTB L/C:

- Master L/C
- Valid Import Registration Certificate (IRC) & Export Registration Certificate (ERC)
- L/C application and LCA form duly filled in signed
- Pro-forma Invoice or Indent
- Insurance cover note with money receipt.
- IMP form duly signed

So, a L/C, which is opened against a Master L/C, is called BTB L/C. One or more L/C is opened against one Master L/C.

Export Procedure:

(i) Registration of Exporter:

To do the export from Bangladesh to another country, the exporter has to register with CCI&E and holds valid Export Registration Certificate (ERC). No exporter is allowed to export any commodity permissible for export from Bangladesh unless he or she is registered with CCI&E and holds valid Export Registration Certificate (ERC). The ERC number is to be incorporated on EXP forms and other documents connected with exports.

(ii) Obtaining EXP Form

After having the registration, the exporter applies to the bank with trade license and ERC to get EXP. If the bank is satisfied, an EXP is issued to the exporter.

(iii) Securing the order

After registration, the exporter may proceed to secure the export order. He can do this by contracting the buyers directly through correspondence. Some buyers have



their liaison office, representatives or local agents, who can contracts to secure a deal.

(iv) Signing of the contract

While making a contract, the following points are to be mentioned-

- Description of the goods
- Quantity of the commodity
- Price of the commodity
- Shipment
- Insurance and marks
- Inspection

(v) Procuring the materials

After making the deal and on having the L/C opened in his favor, the next step for the exporter is to set about the task of procuring or manufacturing the contracted merchandise.

(vi) Shipment of goods

The following are the documents normally involved at the stage of shipment-

- EXP form
- Photocopy of registration certificate
- Photocopy of the contract
- Photocopy of the L/C
- Freight certificate from the bank in case of payment of the freight at the port of lading is involved
- Railway receipt, Barge receipt or Truck receipt
- Shipping instructions
- Insurance policy

After those, exporter submits all these documents along with a letter of Indemnity to the Bank for negotiation. An officer scrutinizes all the documents. If the document is a



clean one, NBL purchases the documents on the basis of banker-consumer relationship. This is known as Foreign Documentary Bill Purchase (FDBP).

1. Procedure for FDBP:

After purchasing the documents, NBL takes FDBP charges from the customer's A/C. A FDBP register is maintained for recording all the particulars.

2. Foreign Documentary Bills for Collection

NBL forwards the documents for collection. FDBC signifies that the exporter will receive payment only when the issuing bank gives payment. The exporter submits Duplicate EXP form and Commercial Invoice. An FDBC register is maintained where first entry is given, when the documents are forwarded to the issuing bank for collection and the second one is after realization of the proceeds.

Documentation

Next step is documentation. When goods are shipped then they send the documents. At first prepare forwarding. Then arrange the following documents-

- Bill of exchange
- Bill of lading
- Commercial Invoice
- Packing list
- Certificate & other documents
- Any other documents as asked for by the opener

Retirement

Next step is Retirement. This means wait for payment. When the beneficiary sends the goods, then they sent related documents for payments to the bank the bank starts the retirement procedure. At first checking these documents with the L/C, L/C time, date number, invoice, terms & conditions, beneficiary's certificate. Certificate of origin, a



certificate of undertakings by M.D. (in case of local), etc. then entry in the register and the number is posted to documents with seal in every page. The register number entry is called ABP. Then prepare commission voucher and entry in the liability book for that amount. It must be mentioned that as per rules the amount, which is admissible, that must be entered in the liability register.

Payment

Next step is payment-local payment & foreign payment. They are discussed in the next page-

Local payment

For local payment the bank used P.O (Pay order within Dhaka city) & (Demand Draft outside Dhaka city). The bank charged commission for that.

Foreign payment:

In case of foreign payment the procedure is totally different. For example- Bangladeshi Y Co. send payment USA X Co. The issuing bank prepares voucher for that amount and sends to the ID (International division). ID informed the BANK OF TOKYO-MITSUBISHI, NEW YORK BRANCH USA, which maintains liaison between the issuing bank & advising bank. Then the bank of Tokyo pays to the beneficiary after checking the authentication code.

After that, the Bangladeshi Co. is going for production and exported those goods with related documents. Then the Co. sent EXP form with invoice to the issuing bank. The EXP form is signed by single authority & sends to the Bangladesh Bank.



4.1.2 Import

Import is foreign goods and services purchased by customers, firms and Government in Bangladesh. There are mainly three purposes of import they are as follows:

- Trading Purpose
- Industrial Purpose: Here L/C margin is negotiable between banker and buyer.
- Actual user:

An importer must have Import Registration Certificate (IRC) given by Chief Controller of Import & Export (CCI&E) to import anything from other country.

Import Procedure

Before making imports, the importer enters in to a purchase contract with foreign suppliers. If the suppliers have local agent, the importers obtain an indent and pro-forma invoice. If the suppliers have no local agents in Bangladesh, then importers hold valid IRC.

All importers in to Bangladesh are subject to opening of L/C. import transaction are concluded with the help of documentary letter of credit established by the importer's bank in favor of supplier or Beneficiary and advised through the agent's bank located in the supplier's country.

Documents that are needed for opening an import L/C are listed below-

1. Party application duly signed and sealed by the opener.
2. Import Registration Certificate
3. Trade License
4. Pro-forma invoice/indent duly signed and sealed by the opener and beneficiary
5. L/C application form (to be the bank) duly signed and sealed by the opener.
6. LCA/IMP forms duly signed and sealed by the opener.



7. L/C opening proposal approved by the opener authority mentioning L/C details.
8. Beneficiary's bank report if the L/C is more than US \$8000/- or BDT 20000/- or its equivalent.
9. In case of FOB, CIF, Insurance cover note with money receipt.
10. In case of Quota item, quota allocated papers.

Import Mechanism

According to import & Export Control Act, 1950, the office of chief controller of import & Export provided the registration (IRC) to the importer. After obtaining this, person has to secure a Letter of Credit Authorization (LCA) from Bangladesh Bank. And then a person becomes a qualified importer. He is the person who instructs the opening bank to open an L/C. the import mechanisms are discussed below-

1. Importer's Application for L/C Limit/Margin

To have an import L/C limit, an importer submits an application to the import department. An officer scrutinizes this application and accordingly prepares a proposal and forwards it to the head office. If the Managing Director satisfies, he sanctions the limit and returns to the branch. Thus the importer is entitled for the limit.

2. The L/C application

After sanctioning the limit, an officer of NBL makes a L/C application.

3. Transmission of L/C

The transmission of L/C is done through tested telex or fax or mail to advise the L/C to the beneficiary.

4. Presentation of the Documents

The seller being satisfied with the terms and conditions of credit proceeds to dispatch the required goods to the buyer and after that, has to present the documents evidencing dispatching of goods to the negotiation bank or before the stipulated expiry date of the

After receiving all the documents, the negotiating bank checks the documents against the credit. If the documents are found in order, the bank will pay accept or

Retention of the Shipping Documents

When it is found that the documents drawn in conformity with the terms of the credit, i.e. the documents are in order, NBL lodges the documents in PAD.

6. Payment Procedure of the import documents

This is the most sensitive task of the import department. The officials have to be very much careful while making payment. This task constitutes the following-

(i) Date of Payment

Usually payment is made within seven days after the documents have been received. If the payment is become deferred, the negotiating bank may claim interest for making delay.

(ii) Preparing Sale Memo

A Sale memo is made at BC rate to the customer. As the TT & OD rate is paid to the ID, the difference between these two rates is exchange trading. Finally, an inter Branch Exchange Trading credit Advice is sent to ID.

(iii) Requisition for the foreign currency

For arranging necessary fund for payment, a requisition is sent to the ID.

(iii) Transmission of telex

A telex is transmitted to the correspondent bank ensuring that payment is being made.



L/C Margin:

L/C Margin varies from bank to bank and customer to customer. Generally it depends on the following factors-

- (i) Relationship between the banker and the client
- (ii) Seasonal Factor
- (iii) Feature of the goods

4.1.3 Foreign Remittance

Remittance is another factor of the NBI, from where it earns a lot of foreign exchange every year. Remittance means to send or transfer money or money worth from one place to another. In this case, the bank acts as the media to transfer or remit the money. Against the service it charges some commissions from the client.

The basic functions of this department are outward and inward remittances of foreign exchange from one country to another country. In this process of providing this remittance service, it sells and buys foreign currency. The remittance process involves the following four models:

Cash Remittance:

- **Cash Dollar sell:** Bank sells dollar for using the abroad by purchaser. The maximum amount of such sell is mentioned in the Bangladesh Bank publication of "Convertibility of Taka for current transactions in Bangladesh".
- **Cash Dollar purchase:** Bank can purchase dollar from resident and non-resident Bangladeshi or foreigner. Most dollars purchased comes from realization of Export bill of exchange.



Traveler's Cheque:

➤ **Issue of Traveler's Cheque:**

Traveler's Cheques are useful to persons, who frequently travel abroad.

➤ **Buying of Traveler's Cheque:**

Customer buy's Traveler's Cheque for use in abroad. But some leaf may be remained unused. The customer can surrender these unused leaves against payment of equivalent amount.

➤ **Traveler's Cheque received for collection:**

This bank for collection receives unused leaves of Traveler's Cheque issued by another bank. Generally it takes 21 days for collection and customer can draw cash after one month.

Telex Transfer:

➤ **Outward TT:** Bank also remit fund by tested telegraphic message via its foreign correspondence bank in which it is maintaining its NOSTRO account.

➤ **Inward TT:** In the same manner, it makes payment according to telegraphic messages of its foreign correspondence bank from the corresponding VOSTRO account.

Foreign Demand Draft:

Bank issues demand draft in favor of purchaser or any other according to instruction of purchaser. The payee can collect it for drawee bank in which the issuing bank of demand draft holds it NOSTRO account. Bank also makes payment on DD drawn on this bank by its foreign correspondence bank through the VOSTRO account.

In this process the remittances, bank must have to make profit as a business institutions. Profit may make in two ways:

- First one is "Commission Charged" and
- The second one is "Difference in buying and selling."



4.2 Trends of Foreign Exchange Activities of NBL

Table 4.1: Trends of foreign exchange activity of NBL.

Year	Import Business	Growth %	Export Business	Growth %
1997	18082.4	-	12651.8	-
1998	27236.5	50.62	15664	23.81
1999	23597.1	-13.36	18742.4	19.65
2000	22420.04	-4.99	21670.8	15.62
2001	20773.2	-7.35	22071	1.85
2002	19245.7	-7.35	17771.2	-19.48
2003	19264.5	0.10	16341.8	-8.04
2004	22028.3	14.35	17105.3	4.67
2005	31648.2	43.67	21344.1	24.78

Source: Annual Report of NBL (2001-2005)

In the table 4.1 the trends of foreign exchange activities of NBL are described. Two types of foreign exchange activities such as import business and export business are shown in the table. In the year 1998 the growth percentage of import business is the highest. It was 50.62%. But in the year 1999, 2000, 2001 and 2002 the growth percentage of the import business were negative. The lowest growth percentage was in the year 1999. It was -13.36%. Increase of export business the highest growth percentage was in the year 2005. It was 24.78%. In the year 2002 and 2003 the growth percentage was negative. In the year 2002 growth percentage was -19.48%. It was the lowest.



CHAPTER-5

Financial Performance Appraisal of NBL

5.1 Financial Performance Appraisal of NBL (Ratio Analysis)

In this chapter the financial performance appraisal of NBL are described. To appraise the financial performance of NBL, I have used the ratio analysis. In the ratio analysis I have analyzed Return on Asset of NBL, Return on Equity of NBL, Net profit margin ratio, Equity multiplier ratio, Fixed asset turnover ratio, Total asset turnover ratio etc. The ratio analyses are given below:

5.1.1 Return on Equity (ROE):

Return on equity measures the rate of return on stockholders' investment. If ROE is less than other companies ROE, it indicates a decrease in stock price. The component of ROE indicates the performance of the company.

Calculation of the ROE:

$$\text{ROE} = \text{Net Income} / \text{Total equity capital}$$

The Return on equity (2001-2005) of National Bank Limited is shown in the following table:

Table 5.1: RoE of NBL

Year	ROE
2001	17.45%
2002	8.73%
2003	5.18%
2004	9.13%
2005	15.66%

Source: Annual Report of NBL (2001-2005)

Financial Statement Analysis of National Bank Limited of Bangladesh
 Part 1: 2001-2005

ROE

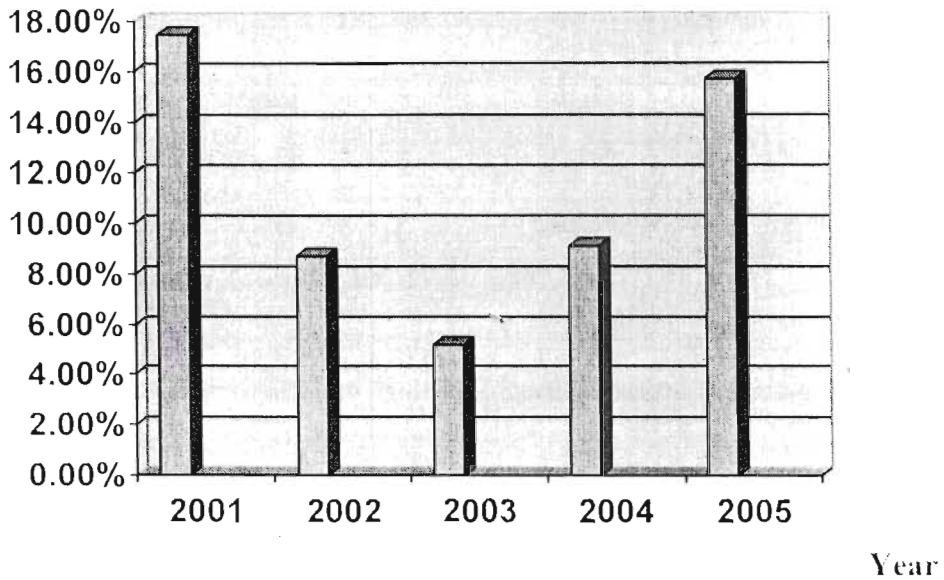


Figure 5.1: ROE of NBL

Return on equity indicates the percentage of return on its equity. In the year 2001 the ROE was 17.45%. Then it started to decrease. In the year 2002 ROE was 8.73%, and then it has been decreased to 5.18% in 2003. Then it has been again started to increase in the year 2004 and 2005. The highest ROE was 17.45% in the year 2001 and the lowest was 5.18% in the year 2003.

5.1.2 Return on Assets (ROA):

Return on Assets indicates how successfully a firm is using its assets to generate its income. Return on asset also measures the efficiency of firm’s manager to using its assets.

ROA can be calculating by the following formula:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$



So, the calculated ROA (2001-2005) of NBL is shown in the following table:

Table 5.2: ROA of NBL

Year	ROA
2002	2.58%
2003	2.61%
2004	2.09%
2005	2.22%

Source: Annual Report of NBL (2001-2005)

The calculated ROA (2002-2005) of National Bank Limited is shown in the following graph chart:

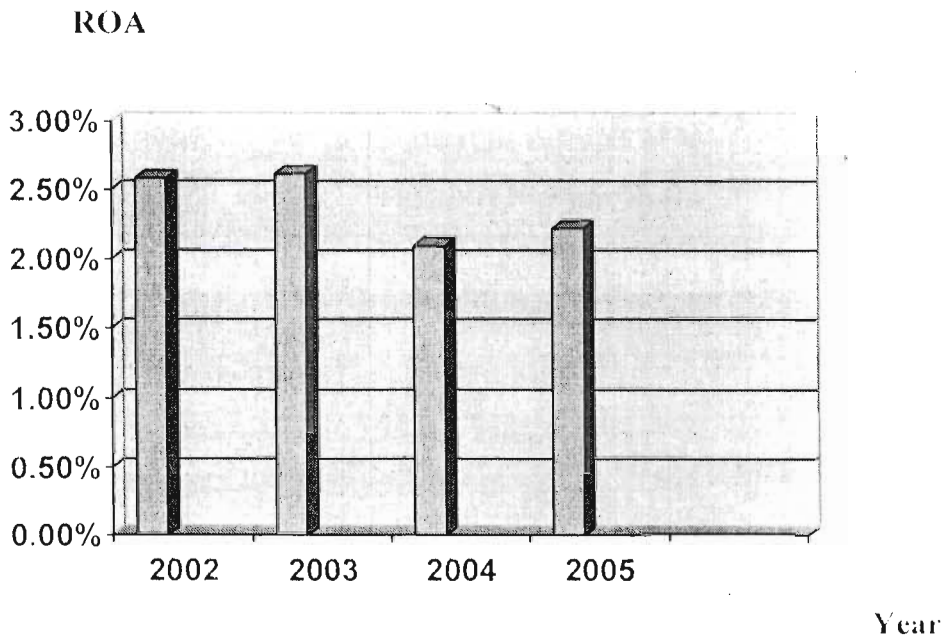


Figure 5.2: ROA of NBL

From the table it is clear that the return on assets was not fluctuated enough from the year 2002 to 2005. In the year 2002 it was 2.58%. Then it has been decreased to 2.61% in the year 2003. Then it has been again decreased to 2.09% in 2004. But in 2005,



ROA has been increased to 2.22%. The highest return on asset was in the year 2003 which was 2.61%. The lowest was 2.09% in the year 2004.

5.1.3 Net Profit Margin Ratio:

Net profit margin ratio provides information about the ability of management to control firm's expenses. It explains how effectively and efficiently the managers are managing the firm's total expenses.

Net profit margin can be calculated by the following formula:

$$\text{Net Profit Margin} = \text{Net Income} / \text{Sales}$$

Net profit margin ratio (2001-2005) of NBL is shown in the following table:

Table 5.3: Net profit margin ratio of NBL

Year	Net Profit Margin Ratio
2001	22.35%
2002	8.26%
2003	4.83%
2004	8.66%
2005	11.78%

Source: Annual Report of NBL (2001-2005)

Net profit margin ratio of National Bank Ltd for 2001-2005 is shown in the following graph chart:



Net profit margin ratio

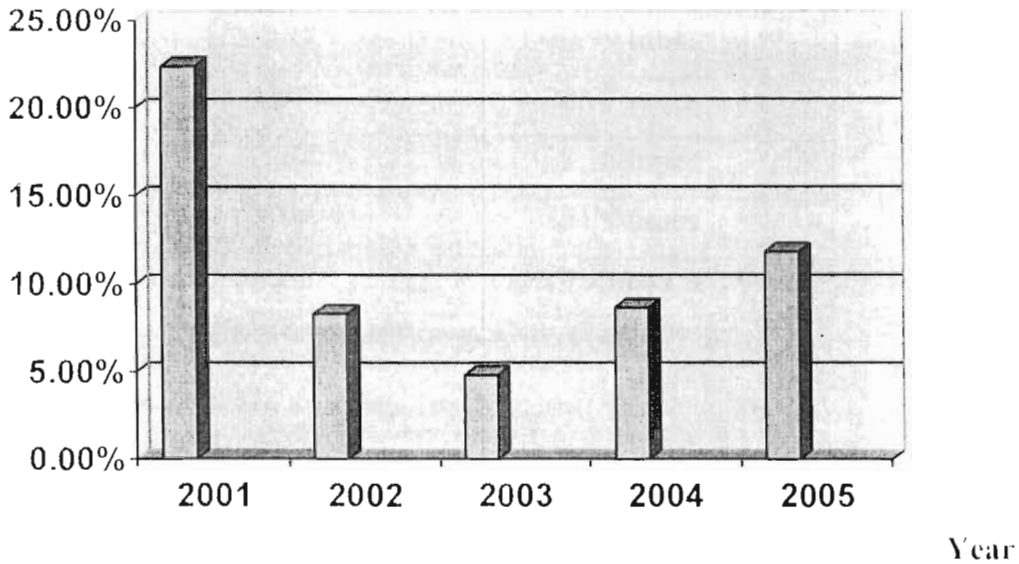


Figure 5.3: Net profit margin ratio of NBL

The net profit margin ratio of NBL has been fluctuated enough from the year 2001 to 2002. In 2001 it was 22.35% and in the year 2002 it has been decreased to 8.26%. Then it has again decreased to 4.83% in 2003. But in 2004 it has been started to increase. In the year 2005, the net profit margin ratio has been jumped to 11.78%. The highest net profit margin ratio was 22.35% in the year 2001 and the lowest was 4.83% in the year 2003.

5.1.4 Equity Multiplier (EM) Ratio:

Equity Multiplier indicates the amount of assets is backed by the Owners Equity. The Equity Multiplier is measured by the following formula:

$$\text{Equity Multiplier} = \text{Total Assets} / \text{Total Equity}$$

The Equity Multiplier Ratio (2001-2005) of NBL is shown in the following table:



Table 5.4: EM ratio of NBL

Year	Equity Multiplier Ratio
2001	30.99 times
2002	28.07 times
2003	28.18 times
2004	25.79 times
2005	20.13 times

Source: Annual Report of NBL (2001-2005)

Equity Multiplier ratio of NBL for 2001-2005 is shown in the following graph chart:

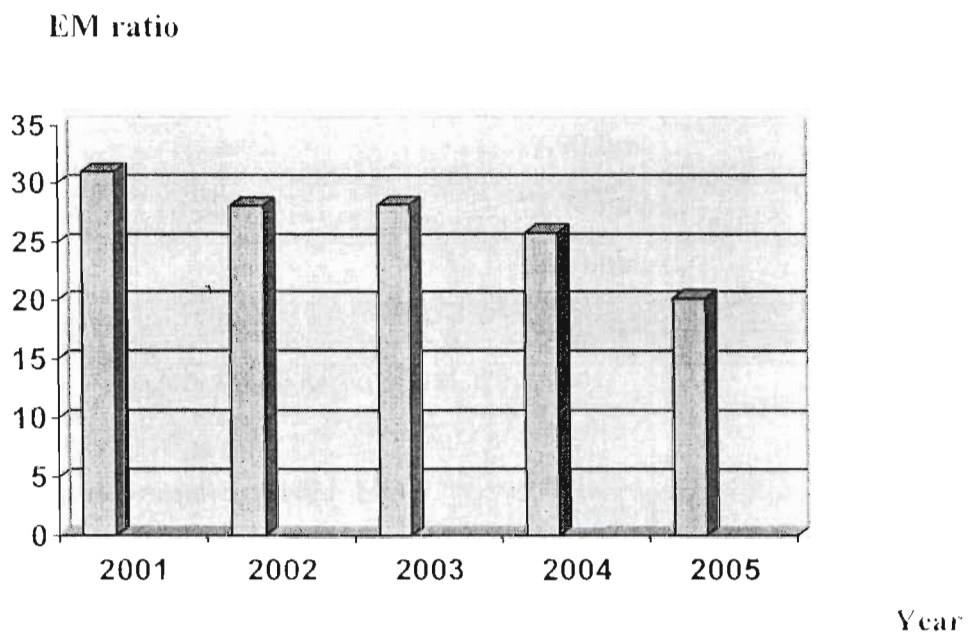


Figure 5.4: EM ratio of NBL.

From the table we can see that in the year 2001 the EM ratio was 30.99. Then it has been decreased to and in 2003 it has been again increased. But in 2004 and 2005 the EM ratio has been again decreased to 25.79 and 20.13 times respectively. The highest EM ratio 30.99 in the year 2001 and the lowest was 20.13 in the year 2005.



5.1.5 Fixed assets turn over ratio:

Fixed assets turn over ratio indicates how effectively and efficiently the organization is using its fixed assets to generate revenue. It gives the idea about total sales comparatively with its fixed assets.

Fixed assets turnover ratio can be calculated by the following formula:

$$\text{Fixed assets turn over} = \text{Total sales} / \text{Total fixed assets}$$

The result of fixed assets turn over ratio (2001-2005) of NBL is shown in the following table:

Table 5.5: Fixed asset turnover ratio of NBL

Year	Fixed asset turnover ratio
2001	1.54 times
2002	1.96 times
2003	2.04 times
2004	2.19 times
2005	1.61 times

Source: Annual Report of NBL (2001-2005)

Fixed assets turnover ratio of NBL 2001-2005 is shown in the following graph chart:



Fixed asset turnover

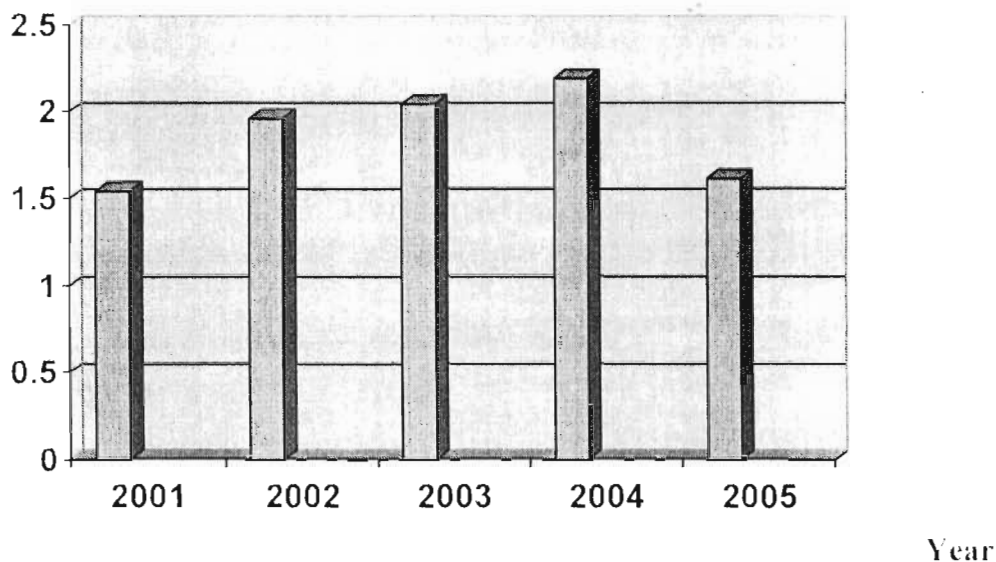


Figure 5.5: Fixed asset turnover ratio of NBL

The fixed asset turnover ratio of NBL was increasing consistently from the year 2001 to 2004. But in the year 2005 it has decreased. The highest was 2.19 times in the year 2004. The lowest was 1.54 times in the year 2001.

5.1.6 Total Assets Turnover Ratio:

Total assets turnover ratio represents the ability of the management team of any firm to employ assets effectively to generate revenue.

The formula of calculating the Total assets turnover is given in the below:

$$\text{Total Assets Turnover} = \text{Operating Revenue} / \text{Total Assets.}$$

The Total assets turnover ratio (2001-2005) of NBL is shown in the following table:



Table 5.6: Total asset turnover ratio of NBL

Year	Total asset turnover ratio
2001	0.025 times
2002	0.037 times
2003	0.038 times
2004	0.041 times
2005	0.042 times

Source: Annual Report of NBL (2001-2005)

Total assets turnover ratio of NBL, 2001-2005 is shown in the following graph chart:

Total asset turnover

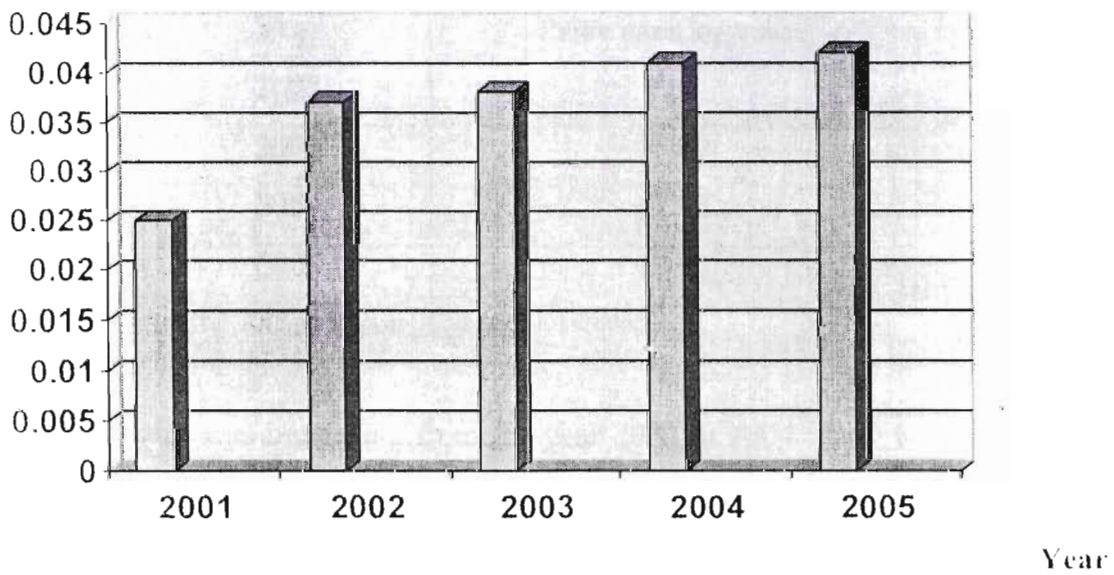


Figure 5.6: Total asset turnover ratio of NBL

From the table we can see that the total assets turnover ratio was increasing consistently from the year 2001 to 2005. The highest was in the year 2005 and the lowest was in the year 2001.



5.1.7 Price Earning Ratio:

Price earning ratio usually estimates that the investor will invest how much money for earning one unit of money. It is a relation between the market price of the common stock and the earning per share. So, the firm with more prices earning ratio is likely to the investor, because it provide the investor more profit. Price earning ratio also gives the idea that the firm is faster growing-low risk taker or slower growing-high risk taker.

Price earning ratio can be calculate by the following formula:

Price Earning Ratio = Market price per share of common stock / Earnings per share.

Price earning ratio (2002-2005) of NBL is shown in the following table:

Table 5.7: Price earning ratio of NBL

Year	Price earning ratio
2002	7.04
2003	11.09
2004	17.32
2005	17.02

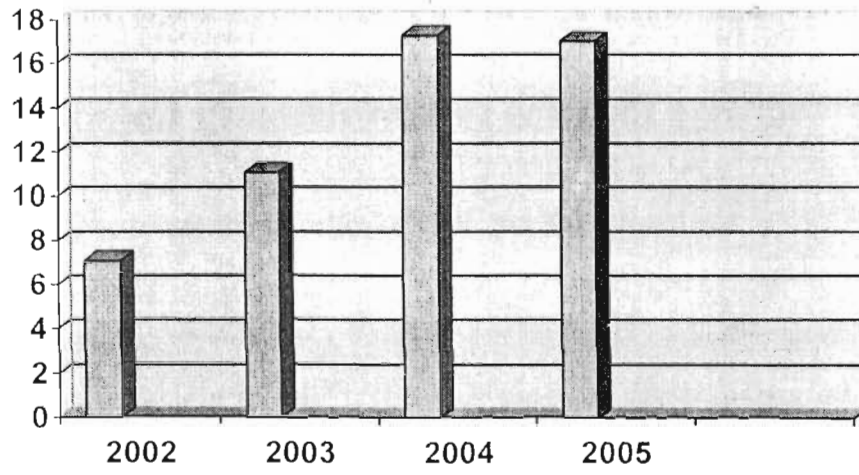
Source: Annual Report of NBL (2001-2005)

Price earning ratio was increasing from the year 2002 to 2004 as we can see from the table. But in the year 2005 price earning ratio was decreased by shorter percentage. The highest ratio was 17.32% in the year 2004. The lowest was 7.04% in the year 2002.

Price earning ratio of Southeast bank for 2001-2005 is shown in the following graph chart:



Price earning ratio



Year

Figure 5.7: Price earning ratio of NBL



CHAPTER 6

Problems of Credit Activities and Foreign Exchange Activities of NBL

6.1 Problems relating to Credit Activities

Problems relating to credit activities of NBL are the followings:

Product Diversity:

Product diversity is less in NBL. The loan products are less than other banks. These products are car loan, home loan, marriage loan etc. Now these loan products are not available in NBL. This is one kind of problem.

Interest Rate:

Interest rates on different loan items are not that competitive. To attract the customers interest rate should be competitive than other top level banks.

6.2 Problems Relating to Foreign Exchange Activities

The problems relating to foreign exchange activities can be divided into three parts:

1. Problems relating to export
2. Problems relating to import
3. Problems relating to foreign remittance

1. Problems relating to export:

There are some problems relating to the export, these are the followings:

- ⇒ Sometimes the exporters do not provide full documents with Export Form (EXP Form).



- ⇒ Exporters need to provide 2 pieces of Commercial Invoices and 3 pieces of Short Shipment Certificates (if needed). But sometimes they do not provide these. So this is a problem for the bank.
- ⇒ In some Bill of Lading, the shipment date is not accurately provided by the shipping authority. So, it needs enough time to find out the accurate shipment date by the bank.
- ⇒ Exporters sometimes do not provide the EXP documents in right time. So, the bank faces problem to get the exporters' full documents within specified time.
- ⇒ Some exporters have a good relation with the bank. The bank tries to maintain the relationships with them. But sometimes bank need to provide them urgent money without full documents to maintain the relationships.
- ⇒ Sometimes customs authority takes time to provide the documents. But the bank needs to provide the Triplicate EXP form to the Bangladesh Bank within the specified time.
- ⇒ The main problem for NBL is the bank doesn't have Online Banking System.

2. Problems relating to import:

The problems relating to import are given below:

- ⇒ Importers sometimes don't provide full documents with the Import Form. So it is difficult for the bank to collect the full documents from the importers in the right time.
- ⇒ Sometimes customs authority takes enough time for the import process. To get the full documents from the customs authority importers need enough time. So the bank faces problems because the bank needs to provide the import report to the Bangladesh Bank.
- ⇒ Bangladesh Bank provides all the commercial banks Foreign Currency Transaction Software (Schedule Software) which is not updated. So this is a problem.



- Without Online Banking System it is difficult for the party to contract with the bank regularly.

3. Problems relating to foreign remittance:

- ⇒ Party declaration is a very big problem for the bank incase of foreign remittance. Because the bank need to provide the report to Bangladesh bank within the first five days in a month. But the customers do not contact within the specified time.
- ⇒ Party faces enough problems because NBL has no Online Banking System facility. It is very difficult for them to come to the bank regularly.
- ⇒ The bank also faces problem because of not having Online Banking System
- ⇒ Government charges 2.5% Advance Income Tax (AIT) on per bill and NBL charges 2% from the party. So 4.5% customers need to sacrifice for the Credit Card. That's why people are not interested for Credit Card.
- ⇒ Manual system is a very big problem for NBL.

6.3 General Problems

The general problems of NBL are given below:

- ⇒ There is no Online Banking System Facility in NBL. Now-a-days this is the major problem.
- ⇒ The numbers of branches are not increasing gradually. So the growth percentage of the number of branches is very poor.
- ⇒ ATM is the most widely used in other banks in our country. But the numbers of ATM booth are very much limited.
- ⇒ NBL has not enough products comparing to other banks of our country. It is also a very big problem



CHAPTER- 7

Suggestions for the Development of Credit & Foreign Exchange Activities of NBL

7.1 Suggestions for improving the Credit Activities of NBL

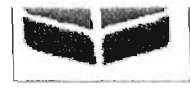
The entire success or failure of a bank is dependent upon the success or failure of its credit division. It is essential to emphasize the evaluation of a sound and well integrated credit management system from the point of view both resources mobilization and efficient allocation of available funds. The followings are the suggestions for the improvement of credit activities of NBL:

- ⇒ Loan should not be given without proper securities.
- ⇒ Overdraft facilities should not be given to the unsound borrowers.
- ⇒ Loans should be given with considering the financial soundness and credit worthiness of the borrowers.
- ⇒ In NBL, products are less than other banks of Bangladesh. So the products should increase to attract the customers.
- ⇒ For giving loan to someone relevant, proper, adequate and reliable information should be collected regarding the borrower.
- ⇒ Interest rates on different loan items should be competitive.

7.2 Suggestions for improving the Foreign Exchange Activities of NBL

The suggestions for improving the foreign exchange activities are given below:

- ⇒ The main suggestion for improving the foreign exchange activity of NBL is to remove the manual system and convert the system into Online Banking System.
- ⇒ Foreign Currency Transaction Software (Schedule Software) should be updated.



- ⇒ For receiving the EXP form there should be an individual who can check whether the exporter provides full documents or not.
- ⇒ For receiving import documents there should be an individual who can check whether the importers provide full documents or not.

7.3 General Suggestion.

The general suggestions for the improvement of NBL are the followings:

- ⇒ Now-a-days online system is very much popular in everywhere. In a bank online system is also very popular. But till now National Bank Ltd. did not set up online banking system. So, online banking system should be immediately set up.
- ⇒ Growth percentage of the bank was not also very high. So, the number of branches should be increased.
- ⇒ Services should be targeted towards small accountholders too.
- ⇒ ATM card is very much popular to the customers. NBL has the ATM card facilities. But the number of ATM booth is very much limited. So, number of ATM booth should be increased.
- ⇒ The branches of NBL localized in few metropolitan and urban cities neglecting the vast and potential rural areas. The rural people are almost outside the credit network of NBL. For economic development of our country NBL should expand widely its activities in rural area.



7.4 Conclusion

Banking is not only a profit-oriented commercial institution but it has a public base and social commitment. Admitting this truth NBL is going on with its diversified banking activities. NBL introduced Monthly Savings Scheme, Special Deposit Scheme, Consumer's Credit Scheme and Savings Insurance Scheme etc. to combine the people of lower and middle-income group.

The emergence of **National Bank Ltd.** in the private sector is an important event in the Banking arena of Bangladesh. When the nation was in the grip of severe recession, Govt. took the farsighted decision to allow in the private sector to revive the economy of the country. Several dynamic entrepreneurs came forward for establishing a bank with a motto to revitalize the economy of the country.

National Bank Limited was born as the first hundred percent Bangladeshi owned Bank in the private sector. From the very inception it is the firm determination of **National Bank Limited** to play a vital role in the national economy. They are determined to bring back the long forgotten taste of banking services and flavors.

Bibliography

- Annual Report of National Bank Limited 2001
- Annual Report of National Bank Limited 2003
- Annual Report of National Bank Limited 2004
- Annual Report of National Bank Limited 2005
- Credit Policy and Control Guidelines of National Bank Limited
- National Bank Ltd. Circular Letter No. 2406
- National Bank Ltd. Circular Letter No. 2293
- National Bank Ltd. ID Circular Letter No. 332
- www.nblbd.com
- Besley Scott, Eugene F. Brigham. Essential of Managerial Finance.
twelfth edition. Chapter-3, Ratio Analysis, pg 95-108
- Rose Peter S. Commercial Bank Management, fifth edition
- Madura Jeff, International Financial management, eight edition,
chapter-19, letter of credit.