

# Internship Report

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*financing happiness*

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Inspiring Excellence

**A descriptive analysis on operation strategy  
and procedure of Special Asset Management  
Department of IDLC Finance Limited**

**Prepared for:  
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**Date Of Submission - 11th December, 2016**

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# Letter of Transmittal

December 14,2016

To

Md. Hasan Maksud Chowdhury

Assistant Professor ,BRAC Business School

BRAC University

66 Mohakhali,Dhaka -1212

**Subject: Submission of internship report on IDLC Finance Limited**

Dear sir,

With due respect, it is my great pleasure to submit the internship report on " **A descriptive analysis on operation strategy and procedure of Special Asset Management Department of IDLC Finance Limited**" as the requirement of BUS 400 course for your consideration. I have completed my internship from IDLC finance limited, a well known Non- Banking Financial Institution in Bangladesh.

My main inducement was to prepare this term paper according to your instructions while considering the guidelines of the BBA Program. I made sincere efforts to study related materials, documents, observe operations performed in Special Asset Management of IDLC and tried my best to enrich this report by providing what I have learned throughout the internship program and compiled this report as per the requirements .I hope that I have been able to relate the fundamental things with realistic applications considering my level of experience and competency.

Hence, I am submitting my internship report, hoping that you will appreciate my instructive and comprehensive approach. Thank you for encouraging me for working on this interesting topic. Kindly accept my report and oblige thereby.

Sincerely yours,

Nafisa Sanjida

ID : 12304058

BRAC Business School

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# Acknowledgement

I would like to start this report by acknowledging my gratefulness to the Almighty Allah. I would like to express heartfelt gratitude to every single person who has assisted me in the preparation of this internship report. I wish to thank them for their support, guidance and belief in every step.

First of all, I would like to take the opportunity to say my gratitude towards Md. Hasan Maksud Chowdhury ,Assistant professor, BRAC Business School, for his endless support, inspiration and guidance during this internship. This report has been prepared and presented to him for the assessment and final evaluation of this course. I am really grateful to him for his endless support and proper guidance without which the completion of the report would not be possible. I am also thankful to him for contributing his valuable time while viewing my report and making all the necessary corrections.

Secondly, I must remember to express my heartiest gratitude to my direct supervisor Mr. Dewan Ishtiak Ahmed, Senior Manager, Special Asset Management and Sultana Razia, Assistant Manager, Special Asset Management. I would also like to thank Rabbi Ahmed, Senior officer, Special Asset Management and Amit Chatterjee, Assistant officer, Special Asset Management for their kind support as well as their guidance and valuable feedback to write my report.. A very special thanks goes to the whole Special Asset Management department for helping me in all stage of the internship process. Simultaneously, I would like to thank my other colleagues of IDLC who provided me with enormous insights and helped me to learn the situation of the current business world.

Finally, I am grateful to BRAC University which is the reason I am standing here on the peak of earning my bachelors degree successfully.

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## Executive Summary

In the industry of Financial institutions of Bangladesh IDLC is the leading non-bank financial organization which has one of the best portfolios as well. The Consumer Division was established as one of the preliminary divisions of IDLC which became one of the forefronts of the institution with its branches and departments along with skilled and talented employees.

Therefore an extensive part of Special asset management (SAM) team is assigned to handle the assets of Consumer Division strongly. SAM of IDLC finance limited works as a wing of credit risk management. Its purpose is to exploit profitability and support the business expansion and by sustaining stability between risk and reward over the life-cycle of services and portfolios of IDLC. SAM plays an important role by ensuring the collection of the delinquent amounts efficiently and effectively. SAM is responsible to build a cost effective Collection process which is risk responsive, pro-active and information based.

This report is based on a descriptive study of SAM and also some major issues of Non-Performing Loan. Besides, this report also tries to find out the involvement of Special Asset Management in the Consumer Division of IDLC Finance Limited. Moreover it shows the observed present development of the consumer division. It also includes a statistical illustration of the performance of SAM in terms of consumer division. The main rationale of this report is to find out effectiveness of the policy and strategy of SAM through analyzing the NPL growth.

As a part of internship program I got the opportunity to work closely at SAM and assigned to prepare a report. Regardless of having challenges I tried to construct this report with the amount of resources I had. At first this report contains a comprehensive explanation about IDLC. Then it further explores to explain the overall guiding principles and course of actions of SAM and its competence descriptively and figuratively. I have included some findings which may help to understand the issues regarding NPL. Later on some recommendations have been documented for any further research regarding this topic.

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# **CHAPTER 01: THE ORGANIZATION**



## **1.1 Introduction**

The financial sector is a vital part of a country as it plays a significant role in the economic development. The fundamental shift of private sector has appeared as an engine of economic growth and development along with the public sector in Bangladesh. As a consequence, IDLC Finance Ltd, the largest multi-segment Non-banking financial institution has achieved noteworthy growth in all areas of business. It has expanded its area to Consumer, SME, Corporate, Retail and Capital market segments. Three subsidiaries was also commenced by this institution which has fortified its existence in the countries emergent financial market. IDLC Finance Limited is one of the blue-chip companies on the local stock markets of Bangladesh which is committed to sustainable practices and strong financial performance. IDLC has been consistently recognized by independent bodies for the values underpinning its business and is proud to be a standard bearer for the Bangladesh financial sector. The IDLC committed to upholding the highest standards of ethics and compliance by its employees. IDLC is also involved with lots of CSR activities.

## **1.2 Origin of the Report**

The completion of internship is an integral part of the BBA Program as it serves the purpose of practical orientation in the related area. I was blessed enough to complete my internship from IDLC Finance Limited, the largest Non-Banking Financial Institution which provided me with a real life knowledge of the activities of a financial institution. During my internship experience I have come across a variety of functions of the company. Among them I have decided to work on its Special Asset Management Department (SAM). All the way through the report I made an effort to find out the actual explanation and operation of SAM from the perspective of Bangladesh, procedure and policy of SAM, challenges faced by SAM in IDLC Finance Limited. I tried to make the report more informative and consistent in order to represent the Special Asset Management Department of IDLC.

## **1.3 Objective of the Report**

This report is based on the job responsibilities that I performed at IDLC Finance Limited during my three months long internship. Certainly this internship was a must need every BRAC University student to put a prosperous end to their BBA program. This report shows the

manifestation of the works that an intern does at IDLC Finance Limited as a part of the internship program.

The objective of the study primarily is to explore the knowledge of different types of collection strategies that are followed by Special Asset Management of IDLC Finance Limited to collect the assets of Consumer Division after financing and the efficiency of the collection process.

Beside this, In this report there are few secondary objectives that come similarly to the core objective. They are -

- Identify the overall activities of SAM
- Perceive present growth of IDLC in terms of Consumer Division
- Identify the reason behind Non Performing Loan
- Analyze the NPL trend forecast and draw the conclusion for IDLC Finance Limited in the context of Bangladesh

This report is also an integral part of a whole course (BUS: 400) which is very important part for the completion of my BBA program. So, for the successful accomplishment of the course, I had to come up with the report. I tried to make the report more informative and competitive so that I can easily convey the message through the report.

## **1. 4 Methodology**

While doing the report secondary sources were for the successful accomplishment of the report. I have collected data with the help from officials of IDLC to obtain the detail information about the Special Asset Management department ( Face to face conversation with the respective officials and Relevant findings as provided by the concerned representatives). Annual reports, company website and brochures/flyers etc are used as well to analyze the statistical information and formulate results.

## **1. 5 Limitations of the Report**

Special Asset Management is a new department of IDLC Finance Limited. As a result it was really hard to accumulate all the necessary data. Although I have tried my best to prepare this report with utmost possible endeavor and dedication , I have encountered a few obstacles since no direct information was accessible regarding SAM for making a complete and immaculate report. Following are the list of some problem that I confronted while doing the report:

- Non-availability of former and most recent information
- Organizational restriction to disclose sensitive and confidential information due to business secrecy
- Insufficient time period to come up with the necessary information
- Non-availability of related journals and publications

For those limitations I was incapable to conduct more in- depth and detail oriented study and include that in my report. However, in spite of all of those limitations I have tried my level best to come up with the relevant information in order to make the report more informative and analytical. I believe that, the information that I have accumulated in this report will really be helpful for any further exploration regarding this theme

## **1.6 Description of the organization**

### **1.6.1 Historical Background**

IDLC Finance Limited ,the first leasing company of Bangladesh started its journey in 1985 as a joint venture public limited company and the first leasing company of Bangladesh. It's establishment was a collaboration of International Finance Corporation of World Bank, German Investment and Development Company, Kookmin Bank and Korean Development Leasing Corporation of South Korea, the Aga Khan Fund for Economic Development, The City Bank Limited, IPDC of Bangladesh Limited and Sadharan Bima Corporation. In 1995, IDLC was licensed as a Financial Institution by the country's central bank, Bangladesh Bank, following the enactment of the Financial Institution Act 1993. As the company started to progress the initial foreign shareholding of 49% was gradually withdrawn. In 2009, the local sponsors bought the shareholdings, which left the company with no major foreign shareholdings. (IDLC Finance Limited, About Us, 2016)

## 1.6.2 Company Overview

IDLC Finance Limited commenced its journey, in 1985, as the first leasing company of the country with multinational collaboration and the lead sponsorship of the International Finance Corporation (IFC) of The World Bank Group. Technical assistance was provided by Korean Development Leasing Corporation (KDLC), the largest leasing company of the Republic of South Korea.

The unique institutional shareholding structure comprising mostly of financial institutions helps the company to constantly develop through sharing of experience and professional approach at the highest policy making level.

IDLC offers a variety of financial services and solutions to institutional and individual clients to meet their diverse and exclusive requirements. The product offerings include Lease Finance, Term Finance, Real Estate Finance, Short Term Finance, Corporate Finance, Merchant Banking, Term Deposit Schemes, Debentures and Corporate Advisory Services. IDLC has also established two wholly owned subsidiaries, IDLC Securities Limited which offers full-fledged international standard brokerage services for both retail and institutional clients. IDLC investments, a leading brand for investment banking in the country. The Company is devoted to viable business practices and durable financial performance. The company is committed to maintain the utmost standards of ethics and compliance by its employees. Employees are required to follow the Company's code of conduct. It is also associated with a variety of CSR activities. In order to fulfill the customers requirement IDLC continues to play a leading role in introducing different types of financial instruments. They are constantly expanding their operations by providing the best quality of products to the customers. IDLC has been constantly recognized by independent bodies and it has achieved a significant presence in the corporate sector of Bangladesh. (Limited, IDLC Finance, 2015)

### Vision

We will be the best financial brand in the country. (Limited, IDLC Finance, 2015)

### Mission

We will focus on quality growth, superior customer experience and sustainable business practices. (Limited, IDLC Finance, 2015)

## **Strategic Objectives**

The strategic of IDLC Finance Limited are -

- Grow and develop our talent pool
  - Fully leverage new core banking platform
  - Optimize distribution points
  - Grow and diversify funding sources
  - Grow sales and service capabilities in Consumer Division
  - Aggressively grow SME portfolio
  - Focus on top-tier clients in Corporate
  - Consolidate capital market operations and enhance capabilities
  - Embrace internationally accepted corporate governance and sustainable business practices .
- (Limited, IDLC Finance, 2015)

## **Core values**

- Integrity
- Simplicity
- Equal Opportunity
- Customer Focus
- Trust and Respect
- Eco-friendly
- Passion(Limited, IDLC Finance, 2015)

## **Code of Conduct**

In accordance with the approved and agreed Code of Conduct, IDLC employees shall:

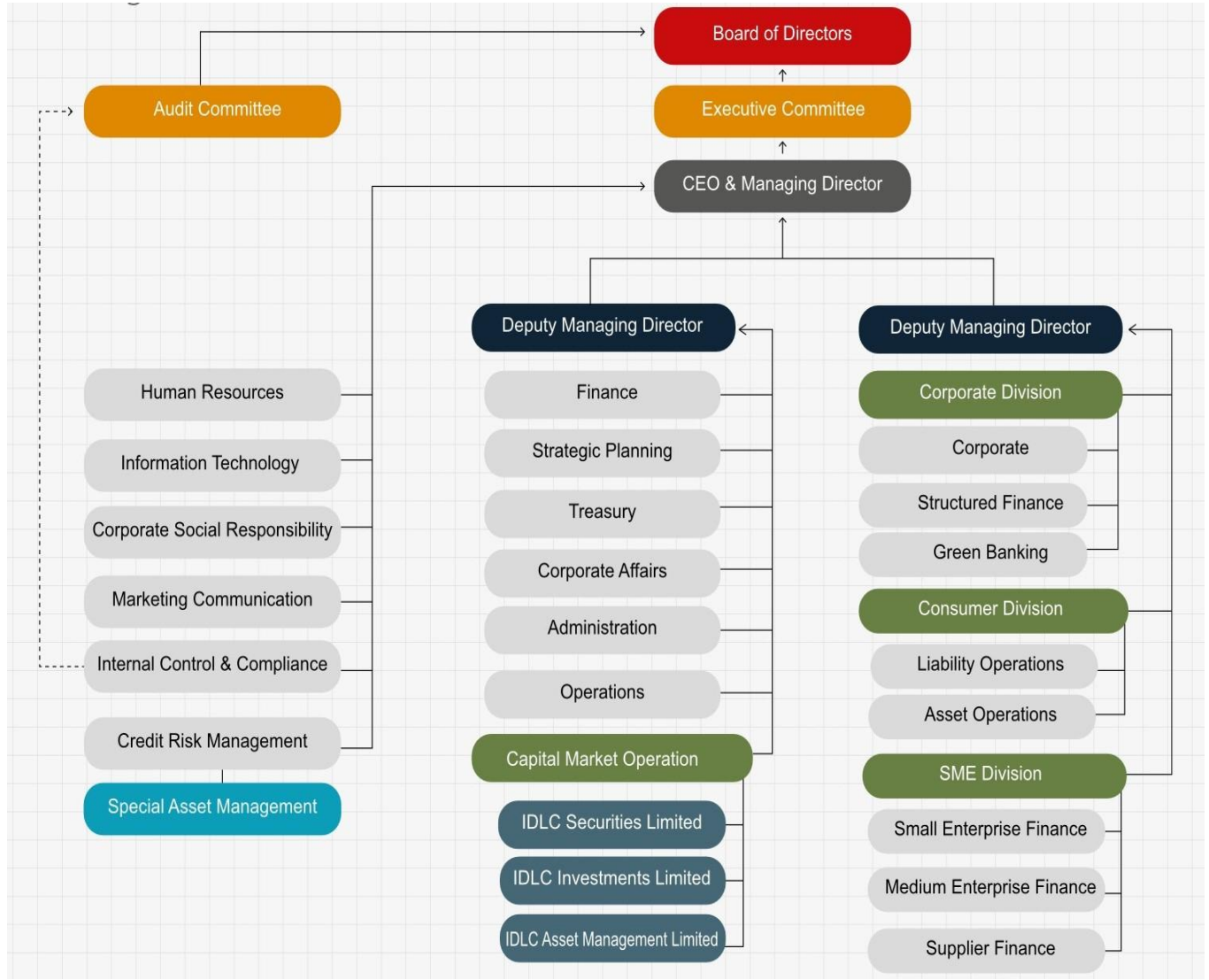
- Act with integrity, competence, dignity and in an ethical manner when dealing with customers, prospects, colleagues, agencies and the public.
- Act and encourage others to behave in a professional and ethical manner that will reflect positively on IDLC employees, their profession and on IDLC at large.
- Strive to maintain and improve the competence of all in the business.
- Use reasonable care and exercise independent professional judgment.
- Not restrain others from performing their professional obligations.
- Maintain knowledge of and comply with all applicable laws, rules and regulations.
- Disclose all conflicts of interest.
- Deliver professional services in accordance with IDLC policies and relevant technical and professional standards.
- Respect the confidentiality and privacy of customers and people with whom we do business.
- Not engage in any professional conduct involving dishonesty, fraud, deceit or misrepresentation or commit any act that reflects adversely on our honesty, trustworthiness or professional competence.

IDLC employees have an obligation to know and understand not only the guidance contained in the Code of Conduct but also the spirit on which it is based(Limited, IDLC Finance, 2015)

# **CHAPTER 02:**

# **Description of the study**

## 2.1 Organogram of IDLC Finance Limited



**Figure 1: IDLC Finance Limited Organogram**

The Board of Directors of IDLC formed two sub-panels of the Board: Executive Committee and Audit Committee. The matter identified with conventional business operations of the Company and the matters that the Board of Directors every now and then, approves are vested on Executive Committee. The Audit Committee is engaged, in addition to other things, to look at



any matter identifying with the money related issues of the Company and to survey all review and assessment programs, interior control frameworks and techniques, bookkeeping strategies and adherence to compliance requirements, etc. (Limited, IDLC Finance, 2015)

## 2.2 Subsidiary Companies of IDLC

**IDLC Securities Limited:** IDLC Securities Limited, a completely owned subsidiary of IDLC, offers full-fledged international standard brokerage services for both of their retail and institutional clients. It has seats on both Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. It is also a Depository Participant (DP) of Central Depository Bangladesh Limited (CDBL). The administration board of trustees is verging on same as IDLC. MD is capable to keep up every one of the exercises through the hierarchy of leadership in Head of Admin and Head of operations. Here head of operations primarily manages deals and exchanging related exercises. Each Branch predominantly runs the deals and exchanging office. They additionally get backing of Merchant Bank division in their Branch. (Limited, IDLC Finance, 2015)

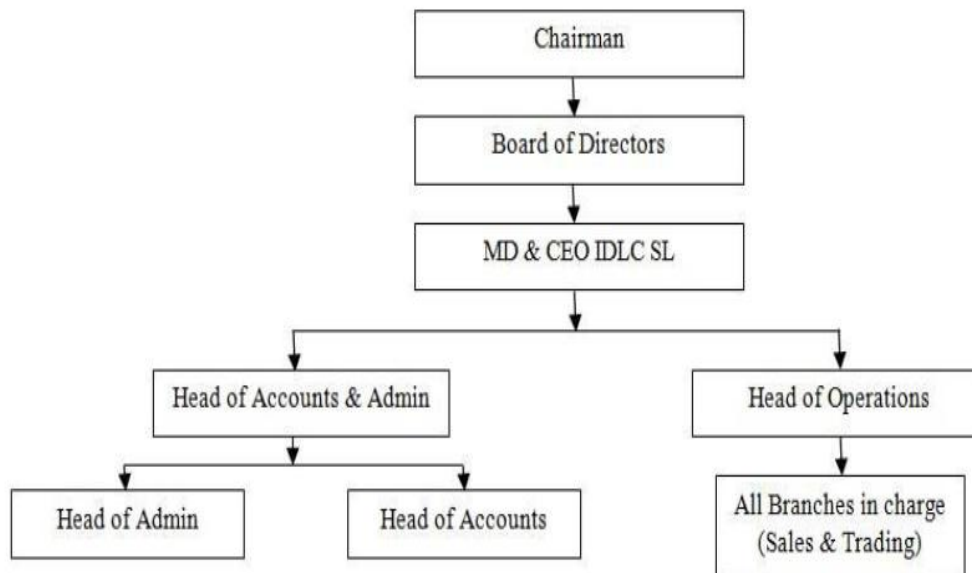
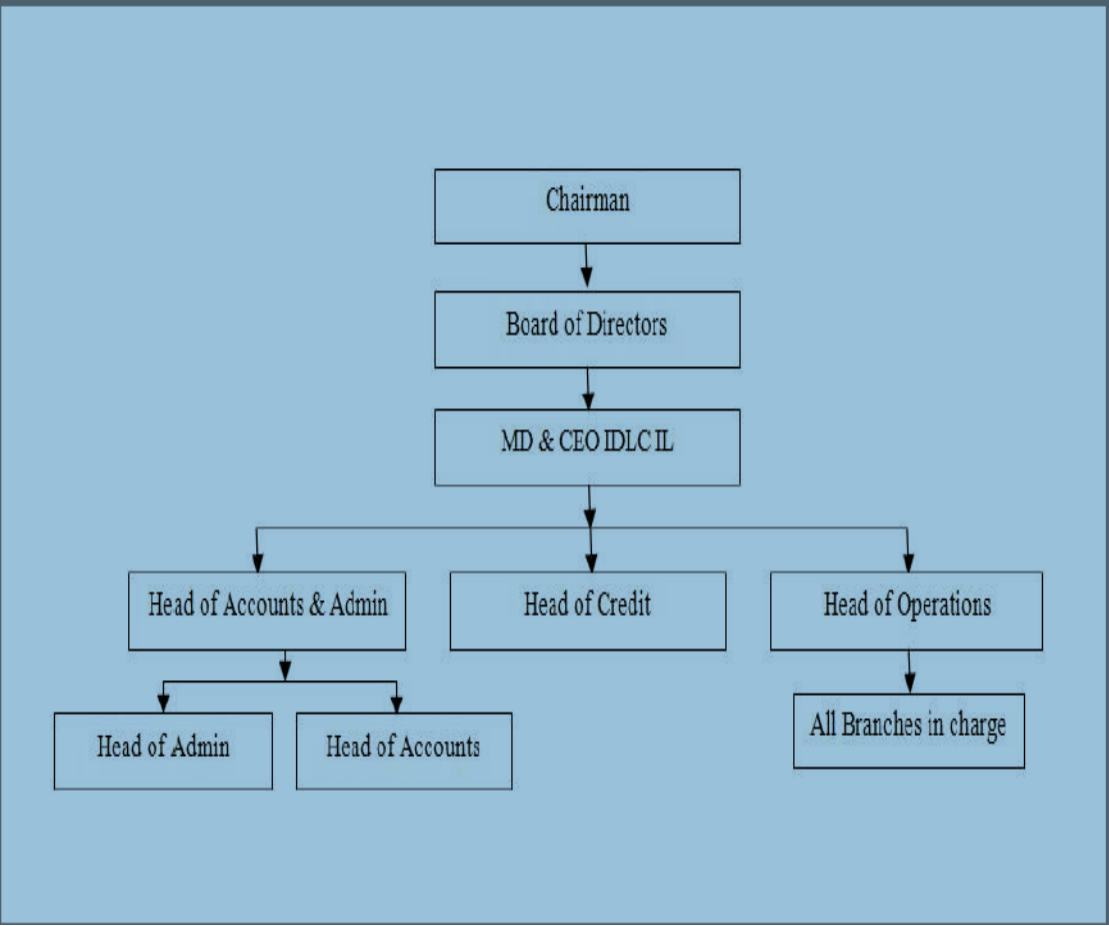


Figure 2: IDLC Securities Limited Organogram

**IDLC Investment Limited:** As per requirement of the Securities & Exchange Commission (SEC), IDLC formed a separate subsidiary on May 19, 2010 in the name of ‘IDLC Investments Limited’, in order to transfer its existing merchant banking activities to the newly formed entity. IDLC applied to SEC to transfer the existing merchant banking license of IDLC Finance Limited to IDLC Investments Limited. Accordingly, IDLC Investments Limited has started its operations from August 16, 2011 to offer merchant banking services to their individual and institutional clients.



**Figure 3: IDLC Investments Limited Organogram**

The Credit Advisory group is enabled, in addition to other things, to break down the business sector chance and favor the edge advance for the financial specialist. Head of Accounts and Administrator are essentially in charge of the financial related exchange and controlling administration. Head of operation controls the record opening and record looks after exercises. (Limited, IDLC Finance, 2015)

**IDLC Asset Management Limited (AML)** IDLC Asset Management Limited (AML) was incorporated in Bangladesh on 19 November 2015 vide registration no. C-127068/2015 as a private company limited by shares under the Companies Act, 1994. It is a subsidiary Company of IDLC Finance Ltd that holds 99.99% ownership of the Company. The principal objective of the company is to carry out the business of asset management, primarily, through launching and managing mutual funds to cater to the diverse needs of investors. Besides, institutional fund management, IDLC AML also aims at creating avenues for alternative investments through private equity and venture capital. (Limited, IDLC Finance, 2015)

### 2.3 Shareholding Structure

The shareholders of IDLC Finance Ltd. can be divided into two extensive type namely Sponsors/ Directors and General Investors. General Investors can also be subdivided into two different categories which are Institutional Investors and Individual Investors.

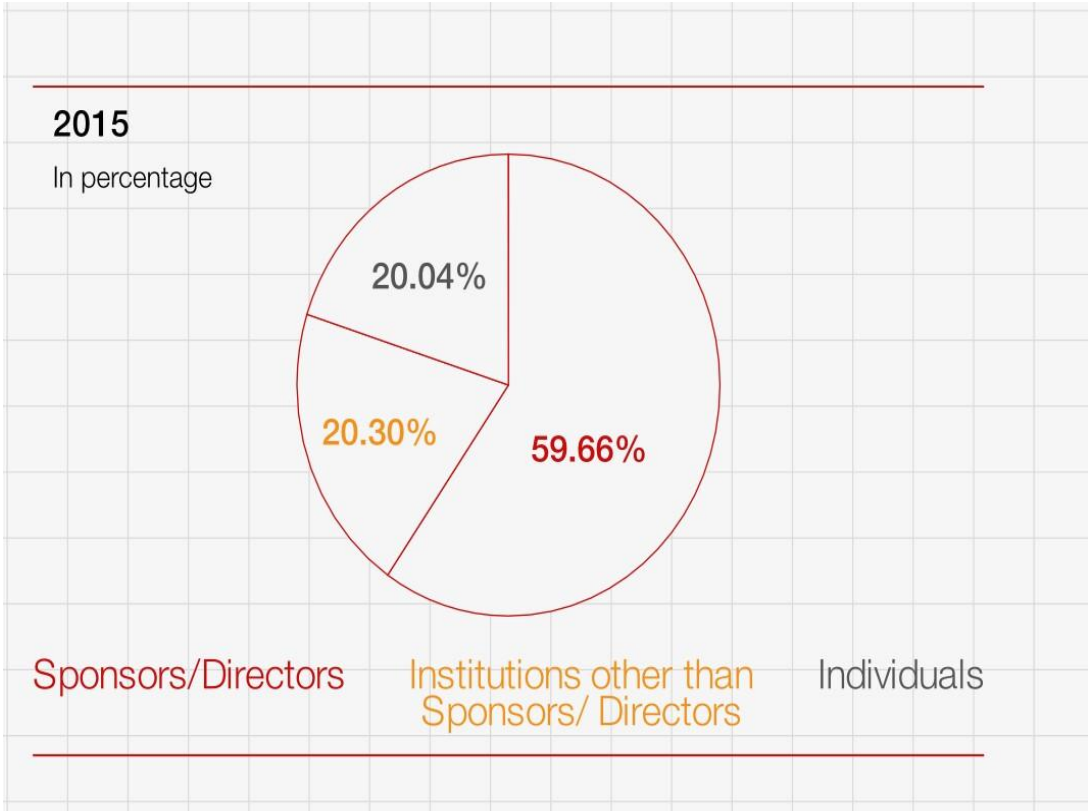


Figure 4: Shareholding Composition Percentage

The shareholding structure of IDLC Finance Limited is given below -

Sl.No	Name of Shareholders	Number of Shares	% of total Shares
<b>1</b>	<b>Sponsors/Directors:</b>		
	The City Bank Limited (CBL)	60,854,056	24.21
	<b>Transcom Group</b>	33,515,443	13.33
	Eskayef Bangladesh Limited	20,109,375	8.00
	Transcraft Limited	10,088,022	4.01
	Bangladesh Lamps Limited	3,318,046	1.32
	Sadharan Bima Corporation (SBC)	19,151,663	7.62
	Mercantile Bank Limited	18,852,538	7.50
	Reliance Insurance Co. Limited	17,595,702	7.00
	<b>Sub-Total</b>	<b>149,969,402</b>	<b>59.66</b>
<b>2</b>	<b>General</b>		
	<b>Institutions other than Sponsors/Directors:</b>		
	Bangladesh Fund	8,040,750	3.20
	ICB	5,813,612	2.31
	LR Global	2,873,900	1.14
	Other Institutions/Corporates	34,291,599	13.64
	<b>Sub total</b>	<b>51,019,861</b>	<b>20.30</b>
	<b>Individuals :</b>		
	General Public (Individuals)	50,377,924	20.04
	<b>Sub total</b>	<b>50,377,924</b>	<b>20.04</b>
	<b>Total Holdings</b>	<b>251,367,187</b>	<b>100</b>

**Figure 5: Shareholding Composition of IDLC Finance Limited**

## 2.4 Location of Corporate Head Office and Branches

IDLC is the largest Non-Banking Financial Institution which serve the local people with financial facilities. It provides world-class products and exclusive customer service. As a result, they already have 34 branches and 2 booths and thus they established a strong branch network which covers the major points of Bangladesh.

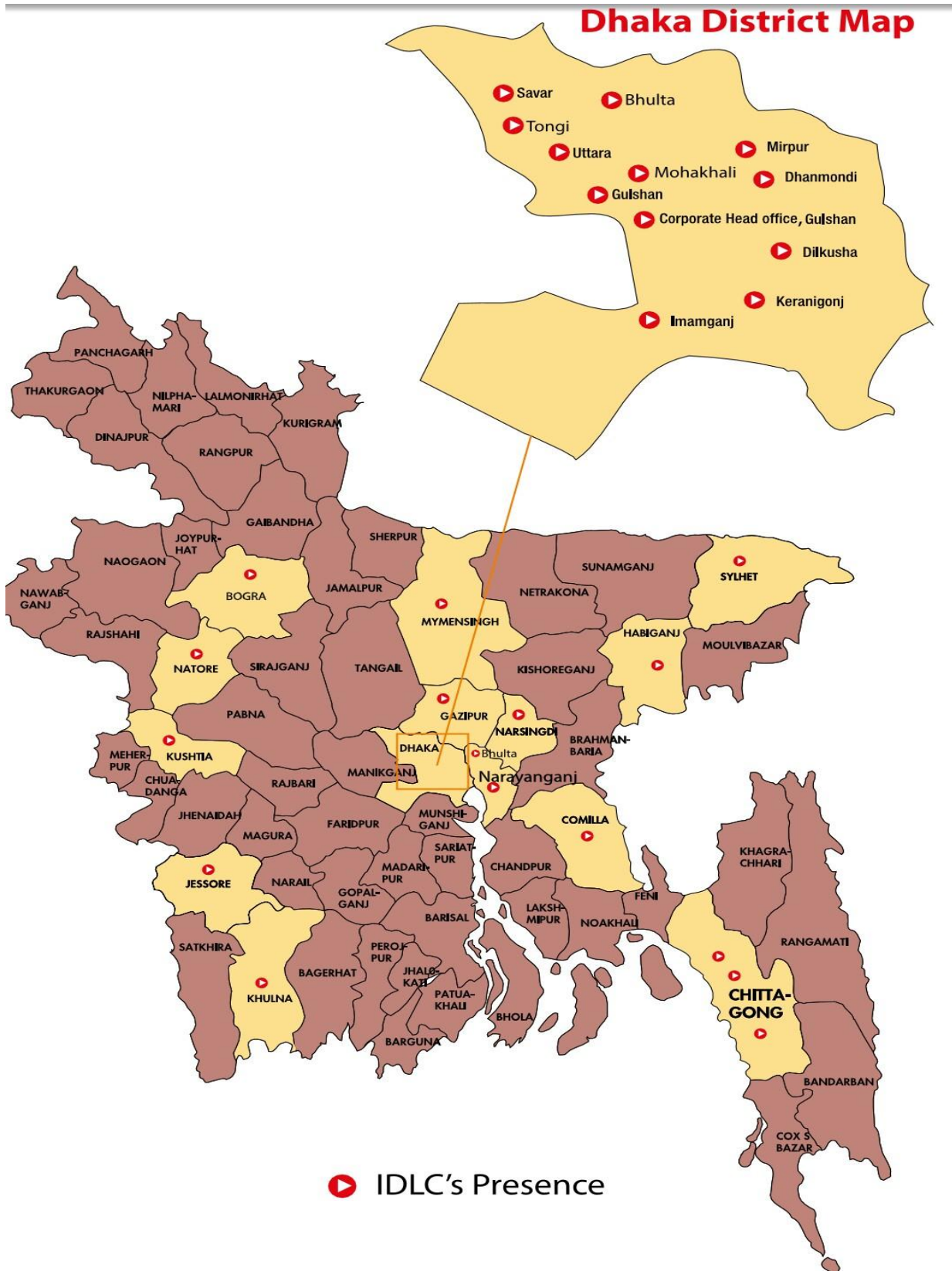


Figure 6: Map of IDLC's Corporate Head Office and Branches

## 2.5 Key Corporate Milestone

Date	Company Chronicle
1985, 23 May	Incorporation of the Company
1986, 22 Feb	Commencement of the leasing business
1990, 1 Oct	Establishment of a branch in Chittagong, the main port city of Bangladesh
1993, 20 Mar	Listed on the Dhaka Stock Exchange Limited
1995, 7 Feb	Licensed as a Non-Banking Financial Institution under the Financial Institutions Act, 1993
1996, 25 Nov	Listed on the Chittagong Stock Exchange Limited
1997, 27 May	Commencement of home finance and short term finance operations
1998, 22 Jan	Licensed as a merchant banker by the Bangladesh Securities and Exchange Commission
1999, 15 Jan	Commencement of corporate finance and merchant banking operations
2004, 29 Jan	Opening of the first retail focused branch at Dhanmond
2004, 29 Jan	Opening of the Gulshan Branch
2004, 22 Nov	Launched investment management services, 'Cap Invest
2006, 2 Jan	Opening of the first SME-focused branch at Bogra
2006, 6 Apr	Opening of the Uttara branch
2006, 1 July	Relocation of the Company's Registered and Corporate Head Office at own premises at 57, Gulshan Avenue
2006, 18 Sep	Commencement of operations of IDLC Securities Limited, a wholly-owned subsidiary of IDLC



Date	Company Chronicle
2007, 14 Mar	Launching of discretionary portfolio management services under 'Managed Cap Invest'
2007, 5 Aug	Company name changed to 'IDLC Finance Limited' from 'Industrial Development Leasing Company of Bangladesh Limited'
2009, 6 Jan	Opening of the Sylhet branch
2009, 26 Aug	Opening of the Gazipur SME booth
2010, 3 Feb	Commencement of operations at Narayanganj
2010, 24 Feb	Inauguration of the Savar branch
2010, 8 Aug	Inauguration of a second branch in Chittagong at Nandankanon
2010, 27 Oct	IDLC entered Comilla
2010, 23 Dec	IDLC inaugurated its Narsingdi branch
2010, 27 Dec	Opening of the Keraniganj branch
2011, 15 Jun	IDLC started operations at Mirpur
2011, 9 Aug	Opening of the Tongi branch
2011, 16 Aug	Commencement of operations of IDLC Investments Limited, a wholly-owned subsidiary of IDLC
2012, 18 Jan	Opening of the Jessore branch
2012, 11 Mar	Change of logo and rebranding of IDLC
2014, 8 Jun	Opening of the Khulna Branch
2014, 18 Oct	Opening of the Bhulta Branch
2014, 10 Nov	Opening of the Natore Branch
2015, 21 Dec	Soft opening of Kushtia Branch
2015, 28 Dec	Soft opening of Mymensingh Branch
2015, 29 Dec	Soft opening of Habiganj Branch

## 2.6 Business Overview

The company accomplishes its diverse business through its four arms – SME, Consumer, Corporate and Capital Markets.

### (I) SME

SME Division is considered as the priority business segment of IDLC Finance Limited. This division is devoted to provide specialist lending to small and medium-sized businesses across a broad range of industries including steel, cement, light engineering, plastics and textiles, among others, geographically spread across Bangladesh. This division provides a broad range of services e.g. term loans, working capital loans and lease financing to satisfy diversified customer requirements. Moreover, this division customizes their services if necessary. The division also supports and encourages women entrepreneurship by providing them loans at attractive covenants.

	2015	2014
<b>Portfolio Size (In Taka)</b>	18,334 million	17,905 million
<b>Disbursements (In Taka)</b>	13,392 million	12,053 million
<b>Income from Operations (In Taka)</b>	1,535 million	1,224 million
<b>Client Base</b>	8,240	7,619

Figure 7 : SME Division's Information in BDT

SME Division offers the following financial facilities:

- Small Enterprise Finance
- Medium Enterprise finance:
- Supplier Finance
- Commercial Vehicle Loan

### (II) Consumer

The Consumer division deals with the retail financial services which offers a broad range of financial products including Home Loan, Car Loan, and a small segment of Personal Loan and



Loans against Deposits. Presently consumer division has the highest market shares and growth rates within the Real Estate Loan industry of Bangladesh. This division is also actively engaged in mobilizing deposits by offering multiple retail savings products with variable interest rates and maturities.

### **(III) Corporate**

The key role of the Corporate Division is to provide quality service to financial institutions across the country in financial affair. It provides the following services:

- Lease Financing
- Working Capital Financing
- Term Loan Financing
- Project Financing

Moreover, this division also offers corporate bond issuance and debt syndication which belongs to the “Structured Finance” solution.

	<b>2015</b>	<b>2014</b>
<b>Portfolio Size (In Taka)</b>	8,645 million	9,595 million
<b>Disbursements (In Taka)</b>	4,850 million	5,421 million
<b>Income from Operations (In Taka)</b>	415 million	385 million
<b>Client Base</b>	238	244

Figure 8 : Corporate Division's Information in BDT

### **(IV) Capital Markets**

To run capital market operations, two wholly-owned subsidiaries named IDLC Securities Ltd. and IDLC Investments Ltd. was established by IDLC Finance Ltd. These two subsidiaries offers all types of trading and financial services to its patrons. They provide the best infrastructural and execution experience to their consumer base through their strong trading facilities including underwriting, primary Share issuance and merchant banking. Recently Discretionary Portfolio

Management services has been introduced in order to grow this portfolio with their Consumer Division while considering interdivisional synergistic opportunities.

IDLC Securities Ltd.		
	2015	2014
<b>Income for Operations (In Taka)</b>	226 million	176 million
<b>Profit After Tax (In Taka)</b>	56 million	39 million
IDLC Investments Ltd.		
	2015	2014
<b>Income for Operations (In Taka)</b>	82 million	79 million
<b>Profit After Tax (In Taka)</b>	61 million	53 million

Figure 9: Corporate Division's Information in BDT

## 2.7 Internship experience

### 2.7.1 Job Responsibilities as an Intern

The internship program of IDLC Finance Limited creates a learning platform for the beginners. Though the responsibilities was quite challenging I consider myself very privileged as I have finished my internship from SAM (Special Asset Management) Division at Dilkusha- the largest branch of IDLC. I was assigned in the SAM Division which mainly deals with clients directly including collecting cheque for EMI and handling with the Non-Performing Loans. I had been appointed in order to help the employees to carry out their daily activities.

During my internship period I learned a lot and also performed different types of works mostly by assisting the regular activities with hands on support. However, I also had to do some important and critical tasks as well under the supervision of my direct supervisor.

**Specific Responsibilities of the job:** As an intern I was assigned the following job responsibilities:

- Maintaining PDC General Folder
- Operating PDC Oracle Software

- Following up customers on a daily basis for EMI collection
- Reminder calls to the clients who does not have cheque to pay the EMI.
- Advanced calls to the clients who failed to pay within their EMI date.
- Handling customer calls and cheque return issues
- Ensuring cheque collection within the specific time limit
- Cheque entry to the PDC software
- Updating customer's profile ,address and contact number
- Maintaining the files, accounts and portfolio of the clients
- Calling the potential clients and telling them the update
- Providing customer support

Therefore I was assigned mostly to perform these basic and regular activities as an intern. At the beginning before passing on the tasks to me my colleagues explained and showed me practically how to do the task. Then gradually I learned how to perform the tasks more effectively and efficiently. Whenever I faced difficulties and problems while performing my appointed task I got a huge support from my supervisor, colleagues and the other co-interns.

### **2.7.2 Observations during internship**

The working environment of IDLC is excellent and friendly. They treat interns as an employee. They leave the work decision of interns on themselves. They did not put extra work loads or pressure to the interns. Advisor assign few responsibilities and regular work which make inters more responsible and dedicate toward their work. They were really helpful when I was making this project.

# **CHAPTER 03:**

## **Project Part**

### **3.1 Non Bank Financial Institutions in Bangladesh**

Non-Bank Financial Institutions (NBFIs) contributes to the economic development of the country as well as to the deepening of the country's financial system as it plays a significant role in meeting the diverse financial needs of various sectors of an economy. According to Goldsmith (1969), financial development in a country starts with the development of banking institutions . NBFIs has become prominent alongside the banking sector. Both can play noteworthy roles in influencing and mobilizing savings for investment. However, they are also complementary to each other as each can develop its own niche, and thus may venture into an area where the other may not, which ultimately strengthens the financial mobility of both.

There are different types of non-bank financial institutions namely insurance companies, finance companies, investment banks and those dealing with pension and mutual funds, though financial modernization is smearing the distinction between different organizations. In some countries both banking and non-banking financial service packages have been adopted by financial institutions to meet the changing requirements of the regulars. In the Bangladesh context, NBFIs are defined by those institutions that are licensed and controlled by the Financial Institutions Act of 1993 (FIA '93). NBFIs offer services for industry, commerce, agriculture, housing and real estate, carry on underwriting or acquisition business or the investment and re-investment in capital market; carry on the business of hire purchase transactions including leasing of machinery or equipment, and use their capital to invest in companies.

The significance of NBFIs can be emphasized from the formation of the financial structure. Due to the structural restrictions and rigidity of different regulations, banks could not spread out their operations in all anticipated areas and were confined to a comparatively restricted sphere of financial services and they could not widen their operational prospect significantly by offering latest and innovative financial products. These drawbacks led to the materialization of NBFIs for supporting the growth of industrialization and economic expansion in Bangladesh.

### **3.2 IDLC as an NBFIs**

IDLC Finance Limited was in the beginning started with Lease Financing as their core product. At present IDLC Finance Ltd has turned out to be the largest multi-product Non-Bank

Financial Institution of Bangladesh, with about equal focus in Corporate, Retail and SME sectors. Furthermore, IDLC has a considerable existence in the Capital Markets. Their merchant banking arm, IDLC Investments Limited is a premier brand for investment banking in the country. Their stock brokerage arm, IDLC Securities Limited is also amongst the top five brokers in the country. IDLC continues to play a pioneering role in initiating and launching a various range of financial mechanisms and services suiting ever-changing necessities of its fast-growing clients. To make certain the best quality of service to their clients at all times, they are constantly escalating their existence in the financial sector.

### **3.3 The reason behind preferring IDLC (NBFIs) over Bank**

The major service IDLC offers is fast communication with clients as it does not accept cash deposits but provides all financial services except bank accounts. As a result bank has to deal with the issues with deposit, cheques, pay-orders or demand drafts, foreign exchange financing etc-major drawbacks for which they cannot communicate as fast as IDLC with the clients.

Moreover, IDLC can sanction loan within 1 days whereas client has to wait for 10 to 15 days for sanctioning loan in a Bank.

Furthermore, Bank has different rules and limitations for financing loan to the customer for example- for car loan, a bank can't offer more than 30,00,000 BDT in Bank. However IDLC can offer way more than 30,00,000 BDT to the clients according to their capability.

Another facilities of IDLC is that it always offers higher interest rate for FDR than Bank since it has higher cost of funds as a result they provides higher interest rate to the customer.

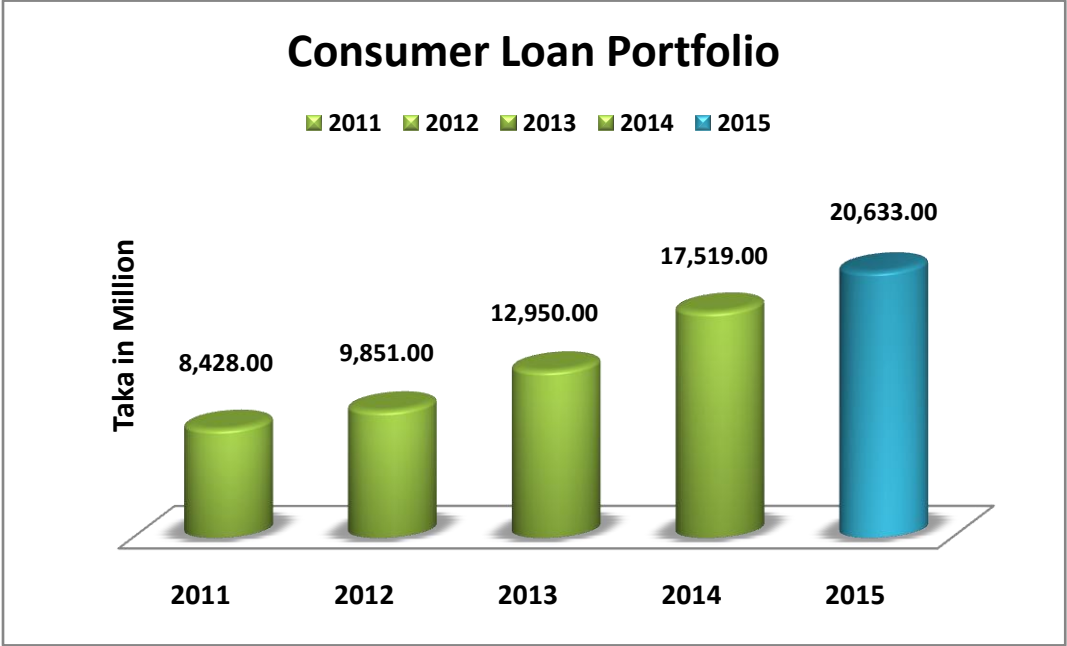
Generally these are the main reason why a customer should choose IDLC .

### **3.4 Portfolio Status of Consumer Division**

Consumer division is one of the key drivers of sustainability in IDLC Finance Limited. The division have a high recall for its superior service standards, high levels of intelligibility, committed sales force and robust customer experience. The Consumer division offers term deposit products to accommodate to the needs of various institutions as well as individuals to its targeted customer segments. This division enjoys a proven track record in Bangladesh's consumer finance industry. With the constant and focused efforts the division possesses a

significant market-share in home loans and car loans businesses due to its sound business strategy, quicker loan processing time and other exclusive selling schemes. The division looks forward to widen its geographical coverage to venture into other prospective territory in the coming years.

**Consumer Loan portfolio**



**Figure 10: Year Wise Customer Loan Portfolio**

Year	2011	2012	2013	2014	2015
Taka in Million	8,428.00	9,851.00	12,950.00	17,519.00	20,633.00
Growth in Percentage		16.88	31.46	35.28	17.77

From the above graph we can see IDLC Finance Limited is in a constructive state in case of consumer loan portfolio.

The growth in percentage are calculated by subtracting the amount of previous years from the present year and then dividing the subtraction by the amount of previous year .

Growth in percentage =  $(P_n - P_o) / P_o$

In 2011, the portfolio was of 8,428 million taka. In next year it reached to 9,851 million taka. The growth percentage was 16.88. From 2013 to 2015 the portfolio amount was chronologically 12,950 million, 17,519 million and 20,633 million taka. So, there was always a flow of escalation in percentage of consumer loan portfolio up to 2014 but it decreases considerably in 2015. The reasons behind this are the discretion of authority to sanction loans to the trustworthy clients for avoiding bad loan and in addition the division has reached at their maturity level in PLC cycle.

### Consumer Loan Disbursements

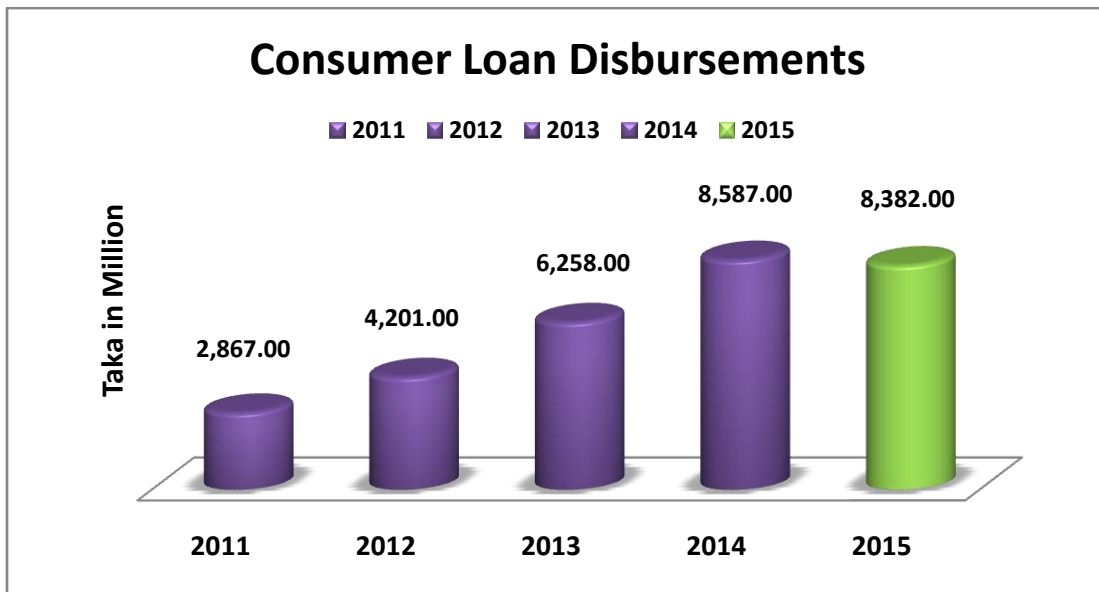


Figure 11: Year Wise Customer Loan Disbursements

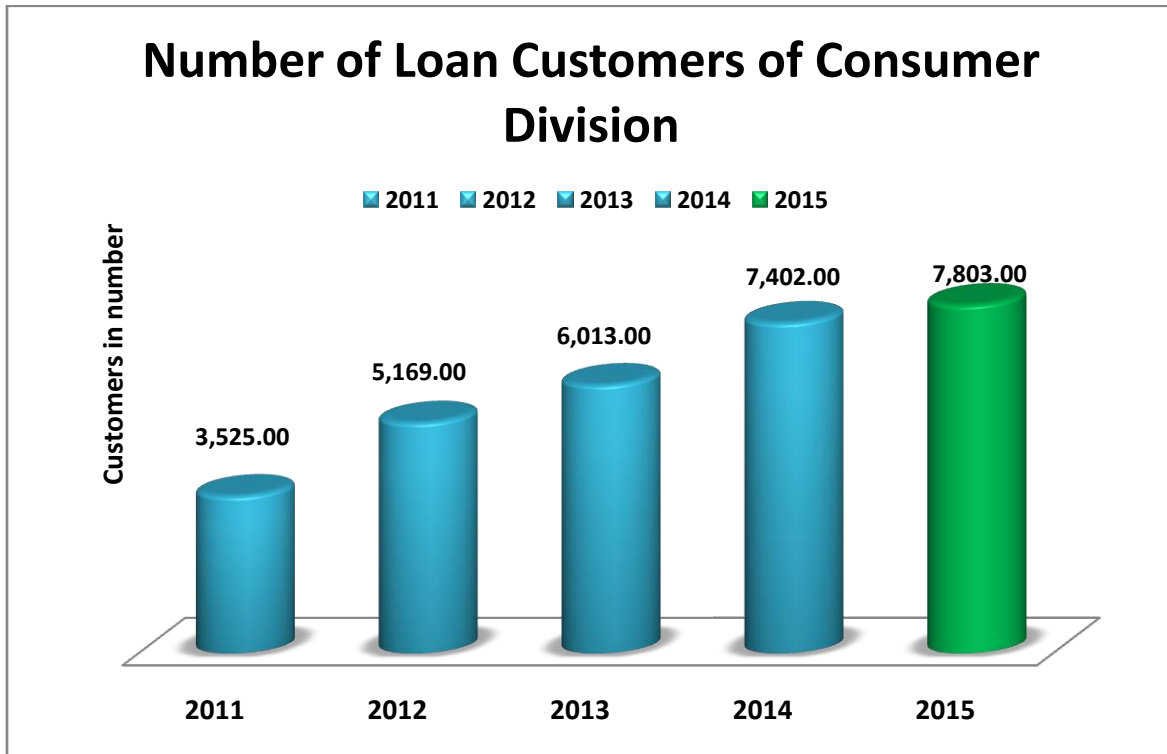
Year	2011	2012	2013	2014	2015
Taka in Million	2,867.00	4,201.00	6,258.00	8,587.00	8,382.00
Growth in Percentage		46.53	48.96	37.22	(2.39)

This graph explains the new loan disbursements of IDLC Finance Limited from 2011 to 2015. In 2011, the new loan disbursement amount was 2,867 million taka. On the next year, the loan disbursements reached to 4,201 million taka with 46.53% growth. In 2013, the amount was



6,258 million taka and the growth rate was 48.96%. On the following year, the new loan disbursements was even higher and the amount was 8,587 million taka. And on 2015, the new loan disbursements was 8,382 million taka which was slightly lower than previous year. In the final year the growth was reduced by 2.39%. In a nutshell, IDLC Finance Limited is following new tactics of controlling the NPL ratio to a certain level.

**Number of Loan customers**



**Figure 12: Year Wise Number of Customer**

Year	2011	2012	2013	2014	2015
Customers in number	3,525.00	5,169.00	6,013.00	7,402.00	7,803.00
Growth in Percentage		46.64	16.33	23.10	5.42

This graph explicates the number of loan customers of consumer division. As IDLC Finance Limited has a growing consumer loan portfolio, so correspondingly the corporation has a growing number of loan customers for last 5 years. The loan customers’ number was 3,525 in 2011. During 2012 it reached to 5,169. In next year the number was 6,013. In 2014, the number

again increased to 7,402 and in final year 7,803. Though in 2012 the percentage growth was 46.64%. But in 2015, the percentage was only 5.42%.

It demonstrates that the company is stirring towards its maturity. That's why the growth rate has become slow. IDLC does not want to finance the customer only to increase the loan because it may increase the NPL as well which is dire for business. For this reason they have to move slowly in terms of customer number.

### 3.4.1 Number of Home loan

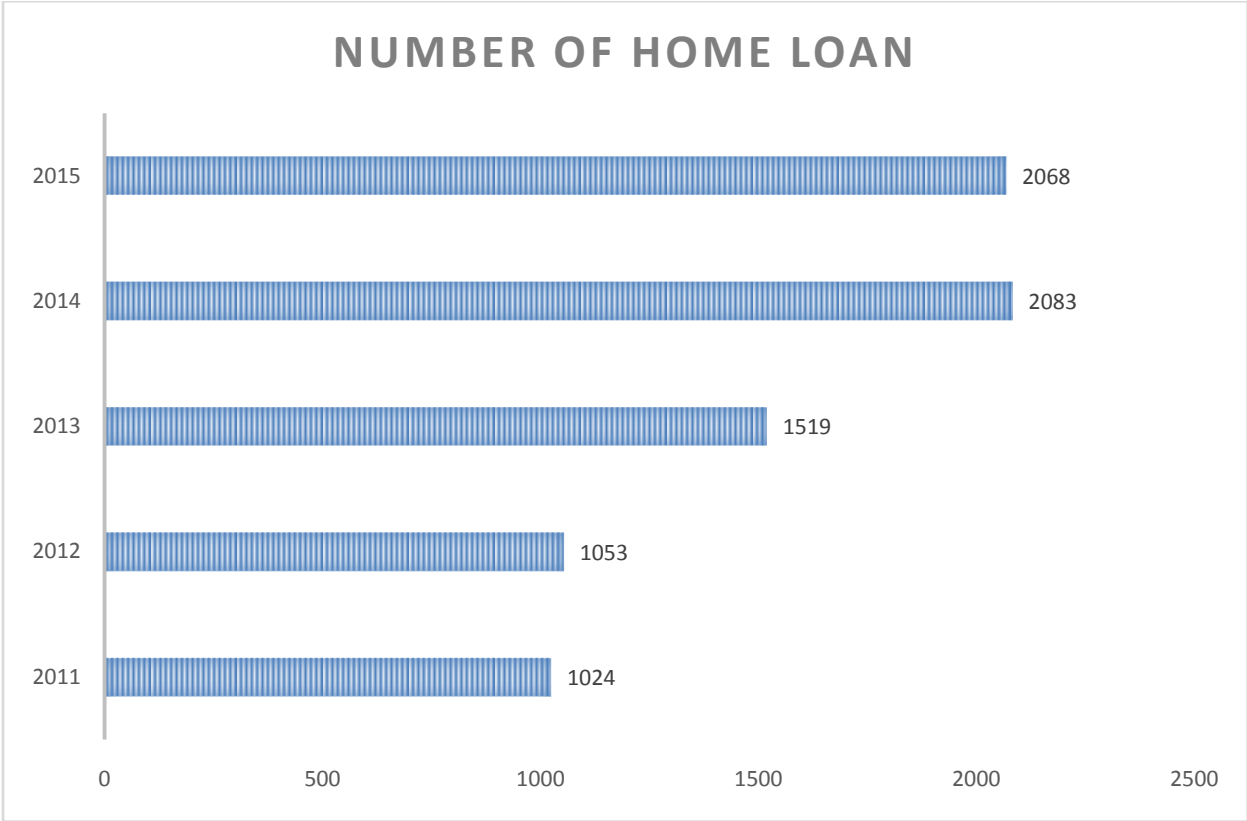


Figure 13: Number of Home loan in Last Five Year

In this figure, we can see that number of real estate financed is increasing rapidly from 2013 and 2014 but slightly decreased in 2015.

IDLC came up with new approach such as increase man power, no hidden cost and quick services to boost up the number of home loan.

### 3.4.2 Number of Car loan

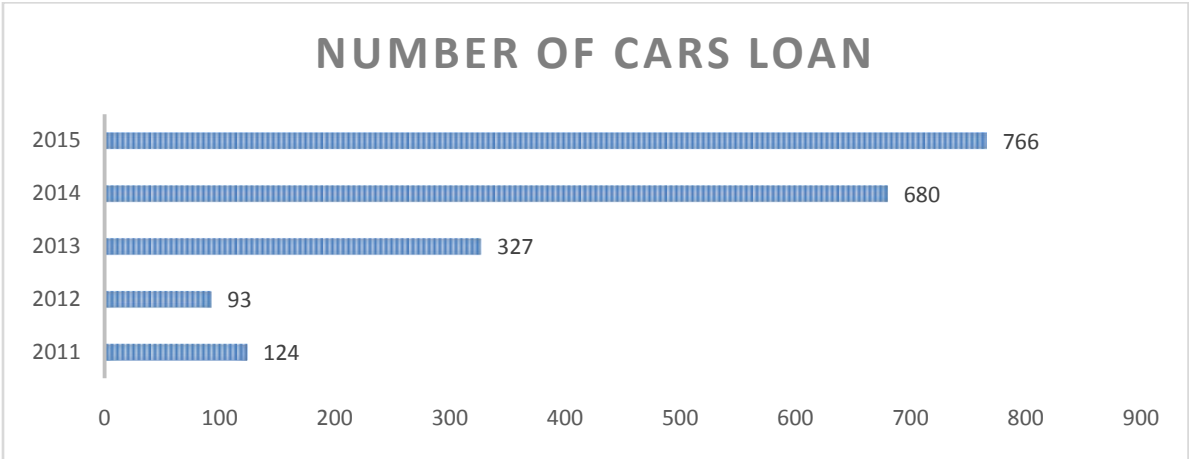


Figure 14: Number of Car loan in Last Five Years

During 2011 to 2012 cars financed were not that much admirable. The growth of car loan financing started to boost up in 2013. In 2015 it increased to almost double. This means IDLC not only focused on home loan, they are also concentrating every sector. As a result, they captured a huge market share in 2015.

### 3.4.3 Number of Personal loan

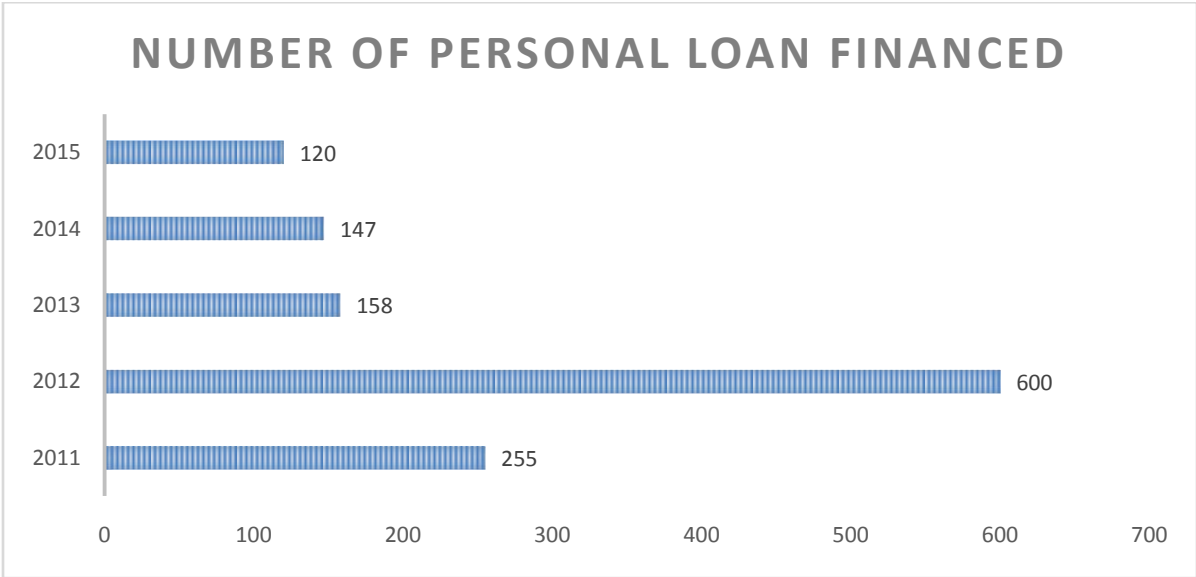


Figure 15: Number of Personal Loan in Last Five Years

In this illustration, we can notice that the number of Personal Loan financed is decreasing in 2013 and onwards.

The main reason is that IDLC stopped financing the personal loan from 2014 because of the high risk as the loan is only financed based on personal guarantor. However, in 2016 IDLC again started to offer the services and hopefully by 2016 it will increase considerably as well.

### **3.5 Special Asset Management (Consumer Division)**

Special asset management (SAM) of IDLC finance limited works as a wing of credit risk management. SAM is in charge for all kinds of collection activity. The key objective of SAM is to keep overdue situation at the possible lowest point so that providing for dues can be minimized.

Therefore, a well-built Law and Recovery Team are assigned in order to obtain the following task properly-

- Monitoring the performance of the loans & advances
- Identifying early signs of delinquencies in portfolio
- Taking corrective measures to mitigate risks
- Improving loan quality
- Ensuring recovery of loans in a timely manner including legal actions.

#### **3.5.1 Targets of Special Asset Management Department**

1. Collection of Overdue Rentals
2. Reduction of Non- Performing Loans (NPL)
3. Reduction of Infection ratio
4. Bad/Loss Provision Management- Incremental Provision Control . (Limited, IDLC Finance, 2015)

### **3.6 Collection procedure and Operation Strategy of SAM**

#### **3.6.1 Collection Process OF SAM**

Special Asset Management Department of IDLC mostly deals with the collection of debt. Its purpose is to exploit profitability and support the business expansion and by sustaining stability between risk and reward over the life-cycle of services and portfolios of IDLC. In SAM the member of staffs are working together as team which is the main hold up of SAM. They support

the team members with the solution of professional troubles and conveys the optimistic prospect concerning the team's and company's performance. There are different teams assigned according to different branches and assets. For instance, home and personal loan are handled by four team. Specific branches are allocated to these four team and they need to monitor the performance of loans of assigned branches. Car loan is completely dealt by another team and so on for the other loans.

### **3.6.2 Regular Activities performed by SAM**

- Following up (Overdue customer & exhausted Post Dated Installment cheque)
- Communication with the walk in customers to collect cash/cheque
- Providing collection related information to customers
- Issuing overdue letter/cheque exhausted letter/SMS
- Meeting & counseling with defaulter customer
- Updating any types of change related to customer like address ,contact no. etc.
- Resolving or reallocating inquiries or concerns arising from communication with clients in focused approach
- Keep record in a file for residual cheque & hand over to Customer Services Dept.
- Writing correspondence with overdue customers
- Visiting the address of the overdue customers
- Reconciliation of accounts in Software.
- Notifying the customers about dishonored cheque, Late payment Interest / Dishonoring Charge
- Collection & monitoring of overdue amount & accrued charges
- Reviewing sum unpaid outstanding, bearing in mind the significant information to determine the execution to be taken
- Inter branch communication
- Serving legal notice/Final reminder/Termination letter to overdue customers.
- Process for filing Suit under the NI act in the Court of Law
- Attending the Court for legal correspondence
- Regular follow up & co-ordination with lawyer regarding litigated accounts
- Invitation for auction

- Any activities assigned by seniors personnel

### 3.6.3 Operation Strategies of SAM

The intention of SAM is to obtain payments at the appointed time to diminish the risk and write-off expenses as well as maintaining the customer's concern through providing a standardized service.

First of all, the SAM team check and remind every customer on a daily basis whose EMI date is approaching. Then they supervise the loan account who could not pay within their allocated time. Those loan account are listed as Overdue clients.

Therefore for approaching the clients and to collect the Overdue amount the team need to go through the following steps accordingly in general-

- SMS and Email
- Call
- Call and Soft Reminder
- Visiting and meeting with them
- Hard letter issuance
- legal notice
- case filing
- Repossession (Auction)

Call, SMS and Email is normally sent to the regular customer on regular basis before their EMI date as a reminder to pay the monthly installment. SAM request the customers about cheque exhaust. Customers send their cheque to any branch or directly at SAM .

The collection process of SAM initiates when the client failed to pay one contractual payment which is termed **Delinquent Accounts**.

When accounts are delinquent, collection procedures are structured to make conform the accounts by making certain that the wellbeing of IDLC are confined.

For the customer who are in overdue lists termed as Non Performing Loan ,alternative strategy called Recovery Action Plans are followed .

### **3.6.4 Recovery action plans by SAM**

Special asset management takes various plan for fulfill departmental target. This action plans vary depending on the duration of overdue , investment classification, client status and also overdue status.

#### **(I) Overdue One to Three months**

- Immediate contact in the next working day after the 1st default installment to remind about overdue. This type of clients normally do not have previous dues
- Try to get explicit commitment from client. Committed date should not exceed seven days.
- In case of no response from client within seven days, need to call the client again in order to discover reasons for holdup and get hold of a further specific date for the overdue payment.
- In case of failure to get in touch with client through phone calls within seven days from the due date of payment, need to contact with personal guarantor to inform about customer overdue and need to request as well to take any types of initiative for payment.
- later than if client do not respond then reminder letter will be sent addressing customer requesting to come in branch for the solution of overdue payment.

In this phase customers are more sensitive. Therefore SAM offers special concern to these customers so that they do not move to another month as overdue client.

#### **(II) Overdue Four to Five months**

- Try to get specific payment date through phone calls, e-mails.

- If customer do not respond in phone calls and e-mail, then need visit to the customer's office or home.
- Try to get written commitments for overdue payment.
- Send reminder letters within three working days of default of fourth installment.
- After sending reminder letter send CC letter to the customer for overdue payment.
- Then if customer fail to fulfill the requirement legal notice will be sent.
- If these step doesn't work at all ,the collection team tries to bring the overdue client to IDLC office for counseling over solution of default situation.
- If necessary, arrange meetings between higher management of IDLC and the owners/ directors, etc. of the chronic organizations for the final solutions .

### (III) Overdue: Above Five Months

⇒ Assessing the security status of the account and based on the nature of the default, undertake following measures:

- Sending final reminder letter which allows the defaulting customer time to pay the overdue within 15 days containing various measures that would be taken, if deadlines for payment expire, as per the law of the land or regulatory authorities.
  - In case of no progress, sending legal notices through lawyers after receipt of senior management's approval.
  - Based on the nature of the default, may need to appoint Recovery/Repossession Agents with management approval.

⇒ If no improvement takes place after taking the above actions, the following strategy will be initiated:

1. Legal Actions as per the merit of the security of the defaulting clients. a. File suit under the negotiable Instrument (NI) Act.
2. File suit under Artha Rin Aine (ARA) or Bankruptcy Act.
3. Circulating Names of defaulting borrowers and relevant persons and organizations among banks and financial institutions of Bangladesh.



- At any point of Overdue over 3 months, the following actions may be undertaken under subjective judgment.
  1. Rescheduling the account
  2. Transfer accounts to block account
  3. Termination of the account- as initial step to filing ARA suit or to pressurize client.

### **3.7 Non performing loan (NPL) management**

IDLC measures its loan portfolio in terms of payment arrears. The impairment levels on the loans and advances are monitored regularly.

#### **As per FID Circular No.3**

1. Loan/Lease, classified as bad/loss and with 100% provision, can only be written-off.
2. Approval from the Board of Directors has to be taken before write-off.
3. The financial institutions should constantly try to recover the loan/lease written-off amount. If legal action has not been taken against the client, legal charges should be placed before the write off.
4. To expedite the legal settlement or collection of the due amount, third party agents can be appointed by the financial institutions.
5. A separate ledger should be maintained for the written off loans/leases and the accumulated written off value should be disclosed separately under the heading of “notes to the account” in the annual report/balance sheet of the financial institutions.
6. Even if the loan/lease has been written off, the client should be classified as defaulter and reported to CIB accordingly. Detail records for all such write off accounts are meticulously maintained and followed up. (Limited, IDLC Finance, 2015)

#### **3.7.1 NPL Trend and forecasting**

Nonperforming loan amount from 2011 to 2015 was collected from the annual report of IDLC.

Then the following graph was plotted to see the trend.

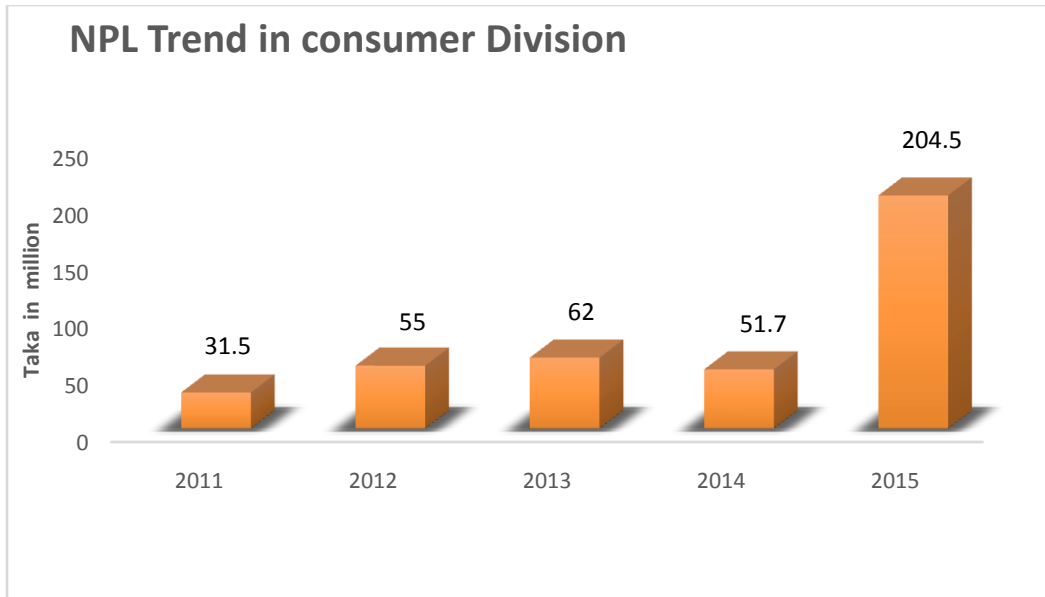


Figure 16: Year wise NPL

In the diagram we can see that number of NPL increases from 2011 to 2013 except in 2014 it decreases comparing to the last year. In 2015 NPL was really high which is almost triple of 2014 NPL.

### 3.7.2 Trend Analysis for NPL growth rate

A trend analysis is a feature of methodological analysis to facilitate the prediction of the future situation based on previous records. Trend analysis is based on the idea that what has happened in the past gives an idea of what may happen in the future.

To analyze the trend, Microsoft Excel sheet was used. Non Performing Loan in BDT and in percentage was collected from the annual report of IDLC Finance Limited. Trend forecast was solved by the multiplication of slope and the year and adding the intercept value. Here slope and intercept was found by using Excel trend line option in the graph.

Here two trend forecast is done for the better understanding the trend. One is in the total amount of BDT and another one is in terms of NPL ratio. For more trouble-free estimation the years are mentioned by using a number from 1 to 6 rather than using the whole digit of the year.

Year(2011 -2016)	NPL (BDT)	Trend forecast
1	31.5	56.14
2	55	90.41
3	62	124.68
4	51.7	158.95
5	204.5	193.22
6		227.49
Slope	34.27	
Intercept	21.87	

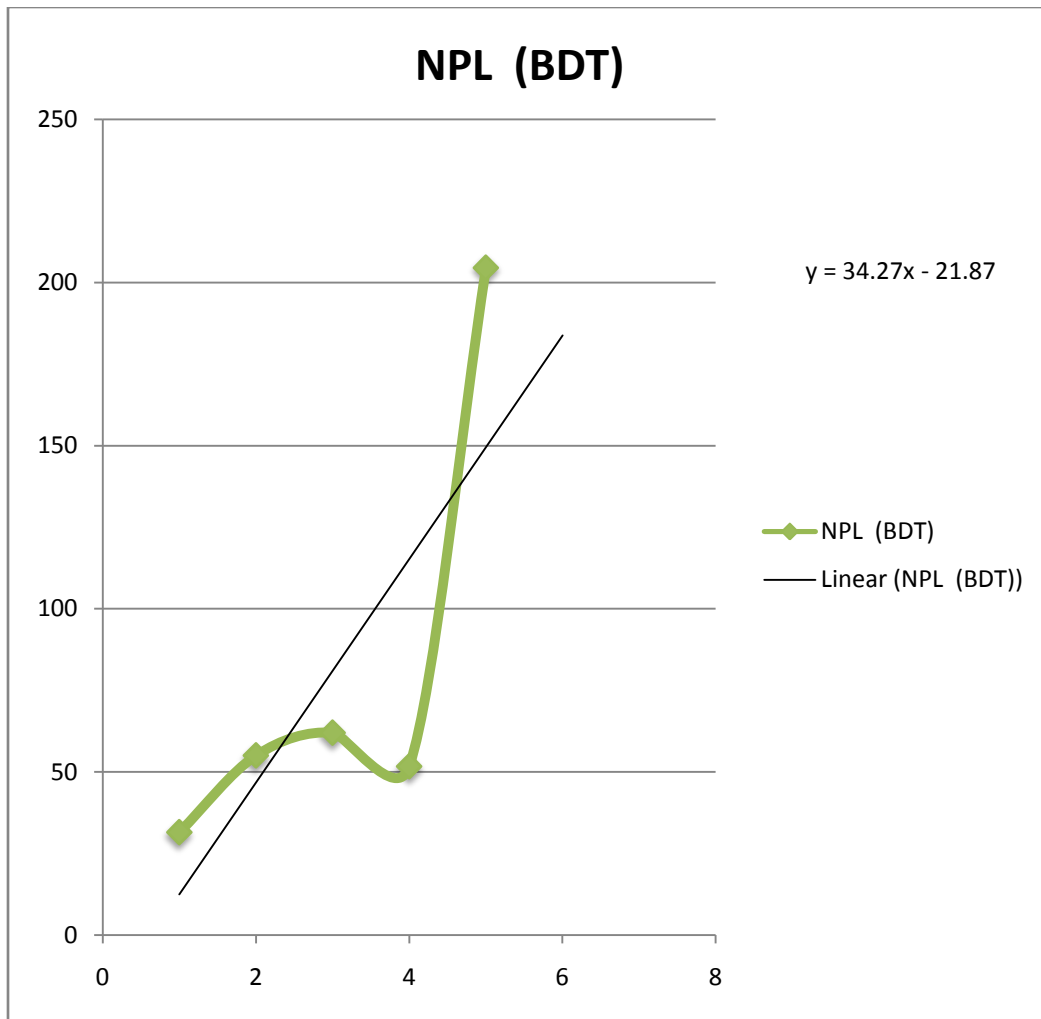


Figure 17: Year wise NPL Trend forecast in (BDT)

Year(2011 -2016)	NPL Ratio (%)	Trend forecast
1	2.32	1.942
2	2.09	2.083
3	1.63	2.224
4	2.02	2.365
5	3.06	2.506
6		2.647
Slope		0.141
Intercept		1.801

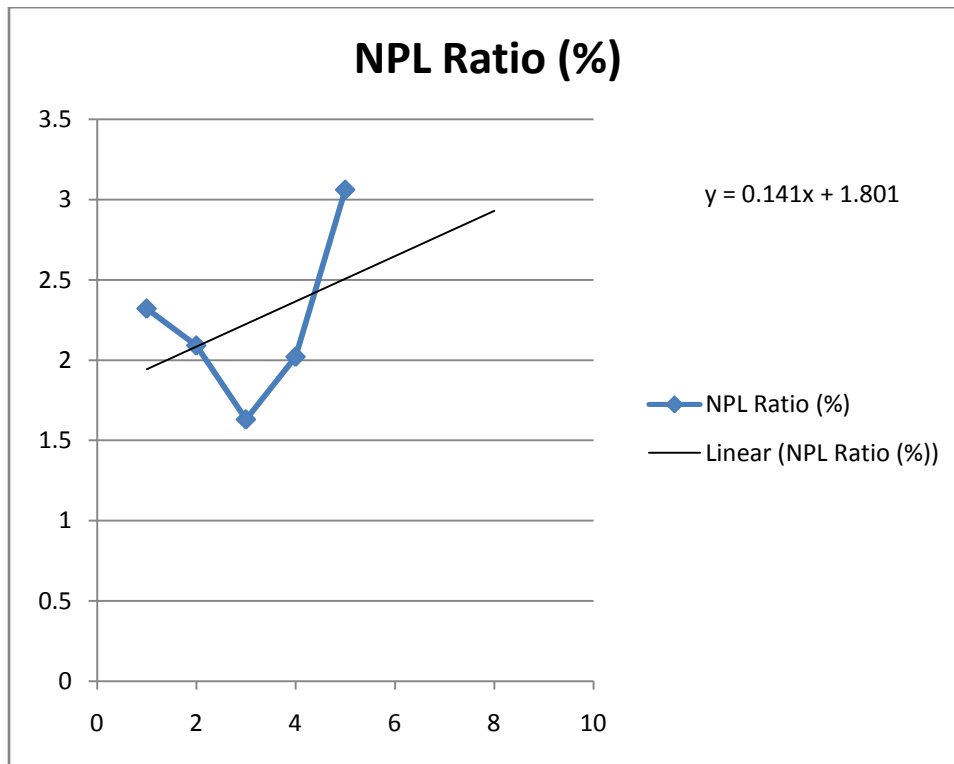


Figure 18: Year wise NPL Trend forecast in (BDT)

Here we can see that in year 2016, the Non performing loan will increase to 227.49 million BDT and the percentage of NPL ratio will be 2.65% which is lower than 2015.

The Non Performing Loan in percentage has not been increased partially because it is measured in terms of total customer figure. That is why as the loan number is growing and the amount of NPL is growing too, the forecast ratio will not increase that much comparing to the forecast NPL in BDT.

### 3.7.3 Findings

By observing the trend forecast, it can be said that the measures SAM follows are efficient except it can be more effective if some issues can be dealt more cautiously.

The reasons which were mentioned in IDLC annual report 2015 for increasing of NPL are the political instability and few accounts turning bad which are really immense problem for financial industry as a whole.

Beside these, I have found some other rationale behind the Non Performing Loan :-

One of the reason of NPL is the increasing number of customer in consumer division. As the number is increasing the number of NPL increases as well.

Another reason is the high employee turnover rate in IDLC during the last two years. The employees compensation are not satisfactory especially for entry level and mid level recruits. As a result IDLC loses talented and experienced as well as well trained employee. Moreover the change of the management committee can also be a reason for NPL .

Fluctuation of interest rate is also a setback. When the interest rate increases IDLC need to increase the rate higher than the market rate to maintain the profitability as the cost of fund is higher at IDLC .Therefore some of the customer become displeased and try to ignore the regular payment .

The fixed interest rate of IDLC is also another explanation of NPL growth. At present the interest rate is way more lower at market than IDLC. Therefore the client become dissatisfied though they willingly took the finance at the rate. However IDLC is now converting those loans rate by approving submission of request.

Some customer's unwillingness to pay is also a reason for NPL. Family problem, bad investment and business, poor business practices ,social unrest ,unanticipated tragedy or loss in business etc effects customer to pay on a regular basis.

# Recommendations

As mentioned in Annual Report of IDLC 2015, the stated target is to bring the overall NPL under 3% in 2016 and below even as they go forward. It will be beneficial if some of the collection and operation strategies can be change by bringing some alternative tactics for the default client. Critical steps can be recommended based on the findings of the report that have explored a few areas to enable the services to a greater efficiency level and hence smoothing the operations.

- Separate SAM team should be appointed at branch level or centralized process. Due to the deficiency of such personnel, regular deposit statement from the branches are often arrived not on time .
- PDC Management authorization should be centralized in all branches. Like the inside the Dhaka city branches like Dhanmondi , Gulshan, Uttara, Savar, Narayangonj, Norsindhi etc and documentation should be also preserved branch wise.
- Due to the growing number of customers, the system appears to be responding at a higher output time which lead to lower efficiency level and constraint in time management. Therefore, corrective measures should be taken to speed up the system.
- Close concentration should be given by SAM immediately not only after the overdue of one month but also whenever any indiscretion of payment is observed.
- A monitoring team should be assigned apart from SAM to keep an eye on the activity of customer after the loan disbursement to know whether the disbursed money is used and utilized for the proper and specific areas or not.
- The appraisal should be more rational and transparent. Credit rating system should be developed in order to emphasize the strength and weakness of clients. As a result it will be lot easier to put together any lending decision.
- An attractive compensation plans and motivational packages should be offered to the employee so that the turnover rate can be reduced.
- Arrange quality training programs for the employee of SAM on a regular basis to enrich their up to date acquaintance ,negotiation power, persuasive ability, motivational control and to encourage them as well.

- Proper client selection , reasonable interest rate for the clients who are in a bad position , arranging workshop for the client about the ethical aspects.
- Customer's past behavior regarding loan payment regularity should be scrutinized carefully before the loan sanctions.
- Educational program should be provided to make customers understand the requirements and the policy as well as the regulations while taking loans and during the period of payment .It will minimize the rate of misunderstandings and errors along with dissatisfactions of customer.

# Conclusion

Being the leading NBFIs of Bangladesh IDLC Finance Limited is setting extraordinary footprints in the economic development of the country. Among many other factors the increasing loan applications from consumer client segment is also contributing in this growth that is being experienced by IDLC in every year.

Although IDLC has adopted so many rules and policy standards of loan classification and provisioning, the NPL ratio is still insignificantly higher compare to the industry average. Therefore management of NPLs must be multi-pronged, with different tactics followed at the different phases through which a credit facility passes. Measures should be in place for both prevention and resolution. With regard to preventive actions, importance needs to be placed on credit screening, loan surveillance and loan review functionalities. Resolution measures must be accompanied by legal actions.

However, IDLC are actively pursuing for their funds from these defaults and are confident of reducing the NPL to a much lower level by the end of 2016. It can be said that hopefully they will reduce their NPL level below 3% within 2016 by maintaining their growth. By improving debt recovery environment and reducing NPL IDLC will keep their outstanding position constant in the financial industry. Highly trained, qualified and proficient employees of SAM will ensure the quick and proper way to fulfill the level of NPL target of IDLC in this matter.

IDLC Finance Limited is doing a great job in the financial industry of Bangladesh. IDLC is a very good place for a Finance, Accounting & Economics graduate to do his/her intern. One will get precious opportunity to real life issues dealt by a financial institution by doing internship here. Also this provides a very good networking opportunity.



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