



**Report On:-**

**Non-Performing Loan and Bank Performance:**

**Case Study on Modhumoti Bank Limited**

**Prepared By**

**Anika Afzal: 13104071**

**Prepared For**

**Asphia Habib**

Lecturer

BRAC Business School

BRAC University

**Submission date: 12<sup>th</sup> April, 2018**

**Non-Performing Loan and Bank Performance:  
Case Study on Modhumoti Bank Limited**

# Letter of Transmittal

---

April 12, 2018  
Ms. Asphia Habib  
Lecturer  
BRAC Business School  
BRAC University  
66, Mohakhali, Dhaka-1212.

**Subject: Letter of Transmittal.**

Dear Madam,

It is my great pleasure to submit the report on “**Non-Performing Loan and Bank Performance: Case Study on Modhumoti Bank Limited**” that you have assigned me as a mandatory part of the internship program to attain the graduation degree.

It has been a great experience for me to prepare this report. I tried my level best to put meticulous efforts for the preparation of this report. Any shortcomings or flaw may arise as I am novice in this aspect and doing this kind of elaborated research paper for the first time.

I have tried to make each and every element relevant to my topic and discussed under the context of what I have learned from my courses and mainly from the organization I have been working with to do my internship. Most of the information is collected by interviewing and discussing these topics with the organizations’ employees, some of the information is collected from the secondary sources like published articles from internet.

It would be pleasure for me, if this report can serve its purposes.

Sincerely yours,

Anika Afzal  
ID: 13104071  
BRAC Business School  
BRAC University.

# Letter of Endorsement

---

This is to certify that, **Anika Afzal**; a student of BBA program, Major in Finance, BRAC Business School, BRAC University, has completed the internship report titled “**Non-Performing Loan and Bank Performance: Case Study on Modhumoti Bank Limited**” successfully under my supervision.

I wish her every success in her life.

Supervisor

-----

**Ms. Asphia Habib**

Lecturer

BRAC Business School

BRAC University

# Acknowledgement

---

Nothing can be accomplished alone. Without the help of the number of persons the success remains silent. The report on “**Non-Performing Loan and Bank Performance: Case Study on Modhumoti Bank Limited**” has been prepared to fulfill the requirements of attaining graduation degree on BBA. I am very much fortunate that I have received sincere guidance, supervision and co-operation from various respected people while preparing this report.

At the very beginning I would like to express my gratitude to ALLAH for special blessing in completing the report. Then, I would like to thank my academic supervisor of the internship program **Ms. Asphia Habib**, Lecturer of BRAC Business School (BBS) for giving me the opportunity to prepare this report. She also provided me some important advices and guidance for preparing this report. Without her assistance, this report would not be a comprehensive one.

Secondly, I would like to thank all the people from Modhumoti Bank Motijheel branch as they supported me in every step of my internship period providing with all the facilities I need in a good work environment and also providing all the information I needed to write this report. Specially, my organizational supervisor **Md. Ataul Gani** sir, **Khairul Anam** sir, **Md. Alam Khan** sir, **Mohammad Nurul Huda** sir, **Noor Islam Md. Sakib** sir had helped me a lot with all my quarries and enlightening me with the aspects of the banks and banking system. I am earnestly grateful to them.

# Executive Summary

---

Non-performing Loan or NPL is a very common scenario in our banking industry. Non-Performing loan is a loan which the borrower has missed to pay its scheduled interest payment or payment of the principle amount, generally for at least 90 days or within the mentioned time in loan contract. With the passage of time, the amount of non-performing loan is increasing rather going down. Proper amount of the flow of investment and savings is essential for the economic development of any country. The performance of the financial sector of Bangladesh depends on how the commercial banks are running. As loans are the assets of the banks, non-performing loans becomes liabilities for banks. NPLs don't earn interests which is income for the banks. NPLs also decrease the loanable funds of the banks which disrupts the cycle of banking business. For every NPL banks need to reserve provision amount to cover its liabilities. These provisions are cut from banks' profit, which decreases the total profit amount of the banks. For this reason banks face low capital base problem which ultimately have a negative impacts on the overall banking industry. NPL and interest rates are positively related. When NPL increases, the other loans also become more risky. So the rate of interest also increases to cover the risk and get enough return from it.

Non-performing loan is a very common phenomenon in Bangladesh banking sector but in recent years the amount of loans being non-performing has increased in an alarming rate. The cause of this rapid growth of non-performing loans can be excessive political interference and misuse of political power of the borrowers. The ratio of the non-performing loans against the total loan amount is 10.7% which is much higher than the international average. The total amount of NPL, according to recent data of Bangladesh Bank, is TK 74,148.54 crore. Bangladesh has 57 banks right now and many other financial institutions, which makes the banking industry very much competitive. To sustain in banking industry, merging and acquisition with another bank can reduce the competition a little, which can be helpful for monitoring the loans properly and reduce the NPL amount.

Modhumoti Bank Limited is a new bank, started in 2013. Therefore, the NPL amount of MMBL is very low. Modhumoti Bank Limited does proper documentation before disbursing any loan and also does proper monitoring after giving any loan, which is also one of the cause of low NPL amount.

# Abbreviations

---

<b>Abbreviations</b>	<b>Elaborations</b>
<b>MMBL</b>	Modhumoti Bank Limited
<b>NPL</b>	Non-performing Loan
<b>BRPD</b>	Banking Regulation and Policy Department
<b>CIB</b>	Credit Information Bureau
<b>NPA</b>	Non-performing Assets
<b>ROA</b>	Return on Assets
<b>CF</b>	Consumer Financing
<b>HF</b>	Housing Financing
<b>LP</b>	Loans for Professionals to set up business
<b>UC</b>	Un-Classified
<b>SMA</b>	Special Mention Account
<b>SS</b>	Sub-Standard
<b>DF</b>	Default
<b>B/L</b>	Bad/Loss
<b>BHs/MBs/SDs</b>	Loans to Brokerage House/ Merchant Banks/ Stock Dealers
<b>OBU</b>	Offshore Banking Unit

# Table of Contents

---

Letter of Transmittal .....	i
Letter of Endorsement.....	ii
Acknowledgement .....	iii
Executive Summary .....	iv
Abbreviations.....	v
Table of Contents.....	vi
Tables .....	ix
Figures.....	x
Charts .....	x
Organization Overview .....	1
Background .....	2
Vision .....	3
Mission.....	3
Objectives of MMBL .....	3
Salient Features of MMBL:.....	4
Commitments .....	4
Core Values of MMBL .....	5
Key Performance Indicators of MMBL .....	5
Products and Services of MMBL.....	6
Products .....	6
Services.....	9
Board of Directors.....	11
Organogram:.....	12
Credit Rating Report: .....	13



Loan and Advance Portfolio .....	14
Gross Non-performing Assets (Amount in Million BDT): .....	14
Specific and General Allowances of MMBL.....	15
List of Branches of MMBL.....	16
Branches of MMBL in Bangladesh.....	19
Modhumoti OBU.....	20
Project Part.....	21
Introduction .....	22
Non-Performing Loan (NPL):.....	23
Nature of Loans:.....	24
i. Continuous Loan: .....	24
ii. Demand Loan: .....	24
iii. Term Loan: .....	25
iv. Short Term Agricultural Credit/ Micro Credit: .....	25
Classifications of Loans: .....	26
Unclassified Loans: .....	26
Classified Loans: .....	27
Provisions against NPL: .....	29
General Provision: .....	29
Specific Provisions: .....	30
The Effects of NPL on Banks: .....	31
Factors of NPL .....	32
Symptoms of NPL.....	34
Monitoring of NPL.....	35
Rescheduling of Loan.....	37
Time limits for rescheduling of loans.....	38
Write off .....	42

Statement of the Problems.....	43
Scope of the Report.....	46
Limitation of the Study .....	46
Objectives of the Report:.....	47
Primary Objective:.....	47
Secondary Objectives: .....	47
Review of Related Literature .....	48
Methodology .....	52
Data Collection.....	53
Sample Collection .....	53
Timeline .....	53
Analysis.....	54
Effects of NPL on Net Profit of MMBL .....	56
MMBL’s ROA Analysis against NPL .....	57
Effects on EPS and NAV of NPL .....	58
Recovered Amount of NPL of MMBL (in 2016) .....	58
NPL’s Effect on the Deposit Amount of MMBL.....	59
NPL’s Effect on Interest Rates of MMBL .....	59
Findings.....	60
Recommendation .....	62
Conclusion .....	64
Bibliography .....	66
Appendix.....	68

## Tables

---

<b>Serial No.</b>	<b>Content</b>	<b>Page Number</b>
Table 1	Credit rating report of MMBL	13
Table 2	NPA of MMBL (2015-2016)	14
Table 3	Specific And General Allowances of MMBL	15
Table 4	General provisions of loan losses	24
Table 5	Specific provisions of loan losses	25
Table 6	Rate Provision of BRPD 14	25
Table 7	Rescheduling of continuous loans (BRPD 15)	33
Table 8	Rescheduling of Demand Loans (BRPD 15)	34
Table 9	Rescheduling of Term Loans (BRPD 15)	35
Table 10	Rescheduling of short-term agriculture and micro-credit loans (BRPD 15)	36
Table 11	Effect of NPL on Net Profit	51
Table 12	Effect of NPL on ROA	52
Table 13	Deposit Amount of MMBL (2014-2016)	55

## Figures

---

<b>Serial No.</b>	<b>Content</b>	<b>Page Number</b>
Figure 1	Core values of MMBL	5
Figure 2	Board of directors	11
Figure 3	Organogram of MMBL	12
Figure 4	Branches of MMBL in Bangladesh	15
Figure 5	Bank as financial intermediary	17
Figure 6	Classifications of loans	21
Figure 7	Rate provision of BRPD 14	31

## Charts

---

<b>Serial No.</b>	<b>Content</b>	<b>Page Number</b>
Chart 1	Loan & Advances of MMBL of 2013- June 2017	14
Chart 2	Gross NPL form 2010-2017	38
Chart 3	NPL trend of Bangladesh	39
Chart 4	Non-performing loan ratio of Bangladesh (2015-2017)	45
Chart 5	NPL's Effect on Net Profit of MMBL	52

**Part 1**

**Organization Overview**

---

**MODHUMOTI BANK LIMITED**

## Background

---

Modhumoti Bank Limited is a Public limited company which started its journey on 19<sup>th</sup> September 2013. Motijheel Branch is the first branch of the bank. The aim is to facilitate the growth of countries economy by modern and innovative banking system to people and businesses. Back in 2013 people was not that much aware and used to with digital banking. Therefore, Modhumoti Bank LTD introduced a very client friendly environment for digital banking system and still now they help in every step of the banking process with their clients. MMBL believes in financial inclusion and so they would take banking services to people irrespective of class in the society. Therefore, they approached the market targeting the business people with the slogan **‘Your Access to Success’**.

In the beginning, MMBL faced challenges due to slow-down of economic activities and for the political unrest in the country. Despite the challenge it faced it made operating profit and net profit after tax to the tune of BDT 113.10 million and BDT 56.91 million respectively during its 3 (three) months operation in 2013. The bank operating its business with cautious and steady way and believes in sustainable growth. Total assets of the bank at 31 December, 2013 was BDT 7,874.92 million. Within this short period, the Bank opened 2 branches in 2013 and 4 additional branches by the end of March 2014. With remarkable growth as an aim the bank shall consolidate its position to bring in financial discipline so as to create an ethos in the market that the bank is committed to excellence in operation and maintenance of quality assets. Total deposits of the Bank stood at BDT 23,303.74 million in 2016 from BDT 16,903.42 million in 2015. On the other hand, total Loans and Advances grew significantly to BDT 17,138.60 million compared to BDT 9,983.04 million in 2015. The Bank’s business continued to grow in slow but steady manner with a firm business motto. Bank achieved operating profit of BDT 886.76 million in 2016.

Modhumoti Bank Limited aims to keep on moving forward with healthy growth in all areas of its operation. It is trying continuously to overcome the compliance issues as well. Focus is being placed on all key areas covering capital adequacy, good asset quality, sound management, satisfactory earning and strong liquidity.

## **Vision**

---

The vision of MMBL is to lead the new generation of local commercial banks by excelling in customer delivery through insight, empowered employees, smart use of technology and a full range of highest quality products and services.

## **Mission**

---

- Fast customer service.
- Maintain sustainable growth
- Follow strong business ethics
- Offer quality financial services with latest technology
- Provide smooth return on shareholder's equity
- Attract and retain qualified human resource.
- Maintain Corporate Social Responsibility
- Explore un-banked areas

## **Objectives of MMBL**

---

- To conduct business operations in a transparent manner based on market mechanism within the legal and social framework as focused in our mission towards vision of the organization.
- To provide customer efficient, innovative and quality products and services with excellent delivery system in such manner where we shall compete with ourselves every moments.
- To attract and retain good employees as well as enhancing their career through training.
- To contribute meaningfully towards the progress of the nation through socially responsible business.
- To generate profit and fair returns to our shareholders ensuring sustainable growth.

## **Salient Features of MMBL:**

---

- The Sponsors are eminent personalities from the field of Trade, Commerce, Legal and Education sectors.
- The bank aims to be highly progressive.
- Major Emphasis will be given on service sectors.
- Aims to create and launch innovative products using contemporary IT facilities through its cards, ATMs, POS, Internet Banking, E-Banking & Mobile Banking.
- Specialized services will encourage increased remittance
- Aims to offer Green Banking

## **Commitments**

---

- Focus on customers' satisfaction
- Committed to deliver best financial services to
  - Retail
  - Small and Medium Enterprises (SMEs)
  - Corporate
  - Government and
  - Individual client
- Planning strategies to meet the upcoming demands of the market
- Catering high degree of professionalism and use of modern technology
- Creating and maintaining long-term relationship based on mutual trust
- Sharing the values and beliefs of our customers
- Grow as our customers' grow
- Offering competitive pricing with no hidden costs
- Ensuring safety and security of the valuables of our customers put in trust with us



## Core Values of MMBL

---



**Figure 1: Core Values of MMBL**

## Key Performance Indicators of MMBL

---

- Customers' satisfaction and their loyalty.
- Diversified and lucrative deposit & loan products.
- Cost efficient operation and high standard asset quality.
- Efficient usage of Human Resources.
- Risk adjusted revenue growth and satisfactory return on equity and asset
- Best practices of corporate governance & ethical culture.
- Corporate Social Responsibility and poverty alleviation
- Increase of brand image
- Optimize key financial ratios as per industry benchmark

## Products and Services of MMBL

---

Since inception, the bank has been offering a number of attractive financial products and services to accommodate the requirement of people of all classes. The Modhumoti Bank Limited is the first bank in Bangladesh offering privilege service to freedom fighters of the country. As a part of tribute to the best sons of the soil, freedom fighters will be offered 0.25% additional interest annually on any deposit account, and be given 0.25% discount on loans and advances taken by them personally.

### Products

The products MMBL offers are according to different needs for their customers. There are different types of loans which are more appropriate for people based on their occupation, income, where they live and many more other things. The bank has already introduced the following deposit products-

- Current Deposit Account (Regular)
- Short Notice Deposit Account
- Savings Account (Regular)
- Freedom Fighter's Savings Account
- School Banking Savings Account
- Young Star's Savings Account, etc.

The bank has already introduced the following loans and advances-

- Term Loan
- Short term loan
- Car loan
- Modhumoti Bank Personal Loan
- Modhumoti Bank H.B.L Loan Residential/Commercial, etc.

The other products that MMBL offers are given bellow-

▶ **Agricultural Banking:** Modhumoti Bank Limited has some specific loans for the agricultural sector to specifically appropriate for agricultural side. The loans that offered as agricultural loans are-

- Modhumoti Shyamolima- for pure agricultural purpose.
- Modhumoti Shyamolchaya- for agri farm financing.
- Modhumoti Shyamolmaya- for any agri-purpose loan.

▶ **SME Banking:** Modhumoti Bank Limited always encourages entrepreneurs to start their own business. To make their dream a reality and to be a part of it, MMBL has some specific loan criteria, known as SME banking. The loans in this section are-

- Modhumoti Goti- start up loan for small entrepreneurs.
- Modhumoti Progoti- for capital financing.
- Modhumoti Agrogoti- for working capital financing.
- Modhumoti Moushami- for financing seasonal business purpose.
- Modhumoti Labonnya- for financing women entrepreneurs.

▶ **Retail Deposit:**

- Modhumoti Freedom Fighters
- Modhumoti Pathshala
- Modhumoti Salary Account
- Modhumoti Tarunno

▶ **Retail Loan:** As a fourth generation bank, Modhumoti Bank limited has already focused on retail banking due to its higher return on investment. The bank has concentrated on personal and vehicle loan considering the demand of limited earning group. The bank is also focusing on household durable loan as it improves the life style of the consumers and the society as well.

- Modhumoti Personal Loan
- Modhumoti Vehicle Loan
- Modhumoti Home Loan

▶ **Modhumoti Credit Card:** Modhumoti Bank Limited has the credit card system to make their clients everyday life more comfortable and easy. The credit card facilities provided by MMBL are-

- VISA Dual Platinum Credit Card
- VISA Dual Gold Credit Card
- VISA Dual Classic Credit Card

▶ **Agent Banking:**

- Modhumoti Agent Banking
- Modhumoti Agent Point Details

▶ **Corporate Banking:**

- Short Term Finance
- Long Term Finance
- Real Estate Finance
- Working Order Financing/Supply Order Financing
- Syndication and Structured Finance
- Project Finance

▶ **Trade Services Division:**

- Trade Services

▶ **International Division:**

- Correspondence Banking
- FATCA
- Account opening from FATCA
- Exchange Rate
- Offshore Banking

▶ **NRB division:**

- Modhumoti Probash Cash
- List of Exchange Houses

## Services

As a financial service institution, Modhumoti Bank Ltd provides the following services to its clients-

1. Personal Banking
2. Corporate Banking
3. Capital market services
4. SME services
5. Online banking services
6. Internet banking services.

### ▶ **Personal Banking:**

Amongst private sector banks, Modhumoti Bank Ltd has already made its mark in the personal banking segment.

### ▶ **Corporate Banking:**

Modhumoti Bank Ltd offers a full range of tailored advisory, financing and operational services to its corporate client groups combining trade, treasury, investment and transactional banking activities in one package.

### ▶ **Capital Market Services:**

Capital market operation besides investment in treasury bills, prize bonds and other government securities constitute the investment basket of Modhumoti Bank Ltd. Interest rate cut on bank deposits and government savings instruments has contributed to significant surge on the stock markets in the second half of 2004, which creates opportunities for the bank in terms of capital market operations.

### ▶ **SME Services:**

Since inception, the Modhumoti Bank Ltd has held socio economic development in high esteem and was among the first to recognize the potentials of SME's.

▶ **Online Banking Services:**

Online banking services are designed to provide better services to its clients. Previously Modhumoti Bank Ltd used PC bank but now they use world class software named Flora to avail this service to their customers. This allows them to give prompt service to their valued clients. Flora is a universal banking solution that meets the customer's needs in retail, corporate and investment banking.

▶ **By Telephone & Internet Banking Services:**

Modhumoti Bank Ltd provides services by telephone and Internet Banking facilities to its clients.

## Board of Directors

---

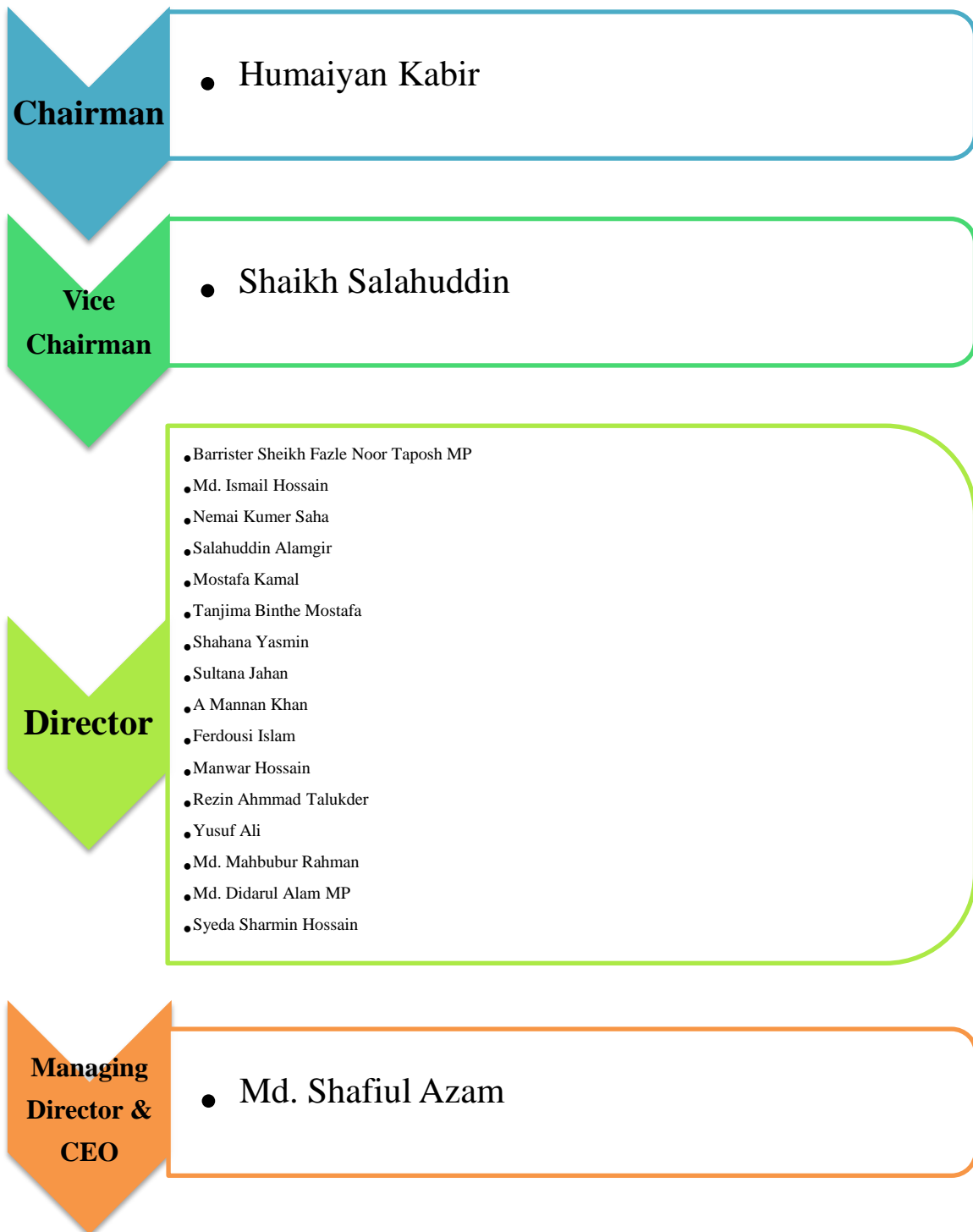


Figure 2: Board of Directors

## Organogram:

---

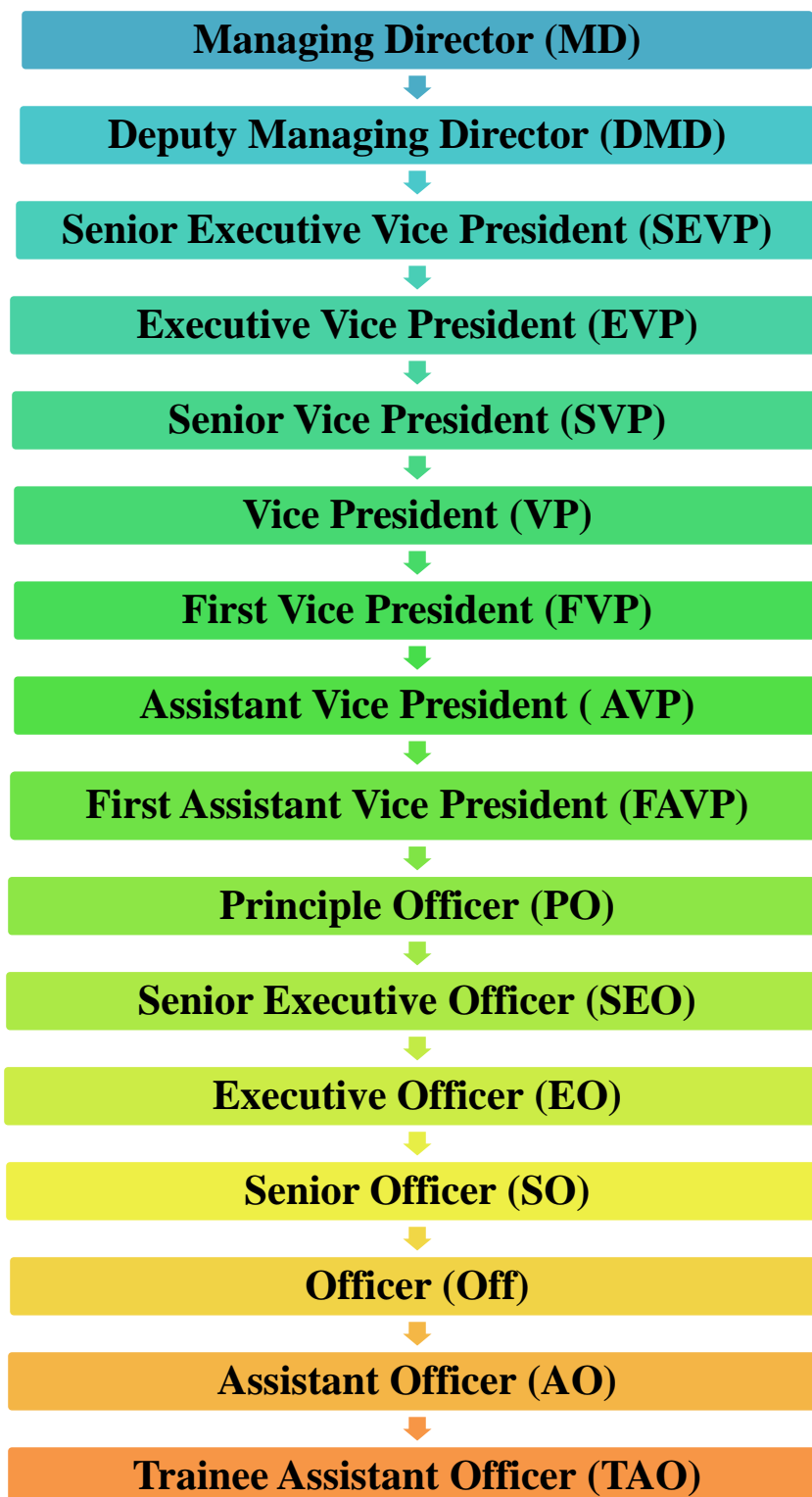


Figure 3: Organogram of Modhumoti Bank Limited



## Credit Rating Report:

Credit Rating Agency of Bangladesh (CRAB) has upgraded the long term rating to “A3” (Pronounced as Single A three) and retained the short term rating as “ST-2” and outlook as ”Stable” for Modhumoti Bank Limited based on audited financials up to 31 December 2016 and other relevant information.

Surveillance Rating		Explanation
2015	2016	
Long term BBB1 Triple-B (Adequate Capacity and Medium Quality)	Long term A3 Single-A (High Capacity and High Quality)	Commercial banks rated A has strong capacity to meet their financial commitments but are somehow more susceptible to the adverse effects of changes in circumstances and economic conditions than Commercial Banks in higher-rated categories. ‘A’ is judged to be high quality and is subject to low credit risk.
Short term ST-2 High Grade	Short term ST-3 High Grade	ST-2 Refers to High Grade. I.e. Commercial Banks rated in this category is considered to have strong capacity for timely repayments. Commercial Banks rated in this category are Characterized with commendable position in terms of liquidity, internal fund generation and access to alternative sources of funds is outstanding
Outlook		Stable
Date of Rating		June 8,2017
Validity		Up to June 30,2018

**Table 1: Credit Rating Report of MMBL**

## Loan and Advance Portfolio

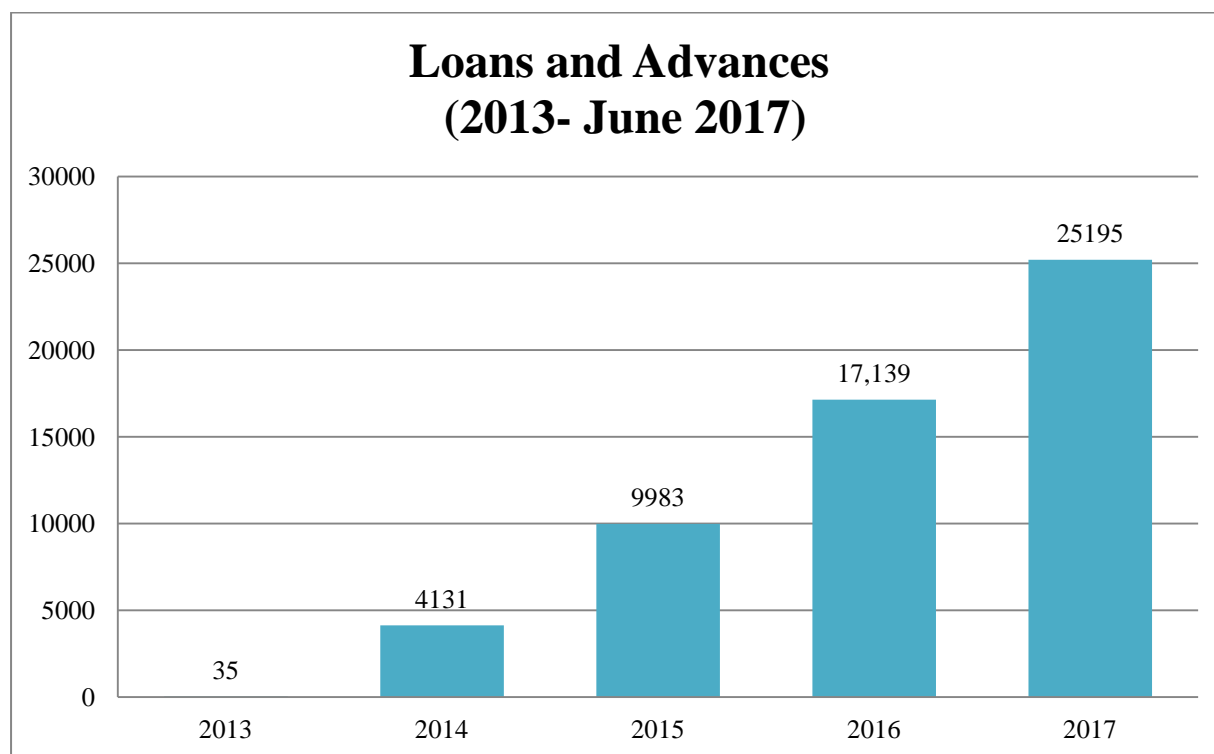


Chart 1: Loan & Advances of MMBL of 2013- June 2017( amount in Million BDT)

### Gross Non-performing Assets (Amount in Million BDT):

Particulars	2016	2015
Gross Non Performing Assets (NPAs)	-	-
Nonperforming assets to outstanding loans and advances	-	-
Movement of Non-Performing Assets (NPAs):	-	-
Opening balance	0.00	-
Additions	45.10	-
Reductions	-	-
Closing balance	45.10	-
Movement of specific provisions for NPAs:	-	-
Opening balance	0.00	-
Provision made during the period	6.22	-
Write off	-	-
Write back of excess provisions	-	-

Table 2: NPA of MMBL (2015-2016)

## Specific and General Allowances of MMBL

For keeping the provisions for any loan amount Modhumoti Bank Limited follows this schedule given bellow-

Particulars	Short Term Agri Credit	Consumer Financing			SMEF	Loans to BHs/MBs/SDs	All other Credit
		Other than HF, LP	HF	LP			
UC	2.5%	5%	2%	2%	0.25%	2%	1%
SMA	-	5%	2%	2%	0.25%	2%	1%
SS	5%	20%	20%	20%	20%	20%	20%
DF	5%	50%	50%	50%	50%	50%	50%
B/L	100%	100%	100%	100%	100%	100%	100%

**Table 3: Specific And General Allowances of MMBL**

## List of Branches of MMBL

Urban Branches	Rural Branches
<p><b>Modhumoti Motijheel,</b> DCCI building (ground floor) 65-66, Motijheel C/A, Dhaka Fax : +8802-9583808 Manager: +88 01732660456 , Direct: +8802-9583807 E-Mail: asad@modhumotibankltd.com</p>	<p><b>Modhumoti Ashulia,</b> Alia Madrasha, Union: Yearpur, Thana: Ashulia, Dhaka, Manager: +88 01716444180 E-Mail: mr0335@modhumotibankltd.com</p>
<p><b>Modhumoti Amberkhana,</b> Amin Complex (1st Floor), Holding No: Weavs 80-A/1, Airport Road, Ambarkhana, Sylhet. Manager: +88 01716690409 E-Mail: dipon@modhumotibankltd.com</p>	<p><b>Modhumoti Kanaipur,</b> Kanaipur Bazar, Thana: Faridpur Sadar, Faridpur, Manager: +88 01914948576 E-Mail: asfakur.rahaman@modhumotibankltd.com</p>
<p><b>Modhumoti Gulshan,</b> Holding: 75, Gulshan Avenue, Ward: 19, Thana: Gulshan, Dhaka. Phone : 9860392,9860332 Manager: +88 01713329380 E-Mail: aiakhand@modhumotibankltd.com</p>	<p><b>Modhumoti Jinnahnagar,</b> Jinnahnagar, Thana: Moheshpur, Jhenaidah Manager: +88 01718770568 E-Mail: shakhawat.hossain@modhumotibankltd.com</p>
<p><b>Modhumoti Mitford,</b> 57 Mitford Road, Dhaka, Manager: +88 01611449915 E-Mail: touhidur.rahman@modhumotibankltd.com</p>	<p><b>Modhumoti Sakhipur,</b> Sakhipur, Tangail. Manager: +88 01717935968 E-Mail: mshahidul@modhumotibankltd.com</p>
<p><b>Modhumoti Agrabad,</b> Dar- E-Shahidi, 69 Agrabad C/A, Chittagong. Manager: +88 01823925323 E-Mail: abu.toyab@modhumotibankltd.com</p>	<p><b>Modhumoti Kanchon,</b> Mouja: Kanchon, Ward# 06, Union: Kanchon, Thana: Rupgonj, Dist: Narayangong Manager: +88 01977818707 E-Mail: asif.mahbub@modhumotibankltd.com</p>

<p><b>Modhumoti Uttara,</b> Singapore Plaza, Plot-17, Road-2, Sector-3, Uttara, Dhaka. Phone: 7914690, 7914672, 7914696 Manager: +88 01715162664 E-Mail: amir@modhumotibankltd.com</p>	<p><b>Modhumoti Aganagar,</b> Alam Tower, East Aganagar, Mouja: Jinjira, Union: Aganagar, Thana: Keranigong, Dist: Dhaka. Manager: +88 01713329470 E-Mail: najib@modhumotibankltd.com</p>
<p><b>Modhumoti Rajshahi</b> Rajshahi Chamber of Commerce &amp; Industry (1st Floor), Station Road, Rajshahi. Manager: +88 01711107984 E-Mail:selim@modhumotibankltd.com</p>	<p><b>Modhumoti Pirgonj</b> Jaman Plaza, Pirgonj, Rangpur. Manager:+88 01716337301 E-Mail: kalam.azad@modhumotibankltd.com</p>
<p><b>Modhumoti Charfassion</b> Zilla Porishad Market, Charfassion Bhola. Manager: +88 01770526555 E-Mail: m.sarder@modhumotibankltd.com</p>	<p><b>Modhumoti Shekhar Nagar</b> Baitul Mamur Masjid Market, Shekar Nagar, Sirajdi Khan Munsigong. Manager: +88 01675289818 E-Mail: almas@modhumotibankltd.com</p>
<p><b>Modhumoti Shibchar</b> Zilla Pouro Market, Shibchar Madaripur. Manager: +88 01948604206 E-Mail: a.wadud@modhumotibankltd.com</p>	<p><b>Modhumoti Sheikh Fajilatunnessa Mujib Eye Hospital</b> GhonaPara, Gopalganj Manager: +88 01834300251 E-Mail: kamal@modhumotibankltd.com</p>

<p><b>Modhumoti Khulna</b></p> <p>Islam Trade Center (1st Floor), 18,KDA Avenue, Khulna,</p> <p>Manager: +88 01719632906. E-Mail: kzaman@modhumotibankltd.com</p>	<p><b>Modhumoti Shambhugonj</b></p> <p>Saha Market, Vill: Raghurampur, P.O: Shambhugonj</p> <p>Bazar, P.S: Kotwali, Mymensingh. Manager: +88 01711362203 E-Mail: yasir@modhumotibankltd.com</p>
<p><b>Modhumoti Sheikh Kamal Saroni</b></p> <p>Sheikh Kamal Saroni, Dhanmondi, Dhaka Manager: +88 01736242718 E-Mail: anas@modhumotibankltd.com</p>	<p><b>Modhumoti Mawna</b></p> <p>Hazi Abdul Salam Fakir Super Market, Mawna Bazar, Mawna, Gazipur. Manager: +88 01712677460 E-Mail: sanowar@modhumotibankltd.com</p>
<p><b>Modhumoti Banglamotor</b></p> <p>Rupayan Trade Center, Banglamotor, Dhaka. Manager: +88 01716223007, 01616223007 E-Mail: noman0530@modhumotibankltd.com</p>	<p><b>Modhumoti Bheramara</b></p> <p>Godaun Mor, Bheramara, Kushtia. Manager: +88 01715016891 E-Mail: aziz@modhumotibankltd.com</p>
<p><b>Modhumoti Mirpur</b></p> <p>Mid Town Trade Centre (1st floor) Commercial Plot No.-22, Main Road-03, Section-07, Pallabi, Mirpur, Dhaka-1216. Manager: +88 01713487990 E-Mail: kawsar.ali@modhumotibankltd.com</p>	<p><b>Modhumoti Ashuganj</b></p> <p>Haji Fazlul Haque Mansion (1st floor), Kachari Road, Ashuganj Sadar, Brahmanbaria. Manager: +88 01712966593 E-Mail: smhossain@modhumotibankltd.com</p>
<p><b>Modhumoti Naogaon</b></p> <p>Time Square Bazar Road, Naogaon Sadar, Naogaon. Manager: +88 01977456456 E-Mail: kawsar2014@modhumotibankltd.com</p>	<p><b>Modhumoti Kon kapoit</b></p> <p>Al Mostofa Heritage (1st Floor), Konkapoit Bazar, Chaudagram, Comilla. Manager: +88 01714320018 E-Mail: jamal@modhumotibankltd.com</p>
	<p><b>Modhumoti Shibpur</b></p> <p>131/1 College Gate (ASP Building) Shibpur Sadar, Shibpur, Narsingdi. Manager: +88 01716491265 E-Mail: chandan@modhumotibankltd.com</p>

# Branches of MMBL in Bangladesh

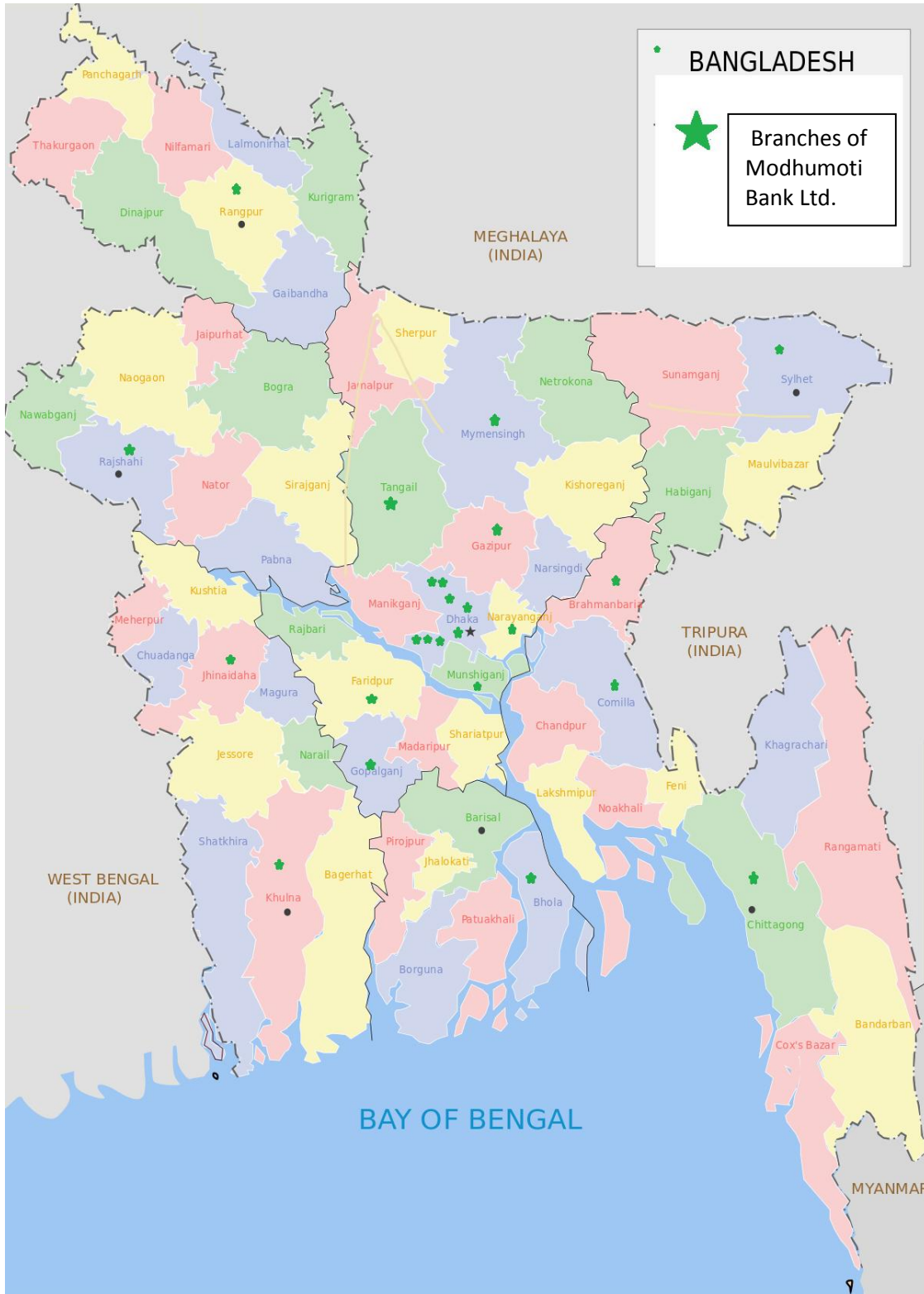


Figure 4: Branches of Modhumoti Bank Limited in Bangladesh

## Modhumoti OBU

---

An offshore bank is a bank located in a jurisdiction which is different to the residence of its depositors. Typically, an individual or company will maintain an offshore account in a low-tax jurisdiction (or tax haven) for the financial and legal advantages it provides, including:

- Greater privacy
- Little or no taxation (i.e. tax havens)
- Easy access to deposits (at least in terms of regulation)
- Protection against local, political, or financial instability.

Modhumoti Bank Limited has started its Offshore Banking operation at the end of September, 2015, as the lone among the fourth generation commercial banks of the country. The Bank sets precise strategies to attract foreign direct investment, foreign remittances and motivate entrepreneurs for setting up industries both manufacturing and service sector and this contribute significantly in the economic growth especially in achieving the Government's set Export earnings of USD 50 billion by 2021. The Bank has a committed team at Head Office to run this operation. Besides, a dedicated booth at Chittagong Export Processing Zone (CEPZ) has been opened.

Offshore Banking has now become an important segment of the international financial system, as offshore banks provide a continuum of services in connection with financial management such as deposit taking, money transmissions, and creation of provision of foreign exchange, trade finance, credit facilities, investment and fund management, corporate administration, and trustee services. Off-shore banking has increased rapidly all over the world since mid-1960s because of the growth and liquidity of world financial markets.

Modhumoti Bank initiated the unit with a view to catering the banking requirement of non-resident/foreign customers of Export Processing Zones (EPZs), Special Economic Zones (SEZs) etc. and maximizing foreign exchange earnings by increasing Export through EPZs, by offering the following offshore banking facilities as a separate business unit:

- Foreign Currency Deposits (Non Resident entities and NRBs);
- Negotiation/Purchase of Export Bills;
- Credit Facilities including Trade
- Financing in Foreign Currency;
- Discounting of Export Bills etc.



**Part 2**  
**Project Part**

---

## Introduction

---

Bank works as financial intermediary between the people who has idle money and who needs money. Briefly, the process of banking is to collect the idle money and invest this money in economy. In this process, one party who has the idle money deposits in bank and the other party who needs the money borrow from bank. The depositors get some interest on their deposited money and the borrowers pay some interest payment on the amount of money they borrowed. Bank has no money of its own, it just works as an intermediary between two parties, and so if the borrower cannot pay the money back to bank, the bank must repay the money to the depositors from bank's profit. Therefore, there is always a risk in loans if the loan will be repaid to bank or not.

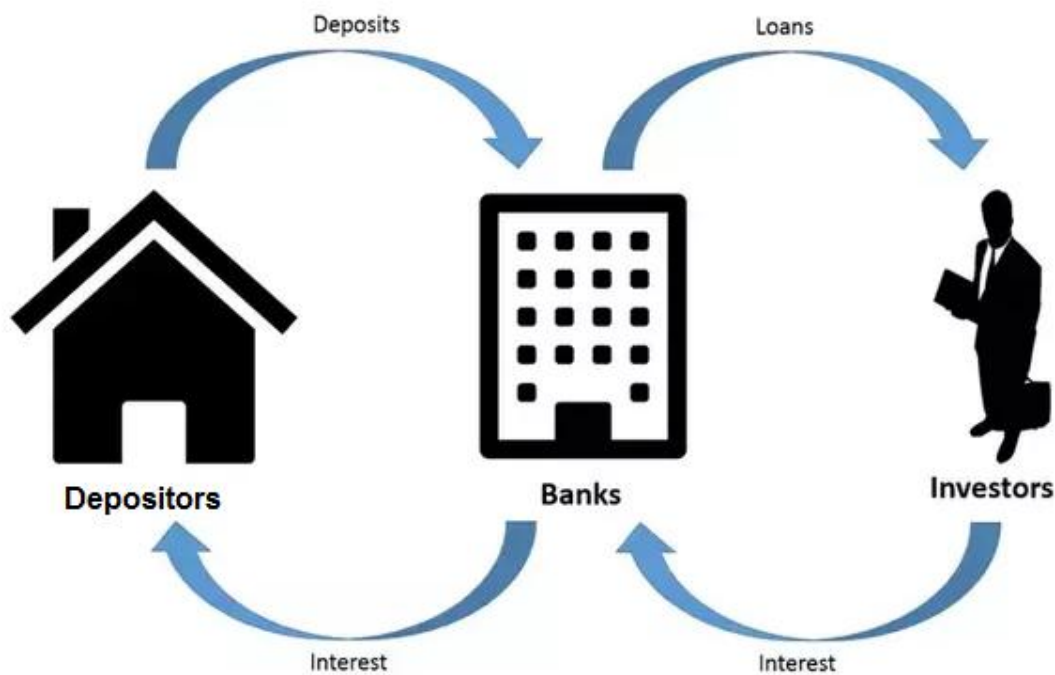


Figure 5: Bank as Financial Intermediary

## **Non-Performing Loan (NPL):**

---

Non-Performing loan is a loan which the borrower has missed to pay its scheduled interest payment or payment of the principle amount, generally for at least 90 days. A non-performing loan has much higher risk to default than a normal loan. If the borrowers start to repay again on their non-performing loan, the loan then becomes performing loan or regular loan; even if they hadn't repaid the entire missed payment amount. The timeframe of a loan becoming a non-performing loan depends on the category of the loan and also might depend on contract. Generally until 90 days from the scheduled payment day, a loan is considered as a regular loan. If the borrower miss the scheduled payment and pays that amount within 90 days, the loan will not consider as non-performing. Therefore, a loan will become non-performing if-

- i.** The borrower missed the scheduled payment and at least 90 days has past from the missed scheduled payment.
- ii.** No mention of any other terms or of day limits from the first missed payment date about the loan being non-performing.
- iii.** If mentioned in loan contract, the loan will become non-performing according to the contract agreement.

## Nature of Loans:

---

Based on the nature all loans can be divided into 4 different groups, which are-

- i. Continuous Loan
- ii. Demand Loan
- iii. Term Loan
- iv. Small & Agricultural Loan

i. **Continuous Loan:** The loan which does not have any predefined end date but has an expiry date within which the borrower has to repay the borrowed amount is considered as continuous loan. These types of loans have a credit limit and generally the expiry date is 1 year. If the borrower wants, s/he can continue the loan process. Generally continuous loan is taken for running the operations of a business. Therefore, it is working capital natured loan.

**Example:** Overdrafts (O/D), Cash Credit (CC), Loan against Trust Receipt (LTR), Loan against Imported Merchandise (LIM) etc.

ii. **Demand Loan:** The loans which are callable by banks and the borrower has to pay the loan when the bank calls can be termed as demand loan. The borrower can repay the loan amount when s/he has surplus money on hand, or when the bank demands the loan repayment. There is no fixed expiry date for demand loans. These loans are lump sum loans and the borrowers also repay the full amount all together. Demand loan is a working capital natured loan. It's a short term loan. These loans are generally issued for few days or months.

**Example:** Forced Loan against Trust Receipt (Forced LTR), Forced Loans against Imported Merchandise (Force LIM), Payment against Documents (PAD), Foreign Bill Purchased (FBP) etc.

iii. **Term Loan:** Loans which have a expiree date and are generally repaid by regular scheduled payments are called term loans. These loans are paid in installment process. Term loans are long period loans, generally last between 1 to 10 years, in special cases it may last for 30 years as well. Term loans are used to acquire fixed assets so these are used for capital machinery purchase and personal loans most of the time.

**Example:** Personal loans, Project Financing, Industrial Financing etc.

iv. **Short Term Agricultural Credit/ Micro Credit:** Short-Term Agricultural Credit or loans are the loans which are enlisted as short term credits under the annual credit program announced by Agricultural Credit Department of Bangladesh bank. These type of loans are generally has to be repaid within 12 months. Loans for agricultural sector which are repayable in 12 months are also enlisted in this group. These types of loans have a fixed credit limit which is up to TK. 25000. These loans can also include non-firm credit, self-employment credit, loom-loan or any other form depending on the service provided by the banks.

**Example:** Farmer's loan.

## Classifications of Loans:

---

Based on characteristics all loans can be primarily classified into 2 groups- unclassified and classified loans. These 2 groups total includes 5 different types of loans, which are-

- i. Standard Loan (STD)
- ii. Special Mention Account (SMA)
- iii. Sub-standard (SS)
- iv. Doubtful (DF)
- v. Bad/Loss (B/L)

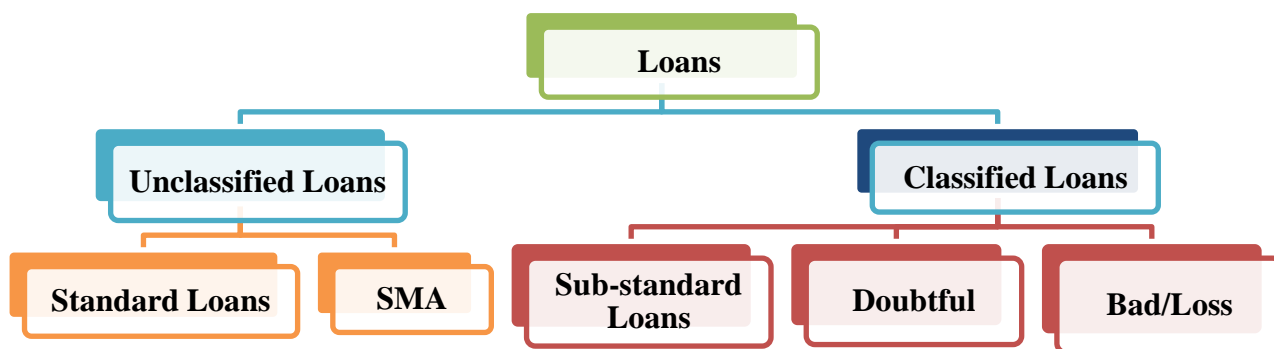


Figure 6: Classifications of Loans

### Unclassified Loans:

- i. **Standard Loan (STD):** Loans which are repaid according to their schedules are standard loans. These are unclassified loans.
- ii. **Special Mention Account (SMA):** When the borrower missed the first scheduled payment and paid it within 90 days of the scheduled date those are listed as Special Mention Account (SMA). There are some certain rules for a loan to be listed in SMA-

- ▶ **Regular loan:** If any loan was not paid within its expiree date.
- ▶ **Continuous and Demand loan:** If the loan payment was missed and was not paid up to 1 month.
- ▶ **Term Loan:** For monthly installment, from 2 up to 3 installments miss (not need to be consecutive) will be listed as SMA.

Standard loan and Special Mention Loan (SMA) represents the performing loan or unclassified loan. Interests from these 2 loans are added to bank income.

### Classified Loans:

**iii. Sub-standard (SS):** Sub-standard loans are the first stage of a loan being non-performing or classified loan. Loans are categorized as sub-standard when-

- ▶ **Continuous Loan:** it exits 3 months after expiree date. The time limit of a continuous loan to be sub-standard loan is from 3 months to up to 6 months.
- ▶ **Demand Loan:** it exits 3 months after expiree date. The time limit of a demand loan to be sub-standard loan is from 3 months to up to 6 months.
- ▶ **Term Loan:**
  - Up to TK 10 lac monthly installment- from 6 months to up to 9 months (from 6 up to 9 missed installments).
  - Up to TK 10 lac quarterly installment- first missed schedule of the installment.
  - Above TK 10 lac monthly installment- from 3 months to up to 6 months(from 3 up to 6 missed installments).
  - Above TK 10 lac quarterly installment- first missed schedule of the installment.
- ▶ **Short Term Agricultural Credit/ Micro Credit:** after a period of 12 months from the scheduled due date as per the loan agreement.

The interest charged in sub-standard loans are transferred in separate account head called ‘**Suspense Account**’. These interest amounts are not added with the bank income until and unless the accounts are being regularized.

**iv. Doubtful (DF):** This is the second stage of non-performing loan. Loans are listed as doubtful when-

- ▶ **Continuous Loan:** If it exits past 6 months or beyond but less than 9 months from its scheduled payment date.
- ▶ **Demand Loan:** If it exits past 6 months or beyond but less than 9 months from the date of expiry or claim by the bank or from the date of creation of demand loan.
- ▶ **Term Loan:**
  - Below TK. 10 lac monthly installment payment- from 9 month to up to 12 months.
  - Above TK 10 lac monthly installment payment- from 6 months to up to 9 months.
- ▶ **Short Term Agricultural Credit/ Micro Credit:** After 36 months from the scheduled due date as per the loan agreement.

For doubtful loans the interest is charged as per contract but the interests don't include with bank's income. These interests are includes in the suspense account.

**v. Bad/Loss (B/L):** This is the worst case of a non-performing loan. These types of loans have the highest possibility of being bad debts. Loans are listed as bad/loss when-

- ▶ **Continuous Loan:** It exits 9 months or beyond from the scheduled payment time.
- ▶ **Demand Loan:** It exits 9 months or beyond from the date of expiry or claim by the bank or from the date of creation of the demand loan.
- ▶ **Term Loan:**
  - Below TK. 10 lac monthly installment payment- over 12 months from the missed scheduled payment.
  - Above TK. 10 lac monthly Installment payment- over 9 months from the missed scheduled payment.
- **Short Term Agricultural Credit/ Micro Credit:** After 60 months from the scheduled due date as per the loan agreement.

No interests are charged on bad/loss categorized loans.



## Provisions against NPL:

---

Bank generally set aside a particular amount of money for the loan losses. This amount is determined by the classifications or the commodities on which the loans are been taken.

There are 2 types of loan loss provisions-

- i. General Provision
- ii. Specific Provision

### General Provision:

Banks maintain general provisions in following ways-

	<b>Subjects</b>	<b>Rate</b>
<b>1.</b>	All unclassified SME loans	<b>0.25%</b>
<b>2.</b>	All unclassified loans	<b>1%</b>
<b>3.</b>	Unclassified consumer financing	<b>5%</b>
<b>4.</b>	Unclassified Housing Finance and Professional Loans to set up business under Consumer Financing Scheme	<b>2%</b>
<b>5.</b>	Unclassified Loans to Brokerage House, Merchant Banks, Stock dealers	<b>2%</b>
<b>6.</b>	Outstanding amount of loans kept in the Special Mention Account (SMA)	<b>5%</b>
<b>7.</b>	Off-balance sheet exposures	<b>1%</b>

**Table 4: General Provisions of Loan Losses**

## Specific Provisions:

	<b>Subjects</b>	<b>Rate</b>
<b>1.</b>	Sub-standard	<b>20%</b>
<b>2.</b>	Doubtful	<b>50%</b>
<b>3.</b>	Bad/Loss	<b>100%</b>
<b>4.</b>	All credits except Bad/Loss for Agricultural and Micro Credit	<b>5%</b>
<b>5.</b>	For Bad/Loss in Agricultural and Micro Credit	<b>100%</b>

**Table 5: Specific provisions of Loan Losses**

According to BRPD-14 the rate of provisions are-

## **Rate of Provision:**

<b>Particulars</b>		<b>Short Term Agri. Loan</b>	<b>Consumer Financing</b>			<b>SMEF</b>	<b>Loans to BHs/MBs/SDs</b>	<b>All Other Credits</b>
			<b>Other than HF, LP</b>	<b>HF</b>	<b>LP</b>			
<b>Un-Classified</b>	<b>Standard</b>	5%	5%	2%	2%	0.25%	2%	1%
	<b>SMA</b>	-	5%	5%	5%	5%	5%	5%
<b>Classified</b>	<b>SS</b>	5%	20%	20%	20%	20%	20%	20%
	<b>DF</b>	5%	50%	50%	50%	50%	50%	50%
	<b>B/L</b>	100%	100%	100%	100%	100%	100%	100%

**Table 6: Rate Provision of BRPD 14**

## The Effects of NPL on Banks:

---

Non-performing loans cost a lot on a bank on the way of its progress. It-

- i. Diminishes Asset Quality:** NPL diminishes the asset quality of a bank. Loans are the assets for a bank. When a loan becomes NPL, the asset loses its value and becomes a liability. This decreases the total asset amount of a bank.
- ii. Increases the Cost of Funds:** For NPL bank has to maintain some provisions for ensuring the future payments of the depositors. This increases the cost of fund of the bank.
- iii. Decreases the Profitability of the Bank:** If a bank cannot manage to get a loan repaid, it becomes bad debt. The bank still has to repay the depositors when they demand to withdraw their money. In this case, bank need to pay the deposited amount from its own profit, which decreases the total profit of the bank.
- iv. Decreases the Overall Credit Rating of the Bank:** If a bank cannot manage to collect its loan amounts it will face tremendous problem as it will lose its credibility to repay the depositors properly, moreover its profit will decrease continuously. It will face challenges to do business with foreign banks. All of which will lead to poor credit rating of the bank.
- v. Decrease the Capacity of Loan Sanctioning:** When a loan becomes non-performing, provisions to be kept against the said loan. As a result the option of farther sanctioning loan hampered since the provision to be kept from the profit portion which could be farther invested by keeping retained earnings.

## Factors of NPL

---

Many causes can work as a factor for a loan to become NPL. Some of them are stated bellow-

- 1. Market Recession:** Market recession means non/slow/negative economic growth of a country. When the country's economy is facing the recessionary period all the business and other financial and non-financial institutions take the direct hit of it. People and businesses have less cash inflow so they cannot pay the loans timely.
- 2. Willful Defaulter:** Sometimes people willingly don't want to repay the loans. They take loan with the plan in mind to not repay it in future.
- 3. Sluggishness of Business:** Every business has its own business cycle. In every business cycle there are 4 phases- recession, growth, maturity, decline. If a business is in recession or growth phase, the inflow of cash may not be that good to pay out the loans timely. This maybe the cause of a loan being listed as non-performing loan.
- 4. World Economic Recession:** When the world economy is going under a recessionary period it effects on other countries economy also. So, is there is a world economic recession going on it might be the reason of some of the loans becoming NPL.
- 5. Poor Monitoring by Bank:** If the bank doesn't monitor its loans properly then the borrowers might not pay the loans in scheduled times which can turn the loan into a non-performing loan.
- 6. Fund Diversification:** Sometimes the loans are used in other purpose other than the loan was taken in the first place. This can be one of the causes of a loan being non-performing. Like, a loan might be taken for starting a new business, but in reality the loan was used for buying personal stuffs; in this case this loan might be end up a non-performing loan as the borrower wasn't having any income to repay the loans which he could have if he invested the loan amount in business.

- 7. Too Many Market Player:** If the industry has too many competitors, business faces much pressure to make profit even to sustain in the market. This can be one of the reasons for the loans become NPL as if the financial situation of the business is not good, it's natural that the business won't be able to repay their loans.
- 8. Improper Use of Fund:** If the money taken as a loan is invested unwisely that can be a huge disaster for the business, which can be also resulted in becoming the loan non-performing.
- 9. Lack of Business Experience and Institutional Training Background:** Sometimes people want to do business without having proper idea of doing business. These people most of the time invest from equity and try to get some bank loans. Banks generally doesn't disbars loan to a person/ company if they are not capable of repaying them, but in this case as the business holders are not experienced and don't have institutional training to deal with the bad conditions in business and financials, this type of loans can turn into be non-performing sometimes.
- 10. Unattractive Industry:** If the industry in which the business is running goes out of market, the loans which are disbursed to the business can be non-performing. Like, a while ago billboard business was very popular and many business man invested lots of money in their business taking loan from banks. When government ordered against the use of so many billboards, this industry was out of market and so does the businesses. Therefore, most of these loans became non-performing.
- 11. Misuse of Political Powers:** Sometimes big amount of loans becomes non-performing and banks cannot collect the money for the misuse of borrower's political powers. Several political leaders also involve in these type of activates which makes the situation worse for banks to recollect the loan amount back. Example: Farmers Bank.

## Symptoms of NPL

---

There are some common signs from it can be determined beforehand if a loan is going to be non-performing or not. Here are some of the symptoms that might help to indentify a non-performing loan before hand-

- **Warning Signs from Borrowers-** Banks always stays in contact with the loan borrowers. When the borrower misses his/her first scheduled payment bank call the borrowers to let him/her know the situation and to know why s/he missed the scheduled payment. If the borrower don't receive the calls or don't co-operate with the bank this might be a sign of that loan being non-performing.
- **Warning Signs from Third Parties-** Banks sometimes collect information about the borrowers from third parties. If the borrower is a company then the bank collects information from the competitors of them from the same industry. If the borrower is an individual person bank might collect information from the introducer of that person.
- **Warning Sign from Other Banks-** Every bank collects a CIB report of their clients who interested to take loan holders from Bangladesh Bank. If the bank wants it can check the CIB report of the clients they want to sanction loan. If the client had taken any loan before from other banks, his/her CIB report can be checked if there's any bad scheduling (SS,DF,B/L) of his/her previous loan. If the report is good, the bank might sanction loan to that person/ company.

## Monitoring of NPL

---

For any loan which has the tendency of turning into NPL or which is already listed as NPL needs monitoring very closely by the bank for not being a bad debt. For this bank do some certain things to monitor their loans, which are-

- **Verbal communication-** Banks maintain verbal communications with their borrowers through phone calls. If any borrower misses any scheduled payment bank call the borrower to remind that fact and try to know why s/he missed the payment date. This communication helps the bank to know the current situation of the borrower and also helps to maintain a good relationship with the client.
- **Formal Letter-** If the loan has already being listed as non-performing loan, bank sends formal letter to the borrower to let him know the situation and also the consequences he might face for the loan being non-performing, also to request him to pay the loan as soon as possible.
- **Physical Visit-** If above factors doesn't get responded by the borrowers; bank sends officers to visit that person/ business place to know why they are not repaying the loans or the situation of the business. The officers try to collect some loan amount in their physical visit and also let the borrower know about the bad effects of a loan being non-performing. The officers also try to find out why the person or the company is not paying the loans properly.

If any borrower cannot repay his/her loan, the bank sells the collateral security in auction and try to recover their loans. If the loan amount is up to TK 50,000 the bank doesn't file any case on the borrower. If the amount is above TK 50,000 the bank file case against the defaulter in court.

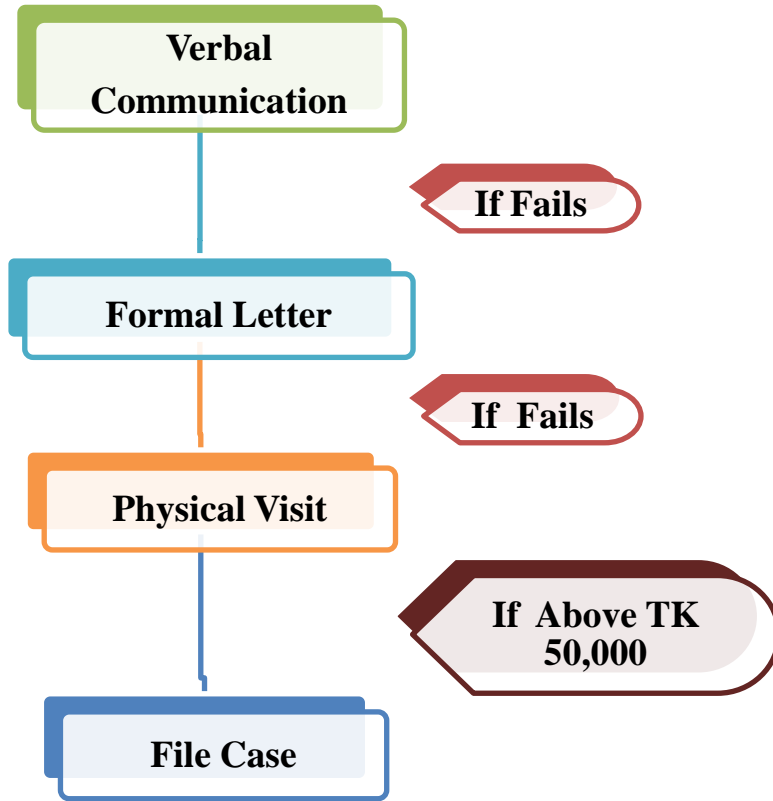


Figure 7: Monitoring of NPL



## Rescheduling of Loan

---

When it seems that a non-performing loan is not possible to pay on time, the borrower can ask for a reschedule of the loan facility date for the smooth loan repayment. According to BRPD 15 any loan can be rescheduled 3 times. For rescheduling any loan, a bank should check certain things first-

- **Why the Loan was Not Paid on Time-** The bank will look for any valid reason for missing the scheduled payment date. If the reason satisfies the bank, the loan can be considered for rescheduling.
- **Draining (Loan Diversification) -** Bank will try to find out whether the loan has been diversified or not. If the loan was not diversified and used on the cause it was taken then the bank might consider of rescheduling of the loan.
- **Willful Defaulter-** The bank will try to find out if the borrower is a willful defaulter or not. For this bank might check the CIB reports of the borrower/ company. They can also try to collect information about the default borrower/ company from third parties to find out if they are willful defaulter or not. If the information satisfies the bank, i.e. the client is not a willful defaulter; they might consider rescheduling the loan.
- **Financial Situation-** Bank will look for the financial solvency of the borrower if he can pay up the loan amount or not. For company bank can send officers to visit the company office and get to know the real situation of their business. If the bank is satisfied with the financial situation then it might consider rescheduling the loan amount.

## Time limits for rescheduling of loans

There are different time limits for rescheduling loans. The time limits for different loan types are stated below-

### ▶ **Continuous Loan:**

<b>Frequency</b>	<b>Classified as Sub-standard</b>	<b>Classified as Doubtful</b>	<b>Classified as Bad/Loss</b>
<b>First Rescheduling</b>	Maximum 18 months from the date of rescheduling.	Maximum 12 months from the date of Rescheduling.	Maximum 12 months from the date of rescheduling.
<b>Second Rescheduling</b>	Maximum 12 months from the date of rescheduling.	Maximum 09 months from the date of Rescheduling.	Maximum 09 months from the date of rescheduling.
<b>Third Rescheduling</b>	Maximum 06 months from the date of rescheduling.	Maximum 06 months from the date of Rescheduling.	Maximum 06 months from the date of rescheduling.

**Table 7: Rescheduling of Continuous Loans (BRPD 15)**

- For continuous loans during the rescheduled period all the required (principal & interest amount) payments should be made.
- Rescheduled amount should be paid in monthly installments.
- If again the defaulted amount cross 3 months (3 installments), the loan will be classified as Bad/Loss.

► **Demand Loan:**

<b>Frequency</b>	<b>Classified as Sub-standard</b>	<b>Classified as Doubtful</b>	<b>Classified as Bad/Loss</b>
<b>First Rescheduling</b>	Maximum 12 months from the date of rescheduling.	Maximum 09 months from the date of rescheduling.	Maximum 09 months from the date of rescheduling.
<b>Second Rescheduling</b>	Maximum 09 months from the date of rescheduling.	Maximum 06 months from the date of Rescheduling.	Maximum 06 months from the date of rescheduling.
<b>Third Rescheduling</b>	Maximum 06 months from the date of Rescheduling.	Maximum 06 months from the date of Rescheduling.	Maximum 06 months from the date of rescheduling.

**Table 8: Rescheduling of Demand Loans (BRPD 15)**

- For demand loans during the rescheduled period all the required (principal & interest amount) payments should be made.
- Rescheduled amount should be paid in monthly installments.
- If again the defaulted amount cross 3 months (3 installments), the loan will be classified as Bad/Loss.

► **Term Loan:**

<b>Frequency</b>	<b>Classified as Sub-standard</b>	<b>Classified as Doubtful</b>	<b>Classified as Bad/Loss</b>
<b>First Rescheduling</b>	Maximum 24 months from the date of Rescheduling	Maximum 18 months from the date of rescheduling	Maximum 18 months from the date of rescheduling
<b>Second Rescheduling</b>	Maximum 18 months from the date of rescheduling	Maximum 12 months from the date of rescheduling	Maximum 12 months from the date of rescheduling
<b>Third Rescheduling</b>	Maximum 12 months from the date of Rescheduling	Maximum 09 months from the date of rescheduling	Maximum 09 months from the date of rescheduling

**Table 9: Rescheduling of Term Loans (BRPD 15)**

- For term loans during the rescheduled period all the required (principal & interest amount) payments should be made.
- Rescheduled amount should be paid in monthly/quarterly installments.
- If again the defaulted amount cross 6 months (2 quarterly installments), the loan will be classified as Bad/Loss.

► **Short-term Agricultural and Micro-Credit:**

<b>First Rescheduling</b>	Repayment time limit for rescheduling should not exceed 2 years from the date of rescheduling
<b>Second Rescheduling</b>	Maximum 1 year from the date of rescheduling
<b>Third Rescheduling</b>	Maximum 6 months from the date of rescheduling

**Table 10: Rescheduling of Short-term Agriculture and Micro-credit Loans (BRPD 15)**

- If the loan becomes default after third rescheduling, the borrower will be treated as a habitual loan defaulter and the bank shall not consider for further loan rescheduling.
- Approval of loan rescheduling cannot be made below the level at which it was originally sanctioned.
- A detailed report including implications of the loan rescheduling on the income and other areas of the bank should be placed to the approving authority at the time of placing the rescheduling proposal.

## Write off

---

Write off means omitting the bad debts from the balance sheet with 100% provision; list it in off-balance sheet items and maintaining a manual register for the loan to monitor its further status. If the loan amount is up to TK 50,000 it can be directly write off to off-balance sheet items and follow the normal procedure but if the amount is above TK 50,000 bank will place a case against the defaulter and then start the write off procedure.

- For all write off loans there should be 100% provision kept before the loan has been omitted and placed in off-balance sheet items.
- The oldest bad debts get the priority to list as write off.
- A manual register should be maintained to follow up the write off loans and to calculate interest on the loan amount. The interest is 12% on the unrecovered loan amount for above TK 50,000 loans. For up to TK 50,000 loans interest rate is on the percentage the loan has been taken from bank.
- If the bad debt recovers, the full amount goes to income as 100% provision has already been secured for the loan amount.

## Statement of the Problems

Proper amount of the flow of investment and savings is essential for the economic development of any country. Bangladesh faces many challenges like bad debts, underdeveloped capital market etc which are mainly depend on the enlistment of the deposits and disbarment of credit facilities to the investors by the commercial banks. The performance of the financial sector of Bangladesh depends on how the commercial banks are running. As loans are the assets of the banks, non-performing loans becomes liabilities for banks. NPL's don't earn interests which is income for the banks. NPL's also decrease the loan able funds of the banks which disrupts the cycle of banking business. For every NPL banks need to reserve provision amount to cover its liabilities. These provisions are cut from banks' profit, which decreases the total profit amount of the banks, and for this reason banks face low capital base problem which ultimately have a negative impacts on the overall banking industry.

### GROSS NON-PERFORMING LOANS OF BANKING SECTOR

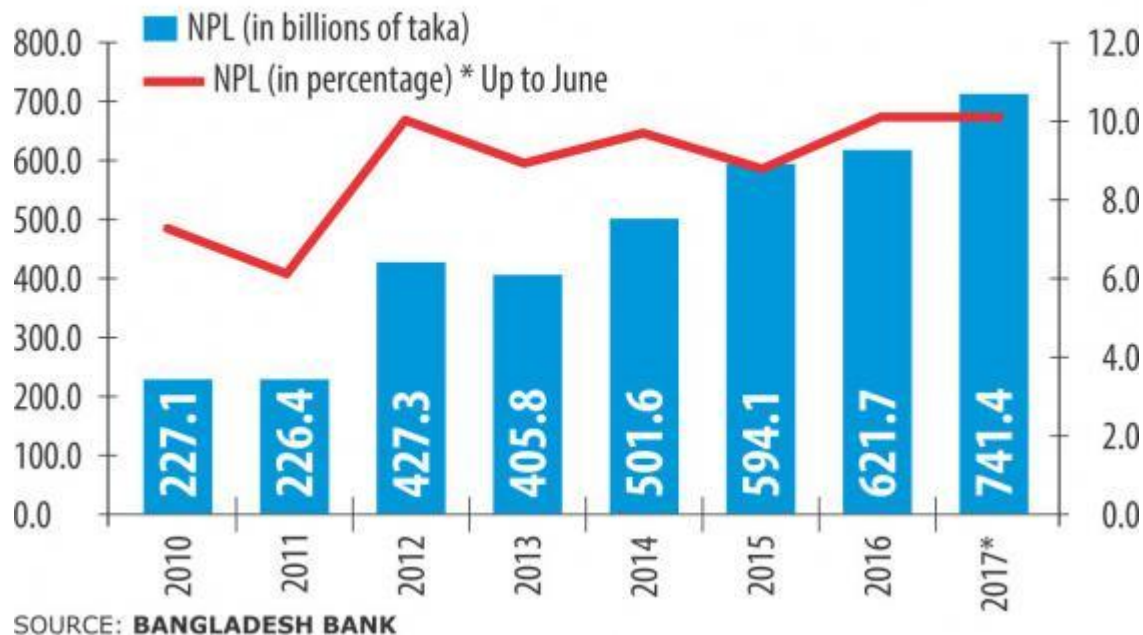


Chart 2: Gross NPL form 2010-2017

High volume of NPL is very distressing for the economy. If the invested funds in the economy are not recovered, it limits the cycle of the funds which were reduced by the amount of NPLs and lead to economic stagnation. The provisions of the NPLs not only reduce the profitability of the banks, it also reduces the return on investment (ROI) and capital adequacy ratio (CAR). NPLs increase the cost of capital and make the imbalance of assets to liabilities' which upsets the economic value additions by the banks. Banks might face liquidity crisis if the NPL goes up dramatically.



Chart 3: NPL Trend of Bangladesh

Slow inflow of cash has a very negative impact on any Business. When NPL increases, the earnings from interest are stopped. However the cost of funds, the cost of management and operational costs remain the same. To maintain these costs, the existing lending prices are increased. This sudden increase of interest makes new borrower hard to return their money to the banks. So rate of investments eventually decreases.

NPL affects opening Letter of Credit (LC) to the bank and also worse the health condition of the bank. International importers always look for the exporter's banks with healthy health condition. Low rate of LCs makes low earnings for the bank.

NPL and interest rates are positively related. When NPL increases, the other loans also become more risky. So the rate of interest also increases to cover the risk and get enough return from it.



After the hit of global economic resection, banks are now re-examining their business profile, capital requirement and other strategic properties against BASEL III. In future, banks and financial institutions might face extreme competitions and might fail to give good dividends to shareholders. Merger and acquisition might be the final solution of this problem as this will reduce the number of banks and financial institution ultimately decreasing the competition.

## Scope of the Report

---

- There were many opportunities to interact with the manager of the branch and also the credit-in-charge for the purpose of learning the process of loan.
- Directly involved in the preparation of loan proposal, bank guarantee, undertaking, CIB report and many more things related to loans.
- There was opportunity to directly learn about loan recovery process.
- Directly observed the monitoring of non-performing loans along with other loans.
- Directly involved with the general banking activities.

## Limitation of the Study

---

Following limitations occurred during the study and the time of working and data collection-

- Time wasn't sufficient to make in depth study on such issue.
- Unavailability of information in company website.
- All of the client information was confidential so it was hard to collect.
- As the fiscal year is July to June, the information of 2017 was not available till now in April 2018.
- Annual Report of MMBL has some flaws and some information is misleading.

## **Objectives of the Report:**

---

For this report the objectives are-

### **Primary Objective:**

The primary objective of the report of the internship program is to accustom students with the actual circumstances and to fulfill the partial requirement of BBA program to obtain graduation degree.

### **Secondary Objectives:**

The particular objectives of this study are follows:

- To obtain knowledge on Non-performing Loans of Bangladesh and especially on Modhumoti Bank Limited.
- To gather an overall knowledge of loan and advances of Modhumoti Bank Limited.
- To get the opportunity of direct involvement in the procedure of loaning system and also get a overall idea of handling the process of Non-performing loans in Modhumoti Bank Limited.
- To understand and analyze prospects and problems of Non-performing loans of Modhumoti Bank Limited.
- To analyze and evaluate the NPL policy of Modhumoti Bank Limited.

# Review of Related Literature

---

Non-performing loans are the assets from which banks can no longer get any scheduled installment payments or cannot add any income to its profit. It is a very serious problem yet it's a very common occurrence in the scenario of Bangladesh banking sector. The increasing amount of non-performing loans in the economy discourages the investors to invest which leads the economy to slow down more rapidly. The non-performing loan phenomena are not new to the Bangladeshi banking sector but in recent years the amount of loans being non-performing has increased in an alarming rate. The cause of this rapid growth of non-performing loans can be excessive political interference and misuse of political power of the borrowers. The amount of NPL doubled within the last 8 years. In 2007 the total amount of NPL was TK 200.1 billion, in 2013 it became TK 427.3 billion and the next year in 2014 it became TK 523.1 billion. The scenario is worst for state owned commercial banks than the private ones. Research shows that in last 8 years the NPL for state owned commercial banks were 50% or above against the total loan amount, where the private commercial banks had only 5-10% NPL of the total loan amount. Bangladesh bank has given ultimatum to 11 local and foreign banks to maintain and reduce their NPL under 10% of their total loan amount. (Masum, 2014)

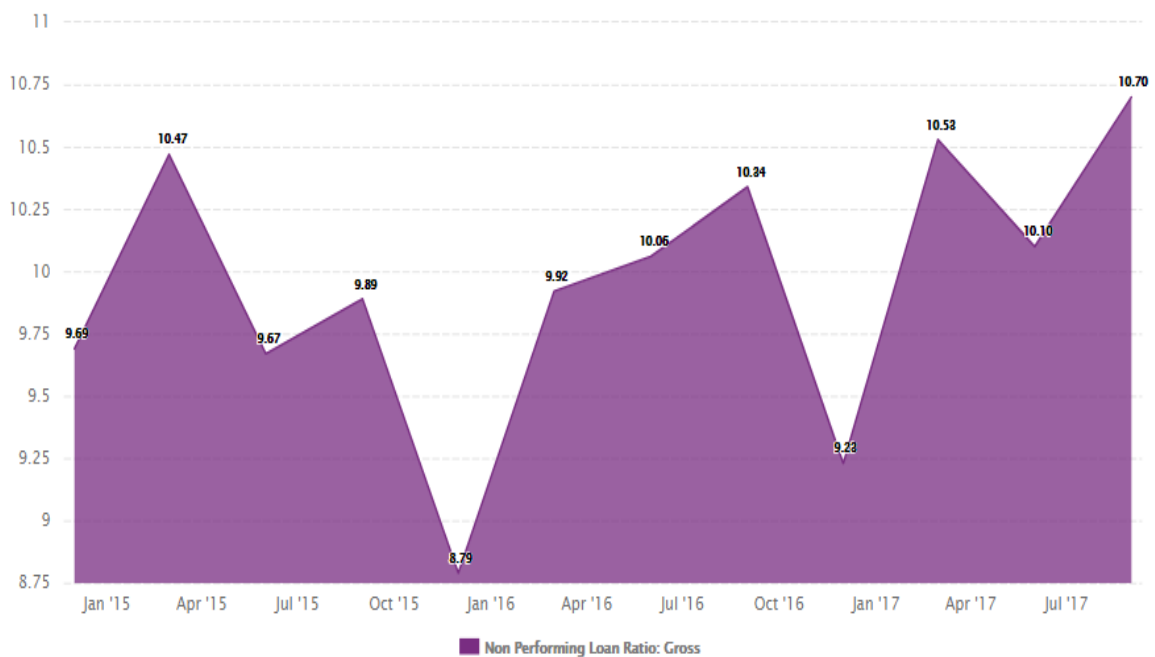
As the ratios of non-performing loans are still very high Bangladesh Bank has requested commercial banks to focus on their monitoring process of the non-performing loan. The ratio of the non-performing loans against the total loan amount is 10.13% which is much higher than the international average. The total amount of NPL, according to recent data of Bangladesh Bank, is TK 74,148.54 crore; and the state owned commercial banks are having the major part of these liabilities. Of this total NPL, 8.42% (TK 61,602.87 crore) has listed as Bad/Loss, which means there's very little possibility of recovering this loan amount. For this huge amount of bad debts banks have been facing provision shortfall of TK 6,161.50 crore and interest suspense of TK 19,500.00 crore which are decreasing the banks' profits tremendously. On June 2017 the total amount of loan was TK 7,31,625.75 and the amount of doubtful loans was TK 509.00 crore. On September 2017 the total amount of classified loans of banks were 58,877.00 crore which is 9.26% of the total bank loan amount. According to the report of Bangladesh Bank the state owned commercial banks are having the most of the NPL which is 26.84% (TK 34,580.65 crore) of total loan amount at that period. The amount of NPL of the state owned banks are TK 424 billion in March 2017, which has been increased by TK 276 billion over the last 6 years. As these is the scenario of state owned banks, the bank management aren't that much careful of their management and monitoring of loans as

they have little to no fear of losing jobs and can earn salaries irrespective of the banks' performance. (Ahmed, 2017)

According to the CIB report of Bangladesh Bank, total 213,532 individuals and companies were defaulters in the bank and financial institutions in November 2016. (Ahmed, 2017)

Research shows that non-performing loan ratios of Bangladesh were 10.7% against the total loan amount in September 2017, while the previous quarter's ratio was 10.1%. Non-performing loans ratio data is updated quarterly, available from March 2003 to September 2017. The ratio hit an all time high of 28.0% in March 2003 and was recorded lowest of 6.1% in December 2011. (Bank, 2018)

According to the latest report, the money supply of Bangladesh has increased 10.8% in November 2017. The Foreign Exchange Reserve was UDS 31.30 billion in December 2017. The Domestic Credit reached USD 115.4 billion in November 2017 which is increased by 14.5% over the year. (Bank, 2018)



**Chart 4: Non-performing Loan Ratio of Bangladesh (2015-2017)**

According to Bangladesh Bank, the total provision shortfall money amount was TK. 43.81 billion up to 30<sup>th</sup> September 2016, which was comparatively lower than the amount of TK. 44.45 billion at June 2016. The scheduled banks are bound to keep a portion of money from their profits for the provisions of the non-performing loans as per the rules of Bangladesh Bank to avoid the risks and to maintaining the capital base. However, a large number of banks are facing challenges of shortfall of financial capitals because of large number of non-performing loans and low profitability from the operations. (Hossain, 2017)

The total amount of write-offs has been increased from TK 41,437.27 crore to TK 42,321.96 crore within the period of March 31, 2016 to June 30, 2016. Write-offs usually increases when the amount of defaulted loans are increasing in the industry. Bangladesh Bank has introduced a guideline for writing off the non-performing loans in 2003 to improve the loan recovery system and to make the more accountable and transparent financial statements of the banks. According to this ordinance, the non-performing loans which are over 5 years old shall be listed as write-off bad loans. (Hossain, 2017)

# Methodology

---



## Data Collection

---

In this thesis paper most of the data are collected from secondary resources. I have taken help from articles, thesis papers, books, newspaper etc. which was published online. I also took help from some online websites to do my research work. Some information has been included from personal experiences of my internship in MMBL. [Appendix 7]

## Sample Collection

---

For this thesis paper the population is NPL of every bank of Bangladesh as I am doing the research paper on non-performing loan & bank performance, emphasizing on Modumoti Bank Limited. Therefore, I collected the recent NPL amount of Modhumoti Bank Limited and the total amount of NPLs of Bangladesh in recent years.

## Timeline

---

The timeline of this thesis paper is from 2013 to 2016. For the overall research some of the data has been taken from 2007, 2010, 2012 but most of the data are taken from 2013 to 2016.

# Analysis

---

Analysis is used to know the relationship between the variables and how they affect each other. As the topic of this research paper is non-performing loans and bank performance, I will try to show the relationship between NPL and bank performance.

Any bank's performance can be measured by its profitability, ROA, EPS, NAV, deposit amount, interest rates, customers' satisfaction level towards the bank etc. Therefore, I am going to run the analysis on some of these variables against NPL and determine the effect of NPL on these variables.

For any statistical test like T-test, Z-test or regression analysis we have to determine the sample mean, population mean, standard deviation etc. to conduct the test. In this research I have got only the value of 2016 MMBL's non-performing loan, which was not enough for running any statistical tests. Therefore any statistical test could not be done with the data.

Non-performing Loans and profitability has the negative relationship between them, which means if the NPL increases, the profitability of the bank decreases and vice versa. As Modhumoti Bank Limited is a new bank so the amount of NPL is very insignificant till now. So, the analysis might not show that much significant effect on the variables.

## Effects of NPL on Net Profit of MMBL

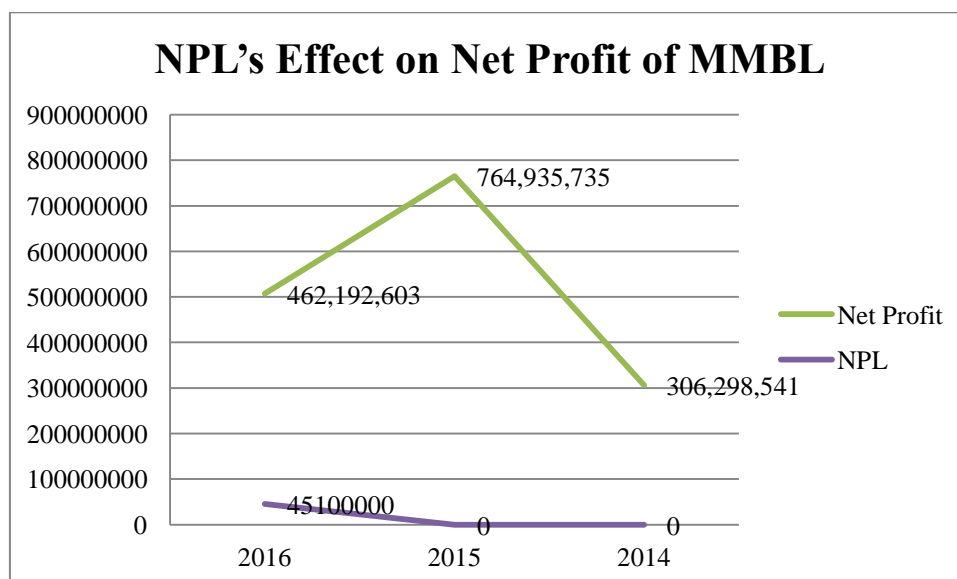
Generally when the amount of NPL rises, the profit of the bank falls. As a new bank MMBL has few NPLs still we will try to assess how the NPL has affected its net profit after tax.

Year	Net Profit	Total Loan Amount	NPL	Percentage of NPL Amount
2016	462,192,603	1713,86,00,000	4,51,00,000	0.26 %
2015	764,935,735	9983,04,00,000	0	0%
2014	306,298,541	4130,90,00,000	0	0%

[Appendix: 1]

**Table 11: Effect of NPL on Net Profit**

Form the table we can see that NPL was 0 in 2015 which increased to TK 6, 22, 00,000 in 2016. Also, the net profit after tax has also decreased in 2016. From the profit and loss statement [Appendix: 2] we can say that in 2016 the total provision amount has increased from the amount of 2015, and a big amount is contributed by provision for loans and advances which decreased the total net profit of MMBL.



**Chart 5: NPL's Effect on Net Profit of MMBL**

Therefore, NPL is negatively affecting the net profit amount of the bank.

## MMBL's ROA Analysis against NPL

---

Return on Assets (ROA) determines how a company is using its resources to earn profit. If the asset amount decreases, the ROA might increase. Loans are the assets of banks. When a loan becomes NPL, the total asset amount decreases but that also decreases the net profit of the bank.

Year	Net Profit	Total Asset	ROA	NPL
2016	462,192,603	32,424,511,226	1.43 %	4,51,00,000
2015	764,935,735	23,765,501,499	3.22 %	0
2014	306,298,541	16,375,015,081	1.87%	0

[Appendix: 3]

**Table 12: Effect of NPL on ROA**

As the NPL amount was 0 in both 2014, 2015 and increased in 2016, we will do the analysis on 2015 and 2016 to see the effect of NPL on the bank's ROA. From the balance sheet [Appendix: 4] we can see that the total amount of assets has been increased in 2016 from 2015. The net profit after tax has decreased in 2016 than 2015. As a result, the ROA has decreased in 2016 [Table 12]. The higher the ROA amount the better which means bank is making more profit with less investment. In 2016 the ROA decreased because of the lower net profit amount and also the higher total assets amount. Which means with higher investments bank couldn't make that much profit like 2015.

## Effects on EPS and NAV of NPL

---

EPS is Earnings per Share which determines the profit every outstanding stock gets. NAV is Net Asset Value which determines the value of the assets of the company after subtracting its liabilities from the total asset.

Year	Earnings Per Share (EPS)	Net Assets Value (NAV)
2016	1.02	12.04
2015	1.69	12.22
2014	0.68	10.84

[Appendix 5, 6]

**Table 12: EPS & NAV of MMBL (2014-2016)**

From the above table we can see that the EPS has decreased in 2016 than 2015 because the net profit after tax was lower in 2016. Also, though the total amount of assets increased the NAV decreased which means the liabilities were also high in 2016 which lowered the NAV amount.

## Recovered Amount of NPL of MMBL (in 2016)

---

The total recovered amount of NPL in 2016 was TK. 8.93 million. In 2016 the total amount of NPL was TK.4,51,00,000 which means 19.80% of the total NPL amount has been recovered within the same year, which is a very good sign for the bank.

## NPL's Effect on the Deposit Amount of MMBL

---

When the NPL amount increases tremendously the clients might not be interested in saving their money in the bank. So high amount of NPL can decrease the deposit amount of the bank.

Year	Figures in million BDT					
	2016		2015		2014	
Components	Amount	%	Amount	%	Amount	%
Current and Other Demand deposit	3,266.34	14	1,050.33	6	375.44	4
Savings Deposit	4,352.58	19	351.87	2	177,264	2
Special Notice Deposit	1,726.62	7	3,709.29	22	1,699.33	17
Fixed/ Term Deposit	13,958.20	60	11,791.93	70	7,585.72	77
Total	23,303.74	100	16,903.42	100	9,838.13	100

**Table 13: Deposit Amount of MMBL (2014-2016)**

Here, we can see that the total deposit amount of 2016 is the highest though from previous analysis we have seen that the NPL amount of 2016 was the highest. For Modhumoti Bank Limited we can say that the increase of NPL did not affect the deposit amount of the bank.

## NPL's Effect on Interest Rates of MMBL

---

Generally if the NPL amount is high, banks increase their products' interest rates to cover/ minimize their NPL's provision effect on the income statement. Provisions decrease the net profit amount, where interest adds to the income of the bank.

Modhumoti Bank Limited is a very new bank and for that the NPL amount is very low. Till now the NPL amount has not affected the interest rates in any ways.

# Findings

---



Non-performing loans are always negative for any banks performance, which eventually affects the country's economy. While working with this topic the following subjects seemed most important about NPL and the profitability of banks-

**1. Increase of the NPL Amount:** Over the years, the NPL amount has been increasing which is negatively affecting country's banking sector. The main causes of increasing NPLs are-

- ▶ Not monitoring the loans properly
- ▶ Misuse of the political power
- ▶ A large number of competitors in banking sector
- ▶ Willful defaulter
- ▶ Unattractive business industry

**2. Large Number of Banks and Financial Institutions Compared to our Economy:** Right now Bangladesh has 57 banks, which has a lot of branches all over the country. There are many non-banking financial institutions, leasing companies etc. which are also playing important role in country's financial sector. To be in the competition and to be the leader in the industry, some banks become too much flexible while giving the loans without taking proper documents of the borrower whether s/he can repay back the loan or not. Sometime to encourage people to do business, like SME, some banks also give extra benefits of taking loans. However, research shows that most of these loans become NPL.

**3. MMBL's Policy of NPL:** MMBL is very cautious about giving loans and monitoring the loans. While disbursing any loan MMBL takes all the needed documents and check their financial situation properly. After disbursing the loan, the correspondent officers always monitor the loan and get up to date with the borrower and the loan situation.

**4. NPL's Effect on MMBL's Performance:** Modhumoti Bank Limited is a very new bank started in 2013. As a new bank, the NPL amount of this bank is very low, which hasn't affected the bank's profitability that much. The effects of NPL were-

- ▶ Decrease in net profit in 2016 due to loan loss provision.
- ▶ Decrease in ROA in 2016 due to lower Net Profit and greater total Asset amount.

# Recommendation

---

After assessing the drawbacks here are some recommendations to MMBL to reduce the risk of more loans being classified and overall improvement-

- 1. Separate Software for NPL Monitoring:** To monitor the classified loans after the write-off a manual register is maintained. If the manual register is replaced by software specifically used to monitor the written-off NPLs that might help the recovery of the loan amount more feasibly.
- 2. More People Recruitment for the NPL Section:** To monitor and communicate with the borrower, a different section can be opened and recruit more and experienced people who know how to monitor classified loans and get the repayments.
- 3. Increase of employee Benefits:** MMBL can give their employees some facilities like transportation facilities, with pay maternity leave (without any condition like job has been permanent or not), increase of bonuses and remuneration, awarding employees for their good performances (i.e. employee of the month/ employee of the year) etc. which will make the employees to feel more valued by the company.

# Conclusion

---

The NPL has always raised concerns among the policy makers. Bangladesh Bank took various measures to lessen the growing extent of classified loans. It has used diverse guidelines, loan re-scheduling facilities, introduction of CIB record, waiver of interest etc. to reduce this excessive extent of NPL. However, things have failed to produce the desired final results. Even though rescheduling reduces the amount of NPL, it cannot be a solution to itself. Loans are rescheduled after the harm is already done. Therefore, to reduce the NPL amount, before giving the loan proper documentation of necessary papers and full disclosure of the financial situation of the borrower is needed. Monitoring of loans should also be increased so that bank could know if the loan is going to be problematic so that bank can take proper actions to save the loan from being non-performing.

# Bibliography

---

1. Ahmed, F. (2017, September 22). *Banking sector still in red with high NPL*. Retrieved March 17, 2018, from [www.observerbd.com](http://www.observerbd.com):  
<http://www.observerbd.com/details.php?id=96166>
2. *Annual\_Report\_2015.pdf*. (2016). Retrieved March 1, 2018, from [www.modhumotibankltd.com](http://www.modhumotibankltd.com): [https://www.modhumotibankltd.com/wp-content/uploads/2016/05/Annual\\_Report\\_2015.pdf](https://www.modhumotibankltd.com/wp-content/uploads/2016/05/Annual_Report_2015.pdf)
3. *Annual\_Report\_2016.pdf*. (2017). Retrieved March 1, 2018, from [www.modhumotibankltd.com](http://www.modhumotibankltd.com): [14http://www.modhumotibankltd.com/wp-content/uploads/2014/05/Annual\\_Report\\_2016.pdf](http://www.modhumotibankltd.com/wp-content/uploads/2014/05/Annual_Report_2016.pdf)
4. Bank, B. (2018, January). *Bangladesh non-performing-loans-ratio*. Retrieved March 17, 2018, from [www.ceicdata.com](http://www.ceicdata.com):  
<https://www.ceicdata.com/en/indicator/bangladesh/non-performing-loans-ratio>
5. *BRPD-15*. (2013). Retrieved February 24, 2018, from [www.bb.org.bd](http://www.bb.org.bd):  
<https://www.bb.org.bd/mediaroom/circulars/brpd/sep232012brpd15e.pdf>
6. *details.php?id=96166*. (n.d.). Retrieved February 26, 2018, from [www.observerbd.com](http://www.observerbd.com): <http://www.observerbd.com/details.php?id=96166>
7. Hossain, J. (2017, February 13). *root-causes-non-performing-loan-its-impact-economy*. Retrieved March 21, 2018, from [www.linkedin.com](http://www.linkedin.com):  
[www.linkedin.com/pulse/root-causes-non-performing-loan-its-impact-economy-jamil-hossain](http://www.linkedin.com/pulse/root-causes-non-performing-loan-its-impact-economy-jamil-hossain)
8. Masum, M. A. (2014). *Non-Performing-Loans-in-Bangladesh-Causes-and-Effect*. Retrieved March 16, 2018, from [www.scribd.com](http://www.scribd.com):  
<https://www.scribd.com/document/279099267/Non-Performing-Loans-in-Bangladesh-Causes-and-Effect>
9. *mediaroom*. (2012, September 23). Retrieved February 08, 2018, from [www.bb.org.bd](http://www.bb.org.bd): [www.bb.org.bd/mediaroom/circulars/brpd/sep232012brpd14e.pdf](http://www.bb.org.bd/mediaroom/circulars/brpd/sep232012brpd14e.pdf)

10. *MMBL\_AR\_2013.pdf*. (2014). Retrieved February 28, 2018, from [www.modhumotibankltd.com: http://www.modhumotibankltd.com/wp-content/uploads/2014/05/MMBL\\_AR\\_2013.pdf](http://www.modhumotibankltd.com/wp-content/uploads/2014/05/MMBL_AR_2013.pdf)
11. *MMBL\_AR\_2014.pdf*. (2015). Retrieved March 1, 2018, from [www.modhumotibankltd.com: http://www.modhumotibankltd.com/wp-content/uploads/2016/05/MMBL\\_AR\\_2014.pdf](http://www.modhumotibankltd.com/wp-content/uploads/2016/05/MMBL_AR_2014.pdf)
12. *modhumotibankltd*. (n.d.). Retrieved February 25, 2018, from [www.modhumotibankltd.com: www.modhumotibankltd.com](http://www.modhumotibankltd.com)
13. *nonperformingloan*. (2018). Retrieved February 07, 2018, from [www.investopedia.com: www.investopedia.com/terms/n/nonperformingloan.asp](http://www.investopedia.com/terms/n/nonperformingloan.asp)
14. Parven, S. (2011). *Nonperforming loans of commercial*. Dhaka: Munich Personal RePEc Archive.

# Appendix

## 1. Percentage of NPL amount against total loan amount

$$= (\text{NPL amount} / \text{Total loan amount}) * 100$$

## 2. Income Statement of MMBL (2015-2016):

<b>Profit and Loss Account</b>			
<b>For the year ended 31 December 2016</b>			
Particulars	Notes	Amount in Taka	
		2016	2015
Interest income	20	2,365,224,515	1,416,789,701
Interest paid on deposits and borrowings etc.	21	1,589,339,106	1,151,109,896
<b>Net Interest Income</b>		<b>775,885,410</b>	<b>265,679,805</b>
Investment income	22	554,573,684	1,163,258,029
Commission, exchange and brokerage	23	161,029,808	108,730,309
Other operating income	24	40,452,689	19,244,984
		<b>756,056,180</b>	<b>1,291,233,322</b>
<b>Total operating Income (A)</b>		<b>1,531,941,590</b>	<b>1,556,913,127</b>
Salaries and allowances	25	248,840,862	185,572,623
Rent, taxes, insurance, electricity etc.	26	115,816,884	100,942,272
Legal expenses		275,000	363,500
Postage, stamp, telecommunication etc.	27	17,918,276	11,774,619
Stationery, printing, advertisements etc.	28	32,933,956	44,599,585
Managing Director's salary and fees	29	7,097,114	8,320,000
Directors' fees	30	1,632,000	1,292,000
Auditors' fees		250,000	250,000
Depreciation and repairs to bank's assets	31	50,361,341	42,398,292
Other expenses	32	170,060,626	132,129,608
<b>Total operating expenses (B)</b>		<b>645,186,058</b>	<b>527,642,499</b>
<b>Profit before provision (C=A-B)</b>		<b>886,755,531</b>	<b>1,029,270,628</b>
Provision for loans and advances	13.1		
General provision		55,967,000	47,533,000
Specific provision		6,220,000	-
Provision for Off-shore Banking unit		9,146,000	154,000
Provision for off-balance sheet items	13.2	45,287,890	10,750,000
Provision for diminution in value of investments		-	-
Other provisions		-	-
<b>Total provision (D)</b>		<b>116,620,890</b>	<b>58,437,000</b>
<b>Total profit before tax (C-D)</b>		<b>770,134,641</b>	<b>970,833,628</b>
Provision for taxation	33		
Current		308,347,484	204,508,433
Deferred		(405,445)	1,389,460
		<b>307,942,039</b>	<b>205,897,893</b>
<b>Net profit after tax</b>		<b>462,192,603</b>	<b>764,935,735</b>
Retained Earnings brought forward from previous years		145,329,245	26,560,236
		<b>607,521,848</b>	<b>791,495,971</b>
<b>Appropriations</b>			
Statutory Reserve	15	154,026,929	194,166,726
Other Reserve		-	-
		<b>154,026,929</b>	<b>194,166,726</b>
<b>Retained Surplus</b>	17	<b>453,494,919</b>	<b>597,329,245</b>
<b>Earnings Per Share (par value Taka 10)</b>	36	<b>1.02</b>	<b>1.69</b>



3.  $ROA = (\text{Net Profit after tax} / \text{Total Assets}) * 100$

4. **Balance Sheet of MMBL 2015-2016:**

<b>Balance Sheet</b>			
<b>As at 31 December 2016</b>			
Particulars	Notes	Amount in Taka	
		2016	2015
<b>PROPERTY AND ASSETS</b>			
<b>Cash</b>	4		
Cash In hand (Including foreign currencies)		165,455,845	108,297,784
Balance with Bangladesh Bank and its agent bank(s) (Including foreign currencies)		1,863,950,913	1,245,624,828
		<b>2,029,406,757</b>	<b>1,353,922,612</b>
<b>Balance with other banks and financial institutions</b>	5		
In Bangladesh		8,204,915,433	8,490,751,465
Outside Bangladesh		456,922,795	236,252,545
		<b>8,661,838,228</b>	<b>8,727,004,010</b>
<b>Money at call on short notice</b>	6	-	600,000,000
<b>Investments</b>	7		
Government		3,946,876,746	2,590,413,497
Others		100,000,000	50,000,000
		<b>4,046,876,746</b>	<b>2,640,413,497</b>
<b>Loans and advances</b>	8		
Loans, Cash Credit, Overdrafts etc.		15,921,344,480	9,859,716,268
Bills purchased and discounted		1,217,260,124	123,321,918
		<b>17,138,604,604</b>	<b>9,983,038,186</b>
<b>Fixed assets including premises, furniture and fixtures</b>	9	216,622,408	201,675,853
<b>Other assets</b>	10	331,162,483	259,447,340
<b>Non - banking assets</b>		-	-
<b>Total assets</b>		<b>32,424,511,226</b>	<b>23,765,501,499</b>
<b>LIABILITIES AND CAPITAL</b>			
<b>Liabilities</b>			
<b>Borrowings from other banks, financial institutions and its agents</b>	11	3,134,863,400	1,003,400,000
<b>Deposits and other accounts</b>	12		
Current Accounts and other Accounts		2,841,764,443	933,187,377
Bills Payable		424,578,464	117,142,448
Savings Bank Deposits		4,352,580,024	351,872,642
Special Notice Deposits (SND)		1,726,611,553	3,709,286,695
Fixed Deposits		13,958,203,673	11,791,933,934
Other Deposits		-	-
		<b>23,303,738,156</b>	<b>16,903,423,096</b>
<b>Other Liabilities</b>	13	545,850,676	333,226,967
<b>Total Liabilities</b>		<b>26,984,452,232</b>	<b>18,240,050,064</b>
<b>Capital/Shareholders' Equity</b>			
Paid up Capital	14.2	4,520,000,000	4,520,000,000
Statutory Reserve	15	458,842,253	304,815,324
Revaluation Reserve	16	7,583,333	103,306,635
Foreign currency translation gain	17(a)	138,490	231
Surplus In Profit and Loss Account/ Retained Earnings	17	453,494,919	597,329,245
<b>Total Shareholders' Equity</b>		<b>5,440,058,994</b>	<b>5,525,451,435</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>32,424,511,226</b>	<b>23,765,501,499</b>

5.  $\text{Earnings per Share (EPS)} = \text{Net profit after tax} / \text{Total outstanding shares}$

6.  $\text{Net Asset Value (NAV)} = \text{Total Assets} - \text{Total Liabilities}$ .

**7. Primary Data Collection (Informal Question- Answer Session):**

- i.** What is the total amount of Non-performing loans of Modhumoti Bank Limited till now?
- ii.** What is the total recovered NPL amount of MMBL?
- iii.** What are the main reasons for the loans being non-performing in MMBL?
- iv.** What are the precautionary measures MMBL is taking to control the loans being non-performing?
- v.** What is the provision schedule of the loans that MMBL is maintaining?
- vi.** What is the write-off and recovery process of the classified loans of MMBL?
- vii.** Is any particular industry has greater amount of loans being classified than other industries in MMBL?
- viii.** How does MMBL monitor the whole loan disbursement and recovery process?