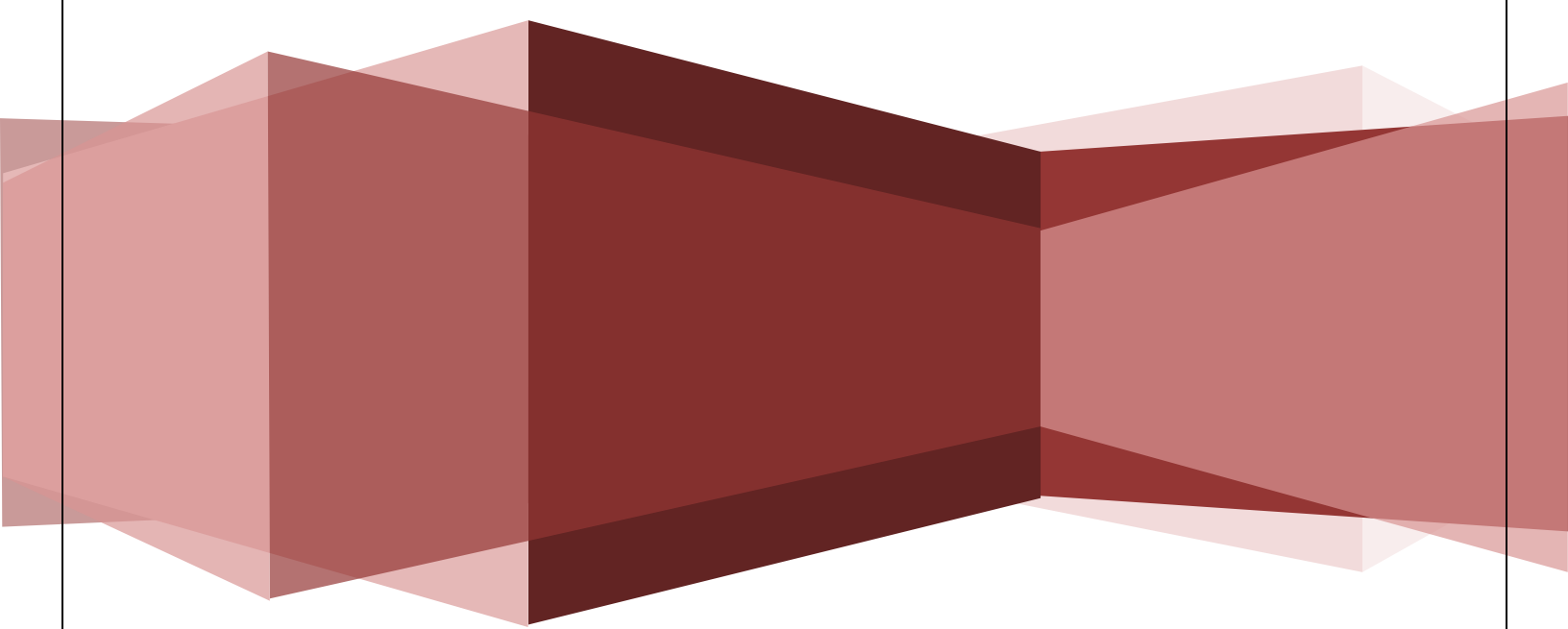




**NON-PERFORMING
LOAN FACTOR
ANALYSIS
INTERNSHIP REPORT**





Inspiring Excellence

Internship Report

Spring 2018

“Non-performing Loan Factor Analysis of Southeast Bank Ltd”

Prepared By:

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ID: 14104179

Submitted To:

Ms. Asphia Habib

Lecturer

BRAC Business School

Date of Submission:

April 12th, 2018

Letter of Transmittal

5th April, 2018
Ms. Asphia Habib
Lecturer
BRAC Business School
BRAC University

Subject: Submission of Internship Report

Dear Miss,

I am pleased to submit to you my Internship Report on the three months Internship Program that I undertook in the Loan analysis Division at Southeast Bank Limited. The title of the report is “An analysis on the Non-Performing Loan of Southeast Bank Ltd”. This report has been prepared as per the requirement of the internship program.

I have tried my best to make this report as instructive and precise as possible with the use of the information I have assembled all through my undergrad life and moreover amid my internship period. While planning this report, I have learned numerous profitable lessons and strategies which will offer assistance me in my future endeavors.

Without your guidance and suggestions, I would not have been able to prepare this report according to the proper guideline. For this reason, I consider myself fortunate to have you as my faculty supervisor. I am truly grateful to you for your kind support

Sincerely Yours,

Mashiyat Wahid Babuna
ID: 14104179

Letter of Endorsement:

This is to certify that Mashiyat Wahid Babuna, ID: 14104179, BBA Program, BRAC Business School, BRAC University has done this report on “Non-performing Loan Factor Analysis of Southeast Bank Ltd” for the purpose of completing BBA Internship program. I accept this report as a final internship report.

I wish every success and prosperity of her career and life.

Ms. Asphia Habib

Lecturer

BRAC Business School

BRAC University

Acknowledgement

First of all, I would like to thank the Almighty Allah for giving me the strength and ability that enabled me to successfully pursue the Internship program and complete this research report.

I would like to thank my Internship faculty supervisor, Ms. Asphia Habib for her valuable guidance and suggestions that helped me in preparing this report according to the guideline of the research report.

I would like to express my gratitude towards the authority of SouthEast Bank Limited for providing me the opportunity to do Internship in the Loan analysis Division of the bank. This report could not have been prepared without the supervision and support of Abdul Quaiyum Chowdhury (Executive vice president & Head of Branch) Mohd. Kawsar Mahmood (Vice President & Manager operation). Md. Mahbub Zaman (Assistant Vice President & Credit in charge), Atiqur Rahman (First Assistant Vice President & General banking in charge), for the valuable guidance.

I am also grateful to the Assistant Relationship Officers and other officers for giving me an overview of the services provided by the bank. Lastly, I would like to thank my parents and friends for continuously supporting me during the highs and lows of life.

Executive Summary

The Internship report has been prepared on “Non-performing loans of Southeast Bank Ltd.” based on secondary data and information. The information has been collected from different sources, such as the annual reports, various websites like Dhaka Tribune, Financial Express and different journals. Nonperforming loans is a common phenomenon for the banking industry in Bangladesh. A **Non-performing loan** is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 90 days, but this can depend on the contract terms. NPLs started at the early stage of liberation. During the 1980s and 1990s, Privatization and liberalization of the banking sector could not control NPLs. The rate of NPLs was 41.1% in 1999. Now it is 11.90%. The amount of NPLs increased to taka 73.3 billion in 2012 from taka 47.3 billion in 2003. There are many reasons behind the NPLs in Bangladesh. The first reason is entrepreneur-related. Borrowers need experience, need trade and organization training background or need of supporting office. At some point borrowers do it intentionally. Business people age too is a vital factor. There are certain other reasons behind this. Secondly, strong competition from other firms in the same industry leads to a loan default situation. If the management system of the firm is poor, then it's hard to manage the cash flow and loan repayments. Then comes poor financial performance, along with it comes poor cash flow which leads to a loan being a default. Business could be defaulter because of low market share. Low market share means low revenue so that business cannot pay the interest payment. Third reason is leading-related. It is mainly Bank's fault. Loan could be default if Bank delayed assessment of loan proposal, delayed disbursement of fund, lack of proper monitoring, lack of taking proper action. Last reason is macroeconomic factors. Low GDP growth, increasing crimes, hartals and frequent policy change affect loans. For those reasons loans become default loans. Effects of NPL are such as Stopping Money Cycling, Earning Reduction, Capital Erosion, Increase in Loan Pricing, Frustration etc. As a result, the values of security are increased and the risks of financial recession also see a rise.

There may be more private financial institutions in Bangladesh and that is why opposition is very high. So it will become an assignment for SEBL to retain its existing clients. There's a desire that, SEBL is usually very conscious about its consumer banking and always try and make trade with time need to modernize its products and services.

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Part 1: Overview of the Organization

Background:

Southeast Bank Limited (SBL), “A Bank with Vision”, developed in the Commercial Banking Industry of Bangladesh in 1995. It was joined on March 12, 1995 as an open restricted organization agreeing to the Companies Act 1994. The commencement of its banking operations happened on May 25, 1995 by the Principal Branch found at 1, Dilkusha Commercial Region, Dhaka. The inception of SEBL is the outcome of a successful group of prominent and non-resident Bangladeshi investors whose vision was to contribute to the country’s economy through commercial banking.

Southeast Bank Limited started its administrations with the inaugural by Chairman Mr. Mohammad Abul Kashem, Vice Chairman Mr. Ragib Ali and the previous President and Overseeing Chief Mr. Shah Mohammad Nurul Alam. In 1995, the Bank utilized to supply administrations to its clients through only five branches situated in distinctive key areas and has expanded its total number of branches to 19 by 2002. The number of workers in 2003 stood over 600. Bangladesh Established of Bank Administration (BIBM) and other preparing establishing are giving standard preparing and introduction courses to overhaul the abilities and information of the officers and staffs of the Bank. Although the Bank is considered as the 2nd generation bank, it has begun fierce competition with its other contemporary banks. Southeast Bank Limited was licensed as a scheduled bank. It is engaged in pure commercial banking and providing services to all types of customers ranging from small entrepreneurs to the large business organizations. It is working for the economic welfare by transferring funds from the surplus economic unit to the deficit economic unit.

The Southeast Bank received its Banking Permit from the Bangladesh Bank on March 23, 1995. The Bank’s First department was opened by Late M. Saifur Rahman, the then Respectable Finance Minister of the Government of the People’s Republic of Bangladesh as the Chief Visitor at the commercial hub of the nation at 1, Dilkusha Commercial Region, Dhaka on May 25, 1995. The occupant Chairman of the Bank is Mr. Alamgir Kabir, FCA. Mr. M. A. Kashem a part of the Board and Mr. Yussuf Abdullah Harun were past Presidents of the Alliance of Bangladesh Chamber of Commerce and Industries.

At present, 18.14% of SEBL's employees are women that will rise to 45% over the next five years.

Mission:

- High quality financial services with state of the art technology.
- Fast customer service.
- Sustainable growth strategy.
- High Ethical standards in business.
- Steady return on shareholders' equity.
- Innovative banking at a competitive price.
- Attraction and retention of quality human resource.
- Commitment to Corporate Social Responsibility (Ltd, 2016)

Vision:

'To be a premier banking institution in Bangladesh and contribute significantly to the national economy'.

Core Values

- Integrity
- Respect
- Fairness
- Harmony
- Team Spirit
- Courtesy
- Commitment
- Service Excellence
- Insight Spirit
- Enthusiasm for work
- Business Ethics

Core Strengths

- Transparent and Quick Decision Making
- Efficient Team of Performers
- Internal Control and compliance
- Satisfied Customers
- Skilled Risk management
- Diversification

Core Competencies

- Knowledge
- Experience and Expertise
- Customer Focus
- Transparency
- Determination
- Zeal for improvement
- Reliability
- Pursuit of disciplined growth and strategy

Core Commitments

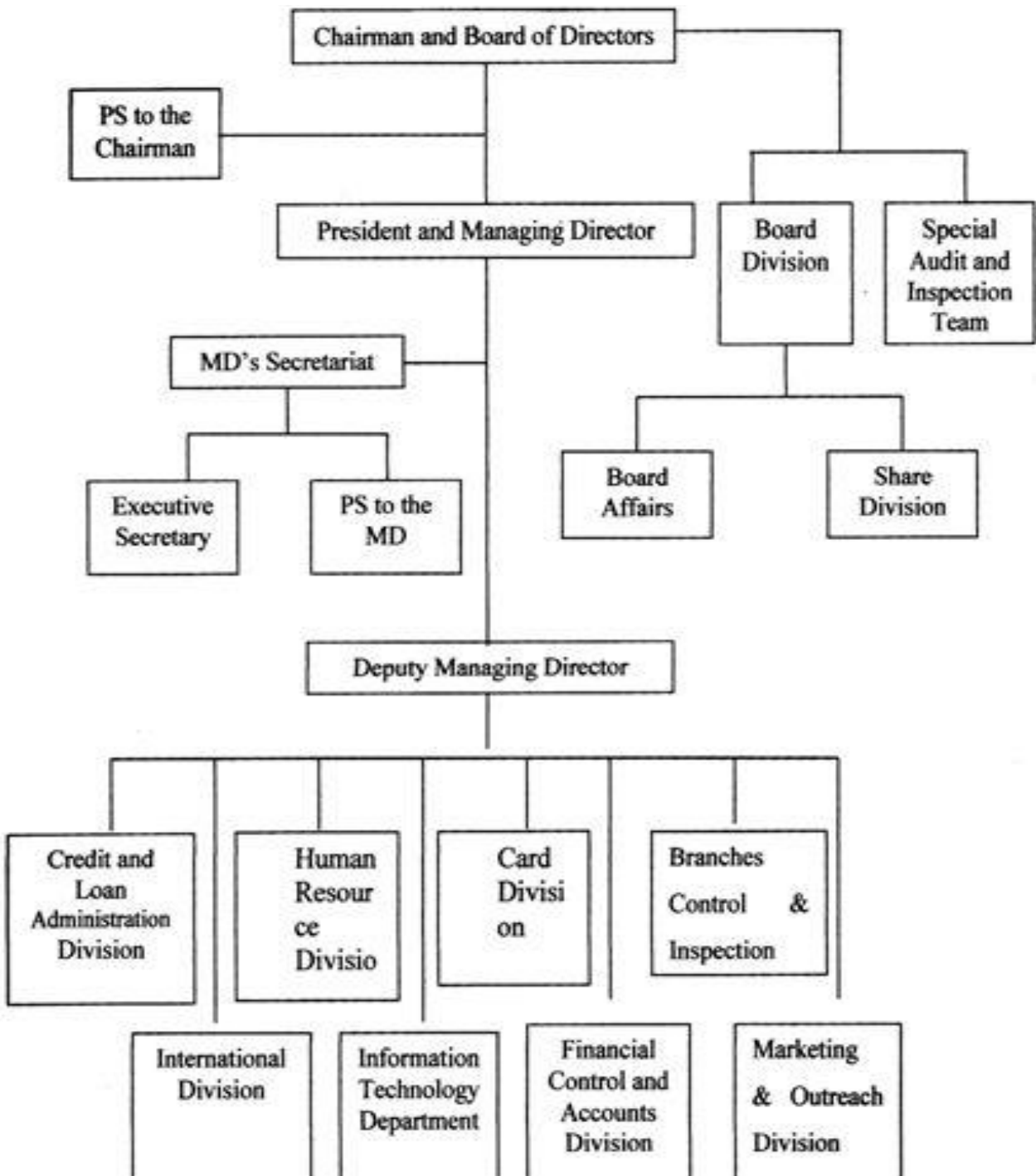
Ours is customer focused modern banking institution in Bangladesh. Our business motives center on the emerging needs of the market our commitments to the clients re the following:

- Provide service with high degree of professionalism and use of modern technology.
- Create life-long relationship based on mutual trust and respect.
- Response to customer needs with quickness and accuracy. ☑ Sharing their values and beliefs
- Grow as our customers grow.
- Provide products and services at Competitive pricing
- Ensure Safety and security of customers' valuables in Crust with us. (Ltd, 2016)

Corporate Culture

Southeast Bank is one of the most disciplined Banks with a distinctive corporate culture. The people of bank can see and understand events, activities, objects and situation in a distinctive way. They mould their manners and etiquette, character individually to suit the purpose of the Bank and the needs of the customers who are of paramount importance to them The people in the Bank see themselves as a tight knit team/family that believes in working together for growth. The corporate culture they belong has not been imposed; it has rather been achieved through their corporate culture. (Ltd, 2016)

Organogram of Southeast Bank Head Office Branch



Definition of Non-Performing Loans

A **Non-performing loan** is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 90 days, but this can depend on the contract terms.

According to IMF, definition of NPLs is

“A nonperforming loan (NPL) is the sum of borrowed money upon which the debtor has not made his scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default. Once a loan is nonperforming, the odds that it will be repaid in full are considered to be substantially lower.” (Investopedia, N.D)

By bank regulatory definition non-performing loans consist of:

- loans that are 90 days or more past due and still accruing interest, and
- Loans which have been placed on nonaccrual (i.e., loans for which interest is no longer accrued and posted to the income statement).

Credit can also be non-performing in case it is utilized in a particular way than that for which it has been taken. As per section 5 (cc) of bank company Act 1991, 'defaulting debtor' implies any individual or organization served with progress, contract allowed in incline toward of him or an institution related to side interest or any parcel thereof, or any leisure activity which has been past due for 6 months in agreement with the definition of Bangladesh money related institution. Non-performing advances are moreover alluded to as non-appearing property (NPA), which are credits, labeled by utilizing a bank or a budgetary organized, at the arrangement of the administrative specialist, on which installments or side interest installments aren't being made on planned time. A contract is a resource for a monetary institution as the intrigued bills and the emolument of the major make a stream of cash inflows. Intrigued cash influx is over abundance cash over central that is known as profit. (Masum, 2015).

Banks commonly deal with property as non-appearing, if they're not serviced in scheduled time. If payments are past due for a short time, a loan is classed as past due. Once a fee will become overdue (generally 60 days), the loan is classified as non-performing. (Masum, 2015)

NPL is a sum either of the borrowed cash upon which the debtor has no longer made his/her scheduled payments, which is in default or close to being in default. Once a mortgage is non-performing, the percentages that it will be repaid in full are considered to be appreciably lower. If the debtor starts making bills towards a non-appearing mortgage, it becomes a performing loan. (Masum, 2015)

Classified Loan's

A classified credit is the time period utilized for any progress that a cash related institution examiner has respected to be in risk of defaulting. The borrower does directly not ceaselessly require to miss installments orchestrate for a money related institution to title the account on this way. A borrower will have what the bank calls a classified contract for assorted thought forms. This is truly a security degree that cash related establishments take to arrange for a conceivable incident and to save you any in extension hazard. (Masum, 2015)

The Bangladesh bank characterizes an 8-tier advance classifying gadget counting progressed, reasonable, suited, Negligible, one of a kind point out, Sub-well known (SS), questionable (DF) and horrendous/ Misfortune (BL). That is truly the vital thing peril reviewing gadget with a reason to degree the assets' pleasant. This evaluating ought to be utilized to test asset-quality intermittently. Minimizing of any office must be learned in Early Alarm Detailing (EAR) for selection-making specialists. (Masum, 2015)

The credits are generally categorized with the help of the loaning monetary institution, on each event the bank has rationale is to consider that the borrower might presently not be competent of reimburse the advance independent of whether or not the credit is past due or not. (Masum, 2015)

Loans prolonged by a financial institution are categorized into the following **three classes**, they are;

- i. Substandard:** Advances which appear extensive degree of danger to financial institution by cause of adverse report or different unsatisfactory traits.
 - ii. Doubtful:** Advances the final recognition of which is doubtful and in which a substantial loss is probable.
 - iii. Bad/Loss:** Advances which may not be recoverable in any respect and whole loss is probable.
- (Masum, 2015)

Loans Duration of overdue Provision (% of outstanding loans)

- i.** Unclassified Less than 6 months 1
- ii.** Substandard 6 months to 9 months 20
- iii.** Doubtful 9 months to 1 year 50
- iv.** Bad More than 1 year 100 (Masum, 2015)

Part 2

Rationale of the study

Smooth and productive stream of saving-funding handle is a prerequisite for the financial improvement of a nation. Bangladesh, being a developing nation and with an immature capital market, basically depends on the intermediary position of industrial banks for mobilizing inner saving and providing capital to the investor. Hence, it matters greatly how nicely our monetary quarter is functioning. Looking on the performance of our economic region for the last decade or so, we study that our banking quarter is closely stressed with an excessive percentage of non-performing loans (NPLs).

It is self-evident that NPLs diminish banks' benefit, as banks cannot get suitable installments from their classified loans. NPLs diminish loan able reserves by halting recycling. Banks require setting aside a portion of their wage as loan misfortune reserve to make up bad debts. A bank with a high rate of NPLs endures from disintegration of the capital in case there is no arrangement (assume). All those antagonistic effect of NPLs on banks' monetary wellbeing such as low benefit and low capital base are clearly reflected in Bangladesh banking division.

The commercial banks of Bangladesh had a capital setback of Tk 12,683 crore at the end of June 2017, once more, in spite of the government's later infusion of Tk 2,000 crore. Keeping in mind the current situation of Bangladesh and how the non-performing loans have been rising and affecting the economy, this topic was chosen to evaluate the effects, causes and remedies that can be taken in order to get a stable position in the banking sector.

Objectives of the report

General objective of the report:

The objective of the report is to bring Southeast Bank Ltd.'s operation and activities into the light. This report would cover the overall operations of the credit department as well as an overall non-performing loan factor analysis of Bangladesh. Would also suggest the factors, effects and causes of non-performing loans, and what initiatives can be taken..

Specific Objectives of the report

- I. To show the trend of the “Non-performing loans’ in Bangladesh.
- II. To find out the causes of Non-Performing loans
- III. To discuss legal steps that can be taken for Non-performing loans
- IV. To identify the effects of Non-Performing loans on banks and overall Bangladesh banking sector
- V. To discuss what can be done and how in order to ensure a financially sound banking sector
- VI. Measures that should be taken to control Non-performing Loans.

Limitations of the study

The limitations of the study are:

1. This study did not cover primary and unpublished data.
2. The major problem faced while conducting the research was unavailability of relevant data.
3. Time constraint.
4. Banks usually do not provide such data's
5. Being public limited company, the private commercial banks like Southeast Bank Limited keep a few data limited like the genuine sum of classified advances.
6. Financial statements show figures but do not justify the existence of the amounts.
7. Due to confidentiality a lot of aspects of the report have not been explained properly.

Literature review

Nonperforming credits (“NPLs”) allude to those money related resources from which banks no longer get intrigued and/or installment payments as planned. They are known as non-performing since the advance ceases to “perform” or create pay for the bank. Choudhury et al. (2002: 21-54) state that the nonperforming loan is not a “uniclass” but rather a “multiclass” concept which implies that NPLs can be classified into diverse assortments more often than not based on the “length of overdue” of the said credits. NPLs are seen as a ordinary byproduct of budgetary crisis: they are not a fundamental item of the loaning work but Or maybe an accidental event of the loaning prepare, one that has colossal potential to extend the seriousness and term of financial emergency and to complicate macroeconomic management (Woo, 2000: 2). This is since NPLs can bring down investors’ certainty in the banking framework, heaping up ineffective financial assets indeed though depreciation's are taken care of, and blocking the asset allotment process.

In a bank-centered financial framework, NPLs can advance thwart financial recuperation by contracting operating margin and dissolving the capital base of the banks to progress modern loans. This is in some cases alluded to as “credit crunch” (Bernanke et al., 1991: 204-248).

In addition, NPLs, if made by the borrowers willingly and left unresolved, might act as an infectious financial disquietude by driving great borrowers out of the financial showcase. (2002: 25-26 argues that a bank with high level of NPLs is constrained to cause carrying costs on non-income yielding resources that not only strike at portability but also at the capital ampleness of a bank, and in result, the bank faces challenges in increasing capital assets. Bonin and Huang (2001: 197-214) too state that the likelihood of keeping money crises increments if financial hazard is not eliminated rapidly. Such emergencies not only lower living benchmarks but can too dispose of numerous of the accomplishments of financial reform overnight.

The issue of nonperforming loans in Bangladesh is not a unused phenomenon. In truth, the seeds were developed amid the early stage of the liberation period (1972-1981), by the government’s “expansion of credit” approaches on the one hand and a weak and in firm banking framework combined with an untalented work drive on the other hand (Islam et al., 1999: 35-37). Moral et al. (2000: 13-27) argue that the development of credit approach amid the early organize of liberation, which was coordinated to

dispensing of credit on generally less demanding terms, did really grow credit in the economy on nominal terms. However, it also created a huge number of willful defaulters in the background who, later on, reduced the financial wellbeing of banks through the “sick industry syndrome”.

Islam et al. (1999: 22-31) include that in spite of the liberalizing and privatizing of the banking segments in the 1980s with a view to expanding effectiveness and competition, the vigor of the credit environment weakened further since of the lack of successful lenders’ plan of action on borrowers. Choudhury et al. (1999: 57) discover that Government heading towards nationalized commercial banks to loan to unprofitable state claimed ventures, limited approach rules (banks were permitted to classify their resources at their claim judgments) with respect to “loan classification and provisioning”, and the use of accrual arrangements of bookkeeping for recording intrigued pay of NPLs come about in alignment of the credit teach of the nation till the conclusion of 1989.

In the 1990s, however, a wide based financial degree was attempted in the title of FSRP, enrolling the help of World Bank to reestablish financial discipline to the nation. Since then, the banking division has emBRACed “prudential norms” for advance classification and provisioning. Other laws, controls and disobedient such as credit record account, lending hazard investigation manual, execution arranging framework, intrigued rate deregulation, the Money Loan Court Act 1990 have also been enacted to promote sound, robust and resilient banking practice. Shockingly, indeed after so numerous measures, the banking framework of Bangladesh is yet to free itself from the grasp of the NPL calamity. The question hence emerges, what are the reasons behind such a huge extent of nonperforming loans in the economy of Bangladesh? Is it because of “flexibility in NPLs” or lack of successful “recovery strategies” on the part of the banks? Then again, is it due to poor requirement status of laws related to nonperforming credits? The present study has concentrated on the over issues basically with a see to helping policymakers to define concrete measures with respect to sound administration of NPLs in Bangladesh.

Non-Performing loans in Bangladesh

In the last two years, Bangladesh's financial extension has been very amazing from the point of view of GDP development rate, which was seven-plus percent both years, concurring to figures from government and other sources. However, as information has uncovered, and as specialists have overwhelmingly concurred, the development rates could have been essentially higher. (Jamal E. O., 2017)

Disappointingly, be that as it may, information too appears that the surrender of whatever development we have had, as of late, have gone to a great extent to a little minority of our populace. Agreeing to a government overview made open on October 17, 2017, for illustration, the poorest five percentage of our populace has had their share of the subject pay decreased from 0.78 percent in 2010 to 0.23 percent in seven long time. The wealthiest five percent in contrast has had their share of national salary increment from 24.61 percent in 2010 to 27.89 percent in 2017. (Jamal E. O., 2017)

This is very clear to see, as among the eight Office of State -claimed bank building, 40 privately-owned managing an account concern and nine foreign-owned banks, nonperforming credits (NPLs) stood at Tk 80,397 crore as of September 2017, concurring to Bangladesh Bank (BB) fig. That is 10.67 pct of all exceptional loans. And in the event that rebuilt or rescheduled loans were included, NPL in the banking segment goes up indeed more—a mammoth 17 percentage of amount outstanding loans. Like past years, state banks were once more the most noticeably awful entertainer final year as NPL of the eight state-owned banks stood at Tk 44,126 crore or 55 percent of the add up to. (Jamal E. O., 2017)

Put together, these banks moreover had a capital setback of Tk 12,683 crore at the conclusion of June 2017, once more, in spite of the government's most later infusion of Tk 2,000 crore utilizing reserves it had gotten from citizens on top of the Tk 116.6 million discharge it had given to state-owned banks at taxpayers' disbursal between monetary year 2011-12 (July -June) and 2016-17 concurring to its claim information.. (Jamal E. O., 2017)

'Some of Bangladesh's banks don't have 'in-depth' look into the problem of spiraling non-performing loans (NPL) while many others try to frame remedial strategies perfunctorily'. (Jamaluddin, 2017)

As per the central bank data, the volume of NPLs had increased by more than 21 per cent to Tk 621.72 billion by the end of 2016, swelling from Tk 513.71 billion a year before. (Jamaluddin, 2017)

Commercial banks have an extraordinary bother with non-performing loans. All through the first 9 months of the current 12 months credit defaults, reliable with Bangladesh bank, expanded by Tk181.35 billion. Total credit defaults stood at Tk803.07 billion. In case the written-off sum of Tk450.00 billion is brought to this, the genuine loan default stood at TK1253.07 billion. Offers of banks recorded drop in the stock advertise due to media reports on contract default. (Jamaluddin, 2017)

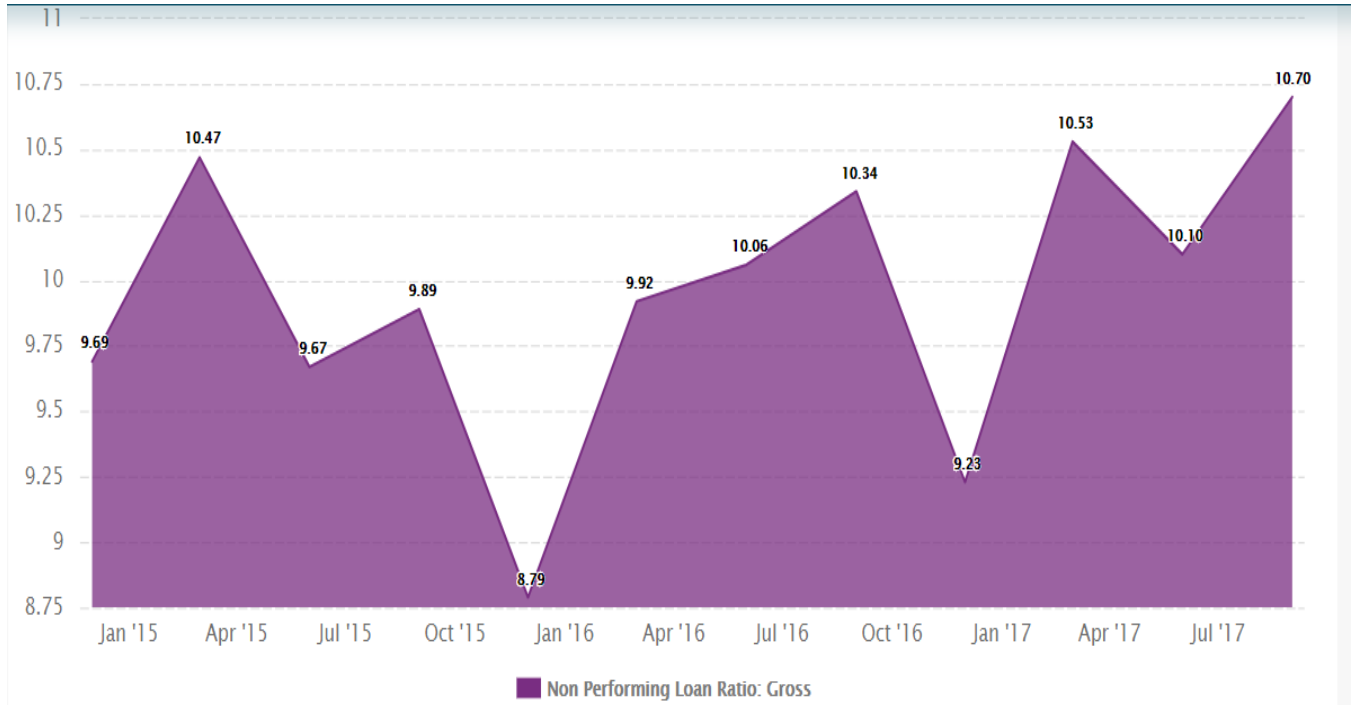
There is need of great administration and responsibility in the banking segment. Parts of advances were rescheduled and those loans are once more defaulting. The modern banks begun out operation in 2013. among those banks, Farmers bank had the most elevated default, Tk3.78 billion, at the conclusion of September, 20 17. Money related situation of this bank is falling apart fast. On the one hand, advances are not being reimbursed and on the other, sufficient deposits aren't coming. The bank isn't in a position to return the cash of the contributors. NRB trade bank is 2nd in regard of credit default. Their default sum is Tk1.94 billion. Meghna bank is 0.33 in the posting of defaulters. Their default contract amounts to Tk1.52 billion. Midland bank has a default of Tk460 million. South Bangla Agrarian bank's default is Tk150 million and Modumati bank has a default of Tk14 million. (Bhuiyan, 2017)

Bangladesh's Non-Performing loans ratio

Bangladesh's Non Performing Loans Proportion stood at 10.7 % in Sep 2017, compared with the proportion of 10.1 % in the past quarter. Bangladesh's Non Performing Loans Proportion information is overhauled quarterly, accessible from Mar 2003 to Sep 2017. The information come to an all-time tall of 28.0 % in Damage 2003 and a record low of 6.1 % in Dec 2011.

In the most recent reports, Cash Supply in Bangladesh expanded 10.1 % in Jan 2018. Bangladesh's Foreign Trade Reserves was measured at 31.4 USD bn in Feb 2018. The Outside Trade Reserves equaled 6.1 Months of Consequence in Jan 2018. The country's Domestic Credit come to 114.8 USD bn in Jan 2018, referring to an increment of 14.3 %. (CEIC)

Non-Performing loans ratio



Statement of Non-Performing Loan in South-east bank Limited

Figure 1

Non-performing resources have multidimensional impact on the bank and its productivity. The way better NPL proposes incremental non-profits producing property. NPL impacts banks' productivity antagonistically and diminishes return on investment (ROI) and hampers the capital adequacy ratio (CAR) (Ltd, 2016).

In the midst of unfavorable drift of credit classification, Southeast Bank could confine its classified loan position

to BDT 9,257.79 million which was 4.89% of total loans and advances as on December 31, 2016. (Ltd, 2016)

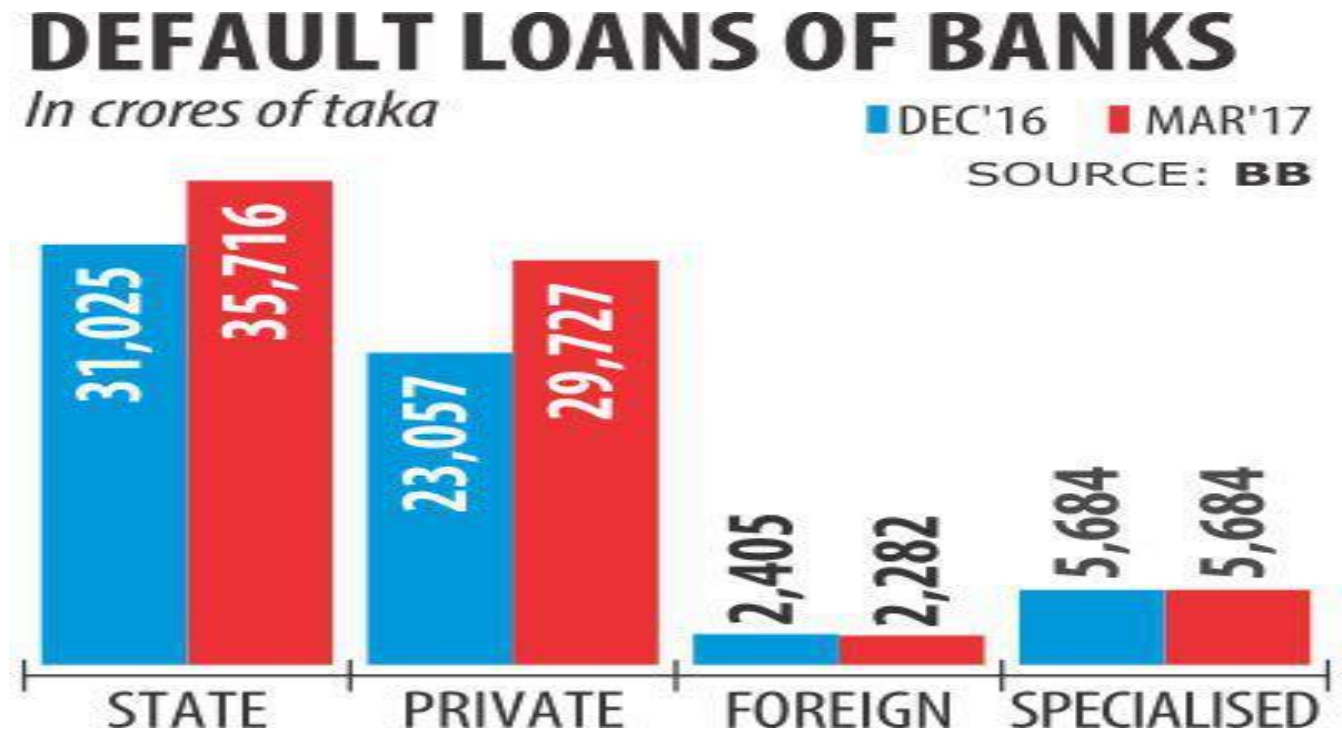
The bank applies its high-quality endeavor to reduce the existing classified credits with the help of way of cash recuperation and rescheduling in a few deserving cases and writing-off the credits complying the arrangements and law of Bangladesh bank. Due to concerted endeavor, the bank could limit the amount of non-performing loans to BDT 9,257.79 million which was 4.89% of overall credits as on December 31, 2016. at the same time, the bank spared arrangements of BDT 7,297.78 million for classified/unclassified credits and off adjust sheet objects against required arrangements of BDT 5,984.91 million. (Ltd, 2016)

Loan Write-Offs

Minimizing the amount of non-performing loans through writing-off of awful loans is an universally customary work out to keep the balance sheet sound. Southeast bank has begun writing-off of advances since 2004. Impeded credits are written-off when there's no longer any sensible prospect of recuperation of portion, or the total advance in a shorter span of time. (Ltd, 2016)

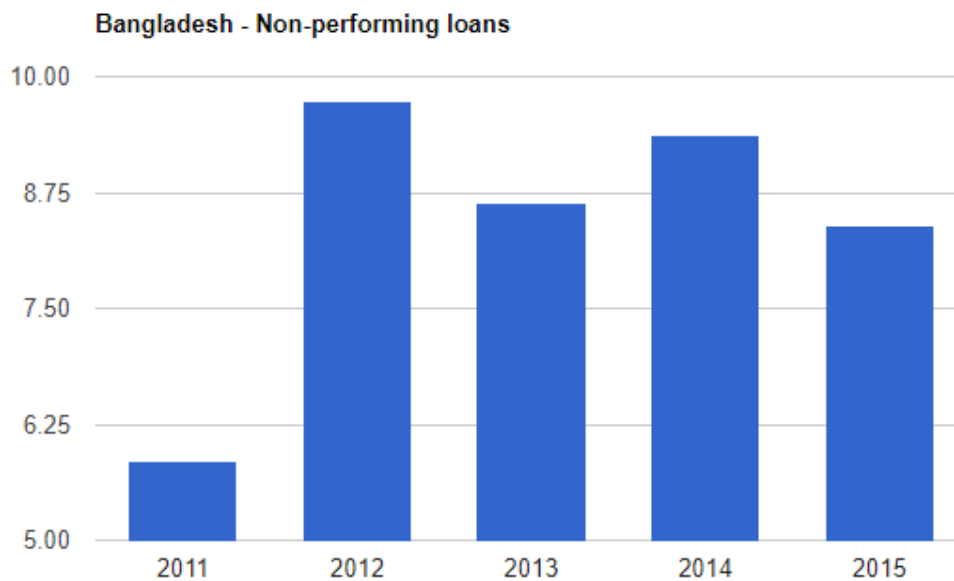
Status	Amount BDT in Million	Percentage
Unclassified Loans		
Standard	171,314.82	90.47
Special Mention Account	8,792.35	4.64
Sub-Total	180,107.17	95.11
Classified Loans		
Sub-Standard	1,567.13	0.83
Doubtful	587.80	0.31
Bad/Loss	7,102.86	3.75
Sub Total	9,257.79	4.89
Grand Total	189,364.96	100

Default Loans in Bangladesh



The nonperforming loans in the banking segment expanded by Tk 11,237 crore in the first three months of 2017 – an advancement that has been ascribed to regularity by financiers. It is a common slant that default credits takes off in the first quarter of a year due to slower recuperation drives by banks,” said Nurul Amin, managing director of Meghna Bank.

At the end of March, the total NPL stood at Tk 73,409 crore or 10.53 percent of total outstanding loans. NPL was Tk 62,172 crore at the end of December last year. Private commercial banks accounted for the spike in NPL: their default loans rose Tk 6,670 crore in the first three months of the year. the default loan of private banks stood at Tk 29,727 crore in the first quarter of the year, up 28.93 percent from the past quarter. The state banks' default advances extended Tk 4,691 crore to Tk 35,716 crore during the first quarter of the year. The remote banks' default credits declined: from Tk 2,405 crore to Tk 2,282 crore. (Alo, 2017)



Causes of Non-Performing Loans

After reading certain articles and journals regarding non-performing loans of Bangladesh, I have come up with certain causes of such non-performing loans. The causes were explained carefully in certain articles that I have read. The causes have been stated below.

- **Lack of business experience**
 - ◆ People without prior business ideas tend to start a business after their retirement. Hence when it comes to commencing business properly, these people sometimes fail and end up not being able to repay the loans they have sanctioned from banks. Ultimately leading to non-performing loans.
- **Lack of Business and lack of Institutional Training Background**
 - ◆ Young generations tend to run their family businesses ultimately. This refers to them operating a business without prior experience or trainings. This somehow might act as an adverse situation for the business, leading to a fail and not being able to pay back loans.

- **Unwillingness to pay**
 - ◆ This has to be one of the most common phenomena in Bangladesh culture. There are a certain group of people, who are least interested in returning the money. This might be due to lack of money in-flow in the business or when the security of the loan is weak and the individual thinks it's not a problem if the loan is not repaid.
- **Lack of supporting facilities**
 - ◆ Now and then business require support from other sources like government specialist. When cash stream is inclining and the project is in hush, it needs nourishing. Without further nourishing company may become debilitated and cause misfortune in successive time periods.
- **Non attractive industry**
 - ◆ Non attractive industries sometimes end up acting as a primary reason behind loans not being repaid. Due to poor financial performance, companies might get a low cash in-flow, which means the company has lower liquid cash, resulting in a loan default.
- **Strong competition**
 - ◆ A strong competition does not directly lead to a default loan. They are sometimes an indirect reason. This is because of severe competitions from different firms in the same industry. When the in efficient firms fail to make enough profit, they somehow are low on liquid cash, and ultimately fail to repay the loan.
- **Poor management capability**
 - ◆ If the companies have a lower management capability, then the chances of a loan default is comparatively higher. Banks usually check the management body of a firm before sanctioning a loan. If the management committee is strong, the loan sanction is a success, leading to lower probability of a loan default.
- **Poor financial performance**
 - ◆ This is the key reason behind many loan defaults. A poor financial performance means low solvency which ultimately leads to a loan default.

- **Poor cash flow**
 - ◆ Poor cash flow is the next step after poor financial performance. If there is a lower cash flow, it ultimately means that the business does not have enough liquid cash in hand. Not having enough liquid cash means the company not being able to pay the loan. A profitable business might also suffer from a poor cash flow if they sell their goods on credit.
- **Nepotism**
 - ◆ Managers tend to sanction loans to personal relationships, be it friend or someone close to the family. At the same time, political people too sought nepotism from the top level bank managers.
- **Low market share**
 - ◆ Low market share implies low deals, low deals mean low benefit and low benefit comes about default. Working in a niche market, having a exceptionally low market share a firm can be productive enough to reimburse its whole loan commitment as well as hold sizable winning. But working in specialty item in a showcase which is not appropriate or have less clients that it anticipated at that point it cannot be beneficial. So it cannot pay its interest installment.
- **Delayed assessment of loan proposal**
 - ◆ Banks in some cases make delay in surveying credit recommendations of the business firms. When the firm gravely needs cash, it does not get sufficient reserves because of postponed appraisal by the bank.
- **Delayed disbursements of fund**
 - ◆ Indeed after appraisal of the proposition and taking positive choice, banks do not dispense funds until security documentation customs are completed. As a result business does not get support when it really requires it. A few of the defaulters complained around subsequent disbursements.

- **Lack of proper monitoring**
 - ◆ Monitoring the loan that has been sanctioned is a very important task that has to be done and followed by the bank management. The bank needs to make sure that the loan has been used for the exact reason as to why it was taken. If the loan has been used for some other reason, it might lead to a default loan. The bank expects to get the installments and interests of the loan from the cash earnings of the business, whereas if the loan amount has been used for other purposes, then the bank will not get its money back, leading to a non performing or default loan.
- **Lack of taking proper action**
 - ◆ Proper action can only be taken after proper monitoring has been done. If proper actions are taken, the chances of loan defaults decrease ultimately. For example if a firm misses to pay a certain installment, the management should send someone in charge to have a look at the business's condition.
- **Lower GDP growth**
 - ◆ It is apparent that companies which deal in customer items are straightforwardly influenced by the GDP growth of the whole economy. Customary clients and defaulters have opined that this large scale marker impacts the cash generation of a company and subsequently the reimbursement of the loan.
- **Changes in policy by the government**
 - ◆ Government is considered as the minor cause of the credit default as per the overview since it has a small effect on the local deals and conveyance of the items of the companies. Other causes such as defective loaning practice, need of investigation of business dangers, need of appropriate valuation of security or contract property, undue impact by borrowers, outside pressure, loan govt. organization, Govt. arrangement for payment of credit, need of lawful activity.
- **Rise in crimes and frequent Hartal**
 - ◆ Political flimsiness of the nation hampers the production and the dispersion of the items in a smooth way and the political turmoil is considered one of the other causes of the credit default in our nation.

Effects of Non-Performing loans:

Effects of non-performing loans include, Stopping money cycling, Earning reduction, Increase in Loan pricing. This leads to a rise in the values of security and risk of financial recession.

- NPL can cause performance issue for the banking quarter. It's distant found through a number of financial analysts that falling flat banks have an inclination to be positioned distant from the most-efficient frontiers, since banks do not optimize their portfolio choices by loaning much less than requested.
- There's a awful pursuing between the non-performing loans and performance proficiency. So, increment in NPL hampers the performing loan. Most of the cases, it happens while there is an unfavorable choice. Unwilling choice is deviated information issue that takes put before the transaction. For an occasion: huge hazard takers or outright law breakers might be the most sharp to take out a loan due to the truth they know that they're not likely to pay it back. Since antagonistic choice will increment the probabilities that a credit might be made to a bad credit chance, moneylender might choose no longer to make any loans, indeed in spite of the fact that there are precise credit score threats inside the market place.
- NPL creates the **Credit Crunch** situation. Credit crunch is a phenomenon that banks ration loan disbursement and new credit commitments in order to protect, but add extra risks. Banks treat mortgage as an asset. They expect return from it. If loans become NPLs then banks have loss of fund to give loan in accordance their commitment or banks could provide loans at their previous hobby price. Customers need to pay extra. So loans may be defaulted. **Credit crunch** additionally will increase the charge of NPL. (Masum, 2015)
- Money cycling gets stopped due to increase in NPL. Slow flowing of cash always has negative impact on any business.
- Whilst the NPL is expanded, interest earnings get halted. But the cost of fund and the charge of control are not halted. To run the control cost along with the cost of fund, the existing loaning cost needs to be expanded. All of a sudden increment rate of interest makes it troublesome to return the cash to the bank for a unused borrower. Thus rate of investment will diminish.

- NPL affects opening of LC (Letter of Credit). International importers always choose healthy condition of the exporter's bank. Worse health condition of the bank affects the opening of new LCs. Low rate of LCs makes low bank earning.
- NPL exists as a normal result of loaning behavior. While banks re-balance their portfolio, they choose at the degree of perils they may endure for a given organize of anticipated return concurring to their threat desire because banks must preserve 10% of their risk weight asset as capital. Banks treats loans as an unstable asset. In the event that the chance is over the top, banks will count on over the top return. While the level of non-appearing loans goes past a certain factor banks cannot accept, and then it influences bank's re-balancing activities. So, while NPLs go the boundary of the over limit, they begin to produce poor results on additional loaning.
- NPL has a positive relationship with interest rate. When NPL increases, loan which is treaded as asset becomes more risky. So that the rate of interest also increases to get sufficient retune from the loan to cover the risk. (Masum, 2015)

Initiatives taken by Southeast Bank for recovery of Non-Performing Loans:

- Defaulted clients are being continuously pursued jointly by the Branch and the Head Office officials through letters, phone calls, visits to their business places and residences and holding meetings at Head Office and branches.
- A strong 'Taskforce' comprising senior level executive of Head office and Heads of Respective Branches has been formed for recovery of classified loans of the Bank. They keep reviewing the status of the non-performing loans.
- Respective Branches have been given targets for recovery of classified loans at the beginning of the year and achievement of target by the branches is reviewed by Head Office continuously.
- Considering the clients financial position, long drawn legal procedures are se. An amount is set, which should be paid against the non-performing loan. After that legal actions are taken accordingly. (Ltd, 2016)

Part 3

Recommendation:

- No compromise with due perseverance inside the authorizing framework. Keeping in intellect "prevention is way better than treatment. Banks have to take high collateral. In the event that a borrower defaults on a credit, the bank can offer the collateral and utilize the proceeds to make up for the misfortune. The security or collateral outfitted ought to be esteemed through appropriate trade undertaking or situated up on a conventional 'mark to market' valuation method.
- Action plan for potential NPLs. Banks ought to have a few steps to accumulate up to build up the NPLs credit. On the halt banks require to go to Artha Rin Adalat.
- Identification of colossally threat delicate borrowers inside the credit portfolio. Banks have to take records about the clients earlier than giving loans. Banks could move Bangladesh bank to assemble the statistics and affirm the money related declaration cautiously from dependable sources to become aware of the unstable debtors.
- Identification of geographical area-wise hazard sensitivity. Banks should become aware of the clients according to area wise. For example in Bangladesh, there are some places where growth rate is low or charge of repay rate is low.
- Prompt action on credit reports.
- Capacity building of officers and executives in the recuperation department. Banks should give right education to employee. So they can handle loans properly. If there is short of employee, bank should recruit employee for recovery department. (Masum, 2015)
- Loan defaulters are sometimes found to be members of the chamber of commerce; hence a rule should be made that such personnel's with loan defaults shouldn't participate in election.
- Banks should coordinate with each other and make a list of loan defaulters which should be maintained in a hub by Bangladesh bank, so that other banks get to know who is a loan defaulter and not allow that defaulter a second loan until the dues are settled.

Conclusion

Our banking zone is characterized with the aid of low profitability and inadequate capital base because there are huge amount of banks in Bangladesh. Banks sales come from spread (Lending rate – borrowing rate).however there is huge competition among banks. So the profit is minimal. The crux of the problem lies inside the accumulation of high percent of non-performing loans over a protracted time frame. The hassle is most severe for NCBs and DFIs. However, beginning from a very excessive rate of 41.1% in 1999 it came down gradually to 11.90% in 2013 according to cutting-edge published data. Still, it's far very excessive by any standard Until it can be lowered definitely we will lose competitive aspect inside the wave of globalization of the banking benefit that is taking place in the course of the world. We've had a -decade long involvement in taking care of the NPLs inconvenience and much is thought around the causes and treatments of the issue. Alas, the banking system is still harassed with an alarming amount of NPLs and lags far at the back of the neighboring nations of India and Sri Lanka. Bangladesh government has been thinking about injecting more liquid money into the banking sector, whereas this is not the perfect remedy here. The government has asked public banks, such as janata bank, sonali bank to keep 50% of their money in such crippled banks, to improve their cash flow. Whereas this should only be allowed to be done in banks that are strong and can actually benefit themselves from just injection of money.

According to a survey named “ **Field survey Report of study on credit risk arising in the banks from loans sanctioned against inadequate collateral**”, in which 41 banks were assessed among which there were 574 defaulters. Amongst the assessed banks, National Bank of Pakistan had almost 88% of Non-performing loans, ICB Islamic bank Ltd has 76.4% non-performing loans, Bangladesh Commerce bank 31.6%, State Bank of India 14.6%, Habib Bank 14.6% and Citibank NA 1.93%. (Islam, 2018)

Despite the fact that Bangladesh has a large diploma adopted global requirements of mortgage class and provisioning, the control of NPLs is located ineffective, because the system has failed to arrest fresh NPLs significantly. It needs to be said that administration of NPLs must be multi-pronged, with distinctive procedures sought after diverse stages through which a credit facility passes. Measures ought to be in place for both avoidance and determination. With respect to preventive measures, emphasis needs to be put on credit screening, credit observation and credit

survey functionaries both at individual bank levels and in the central bank of the nation. Determination measures require to be accompanied by implies of criminal measures, i.e. upgrading the proficiency of the lawful and the legal framework and creating different out of the court assertion measures like compromise assertion plans, incentive bundling, and arrangement of resource administration enterprises, figuring, and resource secularization and so on. Shockingly, Bangladesh is watched to be exceptionally helpless from the above point of view, and strictly speaking, it has especially concentrated on a few criminal measures which have too been found to be incapable. Thus, this study has highlighted a few challenges, appeared beneath, for progressing the obligation mending environment and understanding the NPL inconveniences of Bangladesh and other nations as well.

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