

CREDIT & INVESTMENT MANAGEMENT
OF
LANKABANGLA FINANCE LIMITED

BRAC University



Credit & Investment Management of LankaBangla Finance Limited

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AN INTERNSHIP REPORT
ON
CREDIT & INVESTMENT MANAGEMENT OF LBFL

Letter of Transmittal

June 09, 2016

To
School of Business
BRAC University

Subject: Submission of Internship Report

Dear Sir,

It is a pleasure to be able to hand over the report of my internship program on “**Credit and Investment Management LankaBangla Finance Limited**”. The internship program has provided me the opportunity to work with the employees of the different department in LankaBangla Finance Limited which gave me valuable insights to the professional life in an organization. While preparing this report, I came to know about different aspects of “**Credit and Investment Management**”

I, therefore, convey my thanks to my supervisor for his kind cooperation, supervision and advice in conducting and preparing this report. I have completed the whole program with great enthusiasm. I hope you will find this report worth reading although I was not able to accumulate all types of information due to time constraint and other limitations. If you need any clarification, I will be obliged to provide further clarification.

Yours sincerely,

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Acknowledgement

In the name of almighty it is my pleasure to present this report titled “***Credit & Investment Management of LankaBangla Finance Limited***”. This internship report is prepared as a requirement for MBA completion program under MBA Program of BRAC University. As an academic part of the MBA program I was placed in Lankabangla Finance Limited for three months internship.

First of all I would like to thank **Mr. S M Arifuzzaman** my supervisor for his valuable advises in preparing the report which he himself primarily designed for me and supervised me to make it a analytical finance related report and helped me to increase my understanding of the content of the report.

In LankaBangla Finance Limited my special thanks to **Mr. A B M Faruque Hossain** Assistant Vice President “Asset Operation Division” for helping me to obtain important data on different aspects.

My cordial thanks to **Mr. Shahidul Islam** – Senior Officer, Asset Operation Department, my internship coordinator for being so nice with me and helping me in all aspects in spite of his busy schedule.

All the officers and staffs of LanakBangla Finance Limited were very considerate and helpful. They provided me all assistance to complete my internship successfully. I thank them for being so friendly and cordial to me.

ABBREVIATIONS

LBFL	LankaBangla Finance Limited
VBL	Vanik Bangladesh Limited
BB	Bangladesh Bank
CIB	Credit Information Bureau
LBSL	Lankabangla Securities Limited
BLFCA	Bangladesh Leasing & Finance Companies Association
NBFI	Non Bank Financial Institutions
CC (Hypo)	Cash Credit Hypothecation/ Pledge
TDR	Term Deposit Receipt
LF	Lease Finance
LG	Loan General
HL	Home Loan
ROI	Return on Investment
ROE	Return on Equity
EPS	Earning Per Share
OPM	Operating Profit Margin
NPM	Net Profit Margin
WC	Working Capital
PAD	Payment Against Documents
SME	Small & Medium Enterprise

CID	Credit & Investment Division
CAD	Credit Administration Division
TIN	Tax Identification Number
DSE	Dhaka Stock Exchange
CSE	Chittagong Stock exchange
CRAB	Credit rating Agency of Bangladesh
TR	Trust Reciept
PG	Personal Guarantee

EXECUTIVE SUMMARY

“LankaBangla Finance Limited” was originally established as a joint venture company between Bangladesh and Srilanka with the name “Vanik Bangladesh Limited” in the year 1996. But with multinational collaboration it entered into new dimension with fresh equity investment from Singapore and Kingdom of Soudi Arabia. In the year 2005 it was renamed LankaBangla Finance Limited and went public in the following year. It was established with an intention to operate in all the area of activities of an NBFi. The success factor of a financial institution is it’s trustworthiness among customers and sound implication of competitive strategies. To be a profitable entity to invest in overall performance of the FI need to be satisfactory at a glance. LBFL is trying to build a good image among all classes of customer thus been able to improve its performance to a greater extent.

My internship report on LBFL is titled “***Credit & Investment Management of LankaBangla Finance Limited***”. To construct the report I have tried to collect as much as related information. First I gave an overview of the company. I included a brief discussion of overall activities to get a preliminary idea of the services of the company. Though the topic is not based on overall activities it has a origination in this sector. The functions of treasury operation, corporate finance, brokerage services, merchant banking has important implication on the credit & investment management of the company.

In order to get idea of the performance of the bank I tried to show how the company manages its financing products. My concentration was to show the whole process of credit & investment management. As a major part of the report overall financial performance analysis is done. Performance analysis included operating performance, asset performance, financial risk analysis and other product performances

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1.0. INTRODUCTION

1.1. Background

Since the institutionalization of flow of fund system financial institutions have been playing important roles in the development of an economy by directing flow of fund in an efficient manner. Though traditionally banks are considered as more important player in this sector in the modern context Non Bank Financial Institutions are also in the limelight for their more customized services in the financing sector. Non-Bank Financial Institutions (NBFIs) play a significant role in meeting the diverse financial needs of various sectors of an economy and thus contribute to the economic development of the country as well as to the deepening of the country's financial system. According to Goldsmith (1969), development in a country starts with the development of banking institutions. As the development process proceeds, NBFIs become prominent alongside the banking sector. Today more and more people are converging to NBFI. This is because of the fact that comparing to the banks, NBFIs process the customer request for credit quick. In addition, some clients do not qualify for bank finance because of the organization's preset policies. The NBFI take advantage of this. Further more, bank finance frequently asks for collateral security and even more security deposit is asked when equipment is financed. On the other hand, NBFIs, as they finance equipment and machineries on lease, in most cases they do not ask for additional security. Many clients prefer leasing on account of the tax advantage Moreover, Leasing offers opportunities for higher returns to the NBFI.

In Bangladesh, The financial market is extremely competitive. Today the number of NBFIs is 33 which is large for a country like ours. The competition is getting intense among the institutions with the passage of time. The competitive environment for NBFIs is even more complexes, as they have to compete with banks, which have much lower cost of funds compared to even the most efficient NBFI. To have better response from the customers, better quality is highly necessary. The more efficient and prompt services NBFI provide, the more competitiveness they attain. In a nutshell customized and quality service is the core competitive advantage of an NBFI.

Being an NBFI, LankaBangla Finance Limited also concentrate on that theme. Its Credit & Investment Division comprises of most of the financing products including lease & loan which is the core product of any NBFI. In order to grab maximum market share in this sector LBFL needs an efficient credit and investment management in order to attain greater number of clients for its financing products. In this regard LBFL runs periodical client demand analysis on the existing and future clients. Based on that analysis they have reached to a proposition that clients look for better quality of services rather than lesser interest rate.

1.2.Origin

It has become essential for every person to have some idea on the Non Bank Financial Institutions and their financing procedure. As our educational system predominantly text based, inclusion of practical orientation program is an exception to the norm. From practical knowledge, we will be able to know real life situations and launch a career with some practical experience. In such state of affairs the present study aiming at analyzing the experience of practical orientation related to an appraisal of LankaBangla Finance Limited and my report topic has been selected as “Credit & Investment Management of LankaBangla Finance Limited.

1.3. Objectives

Primary objective:

The primary objective of this report is to prepare a report on “Credit & Investment Management of LankaBangla Finance Limited.” as the partial requirement of MBA program.

Secondary objectives:

The study was conducted to achieve the following secondary objectives-

- To present an overview of LankaBangla Finance Limited.
- To know about the overall general financing system of LBFL

- To show the loan products and loan sanctioning procedures of LBFL.
- To present the overall performance analysis of LankaBangla Finance Limited.
- To suggest measures for the development of LankaBangla Finance Limited

1.4. Methodology

In order to make the report more meaningful and presentable, from two sources data and information have been collected. This are-

Data Collection:

- a) Primary sources
- b) Secondary sources

a) Primary sources of data including the following:

- Face to face conversation with the institutions officers and staffs
- Direct conversation with the client.
- Study of different files of different section of the institution.
- Practical deskwork.

b) Secondary sources of data including the following:

- Annual report of LankaBangla Finance Limited
- Unpublished data from the organization
- BLFCA Year book
- Different publications of LankaBangla Finance Limited
- Website.
- LBFL Database

1.5. Limitations

There are some limitations of the report and therefore it may lack some crucial data. In preparing the report I faced some problems which are as follows:

- The main constrain of the study was insufficiency of information, which was required for the study. There are various information the company's employee can't provide due to security and other corporate obligations.
- Due to time limitation many of the aspects could not be discussed in the present report. Learning all the functions within just 90 days is really tough.
- Since the company's personnel were very busy, they could not provide enough time.
- Lack of opportunity to have conversation with higher authority.

2.0. AN OVERVIEW OF LBFL

2.1. Company Profile

Name	: LankaBangla Finance Limited
Year of Establishment	: 1996 as Vanik Bangladesh Limited and renamed LankaBangla Finance Limited in 2005
Type of Business	: Joint Venture Company (Public limited)
Authorized capital	: TK. 1000.00 million
Paid up capital	: TK. 442.00 million
Business Segment	: Non Bank Financial service

2.2. Background

LankaBangla Finance Limited (LBFL) is a joint venture financial institution having sponsor shareholder from Bangladesh, Srilanka and Singapore. It started its operations in Bangladesh as “Vanik Bangladesh Limited (VBL)” as a multi product financing company in 1997 under the Financial Institutions Act-1993.

VBL was established through collaboration between Vanik Incorporation Limited, a leading financial institution of Sri Lanka and some foremost Bangladeshi entrepreneurs. Within a few years VBL has marked its strong presence in the leasing, credit card and corporate finance sector.

In 2003, the company entered into a new dimension with fresh equity investments from Sampath Bank Limited, one of the leading commercial banks of Sri Lanka and the then Chinkara Capital Limited (now First Gulf Asia Holdings Limited), a Singapore based multi faceted asset management and investment banking company with investments throughout ASEAN, South Korea and the Middle East and Europe. This investment doubled the paid up capital of the company and helped it to expand its operations tremendously. The trend continued in the following years and in 2004 One Bank Limited became equity partner.

In order to reflect the ongoing changes in ownership and operations, the company was renamed as '**LankaBangla Finance Limited**' in May 2005 with a commitment to contribute more in building up a robust financial sector in the country.

In August 2006, the Company offered shares to the general public amounting Tk. 90 million through IPO. With this raise the paid up capital of the Company will reach Tk. 350 million.

The registered office of LankaBangla Finance Limited is located at 20 Kemal Ataturk avenue, Banani, Dhaka. It also has many branches across Bangladesh. LBFL incorporates the operation of its 99.99% owned subsidiary LankaBangla Securities Limited (LBSL), which is a leading share brokerage house in Bangladesh.

2.3 Direction & Management

A 12-member board of directors, including the chairman and Managing Director oversees the affairs of the company. The functions of different operational divisions are carried out under direction and surveillance of Head of the Division and his Deputy. In 2016, the bank had 14 branches. The registered head office of LBFL is at Dhaka. The company conducts traditional and specialized non bank financial functions.

2.4 Capital Structure

LBFL has a strong capital base. Its authorized capital is TK. 1000.00 million while its paid up capital is Tk.442.00 million. The share price of the company is par value Tk.100.00. to meet the overall requirement the company borrow from Bangladesh Bank and other banks and financial institutions. So far LBFL has been able to meet its capital adequacy requirement successfully

2.5 Strategic Analysis

Mission

- To be the most sought after facilitator in creating wealth.
- To recognize shareholders' expectations and optimize their reward

Vision

LBFL cherishes the vision to be one of the five big NBFIs in terms of volume of business and establish itself as a true multi-product financial institution

Corporate Goals

- To exceed customer expectations through innovative financial products and services
- To establish a strong regional presence
- To recognize shareholders' expectations and optimize their reward

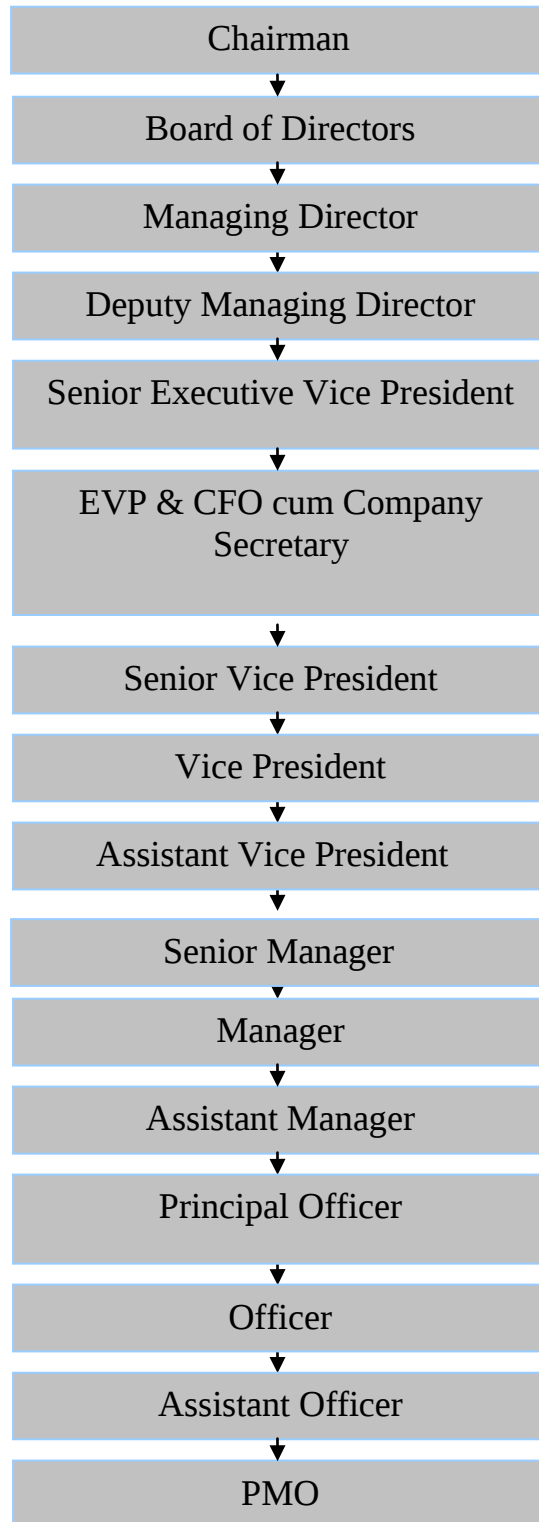
2.6 Corporate Social Responsibility

The socio-economic interpretation states that the existence of every organization is to fulfill the social obligations. We generate financial value to reward our stakeholders. Profit maximization is not our only goal. LankaBangla has profound commitments towards the society particularly to those who are most disadvantaged and vulnerable. With a view to execute the Company's Corporate Social Responsibility (CSR) activities LB Foundation (a non-profit organization of LankaBangla) was formed in 2008. The Fund provides the base for our CSR activities. Every year LankaBangla Finance Limited adds up 1.00% of its post tax profit to the Fund. The fund balance at the end of 2015 stood at Tk.14.96 million. The Company's CSR strategy is aimed at fostering self-reliance, independence and creativity among the most disadvantaged people.

2.7 Corporate Culture

LBFL is one of the most disciplined NBFI with a distinctive corporate culture. In this company, it believes in shared meaning, shared understanding and shared sense making. The people of the company can see and understand events, activities, objects and situation in a distinctive way. They mould their manners and etiquette, character individually to suit the purpose of the company and the needs of the customers who are of paramount importance to them. The people in the FI see themselves as a tight knit team/family that believes in working together for growth. The corporate culture they belong has not been imposed; it has rather been achieved through their corporate culture.

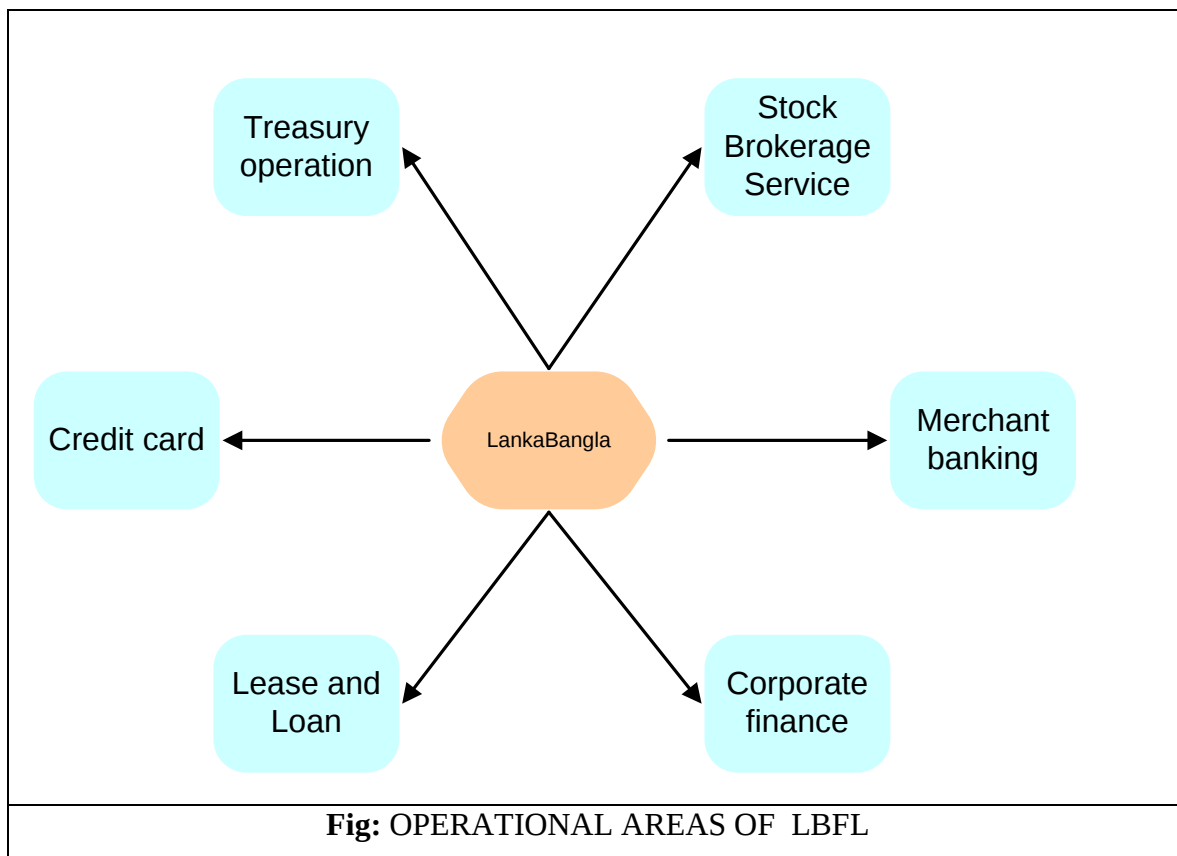
2.8. Organizational Structure (Straight-line)



3.0. OPERATIONS AND COMPANY ANALYSIS

3.1 Operational Areas of LBFL

The mainstream (revenue generating) divisions of the organization are Credit & Investment Division (CID), Credit Card Division, Merchant Banking Division (MBD), and Stock Brokerage Service Division (though its subsidiary – LankaBangla Securities Limited. LBFL mainly operates in the following areas:-



3.1.1 Lease & Loan

The company started its leasing operations in March 1998. Initially the focus was only on Lease for purchase of machinery, equipment needed for new project establishment,

expansion, replacement, and modernization of business, and Sale & Leaseback facilities. Gradually product range has been increased to include Medium Term Loan, Short-Term loan for corporate houses and Car Lease for Individuals (professionals & businessman), SME Loan, factoring etc.

3.1.2 Credit Card

LBFL started its Credit Card Operations with its own brand 'Vanik' during the year 1998. LBFL (then VBL) is the only company among the Non-Banking Financial Institutions (NBFI's) to launch the first indigenous credit card. Since then customer base has exceeded 15,000 and merchant (shops, hotels etc. who accepts credit card) base is over 2,800.

Credit Card Department of LBFL provides two types of Credit Cards :

- 1) Gold Credit Card
- 2) Classic Credit Card.

The distinguishing features for these two Cards basically lie in the salary or income group. The minimum fixed monthly income expected for Classic Cardholder is Tk20,000 or Security Deposit of Tk50,000. And for a Gold Cardholder is Tk60,000 fixed monthly income or a Security Deposit of Tk200,000. Credit card operations were expanded to Chittagong & Cox's Bazar in 2003. In September 2005, the Company started issuing MasterCard Credit Card, an internationally reputed brand Credit Card with more features and benefits to the customers.

Credit Card offered by LBFL, an indigenous domestic credit card has got technical back up from Golden Key Credit Card Company of Sri Lanka. The product is unique to other international cards in many respects. They can streamline product attributes anytime to suit the requirements of the customers.

3.1.3 Corporate Finance

Corporate Finance is another key business of LBFL. The activities of the **Corporate Finance department** concentrate on offering the following services:

- Mergers and Acquisition Activities

- Financial Restructuring
- Syndication of Loans
- Placement of Equity Capital And Debt Instruments
- Venture Capital Financing
- Financial and Corporate Advisory Services

The legacy of LBFL is rich with participation in financing projects having social commitments both in service and manufacturing sector

3.1.4 Merchant Banking

The Merchant Banking license from Securities & Exchange Commission (SEC) was obtained in 1998. Underwriting of Initial Public Offering (IPOs), active participation as Issue and Portfolio Manager to important issues to be floated will continue to be intensified. Some of the landmark issues successfully managed are the IPO and Right Issue of Dhaka Bank Limited and Al-Arafah Islami Bank Limited including underwriting a number of issues namely Daffodil Computers Limited, Bank Asia Limited, EXIM Bank Limited etc.

3.1.5 Stock Brokerage Service

LBFL has inherited a resourceful subsidiary stock Brokerage Company which is one of the leading Brokerage House in Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). It is also the authorized broker for internationally reputed fund managers.

3.1.6 Treasury Operations

Treasury operations are carried out by Treasury Department Current funding sources of LankaBangla consist of 5 instruments, which are as follows:

- o Term loan (long term/ short term/ placement)
- o Term deposit
- o Overnight borrowing (call loan)
- o Overdraft facility (secured/unsecured)
- o Lease deposit

3.2 SWOT Analysis

Strength

- Experienced top tier management supported by strong mid and front-tier personnel.
- It has a good corporate governance practices. They maintain an
- Attractive and stable operating environment promoting employee development.
- LBFL has a good capital strength and parental support with institutional shareholding, support from home and abroad
- It is utilizing credit line facilities of a good number of reputed commercial banks and non-banking financial institutions as their source of fund.
- Risk management lies at the core of any financial institution. LBFL has commissioned a separate credit committee which mitigates risk as well as monitors asset-liability mismatches on a regular basis.
- LBFL has a exclusively diversified and innovative operations in different service areas. Product innovation is a major strength it and apart from providing better service LBFL constantly thrives to innovate and introduce new products.
- Country's largest brokerage house, LankaBangla securities Ltd .is the lone subsidiary of the company. The subsidiary of the company.
- The subsidiary is making significant money each year.
- LBFL has a separate IT department which is maintaining sophisticated IT infrastructure. It is using two software "FIntelligent" and "Tally" which are integrated accounting and lease/loan software. The company has also introduce the internal control system

Weaknesses

- Relatively higher administrative expenses compared to similar NBFIs.
- High turn over ratio of employees.
- Higher level of financial risk

Opportunity

- Since banks focuses on trade finance and short term financing, there is still gap long term financing. LBFL has enough opportunity to prosper
- Term deposit scheme provided by LBFL is very attractive as it gives very high interest to the clients. If proper marketing is carried out to make it more attractive to people, it will be very good source of their fund.

Threats

- LBFL's operations are governed by the charges in regulation that occur from time to time. Ceiling in the call money market participation and interest rate fluctuation may affect the company to a large extent
- Few banks are providing leasing services. If more and more banks start lease financing the market for NBFIs will get distorted as banks have lower cost of fund. As a non bank financial institute, LBFL is prone to this risk.

4.0. CREDIT & INVESTMENT MANAGEMENT

LankaBangla Finance Limited is one of the leading NBFIs in the country. It has been efficiently serving different business segments through its innovation of customized financial products. It is committed to provide high quality financial services/products to contribute to the GDP of the country through stimulating trade and commerce, accelerating the pace of industrialization, boosting up export, creating employment opportunity for the educated youth, poverty alleviation, raising standard of living of limited income group and over all sustainable socio-economic development of the country.

A financial institution invests its funds in many ways to earn income. The bulk of its income is derived from investment. Since major part of FI's income is derived from credit and since the money credited by an FI is its borrowed fund, an FI should follow a cautious policy and sound lending principles in the matter of lending. The total credit & investment management of LBFL is the direct concern of its Credit & Investment division which introduces and uses different products for different mode of financing.

4.1 Credit & Investment Division

The Credit & Investment Division of LBFL mainly started its operation with its core product lease and term financing. But with passage of time increased demand for more customized financing needs and introduction of new types of ventures new financing products emerged within this division. Today the division is working with an array of real term customized products like products under SME, factoring, work order financing, short & long term loans, auto loan etc.

4.1.1 Business strategy

The business strategy of the leasing operation was adopted through a detailed macro economic analysis, sectoral analysis of business, market segment analysis and competitor analysis. Based on the above analyses a sectoral policy, client selection policy, appraisal procedure and criteria and five years' roll over business plan had been adopted.

- a) **Long Term Strategy:** The long-term strategy is to build up a portfolio, which is a balanced mix of organized & matured segments and emerging segments. The ultimate objective is to achieve an above normal profit level. The organized segment will contribute to regular cash flow while the emerging segments will provide premium for profit.
- b) **Short Term Strategy:** The short term strategy of VBL is to develop portfolio having concentration of organized segments to attain regular cash flow, e.g. Banks, Insurance companies and financial Institutions Multinational Companies, etc.

4.1.2 Major Functions

The major functions of Credit and Investment Division:

- i. Marketing
- ii. Credit implementation
- iii. Credit administration

Marketing function

The marketing function of Credit and Investment Division starts from making promotional offer to the probable borrower, proposal collection, making appraisal report on applicants, interpreting income up to approval for lease & loan. LBFL follows well structured credit appraisal and approval process for its lease and loan division.

Credit implementation

The credit implementation functions include documentation of lease agreement and disbursement of credit amount. Disbursement takes place only after due approval and when the documentation is fully completed.

Credit administration

The credit administration function is mainly monitoring and recovery of lease amount. It has credit risk committee to monitor credit administration. Recently the credit administration function has been delegated to a complementary wing of CID which is known as CAD or Credit Administration Division.

4.2 Encouraged Sectors of Disbursement

LankaBangla Finance Limited provides loan to the following sectors-

1. Agro based ventures	2. Communications	3. Consumer financing
4. Real estate & civil construction	5. Industry	6. SME
7. Service	8. Trade & commerce	9. Others

◆ Agro based ventures

Agriculture is the mainstay of Bangladesh economy being major contributor to the GDP. Though the sector is being looked after adequately by financial institutions, LBFL is very much encouraged to provide financing to agro base.

◆ Transport & communications

For the development of an economy and to support trade & commerce transport and communication sector is extremely important. Companies in these sectors are welcomed to get financing from LBFL.

◆ Consumer financing

Though very small in number LBFL keenly provides loan for consumption financing. Clients avail this loan mainly for household costs and child education

◆ Construction

Real estate & construction sector is a highly profitable sector. There is limited chance of default. LBFL mainly provides work order financing to this sector.

◆ **Industry**

The real development of an nation depends on the development of its medium and big industry. Lankabangla mainly look forward to finance PPNE and working capital of industrial sector.

◆ **SME**

It has been realized in recent time that real time development of Bangladesh is possible it can vastly develop its Small & Medium enterprises. For that reason Bangladesh Bank has introduced detailed guidelines for SME sector and financial institutions have been ordered to expand its business in SME sector. LBFL put high emphasis on this sector.

◆ **Trade & Commerce**

Without trade and commerce an economy can't be imagined. For Lankabangla trade & commerce is a much secured sector to provide loan.

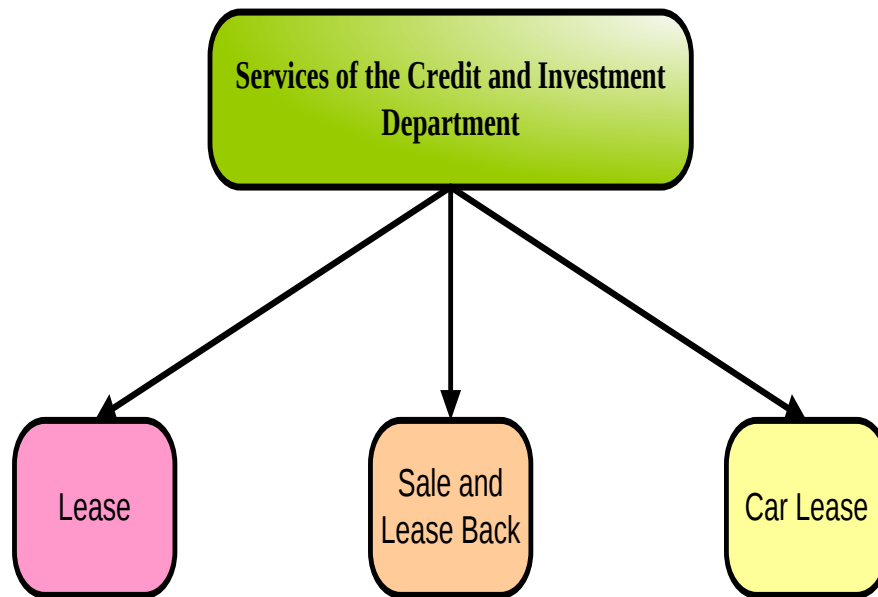
◆ **Service**

LBFL extends loan to different service based enterprises like other financial institutions, investment bankers, securities and brokerage firms. It also provides loan to medical sector and other important service companies

4.3 Types of Credit Facilities

4.3.1 Lease

Lease Financing Activities are carried out by Credit and Invest Department. Services of the Credit and Investment Department can be categorized into the following:



a) Operating & Capital Lease

Lease, in simpler words, means renting an asset in exchange of regular lease rentals for a specified period of time.

Leasing is a contract between a Lessor (the asset lender) and a Lessee (borrower of the asset), for hire of a specific asset. The Lessee selects the asset according to his requirement and the supplier. If found acceptable, the Lessor procures that asset and rents it to the Lessee. The supplier of the asset is paid directly by the Lessor. The ownership of the asset lies with the Lessor. The Lessee has possession of the asset and uses that asset against payment of a fixed rental over the lease period to the Lessor. At the end of the lease period the Lessee has the option to return the asset to the Lessor or re-lease the asset

for a further period or purchase the asset at a predetermined nominal transfer price. In short, leasing is asset financing differing from lending, which is cash financing.

b) Sale & Leaseback

Sale & Leaseback is a form of lease facility whereby an existing asset is purchased by the Lessor from the Lessee, instead of a supplier, at an agreed upon price and the same asset is leased to that Lessee. Thus the ownership of the asset is transferred from the Lessee to the Lessor. The payment is made to the Lessee for purchase of the asset. Through Sale & Leaseback the Lessee is provided with liquidity against his investment in asset. This can also be called a form of cash financing.

c) Car Lease

Car Lease is a separate product only to finance vehicles to individuals and proprietorship concerns. This is a standard product with predetermined attributes, which would not change depending on client.

4.3.2 Loan

A financial institution has the chance to introduce a wide array of loan products. Loan products are customized according to types, purpose and size of business. LBFL has a number of loan schemes which get good responds from clients. The loan products are as follows:-

a) Term Finance

LBFL provides Term Loan to medium and large corporate entities to meet their short, medium & long term fund requirements for development of production facilities on easy and flexible terms. Corporations need this type of financing mainly to procure PPNE or to finance working capital for smooth running of operation. Term finance as its name suggests differ only on tenure of loan. Loan for less than one year is short term, loan less than five year is medium term and loan greater than five year is classified as long term. Through market analysis interest rate for term finance varies between 11% to 16%.

b) Work order Finance

LankaBangla Finance Limited provide Loans to corporate entities to finance work orders that they receive from private reputed companies, Government, multi-national companies and defense authorities. In such cases we require that the payment to be received from the contract be fully assigned in favor of LankaBangla which will then facilitate direct payment of the receivables to LBFL when the work order is completed. Such financing will normally be for periods ranging from 6 months up to 1 year, covering the provide requirement to complete the work order. Normally the financing amount is decided on certain percentage of total work order for a particular time frame.

c) SME Loan

The full fledged SME department of LBFL is a very new wing of it which started its journey from 1st march 2010. There is no specific definition of SME loan. However the loan products differ in terms of amount and time. SME loan is mainly provided to small manufacturers, retail and wholesale traders, service companies which need small amount of financing, agro based businesses, woman entrepreneurs etc. For SME loan the loan amount ranges from 5 lac to 50 lac. To encourage small loans amount less than 10 lac is provided to the clients without any security. Amount greater than that is financed with security like lien of inventories, business space etc. loan amount equal or greater than 40 lac is normally financed with lien or mortgage of lands. For financing mode normally CC hypothecation is preferred. The interest rate on SME loan varies time to time. The range is 11% to 17%. There is a special safeguard feature in SME financing which is known as Bangladesh Bank Refinancing Scheme. To encourage SME sector Bangladesh Bank undertakes refinancing for some of the loans. Loan under refinancing scheme has very small interest rate normally 9% to 10%. SME loan is provided for 30 to 72 months. In providing this type of loan the selection criteria is mainly profitability and Debt Burden Ratio (DBR) of the client. The permissible DBR rate is 60%.

d) Auto Loan

Auto Loan is one of the popular schemes of LankaBangla. A vast number of individuals and institutions have already availed the benefits of car loan scheme, which is very simple and terms of the loan are also tailored to the needs of the borrower. We also have number of well known Car Show Rooms who have wide selection of Brand new and reconditioned cars, from where cars can be purchased under our car loan scheme. With our attractive car loan package, customers are able to repay the loan according to their convenience.

4.3.3 Factoring

As the business grows, so does one need for working capital. Healthy companies need cash for the following purpose:-

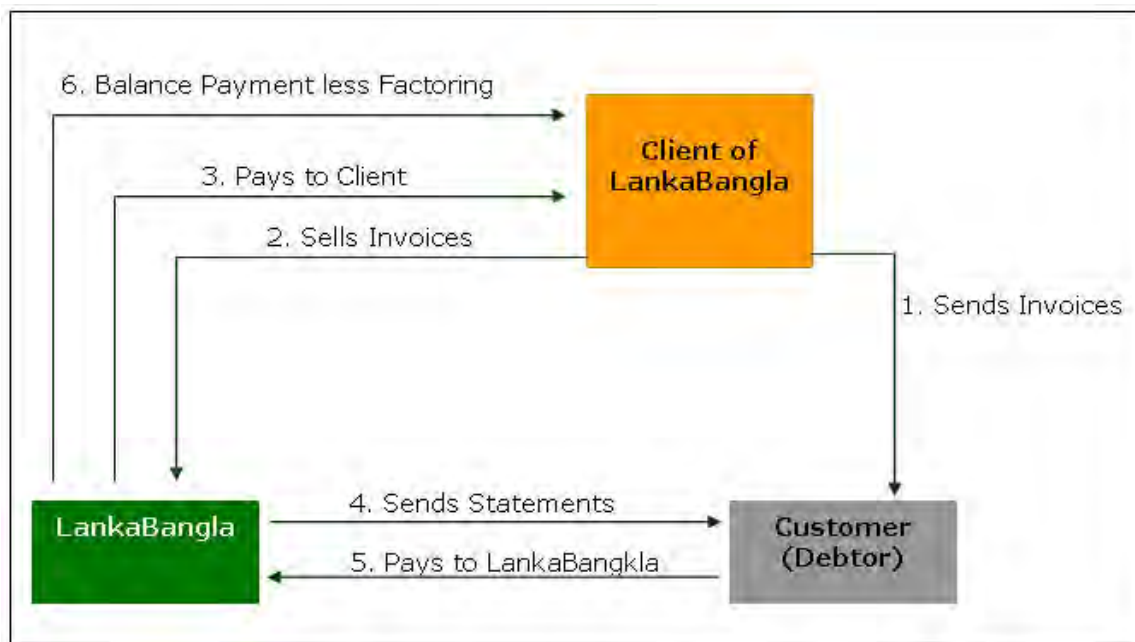
- To finance expansion
- To fund stocks
- To meet overheads/ salaries

LankaBangla specializes in providing businesses with instant cash through the purchase of accounts receivable or debts outstanding which a financing technique is known as Factoring.

Factoring moves a business's cash flow forward creating immediate cash to improve its financial position and increase its purchasing power. Thereby, it provides the business with the economic strength to expand production, increase sales and profits. Factoring is a comprehensive sales ledger service incorporating:-

- Credit Advice
- Credit Control
- Generation of Statements & Reminders to Debtors
- Collection of Cash and Cheques
- Providing Cash in Advance of Collections and
- Providing Relevant Data to the Client on the Up-To-Date Status.

Factoring is gaining recognition as a source of short-term finance worldwide. Factoring is a service designed by LBFL to improve a business's cash flow position by turning its sales into ready cash. LankaBangla provides factoring with recourse to the client. We currently offer only domestic factoring facilities, where the client, its debtors and the factoring company are all in the same country and a single local currency is used in all transactions. In a graphical presentation the factoring process is as follows:-



4.4 General Procedure of Sanctioning Loan

The following procedure is applicable for giving advance to the customer. These are:

- a) Party's application
- b) Filling LBFL application form of lease & loan
- c) Collecting CIB report from Bangladesh Bank
- d) Processing loan proposal
- e) Project appraisal
- f) Credit Committee Approval

- g) Executive Committee approval
- h) Sanction letter
- i) Documentation
- j) Disbursement

A. Party's application

At first borrower had to submit an application to the respective department for loan. He/she has to clearly specify the reason for loan. After receiving the application from the borrower respective officer verifies all the information carefully. He also checks the account maintains by the borrower with Bank through bank statement of at least one year.. If the official becomes satisfied then he gives LBFL application form of Lease & Loan Facilities

B. Filling LBFL Application form of Lease Loan

It is the prescribed form provides by the respective department that contains information of the borrower. It contains- Name of the concern with its factory location, Official address and Telephone number, Details of past and present business, it achievement and failures, type of loan availed etc.

C. Collecting CIB Report from Bangladesh Bank

After receiving the application for advance, LBFL sends a letter to Bangladesh Bank for obtaining a report from there. This report is called CIB (Credit Information Bureau) report. LBFL generally seeks this report directly from Bangladesh Bank office for all kinds of Investment. Steps for collecting CIB are as follows:-

1. Each owner (proprietor/partner/director) must sign an *Undertaking* providing details of his/her personal and business details.
2. Undertaking forms are sent to CIB for the verification of information given in the under taking form.

Based on the result of CIB report appraisal is done. If the report is satisfactory, appraisal report is made, else the proposal gets rejected. The purpose of this report is to

being informed that whether the borrower has taken loan from any other Bank; if ‘yes’ then whether the party has any overdue amount or not.

D. Processing loan Proposal

After receiving CIB report, respective department prepare an Investment proposal, which contains terms and conditions of Investment for approval of Credit Committee & Executive Committee. Documents those are necessary for sending Investment proposal are Loan application, photograph of the borrower duly attested, personal informant of borrower, CIB report, legal opinion, trade license, stock report, net worth calculation of business & individual, working capital assessment, financial statement, SME information and CRG.

LBFL prepares the proposal in a specific form. It contains following relevant information- Borrower, capital structure, address, Account opening date, introduced by type of business, particulars of previous sanctions, security (existing and proposed), movement of accounts, components on the conduct of the account, Details of deposit, liabilities of allied concerns, liabilities with other Banks, CIB report, Rated capacity of the project (item wise), Production/purchase during the period, Sales during the period, Earning received for the period.

E. Project Appraisal

It is the pre-investment analysis done by the officer before approval of the project. Project appraisal in the financial sector is needed for the following reasons:

- To justify the soundness of an investment,
- To ensure repayment of Bank finance,
- To achieve organizational goals,
- To recommend if the project is not designed properly

Techniques of Project Appraisal

An appraisal is a systematic exercise to establish that the proposed project is a viable proposition. Appraising officer checks the various details submitted by the promoter in first information sheet, application for Investment and Investment proposal.

LBFL considers the following aspects in appraising a proposal.

- Technical viability
- Commercial viability
- Financial viability
- Economic viability

The executive committee mainly checks the technical, commercial and financial viability of the project. For others EC is dependent on visit report. But when the investment size is big, then the EC verifies the authenticity of information physically.

Approval Procedure for Lease & Loan

Initial Procedure:

A.The proposal is submitted to the Management Committee, comprising of Senior Officials of different departments of the company.

B.After review of the Management Committee, the proposal is forwarded to the Managing Director.

Final Approval: For proposals up to Tk. 2 million:

Managing Director approves/rejects the proposal.

Final Approval: For proposals exceeding Tk. 2 million:

- Managing Director approves/rejects the proposal.
- If approved, the proposal, along with Managing Director's recommendations, is forwarded to the Executive Committee/Board of Directors for final approval.

- The Executive Committee/Board of Directors approves/rejects the proposal in meeting or through circulars. There are two paths in the approval process

Path 1: Executive Committee

- a. The proposal is sent to Sampath Bank Limited
- b. Upon receipt of their approval, the proposal is submitted to the Executive Committee, comprising all Local Directors.

They may accept/reject the proposal.

Path 2: Board of Directors

The proposal is submitted in the Board Meeting for approval.

The full process is as follows –

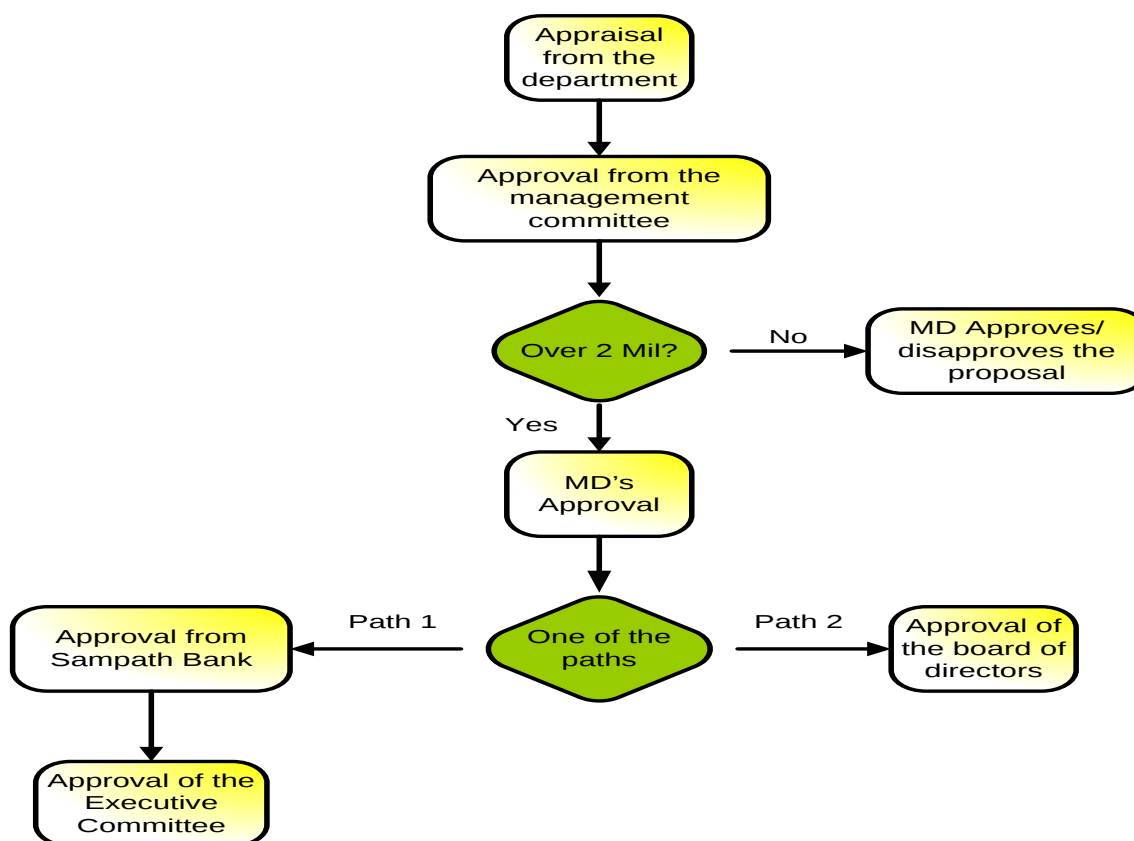


Figure: Lease & Loan Procedure

F. Sanction Letter

After getting the approval of the BOD the department issues sanction letter to the borrower. A sanction letter contains- **Name of borrower, Facility allowed, Purpose, Rate of interest, Period of the Investment and mode of adjustment, Security and Other terms and condition.**

G. Documentation

If the borrower accepts the sanction letter, the Documentation starts. Documentation is a written statement of fact evidencing certain transactions covering the legal aspects duly signed by the authorized persons having the legal status. The most common documents used by the NCC Bank for sanctioning different kinds of Investment are **Joint Promissory Note, Letter of Arrangement, Letter of Disbursement, Letter of Installment, Letter of Continuity, Trust Receipt, Counter Guarantee, Stock Report, Letter of Lien, Status Report, Letter of Hypothecation, Letter of Guarantee and Documents Relating to Mortgage.**

H. Disbursement

Finally respective officer disburses the loan after sanction and completion of all formalities. The officer writes cheque and provides it to the borrower. For this borrower has to open an account thorough which he/she can withdraw the money.

4.5 Recovery Procedures

It is the duty of the Department to recover the landed fund within the stipulated time and if the borrower fails to repay the money within the said period LBFL will declare him as a defaulter and recover the fund by selling the securities given by the borrower or by freezing his account or make a suit against him.

Strategies for recovery

Recovery of loan can be made in the following 3 methods.

- 1) Persuasive
- 2) Voluntarily
- 3) Legally

1) Persuasive recovery:

If the borrower didn't paid the due amount of loan in time then the first step of bank is private communication with him. It creates a mental pressure on borrower to repay the loan amount. In this case LBFL can provide some advice to the borrower for repaying the loan.

2) Voluntarily recovery:

In this method, some steps are followed for recovering loan. This are-

- Building Task Force
- Arranging seminar
- Loan rescheduling policy
- Waiver of interest rate

3) Legal recovery:

When all steps fail to keep an account regular and the borrower does not pay the installments and interests then bank take necessary legal steps against the borrower for realization of its dues. In this case "Artha Rin Adalat Ain-2003" plays an important role for collecting the loan.

4.6 Loan Monitoring

Loan monitoring implies that the checking of the pattern of use of the disbursed fund to ensure whether it is used for the right purpose or not. It includes a reporting system and communication arrangement between the borrower and the lending institution. The following steps are followed by respective officer.

- a) Regular checking the balance of SB/CD/STD accounts of the borrower.

- b) Regular communication with the defaulter customers and guarantors physically over telephone.
- c) Issuance of letter to customers immediately after dishonor of cheque.
- d) Issuance of legal notice to the defaulter customers and guarantors prior to classification of the loans.
- e) Issuance of appreciation or greeting letter to the regular customers.
- f) Periodical visit with the customers to maintain relationship and supervision of supplied articles.
- g) Legal action to be taken after failings all possible efforts to recover the bank's due.

4.7 Discouraged Sectors of Investment

Investment in following sectors is discouraged by Lanka

- Military equipment/Weapons Finance.
- Highly Leveraged transactions.
- Finance of Speculative Investment.
- Logging, Mineral Extraction/Mining, or other activity that is Ethically or Environmentally Sensitive.
- Lending to companies listed on CIB black list or known defaulters
- Taking an Equity Stake in borrowers.
- Lending to Holding Companies.
- Bridge Investments relying on equity/debt issuance as a source of repayment.

4.8. Handling of Non-Performing Loans

When a borrower cannot repay interest and/or installment on a loan after it has become due then it is qualified as default loan or non-performing loan. It is known as non-performing because the loan ceases to “perform” or generate income for the FI

Implications

The very implication of non-performing loans are not only depriving of interest but also stoppage of creating new loans for blockage of the fund and erosion of FI's profitability, liquidity and solvency, which might sometimes lead towards collapse of a FI. So, it is become essential for policy makers of a FI to study the loan default scenario on a routine basis for estimating classified loan, making appropriate provisioning, adopting effective recovery strategy and thus ensuring soundness and efficiency of the FI.

Classification & provisioning of non-performing loans

Loan classification means giving each and every loan a status like unclassified, sub-standard, doubtful or bad/loss through verification of borrower's repayment performance while provisioning means setting aside funds from the profit against possible loan losses. This is essential for determine the financial health and efficiency of a bank.

In order to get rid of default loans, Bangladesh Bank introduced a circular (BCD circular no. 34) on 1989 for classification & provision of loan thereof. The circular states the banks themselves will carry out the classifications of their loans at least once in a year on the basis of the position existing on December 31 in accordance with the guidelines given in the circular. In 1994, Bangladesh Bank revised policy on classification and provisioning on quarterly basis.

The rules for classification and to maintain provisions as per overdue criteria are shown in the table as under:

Status and types of classification

Length of overdue	Status of classification	Rate of provision	Frequency of classification
All current loans overdue for less than 6 months.	Unclassified	1%	Quarterly
Loans overdue for 6 months but less than 9 months. (When degree of risk for non-payment is high but there is reasonable prospect that the loan condition can be improved)	Sub-standard (SS)	20%	
Loans overdue for more than 9 months but less than 12 months. (When chance of repayment is uncertain but there is little hope of recovery)	Doubtful (DF)	50%	
Loans overdue for 12 months or more. (When chance of recovery is remote)	Bad/loss (B/L)	100%	

Procedure to handle a defaulter, in general, proposed to be:

1. The first step is a telephone call with in days of the account becomes overdue.
2. If this does not work, a polite letter must be written.
3. If it does not work, a visit to be undertaken to follow up.
4. If that does not work, a second firmer letter should be written and thereafter-3rd reminder letter should be sent.
5. If that does not work, a marketing executive should visit the customer and analyze the problem.

6. If the situation does not improve, the details analysis to be conducted through visiting his Bank, having market information from the creditors, production records etc & real reasons to be identified.
7. If the problem is genuine and we are satisfied that the situation would be eventually corrected, we would consider rescheduling, replacement, placing the accumulated over dues in block, to give him relief.
8. If we come to the conclusion that the lessee is playing games and trifling with us, we threaten him with legal action.
9. If this threat proves ineffective, we inform the Guarantor (if any) in writing that we shall be having recourse to them.
10. If all these steps fail, we send the lessee a demand letter first by us & then by our legal adviser. A letter from a lawyer has a psychological impact on all but most hardened defaulters.
11. If the letter of demand has had no effect, we terminate the lease agreement & proceed for repossession of lease equipment and take legal action against the lessee. However, before termination we should review the whole matter thoroughly & carefully considering the social & legal environment of the country.

LET US DRAW A GENERAL TIME CHART FOR THE ABOVE STEPS:

Default	0 day
Telephone	within 5 th day
1 st letter	within 15 th day
Visit	within 30 th day
2 nd letter	within 45 th day
3 rd letter	within 60 th day

Visit (relationship Manager)	within 75 th day
Analysis & identification of reasons	within 100 th day
If settlement possible mutually by rescheduling, restructuring	
Then should be settled	within 115 day
Inform the Guarantor	within 130 th day
Demand letter: ILFSL	within 140 th day
Demand letter: Legal Adviser	within 160 th day
Termination	within 180 th day
Litigation	within 210 th day

However if follow up can be maintained with the defaulter it is likely that most of the problem cases can be resolved amicably.

However, a suspension policy should be developed based on which the rental receivables/ realized against the leases under certain point of default should not be shown in the company books as income to avoid showing unnecessarily excess inflated income.

Generally, from experience and given business operating condition in Bangladesh, over dues of one month to three months does not pose a major problem. Short-term liquidity gap, delay in recovery of bills, structural impediments to business operations and other operational problems often constrain business activities. Therefore, over dues, which are over three months, require special attention of the Management.

Under the circumstances it is proposed to suspend a lease agreement when the number of cumulative over dues against the lease would be six. This means the cases having over dues of six months & above should be on cash accounting basis not accrual basis.

In order to maintain a cushion for rainy days a provision for bad & doubtful leases in case of ILFSL should be created, two types of provision can be proposed, namely: a. General Provision b. Specific Provision. A lump sum general provision to be created on monthly basis. General Provision to be adjusted on half-yearly basis as per the procedures

enumerated below while the Specific Provision to be adjusted on annually basis on the closing day of the financial year.

Procedure for the General Provision:

The General Provision should be created in the following manner:

- a. Overdue period 0 to 5 months: 1% of URPA
- b. Overdue period 6 to 11 months: 20% of URPA
- c. Overdue period 12 to 17 months: 50% of URPA
- d. Overdue period 18 and above: 100% of URPA

Procedures for the Specific Provision:

Specific Provision is to be created on analysis of individual case based on the repayment performance and the business potentiality of the client. 100% provision of the unrecovered principal amount should be created for the cases against which suit has been filled in the court. General Provision already created against them prior to litigation should be taken in to account while creating Specific Provision by transferring the created amount from General Provision to Specific Provision. However, if any amount realized later on against any specific provision cases the provision amount can be reverted.

4.9 Distribution of Investment Portfolio

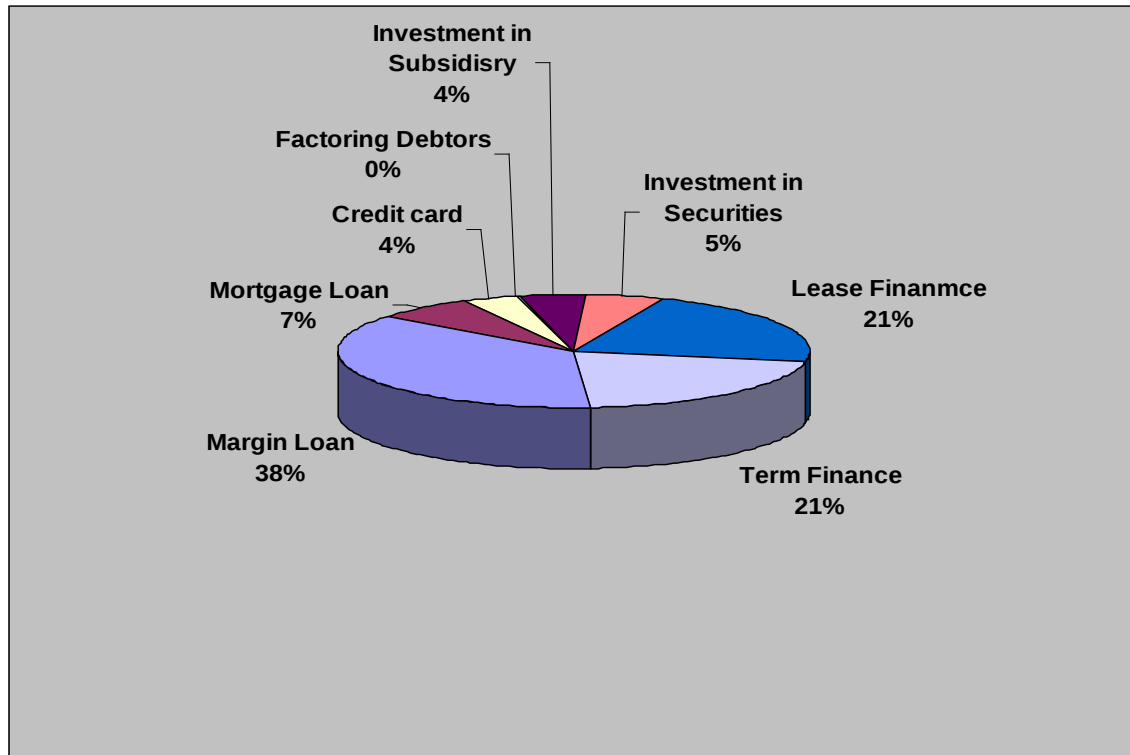


Figure: Investment Portfolio in 2014

The institution maintains a investment portfolio of both risky and less risky instruments. In it's portfolio it has both short and long term investment. Investment in securities includes both risk free govt treasury securities and risky share investment. However the maximum amount of investment is in different loan products the institution is reluctant to invest too much in risky assets. So its investment mostly comprises of cautiously selected securities and loan sectors.

1. Margin Loan

LBFL invests a high amount in margin loan. It is mainly provided by the brokerage department of the company. Margin loan is a common practice in share trading. As a brokerage firm in the year 2014 LBFL invested 38% of its fund in margin loan.

2. Mortgage loan

A small amount is invested in highly demandable mortgage loan. Mortgage loan is mainly provided to the individual end. In the year 2014 7% fund of LBFL is invested in Mortgage loan.

3. Credit Card

LankaBangla started its operation with credit card. Today a very small amount is invested in credit card. 4% of its total fund is invested in credit card division.

4. Factoring

Factoring is a newer product for LankaBangla. Today to reduce the burden of collecting receivables more and more organizations are availing factoring facility. However its investment in factoring is very small which only 0.20%.

5. Investment in Subsidiary

LankaBangla is the almost sole investor of its subsidiary LankaBangla Securities Limited. It has invested 4% of its fund in LBFL.

6. Investment in Securities

LankaBangla invests in both risky and risk free securities. It has investment in risk free govt. bills and bonds. It also maintain investment portfolio in different quoted and unquoted shares. Total investment in securities is 5%.

7. Lease Finance

Till today lease financing is one of the core investments of LBFL. At the corporate end total investment in lease sector is 21%

8. Term Finance

LBFL invests in both short and long term financing. Its total investment in this sector is 21%.

5.0. OVERALL PERFORMANCE ANALYSIS

5.1. Performance at a Glance

Our company recorded a high growth in 2015. The Consolidated post tax profit of the LankaBangla stood at Tk.744.08 million, achieving a growth of 97.04% over last year's profit of Tk.377.64 million. The consolidated EPS of 2015 was Tk.16.81 compared to Tk.8.53 of last year. Full-year consolidated Net Interest Income increased 73.45% to Tk. 413.10 million, Lease & Loan portfolio rose by 35% to Tk.7,717,90 million as LankaBangla continued to be supportive of customers' financing needs during the year. Fees based income rose by 81% to Tk.939.39 million. The cost-to-income ratio was 16%, broadly in line with that in 2014. Costs continue to be closely managed. Provisions coverage remains high at 110% compared to 2014 LankaBangla continues to vigilantly monitor credit trends in our loan portfolio. Careful management of credit, market and operational risks has maintained the strength of the balance sheet. The growth of profit, Loan, Investment, Return on total assets, Return on equity, Earning per share and price-earning ratio over the last 5 years is appended on several charts below:

Operating Profit:

Operating profit is increasing every year due to expand in operation. Operating profit has increased almost 52% than last year which is a very good indication of the company's excellent operational performance.

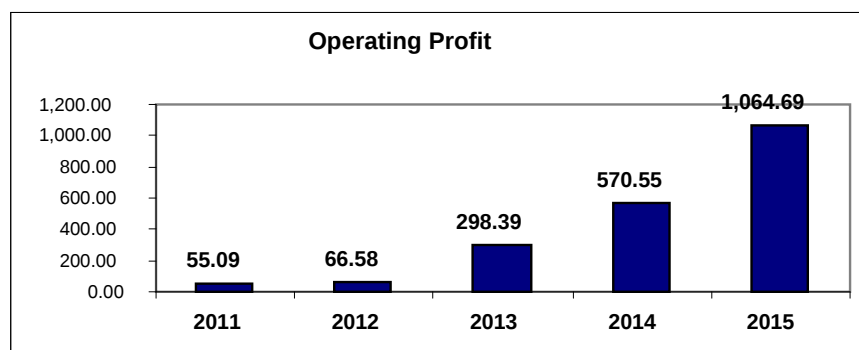


Figure: Operating profit (in million Tk.)

Lease & Loans

In last five years the bank has been able to keep it's disbursement of its core business lease & loan growing. It is a good indication that interest income getting greater and greater because of big amount lease and loan facilities every year.

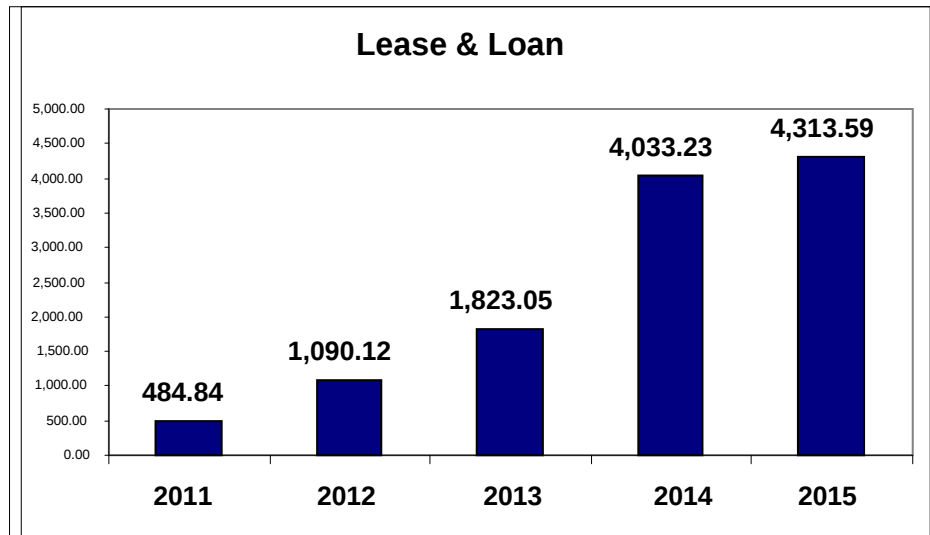


Figure: Lease & Loan (in million Tk.)

Investment:

In 2015 investment increased by almost 55.75% than the previous year because of increased concentration in diversified investment portfolio. Investment in govt. securities was 734 million in 2015 & it is expected increase the investment as to secure investment in risk free sector.

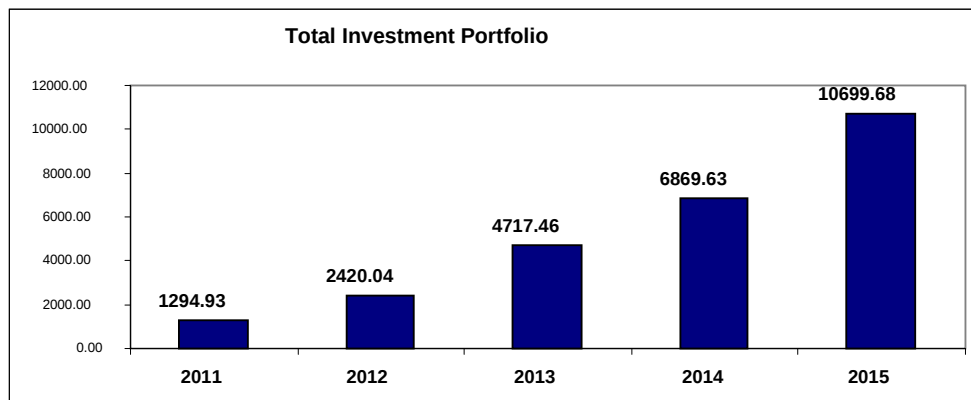


Figure: Total investment (in million Tk.)

5.2 Profitability Analysis

OPM & NPM:

Operational performance is an important for any corporation. Operating Profit Margin and Net Profit Margin are major indicators of profitability of a corporation. Both the OPM & NPM of LBFL are increasing. More than 70% of the operational income is realized as operational profit where as 50% of the income is realized as profit after tax. So the overall profitability of LBFL indicates operational efficiency of the company.

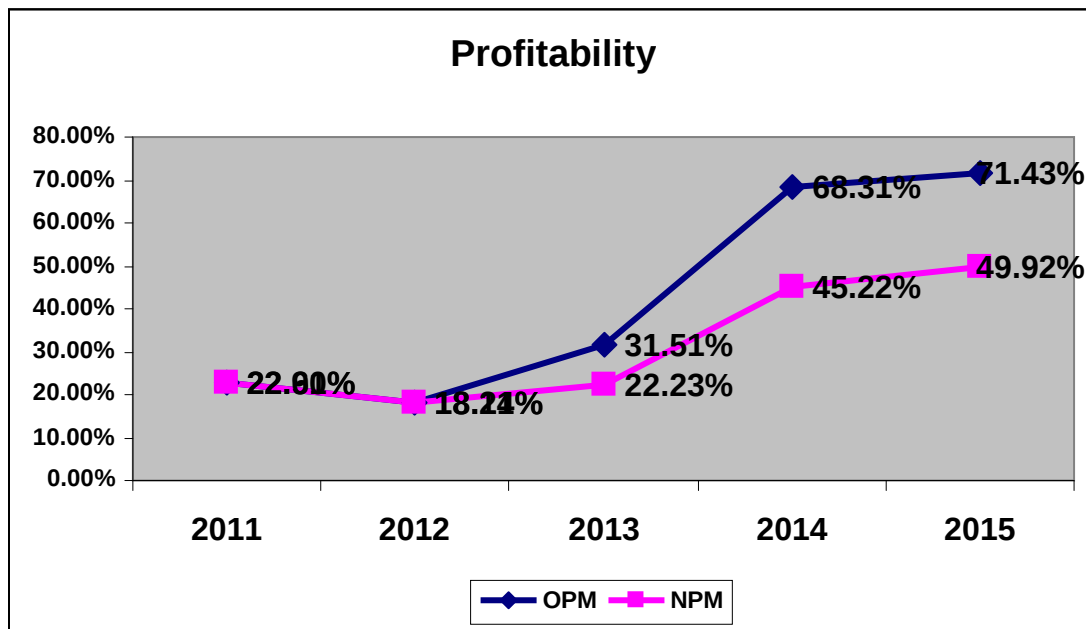


Figure: OPM & NPM (in %)

Return on Assets:

Return on Asset is not that much satisfactory for LBF. However overall profitability in terms of ROA is increasing. This lower level of ROA is due to high amount of investment in current assets compared to earning capability. LBFL targets to reach the ROA at a minimum 10 % level.

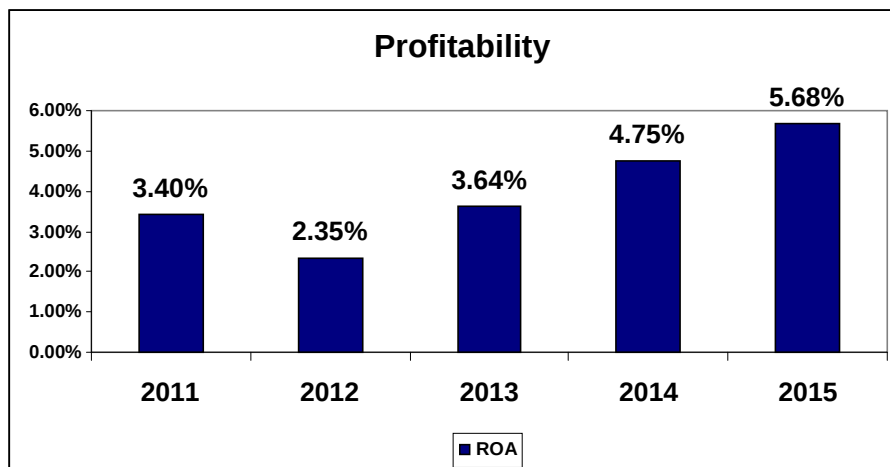


Figure: Return on Total Assets (in %)

Return on Equity:

ROE can be said fluctuating. Though operating profit is increasing comparative to that increase in ROE is slower. However a higher ROE proves the greater efficiency of the organization to maximize shareholders benefits. Decrease in ROE is due to certain increase in share capital whereas net profit is as usual.

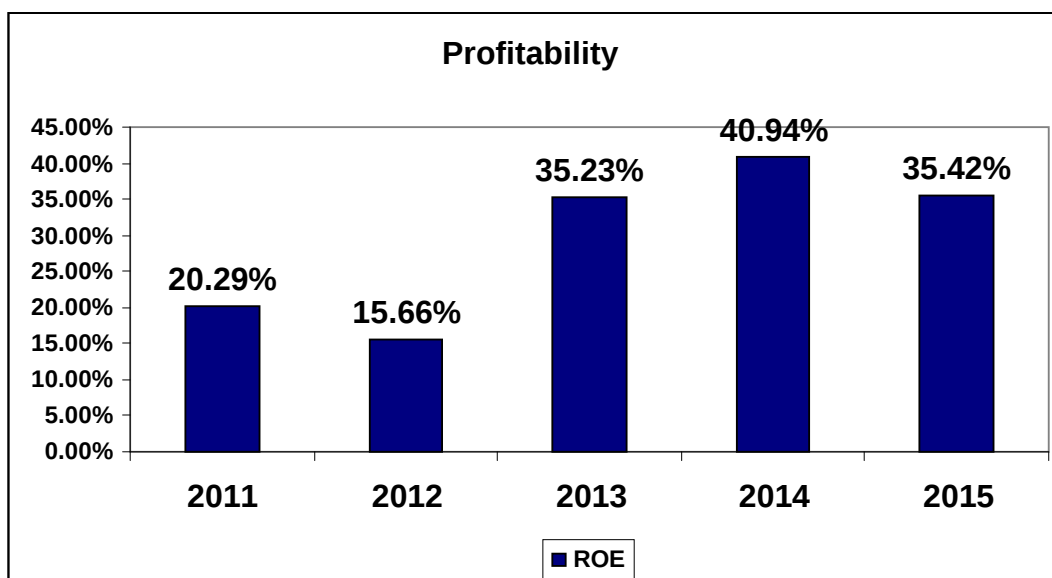


Figure: Return on Shareholder's Equity (in %)

6.0 CHALLENGES FOR LBFL

Sources of Fund

LBFL collects funds from a wide range of sources including financial instruments, loans from banks, financial institutions, insurance companies and international agencies as well as deposits from institutions and the public. Line of credit from banks constitutes the major portion of total funds for LBFL. However according to the central bank regulation, LBFL has the restriction to collect public deposits for less than one year, which creates uneven competition with banks.

Cost of Fund

The structure of cost of fund for LBFL does not follow any unique trend than other NBFIs. The weighted average cost of fund for LBFL is positioned much higher than that of banks. Cost of funds for LBFL varied between 8.4 to 15.3 percent while that of banks was between 8.5 to 9.5 percent. About 15 percent of the deposit of the banking sector is reported to be demand deposits, which are interest free while 35 percent constituted low cost saving deposits having an average of 4 to 5 percent interest rate and the rest were fixed deposits bearing an average of 9 percent so it is a major challenge for LBFL to get competitive advantage in lowering cost of fund.

Competition with Bank

With the advent of new NBFIs, the market share is being spread over the competing firms and the demand facing each firm is becoming more elastic. Active participation of commercial banks in the non-bank financing activities has further increased the level of competition in the industry. Leasing was considered as a non-bank financing activity until recently. But a large number of banks have also shown their interest in the leasing business which increases competition for LBFL in this sector.

High Risk Portfolio

Cost of funds for LBFL is higher than that of banks. In order to sustain. The high cost of borrowing, LBFL sometimes inclined to invest in the high return segments, which can expose them to commensurately higher risks. Moreover, fierce competition among competitors may also force LBFL to reduce the margin at the expense of quality of the asset portfolio.

Higher Operating Expense

LBFL has higher operational expenses compared to other financial institutions. Due to higher operational expenses overall profitability of the company is comparatively low than peer group.

Potential Distress

Due to high financial risk LBFL is running through potential distress which is known as bankruptcy risk. Removing the burden of potential distress is another major challenge for LBFL.

7.0 POLICY IMPLICATIONS AND CONCLUSION

7.1 Policy Implication:

- The finance and leasing companies across the world are using different sources for collecting funds. LBFL may also explore the possibilities of gaining access to new sources of funds like issuance of commercial paper and discounting or sale of lease receivables. However, in releasing such new products, some regulatory changes have to be made. Another innovative and promising source Another innovative and promising source of funds for LBFL can be the securitization of assets like Mortgage Backed Securities
- In reducing cost of funds LBFL can seek actively and diversify across lowest cost sources of fund. an active finance team can be employed to monitor potential source of lowest cost fund.
- To reduce competition with bank regulatory authority can take initiative so that bank and non bank financial institutions work as complementary rather than competitor.
- LBFL have to be careful in creating the investment portfolio. To gain higher return it should not trade off with risk. Policy regarding investment should be very careful and of detail analysis of risk and return tradeoff.
- Close monitoring of costs can reduce operational expenses. Increased efficiency of employees can reduce operating cost drastically.
- LBFL should take initiative to reduce its debt level to avoid financial risk. By reducing financial risk the firm is able improve its credit rating to upper tier of investment grade.

7.2 Conclusion:

NBFIs have gained considerable popularity both in developed and developing countries. In one hand these institutions help to facilitate long-term investment and financing, which is often a challenge to the banking sector and on the other, the growth of NBFIs widens the range of products available for individuals and institutions with resources to invest.

Strategically credit and investment department is of much important for LBFL. Proper credit and investment management is a significant issue for the company. The products used for financing get good response from clients. SME of LBFL is satisfactory popularity. However there are associated risk in extending facilities as there is always chance of default. Through the hypothesis test it has shown tat hoe loan of LBFL does not have that much satisfactory recovery rate. However overall performance of the company is satisfactory. It is said to comply with a satisfactory level to its business objectives. Increased and diversified introduction of products can open new window of opportunity for the company. In all matters however proper management of the products are really necessary.

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