

Project
on
Evaluation of Credit Performance of Prime Bank Limited

Course Code: **BUS-499**
Course Title: **Internship**

Prepared For:
M. Sayeed Alam
Assistant Professor
Department of Business Administration
East West University

Prepared By:
Tazkia Nohor
ID # 2005-1-10-100

Date of Submission: 27 December 2009
East West University

Letter of Transmittal

27 December 2009

M. Sayeed Alam
Assistant Professor
Department of Business Administration
East West University
Mohakhali, Dhaka.



Subject: **Submission of Internship Report**

Dear Sir:

I like to inform you with respect and pleasure that I have successfully completed my project paper (BBA 499) and the report is prepared to submit you for the partial requirement of the bachelor degree. The report is a relational study as per your direction. The title of the report is '**Evaluation of Credit Performance of Prime Bank Limited**'. While completing the project paper and preparing the report, I came to know about many things regarding the current world of banking industry and their real life practices of **Credit Management**.

While preparing the report, I have tried all my bests to contain sufficient materials to have your approval. If you need any clarification, change, or correction of the report or any queries I am always ready to get your kind advice.

Sincerely,

Tazkia Nohor

Tazkia Nohor

ID # 2005-1-10-100

Acknowledgement

At the very outset, I would like to take this opportunity to express my gratitude to my Internship Advisor, **M. Sayeed Alam**, Senior Lecturer. Without his guidance and support, it would not have been possible to come this point.

I would like to thank Md. Mesbaul Quyyum the Executive Officer along with Ashraf-Us-Salehin, and Khan Mazharul Islam from the same division, for extending their support in compiling this report.

I would specially like to thank Sheikh Mahammed Mosleh Uddin from Credit Control Unit for their cooperation.

My sincere thanks go to the others who helped me directly and indirectly in preparing this report.

Acronyms

ALMC	Asset/Liabilities Management Committee
AA	Appropriate Authority
BA	Borrower's Application
BB	Bangladesh Bank
BCA	Borrower Credit Application
BR	Board Resolution
CA	Credit Application
CC	Credit Committee
CEO	Chief Executive Officer
CIB	Credit Information Bureau
CLR	Classified Loan Review
CLRR	Cash Liquidity Reserve Ratio
CRM	Credit Risk Management
CRMD	Credit Risk Management Department
FI	Financial Institution
Forex.	Foreign Exchange
FSS	Financial Spread Sheet
IT	Information Technology
KYC	Know Your Customer
L/C	Letter of Credit
LRA	Lending Risk Analysis
MIS	Management Information System
MOA	Memorandum of Articles
NBR	National Board of Revenue
NPL	Non Performing Loan
PBL	Prime Bank Limited
PFS	Personal Financial Services
RJSC	Registrar of Joint Stock Companies
RM	Relationship Manager
RU	Recovery Unit
SME/BUB	Small and Medium Enterprise
SRO	Statutory Regulator Order

Executive Summary

This report is related to Credit Performance of PBL. Credit risk is most simply defined as the potential that a bank borrower or counterpart will fail to meet its obligations in accordance with agreed terms. This internship report is prepared on one of the leading financial institution of Bangladesh- Prime Bank Limited. Prime Bank Limited launched its business in April 1995 by a group of visionary entrepreneur. It is a fast growing private sector 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 satisfactory progress in all areas. Their credit rating by CRISL in long term is “AA” and ST-2 in short term in 2008.

Lending is the principal function of a bank. This report focuses on credit performance of Prime Bank Limited. Some major parameters are used to identify the clear scenario like spread, risk exposure, loan disbursement, credit quality, loan recovery, asset-liability management. The evaluation is made by Prime Banks internal comparison among three years and a Comparative Analysis with Bank Asia Limited.

Among these criteria, spread is decreasing which is not good for the bank. Sanction of loan is increasing, but bad loan is increasing as well, which is not good indication for the bank. Their ROA in recent years has decreased, which is due to their recent capital expenditure explained by the authority. However, decreasing trend of ROE reflects their lower profitability in recent past. Therefore, they must be more careful while making their investment decisions. Their interest margin is decreasing, which ultimately leads to lower spread.

The way to overcome the limitation and to harvest maximum output from the credit scheme is described here. Some recommendations are mentioned here in this paper along with findings and analysis.

Based on the analysis of and the findings regarding the credit performance of the FIs of our country, I have formulated some recommendations for the Government, and managers of Prime Bank Ltd. to improve existing credit risk management system.

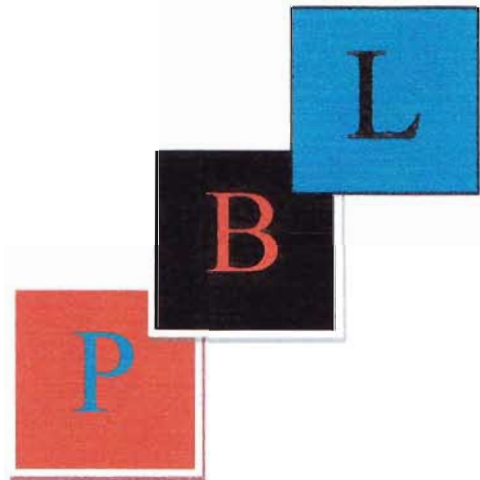
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Chapter 01

The Introduction



1.1 Origin of the Report

This report is done as partial requirement of the 3 months internship program for the BBA students. During my internship period I joined a bank namely **Prime Bank Limited (PBL)**. The chairperson of the Internship and Placement Committee asked us, the BBA students, to prepare reports on our assigned jobs after the completion of the Internship in the respective organizations. PBL posted me in the Panthapath Branch Office and then I choose my report topic on Loan Disbursement Process of PBL. **M. Sayeed Alam**, the Faculty Advisor, has approved my topic, '**Evaluation of Credit Performance of Prime Bank Limited**', which is to be submitted on 27 December 2009.

1.2 Objectives of the Report

The primary objective of this report is to use the theoretical concepts, gained in the classroom situations, in analyzing real life scenarios. This is also a partial requirement of the BBA program. This objective is basically met by remaining attached with a reputed organization and by gaining some real life experiences, so that it adds value to the knowledge base of me, a BBA graduate. In case of this report, the objectives are:

- Observing and understanding the activities of the Loan Approval and Disbursement process of the host organization: PBL.
- Conducting a descriptive study on the Credit Risk Management in Bangladesh.
- Providing an idea about the approval of credit loan.

1.3 Scope of the Study

The report is basically divided into two parts:

- The Organization Part
- The Project Part

The organization part of the report focuses upon the organizational structure and the financial services offered by PBL. The study also concentrates upon the actual lending activities of the company, its exposure to the various sectors and its performance.

The project part of the report focuses on the credit administration, measurement and monitoring process, credit-granting process/cycle. To supplement the study, I have also tried to focus the sector wise credit's growth in Bangladesh with some chosen organizations.

1.4 Methodology

The study has been conducted on-the-job. My posting was in the Panthapath Branch Office. So, I didn't have any opportunity to observe the various activities of syndication unit but **I have an opportunity to observe the activities which are related to Credit Approval and Disbursement**. This study is completed with the help of Sheikh Mahammed Mosleh Uddin the Executive Officer, who is my organizational supervisor.

The report is **Descriptive** in nature. Data used in this report have been collected from both primary and secondary sources. Regarding the organizational part, information required was collected within the organization from the different departments PBL. For the project, the study was made in two different parts: Credit Risk, the product itself, its process of approval practiced in Bangladesh and International market and then the growth of credit financing with example of three chosen sector.

Information for the part of the project has been collected both from primary, secondary and internet sources. The real life example has been drawn from primary sources.

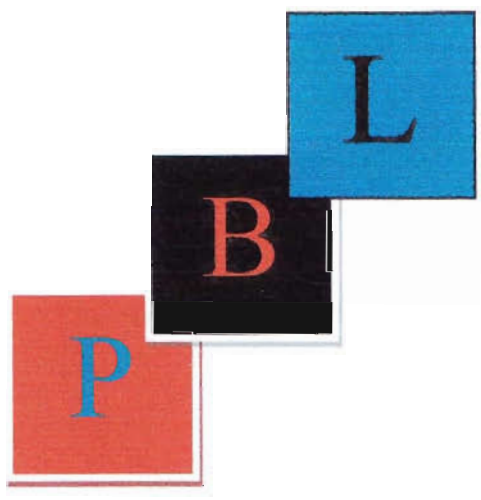
1.5 Limitations

For the organizational part, the annual report was the main secondary source of information that was not enough to complete the report and provide the reader a clear idea about the bank.

The main limitation for me was the fact that Information at the bank is confidential & critical. Limitation of time was one of the most important factors that shortened the present study. Rush hours and business was another reason that acts as an obstacle while gathering data. So I had to rely on my interaction with my supervisor and materials provided by him. And also some concerned persons did not agree to share the financial data fully with the public when I approached for the data. Although I have chosen the leaders of granting credit in our country, but it may not reflect the actual scenario.

Chapter 02

Details of PBL



2.1 Historical Background of PBL

The banking system plays a critical role in underpinning economic development. Against the background of Financial Sector Reform Policies in Bangladesh, PBL has resulted in great success in all areas of operation with a view to improve the socio-economic development of the country. Prime Bank is one of the Bangladeshi private banks, which was incorporated on 17th April 1995 with Tk.1000 million of authorized capital & Tk. 100 million of paid up capital by a group of successful entrepreneurs. It is not only a conventional Bank. It is a modern, dynamic private commercial bank & plays a constructive role in the economic development of the country. Prime bank is the first private bank to introduce lease finance, hire purchase & customer credit schemes along with Islamic banking services in the banking sector in order to bring about qualitative changes in the lives of people of Bangladesh. PBL through its steady progress & continuous success has, by now, earned the reputation of being one of the leading private sector Banks of the country. 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. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition.

2.2 Objectives of the Bank

Bank designed to provide commercial and Investment Banking services to all types of customer ranging from small entrepreneur to big business firms. Beside Investment in trade and commerce, the Bank participates in the socioeconomic development through the participation in priority sectors like agriculture, Industry, housing and self-employment. Prime Bank Ltd. wants to establish, maintain, carry on transact Undertake and conduct all types of banking, financial investment and trust business in Bangladesh and abroad.

2.3 Vision and Mission

Vision:

To be the best Private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity.

Mission:

To build Prime Bank Ltd., into an efficient, market driven, customer focused institution with good corporate governance structure. Continuous improvement in our business policies, procedure and efficiency through integration of technology at all levels.




2.4 Brief Profile of Prime Bank Limited

Type	Financial Institution
Founded	17 th April 1995
Head office	Dhaka, Bangladesh
Key people	M. Shahjahan Bhuiyan CEO
Industry	Finance and Banking
Products	Financial Services
Revenue	\$58 million (2009)
Website	http://www.primebank.com.bd/

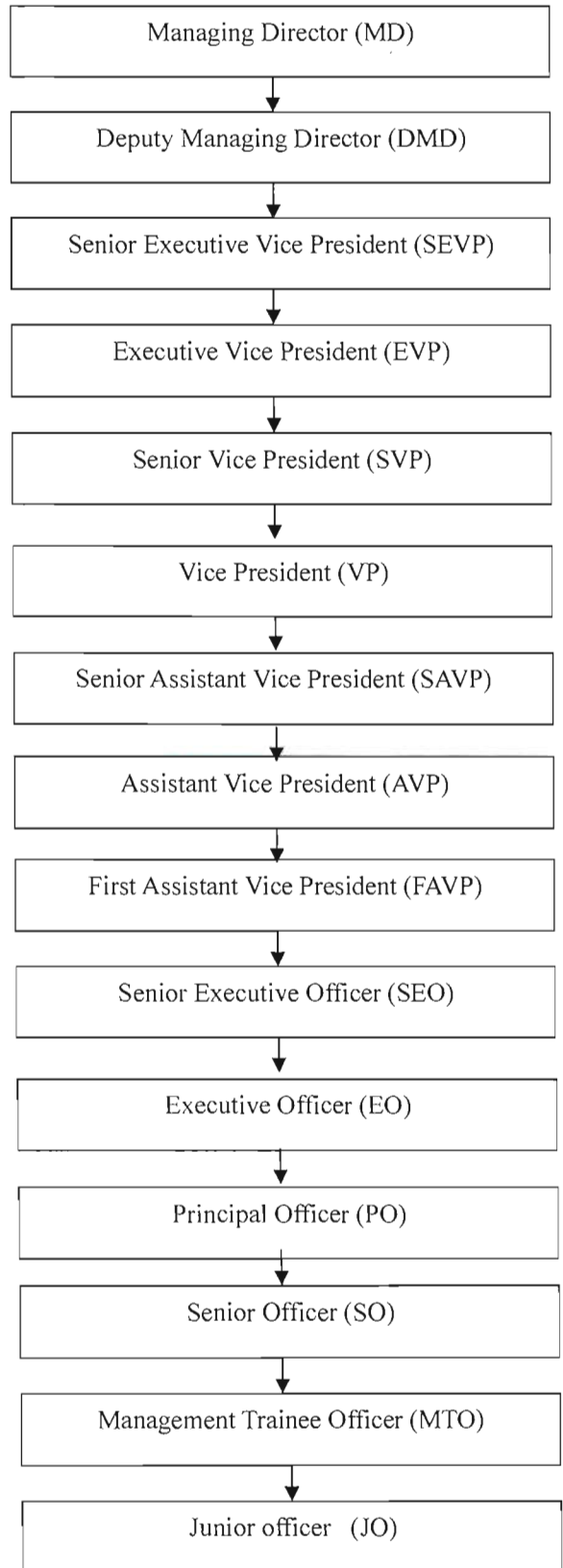
Table 1: Profile of PBL

2.5 Field of Operations

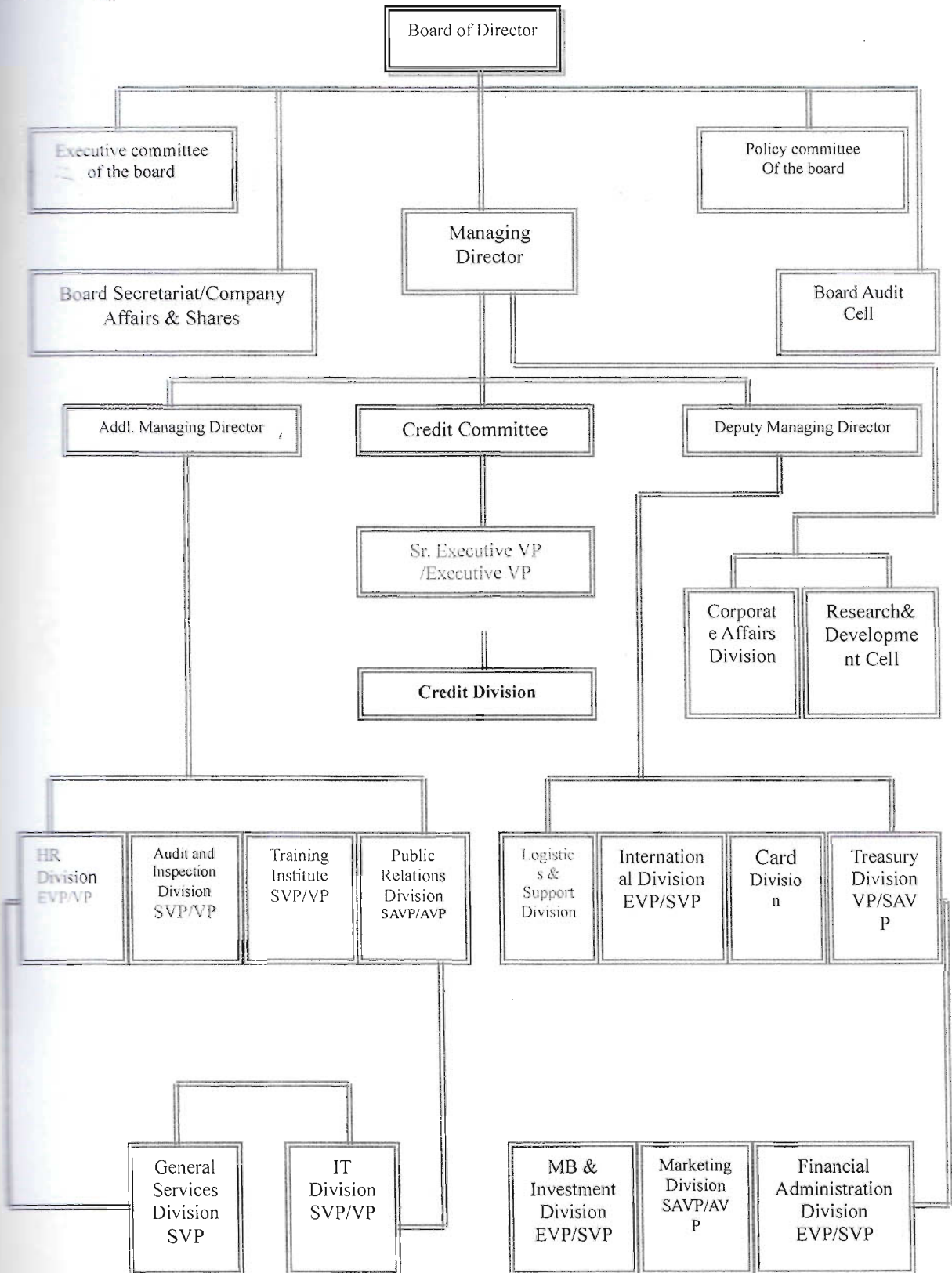
Prime Bank Ltd. offers the following services for its customers:

-  Deposit Scheme
-  Credit Scheme
-  Islamic Banking

2.6 Position Hierarchy:

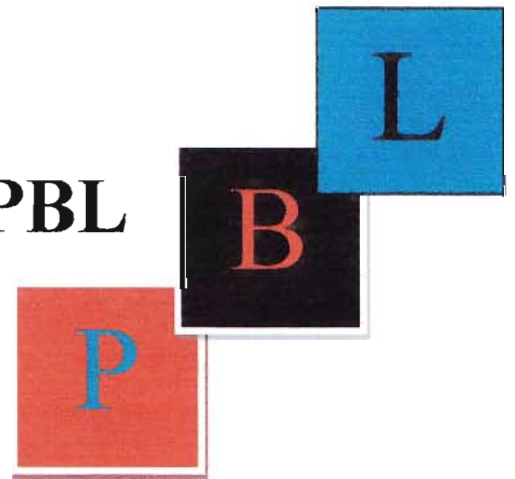


2.7 Operational Network Organogram of PBL



Chapter 03

Credit Performance of PBL



3.1 Credit Schemes:

Modern Banking operations touch almost every sphere of economic activity. The extension of bank credit is necessary for expansion of business operations. Bank credit is a catalyst for bringing about economic development. Without adequate finance, there can be no growth or maintenance of a stable output. Bank lending is important to the economy, for it makes possible the financing of agricultural, commercial and industrial activities of a nation. The credit facilities are generally allowed by the bank may be in **two** broad categories. They are:

(I) Funded Facilities:

Funded facilities can also be divided into the following categories:

Loans/Credit:

- | | |
|----------------|------------------------------------|
| 1) Short Term | : Up to 12 months |
| 2) Medium Term | : More than 12 and up to 36 months |
| 3) Long Term | : More than 36 months. |

Overdrafts:

- Against hypothecation of goods/ stock
- *Against pledge of goods/ stock*
- *Against any other permissible (acceptable) securities.*

Other advances:

- *Against import bills.*
- *Against imported merchandise.*
- *Against trust receipt (T/R)*
- *Against export bills purchased/Discounted.*
- *Against work order.*
- *Against other securities.*

PBL has formulated the following Loan Schemes

- ▶ General Loan Scheme
- ▶ Lease Finance
- ▶ House Building / Apartment Loan Scheme
- ▶ Small and Medium Enterprise (SME)
- ▶ Consumer Credit Scheme
- ▶ Hire Purchase
- ▶ Advance against Share

Consumer Credit Products:

Professionals like Doctors, Engineers, Architects, Lawyers, Journalists, Chartered Accountants and Self Employed Business Executives are eligible for enjoying credit facilities under this scheme subject to the providing of Bank Guarantee or Insurance Guarantee for the amount of Credit.

- ▶ Household Durable Loan
- ▶ Car Loan
- ▶ Doctors Loan
- ▶ Advance Against Salary
- ▶ Any Purpose Loan
- ▶ Education Loan
- ▶ Travel Loan
- ▶ Marriage Loan
- ▶ CNG Conversion Loan
- ▶ Hospitalization Loan



(2) Non-Funded Facilities:

- ▶ Letter of Credit (L/C)
- ▶ Letter of guarantee (L/G)

3.2 Classification of overdue loan:

In classifying the loan and advance there are four classes in the loan review practiced in Prime Bank Ltd. They are as follows:

1. **Unclassified:** The loan account is performing satisfactorily in the terms of its installments and no overdue is occurred. This type of loan and advances are fall into this class.
2. **Substandard:** This classification contains where irregularities have been occurred but such irregularities are temporarily in nature.
3. **Doubtful:** This classification contains where doubt exists on the full recovery of the loan and advance along with a loss is anticipated but cannot be quantifiable at this stage.
4. **Bad and Loss:** A particular loan and advances fall in this class when it seems that this loan and advance is not collectable or worthless even after all the security has been exhausted.

In order to strengthen credit discipline and bring classification policy in line with international standards, Bangladesh Bank has from time to time revised its prudential norms for loan/lease classification and provisioning. As part of the process, Bangladesh Bank has been introduced "Special Mention Account" through Credit risk grading manual. A loan/lease will be put into the "Special Mention Account" in the following ways:

Period of Loan/Lease	Overdue Period
Loan/Lease period up to 5 years	3 months or equivalent
Loan/Lease period above 5 years	6 months or equivalent
Housing Loan for any period	9 months or equivalent

I have to describe this classification to the customer and have to convince to pay their loan installments.

3.3 Credit Risk Management for Corporate Clients

According to Bangladesh Bank report, private sector credit increased by 11.66% during JUL-APR09 compared the same period of last fiscal and stood at BDT2, 123bln. On the other hand, public sector credit registered 15.53% growth to BDT676bln during JUL-APR09 period compared to the same period last fiscal. On the other hand, agriculture credit disbursement registered a 10.8% growth during JUL-MAY09 period to BDT83.5bln over the same period last fiscal. Call money rate for interbank lending mostly remained within the range of 0.1% - 7.75% during this quarter while the average rate was 3.9956%.

▪ Portfolio Composition:

As at 30Jun09, CMB and PFS advance represents X% and X% (13% in MAR09) of total assets respectively. Investment in Government T-bill represents X% of total assets while Loans and advances to banks down were declined X% of total assets. Other assets comprising with acceptance and endorsements by banks, cash balances, fixed assets, items under collection, inter-company lending, staff loans, prepayments etc. Other assets increased to X%. Acceptance and endorsements contributed X% of other assets.

▪ Corporate Sector Analysis

There are more than a thousand clients/contracts in the 18 sectors each belonging to a single different sector as identified. The clients/companies are segregated according to the products and/or services they provide in the market. Diversification is one of the key mantras of PBL LTD. So, it has provided its credit services to the various sectors of economy. PBL Limited's sector-wise exposure is given below.

- RMG sector concentration slopped from 33.90% in Jun 09 to 31.10% Jul 09 due to decline in RMG exposure while increase in other corporate exposure.
- Poultry & Fisheries sector concentration decreased to 5.04% from 5.47%.
- Edible Oil sector concentration decreased from 8.14% to 6.48% and expected to increase in near future.
- Steel sector concentration slightly increased to 7.69%.
- Telecom sector concentration substantially increased to 4.29% due to unwelcoming outlook of the telecom on account of slow subscribers' growth.

- 10.06% of total CMB exposure consists of non customer offshore exposure (HTV Non Customers).
- Exposure to pharma, cement increased slightly while chemical, beverage and food manufacturer increased substantially.

Sl No.	Sector	% of Total Loan (Jun 09)	% of Total Loan (Jul 09)
1	RMG	33.90	31.10
2	Poultry & Fisheries	5.47	5.04
3	Edible Oil	6.48	8.14
4	Steel	6.81	7.69
5	Telecom	1.58	4.29
6	HTV Non Customers	8.95	10.06
7	Others	37.45	35.34
	Total	100	100

Table 1: Sector-wise Loans and advances as on 30-07-09

3.4 SME/BUB Portfolio Concentration

The **trade line** product was introduced in January 2007 for facilities post import finance for the SME customer. The product offers a maximum of BDT10m Import/CIL facilities against 25% upfront cash margin. It is effectively criteria based program supported by judgmental inputs. The **trade up** product was designed to support pre/post shipment working capital facility mostly for the manufacturers and traders of Ready Made Garments accessories. Similar to Trade Line it is also criteria based product with subjective judgment options.

▪ Product Performance:

Total customer base under these product categories at the end of 13 July 2009, stood at 91. Brief update on the portfolio performance as at 13JUL09 is given here:

Trade Line	: 74 customer as on 13JUL09	92 customers as on 20APR09
Outstanding/Limit	: 68%	58%
Trade Up	: 17 customer as on 13JUL09	27 customers as on 20APR09
Outstanding/Limit	: 12%	11.3%

Top Five Industries

(in terms of customer number, limit & O/S): Construction material, Chemical, Agriculture, Commodity, and Pharmaceuticals & Medicine.

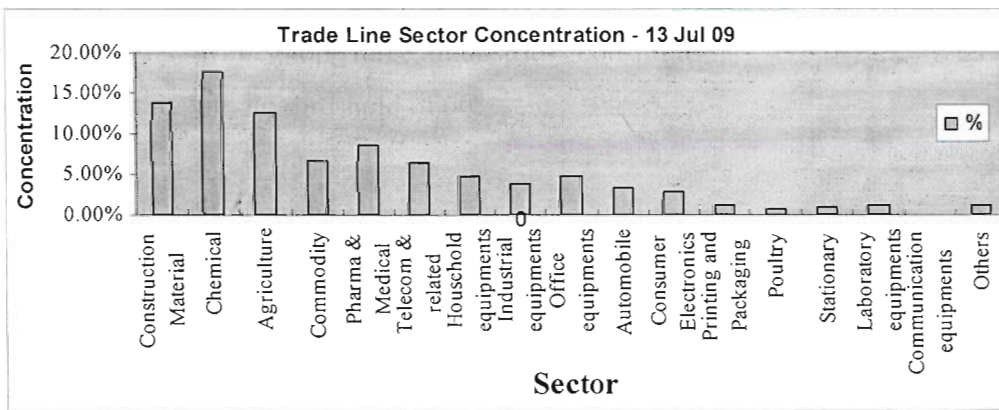
▪ Portfolio Exposure CAP:

According to the Business Initiative proposal (BIP) of trade line, top 3 industries cannot exceed 60% of total exposure and no individual sector can represent more than 20% of that. Sector concentration remained reasonably balanced within the cap threshold during 2Q09. As at 13JUL09, Construction Material sector represent the highest concentration (18.5%) in the total portfolio outstanding while top three industries constitute 42.7% of the total portfolio outstanding against maximum threshold of 60%.

3.5 BUB Portfolio Performance

This section compares the actual performance of the portfolio against the plan (as per original Business Initiative Proposal approval), utilization level, facilities, new booking etc. Out of a total of 91 (119 in 20APR09) BUB customers, 82 customers (78 customers in APR09) are activity utilizing facilities.

The following graph shows a comparison between the sectors wise outstanding at the end of 3rd quarter of 2008, 4th quarter of 2008, 1st quarter of 2009 and 2nd quarter of 2009.



There has been no addition to the Trade Up portfolio during last quarter. This is consistent with ASP directives of no new SME lending. On the other hand, a total of 9 relationships have been cancelled.

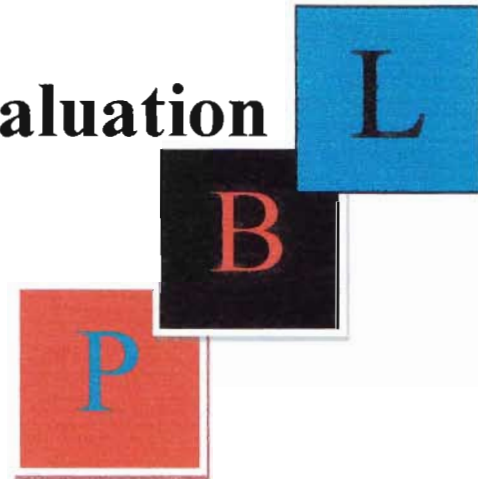
3.6 Credit Approval

The small team of approvers in Credit Risk Management (CRM) supports the Relationship Management teams in all Asia Pacific sites. By being analytical, approvers raise questions, identify credit weakness, provide comments on credit proposals submitted and advise regarding their credit decision rationale. At that time, they include some **comments** for the customers. At that time, they **consider the entire things that are addressed in CARM File, Financials and Stock report**. There must be some conditions of the assets and they have to calculate some ratios they are: *Current Ratio, Liquidity Ratio, Net Debt, Total Gearing, External Gearing, D/E Ratio, DSCR, Funded Debt, Turnover, NPB, EBIT, Annual Turnover Growth, Net Profit after Tax, Dividend, and Operating Profit etc.*



Chapter 04

Prime Bank's Internal Evaluation



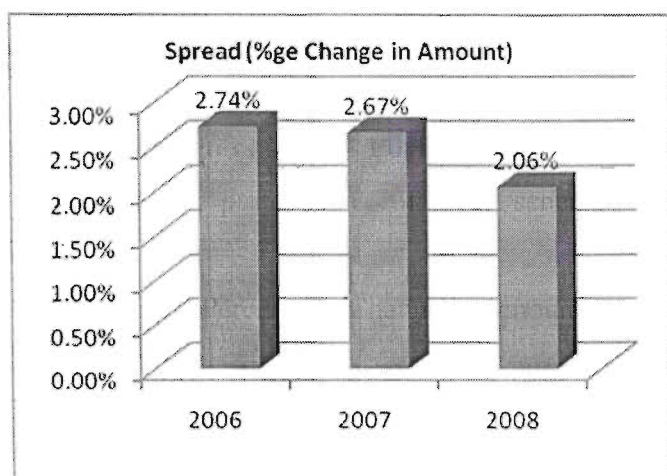
Prime Bank Ltd. Expects to make loans to all qualified customers and thereby aid the communities they serve to grow and to improve their standard of living. To fulfill this expectation, the Bank controls risk in the lending function by setting up written policies and procedures for processing each loan request. A “sound lending program” of Prime Bank Ltd., makes provision for the periodic review of all loans until they are matured. This enables the Bank to maintain desired quality of credit portfolio, which is reflected in the lowest rate of loan classification. Prime Bank Ltd follows the guidelines to attract and retain customers under the rules and regulations provided by the government. Here is the analyzing part of prime bank's internal evaluation based on the data of their financial report of 2006, 2007 and 2008.

4.1: Parameters used as Performance Evaluation

To evaluate the performance of credit schemes of Prime Bank Ltd., following parameters are used:

4.1.1 Spread: (Percentage Change in Amount)

<i>Particulars</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Spread	2.74%	2.67%	2.06%

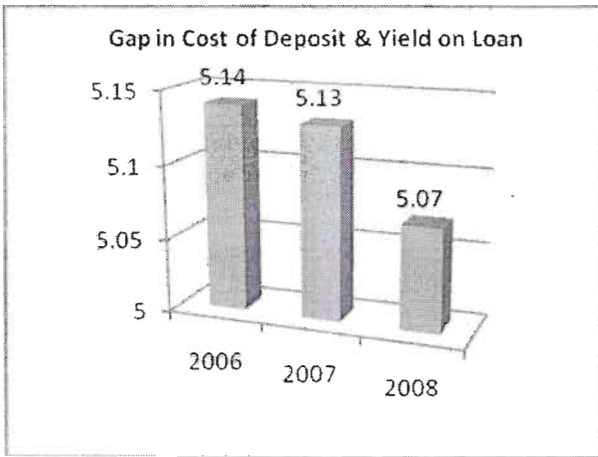


Spread is mainly the difference between any two prices. Here, spread is calculated through yield of earning asset/ Cost of interest bearing fund. Higher spread indicates higher profitability; the lower the spread, the lower will be the profit. As spread is decreasing here, it is not good for the bank.

4.1.2 Gap in cost of deposit and yield on loan:

Cost of Deposit during 2008, 2007 and 2006 are 8.55%, 8.41%, and 8.15% respectively. Yield on

loans and advances on those three years were 13.69%, 13.33%, 13.22%. Therefore, gap for the following years are 5.14%, 5.13%, 5.07%. Which indicates that in 2008 this gap is comparatively lower than the year 2007 & 2006. Due to lower the interest rate gap, loans are become less profitable. As loan is the main source of revenue. So, it refers less profitability.

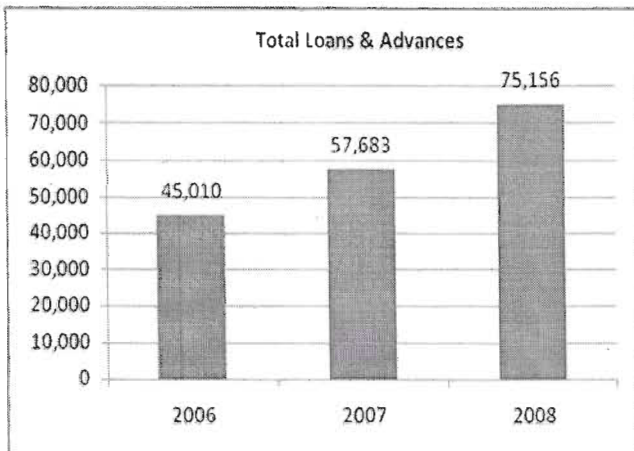


4.1.3 Loan Disbursement:

* (Figures in Million' Taka)

Comment: Loan disbursement is how much loan bank disburses to its customer. The more the

loan bank gives to customer, the more will be the profit, as bank gets interest income. So, it indicates the better performance of the bank, if the loan is standard loan. From the chart, it is evident that the amount of loan given to consumer has increased in the year 2008, compare to 2007 and 2006, which indicates better performance of the bank.

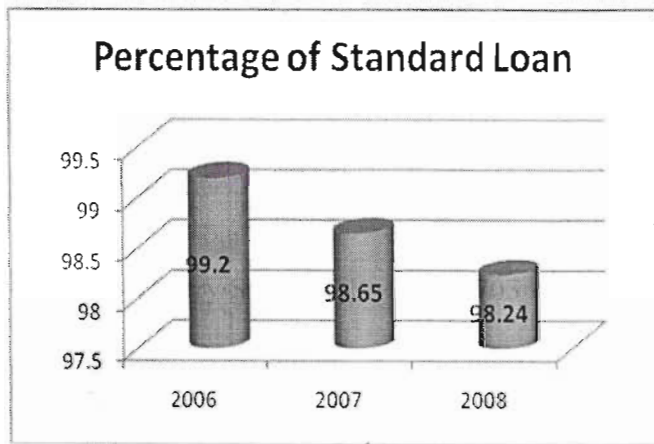


4.1.4 Standard Loan:

(Figures in million' Taka)

<i>Particulars</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Amt of Loan & Advances	45010	57683	75156
Amt of Bad Loan	367	777	1323
Loan Recovery/Standard Loan	44703	56906	73833
% ge of bad loan	0.80	1.35	1.76
% ge of Standard Loan	99.20	98.65	98.24

Standard loan is the loan which is realized after deduction of bad loans from total amount of



loan. If the amount of standard loan increasing then it indicates that the organizations credit position is very good. The above chart shows that the percentage of standard loan is decreasing in a very small amount. It does not indicate the poor performance of the Bank. It is more or less in stable situation.

4.1.5 Credit Rating as per Credit Rating Companies

CAMELS can be described as an international bank-rating system where bank supervisory authorities rate institutions according to six factors. The Six factors are represented by the acronym "CAMELS." The six factors examined are as follows:

C	Capital Adequacy
A	Asset Quality
M	Management Quality
E	Earnings
L	Liquidity
S	Sensitivity to Market Risk

Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

Camels rating of Prime Bank Ltd., on the basis of performance till December 2008 is Satisfactory or B-Class bank. It is a bad indication for the bank, because this is the first year, where it is classified as B-Class bank. Before that, it was in Strong or A-class bank.

Credit Rating on Prime Bank Limited by CRISL		
	Long Term	Short Term
Surveillance Rating (2007)	AA	ST-2
Entity Rating (2006)	AA	ST-2
Outlook	Stable	
Date of Rating	June 29, 2008	

Comments: Credit Rating Information and Services Limited (CRISL) reaffirms “AA” (pronounced as double A) rating to Prime Bank Limited (PBL) in long term and upgrades short term rating to ST-1 from ST-2 based on financials up to FY2008 and other relevant qualitative and quantitative information. The above rating is on the basis of bank’s good fundamentals such as good financial performance, above average operating efficiency, good asset quality, good market share, sound liquidity position, experienced top management, good IT infrastructure etc. However, the above fundamentals, to some extent, are constrained by decline in profitability indicators, decline in internal capital generation, increasing trend of NPL, increasing trend of cost of fund, marginal capital adequacy etc. Banks rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions. Short term rating indicates highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding.

4.1.6 Asset Liability Management:

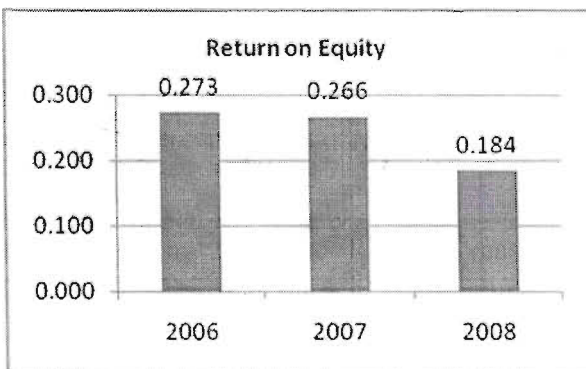
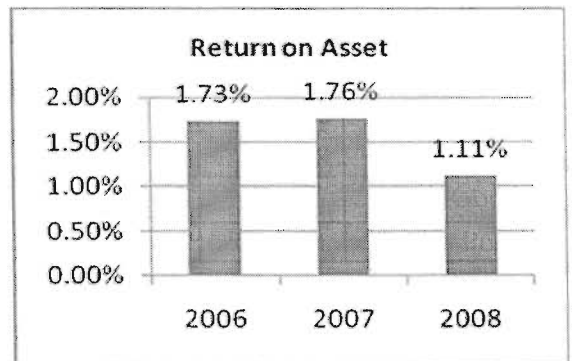
(Figures in million' Taka)

<i>Particulars</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>Comment</i>
Return on Assets	1.73%	1.76%	1.11%	Poor
Return on Equity	0.273	0.266	0.184	Poor
Earning Power	92.57%	92.36%	92.24%	Good
Non-interest expense to total asset	1.81%	1.96%	1.75%	Good
Efficiency	34.08%	32.38%	33.42%	Good
Interest Margin	2.46%	2.39%	1.78%	Poor
Cost rate on total fund	0.061	0.066	0.065	Poor
Spread	2.74%	2.67%	2.06%	Poor
Liquid Asset to Earning Asset	1.904	1.163	1.308	Good
Net Loans to Deposit	0.748	0.752	0.787	Good
Net Loans to Asset Ratio	67.23%	66.64%	62.71%	Poor

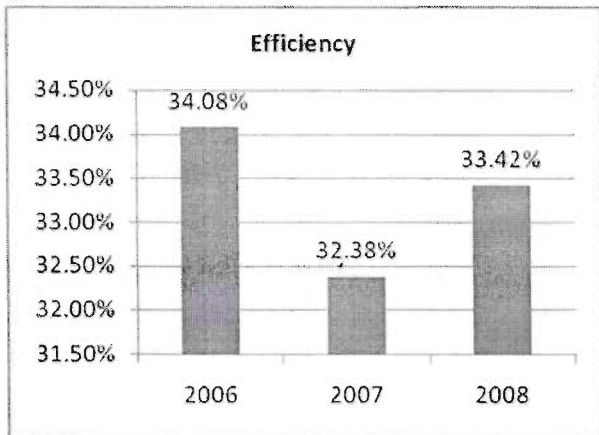
So, after analyzing the previous table, if we consider the spread as a temporary phenomenon, we find the bank quiet efficient on managing its assets and liabilities.

Comments and visual representation of some ratios' regarding A/L management are given below:

Though in 2007 the ROA increased slightly, it decrease in 2008 than previous two years.. That shows a poor performance in the banks asset management.

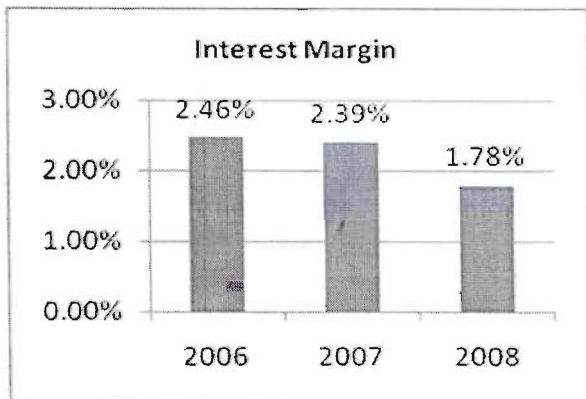
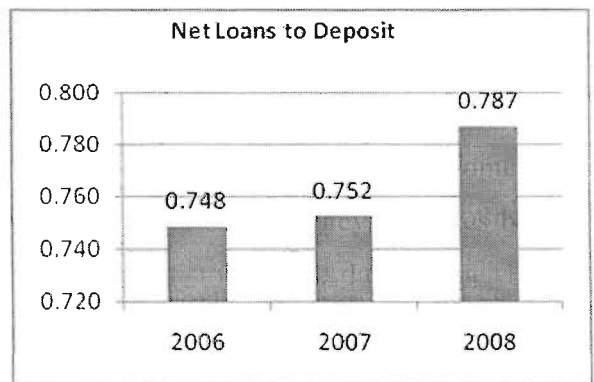


Here is an decreasing trend in three years ROE. That shows a poor performance in the banks equity management.



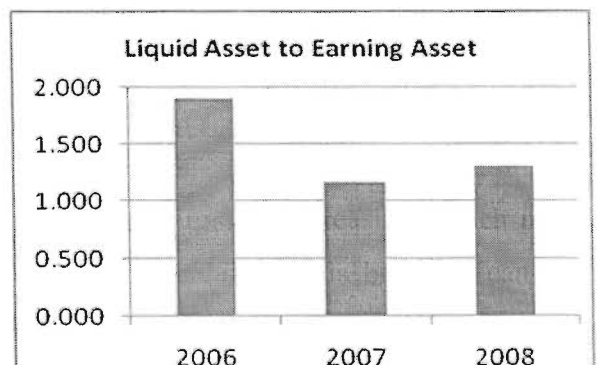
Efficiency indicates level of non-interest expense compared to the interest income. So lower percentage of efficiency indicates better performance of the bank. For Prime Bank though the percentage increased from 2007 to 2008, I can say it has an overall decreasing trend, which shows higher level of efficiency.

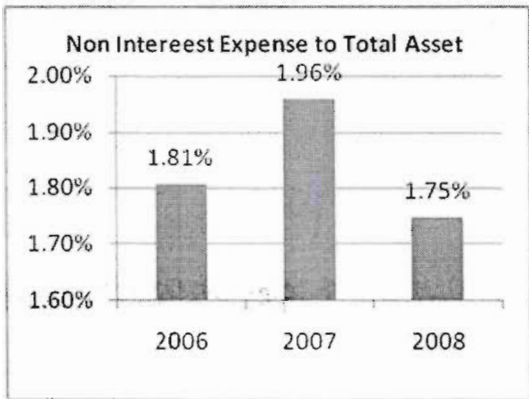
The net loan to deposit has an increasing trend, which means they are lending more of the proportion of their deposits year by year. So they are performing better in their deposit management year by year.



Their interest margin is decreasing, which may affect their profitability. This behavior can be explained as, they had to lower the level interest rate on loans but had to stick with the previous interest rate on deposit for existing funds. So it can be expected that it will be in the normal scenario in near future.

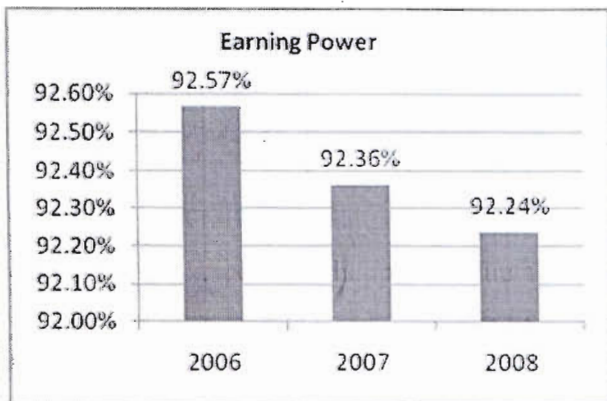
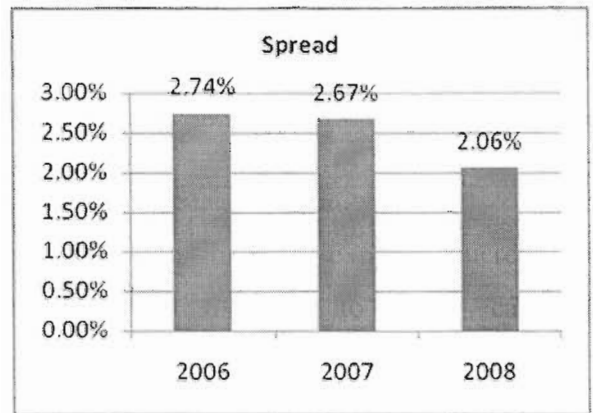
There is an overall decreasing trend of liquid asset to earning asset. That shows day by day they are investing less in the short term assets. That will increase the profitability of the bank but that also brings additional risks of default.





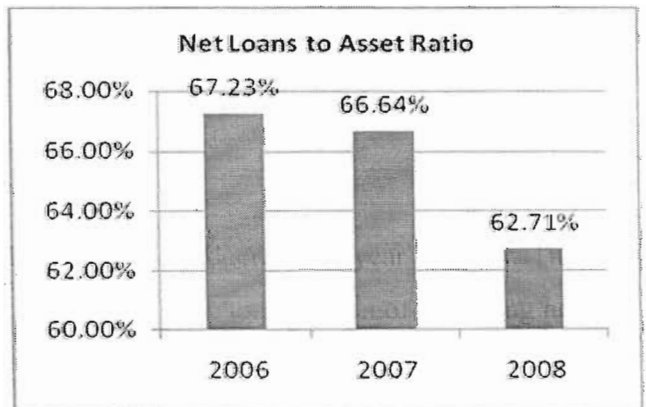
In 2007 the non interest expense increased substantially. That is due to some capital expenditure. But other than that this ratio has a decreasing trend. That means the bank is becoming more efficient in managing non-interest expenses.

There is an overall decreasing trend on the spread of Prime Bank. Now it happened due to lower yield of the assets compared to the cost of deposit. Like the interest margin it is also expected to be recovered in near future.



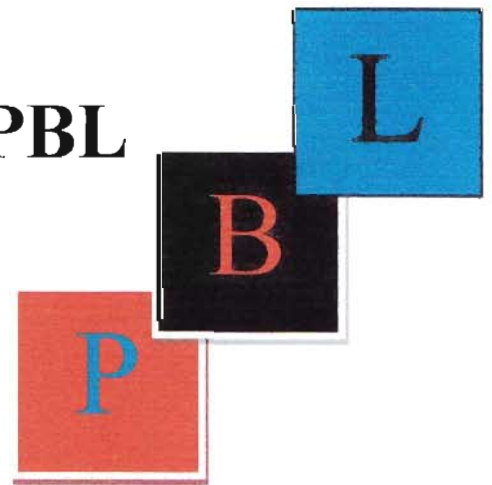
Its earning has decreasing year by year. They came up with the explanation of acquiring new fixed assets, but still it shows their poor fund management.

Their net loans to assets also decreased over the years; again the reason is acquiring new fixed assets. But that certainly had a negative impact over its profitability.



Chapter 05

Credit Performance of PBL



5.1 Recommendation

As it is perceptible from the above scenario, the condition of Prime Bank Limited is in mixed position during the financial year 2008. Therefore, the recommendation that can be drawn under as follows:

- Their ROA in recent years has decreased, which is due to their recent capital expenditure explained by the authority. But decreasing trend of ROE reflects their lower profitability in recent past. So they must be more careful while making their investment decisions.
- Their interest margin is decreasing, which ultimately leads to lower spread. Now due to the influence of the central bank they had to reduce interest on loans but could not change the interest on existing deposits. The lower interest margin and spread is an outcome of that inconvenience. Though they expect that in a short period it can be resolved by decreasing interest on deposits, but that will also reduce the flow of deposits. So they must also consider high profit investments other than loans with more importance. So that they attract people with comparatively higher interest on deposits.
- Their non interest expense is increasing in recent years, which effects adversely in the profitability. So during the interim period they must reduce some operating costs, especially in stationary and utility costs (that is 15 percent of all operating costs). Then a lower administrative cost will allow them to provide loan at a lower rate of interest. That will increase their total amount of loans and profitability. In other words their efficiency will increase.
- Prime Bank has segregated their Credit Division from Corporate Division. But it is not enough. The Department of Credit division, i.e. Credit Risk Management, Credit Administration, Credit Monitoring & recovery, etc department shall be more distinguished, well defined, well structured & have authority to act independently.
- NPL of Prime Bank limited has risen in recent years. The situation is not that serious, till it is to be checked now. To ensure quality lending, they shall put more drive regarding supervision of the loans & to put all out effort to recover Bad debts.
- Recently, they have introduced most modern Online banking software. So they must train their employees to use this software effectively.

- In case of lending, it seems from analyzing their sectoral allocation that, they are more focused on RMG sector, which is not performing very good due to economic recession throughout the world. So, they shall find out some new & promising sectors to finance.
- Prime Bank Ltd shall implement BASEL-II as early as possible as suggested by Bangladesh Bank.

5.2 Conclusion

A banker cannot sleep well with bad debts in his portfolio. The failure of commercial banks occurs mainly due to bad loans, which occurs due to inefficient management of the loans and advances in portfolio. Therefore any banks must be extremely cautious about its lending portfolio and credit policy. In this troubled economy, organizations need to be more choosy and tricky when it is related with credit.

All things around us are changing at an accelerate rate. Today is not like yesterday and tomorrow will be different from today. Given the fast changing, dynamic global economy and increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that Prime Bank Ltd has a robust credit risk management policies and procedures that are sensitive to these changes.

The Bank is operating efficiently with its existing products and services. It has remained profitable from the inception of its operation in the commercial banking sector. The emergence of fierce competition and adverse economic condition has forced the bank to be innovative in offering its products and services.

Service quality is a critical component of customer perceptions. In the case of pure services, service quality will be the dominant element in customers' evaluations. So Prime Bank is the bank, which will survive in the banking sector of the world on the slogan ***"Bank with a difference"***.

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