

NON-PERFORMING LOANS
(NPL)
AND RECOVERY
STRATEGIES OF
PRIME BANK LIMITED

INT 4399 REPORT

United International University

Internship (INT 4399) Report

On

“Non-Performing Loans (NPL) and Recovery Strategies of Prime Bank Limited”

Prepared For

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21th May, 2020

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Satarkul, Dhaka.

Subject: Submission of Internship Report on "Non-Performing Loans (NPL) and Recovery Strategies of Prime Bank Limited"

Dear Sir,

I am glad to submit you the Internship Report covering the topic **"Non-Performing Loans (NPL) and Recovery Strategies of Prime Bank Limited"** This report is an integral part of the completion of the BBA program. For preparing this report I tried my level best to accumulate relevant and up-to-date information from all available sources.

This report also provides base insight on the Prime Bank Loan activities. I tried my level best and worked with most sincerity and tried to make it as well structured as possible. The full report is based on my practical experience in Prime Bank Limited. I have found the experience quite interesting and the guidance of my supervisors and with the help of all the members of the department.

I would be grateful for any clarification when required and highly obliged if you approve this report and provide your valuable judgment on it. I hope that this report will merit your approval.

Sincerely Yours,

Fatima- Tuz- Johora

111 161 030

School of Business & Economics

United International University



Declaration:

I advocate that the Internship Report on “Non-Performing Loans (NPL) and Recovery Strategies of Prime Bank Limited”. Personify the outcome of my own research works, pursued under the supervision of Nusrat Farzana, Assistant Professor, School of Business and Economics, United International University.

The work I have presented does not breach any existing copyright and no data has been copied from any work done earlier for a degree or otherwise.

I further inform that the work reported in this report is original and authentic. No part or whole part of this report has been submitted to, in any form, any other University or Institution for any degree or any other purpose.

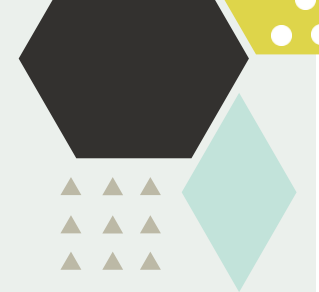
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Acknowledgement:

We owed much gratitude over the last month for the preparation of this report. First, we would like to pay gratitude to the Almighty Allah for bringing us this far.

The Internship report title as named “**Non-Performing Loans (NPL) and Recovery Strategies of Prime Bank Limited**” has been prepared to fulfill the requirements of Internship program under the Bachelors of Business Administration (BBA) program at the School of Business & Economics, United International University. I’m fortunate that I have received sincere guidance, cooperation and supervision from so many people while preparing this report.

The most importantly I would like to express heartiest gratitude and thanks to our honorable faculty “**Nusrat Farzana,**” ma’am for helping me to prepare this report, because without her dedication and contribution this report would not have been possible and would not get the successful compellation. Last but not the least, Finally, I would like to thank my organizational (Prime Bank Limited) supervisor **Saifuddin Ahmed (Branch Manager)** for supporting me throughout my internship times. He was helping me to collect my necessary information & gives some answers of my every query. He also helped me to know how to perform my task & also encouraged me to know about banking sector. Without helps of the particulars mentioned above, I would have faced many difficulties while doing the report. In spite of my earnest efforts, there may be some shortcomings in this report. I apologize for any unintentional mistakes.

Executive Summary:

In this report, non-performing loan and recovery strategies of Prime Bank Limited has been analyzed. This report has been prepared on the basis of my three months practical experience of Prime Bank Limited. Prime Bank Limited was examined on how it manages its growth and what is the current situation of non-performing loan in terms of financial condition. Maximal of the data used in this report are secondary data mostly collected from annual financial reports and partial data has been used primary data. Financial ratios, graphical representation of the ratios and regression analysis in the report was done using Microsoft Excel 2010. The report's first chapter contains introduction and second chapter contains Prime Bank overviews. The third and fourth chapter contains conceptual perspective of non-performing loan and special asset management of Prime Bank Limited respectively. After that chapter six covers the strategies which are followed by prime bank as recovery. The chapter seven contains with ratio analysis and the ratio analysis was done under six dimensions, these are leverage, liquidity, profitability coverage, operational efficiency and earning quality. Total 16 ratios were analyzed. Then in the next chapter the regression analysis was done for analyzing of non-performing loan. In the following chapter some recommendation and conclusion has been discussed.



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CHAPTER- 01

INTRODUCTION



Banking Industry Overview:

The Bangladesh banking sector relative to the size of its economy is comparatively larger than many economies of similar level of development and per capita income. Bangladesh Bank is the Central Bank of Bangladesh and the principal regulator of the sector.

There are 60 scheduled banks in Bangladesh who operate under full control and supervision of Bangladesh Bank which is empowered to do so through Bangladesh Bank Order, 1972 and Bank Company Act, 1991. The sector comprises a number of banks in various categories. Scheduled Bank can be classified in to the following categories -

- State Owned Commercial Banks (SOCBs)
- Specialized Banks (SDBs)
- Private Commercial Banks (PCBs)
- Conventional PCBs
- Islami Shariah based PCBs
- Foreign Commercial Banks (FCBs)

The Nobel Prize for Grameen Bank is a specialized micro-finance institution, the concept of microcredit revolution and a major contribution to poverty alleviation and empowerment of women in Bangladesh.

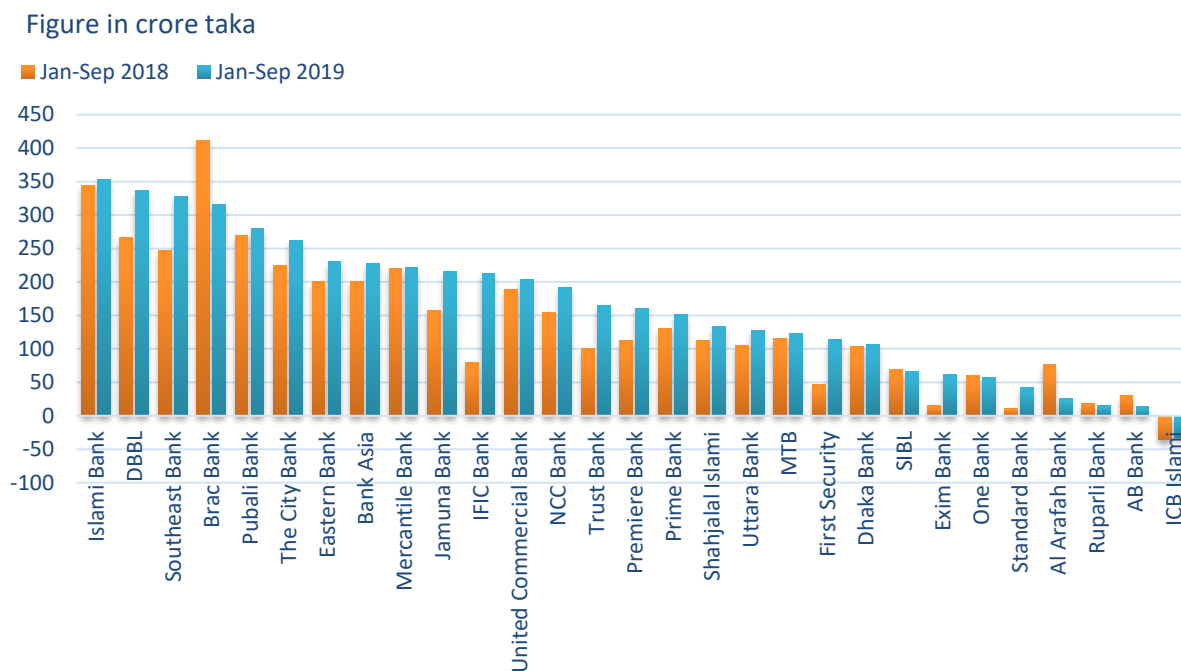
According to Dhaka Stock Exchange (DSE), during last few months for this year and last year most of the Islamic banks in our country performed very poorly. So basically, banking sector faced a moderate growth in net profit during these last few month years as deposit costs fell, despite of slow credit inflow in baking and private sector. Only 22 banks banked earned profit last year from the 30 listed commercial banks listed in the Dhaka Stock Exchange (DSE) and 15 of them had 10% growth in net profit.

Recently most of the banks are concerning their business on small and micro enterprise as they have no bindings of offering single lending rate. Due to a severe liquidity crisis banks collected deposits at above 12% interest in last year. Eventually the liquidity crisis eased and lowering pressure on interest rate as deposits shifts from saving instruments to bank.





Excellent cost management and retrenchment of default loans boosted the bank make favorable earning. So, if banks can keep their default loans as minimal their profit will boost in upcoming future. Some of banks net profit in last two years shown below:



Source: Dhaka Stock Exchange (DSC)



About Prime Bank:

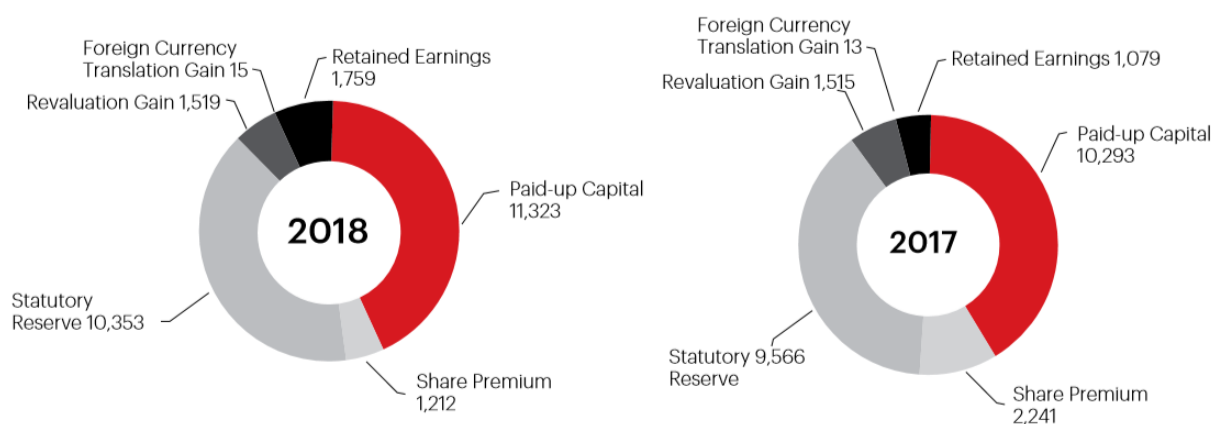
Prime bank limited is a fast-growing private bank and the bank is already at the top slot in terms of quality services to the customers and value addition for the shareholders. The bank made optimal progress in all areas of business operation in 2014.

As a fully authorized commercial bank, Prime Bank Limited has no doubt worked out how eventually they are following an exceedingly proficient business in our country through their service and also committed fewer groups with in length knowledge over saving money. Prime Bank Limited have been made and beginning for business off once 17th April 1995. Prime Bank Limited got permanent officially and became briefly advance inside and took time for claiming its presence. The bank has been graded as well as in a highest point class bank in the particular nation through internationally acknowledged CAMELS rating.

Since its beginning Prime bank has associated more consideration in technology integration. Investment in technology is always a top agenda and under constant focus is the key in order to maintain competitive margin. So, prime bank serves the customers through capacity building across multi-delivery channels by keeping the network withing reasonable limit.

Prime bank Limited has already made indicative progress withing short period of its existing. Prime bank always tries to maintain recovery process and recovery of NPL is the bank's one of the most priority area as this is the important room for development.

Because of providing the superior service quality they can easily meet up with customer satisfaction and with their great management they can always comply with their shareholders. The bank's shareholder's equity quite visible here. They try to maintain a good coordination year with shareholders in every following.





Establishment of SAM:

Special Assets Management manages assets & liabilities (i.e. loans) which have moved to “special” status (special = default). It involves the Identification of deficiencies arrangement for payment (especially loans in default). Specialized Asset Management (SAM) team provides customized, comprehensive management for high-net-worth investors with specific objectives. SAM portfolios combine strategic asset allocation and professional active management with time-tested portfolio models. SAM provides equity and fixed income exposure through a balance of high-quality stocks, mutual funds and ETFs, all available in a single account.

The SAM team also meets directly with company management for updates on existing holdings and to vet potential new investments. For managing assets and liabilities and dealing with non-performing loans, Prime Bank Limited established SAM department in 2015. This is the special department under operations. The SAM team understands that taxes matter. Clients maintain their own cost basis, making tax-loss selling possible.

Background of the Study:

Commercial banks in Bangladesh economy are to face a rapid competition for their business in coming days, like any other emerging market economies. Their business is no longer remaining easy as they earlier. To cope with competitive economy bankers should have huge own industrial knowledge and professional skills as well as technical basis. The real change in the banking business has started to come with the government’s decision to allow the business in the private sector in the middle of the Eighty’s. This report is an effort to reflect a clear idea about the strategies, activities, and performance of Prime Bank Ltd. regarding general banking activities.

As a BBA student having major in Finance, Financial institutions are the most appropriate field to gather the experience and among the financial institutions, Bank is the most prominent place. As a partial and prerequisite requirement of BBA degree, on authority’s instruction I have selected the Prime Bank limited to acquire some potential experience in banking industry.



Origin of the Report:

This report is having three months long internship program originated post-graduation requirement for completing the BBA program from Department of BBA under United International University. The main purpose of the internship is to get student exposed to the job world. Because every student needs to translate theoretical perspective into real life experience.

The internship program and the study have following purpose:

- 🏠 To gain and implement detail knowledge on job responsibilities.
- 🏠 To compare the real scenarios with the leanings which has been acquired last few years in United International University.
- 🏠 To fulfill the requirement of BBA program.

This report is the outcome of the assigned internship, recommendation by the human resource department of Prime Bank Limited, Head Office.

Objectives of the Report:

The primary objective is to assess the current situation of non-performing loan of Prime bank limited along with our banking industry and identify the recovery strategies followed by Prime Bank.

The secondary objectives with this report are as follows:

- 🏠 To show the trend of the “Bad debt problem” in Bangladesh
- 🏠 To raise some issues and observations which need to be looked upon quickly for ensuring a financially sound banking sector
- 🏠 To explore the significance of relationships between the variables related to Non-Performing Loan (NPL) & Profitability
- 🏠 To suggest a set of remedial measures through logical arguments



Scope of the Report:

The report covers overall banking activities and procedure of Prime bank limited and report especially emphasis on non-performing loan and recovery strategies of Prime Bank Limited. However, different department has different activities to follow which are limited to discuss on this report. So, the scope of present report was limited in a specific area of Prime Bank Limited.

Limitation of the Report:

The most minacious issue of banking sector of our country is the NPLs and it is rising. The Bangladesh Bank is very much concern about this matter. However, the amount of NPLs is not controlled by the commercial banks. Nevertheless, they are concentrating on laws and regulation and with existing legal structure problems are always there for any research report.

Some of the limitations faced in preparing this report are given below:

- 🌿 There were some difficulties to have impression in some activities due to not being relevant to the theoretical knowledge.
- 🌿 Only 2 or 3 months is not enough to have complete idea about bank's overall operation.
- 🌿 Due to confidentiality the Bank's policy restricts disclosing some data.
- 🌿 Most of the cases I have to use 2018' data for the evaluation and analysis, since data about the performance of the bank of the year 2019 and 2020 has not yet been disclosed by the bank. Because the annual report and the financial statement of the bank are published at the month of August each year.
- 🌿 The data relevant for the analysis report writing sometimes could not be collected due to covid-19 pandemic situation.



Methodology of the Report:

Sources of Data

Primary and Secondary both data have been used for the study. For the ratio analysis, last 5 years data are considered as observation. For this study, data has been collected from the annual reports of Prime bank, survey report & some confidential information from BB library. The collected data has been processed & analyzed manually & with the electronics device. And for primary data sources, observation and work experience with different in charges and gather idea from many executives of the bank has been considered.

Hypotheses of the Report

The following hypothesis shall be tested:

Ho: There is no significant impact of Non-Performing Loan (NPL) on Profitability (Net Profit)

H1: There is significant impact of Non-Performing Loan (NPL) on Profitability (Net Profit) of Prime Bank limited.

Tools and Technique

Hypotheses have been tested with correlation, regression & ANOVA by using Microsoft Excel.





CHAPTER- 02

Prime Bank Overview

- 09 Overview of Prime Bank
- 10 Corporate Mission and Vision
- 13 Subsidiaries and Its Associations
- 15 Management of Prime Bank
- 17 Product and service
- 18 Corporate Social Responsibilities



Overview of Prime Bank Limited:

Prime Bank is one of the few banks got the permitted in the early 90's by Bangladesh Bank. These banks are known as the second-generation banks and blessed to remain immune from the bad loan culture. Prime Bank Limited was designed to provide commercial and investment banking services to all types of customer ranging from small entrepreneur to big business firms. Prime Bank has multiple subsidiaries inside and outside Bangladesh which makes them more superior from other commercial banks of Bangladesh.

Within a very short period of its existence Prime Bank Ltd. has already made steady progress. The bank has already captured an eligible position among its competitors after achieving success in all area of business operation. The bank offers all kind of Commercial corporate and Personal banking service covering all segment of society within the framework of Banking Company Act, rules and regulation laid down by our central bank. Prime Bank Ltd. is determined to explore the different ways to allow with the needs of its clients. One of these ways includes Foreign Exchange Operation and transactions which offer customers a medium of doing business globally with minimum risk associated.

As a fully licensed commercial bank, a highly professional and dedicated team with long experience in banking is managing Prime Bank Ltd. They constantly focus on understanding and anticipating customer needs. With the Premium service "Monarch" they focus on high grounded customers who are seeking extra service and more attention from bank. So that they can attract all kind of customer to them. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition.





History of Prime Bank Limited:

Prime Bank Limited is a scheduled Private commercial Bank consolidated under Bank Company Act, 1991. The bank was included as a Public Limited Company under Companies Act, 1994 on February 12, 1995 and started commercial banking operations from April 17, 1995 with the inaugural of the Bank 's Motijheel Branch at Adamjee Court Annex Building, 119-120, Motijheel C/A dhaka 1000. The bank has enabled to expand its network because of huge public response. The bank has been able to deliver service through thirty- seven branches to their customers within 10 years. The bank's last operating profit was TK. 12,899 million.

Corporate Vision:

Prime Bank has started their operation with the motto of "A Bank with a difference". Prime Bank limited always try to be well ahead of time to meet the challenge. So, to meet with the challenge and realize the vision they hire experienced and well renowned banker of the country from the beginning. The Bank's vision is given as follow:

🏦 To be the best Private Commercial Bank in Bangladesh in terms of proficiency, capital sufficiency, asset quality, well-grounded management and profitability having dynamic liquidity.

Corporate Mission:

Prime Bank Limited's mission is to create Prime Bank Limited into a proficient, market oriented, customer focused institution with good corporate governance structure. Continuous enhancement of business policies, course of action and competence through technological integration at all levels.

Corporate Philosophy:

For Customers:

🏦 To offer the most modest and effective service in every angle of the business. To be creative in the improvement of modern banking service and products.

For Employees:



- 🏦 By enhancing their well-being through desirable remuneration and benefits.
- 🏦 By enhancing significance staff morale through excellent staff training and development, and arrangement of opportunities of career improvement.

For Community:

- 🏦 By holding role as socially responsible corporate citizen in a tangible manner by involving closely to national policies and objectives thereby providing towards the progress of nation.
- 🏦 Constantly seeking to improve performance by straightening goals with shareholder's expectations.
- 🏦 By following every ethical values and best practices.

For Shareholders:

- 🏦 By making progress ahead and corroborating its position as a stable and dynamic institution.
- 🏦 By yielding profits and fair returns on investments.

Corporate Objectives:

The objectives of the Prime Bank Limited are specific and targeted to its vision and to position itself in the mindset of the people as a bank with difference. The objectives of the Prime Bank Limited are as follows:

- 🏦 To mobilize the savings and channeling it out as loan or advance as the company approve
- 🏦 To establish, maintain, carry on, transact and undertake all kinds of investment and financial business including underwriting, managing and distributing the issue of stocks, debentures, and other securities
- 🏦 To finance the international trade both in Import and Export
- 🏦 To carry on the Foreign Exchange Business, including buying and selling of foreign currency, traveler's cheque issuing, international credit card issuance etc.
- 🏦 To develop the standard of living of the limited income group by providing



Consumer Credit

- 🏦 To finance the industry, trade and commerce in both the conventional way and by offering customer friendly credit service
- 🏦 To encourage the new entrepreneurs for investment and thus to develop the country's industry sector and contribute to the economic development

Slogan and Logo:

Prime Bank Limited (PBL) is a fast-growing private sector bank in Bangladesh. Prime Bank started its operation with the **slogan** “a bank with a difference”. The banks is trying to acquire the policy of diversifying their business from the starting.

The **logo** of Prime Bank Limited has been prepared keeping in mind the core values of the organization. It consists with three colors of green, blue and red. Which has been recently changed.



Salient Feature of Prime Bank Limited:

- 🏦 Prime Bank is engaged in conventional commercial banking as well as Islamic banking based on Islamic Shariah Principles.
- 🏦 It is the pioneer in introducing and launching different customer friendly deposit schemes to tap the savings of the people for channel ling the same to the productive sectors of the economy.
- 🏦 The Bank has introduced new software named T24 software, which is made by Switzerland. It is used in Bangladesh for first time and has a lot of features to provide prompt and smooth service for the customer of the Bank.



- 🏦 For uplifting the standard of living of the limited income group of the population, the Bank has introduced Retail Credit Scheme by providing financial assistance in the form of loan to the consumers for procuring household durables.
- 🏦 The Bank is committed to maintaining continuous research and development to keep pace with modern banking.
- 🏦 The operations of the Bank are computer oriented to ensure prompt and efficient services to the customers.
- 🏦 Prime Bank has introduced a new product for children named 'My First Account', which is operated by their parents but account will be named by child for their future savings. UP to 18 anyone can open this account and after becoming 18 they need to convert it as normal savings account.

Subsidies and Its Associations:

Prime Bank limited regulated its operation with six subsidiaries. They are:

🏦 **Prime Bank Investment Limited:**

Prime Bank Investment Ltd (PBIL) is a subsidiary of Prime Bank Ltd started its journey from April 28, 2010. Being one of the leading investment banks in the banks of the country, it offers so many attractive offers. The operations of investment banking were separated from Prime Bank Limited by forming a subsidiary company in terms of Bangladesh Bank's BRPD circular no. 12 dated 14 October 2009. Therefore, Bangladesh Securities and Exchange Commission (SEC) provided a full-fledged merchant banking license in excess of Prime Bank Investment Limited.

🏦 **Prime Bank Securities Limited:**

As a subsidiary of Prime Bank Ltd, which is one of the leading commercial banks of the Bangladesh Prime Bank Securities Limited was started their journey in 2010. They are also registered as a TREC holder both the Dhaka Stock Exchange and Chittagong Stock Exchange. They got fully license to work as stock broker, dealer and full-service depository participant.



 Prime Exchange Co. (Pte.) Limited, Singapore:

Prime Exchange Co. (Pte.) Limited, Singapore is first fully owned abroad exchange company as a subsidiary of prime bank. Which is also the first ever fully owned exchange company in Singapore established by any private commercial bank of Bangladesh. PEC was established in Singapore in the year 2006.

 PBL Exchange (UK) Limited:

PBL Exchange (UK) limited is a subsidiary of Prime bank which is registered in 2009 incorporated with Companies House of England and Wales. This is the second fully owned oversea exchange house of prime bank after Prime Exchange Co. (Pte.) Limited, Singapore. The bank has been set full priority to Non- Residence Bangladeshi (NRB) by offering remittance.

 PBL Finance (Hong Kong) Limited:

 Prime Bank Limited, Asset Management Arm.:





Achievement of Prime Bank Limited:

Awards And Achievements	Reasons for Achievements	Years of Achievements
ICAB National Award	Best Presented Annual Reports	2002, 2005, 2006, 2007, 2008, 2009, 2011, 2013 and 2015
ICMAB National	Corporate Governance Excellence	2015 and 2016
SAFA	Best Presented Annual Report Awards	2011 and 2015
Finanacial News Services	Beast Performing Local Bank	2005
Financial Institution Award	10 year of Service	2005
International Star	Leader In Quality	2012
International Platinum Star	Quality	2012

Figure: Awards and Achievements

Management of Prime Bank Limited:

Boards of directors are the sole authority to take decision about the affairs of the business. Now there are 18 directors in the management of the bank. All the directors have good academic background and have huge experience in business. Mr. Azam J Chowdhury is the chairman of the bank. The board of directors holds meetings on a regular basis. There are different committees in the bank for the efficient management of the bank.

👤 Board of Directors

👤 Policy Committee: This committee deals with any policy matters related to the banks new products, new business development and any sort of policy related to Prime Bank Limited. It seats fortnightly.

👤 Executive Committee: It seats on monthly basis.

👤 Audit Committee



- 🏦 Risk Management Committee
- 🏦 Nomination and Remuneration Committee

Department of Prime Bank Limited:

The bank organizes all the jobs considering their interrelationship and they are allocated in a particular department to control the system effectively. The departments are fitted for the particular works and the performance of a particular department is measured perfectly. If the departmentalization is not fitted for the particular works there would be haphazard situation and the performance of a particular department would not be measured. Prime Bank Limited has done this work very well. Prime Bank Limited has following departments:

✦ Name of the department of Prime Bank Limited:

- 🏦 Human Resources Division
- 🏦 Finance Division
- 🏦 Audit and Inspection Division
- 🏦 Internal Control and Compliance
- 🏦 Marketing Division
- 🏦 Corporate Banking
- 🏦 Remittance Operation Department
- 🏦 Treasury
- 🏦 Card Division
- 🏦 Recovery and Legal
- 🏦 Facility Management Division
- 🏦 Special Asset Management Division
- 🏦 Trade Service and Correspondent Banking
- 🏦 Logistic and Support Service Division
- 🏦 Information Technology
- 🏦 Customer Service Delivery
- 🏦 Retail Finance Center



- 🏠 Credit Division
- 🏠 SME Division
- 🏠 Credit Admin and Monitoring
- 🏠 Corporate Affairs
- 🏠 Call Center

Product and Services:

1. Corporate loan products
2. SME Loan products
3. Retail Loan Products
4. Agriculture Loan products
5. Islamic banking Hasanah (Investments) products
6. Conventional Deposits products
7. Islamic deposit products
8. Services:
 - 🏠 Internet Banking “ALTITUDE”
 - 🏠 Premium Banking “Monarch”
 - 🏠 Off-shore Banking
 - 🏠 SMS Banking
 - 🏠 Locker Service
 - 🏠 Foreign Remittance



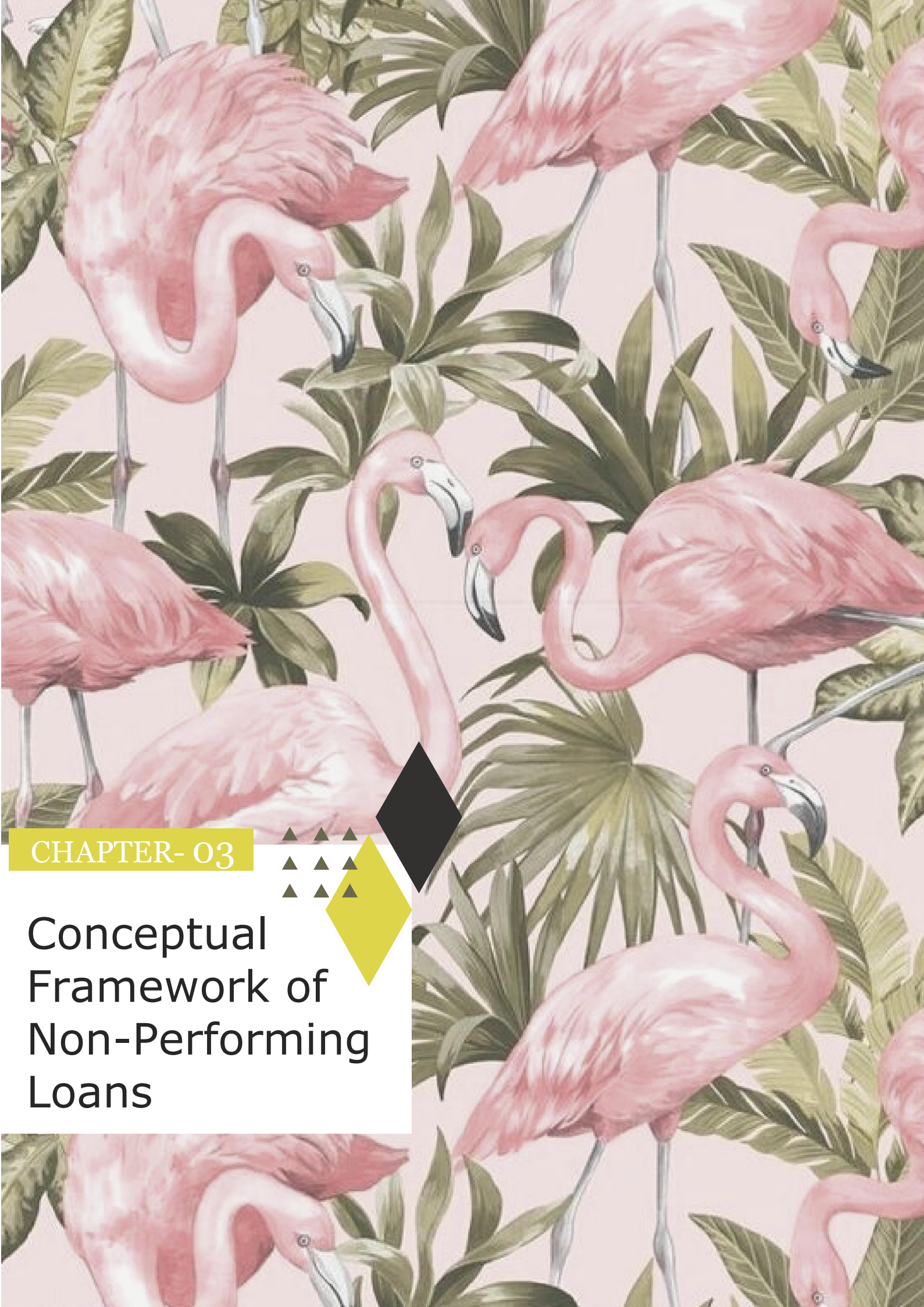
Corporate Social Responsibilities (CSR):

Prime Bank Limited's most material topics are based on six areas which are shown below:



Prime Bank conducted with so many social activities for development of socio-economy. List is given below:

- 🌱 Investment in Education:
- 🌱 Dristy Daan project
- 🌱 Work with handicap population
- 🌱 Healthcare and Health Management
- 🌱 Environment
- 🌱 Support to Martyr Family
- 🌱 Games and sports and others.



CHAPTER- 03



Conceptual Framework of Non-Performing Loans



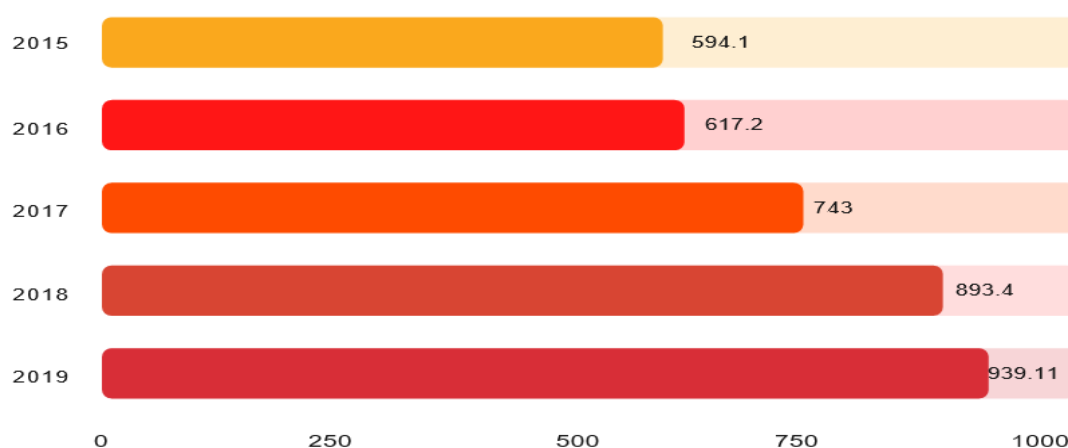
Bangladesh Non-Performing Loans as percent of all Bank Loans:

Non-performing loans (NPL) have become a worrisome issue for Bangladesh. Due to the ever-increasing volume of non-performing loans, our banking sector and the economy in general have taken a negative turn. According to newspaper reports, NPLs have already crossed taka one lakh crore, a first in the history of our banking sector.

Bangladesh Bank updated Non-performing loan quarterly every year. Non-Performing loan is also identified as the sum of substandard, bad/loss loans and doubtful loan.

Here, total classified loans of banks in Bangladesh is quite visible. We can see that it is increasing day by day. In 2019 is become 939.11 million which increase the non-performing loan as well.

Total Classified Loans in Banks (in Billion Taka)



Source: Bangladesh Bank

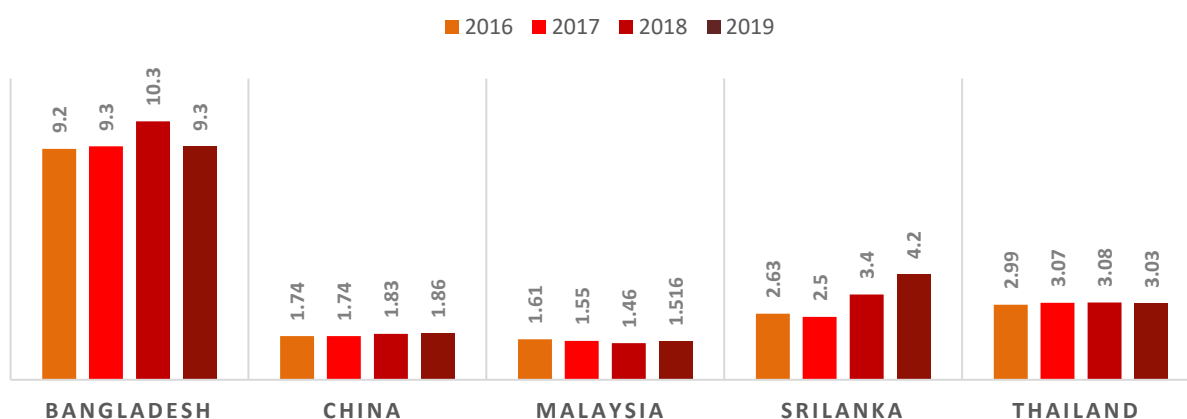
Non-performing loan of Bangladesh recently stood up at 9.3 % compare with the ratio of 12 % in last quarter. The all-time highest data reached at 28 % in 2003 and lowest recorded data at 6.1 % in 2011.



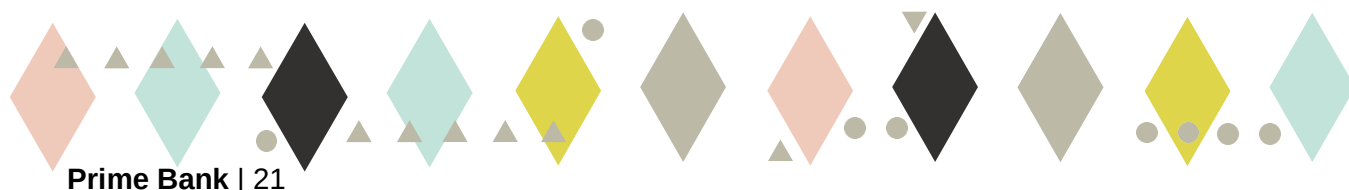
Overall Non- performing Loans (NPL) Scenario in Bangladesh and Comparing with Neighboring countries:

Compared with the other Asian countries Bangladesh is having a real challenge to manage the Non-performing loan which is very high. However, Bangladesh bank is now closely monitoring that issue by focusing on Financial Institutions and other measurement required. International standard is to keep non-performing loan under 2 %. Which Bangladesh never attain or even closer to that standard.

COMPARATIVE POSITION OF NPL (IN %)



The comparison among with neighboring countries are quite different with Bangladesh. Bangladesh having an unsound NPL among all these countries. Whereas, Sri Lanka and Malaysia Showed impressive Non-Performing Loans rate. And china did an excellent job to curb down the NPL to the preferred level. However, having almost close to economy size of Malaysia and Thailand along with Bangladesh, but both the countries have an inferior number of banks. Whereas Bangladesh being undersized than those economy, have almost twice in number of banks and NPL higher than 10.





Loan Classification & Provisioning:

Banking Regulation and Policy Department Bangladesh Bank circular regarding Loan Classification and Provisioning covers the six areas. Those are given below:

- 🔔 Categories of Loans and Advances
- 🔔 Basis for Loan Classification
- 🔔 Accounting of the Interest of Classified Loans
- 🔔 Maintenance of Provision
- 🔔 Base for Provision
- 🔔 Eligible Collateral





Basis for Loan Classification:

When a business is lending, non-performing loans are inevitable.

Non-performing loans (NPLs) seriously affect the profitability of the Bank. Bank's growth is retarded if loans are classified resulting not only suspension of interest income but also managing loan loss provision from the income of the Bank.

Non-performing loans also tarnishes the image of the Bank and Bank comes under surveillance of the regulatory body as well as the customers.

On the basis of repayment performance, the loans are categorized in to different categories. Primarily, loans are categorized as UC & CL. Within UC, there are sub categories like STD & SMA. Within CL, there are SS, DF & BL.

Circular Reference	BRPD Circular No.14, Dt. 23/09/2012	BRPD Circular No. 03, Dt.21/04/2019	
Nature of Loan	Continuous/Demand/ Term	Continuous/ Demand	Term
Past Due	From the following day of Expiry	From the following day of Expiry	After 06 (six) months of Expiry
SMA	2.00 to 2.99	2.00 to 2.99	8.00 to 8.99
SS	3.00 to 5.99	3.00 to 8.99	9.00 to 14.99
DF	6.00 to 8.99	9.00 to 11.99	15.00 to 17.99
BL	9.00 and onward	12.00 and onward	18.00 and onward
DEFAULT	6.00 onward	6.00 onward	12.00 onward

Table: Loan classification



Classification Categories:

Classified		Unclassified
Special Mention Account (SMA)		
Classified	Special Mention Account (SMA)	
	Doubtful (DF)	
	Bad/Loss (BL)	

Figures: Categories of Loan

Maintenance of Provision:

Particulars		Short Term Agri. Credit	Consumer financing				SMEF	Loans to BHs/MBs/ SDs
			Other than HF,LP	HF	LP	Credit Card		
Unclassified	Standard	1%	5%	1%	2%	2%	0.25%	2%
	SMA	-	5%	1%	2%	2%	0.25%	2%
Classified	SS	5%	20%	20%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%	50%	50%

Table: Maintenance of provision



Basis for Loan Classification _ Qualitative Judgement:

Substandard:

- 🚩 Frequent overdrawn and low account turnover, dispute in corporate governance, location in an unstable industry, very poor profitability and cash flow less than repayment of principal and interest, indefensible lack of external audit, unresolved lawsuit of a significant nature.
- 🚩 Repayment from primary resources are inadequate to service the debt and the bank must look to secondary sources of repayment, including collateral.
- 🚩 The banking organization has attained the asset without the types of enough documentation that are requisite in the banking organization's lending policy.

Doubtful:

- 🚩 Fixed overdrawn.
- 🚩 Location in an industry with smaller aggregate earnings and failure of main products;
- 🚩 Illiquidity, including the necessity to sell assets to meet operating expenses and cash flows are less than requisite interest payments.
- 🚩 Suspicion about true ownership.
- 🚩 Significant competitive matters.

Bad/Loss:

- 🚩 The obligor seeks new loans to finance operational losses.
- 🚩 Location in an industry that is dissolving and become technologically decrepit, very high losses.
- 🚩 Cash flow less than production costs, no repayment source except liquidation. Appearance of money laundering, fraud, annexation, or other criminal activity and no further support by owners.



Reasons for Non-Performing Loan:

- 🏠 Unhealthy competition among the Banks to increase credit/loan portfolio
- 🏠 Number of banks compared to the size of economy
- 🏠 Faulty selection of borrower
- 🏠 Name lending without business justifications
- 🏠 Syndication of directors to borrow from each other's banks
- 🏠 Speedy process in granting loan and Improper assessment of funding requirement
- 🏠 Slow process in granting loan
- 🏠 Political/undue influence in granting loan/dictated loans
- 🏠 Delay in loan disbursement/ Improper timing of loan disbursement
- 🏠 Higher Interest Rate
- 🏠 Unavailability/delay in getting utility services (gas, electricity, water supply etc)
- 🏠 Lack of working capital
- 🏠 Nature of business
- 🏠 Natural disaster like earthquake, fire, flood, drought etc.
- 🏠 Lack of knowledge in market demand assessment
- 🏠 Lack of monitoring of disbursed loan
- 🏠 Insufficient or legally unenforceable Security/over valuation of security
- 🏠 Incomplete & defective documentation
- 🏠 Inadequate insurance coverage
- 🏠 Incompetence of Bank personnel/lack of well-trained people
- 🏠 Inefficient internal auditing
- 🏠 Inefficient internal control and compliance
- 🏠 Business failure of the Borrower
- 🏠 Mismatch between the cash flow of the business and repayment schedule
- 🏠 Over financing
- 🏠 Willful default / prevalent default culture in the country
- 🏠 Money laundering/ fund diversion
- 🏠 Stuck-up receivables of the borrower in the market
- 🏠 Borrower expired or absconded i.e. untraceable
- 🏠 Borrower is locally influential or politically exposed person



- 🏠 Suits have been filed against the Borrower & Existing Legal practices (e.g., stay order from court)/legal issues
- 🏠 Political instability and turmoil situation of the country like hartal, strike, blockade etc.
- 🏠 Change in government policy like imposition of new tax/VAT/duty etc.
- 🏠 State of local, national and world economies (Economic downturn or depression for business)
- 🏠 Fluctuations of imported commodity/raw materials prices in local market – even small traders are often dependent on imported goods
- 🏠 Insider lending

Mitigation Technique:

- 🏠 Fixing a limit for the borrower/group's on total credit exposure from the banking industry
- 🏠 Public disclosure of large loan defaulters
- 🏠 Restriction in access to certain public services
- 🏠 Debt to Equity Swap. Temporary acquisition of a defaulted company through debt-equity swap and re-sale it to the potential parties.
- 🏠 Development of bond market for alternative long-term financing
- 🏠 Reframing loan classification policy
- 🏠 Reviewing existing legal laws & addressing the legal gaps
- 🏠 Formation of special financial tribunal/bench for large loan default
- 🏠 Create social pressure on defaulters
- 🏠 Revoke the membership of a director when becomes defaulter
- 🏠 Ending credit decisions at CBO and HoCRM level
- 🏠 Digitization of Banking collateral security registry
- 🏠 Ensuring accountability of collateral security assessor





CHAPTER- 04

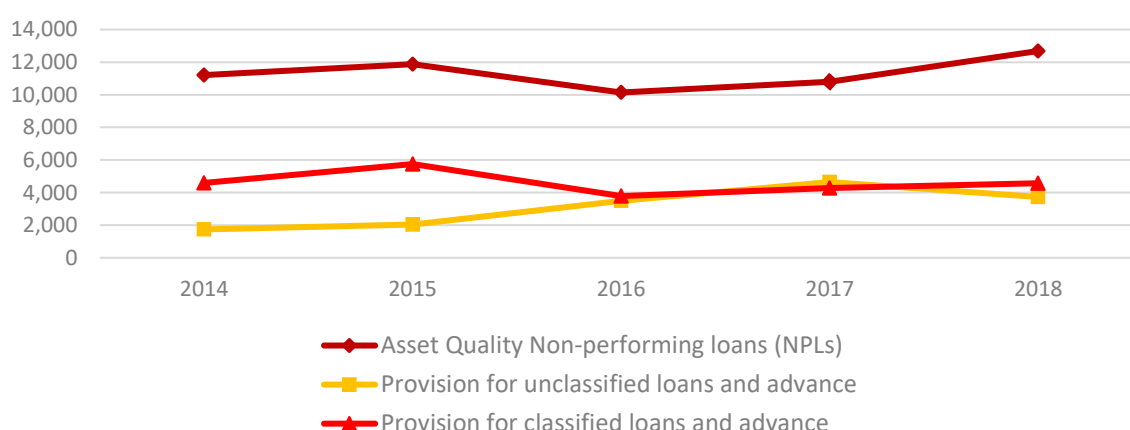
- 29 Special Asset Management (SAM) at a Glance
- 30 Organogram
- 30 Functions of SAMD
- 31 General Guideline
- 32 Special Asset/ NPL Management



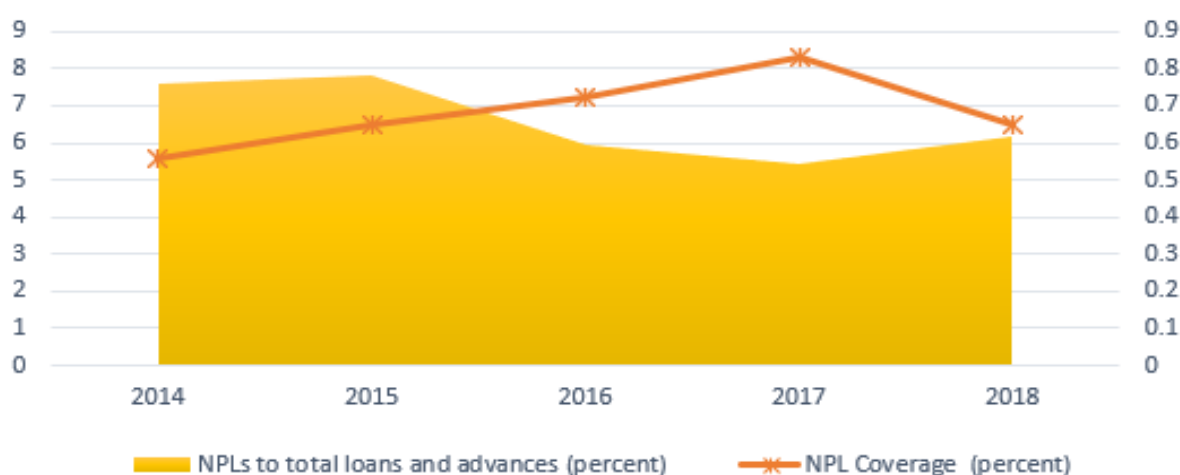
Special Asset Management at a Glance:

In the banking world, “special asset” departments are set up to monitor and/or liquidate loans made to troubled companies. A loan or line of credit is considered an asset on the bank's Balance Sheet. Hence, a loan in a troubled company is called a special asset by the bank. Special assets are typically private business interests, properties or natural resources that can be difficult to convert directly to more liquid investments, like cash. They may also be called illiquid assets.

Following graphs are showing the trend of prime banks credit quality. Here we can see that non-performing loan of prime bank is fluctuating along with unclassified and classified loans and advance.

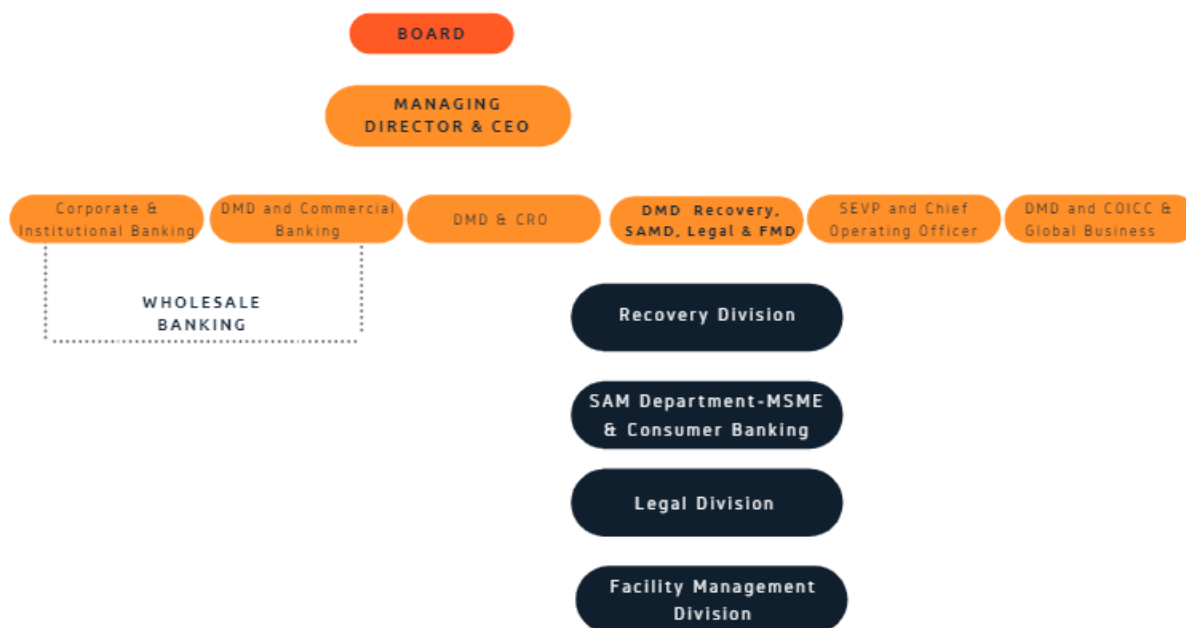


And this following graph showing non-performing loans to total loans and advances in percent and coverage of non-performing loan in percentage. Prime bank coverages the non-performing loan very efficiently. And they try to control NPL to be reduced.





Organogram:



Major Functions of SAMD

🏠 **Maintaining sustainable CL ratio of the Bank:** The following tools are being used to maintain a sustainable CL ratio of the Bank: -

- Recovery in cash;
- Regularization (through overdue adjustment);
- Restructuring (including validity extension and/or re-fixation of installment size);
- Rescheduling;
- Settlement (including interest waiver);
- Bad Debt Write-off.

🏠 **Relationship Management of the defaulting Borrowers:** SAMD maintains relationship with the defaulted borrowers. The Relationship Managers perform the following activities: -

- Meeting/ visiting the customers, arrange meetings with the Senior Management



- b) Identification of reasons for default;
- c) Understanding present status of the borrower;
- d) Negotiation & persuasion;
- e) Determine Account Action Plan/Recovery Strategy;

 **Taking appropriate actions against the defaulting Borrowers:** Where the borrowers/ guarantors do not come forward or negotiation fails, SAMD will: -

- a) Engage Third Party Recovery Agents;
- b) Provide permission to initiate Legal Actions;
- c) Monitor the dealing lawyers for early disposal of the suits/cases in collaboration with Legal Division;
- d) Continue persuasion/ negotiation for settlement outside the Court.

 **Writing-off the loans:** SAMD exercises writing-off the bad debts, against which –

- a) There is no recovery since long & prospect of recovery in near future is bleak;
- b) All avenues of recovery have been exhausted;
- c) 100% provision to be maintained against the account;
- d) Legal action under Artha Rin Adalat Ain, 2003 has been taken;
- e) Approval of the Board of Directors of the Bank is required to write-off an account;

 **Contributing to Bank's Income:** SAMD during the course of its different activities also contributes to the income account of the Bank as under: -

- a) Recovery of Principal & Interest Income;
- b) Transfer of Interest Suspense & un-applied interest to income;
- c) Release of provision;
- d) Recovery against written-off loans etc.

General Guidelines

- i. Compliance of Central Bank Guidelines and Bank's own Policies
- ii. Head Office Credit Recovery Committee
- iii. DLA/SDLA





- iv. Bangladesh Bank Approval
- v. Write-off
- vi. Director's Loan

Special Asset/NPL Management:

Assignment of File to RM: After a relationship is transferred, it will be assigned to particular RM in SAMD who will serve as the onward primary borrower contact.

Meeting the Borrower & Identification of Reason for Default: He/she will review all documentation, meet the borrower, identify the reason for default, understand the present status of the borrower and prepare an action plan for recovery of the loan. SAMD may seek assistance from the Business RM for identification of the owner/ guarantor /business location, checking stock position and any relevant information etc. SAMD RM may need to trace out the absconded borrowers or whose business is closed or shifted to other places.

Negotiation/Persuasion for Recovery/Regularization/Settlement: Cash recovery of full outstanding or regularization through overdue collection is always preferable. RM may consider restructuring/ rescheduling/ settlement if the borrower responds with positive nod as a result of professional and successful negotiation/ discussion/ persuasion. In such cases, after being recommended by the respective 'Credit Recovery Committee', RM shall process memo in line with the Bangladesh Bank's guidelines and Bank's own Policies, if any, for approval of the Competent Authority.

Documentation: CAD will issue Sanction Advice on the basis of the approval. SAMD RM will get Sanction Advice accepted and also complete required documentation formalities. Thereafter, the set of accepted sanction advice, charge documents and other documents to be forwarded to CAD for checking, safe keeping and implementation of the approved transaction in the system.



Following-up: SAMD will take care of the accounts restructured/rescheduled/settled till full and final adjustment. The accounts will be strictly monitored so that the arrangements work perfectly i.e. repayments are made as per sanctioned terms.

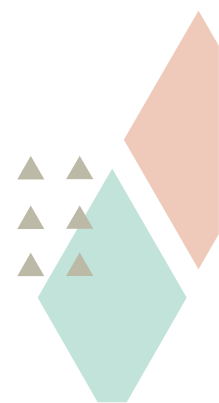
Liquidation of Security: In case of further deterioration of an account, SAMD will take the below steps sequentially with appropriate approval –

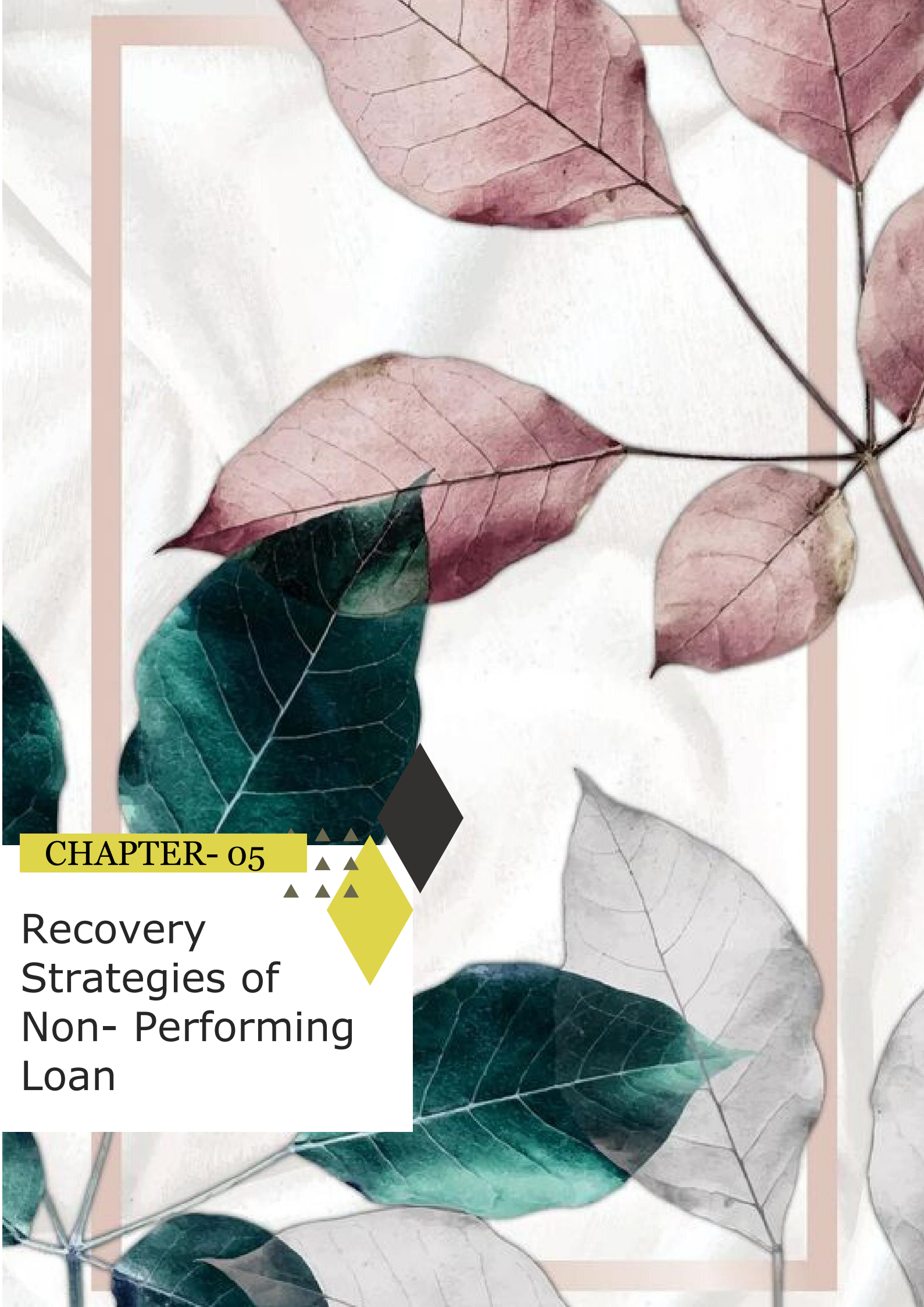
- 👉 en-cashing cash/quasi cash collaterals;
- 👉 selling out the pledged goods, if any;
- 👉 selling out collateral.

Call Back, Final Notice & Filing of Suits/Cases: In case, where further deterioration is evidenced, RM should recommend for filing of suit/case for consideration of the Management followed by calling back the loans, issuance of final notice etc.

Follow-up the Dealing Lawyers & Out-of-Court Settlement: RM will follow-up the dealing lawyers for early disposal of the suits/cases in collaboration with Legal Division. Simultaneously, persuasion will also continue. In case of 'out of court settlement', SAMD upon receipt of borrower's proposal will arrange approval of the competent authority and take subsequent actions with the assistance of Legal Division for settlement of the account(s) as well as disposal of the suit/case.

Writing-off the Loans: When all recovery strategies against an account have been exhausted and the account is considered to be no longer collectable, SAMD will "write-off" the account applying the provision in place or debiting profit & loss account. But this should be done in line with the guidelines of Bangladesh Bank and with the approval of the Board of Directors of the Bank. In no way, writing-off a loan will diminish Bank's claim from the borrower.





CHAPTER- 05

Recovery Strategies of Non- Performing Loan



Recovery Tools:

There are several recovery tools being used by the Banks. The tools may vary depending on the level of delinquency or the behavior of the borrowers. In general, tools are used on routine basis but may be used on qualitative judgment as well.

Even though it is assumed that the following tools have already been applied by the respective Business Units or their Collection Teams before transferring a file, SAMD may also apply the same those are reminder letters, short message service (SMS), E-mail, telephone calls.

SMS is effective as it reaches the borrower instantly. However, it is not enough to send a letter or SMS or E-mail pointing out how the borrower is in violation of various terms of the loan documents. Anyhow, the following tools are more appropriate from the part of SAMD:

- i. **Single/Group visit** - If debtor ignores all letters, reminders, calls or e-mails, RM will pay announced/ unannounced personal or group visit to the office/residence of the borrower. The aim is to demonstrate Bank's seriousness in recovery. Frequency of visit may depend on the degree of the borrower's response.
- ii. **Arrange Meeting** – Arranging a meeting impresses the borrower by expressing Bank's desire to cooperate. A meeting helps to further define the best course of action.
- iii. **Persuasion/Negotiation** - Persuasion right from the initial stage of default and constant follow-up are the keys to succeed. The borrowers must understand that the Bank will not give up easily.
- iv. **Rescheduling/ restructuring/ settlement (including interest waiver)** - If the indebted person is willing to pay but struggling due to temporary financial distress (e.g. reduced income, cash flow crisis etc.), person may be offered to negotiate the terms of payment if the Bank is fairly certain that the borrower can fulfill the rescheduled terms of the contract.



While accepting the proposal of waiver, Bank shall examine each case prudently and judiciously and will only consider if there are genuine grounds like:

- 🔔 Key person is dead or physically incapable and business stands closed and heirs are unable to pay entire dues.
- 🔔 Borrower incurred huge loss in the business and presently business is closed.
- 🔔 Exposure not covered by any collateral security and chance of recovery of the dues is remote.
- 🔔 Inadequate collateral security and there is no scope for attachment of other properties.
- 🔔 Disposal of security seems to be difficult. Borrower is untraceable and guarantor/mortgagor has no means to adjust entire liabilities.
- 🔔 Borrower incurred irreparable loss due to flood, cyclone or any other natural calamities and there is no possibility of restoring normalcy in their business.
- 🔔 Any other factor that creates deterrent for recovery of classified advances etc.

All the defaulting borrowers shall not be eligible for similar waiver facility. Rather, waiver will be allowed on case to case basis depending on the merit of the case and be guided by DLA/SDLA in force.

- v. **Assistance from the guarantors/ mortgagors/ relatives/ locally influential persons** - It is to be noted that the guarantors/mortgagors also have the legal obligation to repay or assist the Bank which is needed to be communicated by the RMs. RMs may also take assistance from the relatives of the borrower and locally influential persons to create social pressure upon the borrower.
- vi. **External Recovery Agencies**
- vii. **Final Notice or Call Up Letter or Call Back Notice** – When the above tools fail, Final Notice or call up letters to be issued to all available addresses of the borrower/ proprietor/ partners/ Directors/ guarantors/ mortgagors giving a reasonable time (preferably 3-15 days) to adjust the entire liabilities with up-to-



date interest stating, inter alia, that in case of failure, Bank will be constrained to take all appropriate actions including legal actions for recovery of its dues.

- viii. **Liquidation of security or deposits** – If the borrower does not come forward to repay even after applying all the above tools, Bank will go for en-cashing cash or quasi cash securities, selling out the pledged goods and collateral securities. RMs will look for prospective buyers of the goods and collaterals.
- ix. **Repossession** - While repossessed assets are awaiting disposal, the Bank should make sure that proper administration is undertaken to protect value. This is specifically defined as the time when:
 - 👉 The borrower voluntarily surrenders the asset or has agreed to sell the property.
 - 👉 The Bank is awarded possession of the property by legal or other means; as the case may be, titles and ownership documents have been transferred/registered in the name of the Bank.



Legal Support & MIS Strategy:

Basic principles to guide the Bank in its efforts for asset disposal include:

- 🔔 Assets acquired have to be disposed of at the earliest time possible within a reasonable time frame from acquisition / repossession.
- 🔔 Until disposal occurs, the Bank should endeavor to keep costs relating to the maintenance of the assets to a minimum.
- 🔔 liquidating the assets in the Bank's possession at the earliest possible date is a lower-risk strategy than holding the assets for a projected upturn in market prices in the future.

Legal Action – If the defaulted loan is still unpaid, legal actions to be initiated against the borrower/ proprietor/ partners/ Directors/ guarantors/mortgagors under both Artha Rin Adalat Ain, 2003 and Negotiable Instruments Act, 1881 under the guidance of Legal Division as per Bank's policy before the same becomes time barred.

Out of Court Settlement – SAMD may request Legal Division to withdraw court cases if borrower repays the entire outstanding at any stage of Court cases/suits. In all such cases, borrower shall have to pay the actual legal charges so far incurred by the Bank.

Reporting to Credit Information Bureau (CIB) & Name circulation to other Banks/Financial Institutions - It is to be ensured that the defaulted borrower's/ guarantors' names are properly reported to CIB by CAD. The names of the defaulters may be circulated to other Banks/Financial Institutions.



- 40 Credit Risk Appraisal
- 40 Credit Risk Management
- 41 Quantitative Indicators/Financial Ratios
- 60 Qualitative indicators

Credit Management of Prime Bank

CHAPTER-06





Credit Risk Appraisal:

The purpose of credit analysis is to support the decision-making process to accept credit risk on an obligor, as well as decisions about the size and nature of the risks that are deemed acceptable. The extent and scope of credit analysis depends on factors such as the type of obligor, the nature of the obligation, the timeframe, prior experience with the obligor, the availability of mitigation, and the availability of credit ratings.

Credit Risk Management:

Bangladesh Bank (BB) has reexamined the credit risk management guidelines through BRPD Circular No-04 dated 08 March 2016. These guidelines have outlined the following-

- 🏠 Overview on Credit Risk Management
- 🏠 Organizing Credit Risk Management
- 🏠 Managing Credit Risk in the Origination Process
- 🏠 Credit Risk Mitigation Strategies
- 🏠 Managing Credit Risk in the Administration Process

Credit Risk Grading:

In order to deal with growing complexities in a more dynamic banking industry, Bangladesh Bank has updated the Credit Risk Grading mechanism through issuing BRPD Circular No 16 dated 30 October 2018- 'GUIDELINES ON INTERNAL CREDIT RISK RATING (ICRR) SYSTEM FOR BANKS'.

Credit Risk Rating Components:

In Internal Credit Risk Rating (ICRR), 60 percent weights are assigned to quantitative indicators while 40 percent are assigned to qualitative indicators. Quantitative indicators in ICRR fall into six broad categories; leverage, liquidity, profitability, coverage, operational efficiency, and earning quality.





Quantitative Indicators/Financial Ratios:

Financial ratios are the indicators of the financial performance of bank and there are different types of financial ratios which indicate the bank's results, its financial risks and its working efficiency. There are different other ratios which can be calculated but as indicator of bank's credit performance for analyzing the non- performing loan of Prime Bank related ratios are described below:

- 🏦 Liquidity Ratios
- 🏦 Operational Efficiency Ratios
- 🏦 Profitability Ratios
- 🏦 Leverage Ratios
- 🏦 Coverage Ratios
- 🏦 Earning quality Ratios

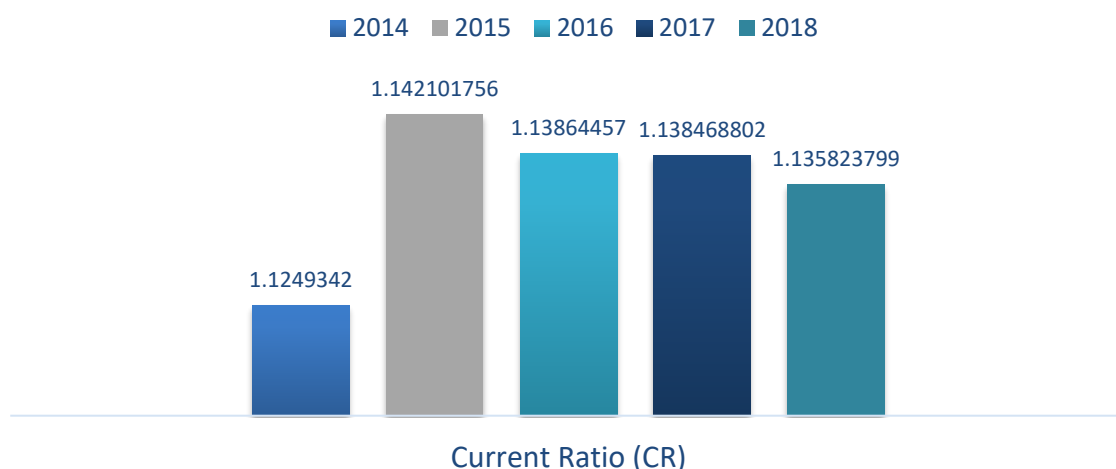
Liquidity Ratios:

Liquidity ratios are a class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Liquidity ratios measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio and operating cash flow ratio. Some liquidity ratios are explained below.

1. Current Ratio (CR):

The current ratio is a way of measuring liquidity. It shows whether a business or firm can pay its obligations out of its current assets. After evaluating the balance sheet of Prime Bank Limited, I calculated the current ratios from 2014 till 2018.

Current Ratio (CR)=Current Assets/ Current Liabilities					
Year	2014	2015	2016	2017	2018
Current Ratio (CR)	1.12493	1.14210	1.13864	1.13847	1.13582

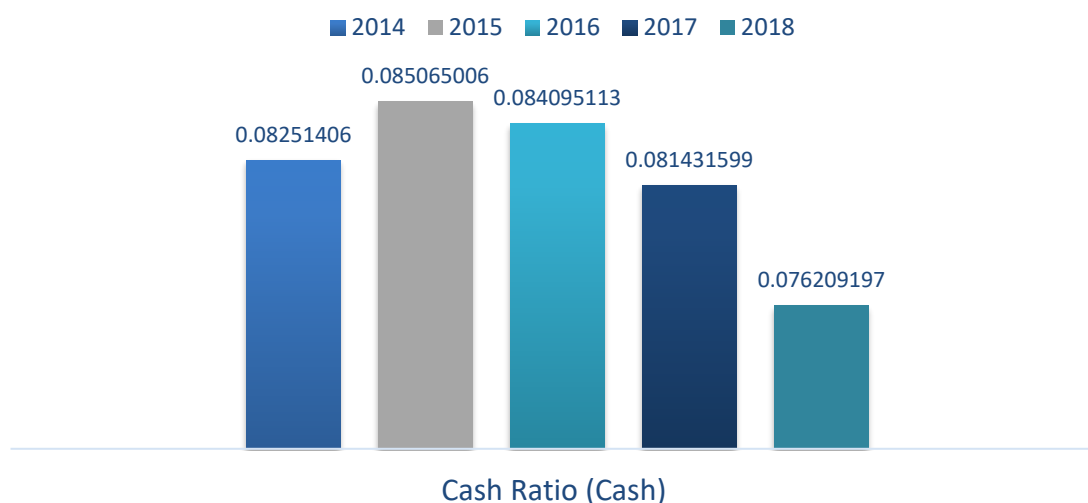


In 2014, current ratio was 1.1249342, which indicates that current assets were 1.1249342 times the value of the company's current liabilities. That ratio was 1.142101756 in 2015, suggesting a better improvement in the current ratio. But in 2016, we can see that current ratio decreased to 1.13864457, which is not better than the previous year and it suggests that now the business has less cash or assets available to pay its debts. In 2017, the ratio became even lower which was 1.138468802, that means current assets are 1.138468802 times the value of current liabilities. There has been decrease in 2017 but still it is a good ratio. In 2018, the ratio slightly decreased to 1.135823799, so the bank had current assets available that was 1.135823799 times the liabilities.

2. Cash Ratio (Cash):

The cash ratio indicates the ratio of a company's total cash and cash equivalents to its current liabilities. The metric calculates a company's ability to repay its short-term debt, so, this is really useful to creditors when deciding how much debt they would be willing to extend to the asking party.

Cash Ratio (Cash)=Cash and easily marketable securities/Current Liabilities					
Year	2014	2015	2016	2017	2018
Cash Ratio (Cash)	0.08251	0.08507	0.08410	0.08143	0.07621



In 2014 we can see that Prime Bank's cash ratio is 0.08251406 which means that the bank is having positive cash ratio in 2015. And the bank has little ability to repay its short-term debt. In 2016 this positive cash ratio decreased a little bit which means the bank has less cash and cash equivalents to pay their short-term debt. And in 2017 this positive ratio continued to decrease. But it decreased even more in 2018 which is not good for Prime Bank.

Operational Efficiency Ratios:

Operational Efficiency Ratio measure a company's ability to use its assets and manage its liabilities effectively in the current period or in the short-term. Although there are several operational efficiency ratios, they are similar in that they measure the time it takes to generate cash or income from a client or by liquidating inventory.

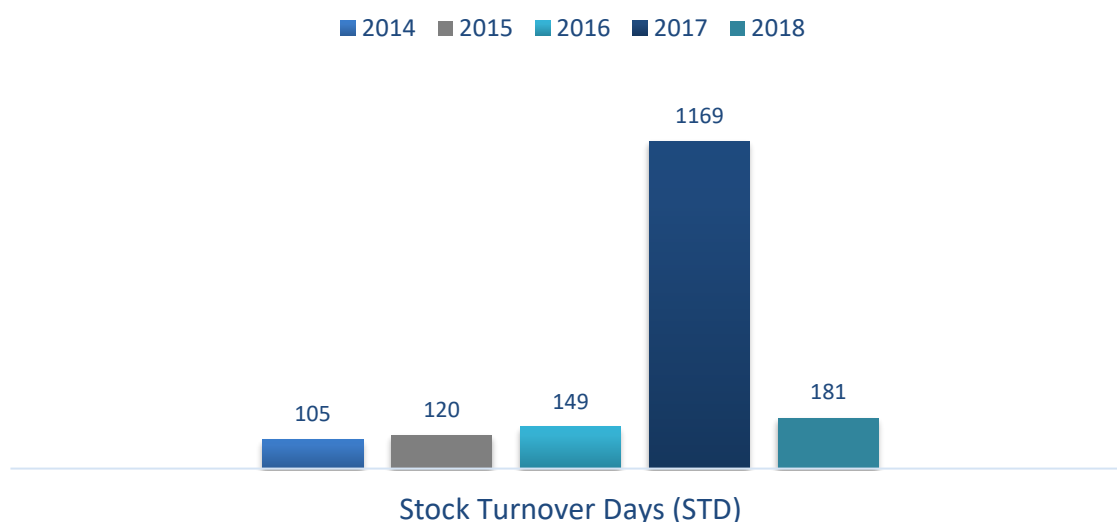
1. Stock Turnover Days (STD):

Stock Turnover (Days) (Days Stock Outstanding) – an activity ratio measuring the efficiency of the bank's stock management. It indicates how many days the firm averagely needs to turn its stock into interest paid on deposits, borrowings etc.

The decline of the stock turnover (days) value during the year is a positive trend for the bank. It means that less funds are being distracted to form the stock. To estimate the efficiency of the bank's efforts in this area more precisely, it is reasonable to compare the value of this ratio with the major competitors



Stock Turnover Days (STD)=(Stock Price/Interest Paid on deposits, borrowings etc)*360					
Year	2014	2015	2016	2017	2018
Stock Turnover Days (STD)	105	120	149	1169	181



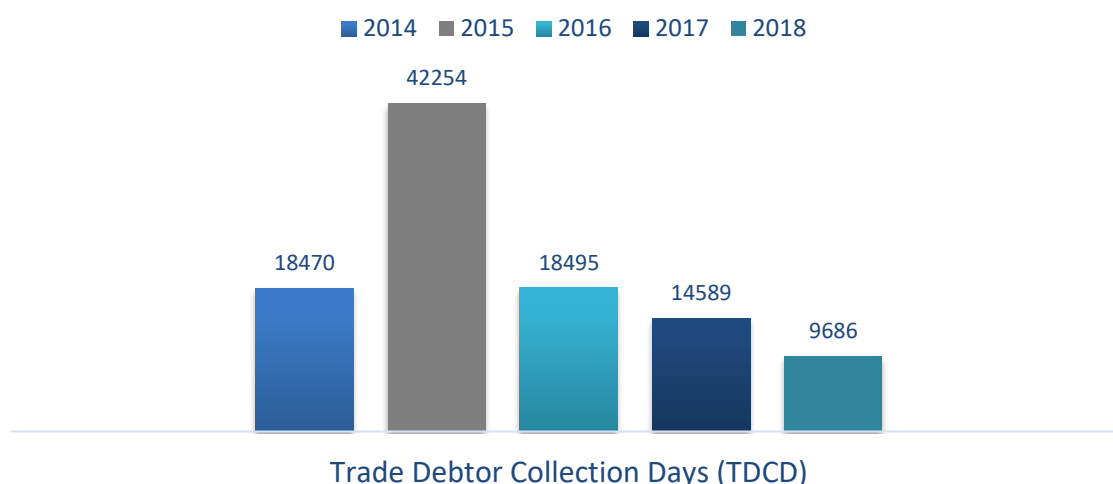
So, if we have a look at the figure above, we would visually understand how efficient Prime Bank stock Turnover Days are. Ratio in 2018 indicates that Prime Bank sells its entire stock within a 181-day period, which is quite impressive for such a good bank. But that doesn't mean it's a lower stock turnover days ratio. We need to see other companies from the same industry to do a comparison.

2. Trade Debtor Collection Days (TDCD):

Trade Debtor Collection days is the number of days required for a bank to receive payment from its customers for invoices issued to them. A larger number of trade debtor collection days means that a bank must invest more cash in its unpaid accounts receivable asset, while a smaller number implies that there is a smaller investment in accounts receivable, and that therefore more cash is being made available for other uses.



Trade Debtor Collection Days (TDCD)=(Total Accounts Receivable/ Interest Income)*360					
Year	2014	2015	2016	2017	2018
Trade Debtor Collection Days (TDCD)	18470	42254	18495	14589	9686



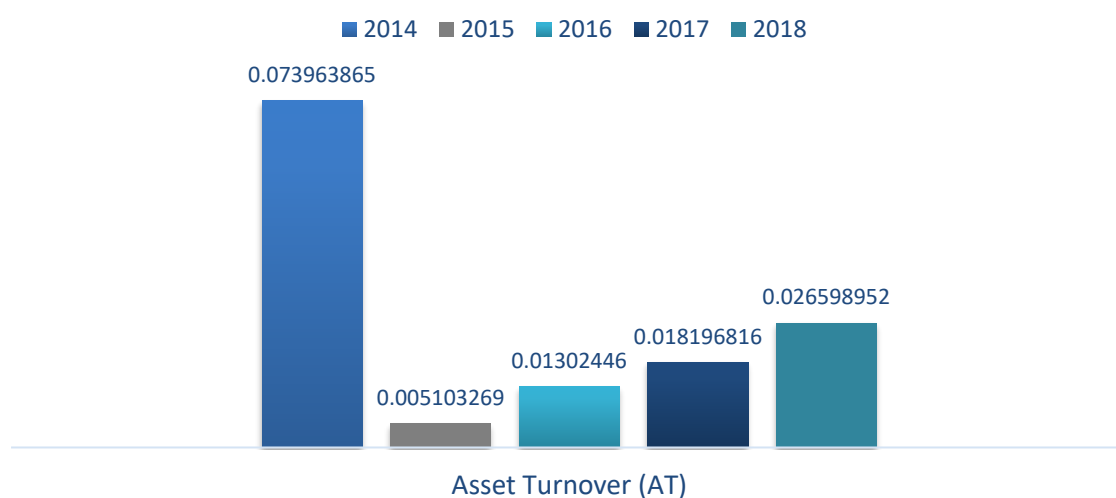
We can see that the graph is fluctuating. In 2014 it was 18470 days then increased to 42254 days in 2015. After that it decreased again to 18495 days in 2016 then continuously kept on decreasing. The number of trade debtor collection days should be compared to that of other companies in the same industry to see if it is unusually high or low. Alternatively, the measure can be compared to benchmark companies located outside of the industry to obtain the highest possible target figures to set as goals.

3. Asset Turnover (AT):

The asset turnover ratio measures the value of a bank's Interest Income relative to the value of its average total assets. The asset turnover ratio can be used as an indicator of the efficiency with which a bank is using its assets to generate interest income. The higher the asset turnover ratio, the more efficient a bank. Conversely, if a bank has a low asset turnover ratio, it indicates it is not efficiently using its assets to generate interest income.



AssetTurnover (AT)=Interest Income /Average Total Assets					
Year	2014	2015	2016	2017	2018
AssetTurnover (AT)	0.0740	0.0051	0.0130	0.0182	0.0266



So, if we have a look at the figure above, we would visually understand how efficient Prime Bank Ltd. asset utilization is. We can say that Prime Bank can improve with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. But that doesn't mean it's a lower asset turnover ratio. We need to see other bank from the same industry to do a comparison.

Profitability Ratios:

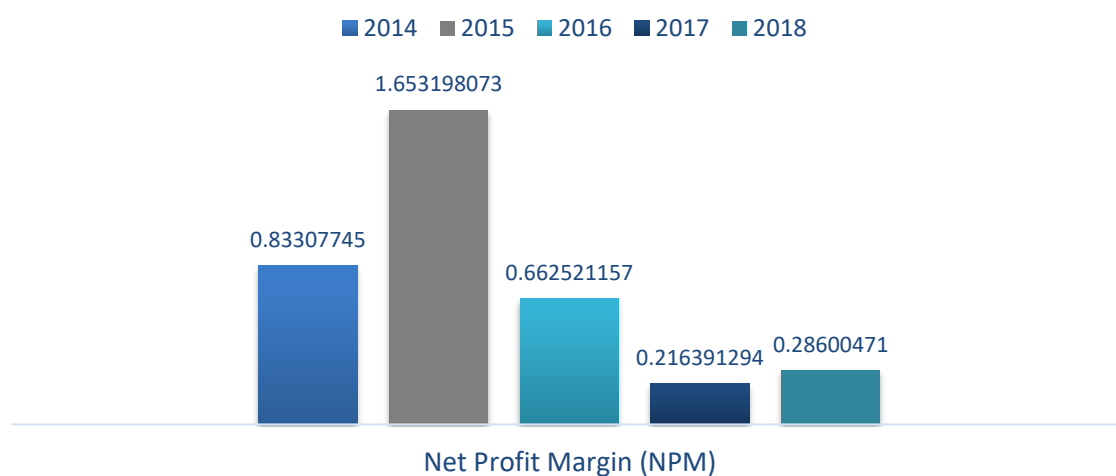
Profitability Ratios is the net result of a number of policies and decisions. This section of the discussion the different measures of corporate profitability and financial performance. Profitability ratios show the combined effects of liquidity, asset management and debt on operating results. These ratios examine the profit made by the bank and compare these figures with the size of the bank, the assets employed by the bank or its level of sales.



1. Net Profit Margin (NPM):

Net Profit Margin gives us the net profit that the business is earning per dollar of sales. This margin indicates the profit after all the costs have been incurred it shows that what % of turnover is represented by the net profit. An increase in the ratios indicates that a bank is producing higher net profit of net sales than before.

Net Profit Margin (NPM)=Net profit after tax/ Net Sales					
Year	2014	2015	2016	2017	2018
Net Profit Margin (NPM)	0.83308	1.65320	0.66252	0.21639	0.28600



We can see that the graph dramatically fluctuated during the five years' period. In 2014, the net profit margin was 83.308% wherein 2015 it reached at 165% but in 2016 it declined again, and became 66.252% and continue to decrease. For a high volume, high competition bank, this net profit margin is sound for prime bank.

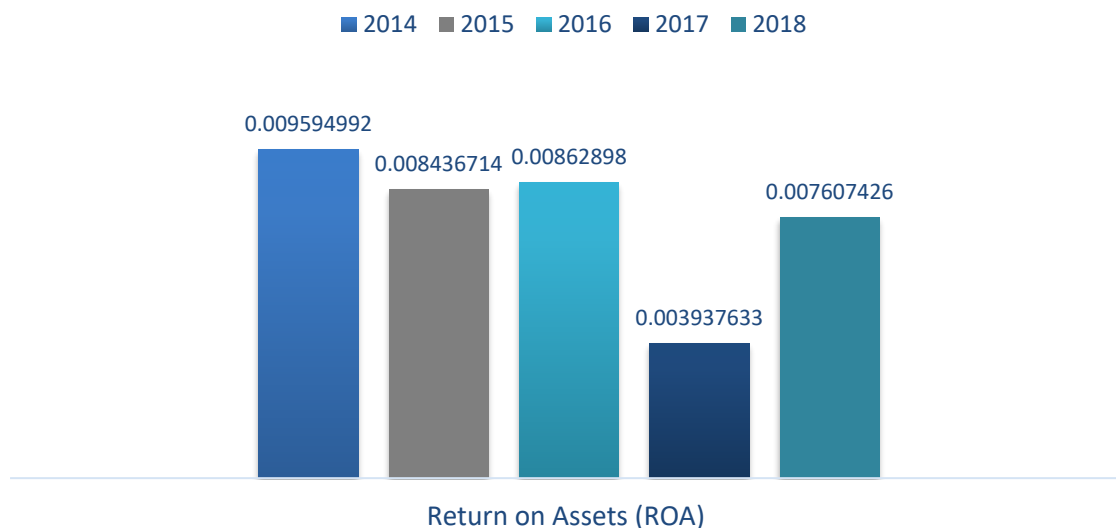


2. Return on Assets (ROA):

Return on asset is an important ratio for banks deciding whether or not to initiate a new project. The basis of this ratio is that if a bank is going to start a project, they expect to earn a return on it, ROA is the return they would receive. Simply put, if ROA is above the rate that the bank borrows at then the project should be accepted, if not then it is rejected.

This graph drastically fluctuated during the years. In 2014 it was the pick year for the

Return on Assets (ROA)=Net profit after tax/ Average Total Assets					
Year	2014	2015	2016	2017	2018
Return on Assets (ROA)	0.00959	0.00844	0.00863	0.00394	0.00761



company they increased their Return on Asset 0.959%. But in 2016 the company again reduced their ROA and fluctuating over the last 5 years.

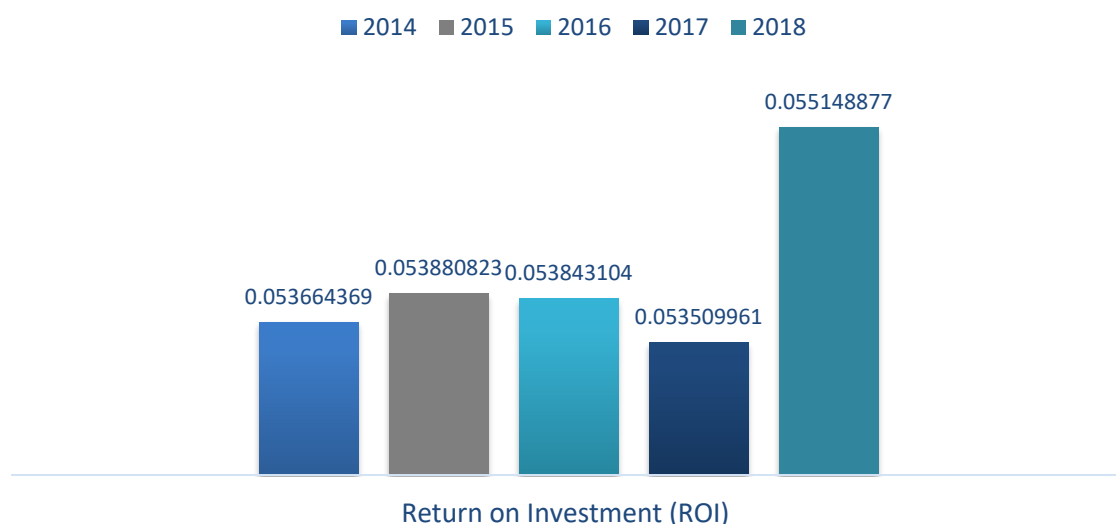
This fluctuation can take them in a very bad situation and due to this the bank may face loss in future.



3. Return on Investment (ROI):

Like most financial measures of performance, ROI can be calculated in several different ways. The components of this calculation often vary from one organization to the next. ROI is defined as operating income divided by average operating assets. Note that different banks use different measures to calculate ROI. The result is expressed as a percentage or a ratio. This measure provides an assessment of how effectively each division is using operating assets to produce operating income.

Return on Investment (ROI)=Operating Income/ Average Operating Assets					
Year	2014	2015	2016	2017	2018
Return on Investment (ROI)	0.05366	0.05388	0.05384	0.05351	0.05515



It's a fluctuating ratio again with the highest value of 5.515% at 2018 and lowest of 5.35% at 2017. In 2014 prime bank has an average growth then it was increased at 2015 again it fell down a bit within 2016 to 2017 and rose again at 2018.



Leverage Ratios:

The leverage ratio is the proportion of debts that a bank has compared to its equity/capital. Many regulators are considering raising the leverage ratio. This means that banks will have to keep more capital reserves.

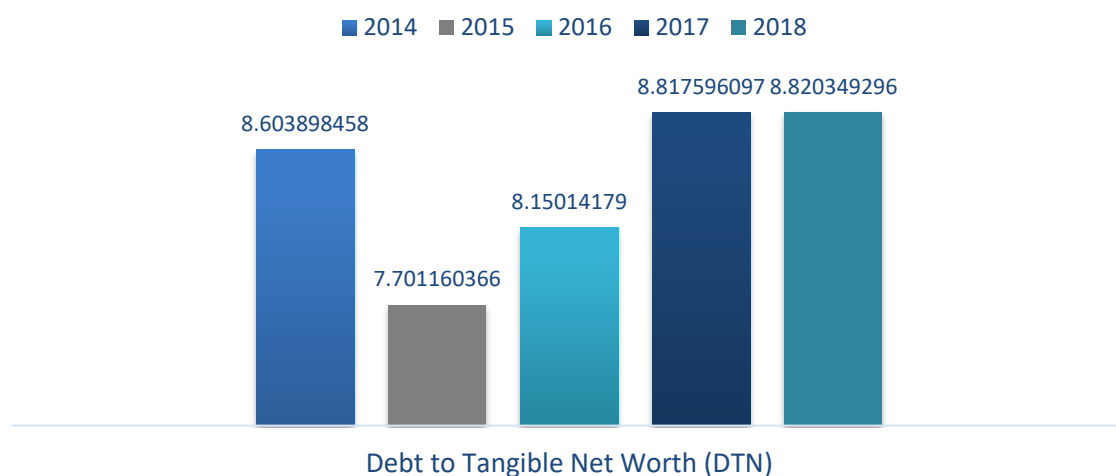
However, increasing the leverage ratio means that banks have more capital reserves and can more easily survive a financial crisis. Governments are keen to increase the leverage ratio because it makes it less likely governments will have to bail them out.

1. Debt to Tangible Net Worth (DTN):

Debt to Tangible Net Worth Ratio – a ratio indicating the level of creditors' protection in case of the bank's insolvency by comparing company's total liabilities with shareholder's equity (excluding intangible assets, such as trademarks, patents etc.).

Eliminating intangible assets from computation is very important for analysts in terms of measuring the real debt-paying ability of a bank.

Debt to Tangible Net Worth (DTN)=Total Interest-bearing liabilities or Financial Debt/ Total Tangible Net Worth					
Year	2014	2015	2016	2017	2018
Debt to Tangible Net Worth (DTN)	8.60390	7.70116	8.15014	8.81760	8.82035

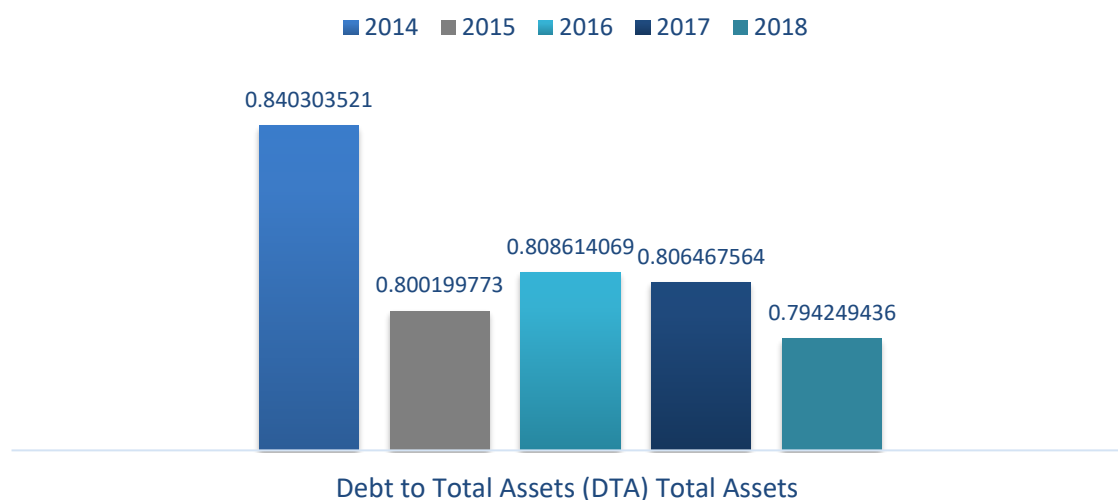


We can see that after 2015 it dramatically increased. In 2014 it was 8.6038 but in 2015 went down to 7.70116. After that it increased to 8.15014 in 2016 and continue to increase. If bank went bankrupt in 2017 there would be 1 dollar of tangible net worth for every 8.176 of debt. This indicated a good level of creditors' protection in case of bank's insolvency, because selling tangible assets was enough to meet bank's obligations to creditors.

2. Debt to Total Assets (DTA):

The debt to total assets ratio is an indicator of a bank's financial leverage. It tells the percentage of a bank's average total assets that were financed by creditors. In other words, it is the *total* amount of a bank's liabilities divided by the average *total* amount of the bank's assets.

Debt to Total Assets (DTA)=Total Interest-Bearing Liabilities or Financial Debt/ Average Total Assets					
Year	2014	2015	2016	2017	2018
Debt to Total Assets (DTA)	0.84030	0.80020	0.80861	0.80647	0.79425



Last 5 years of debt to total assets of prime bank was quite visible. In 2014, prime bank had highest debt to total assets ratio which was 0.8403035 and in 2015 it was drastically decreased by 0.8001998 whereas in 2016 it slightly increased. And debt to total assets of prime bank in 2017 decreased by 0.8064676 but again decreased in 2018 by 0.79425.

Coverage Ratios:

A coverage ratio, broadly, is a group of measures of a bank's ability to service its debt and meet its financial obligations such as borrowings, deposits or dividends. The higher the coverage ratio, the easier it should be to make interest payments on its debt or pay dividends.

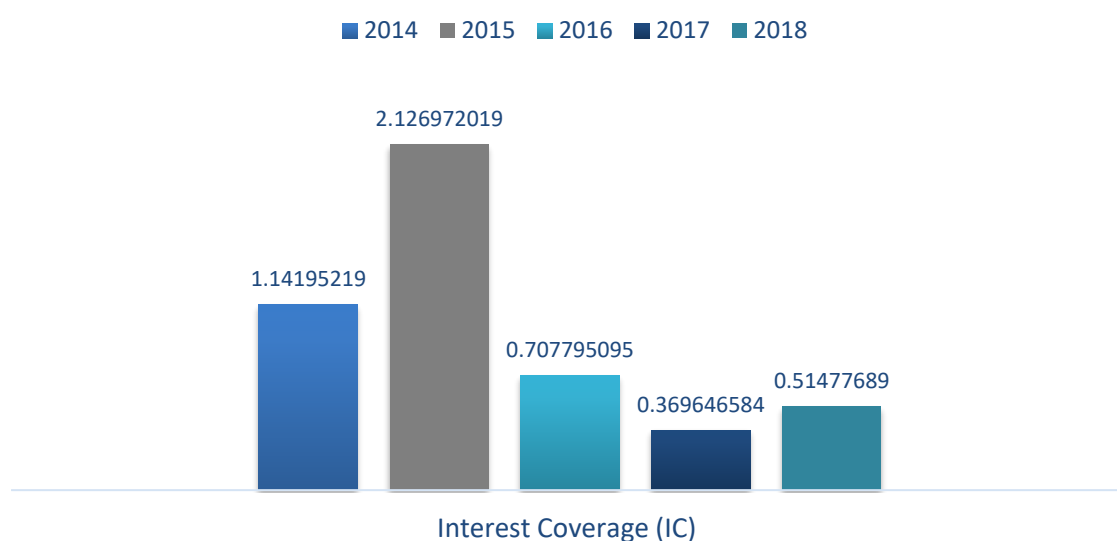
Coverage ratios come in several forms and can be used to help identify banks in a potentially troubled financial situation, though low ratios are not necessarily an indication that a bank is in financial difficulty.



1. Interest Coverage (IC):

The Interest Coverage Ratio (ICR) is a financial ratio that is used to determine how well a bank can pay the interest on its outstanding debts. The ICR is commonly used by lenders, creditors, and investors to determine the riskiness of lending capital to a company. The interest coverage ratio is also called the “times interest earned” ratio.

Interest Coverage (IC)=Earnings Before Interest and Tax/Interest Expense					
Year	2014	2015	2016	2017	2018
Interest Coverage (IC)	1.14195	2.12697	0.70780	0.36965	0.51478



We can see the graph is fluctuating. In 2014, interest coverage ratio was 1.14195 where in 2015 it increased to 2.12697. After 2015 it was going to decline to .51477 in 2018. The lower the interest coverage ratio, the greater the bank's debt and the possibility of bankruptcy. Intuitively, a lower ratio indicates that less operating profits are available to meet interest payments and that the bank is more vulnerable to volatile interest rates. Therefore, a higher interest coverage ratio indicates stronger financial health – the bank is more capable of meeting interest obligations.

However, a high ratio may also indicate that a bank is overlooking opportunities to magnify their earnings through leverage.

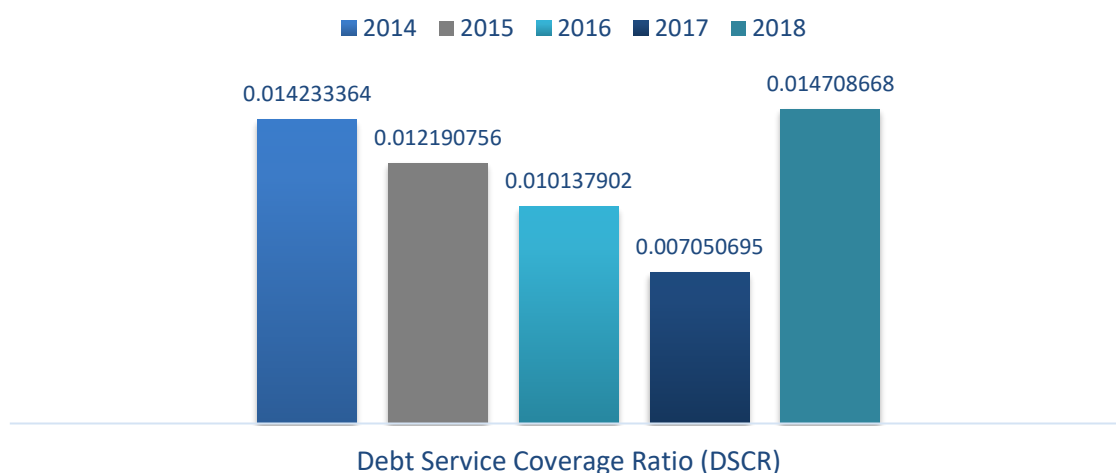


2. Debt Service Coverage Ratio (DSCR):

The debt-service coverage ratio (DSCR) is a measurement of the cash flow available to pay current debt obligations. The ratio states net operating income as a multiple of debt obligations due within one year, including interest, principal, sinking-fund and lease payments.

The DSCR is a useful benchmark to measure a bank's ability to meet their debt payments with cash.

Debt Service Coverage Ratio (DSCR)=Earnings Before Interest Tax Depreciation Amortization/ Debts to be Serviced					
Year	2014	2015	2016	2017	2018
Debt Service Coverage Ratio (DSCR)	0.0142	0.0122	0.0101	0.0071	0.0147



We can see that the graph is fluctuating over time. In 2014 to 2017 the ratio decreased from 0.014233 to 0.007051. Then increased again to 0.0147087 in 2018.

A relatively higher ratio implies that Prime bank is more creditworthy because they have sufficient funds to service their debt obligations – to make the required payments on a timely basis.



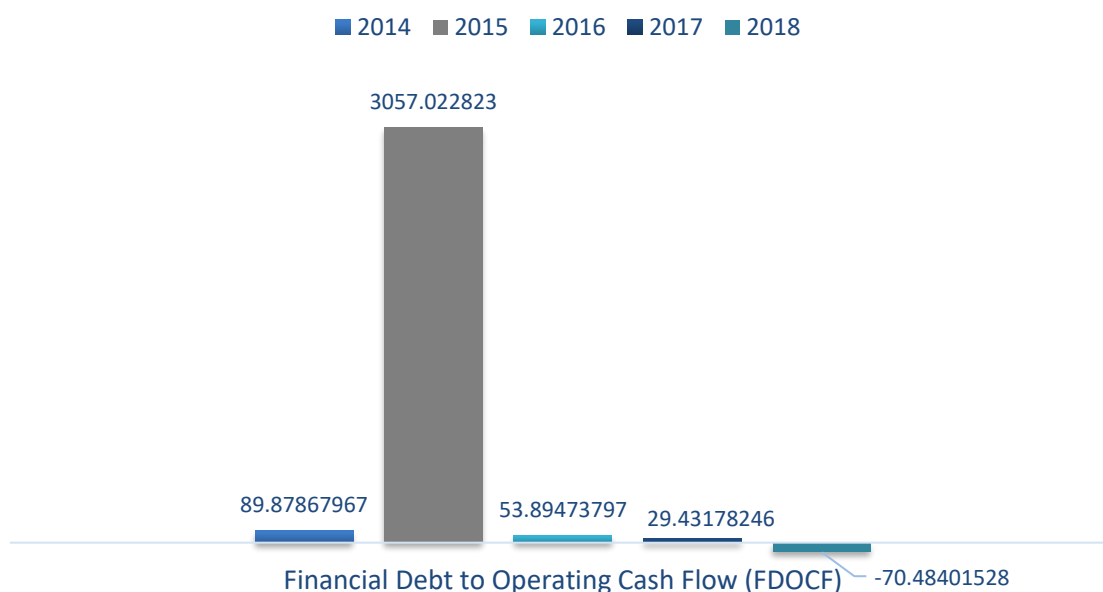
3. Financial Debt to Operating Cash Flow (FDOCF):

Financial debt to operating cash flow is a coverage ratio that compares the financial debt to its cash flow that a bank generates.

Financial debt to operating cash flow ratio, analysts do not typically use the cash flow from financing or cash flow from investing. If the bank has a highly leveraged capital structure, it is likely that the bank has a fair amount of debt to pay off.

Cash flow from investing activities is also not commonly used in the calculation of the ratio since investing activities are not part of the bank's core cash-generating activities. It is thought better to use a cash flow number that is more representative of the bank's day-to-day activities. Two good options are cash flow from operations or unlevered free cash flow.

Financial Debt to Operating Cash Flow (FDOCF)=Financial Debt / Operating Cash Flow					
Year	2014	2015	2016	2017	2018
Financial Debt to Operating Cash Flow (FDOCF)	89.8787	3057.0228	53.8947	29.4318	-70.4840



Here the graph represents that it was upward sloping till 2015 after that it was downward sloping. In year 2014 it was 89.87867 and it became 3057 in year 2015. The ratio reduced



from the year 2016 to 2018 and it came up at -70.4840 in 2018.

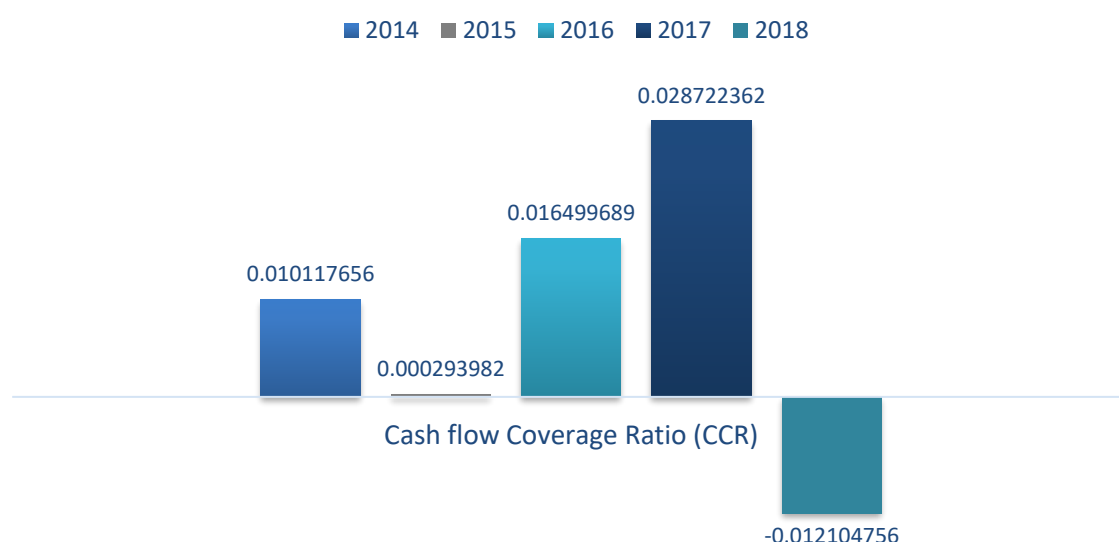
Reducing the ratio further it means they can't hold their operating cash flow for financial debt well. This is not good for prime bank as it can create a negative impact on their coverage.

4. Cash flow Coverage Ratio (CCR):

The Cash flow coverage Ratio measures the percentage of a bank's debt to be served that is covered by its operating cash flow for a given accounting period. The operating cash flow refers to the cash that a bank generates through its core operating activities. This usually represents the biggest stream of cash that a bank generates.

The cash flow coverage Ratio can be used to assess a bank's probability of defaulting on its interest payments. Generating a lot of cash relative to how much debt a bank has indicates the bank is well-positioned to repay its debts. It is thus deemed a safer debt investment by creditors.

Cash flow Coverage Ratio (CCR)=Cash flow from operation / Debts to be Serviced					
Year	2014	2015	2016	2017	2018
Cash flow Coverage Ratio (CCR)	0.0101	0.0003	0.0165	0.0287	-0.0121



From the graph we can see that the ratio fluctuated throughout the years. In 2018 the ratio decreased and it became -12.1048% otherwise all on positive ratio was same from



the years 2014 to 2017. It ups and downs between 10.12 to 28.72 percent.

To better understand the financial health of the bank, the cash flow coverage ratio should be compared to the figures for a number of banks operating in the same industry. If some other banks operating in the industry see cash flow coverage percentages that are, on average, lower than prime bank's, we can conclude that prime bank's is doing a relatively good job of managing its financial leverage. In turn, creditors may be more likely to lend more money to prime bank's because the bank represents a relatively safe investment within the baguette industry.

Earning Quality Ratios:

Earning quality ratios is an indicator of the degree to which the net income of a bank satisfies quality criteria. Quality is a subjective matter but generally earnings are considered to be of high quality if they have some of the following characteristics.

- 👉 Consistent, predictable and sustainable
- 👉 Exclude special and non-recurring items
- 👉 Derived from the application of conservative and relevant accounting policies
- 👉 Backed by cash operating flows

1. Operating Cash Flow to Sales (OCFI):

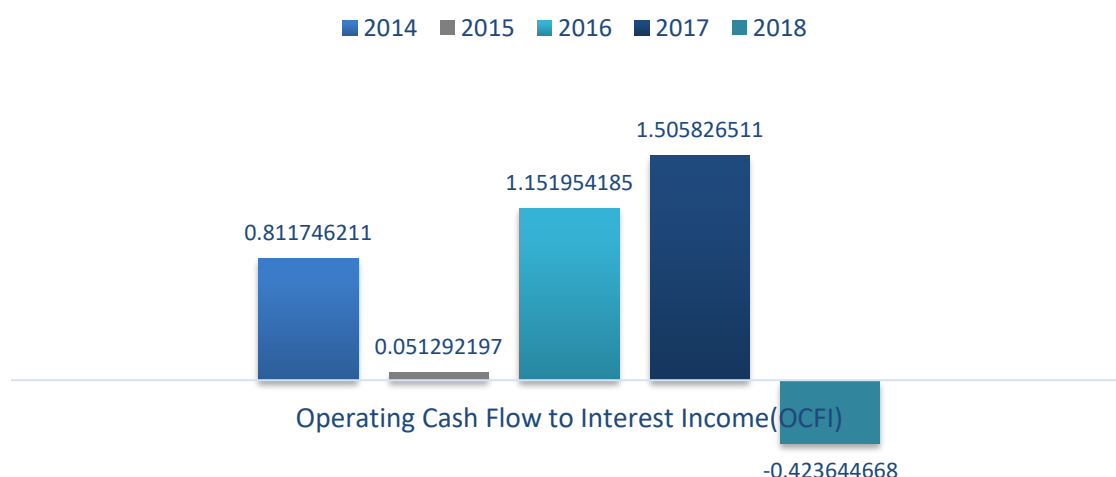
This ratio compares the operating cash flows a bank to its Interest Income. This ratio gives the analysts and investors indications about the ability of a bank to generate cash from its interest income. In other words, it shows the ability of a bank to turn its interest income into cash. It is expressed as a percentage.

It will be worrisome if the changes in cash flows are not parallel to the changes in interest income. If the cash flows do not increase with the increase in interest income it may indicate the following two factors:

- 👉 The change in terms of interest income
- 👉 Inefficient or ineffective management of trade receivables



Operating Cash Flow to Interest Income (OCFI)= Operating Cash flow / Interest Income					
Year	2014	2015	2016	2017	2018
Operating Cash Flow to Interest Income (OCFI)	81.175%	5.129%	115.195%	150.583%	-42.364%



The operating cash flow to interest income kept was unstable throughout the years. From 2014 to 2017 bank has positive upward ratios and in 2017 it has highest ratio which was 1.5058. But ratio drastically decreased in 2018 became -0.4236.

The higher this ratio is the better it is for the bank. Greater amounts of operating cash flows are always desirable. Although there is not any standard guideline for this ratio but a consistent and/or increasing trend in this ratio is a positive indication of good debtor's management. Banks with such a trend in this ratio are good investment opportunities.

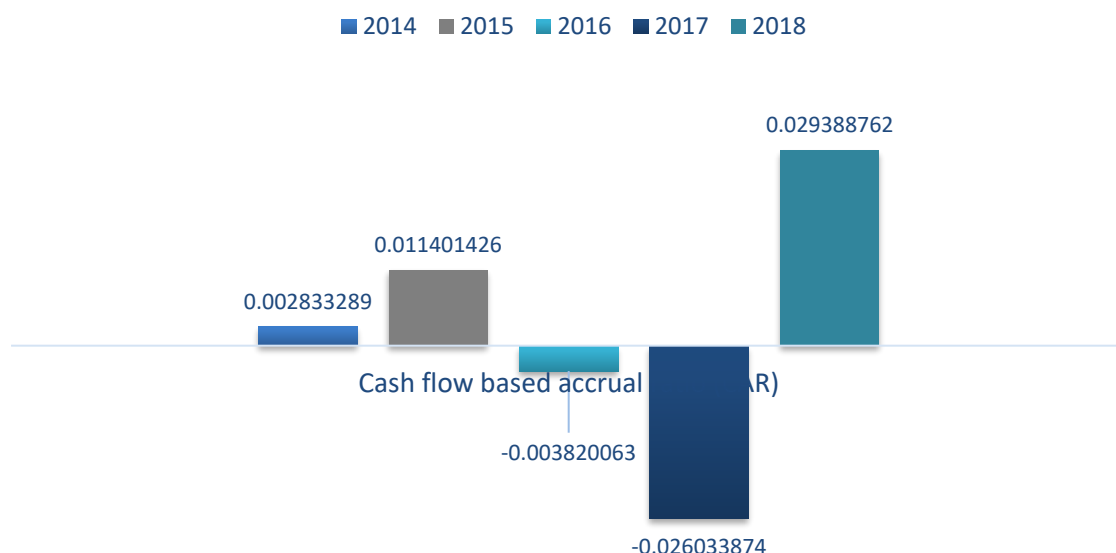


2. Cash flow-based accrual ratio (CAR):

Cash flow-based accrual ratio examines the bank's net income less its cash flows from investing and operating activities, and it compares this number with the average "net operating assets" over a particular time period.

These ratios can be used to view changes in a bank's accruals level over time and to make bank-to-bank comparisons. Historical averages and cross-industry comparisons will help to determine what an appropriate level is.

Cash flow based accrual ratio (CAR)=NI-(CFO+CFI) /Average Net Operating Assets					
Year	2014	2015	2016	2017	2018
Cash flow based accrual ratio (CAR)	0.2833%	1.1401%	-0.3820%	-2.6034%	2.9389%



Here we see prime bank had fluctuated cash flow-based accrual ratios in 2014 to 2018 with negative in 2016 and 2017. And had highest Cashflow-based accrual ratio in 2018 which was 0.029389. This is used by analyst to analyze the persistence and sustainability of a bank's earnings. The closer the earnings to the operating cashflows, the higher the quality of the earnings.



Qualitative indicators cover six broad aspects of the bank:

- 🏠 business/industry risk
- 🏠 credit quality enhancement
- 🏠 performance behavior
- 🏠 management risk
- 🏠 relationship risk and
- 🏠 compliance risk.





CHAPTER-07

Regression Analysis



According to Titus et al (2008), regression analysis is a basic statistical tool used in research both in management and social sciences. It is used to estimate a regression equation that expresses the explicit relationship between a dependent variable and an independent variable. It is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. To conduct with regression analysis of Prime Bank Limited, I take net profit margin or Net profit After tax as dependent variable, classified loan to total loan, Provision for loans, advances and lease / investments & bad debt as independent variable. Definitely these all are not all variables of determining profit but there have some other variables of determining profit.

In this part, I tried to show the relationship between the increase or decrease of NPLs and Net profit margin of Prime Bank Limited.

📌 **Independent variables:** Classified Loan to Total Loan (CLT), Provision for loans, advances and lease / investments & Bad Debt (BD).

📌 **Dependent variable:** Net Profit Margin (NPM)/NPAT.

Empirical Result

The major assumption under this model is that all coefficients are constant across time period. By interpretation, following the objective of this study, the assumption can be summarized as follows:

1. The period time used by this study (2009-2018) is the period of Prime Bank Limited total 10 observation. The constant Effect Model thus assumes that all the coefficients in this model remain unchanged across banks during this period.
2. The time (meltdown) effect is also constant. That is, all the determinants of Prime Bank performance used in our model (Classified Loan to Total Loan (CLT), Provision for loans, advances and lease / investments & Bad Debt (BD)/NPL and Net Profit after Tax (NPAT) are not affected by economic meltdown.

<i>Regression Statistics</i>				
Model	Multiple R	R Square	Adjusted R Square	Standard Error
1	0.848291314	0.719598154	0.579397231	463697040.2



a. Predictors: (Constant), CLT, Provision, NPL

The multiple regression equation is given below according to problem:

$\hat{Y} \text{ (NPAT)} = \beta_0 + \beta_1 \text{ CL} + \beta_2 \text{ IM} + \beta_3 \text{ NPL} + \mu$						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	3936998339	449304081	8.762436	0.000122	2837590859	5036405819
CLT	0.2356266	0.2490719	0.9460184	0.380662	-0.37383	0.845083
NPL	-0.1298720	0.2174556	-0.597235	0.572184	-0.661967	0.402223
Provision	-0.4641903	0.2383335	-1.9476498	0.099382	-1.047371	0.118990886

a. Dependent Variable: NPAT

Using Excel, I have found the value of multiple regression equation of Prime Bank Limited shown below:

$$\hat{Y} = 3936998339 + 0.2356266 \text{ CLT} - 0.1298720 \text{ NPL} - 0.4641903 \text{ Provision}$$

Interpretation of Result:

We know the actual multiple regression equation is $\hat{Y} \text{ (NPAT)} = \beta_0 + \beta_1 \text{ CL} + \beta_2 \text{ NPL} + \beta_3 \text{ Provision} + \mu$ where, β_0 denotes the constant, β_1 is the slope or coefficient of Classified Loan (CL), β_2 is the slope or coefficient of Bad Debt/ NPL, β_3 is the coefficient of Provision for loans, advances and lease / investments & μ is the error term or all the unobserved variables or effects which accounts for the variability in $\hat{y}$ that can't be explained by the linear effect of the 3 independent variables.

In the above calculated multiple regression equation,

$$\beta_0 = 3936998339, \beta_1 = 0.2356266, \beta_2 = -0.1298720 \text{ and } \beta_3 = -0.4641903$$

This multiple regression equation reveals that $\hat{y}$ (Net profit After Tax) is dependent variable. Classified loan to total loan, interest margin & bad debt are the independent variables.

If the coefficients are 0, then we may conclude that the Net profit after Tax will be 3936998339 regardless of the amount of Classified loan to total loan, interest margin & bad debt.



The coefficient $\beta_1 = 0.2356266$ expresses that if the classified loan to total loan increases by 1 percent, Net profit will also be increased by 0.2356% because of prevailing positive relationship between the classified loan to total loan & Net profit along with the condition that the other things especially the other independent variables remain constant.

The coefficient $\beta_2 = -0.1298720$ expresses that if the bad debt or NPL increases by 1 percent, Net profit will also be decreased by 0.1299% because of prevailing negative relationship between the bad debt & Net profit along with the condition that the other things especially the other independent variables remain constant.

The coefficient $\beta_3 = -0.4641903$ expresses that if the Provision for loans, advances and lease / investments increases by 1 percent, Net profit will also be decreased by 0.4642% because of existing a negative relationship between Provision for loans, advances and lease / investments along with the condition that the other things especially the other independent variables remain constant.

The T-test is used to determine whether each of the individual independent variable is significantly related to the dependent variable. In this model, a T-test can be conducted to determine the significance of each of the individual parameters (CI, Provision and NPL).

In case of ANOVA (Analysis of variance), the total sum of squares can be divided into two components: the sum of squares due to Regression (SSR) and the sum of squares (SSE) due to Error as shown below:

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	3.31077	1.10359	5.132620666	0.042832274
Residual	6	1.29009	2.15015		
Total	9	4.60086			

a. Predictors: (Constant), CLT, Provision, NPL

b. Dependent Variable: NPAT

$$SST = SSR + SSE$$

Where,

$$SST = \text{Total sum of squares} = \sum (Y_i - \bar{Y})^2$$

$$SSR = \text{sum of squares due to regression} = \sum (\hat{Y}_i - \bar{Y})^2$$

$$SSE = \text{sum of errors due to error} = \sum (Y_i - \hat{Y}_i)^2$$

The analysis of variance part shows the three values for our selected problem with three



independent variables (CI, Provision and NPL): $SST = 4.60086$, $SSE = 1.29009$ and $SSR = 3.31077$. The value of SST is same whether in case of one independent variable or in case of two independent variables because it doesn't depend on $\hat{Y}$, but SSR increases and SSE decreases when a second independent variable is added {say for, Provision for loans, advances and lease / investments}. The implication is that the estimated multiple regression equation –provides a better fit for the observed data.

Adding more independent variables (for instances, classified Loan & bad debt) cause the prediction errors to become smaller, thus reducing the sum of squares due to error (SSE) because $SSR = SST - SSE$ when SSE becomes smaller.

The F-test is used to determine whether a significant relationship exists between dependent variable named Net profit and the set of all independent variables such as CI, Provision and NPL expressed as the classified loan to total loan, Provision for loans, advances and lease / investments & bad debt/ non-performing loan respectively; we will refer to the F-test as the test for overall significance.

In this ANOVA model, the hypothesis for the F-test involves the parameters of the multiple regression models:

$$H_0 = \beta_1 = \beta_2 = \beta_3 = 0$$

$$H_0 = \beta_1 \text{ and or } \beta_2 \text{ \& } \beta_3 \text{ is not equal to zero.}$$

If H_0 is rejected, there have enough evidence to deduce that two of the parameters are not equal to zero and that the overall relationship between NPAT ($\hat{Y}$) and other three independent variables (CI, Provision and NPL) is significant. However, if H_0 is accepted, we don't have the sufficient evidence to deduce that a significant relationship exists between dependent and independent variables.

Before interpreting the F-test, the simplest way to understand the significance F is to think of it as the probability that regression model is wrong and needs to be discarded. The significance F gives the probability that the model is wrong. We want the significance F or the probability of being wrong to be as small as possible. We can see that the Significance F is quite small in model. We usually establish a significance level and use it as the cutoff point in evaluating the model. Commonly used significance levels are 1%, 5% or 10%.

After that, we need to know the concept of Mean Square. A mean square is a sum of square dividend by its corresponding degrees of freedom. In the multiple regression models, SST





has $(n-1)$ degrees of freedom, SSR has k (number of independent variables) degrees of freedom and SSE has $(n-k-1)$ degrees of freedom. Hence, the mean square due to regression (MSR) is SSR divided by k and the mean sum of square due to error (MSE) is SSE divided by $(n-k-1)$.

If H_0 is accepted, MSR provides an unbiased estimate of σ^2 , and the value of MSR or MSE becomes larger. To determine how large values of MSR/MSE must be to reject H_0 , we make use of the fact that if H_0 is true and the assumptions about the multiple regression model are valid, the sampling distribution of MSR/MSE is an F-distribution with p degrees of freedom in the numerator and $(n-k-1)$ in the denominator.

The summary of F-test is given below:

$$F = 0.042832274$$

With a level of significance $\alpha = 0.05$, we reject H_0 and infer that there is a significant relationship exists between Total net profit margin & all the independent variables). As significance F is less than .05 which is .0428 so it is statistically significance. For unbiased estimation of result we can't exclude any of one variable which may give lower significance f result.

The p-values are given above also indicates that we can reject H_0 because the P-value is less than $\alpha = 0.05$. As written earlier, the mean square error exhibits an unbiased estimate of σ^2 , the variance of the error term μ . referring to ANOVA table, is the standard deviation of the error term. The standard deviation is called the Std. Error of the Estimate found from the process.

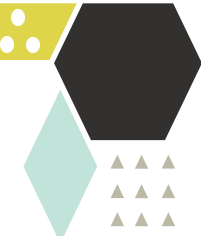
In addition, the intercept and coefficients of the four variables are assumed identical for bank. Obviously, these are highly restricted assumptions. This result obviously distorts the true picture of the relationship between bank performance and all the independent variables across.





Chapter- 08

My Internship Experience



The job at a glance:

The assignment that I have undertaken is the exploration on customer service and loan section of Prime Bank Asad Gate Branch and to be acquainted with the office environment. I have prepared the report based on my findings and observation from the organization. My duties focused to have better knowledge on procedure of customer service. However, often it seems quite difficult to find the accurate system of the procedure of all process as it might risky for the company to share it all. All the office employees are very helpful to share the ideas and information, which are available. The objectives will try to convince through the reports mainly to review the non-performing loan of Prime Bank and partially describe the credit process of Prime Bank limited. Focus of customer service is to conduct with customer and open the account and card delivery. Lastly, I face few problems related to my work, as I never get these types of experiences directly on my under-graduation period. I never directly faced with any default clients those are listed on non-performing loan file. Theory related knowledge is almost very different on the practical work of financial activities.

Job Responsibilities as Intern

The responsibility that I had to handle during my internship period some description are highlighted in down below:

👥 **Team Work:** At Prime Bank Limited Asad Gate Branch, employees are into teams. So, team-work is really very significant which needs good working relationship. Intra-relationship as well as Inter-relationship is really important in a bank which I understood nicely working here at Prime Bank. While making good relationship with other teams, it was another challenge for me. I was not introduced to any of the employees of the bank whereas interns from other departments had an introductory session. But I made good relationship people inside my department and other departments within a very short time which I believe is the result of my communication skill where I want to thank United International University and our respectable faculty members.

👥 **Day-to-day Operations:** In bank most of the operations are day- to- day activity. Few works they kept in pending which are as required. As an Intern, there were some day to day tasks in balancing record, voucher recording and most importantly



cheque and debit card tracking. Inter-departmental follow up of ongoing campaign, upcoming campaigns, monitoring the projects etc. are most remarkable among the day-to-day tasks.

🏆 **Campaign Management and Implementation:** I was really privileged to have experienced the great campaign management and implementation of “My First Account Campaign”. Which was mainly focused for under 18 and this service was available from last few years. But purpose of this campaign is to those who doesn’t aware about this service and want to have account for their children. For that bank target some school students for this campaign so that they can open an account. We arranged some gifts for children also.

🏆 **Follow-Up:** Regular follow-up with the branch manager was also another regular job. Follow up was done so that the manager can have clear idea about everyone’s works within the deadline and also to keep them in track through their process so that they can complete the work according to the brief. It was again really tough to do follow-ups. So, a friendly relationship with them helped me to build a great relationship with him and deliver the assignments accordingly without any flaw. Follow-ups helped me a lot in enriching my leadership and public speaking skills.

At the end of my internship I can say I learned lot of practical working things of banking system which totally different from our academic knowledge and I also learned how to deal with customer in different situation and also, I saw that bank service also vary on client and banks relationship.

Different aspects of job performance:

It’s my pleasure in a sense that I had got an opportunity to work in one of the best private commercial banks in Bangladesh. During my entire internship program, I have learnt so many things that obviously added some value for my future career. I could able to develop myself in many areas. They are concisely discussed below:

🏆 **Corporate Behavior:** Bank is one of the best places where people can learn



corporate behavior. During my internship, I have acquired some knowledge how to behave proper manner in corporate level.

🏠 **Acquired Practical Knowledge:** Academic knowledge is very supportive for practical experience. But practical knowledge is the more required to build up people's career. Apart from my academic knowledge, I have acquired some practical knowledge.

🏠 **Professionalism:** Bankers are highly professional by nature. Because, banking job demand high professional people. High professional people have some sort of characteristics which I have tried to foster myself for my own betterment.

🏠 **Discipline:** All bankers need to lead a discipline life because their job demands high discipline. Punctuality always highly appreciated for the bankers. I had to past three months for my internship in Prime Bank Limited where most of employees are very sincere and always emphasize on discipline. So, these things also encourage me to do so.

🏠 **Taking Responsibilities:** My internship program gave me opportunities to take responsibilities that are assigned on me. Working in a bank demand that all time responsibilities to be performed. So, my small experience taught me how to take responsibilities.

🏠 **Adaptation with pressure situation:** Work pressure is a common phenomenon in a bank job. So, working under pressure has been considered such a quality indicates high professionalism. After completing my internship now, I know how to cope with pressure situation and how to get out from this pressure with positive way. Its help me to learn mental stress breaking.

Critical observation and Recommendation:

During my internship at Prime Bank Limited, I observed some really vital issues that the organization should look into. According to my observation, some of my recommendation towards the organization are:

🏠 When I first have gone to the organization, there was no proper introductory session. Even I officially met in charge person of customer service after three



working days. A new comer like an intern who is going to stay for a very less period of time should have a proper induction or introductory session which will help them to do day-to-day works very efficiently also help them to get to know about the environment quickly.

👤 When the clients come to close an account, they get their money after two or three days. Now a day's it should not be for a commercial bank.

👤 Late night work practice is another issue that I have seen in the employees. Actually sometimes, due to some of the employees' personal issues, they get off the office quickly besides client end pressure during the late hours is the main reason behind some people's late-night work practice and coming late to the office. This is actually not increasing the productivity rather it is harming their health. So, the bank should take some measures to reduce this practice doing some operational structural development.

Significant Contribution:

My contributions at customer service and loan department of Prime Bank Limited includes:

👤 **Fresh Perspective:**

My supervisor, Saif Uddin Ahmed encouraged my participation and valued my input in all the discussions. As I had no prior training, I had an open mind and I was able to give him my honest opinion which he took very seriously while finalizing and implementation strategies.

👤 **Confidentiality and Due Diligence:**

This was a more passive task but nonetheless very important. As I was working at Customer service, I came across many confidential information such as client information and others. Therefore, I had to be very cautious regarding with whom I shared this information with.



CHAPTER-09

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- 75 Conclusion



SWOT Analysis:

SWAT analysis is a significant tool for evaluation the company's strength. It helps any company to identify how to evaluate its performance and scan the macro environment. The SWAT analysis of prime is shown below:



Findings and Problem Identifications:

Findings of the study are given below:

 From the standpoint of customer satisfaction:

Most of the customers are highly satisfied with Prime Bank's service and product. They have some loyal customers who always been seen in prime bank and customers has also preferable employee from who they like to have service. And employees and other staffs are welcome the customer with festive mood on some specific occasions like women's day, Falgun etc.

 From the standpoint of financial performance:

Prime bank's trend in foreign exchange business, investment and profit has been increased effectively.

 From the standpoint of performance analysis:

Loan amount is influenced by interest income significantly rather than deposit amount.



🔔 From the standpoint of comparative analysis:

Prime bank has improving trend and lowest non-performing loan than other reputed banks. But there is still required some consideration which needs to be taken into account.

Observation and Recommendation:

Recommendations:

The failure of commercial banks occurs mainly due to bad loans, which occurs due to unskilled management of the loans and advances portfolio. Therefore, every bank must be extremely cautious about its lending portfolio and credit policy. So far Prime Bank Limited has been able to manage its credit portfolio skillfully and kept the classified loan at a very lower rate because of their standard and stringent credit appraisal policy and practices of the bank.

But all things around us are changing at an accelerating rate. It is essential that Prime bank limited has a robust credit risk management policies and procedures that are sensitive to these changes.

Prime bank Limited has an efficient & excellent credit management team along with special asset management team and performing with great expertise and care. There are some limitations that can be overcome by some measures to make the performance outstanding. Some suggestions for prime banks special asset management team from my observation are shown below:

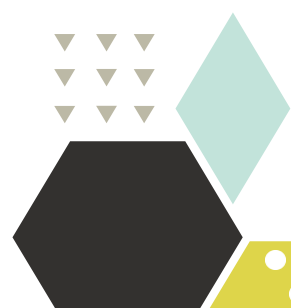
- 🔔 More importance should be given on refund of loans out of funds generated by the borrower from their business activities or cash flow instead of realization of money by disposing of the securities held against the advance, which is very much uncertain in present context of Bangladesh, where a number of creditors are imperious defaulters.
- 🔔 Most of the time clients are unable to submit audited financial statements. The reason is no legal bounding to prepare audited financial statements for all commercial organization. So, the credit officer has to face difficulties about the reliability of financial statements submitted. For that there should be some flexibility for proprietorship concerns.



- 👤 Credit officer measures the risk associated with the credit facility. He should not be liberal in this respect; he should strictly follow the credit evaluation principle setup by the bank. It should improve in file management system to faster the dealings with the client's proposal.
- 👤 Prime Bank's approving credit is very protective. Through it classified loans can be minimized but the credit committee should be more bountiful to faster the growth of its credit operation.

Conclusion:

Prime Bank Ltd has flourished itself as one of the most well-regulated and promising banks in the commercial banking sector in Bangladesh under the active supervision of its competent management team. Prime Bank Ltd is considered to be specialized in Foreign Exchange Operation. That is exactly why within a very short period of time, Prime Bank Ltd. has positioned itself one of the leading banks in Bangladesh. Service quality is a critical component of customer perceptions. In that case Prime Bank is the bank, which will survive in the banking sector of the world on the slogan "Bank with a difference". Though prime bank limited maintain its financial position efficiently overall but to stay competitive in the market it is high time Prime Bank limited focuses into making its financial position more lucrative and more concern on their non-performing loan management. To the gateway to practical professional life, an experience at Prime Bank Limited as an intern was a privilege for me. Prime Bank Ltd. does offer a real practical orientation to the new comers with typical corporate culture. These three months internship orientation with Prime Bank Ltd. undoubtedly will help me a lot to understand and cope with any future typical corporate culture.





Appendix



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Acronyms:



ATM	Automated Teller Machine
BB	Bangladesh Bank
B/L	Bad/Loss
BIBM	Bangladesh Institute of Bank Management
NPL	Non-Performing Loan
HOB	Head of Branch
CLT	Classified loan to total loan
PBL	Prime Bank Limited
CSR	Corporate Social Responsibility
RM	Relationship Manager
ROA	Return on Asset
SAM	Special Asset Management

Financial Ratios

Leverage Ratios	2014	2015	2016	2017	2018
Debt to Tangible Net Worth (DTN)=Total Interest-bearing liabilities or Financial Debt/ Total Tangible Net Worth	8.60389 8458	7.70116 0366	8.15014 179	8.81759 6097	8.82034 9296
Debt to Total Assets (DTA)=Total Interest-Bearing Liabilities or Financial Debt/ Average Total Assets	0.84030 3521	0.80019 9773	0.80861 4069	0.80646 7564	0.79424 9436
Liquidity Ratios	2014	2015	2016	2017	2018
Current Ratio (CR)=Current Assets/ Current Liabilities	1.12493 42	1.14210 1756	1.13864 457	1.13846 8802	1.13582 3799
Cash Ratio (Cash)=Cash and easily marketable securities/Current Liabilities	0.08251 406	0.08506 5006	0.08409 5113	0.08143 1599	0.07620 9197
Profitability Ratios	2014	2015	2016	2017	2018
Net Profit Margin (NPM)=Net profit after tax/ Net Sales	0.83307 745	1.65319 8073	0.66252 1157	0.21639 1294	0.28600 471
Return on Assets (ROA)=Net profit after tax/ Average Total Assets	0.00959 4992	0.00843 6714	0.00862 898	0.00393 7633	0.00760 7426
Return on Investment (ROI)=Operating Income/ Average Operating Assets	0.05366 4369	0.05388 0823	0.05384 3104	0.05350 9961	0.05514 8877
Coverage Ratios	2014	2015	2016	2017	2018
Interest Coverage (IC)=Earnings Before Interest and Tax/Interest Expense	1.14195 219	2.12697 2019	0.70779 5095	0.36964 6584	0.51477 689
Debt Service Coverage Ratio (DSCR)=Earnings Before Interest Tax Depreciation Amortization/ Debts to be Serviced	0.01423 3364	0.01219 0756	0.01013 7902	0.00705 0695	0.01470 8668
Financial Debt to Operating Cash Flow (FDOCF)=Financial Debt / Operating Cash Flow	89.8786 7967	3057.02 2823	53.8947 3797	29.4317 8246	- 1528
Cash flow Coverage Ratio (CCR)=Cash flow from operation / Debts to be Serviced	0.01011 7656	0.00029 3982	0.01649 9689	0.02872 2362	- 4756
Operational Efficiency Ratios	2014	2015	2016	2017	2018
Stock Turnover Days (STD)= (Stock Price/Interest Paid on deposits, borrowings etc) *360	104.55	119.74	148.64	1169.24	181.06
Trade Debtor Collection Days (TDCD)= (Total Accounts Receivable/ Interest Income) *360	18469.8 1645	42254.1 6884	18494.7 8296	14589.1 235	9685.74 6997
Asset Turnover (AT)=Interest Income /Average Total Assets	0.07396 3865	0.00510 3269	0.01302 446	0.01819 6816	0.02659 8952
Earning Quality Ratios	2014	2015	2016	2017	2018
Operating Cash Flow to Interest Income (OCFI)=Operating Cash flow / Interest Income	0.81174 6211	0.05129 2197	1.15195 4185	1.50582 6511	0.42364 4668
Cash flow-based accrual ratio (CAR)=(NI-(CFO+CFI) /Average Net Operating Assets	0.00283	0.01140	-0.00382	-0.02603	0.0299