An Internship Report

On

"Credit Risk Management system of People's Leasing And Financial Services Ltd."

SUBMITTED BY

HAFIZA KHATUN

Student ID. E140503068

3rd Batch, MBA (Evening)

Major in Finance

HSTU, Dinajpur

SUPERVISED BY

RONY KUMAR DATTA

Assistant Professor

Department of Finance and Banking

HSTU, Dinajpur

Master of Business Administration (Evening)

(This report has been prepared for submission into the Faculty of Business Studies, Hajee Mohammad Danesh Science & Technology University, Dinajpur, as a partial requirement for fulfillment of the MBA (Evening) Program.)

Faculty of Business Studies

Hajee Mohammad Danesh Science & Technology University

Dinajpur-5200

October, 2016

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RONY KUMAR DATTA
Assistant Professor
& Co-Supervisor
Department of Finance and Banking
HSTU, Dinajpur

MD. JAHANGIR ALAM SIDDIKEE
Assistant Professor and Chairman
& Supervisor
Department of Finance and Banking
HSTU, Dinajpur

Master of Business Administration (Evening)

Faculty of Business Studies
Hajee Mohammad Danesh Science & Technology University
Dinajpur-5200

October, 2016

Letter of Transmittal

20 October, 2016

Rony Kumar Datta
Assistant Professor
Department of Finance and Banking
Hajee Mohammad Danesh Science & Technology University, Dinajpur.

Subject: Letter of Transmittal

Dear Sir,
I the undersigned student of Internship Program assigned to submit an Internship report on 'Credit Risk Management system of People's Leasing And Financial Services Ltd. (PLFS) Limited'. I hope you will be pleased to know that I have completed my Internship report. It gives me immense pleasure to complete my report successfully and submit this report on the analysis that I have conducted during the schedule of the program.

At every segment of making this report, I have tried my level best to visualize all the areas related to this report. I would like to express my heartiest gratitude to you, for your tiresome effort for me, which provided me the opportunity to prepare this report.

It would be very kind of you to examine my report work and give me further suggestions and enhanced my clarification due to future prospects.

Sincerely yours,

Hafiza Khatun
Student ID. E140503068, 3rd Batch,
MBA (Evening) Major in Finance
HSTU, Dinajpur.

Acceptance

I hereby declare that this internship report titled "Credit Risk Management system of People's Leasing And Financial Services Ltd. (PLFS) Limited" is a useful research work done by Hafiza Khatun, MBA (Evening) student of Hajee Mohammad Danesh Science and Technology University, Dinajpur having ID E140503068. This report represent independent and original work prepared on the basis of secondary data collected and analyzed by the candidate. This report has not been accepted for any other degree and is not concurrently submitted in candidature of any other degree.

The entire work has been planned and carried out by the candidate under my supervision and guidance. In my opinion, this report is sufficient in terms of scope and quality for the award of the degree of Master of Business Administration (MBA) Evening from Hajee Mohammad Danesh Science and Technology University, Dinajpur.

I wish her every success in life.

Rony Kumar Datta
Assistant Professor
Department of Finance and Banking
Faculty of Business Studies
HSTU, Dinajpur

Declaration of Supervisor

I hereby declare that Hafiza Khatun, Student no. E140503068, MBA (Evening) Major in Finance, 3rd batch, Department of Finance and Banking, Faculty of Business Studies and session 2014 under an internship report entitled on "Credit Risk Management system of People's Leasing And Financial Services Ltd. (PLFS) Limited" after completing her internship program under my supervision. Thoroughly found it satisfactory for submission as a part of partial fulfillment of Master of Business Administration (MBA) Evening degree.

Rony Kumar Datta
Assistant Professor &
Supervisor
Department of Finance and Banking
Faculty of Business Studies
HSTU, Dinajpur

Declaration of Co-Supervisor

I hereby declare that Hafiza Khatun, Student no. E140503068, MBA (Evening) Major in Finance, 3rd batch, Department of Finance and Banking, Faculty of Business Studies and session 2014 under an internship report entitled on "Credit Risk Management system of People's Leasing And Financial Services Ltd. (PLFS) Limited" after completing her internship program under my supervision. Thoroughly found it satisfactory for submission as a part of partial fulfillment of Master of Business Administration (MBA) Evening degree.

Md. Jahangir Alam Siddikee
Assistant Professor and Chairman &
Supervisor
Department of Finance and Banking
Faculty of Business Studies
HSTU, Dinajpur

Student's Declaration

I do hereby declare that the internship report entitled "Credit Risk Management system of People's Leasing And Financial Services Ltd. (PLFS) Limited", embodies the result of my own research works and efforts, prepared under the supervision of, Rony Kumar Datta, Assistant Professor, Department of Finance and Banking HSTU, Dinajpur.

I further affirm that work and information reported in this internship report is original and no part or whole has been submitted to, in any from any bother University of Institution for any degree or any other purpose.

Hafiza Khatun
Student ID. E140503068, 3rd Batch,
MBA (Evening) Major in Finance
HSTU, Dinajpur.

PLFS
Together We Achieve

PEOPLE'S LEASING
And Financial Services Ltd.

PLFS/DHAKA/INTERNSHIP/2016/3179
October 17, 2016

TO WHOM IT MAY CONCERN

This is to certify that Ms. **Hafiza Khatun** having Student **ID: E-140503068** an MBA (Evening), (Major in Finance) of Hajee Mohammad Danesh Science & Technology University, Dinajpur completed her 45 (Forty Five) days duration internship successfully. During the period of internship her attendance, performance in connection with her assigned duties & behavior with us are satisfactory. She adopted Non-Banking Financial Institute works of Credit Division within the aforesaid period. During her internee period we found her good moral attitude and sound behavior.

We wish every success in her future life.

17.10.2016

Abantika Baral
Manager
HR & Admin

Sushil Kumar Saha
Vice President
Credit & Marketing

Corporate Office : Paramount Heights, Floor 12 & 13, 65/2/1 Box Culvert Road, Purana Paltan, Dhaka-1000
Tel : +88 02 47113826, Fax : + 88 02 47118272 , E-mail : email@plfsbd.com, Website :www.plfsbd.com

Acknowledgement

For the very first of all I would like to express my gratefulness and harmony to the Almighty Allah, the supreme authority of the Universe, without Whom we would be nothing. Next I would like to express my kindness to my Beloved Parents whose continuous inspiration enrages me to make a right move in my life.

I am grateful towards some respected persons for their advice, suggestions, direction and cooperation which have enabled me to have an experienced in the dynamic environment.

First of all I would like to thank my honorable supervisor Rony Kumar Datta, Assistant Professor, Department of Finance and Banking, without whose help, suggestion and cooperation the total report will be valueless.

I am also grateful to my honorable co-supervisor Md. Jahangir Alam Siddikee, Assistant Professor and Chairman, Department of Finance and Banking for his important suggestions and co-operation for prepare this report. I would like to thank from the deep of my heart to those people who are related with making of this report and make it a success. Specially I would like to thank Mr. Sushil Kumar Saha, Vice President (Credit and Marketing), PLFS, Dhaka.

At last but not the least, Hajee Mohammad Danesh Science and Technology University, Dinajpur for giving me an opportunity to complete my MBA (Evening) degree and give me a scope to gather practical experience and enrich my knowledge.

May Allah bless all of them.

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Hafiza Khatun

ID No. E140503068, 3rd Batch,

MBA (Evening) Major in Finance

HSTU, Dinajpur.

Executive Summary

Financial Institutions (FI) are in the business of taking risk and about 80 to 85 percent risk within a FI is "Credit Risk". The success of a FI depends on how well it manages risks. There is a need for mechanism, in all FIs, that allows them better risk management and to keep the management of the institution, at all levels, informed of the situation.

Credit risk management encompasses identification, measurement, matching mitigations, monitoring and control of the credit risk exposures to ensure that:

- The individuals who take or manage risks clearly understand it
- The organization's Risk exposure is within the limits established by Board of Directors with respect to sector, group and country's prevailing situation
- Risk taking Decisions are in line with the business strategy and objectives set by BOD
- The expected payoffs compensate the risks taken
- Risk taking decisions are explicit and clear
- Sufficient capital as a buffer is available to take risk

I have highlighted the credit risk management system by People's Leasing And Financial Services Ltd. Limited according to Credit Risk Management (CRM) and Credit Operational Guidelines of the company.

People's Leasing And Financial Services Ltd. (PLFS) Limited, an associate company of Duncan Group, commenced business in 1989 as a first generation lease financing company in Bangladesh. The company incorporated as a public limited company under the Companies Act August 12, 1996, PLFS was also granted license under the Financial Institutions Act, November 24, 1997. First Lease Agreement Signed April 30, 2002. Conversion of Face value of share from Tk. 100 to Tk. 10 July 27, 2010. Issuance of Preference Shares October 06, 2010. Considering the importance of the venture initially various organizations like Asian Development Bank (ADB), Commonwealth Development Corporation (CDC) joined Lawrie Group Plc. uk and Duncan Brothers (Bangladesh) Ltd. to participated as sponsor shareholders.

The vision was to support the development of private sector industries by extending equipment lease financing to the industrial and service sectors. PLFS actively participated in the private sector lead industrialization drive that the country marked became popular amongst the entrepreneur as an alternative source of finance. More and more investments in capital items began being made through leasing in view of its flexibility and advantage over traditional finance.

Since inception PLFS has maintained prudent investment policies and has successfully positioned itself among the frontrunners in an increasingly competitive financial service sector. Building a diversified pool of assets spread across almost all sectors of the economy and serving a wide spectrum of customers in the process. The Company’s customers include most of the top corporate groups in the country including some of the multinationals. However, the Company’s major and most profitable business segments are leases to the small and medium enterprises.

The Company enjoys a sound reputation for excellent customer service. As an associate of a long established foreign company, it is recognized as a reliable financial partner among the business community. Its access to multilateral institutions like ADB and The World Bank permits it to arrange funds at competitive rates and get their assistance in areas such as staff training and information technology. The Company has gained reputation as a dependable financial institution capable of delivering prompt and quality service.

Continuing its journey, PLFS will invest its resources to expand their customer base and better serve their existing customers by diversifying their asset and liability portfolios. PLFS has the financial strength, management capability and committed human resources to ensure sustainable growth.

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Introduction

1.0 ORIGIN AND BACKGROUND OF THE REPORT

The report "Credit Risk Management system of People's Leasing And Financial Services Ltd. (PLFS) is the outcome of Internship Program which is a precondition for acquiring MBA (Evening) Degree. Only curriculum activities are not enough for handling the real business environment, so it is necessary to get the better knowledge about the real scenario of an organization. The report is a requirement of the internship program for my MBA (Evening) Degree. Conduction of Internship/ Dissertation started on 09th September, 2016 and ended on 24th October, 2016. My internship supervisor at Hajee Mohammad Danesh Science & Technology University. Dinajpur, Dinajpur, Mr. Rony Kumar Datta assigned me the topic of my report. The reason behind choosing this topic is in competitive market risk management strategy plays vital role for existence. Working on this topic gives me an opportunity to understand the competitive advantage of this company.

The financing modes of Financial Institutions are long term in nature. Credit Risk Management has been identified as a significant evaluation system of the prospective clients to determine the a) financial viability b) managerial competencies c) Business outlook required for proposed projects successful operation. Unfortunately the issue seems to be as unresolved at the inception of the development of this industry. As a result some Banks as well as NBFIs appears in apprehensive situation because of appearing their portfolios into Bad.

Now a day's the number of private bank and Non-bank Financial Institutions (NBFIs) is increasing day by day. As the number is increasing, the competitive environment is making the firms to be more aggressive, innovative and diversified. As a Non Banking Financial Institution, People's Leasing And Financial Services Ltd. Limited is one of leading firms in Bangladesh. People's Leasing and Financial Services Ltd. (PLFS) was Company Incorporate August 12, 1996 and Licenses as Non-Banking Financial Institution November 24, 1997 by reputed foreign and local institutions in collaboration with International Development Agencies. The objective was to create an Institution that will cater to the investment needs of our economy. As the competition is rising in the market, so People's Leasing And Financial Services Ltd. (PLFS) is also is going through some changes of processes. This internship report is about Credit Risk Management system in People's Leasing And Financial Services Ltd. (PLFS) Ltd.

1.1 OBJECTIVES OF THE REPORT

The objective of my study divided into two segments:

1.1.1 PRIMARY OBJECTIVE

The primary objective of this report is to meet the requirements of the MBA (Evening) Program.

1.1.2 SECONDARY OBJECTIVES

The secondary objectives are:

- To demonstrate an overall and clear idea about Credit Risk Grading System.
- To know about overall scenario of People's Leasing And Financial Services Ltd.
- To illustrate the organization profile, structure and performance.
- To illustrate and analyze the strategies taken by PLFS to mitigate their risk of Financing.

1.2 METHODOLOGY

There are planned to perform the task in four stages:

The first stage is the most important stage. I have allocated enormous time for this stage. Emphasizing on thorough and detailed planning. Planning includes detailed methodology and scheduling of the remaining three stages. There are emphasizing on documenting detailed planning which would serve as a guideline and performance measure for the whole report.

The second stage is the data collection stage. Though working in internal control and compliance department so that all related data that required completing this report were available to my vicinity. Having all the information regarding this report conduct conversation with some of related officers of our organization to more elucidate the matters.

The third stage is the analysis and interpretation of data. In this stage would use some statistical and graphical analysis tools to interpret the relationship among different variables and factors.

The fourth stage is the stage for drawing conclusions and prescribing recommendations. In this stage the results from the previous stage would be used to draw conclusions about different aspects of concerned matters within the organization and prescribe some recommendation for future improvement.

The project is base on both primary and secondary information.

Primary Source:

- ✓ Discussion with employees of PLFS.
- ✓ Observation while working in different desks.

Secondary Sources:

- ✓ Official Web Site of PLFS
- ✓ Annual Reports of PLFS
- ✓ Various Manuals and Brochures of PLFS
- ✓ Different publications of Bangladesh Bank.

1.3 SCOPE

This report solely deals with the PLFS and the primary emphasis has given to Credit Risk Grading System of People's Leasing And Financial Services Ltd. (PLFS) Limited. The project is based on both primary and secondary information.

The company, People's Leasing And Financial Services Ltd. (PLFS) Limited, has a huge portion of the employee related to the Credit Risk Management Process. The Credit department is divided into four segments and five different locations. They are-

1. Corporate and Syndication Financing
2. Enterprise Financing
3. Small Enterprise Financing

- ✓ Dhaka Branch
    - a. Corporate Office, Motijheel
    - b. Gulshan Branch
    - c. Uttara Branch
- ✓ Chittagong Branch

4. Channel Financing

As the credit risk management controlled centrally so this report will be considered as general report for all departments as well as all branches.

1.4 LIMITATIONS

1. Confidentiality of data was important barrier that was confronted during the conduct of this study. Every organization has their own secrecy that is not revealed to others.

2. PLFS has a strong Risk Management Framework which monitored continuously by Internal Control and Compliance department. In some cases IT security creates barrier to collect and originate date from software.

In Bangladesh, non-bank financial institutions (NBFIs) taking a good part of the financial system. One of the prime reasons for this development is the rapidly rising demand for long term financing and equity type services for which banking institutions have proven limitations. In recent years, NBFIs has shown impressive growth reflecting the process of financial innovation and holds the promise of deepening financial intermediation in long term financing.

Initially, NBFIs were incorporated in Bangladesh under the Companies Act, 1913 and were regulated by the provision relating to Non-Banking Institutions as contained in Chapter V of the Bangladesh Bank Order, 1972. But this regulatory framework was not adequate and NBFIs had the scope of carrying out their business in the line of banking. Later, Bangladesh Bank promulgated an order titled ‘Non Banking Financial Institutions Order, 1989’ to promote better regulation and also to remove the ambiguity relating to the permissible areas of operation of NBFIs. But the order did not cover the whole range of NBFI activities. It also did not mention anything about the statutory liquidity requirement to be maintained with the central bank. To remove the regulatory deficiency and also to define a wide range of activities to be covered by NBFIs, a new act titled 'Financial Institution Act, 1993' was enacted in 1993.

Although Financial Institutions are allowed to take public deposits, the public in general are less confident in Financial Institutions and feel free to put their money in banks in stead of Financial Institutions even at a lower interest rate. Credit lines from banks, consequently, remain one of the principal sources of funding for leasing companies, which makes their cost of funds higher than that of banks. In the competitive market scenario leasing companies, therefore, operate on a very thin margin.

The listing of NBFIs shown below:

Sl.	Name of Non-Bank Financial Institution	Year of inauguration
1	Industrial Promotion and Development Company of Bangladesh Ltd (IPDC)	1981
2	Saudi-Bangladesh Industrial and Agricultural Investment Company Ltd (SABINCO)	1984
3	Industrial Development leasing Company of Bangladesh Ltd (IDLC)	1985
4	The UAE Bangladesh Investment Company Ltd	1989
5	People's Leasing And Financial Services Ltd. Ltd (PLFS)	1989
6	Phoenix Leasing Company Ltd	1995
7	Uttara Finance and Investment Ltd	1995
8	International Leasing and Financial Services Ltd (ILFSL)	1996
9	GSP Finance Company (Bangladesh) Ltd.	1996
10	Prime Finance and Investment Ltd.	1996
11	Oman Bangladesh Leasing and Investment Company Ltd	1996
12	Bay Leasing and Investment Ltd	1996
13	Peoples Leasing and Financial Services Ltd.	1996
14	First Lease International Ltd	1996
15	Delta BRAC Housing Finance Corporation Ltd (DBH)	1996
16	LankaBangla Finance Ltd.	1997
17	Infrastructure Development Company Ltd (IDCOL)	1997
18	Bangladesh Industrial Finance Company Ltd (BIFC)	1998
19	Union Capital Ltd (UCL)	1998
20	National Housing Finance and Investments Ltd	1998
21	Midas Financing Ltd (MFL)	2000
22	Bangladesh Finance and Industrial Company Ltd (BFIC)	2000
23	Industrial and Infrastructure Development Finance Company Ltd (IIDFCL)	2001
24	Islamic Finance and Investment Ltd (IFIL)	2001
25	Fidelity Assets and Securities Company Ltd	2001
26	Fareast Finance and Investment Ltd	2001
27	Premier Leasing International Ltd	2002
28	Self Employment Finance Ltd	2002
29	Ahsania-Malaysia Hajj Investment and Finance Company	2006

Table-1: The listing of NBFIs

(Source: Bangladesh Bank Website)

Non-Bank Financial Institutions play a key role in fulfilling the gap of financial services that are not generally provided by the banking sector. The competition among NBFIs is increasing over the years, which is forcing them to diversify to a wider range of products and services and to provide innovative investment solutions. NBFIs appear to offer flexible options and highly competitive products to help customers meet their operational and financial goals. A summary of different products and services offered by existing NBFIs of Bangladesh given below:

1. **LEASE FINANCING**
   - Finance Lease
   - Operating Lease
   - Sale and Leaseback
2. **HIRE PURCHASE**
3. **HOME LOAN AND REAL ESTATE FINANCING**
4. **SHORT TERM LOANS**
   - Factoring of Accounts Receivables
   - Work Order Financing
5. **CORPORATE FINANCE**
   - Bridge Finance
   - Syndication of Large Loans
   - Advisory Services
   - Merger and Acquisition
   - Securitization
6. **MERCHANT BANKING**
   - Issue Management
   - Underwriting
   - Portfolio Management
   - Corporate Advising
7. **SECURITIES SERVICES**
   - Brokerage Services
   - CDBL Services as full service Depository Participant

CHAPTER - 2

Organization Profile

2.0 BACKGROUND OF PEOPLE'S LEASING AND FINANCIAL SERVICES LTD.

2.1 THE GENESIS

Duncan Brothers (Bangladesh) Limited- The history of Duncan Brothers dates back to 1858 when Mr Walter Duncan established Playfair Duncan & Co in Calcutta (now Kolkata), the capital of the undivided British-ruled Indian subcontinent. Later he was joined by his brother Mr William Duncan and the two brothers set up a company named Duncan Brothers and Company on 1 January 1875 to deal in cotton. Though the Company's involvement in tea came in 1865, its actual stride in tea business began onwards from 1880. By 1923 the Company had a firm grip on tea cultivation by taking in its possession 60 tea estates in Dooars, Assam and Sylhet encompassing nearly 20,000 hectares of cultivable land and producing a crop of about 14.50 million kilograms a year. The partition of the Indian subcontinent in 1947 led to the setting up of Duncan Brothers (Pakistan) Limited on 20 January 1948 with its office in Chittagong. The newly established company in the then Pakistan assumed its Calcutta-based parent company's interests involving its tea estates in the Sylhet region. An assured market in the then West Pakistan helped a steady growth of the tea industry in the eastern part of the country and the Company soon became one of the country's leading producers. After the emergence of independent Bangladesh, the name of the company was changed to Duncan Brothers (Bangladesh) Limited. The Bangladesh War of Liberation in 1971 left a trail of devastation in the tea industry. The market in West Pakistan was lost and the Company incurred heavy losses from 1971 to 1974. At this juncture, Lawrie Group Plc became involved and assumed a controlling interest in Longbourne Holdings, the holding company for the 5 Duncan-managed UK-registered tea companies operating in Bangladesh.

Tea is still the mainstay of Duncan Brothers. The Group now owns fifteen tea gardens located mainly in the greater Sylhet region and enjoys the distinction of being the largest producer of black tea in the country, producing over 13 million kilograms per annum, which is about one quarter of the country's production. Every season, the Group exports on its own about a million kilograms of tea with Pakistan being the major destination. Besides tea, the Group has also extended its interests in insurance, leasing, rubber, bottled water and warehousing, employing about 24,000 people and generating a gross annual turnover of about Tk 2.5 billion. With a splendid objective of doing business with a human face, the Group spends approximately Tk 85 million yearly towards corporate social responsibility, which includes flagship projects like a well-equipped 50-bed hospital for tea workers and their families and a residential school for workers' children, both located in the tea belt. All the gardens of the Group in Bangladesh, including the corporate office in Dhaka, are ISO-9002 certified for their quality management system.

Lawrie Group Plc- The Lawrie Group Plc, which is incorporated in the UK, has interests in a wide range of activities in many countries of the world. Its major investments are in the UK, India, Bangladesh, East and Central Africa, the USA, Switzerland and Brazil. In India, Bangladesh, Kenya and Malawi the Group's interests are principally in tea with a total cultivated area of 35,000 hectares. This makes the Group one of the largest producers of tea in the world, with an annual crop of 75 million kilograms. In the UK, the Group owns the private bank Duncan Lawrie Ltd., which offers banking, investment and other financial services to an international clientele. The Group's portfolio in the UK also includes investments in property, cold storage and distribution. The Lawrie Group is now entirely (100%) acquired by Camellia Plc.

Camellia Plc- Camellia Plc is a conglomerate with diversified interests that include tea, coffee, wine, food, beverages, horticultural products, rubber, insurance, investment, banking and financial services. But tea, the original trade of the company, occupies a large share of the business and is located in India and Bangladesh with very large interests in Kenya and Malawi. The Group is the largest non-governmental producer of tea in the world with a crop of 75 million kilograms. Camellia, the apex body of the Group, was originally set up as a comparatively small business, owned by individual British families who went out to the Middle east in the 19th Century. Its original name was The Sephinjuri Bheel Tea Company Ltd and was set up in India in 1889. Other companies formed in India and neighbouring countries around the same second half of the century were Alex Lawrie, Duncans and Eastern Produce, which years later merged. The 1967 merger of Alex Lawrie with Walter Duncan and Goodricke marked a major development, which paved the way for further mergers later on. In 1990 Eastern Produce Holdings, whose origins were rooted in 19th century Ceylon, joined the

Camellia group, changing their name to Linton Park Plc. Camellia Plc is, in fact, the result of a series of mergers over the years. Camellia is the apex company controlling around 80% of Linton Park Plc, 100% of Lawrie Group, 74% of Goodricke (through either Lawrie or Linton) and 100% of Bangladesh.

2.2 PEOPLE'S LEASING AND FINANCIAL SERVICES LTD.

People's Leasing And Financial Services Ltd. Limited (PLFS), an associate company of Duncan Group, commenced business in 1989 as a first generation lease financing company in Bangladesh. The company incorporated as a public limited company under the Companies Act 1913, PLFS was also granted license under the Financial Institutions Act, 1993. The shares of the company are quoted on the Dhaka Stock Exchange since 1994.

Considering the importance of the venture, organizations like Asian Development Bank (ADB), Commonwealth Development Corporation (CDC) joined Lawrie Group Plc and Duncan Brothers (Bangladesh) Ltd. to participate as sponsor shareholders. The vision was to assist the development of private sector industries by extending equipment lease financing to the industrial and service sectors. PLFS actively participated in the private sector led industrialization drive that the country eMBA (Evening)rked on in the early 1990s as leasing became popular amongst the entrepreneur as an alternative source of finance. More and more investments in capital items began being made through leasing in view of its flexibility and advantage over traditional finance.

2.3 CORPORATE OBJECTIVE

The main objectives of the company are to assist the development of productive private sector industries particularly in their balancing and modernizing programs. The company mainly extends lease financing for machinery, equipment to the industries & vehicles for commercial purpose. In addition it also provides project finance for expansion of business.

The primary activity of the company is to provide leases to different commercial organizations. It provides lease for all sorts of manufacturing equipment and for vehicles.

2.4 CAPITAL, SPONSORS AND SHARE STRUCTURE

PLFS, a Public Limited Company, was the initiative of some renowned local and foreign institutions where foreign shareholders (Asian Development Bank, Commonwealth Development Corporation and Lawrie Group Plc) contributed 67.20% of the total subscription and remaining were sponsored by local shareholders (Duncan Brothers (BD) Ltd., United Insurance Company Ltd., Octavious Steel & Company of Bangladesh Ltd., Shaw Wallace Bangladesh Ltd. and National Brokers Ltd.). However, after IPO floatation, ADB offloaded their shares to Investment Corporation of Bangladesh (ICB) and the shares of Commonwealth Development Corporation and Shaw Wallace Bangladesh Ltd. were taken over by different concerns of Duncan Group. The company had outstanding shares of TK. 231 million as on December 31, 2008 of which 33.26% shares were held by the sponsor groups while remaining were held by institutional investors (both local and foreign) and general public. Shareholding structure of the company given below:

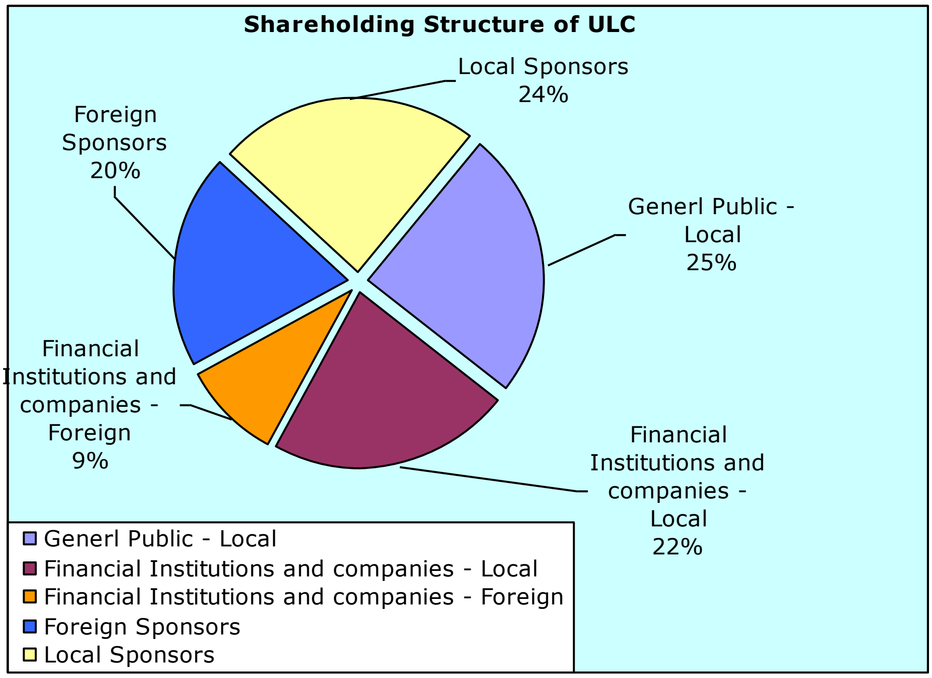

Fig. 1: Present Shareholding Structure

(Source: Share Department of People's Leasing And Financial Services Ltd. Ltd.)

2.5 BOARD OF DIRECTORS

The Company is managed by its Board of Directors consisting of 13 (Thirteen) members comprising nominees of the institutional shareholders and one additional Director as independent Director, elected by the Board of Directors. The shareholders elect Board of Directors and the Board appoints the Chairman from among the Directors.

Board of Directors

Chairman	**Mr. Uzzal Kumar Nandi**
Vice Chairman	**Mr. Nizamul Ahsan**
Director	**Ms. Sayma Islam**
Independent Director	Mr. A. H. Iqbal Hossain
Independent Director	**Mr. Abdul Qader Siddiqui**
Director	**Mr. Kazi Momrez Mahmud**
Independent Director	**Mr. Shekhar Kumar Halder, FCA**
Director	**Mr. Noung Chow Mong**
Director	**Dr. Afroza Suraya Majumder**
Independent Director	**Mr. Md. Iqbal Sayeed**
Independent Director	**Mr. Sukumar Mridha**
Managing Director & CEO	**Dr. M A Yousuf Khan**
Deputy Managing Director	**Mr. Sami Huda**

Table - 2: Structure of Board of Directors

(Source: Official website of People's Leasing And Financial Services Ltd. Limited)

2.6 EXECUTIVE COMMITTEE (EC)

The Board of Directors comprising the Managing Director and three other directors nominated by the Board appoints the Executive Committee. The Executive Committee (EC); appointed by the Board, is authorized to review and oversee the operational functions and approval of business proposals.

2.7 AUDIT COMMITTEE

The Audit Committee, constituted by the Board, is entrusted with the responsibility of oversight of the activities of the internal Auditor as well as the External Auditors.

2.8 MANAGEMENT COMMITTEE (MANCOM)

Reviews the business progress once a month and decides on the course of action. The MANCOM is chaired by the Managing Director and consists of Senior Management and Departmental Heads of Marketing and Collection departments.

2.9 ASSET LIABILITY MANAGEMENT COMMITTEE

ALCO's responsibility is to prudently manage interest rate and liquidity risk so that profitability is optimized and maturity mismatch between assets and liabilities are minimized. ALCO meets at least once a month to determine the course of action the treasury department is to follow to manage the interest and liquidity risk. Asset Liability Management Committee comprises of the Managing Director, Deputy Managing Director, General Manager (Finance & Accounts), Head of Treasury, Heads of Marketing Units, Head of Accounts and Head of Credit.

2.10 CREDIT COMMITTEE (CC)

All financing proposals are first placed before CC for clearance and then sent to Executive Committee (EC) for approval. The meetings are chaired by the Deputy Managing Director; other members are the Heads of Business Departments, Head of Credit and Credit Risk Administration.

2.11 ORGANIZATIONAL STRUCTURE

The value of human resource in a service entity like PLFS cannot be overemphasized. The management of the Company very well realizes this and accordingly attaches great importance to human resource management. The Company's philosophy is to recruit and retain quality human resource in order to attain the Company's goals. The Company has a very proactive Human Resource Management team that is constantly working to retain and develop the quality and capability of our human resources. Training programs are undertaken for employees locally and abroad to enhance the skill of the employees. Pay for Performance is pursued to motivate the employees and reward them for their performances. At present PLFS's staff strength is 176 including deposit associates (according to employee database of PLFS). Organizational structure of People's Leasing And Financial Services Ltd. Limited has been illustrated in Fig.4.

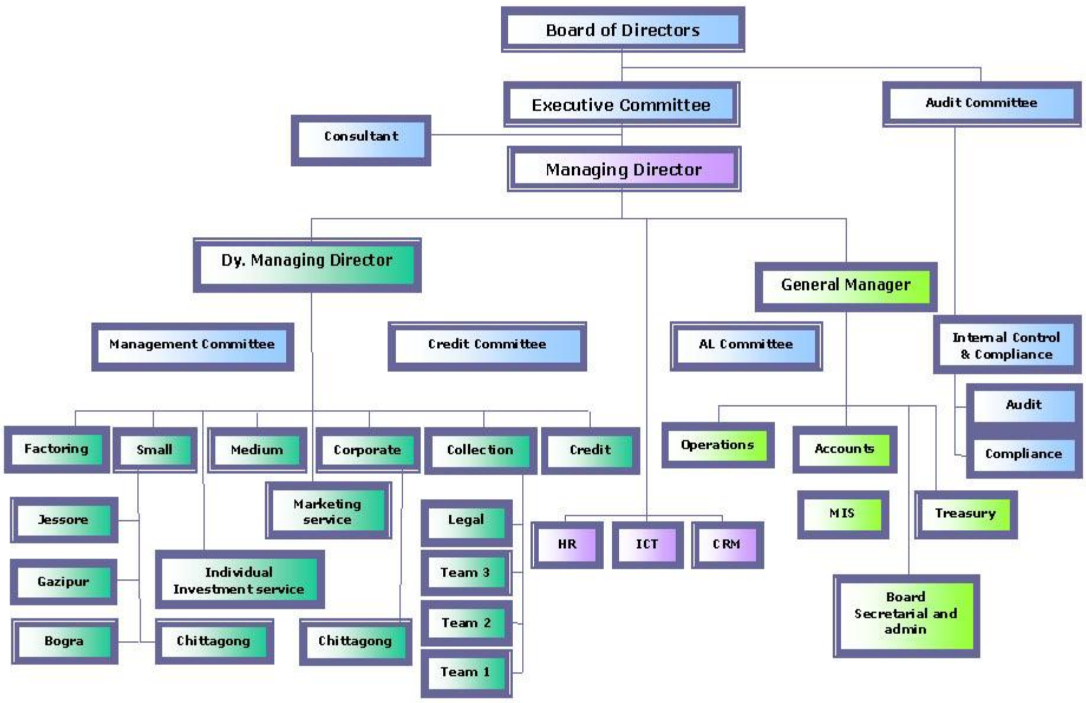

Fig. 2: Organizational Structure of PLFS

(Source: HR Department of People's Leasing And Financial Services Ltd. Ltd.)

2.12 MANAGEMENT STRUCTURE

PLFS is being operated under an excellent combination of an experienced and enthusiastic management team. The senior management team is supported a team of young, skilled, qualified and enthusiastic unit heads having specific job description. The management team thus constitutes a unique combination of experience, skill and robustness which is essential for the growth to propel the company to take challenges of the new millennium. Name and designation of management personnel are given below:

Chairman	**Dr. M A Yousuf Khan, Managing Director & CEO**
Member	**Mr. Sami Huda, Deputy Managing Director**
Member	**Mr. Manik Lal Samaddar FCA, Chief Financial Officer**
Member	**Mr. MA Rahman FCS, Company Secretary**
Member	**Mr. Sohel Shams, SVP**
Member	**Mr. Sushil Kumar Saha, VP**
Member	**Mr. Mukut Subal Cruze, SAVP**
Member	**Mr. Harun ur Rashid, SAVP**
Member	**Mr. Mofazzal H. Khan, AVP**
Member	**Mr. Md. Qumrul Hassan, AVP**
Member	**Mr. Tapan Dey, FAVP**
Member	**Mr, Ismail Hossain Mazumder, Manager**
Member	**Ms. Abantika Baral, Manager**
Member	**Mr. Jamal Uddin, Assistant Manager**

Table- 3: Management Structure of PLFS

(Source: Official website of People's Leasing And Financial Services Ltd. Limited)

2.13 PRODUCTS AND SERVICES

During the past nineteen years of its operation, PLFS has played a catalytic role in providing alternative source of term and capital asset financing to the private sector. PLFS's primary focus has been in the area of 3-5 years term financial leasing with particular emphasis on Balancing, Modernization, Replacement and Expansion (BMRE) of existing units. Though PLFS started as a leasing Company in the year 1989, in order to preserve its competitive edge and leadership in the market, it subsequently diversified its business activities to serve the diverse need of its expanding client base.

- **LEASE FINANCE**
- **PROJECT FINANCE/ SYNDICATE FINANCE**
  - Project Finance
  - Syndicate Finance
- **TERM LOAN/ REVOLVING LOAN**
- **TERM LOAN**
  - Quick Loan
  - Medium Term Loan
  - Long Term
- **REVOLVING LOAN**
- **SMALL ENTERPRISE FINANCING**
- **FACTORING AND PRE-DELIVERY FINANCING**
- **FIXED RETURN INVESTMENT**
- **PROFIT RATE ON INVESTMENT**

Investment Type	Tenure	Profit Rate
Annual Profit :		
Individual	1 Year	9.75%
Institutions	6 monts	9.00%
Cumulative Term	2 to 5 years	9.00%
Individual		9.75%
Institutions		
Earn Ahead	1 Year	9.00%
Monthly Earner	1 Year and above	
Individual		9.75%
Institutions		8.75%
Quarterly Earner Schemes	1 Year and above	
Individual		9.85%
Institutions		8.75%
Double Money program	7Years 6 Months	
Triple Money program	9 Years & 6 Months	

Calculation:

Investment Type	Tenure	Profit Rate	Before Tax	After Tax	Payment due on
Annual Profit	1 Year	9.75%	9,750	8,775	End of Annual
Earn Ahead	1 Year	9.00%	9,000	8,100	Beginning of the
Monthly Earner	1 Year and above	9.75%	812.50	7311.25	End of each month
Quarterly Earner	1 Year and above	9.85%	2,462.50	2,216.25	End of each quarter

Terms and condition:

- Minimum Investment Amount for quarterly and monthly earner deposit schemes is Tk. 50,000/-. In all other scheme minimum deposit is Tk.20, 000/-.
- The profit is subject to deduction of 10% as AIT*.
- Senior Citizens (individual aged 57+ years) will get 0.25% higher profit rate under any of the above schemes except Fixed Term Investment Scheme (Double Money, Triple Money and Millionaire Scheme).
- Term Deposit(s) cannot be encashed before 1 (one) year.

2.14 LEASE PORTFOLIO & SECTOR WISE EXPOSURE

The credit portfolio of PLFS as on December 31, 2008 is 7,177 million. PLFS is mainly concentrated towards manufacturing sector which considered to be low risky due to its low gross NPL ratio (2.31%). Transport and communication sector is found relatively high risky as the gross NPL in the sector stood at 10.48% as on December 31, 2007.

PLFS achieved annual average growth of 6.45% during the last five years (2004-2008). The total investment portfolio at the end of 2008 stood at Tk.7.43 billion, which reflects 3.61 percent growth over 2007.

Sector wise concentration of PLFS's portfolio as on October 31, 2008 showing below:

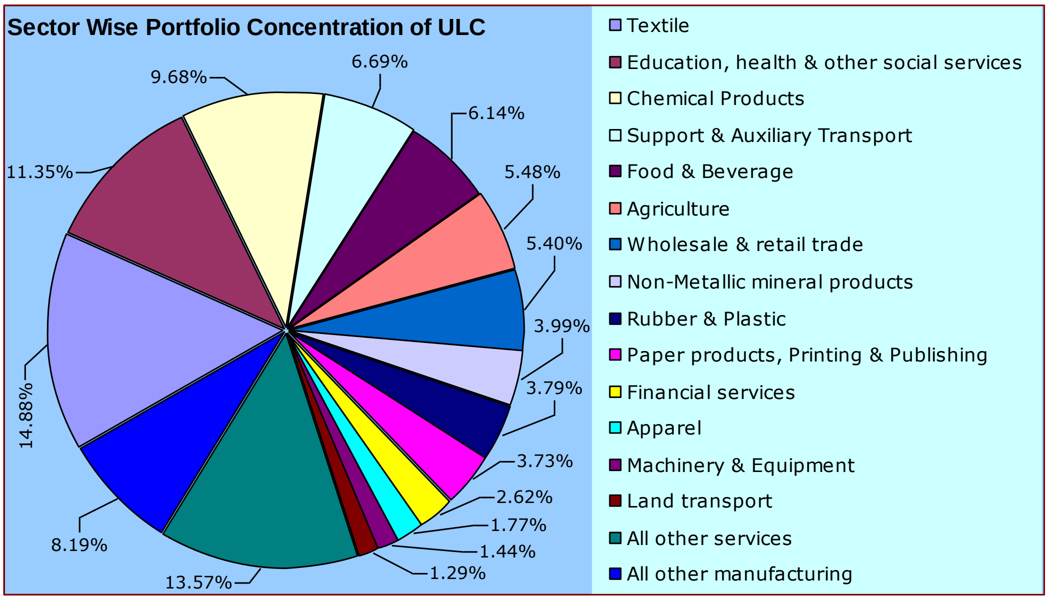

Fig. 3: Sector wise Exposure (31st October, 2008) of PLFS.

(Source: MIS Department, PLFS) (Appendix-1)

2.15 REGIONAL CONCENTRATION

The company has opened four territory offices, at Chittagong, Jessore, Bogra & Gazipur, to cover the entire nation. For the last two years, the company invested to establish a well defined territory network and to explore different market segment throughout the country. The company is planning to expand and strengthen its territory network through focusing on volume and value of loan portfolio from small enterprises.

CHAPTER - 3

Financial Performance Scenario of PLFS

3.0 FINANCIAL PERFORMANCE

The company closed the year 2008 with operating revenue of taka 1,052.52 million and profit before tax of Tk. 203.36 million compared to tk. 928.70 million and tk. 199.50 million in 2007 registering a growth of 13.33% and 1.93% respectively. Revenue from long term activities increased by 10.96% whereas revenue from short term activities increased by 64.32%. Operating cost however, increased by 26.55% which was mainly due to 25.36% increased in the major cost head i.e. financial expenses, over the last year. Sufficient provision for bad debts has also been made this year to cover the company from recovery risk. Earning per share increased by 6.45% to Tk. 66 from Tk. 62 in 2007. Total investment portfolio stood at Tk. 7.43 billion at the end of the year compared to Tk. 7.17 billion in 2007 registering of 3.61%.

3.1 KEY OPERATING AND FINANCIAL DATA

Performance from year 2010 to 2014 of People's Leasing and Financial Services Ltd. illustrated below:

(Taka in million)

Particulars	Year				
	2014	2013	2012	2011	2010
Operating Income	733	642	839	1026	1386
Operating Expenses	189	163	145	142	133
Profit before Tax	217	324	502	742	1200
Net Profit after Tax	197	223	324	525	1031
Investment in Leases	3028	3214	3171	4438	4302
Investment in Term Finances	14899	13461	11518	9365	8011
Shareholders' Equity	4546	4349	4126	3897	3372
Paid-up Capital	2595	2359	2097	1906	1089
Earnings Per Share	0.76	0.95	1.54	2.76	9.47
Dividend	10%	10%	12.50%	15%	75%
Return on Equity	4.78%	7.45%	12.17%	19.05%	30.59%

Table- 4: Key Operating and Financial Data

(Source: Annual Report 2008 of People's Leasing And Financial Services Ltd. Limited)

3.2 GRAPHICAL PRESENTATION

Graphical presentation of key operating and financial performance from year 2010 to 2014 has been illustrated below:

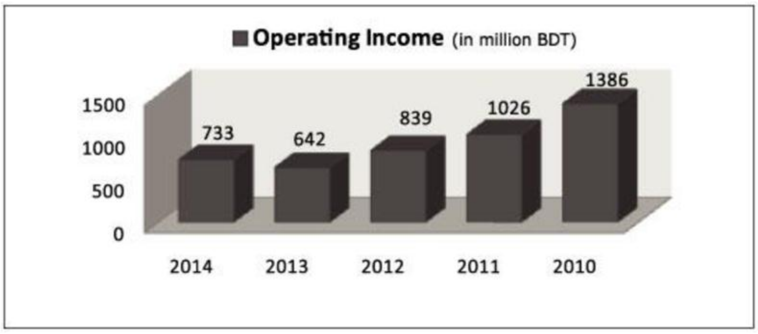

Fig. 4: Operating Income.

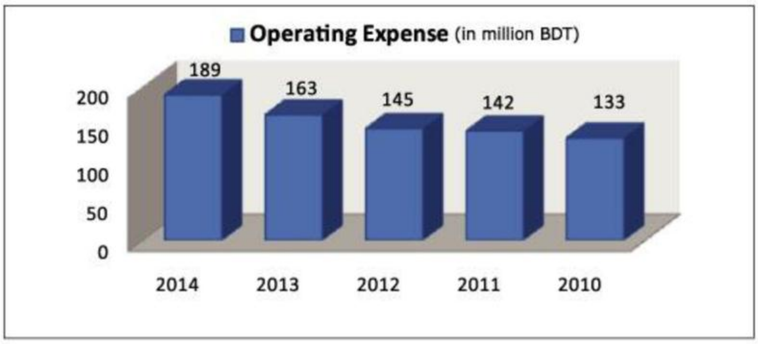

Fig. 5: Operating Expenses.

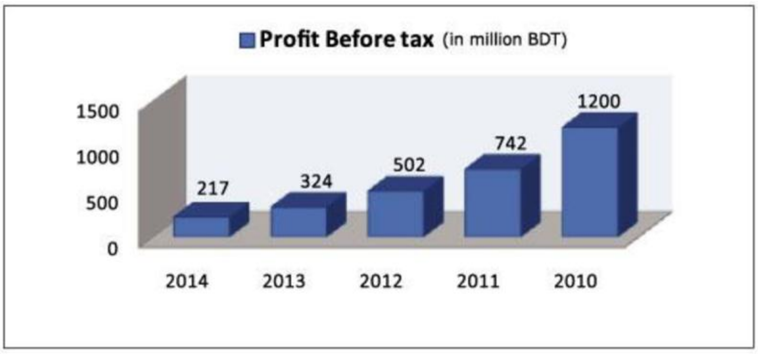

Fig. 6: Profit before Tax.

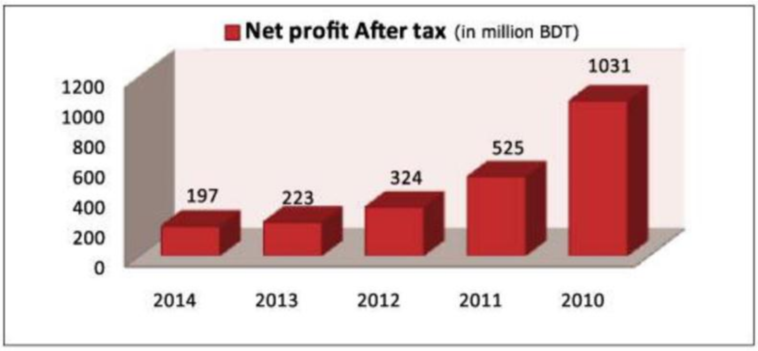

Fig. 7: Net Profit after Tax.

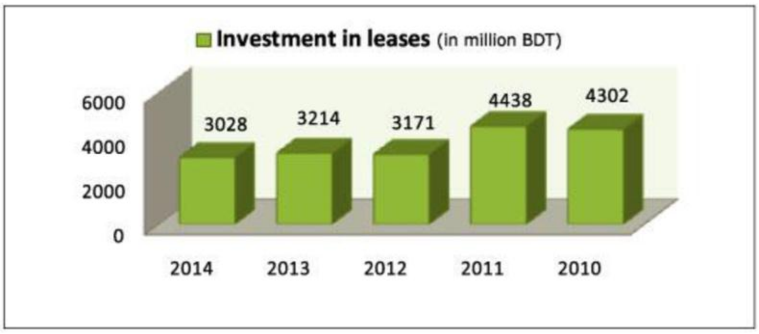

Fig. 8: Investment in Leases.

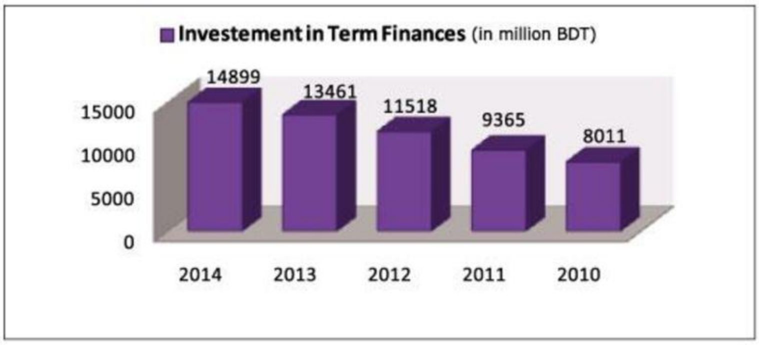

Fig. 9: Investment in Term Finances.

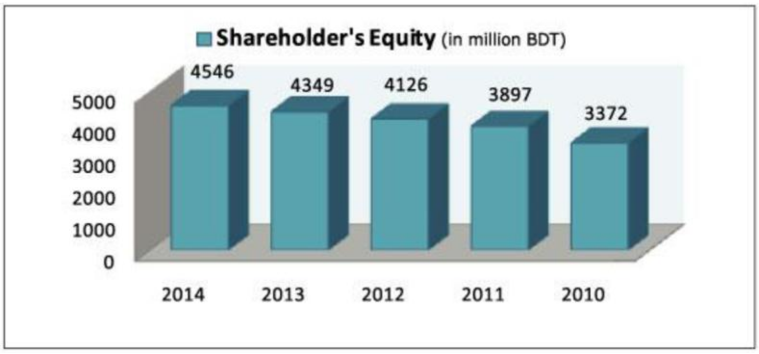

Fig. 10: Shareholder's Equity.

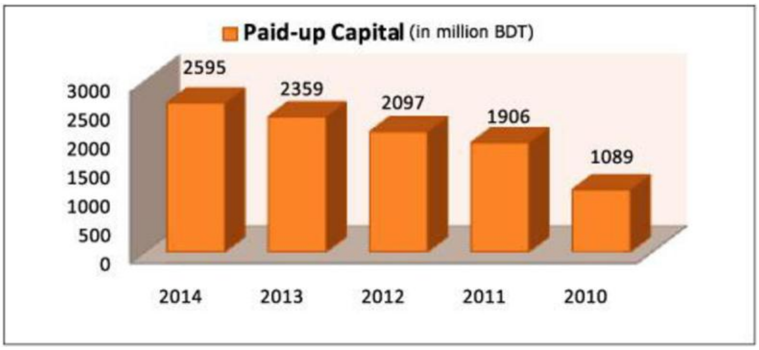

Fig.11: Paid-up Capital.

Fig.12: Earning per Share.

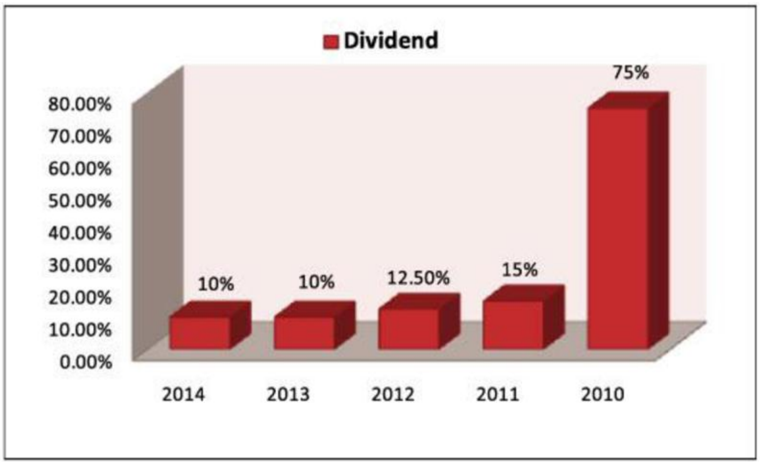

Fig.13: Dividend.

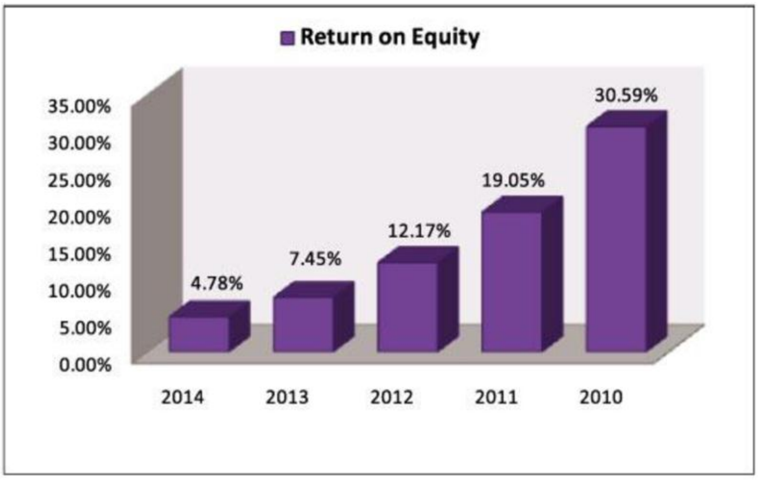

Fig.14: Return on Equity.

3.3 SWOT ANALYSIS OF PLFS

Strengths:	**Weaknesses:**
❑ Good financial performance ❑ Diversified ownership pattern with foreign affiliation ❑ Good corporate governance ❑ Sound human resource base ❑ Sound IT infrastructure and its use in MIS ❑ Sound credit and operational risk management tools ❑ Sound equity base	❑ Moderate asset quality ❑ Concentrated credit portfolio ❑ Rescheduled-asset performance not satisfactory. ❑ Average liquidity position
Opportunities:	**Threats:**
❑ Scope to explore fee based products ❑ Scope of exploring cheaper sources of fund ❑ Scope of product/service diversification	❑ Increased competition in the market for quality products ❑ Commercial banks portfolio expansion to lease financing ❑ Increasing competition compelling reduction in rental rate

CHAPTER - 4

Credit Risk Management System in PLFS

4.0 Preface of Credit Risk Management:

Risk is inherent in all aspects of a commercial operation, however for financial institutions; credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the Financial Institution's dealings with or lending to corporates, individuals, and other banks or financial institutions. Credit risk management needs to be a robust process that enables FI's to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. Credit risk management is of utmost importance to Financial Institution's and as such, policies and procedures should be endorsed and strictly enforced by the MD/CEO and the board of the financial institution.

The section has been organized into the following sections:

1. Lending Guidelines
2. Credit Assessment & Risk Grading
3. Approval Authority

4.1 LENDING GUIDELINES:

The following are the general principle that considered for lending funds to customers on a basis consistent with the global operational objectives and business strategies of the company.

a) The company will provide standard & suitable credit services and products for the markets in which it operates.

b) Credit facility will be allowed in a manner which will in no way compromise with Company's standards of excellence.

c) All credit exposures must comply with the requirements of company's policy statement, Financial Institution act as amended from time to time / Bangladesh Bank's instructions and other applicable rules and regulations.

d) An wise officer should always adhere to the following principles of lending funds to his customers e.g. i)Background, character and capability of the borrowers, ii) Purpose of the facility, iii) Term of facility, iv) Safety, v) Security, vi) Profitability, vii) Sources of repayment, viii) Diversity.

e) To place a high priority on the quality of credit exposure, new proposals must meet company's credit criteria for improving risk positions.

f) Maximization of profit is the basic aim of the company, as such every profit opportunity should be explored and professional skills be employed in this direction.

g) To avoid unnecessary wastage of time, energy and ambiguity a clear, concise and summary type communications shall be used.

h) To keep the expense burden of credit operations to the barest minimum and endeavor to improve the cost efficiency of credit operations.

i) To contribute one's best in all matters where his approval, concurrence or other action is involved.

j) To apply strong commonsense in all credit matters by raising questions- does this make sense? Is there a better way? How to improve on this?

k) To avoid all temptations this may jeopardize or compromise the company's risk assets.

It is not PLFS's intention to hold Relationship Manager accountable for losses, provided that decisions were made prudently against appropriate and confirmed facts within standards established in the credit policy and procedural guidelines described herewith and are adequately supported by follow-up supervision. Selection of the appropriate borrowers, proper follow-up and end-use supervision through constant follow-up and monitoring is the basis for timely recovery. Before selecting a customer/client and subsequent recommendation for financing, the Credit Officer/ Relationship Manager must observe the following basics of lending:

4.1.1 INDUSTRY AND BUSINESS SEGMENT FOCUS

PLFS concentrate its business mainly in Lease – Sale & Lease Back, Lease – Local, Lease – Foreign, Hire-purchase- Sale & Hire Back, Hire-purchase- Local, Hire-purchase- Foreign, Syndication, Term Loan, Home Loan, Factoring of Accounts Receivable, SME Financing and other specialized programs except otherwise restricted by the Government or indicated as unethical and banned items.

PLFS analyze industrial sub-sectors and diversify its business portfolio with economic and business trend, life cycle of the products, demand supply gap, social and national obligation etc. Company's policies for financing in different major sectors are summarized as follows:

SL	Business Sub-Sectors	Policies
1	Textile/Spinning/Sweater/Knitting/Denims & Garments	To expand
2	Telecommunication	To expand
3	Communication	To expand
4	Agro-based Industry	To expand
5	Hospital/Clinic/School/College/University	Selective basis
6	Electrical & Electronic appliance	To expand
7	Plastic & Packaging	Selective basis
8	Leather	Selective basis
9	Steel & Engineering	To expand
10	Paper/ Pulp/ Partex	To expand
11	Chemicals	Restricted way
12	Cement	To maintain
13	Construction/ Real estate/ Housing Finance	To expand
14	Healthcare/ Pharmaceuticals/ Medicine	Selective basis
15	Special Program: Small Enterprise Refinancing Program, Women Entrepreneur Financing, Bangladesh	To expand
16	Others	Based on merit

Table- 5: Industry and Business Segment Focus

4.1.2 TYPES OF CREDIT FACILITIES

Company's policy is to introduce diversified products along with core product leasing. At present company offers the following facilities:

1. **Lease Finance**
    a) Sale & Lease Back
    b) Foreign Purchase
    c) Local Purchase

2. **Hire-Purchase**
    a) Sale & Hire Back
    b) Foreign Purchase
    c) Local Purchase

3. **Term Loan**
4. **Factoring of Accounts Receivable.**

5. **Syndicate Finance for Large Corporate.**
6. **Home Loan**
7. **Quick Loan for depositors**
8. **Specialized Programs**:
    a) Small Enterprise Refinancing Program [SERP],
    b) Women Entrepreneur Financing [WEF],
    c) Bangladesh Bank Housing Refinancing etc.

4.1.3 SINGLE BORROWER/ GROUP LIMITS

Total outstanding financial commitments to any single enterprise will not normally exceed an amount equivalent to 20% of the Company's equity. Total outstanding financial commitments to any group of enterprises, will not normally exceed an amount equivalent to 25% of the Company's equity. Total commitment to any single enterprise will not normally exceed 50% of the assets of that enterprise or 70% of the value of the property in case of home loan. Any commitment in excess of such limits will require the approval of the Board.

4.1.4 LENDING CAPS:

Management of the company will establish a specific industry sector exposure cap to avoid over concentration in any one-industry sector. Sector-wise allocation of Credit shall be made annually with the approval of the Executive Committee of the Board of Directors. Diversification of Credit Portfolio will be encouraged so as to reduce the risk of dependence on a particular sector for balanced socio-economic development of the country.

4.1.5 DISCOURAGED BUSINESS TYPES:

The Company will abstain from financing manufacture and trading of Military Equipment/Weapons, Tobacco manufacturing and any environmentally hostile projects. The Company will also abstain from financing in the sub-sectors discouraged by any regulator.

4.1.6 LOAN FACILITY PARAMETERS:

The loan facility parameters for the company have been set as under:

TENURE	INTEREST RATE & OTHER CHARGES	PAYMENT	OTHERS
a) Company will approve / renew Revolving loan/Short term finance/ Factoring of accounts receivable facility for the period of 1(one) year from the date of approval/ last expiry date. b) Tenure for Lease should not be more than the economic life of asset. c) Maximum tenure for long term loan is 6(six) year including grace period of 6 (six) months to 18 (eighteen) months (depending on the nature of project). d) In case of Home loan the repayment period will be maximum of 15 (fifteen) years. e) Besides above, company will extend credit facilities under special program as per policy set / to be set by the company under the policy guideline of the specific scheme.	a) The rate of interest/ Commission/ Charges/ Fees etc would be as per the approved schedule of charges with variation permissible as per Bangladesh Bank guidelines and with the approval of competent authority. b) The rate of interest to be charged on quarterly/ monthly basis.	a) Repayment of term loan would be fixed preferably on monthly/ quarterly basis. b) Payment can be structured as per cash flow position of the client.	a) Any exception, as mentioned above, would be specifically approved by the competent authority of the company. b) Accepted securities are: Cash/Cash equivalent, lien of term deposit, ownership of the financed asset, Land and Building, hypothecation of plant and machinery, stock of goods, c) Valuation of the Collateral security shall be done by the company's enlisted professional surveyors. d) In case of asset finance and home loan, property must be insured where PLFS will be the beneficiary.

The security condition may be relaxed depending upon the credit worthiness of the customer/ PLFS-customer relationship/ potentiality of the business of the client. Any exception of the parameters mentioned above is subject to be approved by the competent authority as per delegated power approved by the Board of Directors.

4.2 CREDIT RISK ASSESSMENT & GRADING

4.2.1 CREDIT RISK ASSESSMENT

Financial Institutions (FI) are in the business of taking risk and about 80 to 85 percent risk within a FI is “Credit Risk”. The success of a FI depends on how well it manages risks. There is a need for mechanism, in all FIs, that allows them better risk management and to keep the management of the institution, at all levels, informed of the situation.

A thorough credit risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the relationship manager/account officer (“RM”), and is approved by Credit Risk Management (CRM). The RM should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the bank’s Lending Guidelines and should conduct due diligence on new borrowers, principals, and guarantors.

It is essential that RMs know their customers and conduct due diligence on new borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. All banks should have established Know Your Customer (KYC) and Money Laundering guidelines which should be adhered to at all times.

Credit Applications should summaries the results of the RMs risk assessment and include, as a minimum, the following details:

- Amount and type of loan(s) proposed.
- Purpose of loans.
- Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangements

In addition, the following risk areas should be addressed:

Borrower Analysis. The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed, and risks mitigated.

Industry Analysis. The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.

Supplier/Buyer Analysis. Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

Historical Financial Analysis. An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analysed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analysed.

Projected Financial Performance. Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.

Account Conduct. For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) should be assessed.

Adherence to Lending Guidelines. Credit Applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of Credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank's Lending Guidelines.

Mitigating Factors. Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.

Loan Structure. The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.

Security. A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.

Name Lending. Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

4.2.2 RISK GRADING

All Financial Institutions should adopt a credit risk grading system. The system should define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Financial Institutions asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications.

Activities of credit risk grading:

Pre-sanction stage:

Credit risk grading system helps the sanctioning authority to decide;

- ✓ Whether to lend or not to lend?
- ✓ What should be the lending price?
- ✓ What should be the extent of exposure?
- ✓ What should be the appropriate credit facility and what are the various facilities?
- ✓ What are the various risk mitigation tools to put a cap on the risk level?

Post-sanction stage:

- ✓ Credit risk grading system helps PLFS;
- ✓ To decide about the depth of the review or renewal, frequency of review, periodicity of the grading, and other precautions to be taken.
- ✓ To monitor credit quality by adequate trend and migration analysis at the portfolio level.
- ✓ To establish limits for risk grades to highlight concentration in particular grading bands.

Basic concept regarding the different classes risk rating or grading is as under:

Risk Rating	Grade	Definition
Superior – Low Risk	**1**	Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentation should be in place.
Good – Satisfactory Risk	**2**	The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow and have an unblemished track record. All security documentation should be in place. Aggregate Score of 95 or greater based on the Risk Grade Scorecard.

Acceptable – Fair Risk	**3**	Adequate financial condition though may not be able to sustain any major or continued setbacks. These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. A borrower should not be graded better than 3 if realistic audited financial statements are not received. These assets would normally be secured by acceptable collateral (1stcharge over stocks / debtors / equipment / property). Borrowers should have adequate liquidity, cash flow and earnings. An Aggregate Score of 75-94 based on the Risk Grade Scorecard.
Marginal - Watch list	**4**	Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Facilities should be downgraded to 4 if the borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.
Special Mention	**5**	Grade 5 assets have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30-60 days, or if a significant petition or claim is lodged against the borrower. Full repayment of facilities is still expected and interest can still be taken into profits. An Aggregate Score of 55-64 based on the Risk Grade Scorecard.

Substandard	**6**	Financial condition is weak and capacity or inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans. Loans should be downgraded to 6 if loan payments remain past due for 60-90 days, if the customer intends to create a lender group for debt restructuring purposes, the operation has ceased trading or any indication suggesting the winding up or closure of the borrower is discovered. Not yet considered non-performing as the correction of the deficiencies may result in an improved condition, and interest can still be taken into profits. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.
Doubtful and Bad (non-performing)	**7**	Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Loss. Assets should be downgraded to 7 if loan payments remain past due in excess of 90 days, and interest income should be taken into suspense (non-accrual). Loan loss provisions must be raised against the estimated unrealizable amount of all facilities. The adequacy of provisions must be reviewed at least quarterly on all non-performing loans, and the bank should pursue legal options to enforce security to obtain repayment or negotiate an appropriate loan rescheduling. In all cases, the requirements of Bangladesh Bank in CIB reporting, loan rescheduling and provisioning must be followed. An Aggregate Score of 35-44 based on the Risk Grade Scorecard
Loss (non-performing)	**8**	Assets graded 8 are long outstanding with no progress in obtaining repayment (in excess of 180 days past due) or in the late stages of wind up/liquidation. The prospect of

		recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for. This classification reflects that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of 35 or less based on the Risk Grade Scorecard

Allocation of risk weighted among the different areas relating to the borrower:

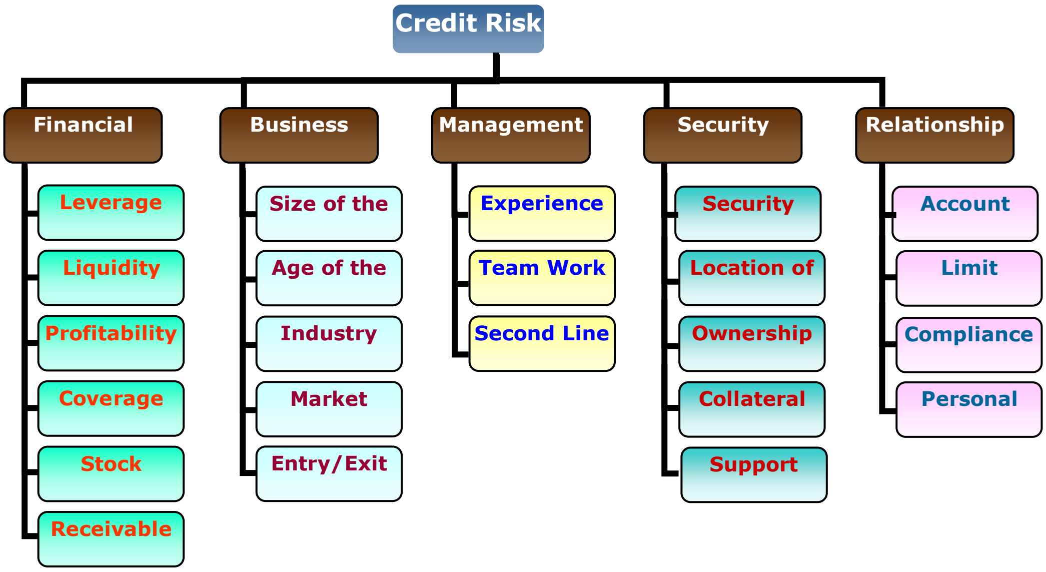

Fig. 15: Allocation of Risk Weighted

Risk Grading Score Card:

Borrower / Group:	Score	Risk Grade	
Industry Code:	95+ 75-94	2 3	Aggregate Score: ________
Date of Grading:	65-74	4	
	55-64	5	
Date of Financials:	45-54	6	
	35-44	7	
Completed by:	< 35	8	Risk Grade: ________

Criteria	Weight	Parameter	Points	Actual	Points	Weighted Score (Points * Weight)
Gearing:	**20%**	< 0.25	100			
		0.26 – 0.3 5	95			
The ratio of a borrower's *Total Debt to Tangible Net Worth.*		0.36 – 0.50	90			
All calculations should be based on annual financial statements of the borrower (audited preferred).		0.51 – 0.75	85			
		0.76 – 1.25	80			
		1.26 – 2.00	75			
		2.01 – 2.25	70			
		2.26 – 2.50	65			
		2.51 – 2.75	60			
		2.76 – 3.00	55			
		> 3.00	0			

Criteria	Weight	Parameter	Points	Actual	Points	Weighted Score (Points * Weight)
Liquidity	**20%**	> 3.50	100			
		3.00 – 3.49	95			
The ratio of a borrower's *Current Assets to Current Liabilities*		2.75 – 2.99	90			
		2.50 – 2.74	85			
		2.00 – 2.49	80			
		1.50 – 1.99	75			
		1.10 – 1.49	70			
		0.90 – 1.09	65			
		0.80 – 0.89	60			
		0.70 – 0.79	55			
		< 0.70	0			
Profitability	**20%**	> 0.30	100			
		0.25 - 0.29	95			
		0.20 - 0.25	85			
The ratio of a borrower's *Operating Profit to Sales*. Operating Profit defined as Gross Profit minus all expenses.		0.15 - 0.19	80			
		0.10 - 0.14	75			
		0.05 - 0.09	70			
		0.02 - 0.04	65			
		0.0 - 0.01	50			
		< 0	0			

Criteria	Weight	Parameter	Points	Actual	Points	Weighted Score (Points * Weight)
Account Conduct 10%						
Customer for more than 2 years, with no past dues and faultless record.			100			
Customer for more than 6 months up to 2 years with faultless behavior.			90			
New Account with known satisfactory dealings with other banks.			80			
Some late payments or bounced cheques, though always cleared in 15 days or less.			75			
Frequent past dues, irregular items or bounced cheques.			0			
Business Outlook 10% A critical assessment of the medium term prospects of the borrower, taking into account the industry, market share and economic factors.		▪ Exceptional	100			
		▪ Favorable	90			
		▪ Stable	80			
		▪ Slightly Uncertain	70			
		▪ Cause for Concern	0			

Criteria	Weight	Parameter	Points	Actual	Points	Weighted Score (Points * Weight)
Management The quality of management based on the aggregate number of years that the Senior Management Team (top 5 executives) has been in the industry.	**5%**	> 30 years 25 – 30 years 20 – 24 years 15 – 19 years 10 – 14 years < 10 years	100 90 80 75 65 0			
Personal Deposits The extent to which the bank maintains a personal banking relationship with the key business sponsors/ principals.	**5%**	▪ All personal accounts are maintained in the bank, with significant deposits. ▪ Principals maintain some accounts, but have relationship with other banks. ▪ No relationship	100 75 0			

Age of Business 5% The number of years the borrower has been engaged in the primary line of business.	> 25 years 20 – 25 years 15 – 20 years 10 – 15 years 5 – 10 years 2 – 5 years < 2 years	100 95 85 80 75 70 0			
Size of Business 5% The size of the borrower's business measured by the most recent year's total sales. Preferably based on audited financial statements.	**Sales in BDT Millions:** > 1,000 750 – 1,000 500 – 750 250 – 500 100 – 250 50 – 100 25 – 50 < 25	 100 95 90 85 80 75 70 0			

Grades of Credit worthiness of Borrower:

Rating	Grade	Score	Short Name	Classification
1	Superior	Fully cash secured, Govt./ Int. Bank Guarantee	SUP	Pass grade
2	Good	85+	GD	
3	Acceptable	75-84	ACCPT	
4	Marginal-Watch list	65-74	MG/WL	
5	Special Mention	55-64	SM	
6	Substandard	45-54	SS	Non-pass grade
7	Doubtful	35-44	DF	
8	Unacceptable	<35	BL	

4.3 APPROVAL AUTHORITY:

I. All powers of the company are vested in the Board. They are the source of all powers, and any person or body can exercise only the powers delegated by the Board in ways and manners specified by them.

II. An Executive Committee appointed by the Board of Directors shall be responsible for the analysis, evaluation and approval of financing proposals within the limits specified by the Board. The Executive Committee will consist of the (three (3) or more members from amongst the Directors including the Managing Director) for facility of operation, the Board will nominate a Chairman of the Executive Committee from among the Members of the Committee.

III. A Credit committee ensures that credit risk associated with credit applications are properly understood and evaluated before the loans are approved.

IV. The credit approval function has been separated from the marketing/relationship management function.

4.3.1 APPROVAL PROCESS

Credit appraisal begins in the marketing department of PLFS, right from the time of customer contact. Following steps clearly describes the process of credit appraisal. The Marketing Team shall market the clients and then prepare credit appraisal memo as per the prescribed format and within the purview of the set rule/policy guideline of PLFS. The concerned Officer will place it to the Head of Business Units who will make judgment (qualitative and quantitative judgment) and if found viable then he/she will forward it to the Credit Department. Credit will review the proposal and ask for requirements if any. Proposal will then forward to Credit Committee/Deputy Managing Director for their recommendations and then forward to Managing Director/Executive Committee for approval.

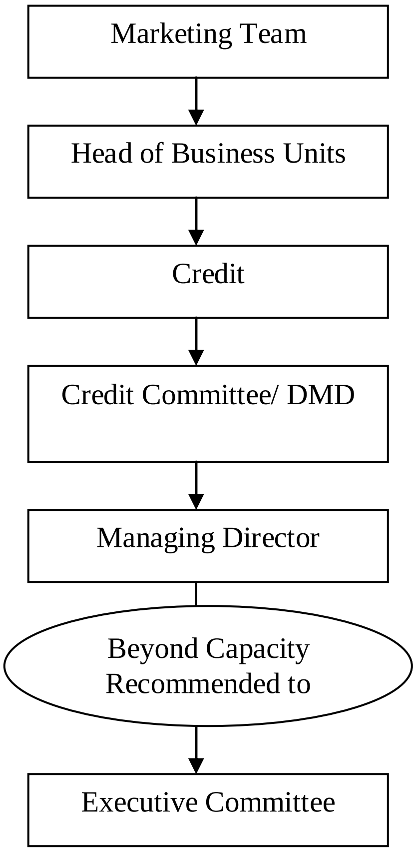

Fig. 16: Flow Chart of Approval Process

4.3.2 DELEGATION OF POWER:

Delegation of approval of credit facilities shall be as per policy guidelines that all proposals are approved as per following approval limits.

	Requires Approval by MD	Requires Approval by EC
New clients	2.5 million taka	Above 2.5 million taka
Existing clients	3.0 million taka	Above 3.0 million taka

4.3.3 CREDIT ADMINISTRATION AND DISBURSEMENT AUTHORITY

Credit administration and disbursement authority cover the following areas:

- Sanction Letters
- Loan Documentation
- Documentation- Compliance And Monitoring
- Credit Monitoring
- Early Alert Process
- Rescheduling And Declassification
- Recovery And Follow Up Of Non Performing Loans And Advances
- Non Performing Loan Monitoring / Management
- NPL Provisioning
- Portfolio Management & Maturity Gap Analysis

CHAPTER - 5

Findings, Recommendation and Conclusion

5.0 FINDINGS

From the analysis of qualitative and quantitative data I can conclude that Credit Management of PLFS is satisfactory. However the bank is facing several problems that are mention in below very briefly

- Fund diversion
- Shortage of efficient credit personnel
- Lack of transportation facilities of the credit personnel
- Inadequate training facilities for credit officers and their qualifications
- Lack of proper mortgage against loan.
- Insufficient fund of the non-banking corporation.
- Loans are not disbursed properly as a result of the dishonesty of the officers.
- Lack of sound guarantor.
- Sector wise loan disbursement performance scenario are very fluctuated.
- The loan recovery is hindered due to Flood, thunderstorm etc.
- Some time the loan-less recover show their unwillingness to pay the loan in order to have various advantages form the government.
- If loan disbursement is not in accurate time, borrowers will not be able to use that loan in particular sector, As a result loan recovery will be impossible.
- The notice are not issued just time, for this reason some time the recovery of loan is disturbed.
- Lack of proper planning and inefficient fund management.
- Lack of proper supervision.
- Loan is not paid through proper assessment.

5.1 RECOMMENDATIONS

Since PLFS, Corporate branch is the nationalized bank of Bangladesh. It must have to remove its limitation in banking service. In my study, I have recognized several weakness in Banking services and my recommendation are given below:

i) Process and procedures of lending should be liberalized keeping in view the problems and constraints faced by the borrower.

ii) Better publicity, Seminar and workshop on loan and advance may brighten the situation highlighting the needs, and problems of the borrowers.

iii) Virtually for the interest of the borrower and intending borrower, more funds should be shifted to this branch considering the needs and requirement of that branch.

iv) Steps should be taken to solve the problems of the borrower.

v) Efficient and motivated man power for sanctioning loan

vi) Selection of genuine borrower through fair investigation

vii) Spot investigation for loan allotment

viii) Prompt services are given to the borrower

ix) Strong monitoring should be ensured for proper utilization of Loan

x) To remove the limitation of managerial activities.

xi) To reduce political pressure

5.2 CONCLUSION

Banks and Non-Bank Financial Institutions are both key elements of a sound and stable financial system. Banks usually dominate the financial system in most countries because businesses, households and the public sector all rely on the banking system for a wide range of financial products to meet their financial needs. However, by providing additional and alternative financial services, NBFIs have already 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. Through their operation NBFIs can mobilize long-term funds necessary for the development of equity and corporate debt markets, leasing, factoring and venture capital. Another important role which NBFI's play in an economy is to act as a buffer, especially in the moments of economic distress. An efficient NBFI sector also acts as a systemic risk mitigator and contributes to the overall goal of financial stability in the economy. NBFIs of Bangladesh have already passed more than two and a half decades of operation. Despite several constraints, the industry has performed notably well and their role in the economy should be duly recognized. It is important to view NBFIs as a catalyst for economic growth and to provide necessary support for their development. A long term approach by all concerned for the development of NBFIs is necessary. Given appropriate support, NBFIs will be able to play a more significant role in the economic development of the country.

This report mainly focused on the Credit Appraisal Process and the risk management structure. PLFS is operating its financing activities with sufficient credit risk management tools. The company has its Board approved policy statement and policy guideline for the Credit Risk Management (CRM). CRM process in PLFS is unique in the industry in terms of its process & management for the future credit decision and pricing. To ensure models integrity, the company periodically reviews the model considering company's own experience and Bangladesh Bank's "Risk Management Guideline". To ensure data integrity, post sanction review is done every month for all proposals; this process results in the monthly grading of the credit officers who are given feedback of their performance. Every quarter the CRA conducts a workshop involving all appraising personnel. This is considered a key link to the credit risk management cycle that ensures constant feedback that allows development of credit appraisal expertise at the field level. At present, 41% of the company's portfolio is graded on the basis of risk matrix. It is expected that by 2010 all of its portfolio will be risk graded thereby allowing risk based pricing and provisioning.

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