

Internship Report on
Evaluation of Products or Services offered by Non-Banking Financial
Institutions by Following Guidelines given by Department of Financial
Institutions and Markets

By

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ID: 17104110

An internship report submitted to the Brac Business School in partial fulfillment of the
requirements for the degree of Bachelor of Business Administration

Bachelor of Business Administration

BRAC Business School

BRAC University

June, 2021

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Declaration

It is hereby declared that

1. The internship report submitted is my own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

Honey

Umme Honey
17104110

Supervisor's Full Name & Signature:

Shamim Ahmed

Md. Shamim Ahmed
Lecturer, BRAC Business School
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Letter of Transmittal

June10, 2021

Md. Shamim Ahmed

Lecturer, BRAC Business School,

Brac University

66 Mohakhali, Dhaka-1212

Subject: **Submission of Internship Report on “Evaluation of Products or Services offered by Non-Banking Financial Institutions according to guidelines given by Department of Financial Institutions and Markets”**

Sir,

It take immense pleasure and pride to present my internship report on “Evaluation of Non-Banking Financial Institutions Products or Services Using Department of Financial Institutions and Markets Guidelines”. I am submitting this report as part of my Bachelor of Business Administration (BBA) degree. While preparing this report in this pandemic situation I have tried my best to follow the instruction of my instructor. The entire report has been prepared on the practical experience in the DFIM department of Bangladesh Bank and the secondary information that have been found on the official website of Bangladesh Bank whose data are analyzed in the project work.

I hope you will assess my report considering the limitations of the study in this situation. Your kind advice will encourage me to make a better report in future.

Sincerely yours,

Umme Honey

ID: 17104110

BRAC Business School

BRAC University

10th June, 2021

Non-Disclosure Agreement

This agreement is established and entered into by and between Bangladesh Bank and Umme Honey, the undersigned BRAC University student, for the purpose of imposing a strict restriction on the release of sensitive information maintained by the organization.

Acknowledgement

First and foremost, I am grateful for the chance to do my internship at the Central Bank of Bangladesh. I am grateful to the GM and DGM of the “Department of Financial Institutions & Markets” for including me in this department. I had the opportunity to work with the department's highly qualified people in this area. From the start of my internship program, they have been supportive. I thank my supervisor, Ranjit Kumar Roy (DGM, Deputy General Manager, DFIM), from the bottom of my heart for understanding all of my needs despite being busy all day. I sincerely thank him for the invaluable guidance, brilliant assessment and care.

I would like to express my sincere gratitude to my academic supervisor Md. Shamim Ahmed (Lecturer of BRAC Business School & Deputy Registrar & Deputy Controller of Examinations, Brac University). His individualized attention and assistance provided me roadmap for the preparation of the internship report.

Last but not least, I am grateful for the many resources I discovered in interest, as well as the individuals who have lent their hands with recommendations during my voyage, from which I have extracted and adopted certain ideas about my topic.

Executive Summary

As part of my BBA program, the internship report is prepared based on the experience I got during my entire 3 months journey at the department of Financial Institutions & Markets, in Bangladesh Bank, Head Office. As a central bank, the responsibilities of this organization is beyond the sky. The DFIM department is mainly focus on regulate and supervise Non-Banking Financial Institutions and make guidelines, policy, circulars & letters for them. By working at my department I came to know how the NBFIs behaved by following guidelines of DFIM. Today NBFIs have added a new dimensions in the financial sector by giving its financial products & services towards their customers. All NBFIs are playing a vital role for the growth of the country's economy by giving their best performance.

My department mainly focus & supervise all NBFIs in Bangladesh. As it is a broad sector and so I have decided to work on a specific direction which is products & services offered by NBFIs towards their customer by maintaining guidelines given by my department. What kinds of products & services NBFIs offered, how NBFIs design their products, how they measuring the risks on products and how they control it, what are those guidelines NBFIs follow when promoting new products.

NBFIs can adopt a variety of actions to address issues. They will be able to discover alternate funding sources. Then they may profit from the stock market by engaging in trading activities. They might also widen their horizons by bringing new goods and services to market. NBFIs in Bangladesh may make a significant contribution if they are given adequate funding and infrastructure and follow economic standards according to Department of Financial Institution & Markets.

List of Abbreviations

BB	Bangladesh Bank
FI	Financial Institutions
IRBA	Internal Rating Based Approach
DFIM	Department of Financial Institutions & Markets
NBFI	Non-banking Financial Institutions
CAMEL	Capital adequacy, asset, management, earnings, liquidity
CRR	Cost recovery rate
SLR	Statutory Liquidity Ratio
IPO	Initial Public Offering
CDBL	Central depository Bangladesh limited
BO	Branch Office

Table of Contents

Subject	Page No.
Letter of Declaration	02
Letter of Transmittal	03
Non-Disclosure Agreement	04
Acknowledgement	05
Executive summary	06
List of Abbreviations	07
Chapter 1 : Overview of Internship	
1.1 Student Information: Name, ID, Program and Major/Specialization	
1.2 Internship Information:	
1.2.1 Period, Company Name, Department/Division, Address	11
1.2.2 Internship Company Supervisor’s Information: Name and Position	11
1.2.3 Job Scope – Job Responsibilities	11
1.3 Internship Outcomes:	
1.3.1 Benefits to the student	11
1.3.2 Problems/Difficulties (if any faced during the internship period)	12
1.3.3 Recommendations (for and suggestions to the company on future internships)	12
Chapter 2: Organization Part: Overview, Operations and a Strategic Audit	
2.1 Introduction (Objective, Methodology, Scope, Limitation and Significance – for chapter 2)	13
2.2 Overview of the Company	13-15
2.2.1 Functions of Bangladesh Bank	16
2.3 Department of Financial Institutions	16
2.3.1 Management functions of DFIM	16
2.3.2 Hierarchy of DFIM	17-18
2.4 Operations Management and Information System Practices	17
2.4.1 License Section	17
2.4.2 Policy and Control Section	17
2.4.3 Statement Section	17
2.4.4 Bond and Securitization Section	18
2.4.5 Basel Implementation Section	18
2.4.6 General Section	18
2.5 Non-Banking Financial Institutions	18
2.5.1 Financial Performances of NBFIs	23-24
2.5.2 Restriction on NBFIs	25
2.5.3 Sources of Funds	25

2.5.4 List of NBFIs in Bangladesh	25-26
2.6 Industry and Competitive Analysis	26
2.6.1 Strategic Plan 2020-2024 for DFIM	26-27
2.6.2 Recent Published Guidelines & Circulars posted by DFIM	27-28
2.6.3 SWOT Analysis of DFIM	28-29
2.7 Summary and Conclusions	29-30
Chapter 3: Project Part: Title of the Project	
3.1 Introduction (Background, Objective and Significance)	33-34
3.2 Methodology	34
3.3 Findings and Analysis	34-44
3.3.1 Categorization of Product & Services of FIs	34-38
3.3.2 Product and Service Design and Operation	38-40
3.3.3 Product Risk Management	40-44
3.3.4 Guidelines for Promoting New Product/ Services	42-44
3.4 Summary and Conclusion	44-45
3.5 Recommendations	45
3.6 References	46

Chapter 01

Overview of Internship

1.1 Student Information:

Name: Umme Honey

ID: 17104110

Program: Bachelor of Business Administration

Major: Marketing

Minor: Human Resource Management

1.2 Internship Information:

1.2.1 Period: 1st April to 30th June, 2021

Company: Bangladesh Bank

Department: Department of Financial Institutions & Markets (DFIM)

Address: Bangladesh Bank

Head Office (Anex-II Building, Level-25)

Motijeel C/A, Dhaka, Bangladesh.

1.2.2 Internship Company Supervisor's Information

Name: Ranjit Kumar Roy

Position: Deputy General Manager (DGM)

1.2.3 Job Responsibilities:

- Categorized product & services offered by NBF
- Work on circulars & guidelines made by DFIM

1.3 Internship Outcomes:

1.3.1 Benefits to the student:

- Getting to know different policy regarding Non-banking financial institutions.
- Knowledge of different product or services offered by NBF through DFIM.
- Making relation with real life analysis with academic learning.
- NBF's growth & performance to make strong economy.

1.3.2 Problems/ Difficulties I have Faced:

- Our supervisor have not encouraged us to go to bank regularly because of pandemic and lockdown.
- We were strictly maintained distance when we go to office and that is why we could not get enough chance to interact with other assistant directors, joint directors of my department.
- Though the place I have been working is a central bank so, there is restriction to share some information which are very confidential. That is why I do not get practical experience rather than get some knowledgeable information from them.
- Bangladesh Bank always take classes for their interns but unfortunately, due to pandemic this time they could not arrange classes for their interns.

1.3.3 Recommendations:

- Bangladesh Bank should start internship program online rather than offline during this pandemic.
- They should focus on more practical knowledge for their interns.

Chapter 2

Organization Part: Overview, Operations and a Strategic Audit

2.1 Introduction:

The financial planning system is critical to a country's economic growth because it offers a powerful mechanism for collecting and allocating financial resources among many options. This report was written to obtain practical experience with the Performance Analysis of NBFIs goods and services provided by Bangladesh Bank. This organization assists in ensuring the flow of term loans and filling credit gaps. Furthermore, this sector is significant because it helps the capital market by increasing the mobilization of term savings and providing support services. I am doing this report because I need to know the diversified products & services which provide innovative investments solutions. The key issue for this industry is generating funds and lowering the cost of funds because the tax rate is high in comparison to other sectors. It will be simple for them to generate capital if there is a prospect of creative investments. Bangladesh bank, Financial Institutions and Markets department is playing a vital part here by providing guidelines to develop structures and undertake measures to improve their institutional risk management system. So the main objective of the report is to highlight products & services offered by NBFIs through Bangladesh Bank to strengthen the financial system of the country's overall economic development.

Methodology of this part of the report:

This section of the report uses descriptive analysis and a qualitative approach. All qualitative data was gathered via interviews with Bangladesh bank employees, some from the Bangladesh bank's official website, and yearly reports from the Bangladesh Bank's library.

The NBFIs industry covers a wide range of activities. So I chose to narrow down the NBFIs region in which I would conduct research and write my report. That is why I initially concentrated my focus to learn about NBFIs's diverse goods and services, as well as how these highly competitive goods may assist clients in meeting operational and financial objectives and meeting their requests. I went to Bangladesh Bank's library to gather data for my report after fixing my area, and I must say, Bangladesh Bank's library is really well-equipped, with a large number of books, yearly reports, budget-related papers, and so on. I start my effort by collecting yearly reports from NBFIs. Then I go to the Bangladesh Bank's official website to look for financial institution regulations and procedures.

I examine how they develop the regulatory framework for managing products and services after data collection. Furthermore, I try to determine NBFIs's performance in terms of

supplying products and services to clients in order to satisfy their demands in line with DFIM's standards.

Scope of the report:

This report talks about the evaluation of Non-banking Financial Institutions. Mainly it focuses on, how the NBFIs are doing as an industry by providing different kinds of products & services according to the guidelines given by DFIM. This report covers the Non-banking financial sector performance analysis through measuring different kinds of products & services of NBFIs by following guidelines through DFIM.

Limitations:

To make a report resourceful, informative, various aspects and experiences are needed. But I have already started working on my report and faced some barriers in making a complete and perfect report. These barriers are:

All the qualitative information is secondary and this information is provided by the organization themselves. So we have to wholly trust the organizational data from their official website. Any manipulation of internal data can make the whole report obstruct.

Because of the Covid19 situation, we are not allowed to come to the office regularly so basically I get very low time to go to the library to collect data and interact with my on-site supervisor to collect information.

I have been appointed only for 3 months to work in this department. Here I have started my work from 1st April and I have to complete my report and submit it to my supervisor by 7th June. So for me, getting enough time is one of the hindrances to preparing my report accurately.

2.2 Overview of the Company

Bangladesh Bank, the country's central bank for the country's monetary and financial system, under the Bangladesh Bank Orders, 1972 (P.O. No. 127 of 1972). Has comprise of 10 branches. These are Motijheel, Chittagong, Khulna, Bogra, Rajshahi, Sylhet, Rangpur, and Mymensingh. As of March 31, 2018, the total number of employees was 5807. The vision is

to develop and require committed professionals with high ethical standards in monetary management and financial sector supervision in order to maintain price stability and financial system robustness, as well as to support Bangladesh's rapid broad-based inclusive economic growth, job creation, and poverty eradication.

2.2.1 Functions of Bangladesh Bank:

Bangladesh bank perform the core function of the two main sector which is monetary and financial sector. These functions includes:

- They formulate and implement monetary and credit policy.
- They basically regulate and supervise all banks and non-bank financial institution increase and develop domestic financial markets.
- They manage country's international services like issuance of currency notes.
- They regulate and supervise the payment system so that they can tackle any wrong transaction.
- Bangladesh Bank work as banker to the government.
- They provide acts and policy to prevent money laundering.
- They collect, analyse, and furnish credit information.
- They also implement Foreign exchange regulation Act
- They manage Deposit Insurance Scheme.

2.3 Department of Financial Institutions and Markets:

The Department of Financial Institutions and Markets is the name of the department where I worked as an intern. This department's principal responsibility is to regulate and monitor Bangladesh's non-banking financial institutions (NBFIs). The Financial Institution Act of 1993 and the Financial Regulation Act of 1994 govern the majority of these NBFIs.

2.3.1 Management functions of DFIM:

They prepare the policy, guideline/ circulars for ensuring the soundness of FIs in Bangladesh

They compose insurance of licences under the FI act 1993 and FI regulation 1994.

They conduct off-site supervision of FIs through collecting, analysing and monitoring various data / information in a regular basis to ensure compliance with policies, regulations and practices by them

They assess the financial and managerial soundness of FIs through CAMELS ratings

They implement BASEL Accord for Risk-Weighted Asset Based to determine capital adequacy for FIs

They follow stress testing guidelines for financial works

They formulate and approve Early warning guideline for FIs

They also formulate and approve risk management guidelines for FIs

In Bangladesh, there are 34 non-banking financial institutions (NBFIs). The major contribution of NBFIs financing operations has had a significant influence on the broader economy.

2.3.2 Hierarchy of DFIM

General Manager (GM)
Deputy General Manager (DGM)
Joint Director (JD)
Deputy Director (DD)
Assistant Director (AD)
Officer
Steno-Typist
Deco
CT-1
MLSS-

2.4 Operations Management and Information Section

Department of Financial Institution has six wide section.

1. Licence Section
2. Policy and Control Section
3. Statement Section
4. Bond and Securitization Section
5. Basel implementation cell
6. General Section

2.4.1 Licence Section:

Basically, this section do licence related activities. For example they provide a licence to the new NBFIs. Then, they check camel ratings when they provide the licence. Furthermore, when NBFIs need to open new branches licence section give permission to them.

2.4.2 Policy and Control Section:

This department makes policy and controls those things. For example, they provide time to time direction for financial as well as another department of NBFIs. So for this reason they compile various rules and regulation and make circular/guidelines according to the direction of the financial Institution Act 1993 and Financial Institution Regulation 1994. Furthermore, they also monitor the NBFIs to check whether they are maintaining proper rules and regulations or not. Besides this, they also examine the proposal and give consent to the appointment of MD/Chief Executive / Foreign employee of NBFIs, give consent to the appointment of auditor of NBFIs. Moreover, they also arrange meeting quarterly basis between the Governor and MD/ CEO of NBFIs and prepare the working statement. Large lease /loans of NBFIs get permission when the policy and control section examine them and give consent. Lastly, they also check the working statements of NBFIs and regularly monitor the IPO issues of NBFIs.

2.4.3 Statement section:

This department does some analysis on monthly basis, some are based on a daily basis, quarterly and yearly basis. For example, they analyse the statement of CRR and SLR, rescheduling loan/lease, relating to liquidity profile these statements are done on monthly

basis. Furthermore, the statement of classification and provisioning of loan /lease, the interest rate of NBFIs, is done based on a quarterly basis. Moreover, the statement of the net asset of NBFIs and stress testing & CAMELS ratings report analysed based on a half-yearly basis. DFIM always check annual reports of NBFIs and management reports of NBFIs on an Annual basis.

2.4.4: Bond and Securitization Section:

At first, this section examines the application of FIs in different types of a bond issue. Then they check the credit rating of FIs so that they can give NOC. After checking the credit ratings of NBFIs, the bond and securitization section provide NOC to them.

2.4.5: BASEL Implementation cell:

First of all, this section checks the capacity building of NBFIs to implement BASEL. Then request the Steering Committee for approval of the Action Plan and for some specific approaches. After that, the issuance of circular on the Action Plan focuses on the preparation of draft guidelines for BASEL 2 implementation. They arrange one to one meeting with FIs and do feedback analysis. This section focuses on and implement BASEL 2 Accord as standardized Approach for credit risk and Standardized rule Approach for Market risk and finally, implement Basic Indicator Approach for Operational Risk. Thus, this section develops a database while switching up to Internal Rating Based Approach (IRBA).

2.4.6: General Section:

They always keep the letters in a diary which is come from the NBFIs and reply to those letters. They check the audit and provide various facilities to the department. Moreover, they arrange internal/ departmental meeting and take preparation for that. Focus on administrative works like sanction strength, post creation, posting, transfer and monitoring of staff training etc. This section also manages an intern's activities.

2.5: Non-banking Financial Institutions (NBFIs):

Non-banking financial institutions are those institutions that are licenced and mainly controlled by the financial institutions act 1993 in Bangladesh. They offer diverse financial needs of different sectors of an economy and make a contribution to the development of the economy of Bangladesh's financial system. Commercial banks are limited in mobilizing funds and using their resources. Basically, they could not expand their operations in expected

areas and are confined to a relative sphere of financial services because their efforts to meet long term financing with short term loans sometimes mismatch and create great pressure on their financial sector. So these drawbacks led to the emergence of NBFIs in Bangladesh by offering new and innovative financial products. From the very beginning, the NBFIs have been contributing to increase the quality and quantity of financial services by giving different types of needs of investment in the country.

2.5.1: Financial performances of NBFIs:

Basically, NBFIs do perform their financial function according to Financial Institution Act 1993. They primarily make loans and advances for building construction, industries, E-commerce. Then they conduct the business by underwriting, receiving, investing, and reinvesting shares, stocks, or securities. Moreover, the instalment of the transactions including the lease of machinery and types of equipment. Lastly, the finance venture capital which includes merchant banks, investment companies, mutual associations, and mutual companies, and building societies.

Paid up capital from largest to smallest NBFIs List 1.1

NBFI List	Paid up Capital	NBFI List	Paid up Capital
BIFFL	2308	MIDAS Finance	138.99
IDCOL	715	UAE-Bangladesh	100
IDLC	377.05	United Finance	187.11
Aviva Finance Ltd	200	IPDC	371.09
IIDFC	173.78	Uttara Finance	131.48
BD Finance	167.53	Lanka Bangla	538.84
Fareast Finance	164.06	Phoenix Finance	148.1
DBH	154.14	National Housing	117.03
FAS Finance	149.08	Premier Leasing	132.97
GSP Finance	142.79	SABINCO	210.61
Bay Leasing	140.89	Lankan Alliance	100
IFIL	140.33	UCL	172.57
First Finance	116.22	Prime Finance	272.92
CVC Finance	115.5	National Finance	147.2
BIFC	100.68	Meridian Finance	120
Agrani SME	100	Int'l Leasing	221.81
Hajj Finance	100	Strategic Finance	100

In the list we can see BIFFL has largest amount of paid up capital where Strategic Finance has the lowest amount of paid up capital. NBFI are not encouraged to increase their paid up capital to 200 crore taka according to Bangladesh bank.

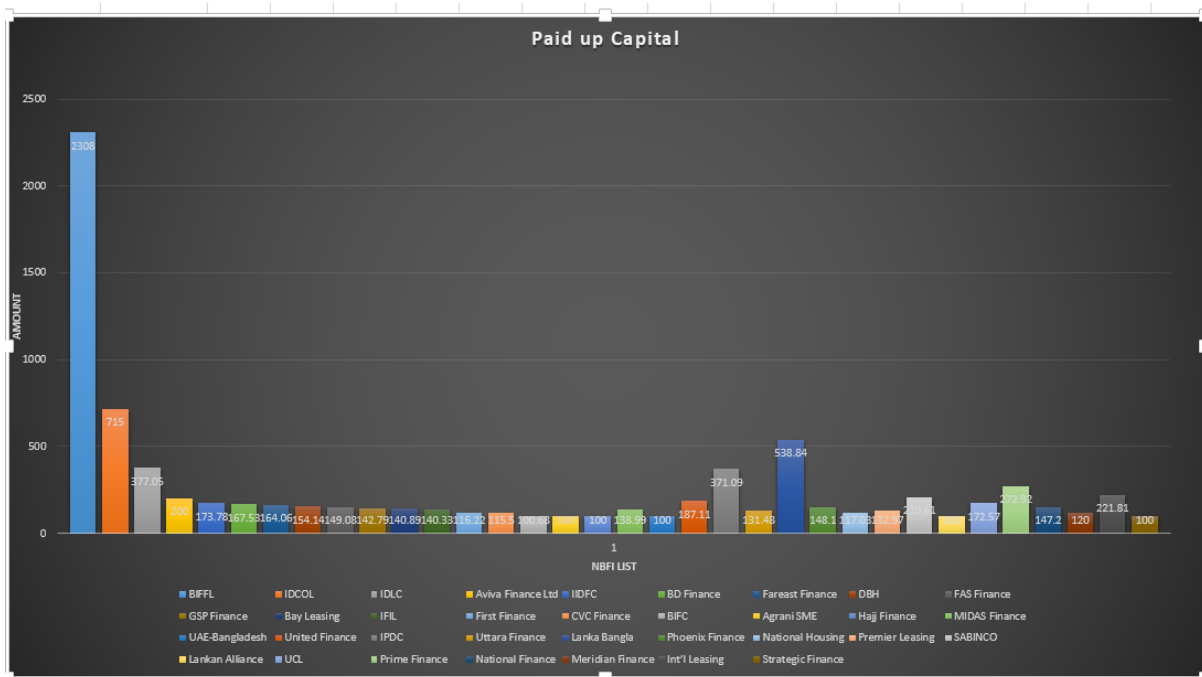


Figure 1.1: Paid Up Capital of 34 NBFI

Core Capital from largest to smallest NBFI List 1.2

NBFI List	Core Capital	NBFI List	Core Capital
BIFFL	2659.84	IFIL	212.41
IDLC	1430.39	National Housing	176.54
Lanka Bangla	1044.52	UAE-Bangladesh	176.49
IDCOL	911.34	MIDAS Finance	166.87
Uttara Finance	809.38	National Finance	166.87

DBH	643.63	Agrani SME	144.78
IPDC	561.91	Meridian Finance	127.9
SABINCO	516.34	CVC Finance	127.02
Aviva Finance Ltd	365.64	Hajj Finance	124.2
BD Finance	324.75	Lankan Alliance	122.22
United Finance	320.26	Strategic Finance	102.48
Prime Finance	315.78	UCL	71.36
Premier Leasing	270.17	First Finance	27.45
Bay Leasing	261.88	Fareast Finance	-2.51
IIDFC	229.47	FAS Finance	-238.54
GSP Finance	220.26	BIFC	-923.23
Phoenix Finance	215.76	Int'l Leasing	-2783.38

Source: Capital Adequacy and Market Discipline (CAMP) for FIs report, Bond & Securitization Section, DFIM

31December, 2020 (Provisional) ***

Here, BIFFL has largest amount of core Capital and Int'l Leasing has smallest amount of core capital.

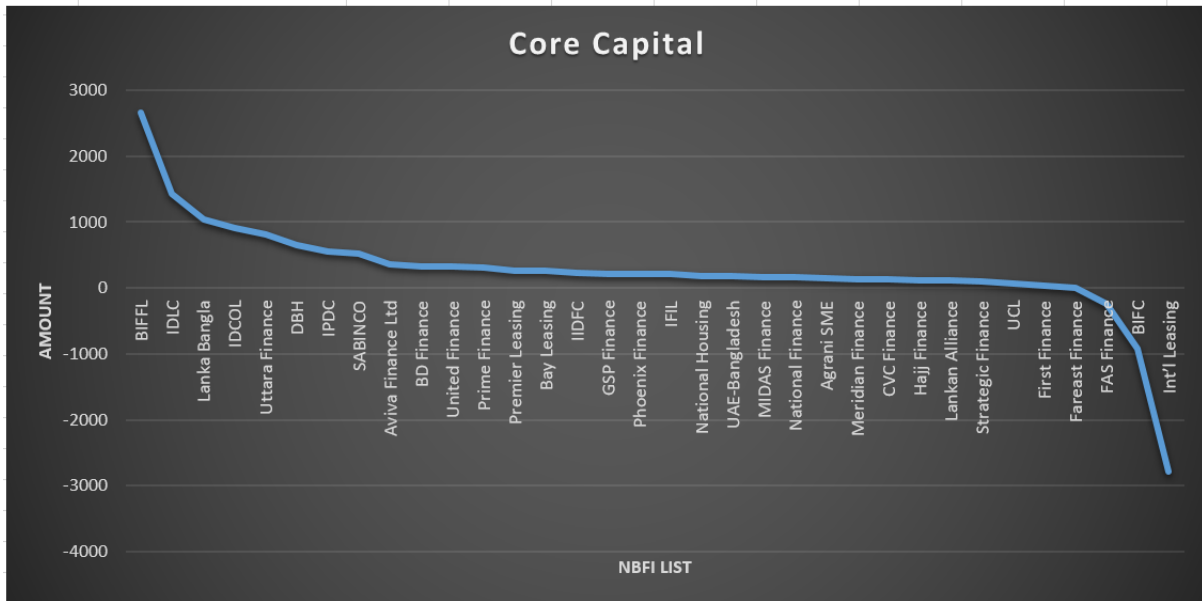


Figure 1.2: Core Capital of 34 NBFI

Core Capital (%) from largest to smallest NBFIs List 1.3

NBFI List	Core Capital %	NBFI List	Core Capital %
UAE Bangladesh	131.23	Uttara Finance	15.93
BIFFL	115.84	IDLC	15.65
SABINCO	80.1	Lanka Bangla	14.92
Agrani SME	72.36	IFIL	14.83
Lankan Alliance	57.09	IPDC	14.33
Int'l Leasing	35.29	Bay Leasing	14.31
National Finance	29.87	IDCOL	13.65
Strategic Finance	29.65	Premier Leasing	12.71
CVC Finance	23.86	IIDFC	12.68
Prime Finance	23.76	Phoenix Finance	9.7
DBH	23.19	Aviva Finance Ltd	9.24

United Finance	17.97	UCL	3.64
BD Finance	17.6	First Finance	2.82
GSP Finance	17.26	Fareast Finance	-0.26
MIDAS Finance	17.09	FAS Finance	-11.86
National Housing	16.52	BIFC	-94.96
Hajj Finance	16.27	Int'l Leasing	-100.56

Source: Capital Adequacy and Market Discipline (CAMP) for FIs report, Bond & Securitization Section, DFIM

31 December, 2020 (Provisional) ***

UAE-Bangladesh has large amount of core capital percentage and Int'l Leasing has lowest amount of core capital.

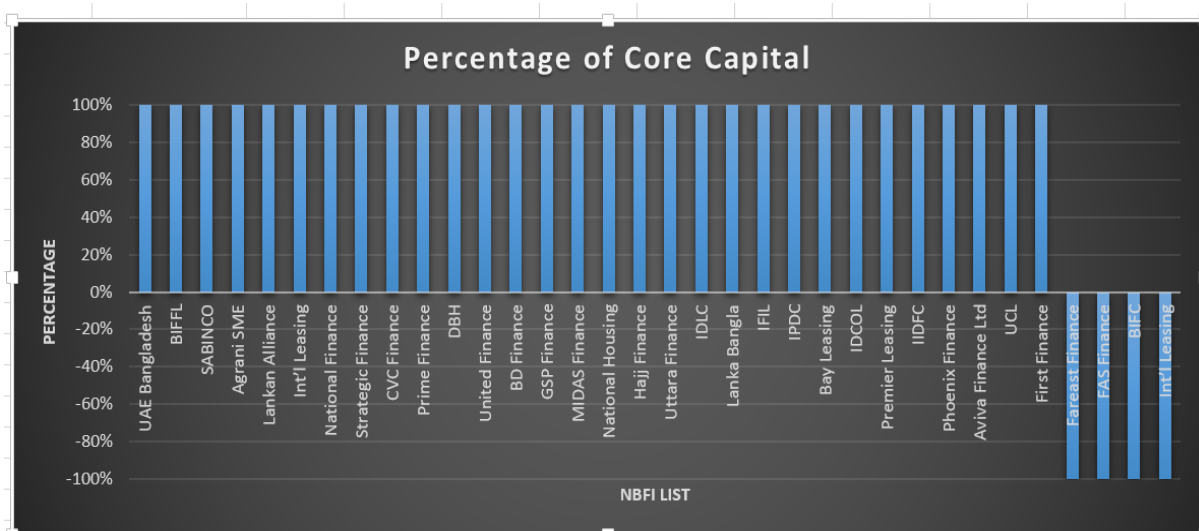


Figure 1.3: Percentage of Core Capital of 43 NBFIs

2.5.2: Restriction on NBFIs:

Financial Institutions are followed certain restriction according to Financial Institution Act 1993. For example:

Credit policy: Here no financial institution can accept any deposit that can be repayable on demand through cheque, draft or from the order of the depositor. Furthermore, they cannot deal or not allowed in gold or any foreign currency. Moreover, they cannot grant credit facilities more than 30% of their capital without the consent of the Bangladesh bank.

Business operations: They carry out the business of financing according to the financial Institutions Act but, they cannot carry any other normal business.

Investment: They cannot spend or use more than 25% of their paid-up capital and reserve with approval for the acquisition or holding of any kind of shares.

Branches: NBFIs need to open at least 3 branches of their institutions.

2.5.3: Source of Funds:

Basically, NBFIs collect funds from a wide range of sources like financial instruments, loans from banks, insurance companies, and international agencies as well as deposits from institutions and the public. Mainly, the line of credit from banks constitutes the major portion of total funds. According to, DFIM, BB call money can be borrowed not more than 15% of net asset and this transaction takes place through a bank account.

2.5.4 List of NBFIs in Bangladesh:

1. Agrani SME Finance Co. Ltd
2. Bay Leasing & Inv. Ltd
3. BFIC
4. BIFC
5. BIFFL
6. Delta Brac Housing Finance Co. Ltd
7. FFIL

8. FAS Finance & Investment LTD
9. First Finance Ltd
10. GSP Finance CO. ltd
11. Hajj Finance Co. LTD
12. IDCOL
13. IDLC
14. IIDFC
15. International Leasing & Financial Service LTD
16. IPDC
17. Islamic Finance & Investment Limited
18. Lanka Bangla Finance LTD
19. MIDAS Financing Ltd
20. National Finance Ltd
21. NHFIL
22. PLFS
23. Phoenix Finance
24. Premier Leasing & Finance Ltd
25. Prime Finance & Investment
26. SABINCO
27. Reliance Finance Ltd
28. UBICO
29. UCL
30. Union Capital Ltd
31. Uttara Finance & Ltd
32. Meridian Finance & Investment Ltd
33. CAPM Venture Capital Ltd

2.6 Industry & Competitive Analysis

2.6.1: Strategic Plan 2020-2024 for DFIM:

Strategic Goal: To improve overall financial sector stability and stakeholder confidence, strengthen the regulatory and supervisory structure and actions.

Background: A safe and resilient financial industry requires strong legal, regulatory, and supervisory frameworks for effective and efficient supervision, as well as a solid infrastructure. It is critical to guarantee a healthy financial sector by limiting potential disruptions in the financial intermediation process and lowering financial risks. The anticipatory supervisory system must be implemented in accordance with international standards, which will result in improved risk management and control procedures, as well as increased transparency and disclosures.

Objective 1: Building accountable boards of directors in banks and financial institutions to promote good corporate governance.

Action Plans:

- Revise the fit and proper test for selecting/nominating directors of banks and financial institutions.

Timeline: December 2020

- Improve FI Corporate Governance Guidelines to guarantee that FI directors and key executives are held accountable.

Timeline: June 2021

Lead: Department of Financial Institutions & Markets

Objective 2: Conduct risk-focused bank supervision with the goal of capturing and reducing banks' total risk exposure.

Action plan:

- Consult with other authorities to develop and implement relevant tools and methods for monitoring the operations of all types of bank and financial institution subsidiaries.

Timeline: December 2022

Lead: Department of Financial Institutions & Markets

Objective 3: Ensure that all necessary data and information is made available to stakeholders in a timely, accurate, and easily accessible way.

Action plan:

- BB's requirements for the scope of external audits and the substance of audit-related reports should be reviewed and improved.

Timeline: June 2020

Lead: Department of Financial Institutions & Markets

Objective 4: To guarantee a consistent and stable financial sector, provide policy frameworks for financial institutions.

Action plan:

- Create a comprehensive policy framework for providing financial institution licenses and update associated policies.
- Develop a time-appropriate policy framework for evaluating asset quality and FIs' overall financial health.

Timeline: December 2022

Lead: Department of Financial Institutions & Markets

2.6.2: Recent Published Guidelines & Circulars posted by DFIM

According to Bangladesh Bank's website, these are recently circulars published by the Department of Financial Institutions & Markets in the last 3 months.

- DFIM Circular Letter No. 05: Directives to Prevent Corona Virus Disease Outbreak 2019 DFIM Circular Letter No. 05
- DFIM Circular Letter No. 04: Regarding Dividend Declaration by Financial Institutions was issued on March 22, 21.
- 25/03/21- DFIM Circular Letter No. 06: Shab-e-Barat holiday re-fixation

- DFIM Circular Letter No. 08: Instructions for Financial Institutions to Prevent the Spread of COVID was issued on April 21.20/04/21- DFIM Circular No. 03: Regarding Loan/Lease/Advance Classification for Financial Institutions.
- DFIM Circular Letter No. 09 Conducting Activities of Financial Institutions will be in force from April 22 to April 28, 2021.DFIM Circular Letter No. 10: Conducting Activities of Financial Institutions from April 29 to May 5, 2021 was issued on April 28, 2021.
- DFIM Circular Letter No. 11: Financial Institutions' Conducting Activities from 06 to 16 May 2021
- 16/05/2021- DFIM Circular Letter No. 12: Financial Institutions' Conducting Activities from 17 to 23 May 2021.
- DFIM Circular Letter No. 13: Conducting Activities of Financial Institutions from May 24, 2021 to May 30, 2021 was issued on May 23, 2021.
- DFIM Circular Letter No. 14: Financial Institutions' Conducting Activities from May 31 to June 6, 2021 (DFIM Circular Letter No. 14).
- 06/06/21- DFIM Circular Letter No. 15: Financial Institutions' Conducting Activities from 07 to 16 June 2021

2.6.3: SWOT Analysis of Department of Financial Institutions of Bangladesh Bank

SWOT Analysis is a critical part of the strategic planning process since it is one of the most extensively utilized methodologies for analyzing a company's internal and external surroundings. A SWOT Analysis, as a forward-looking bridge, assists strategic planning and decision-making.

Strength:

- Play an initiative role as Power of central bank
- Compose insurance of licences under the FI act 1993 and FI regulation 1994.
- Conduct off-site supervision of FIs through collecting, analysing and monitoring various data / informations
- Assess CAMEL ratings
- Implement BASEL Accord for Risk Weighted Asset Based to determine capital adequacy for FIs
- Given stress testing guidelines for financial works

- Formulate and approve early warning guideline for FIs
- Formulate and approve risk management guidelines for FIs

Weakness:

- Product diversification
- Lack of Human Resource
- Weak Legal System

Opportunities:

- Building accountable boards of directors in banks and financial institutions to promote good corporate governance.
- Conduct risk-focused bank supervision with the goal of capturing and reducing banks' total risk exposure.
- Ensure that all necessary data and information is made available to stakeholders in a timely, accurate, and easily accessible way.
- To guarantee a consistent and stable financial sector, provide policy frameworks for financial institutions.
- Have huge scope for doing research on Non-banking Financial Institutions

Threats:

- Covid-19 situation
- Investment in high-risk portfolio
- High cost & scarcity of Funds
- Changing deposit rate & landing rate as per Bangladesh bank regulation.
- Complexities in interest of board of directors, fund transfer and high NPL rate.
- Changing scenario as per budget, tax, license free and vat system.

2.7: Summary& Conclusion

Basically, DFIM regulates and supervise the non-banking financial institutions under the Financial Institution Act, 1993 and the Financial Institution Regulation, 1994. There is a necessity to build a sound financial system so that it can contribute to development of the economics of a country. Basically, the main task of the financial system is to mobilize different funds from the excess surplus budget unit to the deficit budget unit. Furthermore, the financial system provides a strong mechanism for the collection and allocation of different financial resources among various alternatives. However developing country like Bangladesh it is quite hard to reach a sound financial system due to a lack of requisite institutions, expertise and resources. So it is necessary to ensure disciplinary in many legal and regulatory framework in the financial system. The financial system is decomposed into two main basic types of institutions. One is banking financial institutions and the other is the non-banking financial institutions which are briefly called NBFIs. These two institutions are different in respect of their activities and treatment of their assets, liabilities in the financial markets. So BFIs and NBFIs have an important role in a well-functioning financial market so that it can uplift the economic activity. We know a bank is mainly known as a depository institution that works is to lend money and borrow money. Besides, these lending and borrowing money banks are also involved in some other activities. On the other hand, NBFIs are working on leasing, investing hedging, market brokering and so on. There are 34 non-banking financial institutions in Bangladesh. Department of financial institutions and markets plan an important role by giving guideline, implement policy so that NBFIs can show better result. Thus DFIM holds the NBFIs in such a way that the NBFIs are more efficient in controlling and managing resources. Furthermore, DFIM is viewed as a channel to economic growth and necessary support and play as guidance for the development of NBFIs. In this way, DFIM enables the NBFIs to play their role in the overall development of Bangladesh.

Chapter 3:
Project Part

**Internship Report on Evaluation of Products or Services offered by Non-Banking
Financial Institutions by Following Guidelines given by Department of Financial
Institutions and Markets**

3.1 Introduction

In response to the competitive environment and changing customer demands, financial products and services offered by FIs have become more complex and diverse. As we have already known that FIs are offering diversified products and services in different areas including agriculture, housing, real estate, capital market, industry, commerce, etc. By offering various liability side products like monthly saving scheme, deposit scheme, team deposit, zero-coupon bond FIs attracting and collecting funds from the public and institutions. In order to deal with such a situation in a prudent way department of financial institutions and markets review and design regulatory framework for managing products and services. Department of financial institutions and markets take efforts in preparing certain guidelines on products and services which will be offered by NBFIs. So financial sector of Bangladesh have been developing with rapid expansion because financial sector offered to customer customized products and services into this competitive financial markets.

Objective: The main objective of this report is to analyze the performance of NBFIs regarding giving products and services to customer to fulfill their demands according to guidelines given by DFIM.

Specific objectives are:

- Define the categorization of products and services offered by FIs
- Illustrate the general framework for different products along with features and operational procedures
- Identify risk management practice in controlling and managing associated with products and services at different stages
- Providing a new framework to introduce new products and services to strengthen the mechanism of financial sector
- Illustrate regulatory review process of products and services management of FIs.
- To know does DFIM need to add more specific guidelines for introducing new product and service line

3.2 Methodology:

This section of the report uses descriptive analysis and a qualitative approach. All qualitative data was gathered via interviews with Bangladesh bank employees, some from the Bangladesh bank's official website, and yearly reports from the Bangladesh Bank's library.

The NBFi industry covers a wide range of activities. So I chose to narrow down the NBFi region in which I would conduct research and write my report. That is why I initially concentrated my focus to learn about NBFi's diverse goods and services, as well as how these highly competitive goods may assist clients in meeting operational and financial objectives and meeting their requests. I went to Bangladesh Bank's library to gather data for my report after fixing my area, and I must say, Bangladesh Bank's library is really well-equipped, with a large number of books, yearly reports, budget-related papers, and so on. I start my effort by collecting yearly reports from NBFis. Then I go to the Bangladesh Bank's official website to look for financial institution regulations and procedures.

I examine how they develop the regulatory framework for managing products and services after data collection. Furthermore, I try to determine NBFi's performance in terms of supplying products and services to clients in order to satisfy their demands in line with DFIM's standards.

3.3 Findings and Analysis

3.3.1 Categorization of Products and services of FIs:

Market lease Financing:

Finance/Capital Lease: Providing long term solution allows all customers to free up capital.

Target customer: Corporate, SMEs, Individual Business enterprise

Operational Lease: It involves the client renting an asset over a time period that is substantially less than the asset's economic life. Furthermore, it offers short term flexibility, so that customer is allowed to take advantage off-balance-sheet accounting treatment.

Target customer: Corporate, SMEs individual business enterprise.

Hire Purchase: A rental acquisition for equipment is an alternative to a loan transaction. It's most commonly used for retail or private financing of smaller things like consumer goods. However, depending on tax policies, the hire purchase option may be appropriate for businesses.

Target customer: Clients with good credit history with the bank can take care of the down payment and accept a part in the lease agreement.

Leveraged Leases: Leases are used for significant transactions that include three parties: a lessor, a borrower, and a lender. These leases infuse non-recourse finance from a third party, which is backed up by the customer's capacity to acquire funds in the public and private financial markets.

Target Customer: Service as full service depository participant mostly cooperate house Brokerage services of the cost.

Synthetic Lease: Synthetic lease structures are commonly used for property that has a long-term value, such as airplanes, railroad rolling stock, manufacturing equipment, and some forms of real estate.

Target customer: Mostly corporate houses are the target customer.

Sale/leasebacks: Ideal for clients who want to get cash out of their old equipment and reinvest it back into their business.

Target customer: Corporate, SMEs, and small businesses are the target customers.

Home loan and Real estate financing: Purchase of apartment and home, instruction of residential home acquisition of chamber and office space for professionals, purchase of office space and exhibition centre purchase and construction of commercial building are all available with a home loan and real estate financing cost. In nature, real estate developers for the building of apartment projects are typically mid to long term.

Target customer: Individual professionals and corporate body are the target customer.

Short term loans

Factoring accounts receivables: Financing Against invoice raised by the supplier after making the delivery successfully. Major features are revolving short time short term facility, permanent assignment of payment, financing against invoice, post-delivery financing.

Target customer: Small and medium size companies having regular supplies to corporate bodies.

Work order financing: Finance against the assignment of bill arising out of labor orders on a revolving basis. The company shall take an assignment of suitable work orders and Finance the client against those.

Target customer: Medium and large clients with continuous-flow work orders from customers.

Corporate finance

Bridge Finance: This is a kind of short term finance extended in anticipation of immediate long term financings such as public issue, private placement, loan, syndication lease syndication and lastly lease and debenture.

Target customer: Company going for an IPO or expecting to avail a long term loan or working capital within one year or so.

Indication of large loans: making available large financing for a corporate client. Particularly large project requires a large scale of investment that is why no single financier wants to take the whole risk. Example: Greenfield project.

Target customer: Financing new large project, financing BMRE (balancing, modernization, replacement and expansion), refinancing a large project.

Advisory service: This includes providing a wide range of services such as corporate counselling, project counselling, and capital restructuring, financial engineering diagnosing financial problems. Advisory services are comprehensive financial, economic and strategic advice to companies for growth, profitability and sustainability.

Target customer: All large corporate houses are the target customer.

Mergers and Acquisitions: Participate in the identification of acceptable organizations for the greatest potential synergy value of firms and proper merger and acquisition strategies, as well as the negotiation and execution of a deal that benefits all parties involved.

Target market: Medium and large scale corporations are the target market.

Securitization: The issue of financial instruments backed by assets and cash flows is known as securitization. This is a modern financial service that addresses a specific sort of financial requirement for businesses.

Target customer: All corporate entities as a target consumer.

Merchant Banking:

Issue Management: The issue management group can come up with creative ways to raise money, such as placing bonds and debentures, as well as raising equity through private and public placements in the market, to meet the specific demands and limits of corporate customers.

Target customer: All corporate entities as target market.

Underwriting: Underwriting refers to an underwriter's commitment that in the case of an under subscription, the underwriter would take up the undersubscribed amount on a pro rata basis upon payment of the option's price.

Target customer: The target market for underwriting is all corporate entities.

Portfolio management: Portfolio banks enable small investors to create accounts with merchant banks and receive assistance with stock purchases and sells. Clients will have complete control over their financial selections.

Target customer: Individuals, professionals, and corporations are the target customers.

Corporate advising: The merchant bank assists the issuer in analysing its financing needs and suggesting various strategies to generate needed money through corporate advertising.

Target customer: All corporate entities are the target customer.

Security services

Brokerage services: Providing trade execution services (Dhaka and Chittagong stock exchanges), pre-IPO private placement, asset allocation guidance, and trading possibilities in various financial instruments.

Target customer: All corporate entities are the target customer.

CDBL Services (full-service company): Apart from brokerage services, securities services also include services such as BO (beneficial owner) account establishment and maintenance, dematerialisation, re-materialisation, transfers, multiple account movement, lending and borrowing, and so on.

Target customer: Individuals, professionals, and corporations are the target customers.

3.3.2: Product & Service Design and Operation:

- A. **Broader Category:** A product or service may be categorized under more than one broad category in this situation, and the most applicable classification as determined by the FI should be used. Furthermore, before making any financing decision, financial institutions should assess the risk of product or service concentration, which should be handled as separate goods. This restriction may be increased to 80 percent only for FIs that provide credit to a single specialized field, such as SME, housing, agricultural, infrastructure development, and so forth.
- B. **Policy on Insurance Coverage:** Bangladesh Bank recommends that any asset-side product have a minimum of 100 percent insurance coverage.
- C. **Pricing Strategy:** In general, FIs will compute their own Cost of Funds based on the Base Rate, as per BB's instructions. When determining the risk premium, FI should take into account the product or service's level of risk as well as the customer/investor profile. As a result, we know that the risk premium should vary depending on the loan/investment profile's CRG. According to DFIM, the price of an asset-side product is computed as $\text{Price} = \text{Cost of Fund} + \text{Risk Premium} + \text{Administrative Cost} + \text{Margin}$. So spreading over Cost of Fund should never exceed 5%. FIs may use the current market rate, liquidity demand-supply, competitor reaction, lending capabilities, general economic trend, seasonal considerations, and other considerations to decide the pricing of a liability-side product.

- D. **Tenure of repayment:** The payback period for any asset-side product shall be defined by the nature and quality of the product, as well as the business's purpose, for the purposes of these rules. FIs will determine the maximum tenure for each product.
- E. **Grace Period:** Only a new company project or a project of an existing firm that will take some time to produce enough revenue for repayment should be granted a grace period. As a result, the grace period should not be extended beyond one year from the date of final payout. The grace period may be extended up to six months in the event of big industrial projects or syndicate finance, according to DFIM.
- F. **Fees and other Charges:** In all branches of FIs, a list of all forms of fees and charges linked to loans/lease must be stored in a position where consumers may easily see it. The fees and charges included in the list must be followed to the letter. Furthermore, the amount charged cannot exceed the amount specified in the list. All legal expenses, redemption, and/or termination of power of attorney for mortgaged assets should be charged at the current market rate. Fees for document preparation and stamping must not be charged more than once. Furthermore, the penalty may be enforced in a cascading way in the event of postponing the payback plan, such that the penalty charged should be the lowest for the first time, and it may be charged at an escalating rate for subsequent missed schedules. In any instance, the penalty amount should be restricted to a rate of 1% to 5% per annum over the real rate on the overdue amount solely for the delayed period. FIs must follow the guidelines in DFIM circular No. 10 of 2010 and future changes/modifications to this circular when charging any extra fees and charges.
- G. **Reporting policy:** Reporting on products or services must adhere to BB's current values, policies, standards, and circulars to the greatest extent possible.
- H. **Sanction/Approval Authority:** There should be at least three levels of approval committees for asset-side products/services, such as a management-level committee, an executive committee, and a board of directors. Then there must be a documented policy statement governing approval authority, which FIs must rigorously adhere to. Finally, based on the magnitude of the sanctioned amount, FIs will establish the approval power and the total exposure of the client/group.
- I. **Steps in operation:** In accordance with industry best practices, FIs will design their own operational rules for producing, promoting, selling, monitoring, and assessing products and services. In the event of loans, FIs will be required to follow certain procedures, such as credit appraisal through customer visits, conversation, and needs

assessment. Then preparation of information memo followed by application. Lastly forward the report to respective approval authority and issuance of sanction letter etc.

3.3.3: Product Risk Management:

FIs overall risk management framework is well integrated within the product risk of management and that is why the policies and procedures for managing product/service risks should be formally endorsed by the Board and properly documented. These policies must be communicated in a timely manner to all or any relevant parts and levels within the organization and reviewed periodically in the light of adjusting circumstances. FIs should also make sure the adequacy and security of the IT systems with back-up and infrastructure to support their products and repair risk management.

FIs established a sound product risk management. This includes some following features. For example:

- An FI's product and service policies should be well defined, reflecting its business strategy, competitive positioning, risk governance, and financial ability to sustain losses.
- For connections to geographic areas, product lines, distribution routes, economic sectors, consumer groups, or any other relevant risk dimension, it should impose constraints and/or reasonable concentration limitations.
- It should also set control lines for dealing with connected threats.

Measuring the risk:

FIs need to follow risk areas for measuring the product risk:

Concentration risk: Product concentration risk must be measured within FI and may be among FIs, subject to the availability of data.

Market Risk: Any product or service's market risk may be assessed from a macroeconomic perspective, i.e. the external risks connected with the product or service. Furthermore, quality risk must be assessed in the context of the current financial system. The instability of interest rate risk must be considered when dealing with highly rate sensitive products/services.

Operational Risk: To lessen the probability of any product or service developing problems, a number of operational difficulties must be addressed. As a result, a product risk framework necessitates optimal alignment of technology, processes, and operational strategy for each product and service in order to create an ideal risk measurement model. From the clients support desk to the board of directors, accurate information about products and services must be delivered. Another important topic to concentrate on is skilled client and system management.

Product/service risk monitoring and control: FIs should ensure that suitable systems are in place to monitor and control product hazards on a regular basis. Risks in the institution's goods and services should be identified, measured, and addressed on a regular basis. Furthermore, risks are monitored and mitigated by specific procedures that are separate from business lines and have clearly defined accountability lines. Additionally, effective threat systems that are updated on a regular basis are essential for proper identification and monitoring of all material hazards, as well as periodic assessments of the risks detected in product/service exposures in light of changing market conditions.

Reporting on Product/service Risk Management:

FIs must submit a comprehensive report on "Product/Service Risk Management" to Bangladesh Bank once a year, by December 31, via their RMF. The report could contain the following items:

- Existing products/services list
- Current risk analysis (both quantitative and qualitative) of products/services, as well as any changes in risk direction
- Overall efficacy of policies and procedures for controlling product/service risks
- Significant changes in market circumstances that may influence the risk profile of the products/services
- Future strategy for launching new products/services

3.3.4 Guidelines for promoting new Product/Services:

Steps to consider when introducing a New Product or Service Within the cautious framework of launching a new product or service. They must examine the new product/service, including its acceptability for customers. Conduct Verification of products by the FI's Risk Management and/or Shariah Committee. Finally, prepare the IM and product/service authorization, and then submit an application to BB.

Customer Suitability Assessments:

Internal client appropriateness processes should be developed and implemented by financial institutions to guarantee that products/services are compatible with appropriate clients. Effective client suitability procedures involve the following elements:

1. Methods that clearly define the categories of customers for whom a product is most suited
2. Clear lines of responsibility for authorizing transactions with clients that don't fall into one of the specific customer eligibility categories
3. Effective management of workers participating in the sale and doing appropriate paperwork and record keeping to facilitate assessments of compliance with authorized procedures.
4. Customers should not be recommended items unless the financial institution is generally certain that the product is appropriate for them.

This is to ensure that product innovation is connected with the FI's business objectives and is compatible with the FI's competence and capacity to handle related risks.

Product Authorization: Senior management and/or the board, if applicable, must approve all new goods/services and material modifications of existing products. The scope of power provided, to whom the responsibility is provided, and whether the power may be transferred further should all be clearly defined and recorded inside the organization. The authorization should include measures for documentation and internal assessments that are required by authorizing authorities in order to verify that:

1. The product proposal is in line with the product management program of the financial institution.
2. Risks and customer expectations are managed through systems and processes
3. Both frontline and back-end workers are sufficiently trained to support the product
4. Product graphics and marketing techniques are acceptable and not deceptive.

Information Requirements for New Products:

1. A comprehensive explanation of the product, including its attributes, structure, target market or customers, and distribution method.
2. An example of a product's terms and conditions.
3. Details of any agreements (including distribution agreements) made with other parties/strategic alliances in order to market the new product, including information on the strategic partner, related risks, and steps taken to limit or manage such risks.
4. Description of the product's primary inherent hazards from the viewpoint of both financial institutions and customers, as well as the mechanisms and/or processes in place to mitigate such risks.
5. Financial institutions must additionally provide the following information for new products that require improvements to the internet, wireless, or other kinds of electronic banking platforms:
 - A risk assessment of IT-related hazards and mitigation methods
 - A full explanation of application security and a diagram of application architecture
 - Thorough IT and network security architecture configurations;
 - (Where necessary) a detailed network diagram exhibiting external links and control checkpoints
 - Information Submission Checklist for Fees and Charges Revisions or Introductions, as required by DFIM Circular No. 10 of 2010 or any future updates issued by the BB from time to time.

- For Shariah-compliant goods, FIs will additionally provide the Shariah Committee's verification report on the new product/service in addition to the information needed under items one to six.

3.4 Summary & Conclusion:

With the enhanced flexibility allowed to FIs under these rules, the Board and senior management have been given more duties to ensure that product/service risks are adequately managed and customer requirements and rights are adequately handled. The FIs will continue to emphasize these duties through supervisory reviews and enforcement actions in order to improve consumer protection and promote solid risk management practices. Thus way product/services help the customer to fulfil their need by following these guidelines which are given by DFIM, BB and provide a strong & positive perception towards Non-banking financial institutions.

3.5 Recommendations:

Exploring Alternative Sources of Funds: Funds are collected in a variety of ways by research and healing organizations all around the world. NBFIs in Bangladesh may also look into the possibility of obtaining new sources of funding through the issuing of commercial paper, discounting, or the sale of lease receivables.

Improving Capital Adequacy: NBFIs in Bangladesh have been instructed to maintain a capital adequacy ratio of not less than 10% with in crore capital under the Basel accord, so they must follow Bangladesh Bank's instructions so that they can offer different products/services to attract their customers and gain a positive perception.

Market Segmentation: As previously stated, banks and NBFIs can serve complimentary services in addition to competing with one another. Banks and NBFIs should follow some ethical and technical forms in order to function as complementary organizations. In addition, they should anticipate new market segmentation where they might launch new service lines to retain clients in accordance with DFIM rules.

Ensure Strong Legal System: The government and the Bangladesh Bank should guarantee that this industry has a solid legal framework. The situation cannot be improved just by strengthening the legal system via the introduction of new laws; rather, it is more important to ensure that existing laws & guidelines are properly implemented.

3.6 References:

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