Thesis Report

On

Non-Performing Loan and Recovery Strategies of Commercial Bank A Case study of Prime Bank Limited

Submitted by:

Md. Palash Mahmud

ID: MBA2401031026

Program: MBA

Major: Finance

Session: Fall-2024

Sonargaon University (SU)

Submitted to:

Department of Business Administration

Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of

Master of Business Administration

Sonargaon University (SU)

147/1, Green Road, Tejgaon, Dhaka-1215, Bangladesh

Date of Submission: January 07, 2025

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Letter of Transmittal

January 07, 2025

Md. Shahbub Alam

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Department of Business Administration

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Subject: Submission of Thesis Report .

Dear Sir,

Here I've come to submit my thesis report, which is an essential part of the MBA program. It has been huge accomplishment for me to work under your supervision. This has nothing but a great pleasure to submit the thesis report on **Non-Performing Loan and Recovery Strategies of Commercial Bank A Case study of Prime Bank Limited**. This report provided me with theoretical as well as practical experience. Here I tried my level best to write an effective report by putting my academic knowledge into practice in order to make the document factual and credible. During my thesis period I observed operational activities done in GNFL and that helped me to gather as much information as possible to complete this report. However, I will be obliged to clarify if there is any disagreement in this report.
I kindly request your assessment of this report. Your feedback would be greatly appreciated. Thank you for your time and consideration.

Sincerely Yours

Md. Palash Mahmud

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Major: Finance

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Certificate of Supervisor

I hereby confirm that the thesis report titled **Non-Performing Loan and Recovery Strategies of Commercial Bank a Case study of Prime Bank Limited** has been created for the fulfillment of MBA program requirements at the **Department of Business Administration, Sonargaon University (SU).** The report was conducted by **Md. Palash Mahmud**, with ID **MBA2401031026**, under my guidance. I assure you that the report and its contents will not be utilized for any other intentions.

Md. Shahbub Alam
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Declaration of Student

I am **Md. Palash Mahmud**, a student in the Master of Business Administration program with ID **MBA2401031026** at Sonargaon University. I want to sincerely state that the report titled **Non-Performing Loan and Recovery Strategies of Commercial Bank A Case study of Prime Bank Limited** has been genuinely created by me. During the preparation of this report, I ensured full compliance with international copyright regulations. I also want to clarify that this report has not been submitted anywhere else for the purpose of obtaining a degree.

Yours Sincerely

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Letter of Authorization

I hereby confirm that the report titled **Non-Performing Loan and Recovery Strategies of Commercial Bank a Case study of Prime Bank Limited** is a genuine effort by **Md. Palash Mahmud**. The report was conducted under my guidance. I also affirm that, to the best of my knowledge, the content presented in this report has not been included in any other report that led to the award of a degree to any candidate earlier, whether in the same context or a different one.

Md. Shahbub Alam
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Acknowledgement

First and foremost, I want to thank the Almighty ALLAH for providing me with the strength to carry out my obligations and complete the report on time.

This report would not have been feasible without the devotion and efforts of a number of Individuals as it is involved diverse field of knowledge and experience. As a result, it would be unjust to overlook some of them, given their significant contributions.

I am grateful to **Md. Shahbub Alam**, Lecturer, Department of Business Administration, Sonargaon University's (SU) for her unwavering supervision during my organizational period for agreeing to supervise me during the thesis period.

My gratitude goes to entire Business Administration Department, of Sonargaon University (SU) for arranging Thesis Program that helps to understand the real-life situation.

Executive Summary

In this report, **Non-Performing Loan and Recovery Strategies of Commercial Bank a Case study of Prime Bank Limited** has been analyzed. This report has been prepared on the basis 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 2013**.

The First chapter, I have given the introduction of non-performing loans, primary objective is to assess the current situation of non-performing loan, Scope of the organization, Methodology of report of the study that I have used to gather information and finally the limitations that I have faced while working on my report.

The Second chapter, I have tried to discuss a brief discuss Literature Review of non-Performing loan.

The Third chapter, I have tried to discuss a brief discuss of the Overview of Prime Bank Limited. The main Objective to the Prime Bank in financial sector.

The Fourth chapter, this chapter of the report is this starting point of my topic non-performing loan and recovery strategies. Here I include the information's that carries out the NPL. I will try to all over activities of NPL of Prime Bank Limited.

The Fifth chapter, I show some findings, recommendation and conclusion of the Prime Bank Limited.

It has not been able to attain the industry average gross profit, operating profit return on investment return on capital employed and return on equity. But it has succeeded to attain the standard norm for these ratios. Therefor its total 16 ratios were analyzed. Then the next analyzing of non-performing loan. In the following chapter some recommendation and conclusion has been discussed.

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CHAPTER -1

INTRODUCTION

1.1 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:-

i. State Owned Commercial Banks (SOCBs)

ii. Specialized Banks (SDBs)

iii. Private Commercial Banks (PCBs)

iv. Conventional PCBs

v. Islamic Sharia based PCBs

vi. 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:

1.2 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 MBA 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.

1.3 Origin of the Report:

This project report is program originated post-graduation requirement for completing the MBA program from Department of MBA under Sonargaon University. The main purpose of the project is to get student exposed to the job world. Because every student needs to translate theoretical perspective into real life experience.

The project report and the study have following purpose:

i. To gain and implement detail knowledge on job responsibilities.

ii. To compare the real scenarios with the leanings which has been acquired last few years in United International University.

iii. To fulfill the requirement of MBA program.

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

1.4 Objective 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:

i. To show the trend of the "Bad debt problem" in Bangladesh

ii. To raise some issues and observations which need to be looked upon quickly for ensuring

a financially sound banking sector

iii. 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

1.4.1 Corporate Objective:

i. To mobilize the savings and channeling it out as loan or advance as the company approve
ii. 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
iii. To finance the international trade both in Import and Export
iv. To carry on the Foreign Exchange Business, including buying and selling of foreign currency, travelers cheque issuing, international credit card issuance etc.
v. To develop the standard of living of the limited income group by providing Consumer Credit.
vi. To finance the industry, trade and commerce in both the conventional way and by offering customer friendly credit service
vii. To encourage the new entrepreneurs for investment and thus to develop the Country's industry sector and contribute to the economic development.

1.5 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.

1.6 Methodology of the Report:

1.6.1 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.

1.6.2 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.

1.6.3 Tools and Technique

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

1.7 Limitation of the Report:

The most mendacious 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.

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

i. There were some difficulties to have impression in some activities due to not being relevant to the theoretical knowledge.

ii. Actually this time is not enough to have complete idea about bank's overall operation.

iii. Due to confidentiality the Bank's policy restricts disclosing some data.

iv. Most of the cases I have to use 2023' data for the evaluation and analysis, since data about the performance of the bank of the year 2023 and 2024 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.

v. The data relevant for the analysis report writing sometimes could not be collected due to covid-19 pandemic situation.

Chapter -2

Literature Review

2.1 Literature Review

NPLs have been found to be affected by macro variables, such as GDP growth, unemployment and inflation, and bank-related variables, such as bad management and market structure (Beck et al., 2015; Anastasiou et al., 2019). Economic policy uncertainty (EPU), which can be defined as the difficulty faced by economic agents in predicting the future course of fiscal, monetary, regulatory and trade policy, has recently been found to affect credit risk as the frequent and vague changes to economic policies may lead to misallocation of banks' credit resources or deterioration of borrower firms' operations (Chi and Li, 2017). Louzis et al (2012) shows that NPLs in the Greek banking system can be explained mainly by macroeconomic variables (GDP, unemployment, interest rates, public debt) and management quality. Kauko (2012) presents empirical results concerning the statistical interrelationship of the current account and the development of the amount of NPLs in the recent financial crisis, which focus is on macroeconomic factors, not on the usefulness of banking sector solvency and liquidity under adverse conditions. The academic literature has found that macroeconomic factors are key in determining the level of non-performing loans in an economy (Louzis et al., 2012; Beck et al., 2015; Ghosh, 2015). The stock of non-performing loans has been associated with a negative impact on GDP growth, productivity and employment, as a result of unaddressed vulnerabilities in the financial and in the corporate sectors (Espinoza and Prasad, 2010; Nkusu, 2011; Klein, 2013; Balgova et al., 2018). high stock of nonperforming loans may have detrimental effects on banks, as they typically generate low profits, require high provisions and need large resources to be managed (Aiyar et al., 2015). Non-performing loans may absorb managerial attention, becoming the main focus of bank's management, leading to negative consequences in terms of efficiency and new activities (Berger and DeYoung, 1997; Caballero et al., 2008; Cucinelli, 2015; Blattner et al., 2019). Finally, nonperforming loans are usually used as an indicator to forecast bank failures (Kaminsky and Reinhart, 1999; Kolari et al., 2002; Lu and Whidbee, 2013). Betz et al (2017) show that the default resolution time (DRT) can be great importance in direct and indirect ways, while it immediately impacts liquidity of financial institutions it also plays an important role with regards to credit costs, such as discounting costs and lower non-discounted rate of returns due to longer resolution processes and the analysis of DRT helps us in better understanding the occurrence of credit losses and, thus, improves risk assessments.

Staehr and Uuskula (2020) show that many macroeconomic and macro-financial variables are leading indicators for non-performing loans in the EU countries, even years ahead, and higher GDP growth, lower inflation and lower debt are robust leading indicators of a lower ratio of non-performing loans in the future. Ozili (2020) finds that more profitable banks witness higher NPLs regardless of them being systemic or non-systemic and secondly, systemic banks (GSIBs) have fewer NPLs during economic booms and during periods of increased lending, while non-GSIBs experience higher NPLs during periods of increased lending. Piatti and Cincinelli (2019) find that, first, when the NPLs ratio remains below the threshold value estimated endogenously,

an increase in the quality of monitoring has a positive impact on the NPLs ratio, and second, if the NPLs ratio exceeds the estimated threshold, the relationship between the NPLs ratio and quality of monitoring assumes a positive value and is statistically significant. Method We presented a literature study using systematic literature review of relevant publications (Skrzek-Lubasinska and Szaban, 2018). As a result of this process, we included 21 articles and then examined the bibliographical references to check the validity of the inquiry and to avoid any potential omissions (Conz and Magnani, 2019).

CHAPTER - 3

Prime Bank Overview

3.1 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.

3.2 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 expend its network because of huge public response. The bank has been able to deliver service through thirsty- seven branches to their customers within 10 years. The bank's last operating profit was TK. 12,899 million.

3.3 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.

3.4 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.

3.4.0 Corporate Philosophy:

3.4.1 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.

3.4.2 for Employees:

i. By enhancing their well-being through desirable remuneration and benefits.

ii. By enhancing significance staff morale through excellent staff training and development, and arrangement of opportunities of career improvement.

3.4.3 for Community:

i. 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.

ii. Constantly seeking to improve performance by straightening goals with Shareholders expectations.

iii. By following every ethical values and best practices.

3.4.4 for Shareholders:

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

3.4.5. Salient Feature of Prime Bank Limited:

i. Prime Bank is engaged in conventional commercial banking as well as Islamic banking based on Islamic Shariah Principles.

ii. 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.

iii. 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.

iv. 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.

v. The Bank is committed to maintaining continuous research and development to keep pace with modern banking.

vi. The operations of the Bank are computer oriented to ensure prompt and efficient services to the customers.

vii. 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.

3.5 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:

3.6.1 Name of the department of Prime Bank Limited:

i. Human Resources Division
ii. Finance Division
iii. Audit and Inspection Division
iv. Internal Control and Compliance
v. Marketing Division
vi. Corporate Banking
vii. Remittance Operation Department
viii. Treasury
ix. Card Division
x. Recovery and Legal

xi. Facility Management Division
xii. Special Asset Management Division
xiii. Trade Service and Correspondent Banking
xiv. Logistic and Support Service Division
xv. Information Technology
xvi. Customer Service Delivery
xvii. Retail Finance Center
xviii. Credit Division
xix. SME Division
xx. Credit Admin and Monitoring
xxi. Corporate Affairs
xxii. Call Center

3.6.2 Product and Services:

i. Corporate loan products
ii. SME Loan products
iii. Retail Loan Products
iv. Agriculture Loan products
v. Islamic banking Hashanah (Investments) products
vi. Conventional Deposits products
vii. Islamic deposit products
viii. Services:

a) Internet Banking "ALTITUDE"
b) Premium Banking "Monarch"
c) Off-shore Banking
d) SMS Banking
e) Locker Service Foreign Remittance

3.7 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

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

i. Investment in Education
ii. Dristy Daan project
iii. Work with handicap population
iv. Healthcare and Health Management
v. Environment
vi. Support to Martyr Family
vii. Games and sports and others.

CHAPTER – 4

Conceptual Framework of NPL and Recovery Strategies

4.1 Definition of Non-Performing Loans:

A nonperforming Loan (NPL) is a lone in which the borrowing is in default due to the fact that they have not made the scheduled payment for a specified period. Although the exact element of nonperforming status can vary depending on the specific loan's terms, "no payment" is usually defined as zero payment of either principal or interest. The specified period also varies, depending on the industry and the type of loan. Generally, however, the period is 90 days or 180 days.

4.1.1 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 core, 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 2023 is become 939.11 million which increase the non-performing loan as well.

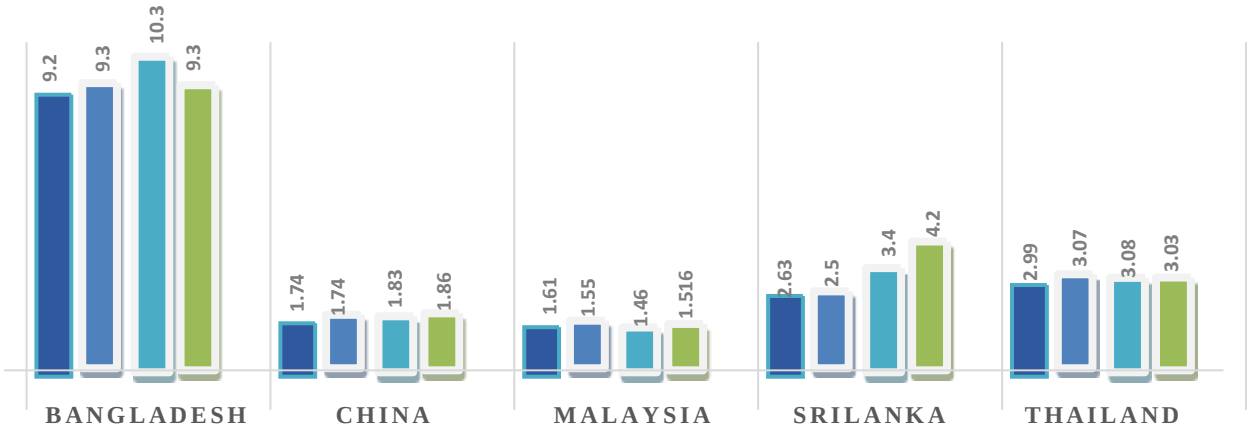
Source: Bangladesh Bank

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.

4.1.2 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.

4.1.3 Loan Classification & Provisioning:

i. Categories of Loans and Advances
ii. Basis for Loan Classification
iii. Accounting of the Interest of Classified Loans
iv. Maintenance of Provision
v. Base for Provision
vi. Eligible Collateral

4.2 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.

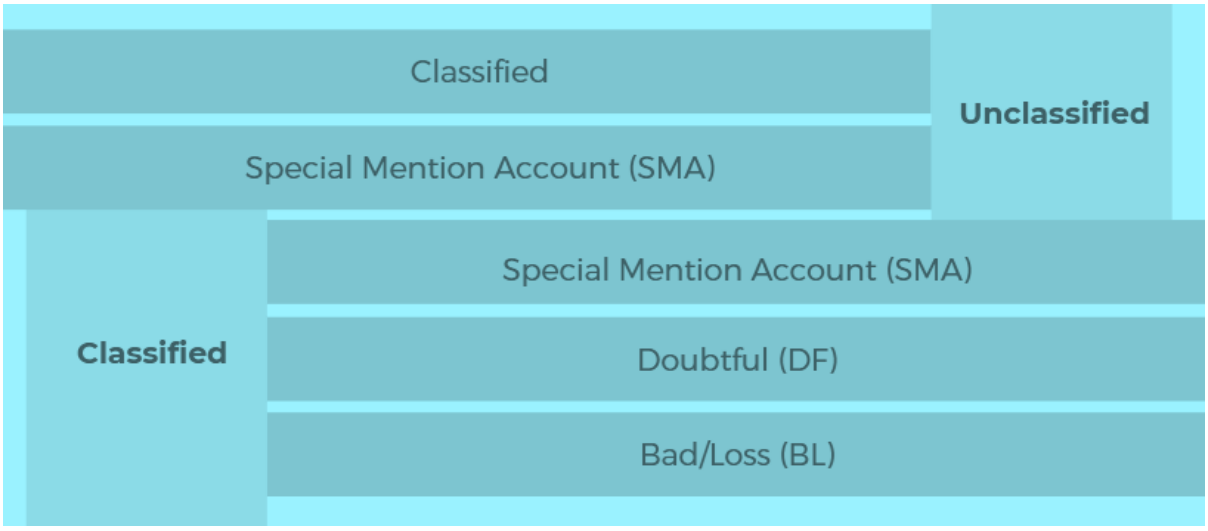
Non-performing loans also tarnishes the image of the Bank and Bank comes under surveillance of the regulatory body as well as the customers.

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.21/04/2023	
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

4.3 Classification Categories:



Figures: Categories of Loan

4.4 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

4.4.1 Basis for Loan Classification Qualitative Judgment:

Substandard:

i. 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.

ii. Repayment from primary resources are inadequate to service the debt and the bank must look to secondary sources of repayment, including collateral.

iii. The banking organization has attained the asset without the types of enough documentation that are requisite in the banking organization's lending policy.

Doubtful:

i. Fixed overdrawn.

ii. Location in an industry with smaller aggregate earnings and failure of main products.

iii. Illiquidity, including the necessity to sell assets to meet operating expenses and cash flows are less than requisite interest payments.

iv. Suspicion about true ownership.

v. Significant competitive matters.

Bad/Loss:

i. The obligor seeks new loans to finance operational losses.

ii. Location in an industry that is dissolving and become technologically decrepit, very high losses.

iii. 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.

4.4.2 Reasons for Non-Performing Loan:

i. Unhealthy competition among the Banks to increase credit/loan portfolio

ii. Number of banks compared to the size of economy

iii. Faulty selection of borrower

iv. Name lending without business justifications

v. Syndication of directors to borrow from each other's banks

vi. slow process in granting loan

vii. Political/undue influence in granting loan/dictated loans

viii. Delay in loan disbursement/ improper timing of loan disbursement

ix. Higher Interest Rate

x. Unavailability/delay in getting utility services (gas, electricity, water supply etc.)

xi. Lack of working capital

xii. Nature of business

xiii. Natural disaster like earthquake, fire, flood, drought etc.

xiv. Lack of monitoring of disbursed loan

xv. Insufficient or legally unenforceable Security/over valuation of security

xvi. Incomplete & defective documentation

xvii. Inadequate insurance coverage

xviii. Incompetence of Bank personnel/lack of well-trained people

xix. Inefficient internal auditing

xx. Inefficient internal control and compliance

xxi. Business failure of the Borrower

xxii. Mismatch between the cash flow of the business and repayment schedule

xxiii. over financing

xxiv. Willful default / prevalent default culture in the country

xxv. Money laundering/ fund diversion

xxvi. Stuck-up receivables of the borrower in the market

xxvii. Borrower expired or absconded i.e. untraceable

xxviii. Borrower is locally influential or politically exposed person

xxix. Political instability and turmoil situation of the country like hartal, strike, blockade etc.

xxx. Change is government policy like imposition of new tax/VAT/duty etc.

xxxi. State of local, national and world economies (Economic downturn or depression for business)

xxxii. Fluctuations of imported commodity/raw materials prices in local market – even small trader are often dependent on imported goods

xxxiii. Insider lending

4.4.3 Mitigation Technique:

i. Fixing a limit for the borrower/group's on total credit exposure from the banking industry

ii. Public disclosure of large loan defaulters

iii. Restriction in access to certain public services

iv. Debt to Equity Swap. Temporary acquisition of a defaulted company through debt-equity swap and re-sale it to the potential parties.

v. Development of bond market for alternative long-term financing

vi. Reframing loan classification policy

vii. Reviewing existing legal laws & addressing the legal gaps

viii. Formation of special financial tribunal/bench for large loan default

ix. Create social pressure on defaulters

x. Revoke the membership of a director when becomes defaulter

xi. Ending credit decisions at CBO and Ho CRM level

xii. Digitization of banking collateral security registry

xiii. Ensuring accountability of collateral security assessor

4.5 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:

a. Key person is dead or physically incapable and business stands closed and heirs are unable to pay entire dues.

b. Borrower incurred huge loss in the business and presently business is closed.

c. Exposure not covered by any collateral security and chance of recovery of the dues is remote.

d. Inadequate collateral security and there is no scope for attachment of other properties.

e. Disposal of security seems to be difficult. Borrower is untraceable and guarantor/mortgagor has no means to adjust entire liabilities.

f. Borrower incurred irreparable loss due to flood, cyclone or any other natural calamities and there is no possibility of restoring normalcy in their business.

g. Any other factor that creates deterrent for recovery of classified advances etc.

Any other factor that creates deterrent for recovery of classified advances etc.

I. Any other factor that creates deterrent for recovery of classified advances etc.

II. External Recovery Agencies

III. **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.

IV. **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

V. **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.

4.5.1 Legal Support & MIS Strategy:

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

i. Assets acquired have to be disposed of at the earliest time possible within a reasonable time frame from acquisition / repossession.

ii. Until disposal occurs, the Bank should endeavor to keep costs relating to the maintenance of the assets to a minimum.

iii. 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.

4.5.2 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.

4.5.3 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.

4.5.4 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.

4.6 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.

4.6.1 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.

In 2019, 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 2020, suggesting a better improvement in the current ratio. But in 2021, 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 2022, 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 2022 but still it is a good ratio. In 2023, the ratio slightly decreased to 1.135823799, so the bank had current assets available that was 1.135823799 times the liabilities.

4.7 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.

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4.8 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. 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 comparison.

4.9 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.

4.9.1 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.

We can see that the graph dramatically fluctuated during the five years' period. In 2019, the net profit margin was 83.308% wherein 2020 it reached at 165% but in 2021 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.

4.9.2 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

This company they increased their Return on Asset 0.959%. But in 2019 the company again reduced their ROA and fluctuating over the last 5years.

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

4.9.3 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.

It's a fluctuating ratio again with the highest value of 5.515% at 2023 and lowest of 5.35% at 2022. In 2019 prime bank has an average growth then it was increased at 2020 again it fell down a bit within 2021 to 2022 and rose again at 2023.

4.9.4 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 payoff.

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' core cash-generating activities. It is thought better to use a cash flow number that is more representative of the bank' day- to-day activities. Two good options are cash flow from operations or unlevered free cash flow.

Here the graph represents that it was upward sloping till 2020 after that it was downward sloping. In year 2019 it was 89.87867 and it became 3057 in year 2020.The ratio reduced from the year 2021 to 2023 and it came up at -70.4840 in 2023.

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.

CHAPTER 5

Finding, Recommendation, Conclusion

Findings:

i. **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, Flagon etc.

ii. **From the standpoint of financial performance**: Prime bank's trend in foreign exchange business, investment and profit has been increased effectively.

iii. **From the standpoint of performance analysis:** Loan amount is influenced by interest income significantly rather than deposit amount.

iv. **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.

Recommendation:

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:

i. 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.

ii. 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.

iii. 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 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 Part

Financial Ratio

Leverage Ratios	**2019**	**2020**	**2021**	**2022**	**2023**
Debt to Tangible Net Worth (DTN)=Total Interest-bearing liabilities or Financial	8.60389	7.70116	8.15014	8.81759	8.82034
Debt/ Total Tangible Net Worth	8458	0366	179	6097	9296
Debt to Total Assets (DTA)=Total Interest-Bearing Liabilities or Financial Debt/	0.84030	0.80019	0.80861	0.80646	0.79424
Average Total Assets	3521	9773	4069	7564	9436
Liquidity Ratios	**2019**	**2020**	**2021**	**2022**	**2023**
Current Ratio (CR)=Current Assets/	1.12493	1.14210	1.13864	1.13846	1.13582
Current Liabilities	42	1756	457	8802	3799
Cash Ratio (Cash)=Cash and easily	0.08251	0.08506	0.08409	0.08143	0.07620
marketable securities/Current Liabilities	406	5006	5113	1599	9197
Profitability Ratios	**2019**	**2020**	**2021**	**2022**	**2023**
Net Profit Margin (NPM)=Net profit after	0.83307	1.65319	0.66252	0.21639	0.28600
tax/ Net Sales	745	8073	1157	1294	471
Return on Assets (ROA)=Net profit after	0.00959	0.00843	0.00862	0.00393	0.00760
tax/ Average Total Assets	4992	6714	898	7633	7426
Return on Investment (ROI)=Operating	0.05366	0.05388	0.05384	0.05350	0.05514
Income/ Average Operating Assets	4369	0823	3104	9961	8877
Coverage Ratios	**2019**	**2020**	**2021**	**2022**	**2023**
Interest Coverage (IC)=Earnings Before	1.14195	2.12697	0.70779	0.36964	0.51477
Interest and Tax/Interest Expense	219	2019	5095	6584	689
Debt Service Coverage Ratio (DSCR)=Earnings Before Interest Tax Depreciation Amortization/ Debts to be	0.01423	0.01219	0.01013	0.00705	0.01470
Serviced	3364	0756	7902	0695	8668

Financial Debt to Operating Cash Flow					-
(FDOCF)=Financial Debt / Operating Cash	89.8786	3057.02	53.8947	29.4317	70.4840
Flow	7967	2823	3797	8246	1528
Cash flow Coverage Ratio (CCR)=Cash				0.02872	-
flow from operation / Debts to be	0.01011	0.00029	0.01649	2362	0.01210
Serviced	7656	3982	9689		4756
Operational Efficiency Ratios	**2019**	**2020**	**2021**	**2022**	**2023**
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	18469.8	42254.1	18494.7	14589.1	9685.74
Income) *360	1645	6884	8296	235	6997
Asset Turnover (AT)=Interest Income	0.07396	0.00510	0.01302	0.01819	0.02659
/Average Total Assets	3865	3269	446	6816	8952
Earning Quality Ratios	**2019**	**2020**	**2021**	**2022**	**2023**
Operating Cash Flow to Interest Income					-
(OCFI)=Operating Cash flow / Interest	0.81174	0.05129	1.15195	1.50582	0.42364
Income	6211	2197	4185	6511	4668
Cash flow-based accrual ratio (CAR)=NI-(CFO+CFI) /Average Net Operating Assets	0.00283	0.01140	-0.00382	-0.02603	0.0299

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