Internship On
Credit Management of
First Security Islami Bank Limited

Supervised By:

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Major in Finance

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Letter of Transmittal

08 March 2024
To
Ms. Shah-Noor Rahman
Assistant Professor
Department of Business Administration
Faculty of Business & Entrepreneurship
Daffodil International University

Subject: Submission of the internship report on Credit Management "First Security Islami Bank ltd"

Dear Ma'am
I am delighted to present my internship report, which forms an integral component of Daffodil International University's Internship Program for BBA students. The focus of this report is on "Credit Management of First Security Islami Bank Limited": An investigation conducted at Mirpur-10 Branch, Dhaka. This document provides a concise overview of the practical knowledge and hands-on experience I gained during my internship.

Please be aware that certain errors may occur owing to my limited knowledge, wisdom, and time constraints. Despite limitations, I attempted to address all essential issues. I'm optimistic that my report will be match your expectations, and you will appreciate my efforts and the thoroughness of the report.

Yours Sincerely,
Intishar Mahmud Turjoy
ID: 183-11-1172
Major in Finance
Department of Business Administration
Faculty of Business & Entrepreneurship
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Certificate Approval

This is to certify that Intishar Mahmud Turjoy, ID 183-11-1172 student of Business Administration of Daffodil International University has efficiently finished the BBA internship Program entitled- “Credit Management of First Security Islami Bank ltd”. A observe on “Mirpur-10 Branch” He has finished this work below my supervision and organized this file in step with my supervision and put together this report in line with my direction and guidance. He has attempted his high-quality to do that effectively. I wish him a successful career.

Ms. Shah-Noor Rahman
Assistant Professor
Department of Business Administration
Faculty of Business & Entrepreneurship
Daffodil International University

Acknowledgement

I have to start by giving thanks to Allah, the Almighty, who has granted me the ability to accomplish my actions. To finish my paperwork, I required the help and direction of my reputable teacher Ms. Shah-Noor Rahman Ma'am.

I would like to thank my official, Ms. Shah-Noor Rahman, an assistant professor at Daffodil International University who specializes in commerce administration, for providing me with responsible and appropriate management for the comprehensively rich edifications regarding this record. I also appreciate my trustworthy boss, Ayesha Siddika, Assistant Manager, Card Division at First Security Islami Bank Ltd., for the conference and her outstanding service.

(Mirpur-10 Branch).I can adjust the record right away to make it more appropriate with the helpful guidance. Finally, we have updated the file to take into account the reasonable reaction that finance departments have had to this strategy. Whether they assisted me immediately or later on, I must undoubtedly thank everyone who helped me put together my report in my capacity as a teacher's assistant. In closing, I would like to express my gratitude to everyone who has supported, informed and complimented me on my work. Merely acknowledging them does not adequately convey the extent to which their contributions impacted the report and the debt I owe them. I want to sincerely thank each and every one of you.

Executive Summary

First Security Islami Bank Limited (FSIBL) was established in Bangladesh on August 29, 1999 under the Companies Act 1994 to conduct banking operations. On September 22, 1999, it received approval from Bangladesh Bank to start its business. The bank operates through 178 branches across the country. The bank's commercial banking services include accepting deposits, making loans, discounting bills, conducting money transfers and foreign exchange transactions, safekeeping, collections, and issuing guarantees and letters of credit.

This report aims to analyze FSIBL's overall credit management, financial performance, and make recommendations to address issues. The main objective of this report is to provide an overview regarding credit management of First Security Islami bank Ltd. for the period of 2018 to 2022.

The report is organized into 5 chapters. The first chapter covers the introduction, background, scope, objectives, methods, and limits of the study of this report. The second chapter provides an overview of First Security Islami Bank Limited in detail. The third chapter provides in-depth study on overall credit management of First Security Islami Bank Limited. The chapter four cover various forms of credit analysis, sector and geographical analysis & their components and About FSIBL’s Non performing loans. The fifth chapter describes loans & advances of FSIBL & ratio analysis for First Security Islami Bank Limited. The last part includes findings, recommendations, and conclusions. This report discusses First Security Islami Bank Limited's financial performance in a step-by-step manner.

This report highlights FSIBL's performance as a Sharia-based bank in terms of return on equity compared to competitors. It also suggests ways to improve return on assets, thereby increasing profits ratio, but also their managerial effectiveness.

Table of Contents

Chapter- One
Introduction

1.1 Introduction

The bank is a licensed industrial corporation that helps financial undertakings containing deposit agreement and loaning. Banks again specify miscellaneous industrial obligations inside the way that money control, dependable deposit boxes, bills change, hence. My goal to seek out suggests the main supply of banks in the monetary incident of a country by stressing the importance of banks for protection and economic functioning in our lives. A financial institution's convertibility area plays a critical role in supplying attractive clients accompanying responsibilities, especially in worldwide undertakings. Set off deliveries are vital This report ambitions to determine an inclusive expertise in recognition of First Security Islamic Bank and organized within the mortgage or damage administration region is a necessary one in a few financial institution's productive administration structure, as banks are being the cause for making sure and depositing our offerings. The record is prepared into three parts: the inflow, the know-how portion, and the judgment. The first episode unites the leisure industry, whilst the understanding department delves into convertibility endeavors at FSIB Limited, containing an installation and convertibility remittances. The tertiary and conclusive degree addresses questions, verdicts, approvals, and comes to a decision on the consideration of First Security Islami Bank Limited.

1.2 Objectives of the Study:

The primary objective of this report is to get an overview about Credit Management of First Security Islami Bank Ltd. for the period of 2018 to 2022

I. Evaluating the lending and recovery process, as well as examining the concentration of loans and advances of First Security Islami Bank Ltd. based on sectors and geographical locations.

II. Analyzing the non-performing loans and advances of First Security Islami Bank Ltd.

III. Comparing the Credit to Deposit Ratio, Capital Adequacy Ratio, Cost to Income Ratio, Return on Assets, and Return on Equity of FSIBL with the industry average.

IV. Providing recommendations for improving the credit performance of the bank.

1.3 Scope of the Report:

The report trains in "Credit Management" of First Security Islami Bank Limited of the bank. It contains many fundamentals, containing the bank's aims, functions, controls, trade requirements, and addresses functional issues and their potential reactions. The practical stage is completely located on written facts and current practices of First Security Islami Bank Limited. Data for this record is accrued through two main arrangements:

1. Primary data:

The accumulation of basic enumerations surpassed to debates accompanying senior associates, directing managers, arm managers and credit managers.

2. Secondary data

Secondary beginnings are too secondhand that contain within beginnings containing bank annual reports and group trade resourcefulness ideas, besides extrinsic property in the way that FSIBL convertibility counseling, facts taken from the network, area records and documents in addition toprivate interviews accompanying powers and area chiefs.

1.4 Limitations of the Report:

Several disadvantages have restricted the bettering concerning this declaration, containing the following:

1. Practitioners have had a restricted approach to bank credit arms, restricting their sphere of exercises.
2. Time restraints risked a main act in restricting the insight of research.
3. First Security Islami Bank Limited (FSIBL) does not have a painstaking group of differing booklets or papers that had connections with sports investment distinguished to different banks.
4. Maintaining the secrecy of the mathematical dossier was an important impediment to the converging stage of the study.
5. In the investment subdivision, credit control is thought-out a private matter and FSIBL, like additional banks, rigidly heeds to monetary dossier guardianship.

Chapter- Two
Overview of First Security Islami Bank Limited

2.1 An Overview of First Security Islami Bank

First Security Islami Bank Limited (FSIBL) was established in Bangladesh on August 29, 1999, as an investment association under the Companies Act, 1994. It obtained authorization from Bangladesh Bank on September 22, 1999, to commence investment activities. FSIBL operates through a network of 178 branches across the country. The bank's investment activities encompass a range of services, such as accepting deposits, providing loans, discounting fees, facilitating remittances and currency conversions, and offering additional assistance. It also deals with the management of repositories, guarantees, acceptances, replies, and credit ratings. On January 1, 2009, the bank transitioned from being a conventional investment institution to an investment institution adhering to Sharia principles. In order to ensure compliance with Islamic Sharia principles in all its business operations, the bank has established a Sharia Council consisting of renowned philosophers, bankers, lawyers, and economists who provide guidance and recommendations.

2.2 Mission

This monetary organization aims to supply first-rate aids and output to allure goal markets, prioritizing the achievement of allure trade dreams. They have steadily fashioned candid and constant exertions concerning this. Valuable clients are convinced of a monetary organization by way of the transparency, responsibility, friendly trustworthiness and extreme consumer support delight it specifies.

2.3 Vision

The originality and prudence of the first guardianship Islamic bank sought out enhanced ultimate adept fiscal organization in agreements, momentary ending, effectiveness and utility to the customer.

2.4 First Security Islami Bank Strategy:

- To reach the best possible of client pride and win their trust.
- Successfully control and function fiscal organizations.
- Understand client desires and steadily test their ideas to meet these desires.
- Regularly judge and improve rules, methods and practices to enhance client support.
- Provide inclusive preparation and money to all workers to correctly meet service's needs.
- Improve administrative influence by obviously and immediately ideating administrative plans, rules and strategies to laborers.
- Create a well-functioning environment.

2.5 Profile of First Security Islami Bank

Name of the Company	*First Security Islami Bank Ltd*
Chairman	Mr. Mohammad Saiful Alam
Vice Chairman	Mr. Mohammad Abdul Maleque
Managing Director	Mr. Syed Waseque Md. Ali
Company Secretary	Mr. Oli Kamal FCS
Legal Status	Public Limited Company
Date of Incorporation	August 29, 1999
Date of Commencement of Business	August 29, 1999
Date of getting license from Bangladesh Bank	September 22, 1999
Date of Opening of First Branch	October 25, 1999
Corporate Head Office	House- SW (I) 1/A, Road-8, Gulshan-1, Dhaka-1212, Bangladesh.
Registered Office	23, Dilkusha, Dhaka-1000, Bangladesh

Line of Business	Banking
Authorized Capital	Tk.10,000 million
Paid up Capital	Tk.7,840.99 million
Date of consent for IPO	04 June 2008
E-mail	info@fsiblbd.com
Fax	880-02-9891915
SWIFT Code	FSEB BDDH
Auditors	M/S. Huda Vase Chowdhury & Co. Chartered Accountants BTMC Bhaban (8th Level) ,7-9, Karwan Bazar C/A, Dhaka-1215 ,Bangladesh.

2.6 First Security Islami Bank Main Branch:

First Security Islami Bank's head office is situated at Gulshan-1, Dhaka-1212, House# SW (I)

1/A, Road No. 08. The primary arms point toward the cities of Chittagong and Dhaka. First Security Islami Bank has more than 178 branches nationwide, and there are more than 137 customer ATMs. First Security Islam Bank's biggest concern is that they have more than 1316897 happy customers.

2.7 SWOT Analysis of First Security Islami Bank

Definition:

A SWOT estimate is a valuable method used to judge a company's substances, proneness, convenience, and dangers. Applied in the framework of monetary adventures, it helps a guest arrange a general demeanor in stock exchange and advance allure professional growth.

Strength:

1. Some of the top assets include being a Sharia-compliant financial institution and having built strong and pleasant relationships with customers over the years.
2. The bank offers a special savings program called DPS, aimed at individuals with fixed or low returns in society.
3. It also provides services outside of daily banking hours to individual customers. This bank is known for its strong profitability and ownership of many rich assets.
4. It benefits from an experienced control team and an amazingly equipped, sincere and dedicated workforce.
5. With a large market share and stable budget, it has a strong focus on improving order backlog and delinquency, individual performance and high-quality investment, even in the face of proposal processing.
6. All its officers are dedicated and determined to carry out their functions.

Weakness:

1. Banks operate on traditional network facilities and are not fully computerized.
2. There is ineffective advertising for investment products.
3. Missing important documents, especially related to small and medium enterprises.
4. Professional development is limited, key employees seek opportunities elsewhere.
5. The bank does not have a dedicated advertising and marketing department.
6. Their advertising methods are limited and they adhere to conservative industry practices.
7. The bank does not use the general financing method.

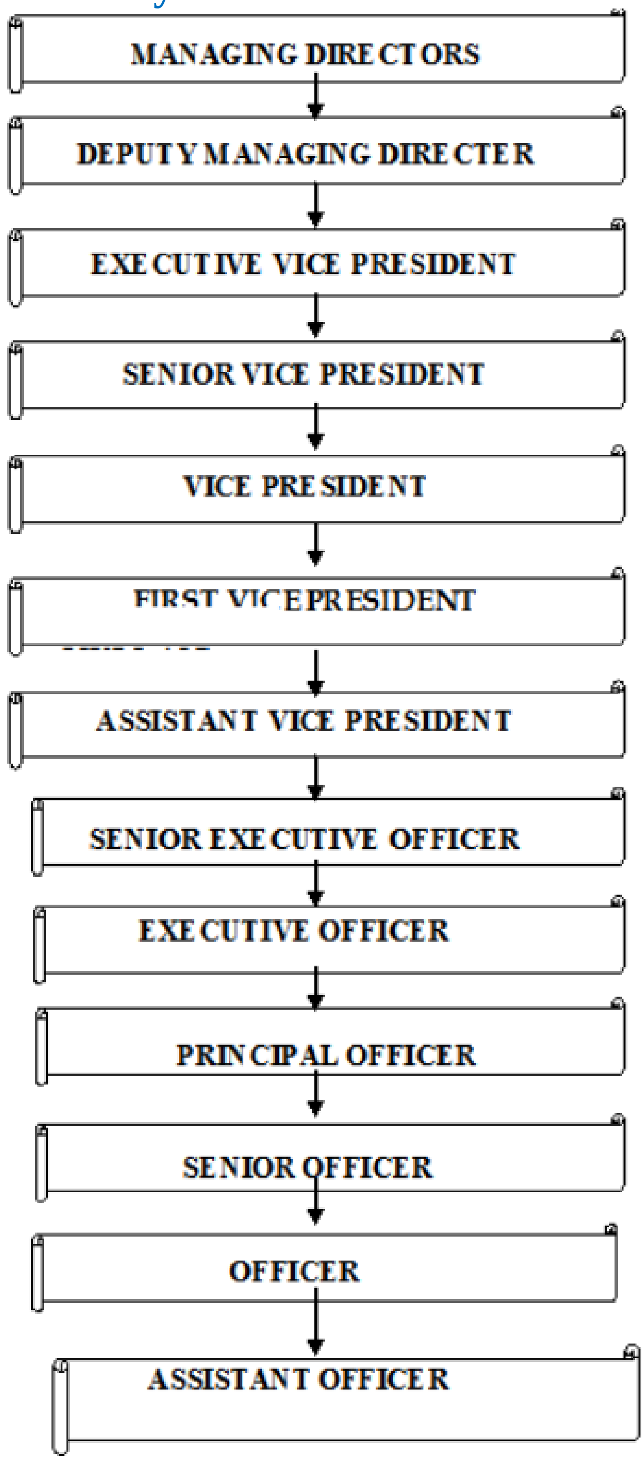
Opportunities:

1. There is an opportunity to increase market penetration by offering a wider range of investment products.
2. Able to create customer awareness about Islamic banking practices. There is an opportunity to develop new, dedicated entrepreneurs.
3. Having branches throughout the United States provides significant exposure to a variety of business opportunities.
4. FSIBL Bank SA. Offers lower shipping costs compared to other banks.
5. FSIBL Bank Limited Provides a uniquely integrated operating environment that is unmatched by other banks.
6. The bank has issued the first Muslim card in Bangladesh.

Threats/ Challenges:

1. Due to fierce opposition, many rival banks of FSIBL Bank Ltd. Introducing new services such as ATMs.
2. Competing banks have a wider geographical presence than FSIBL Bank Ltd.
3. State laws do not conform to Islamic Sharia standards.
4. Bangladesh's currency market does not have ATMs that comply with Islamic Sharia law.
5. Some conventional banks have connected their Islamic banking branches

2.8 Organization Hierarchy



2.9 Departments of FSIBL:

7. General Banking
8. Credit Management
9. Foreign Exchange

2.10 Services of FSIBL:

10. ATM Banking
11. Locker Service
12. Online Banking
13. SMS Banking
14. Utility Bill
15. Foreign Remittance
16. Debit Cardholder Facility
17. SWIFT Service
18. Bill Payment Service

2.11 Products of FSIBL:

1.Deposit :

- Al-Wadih Current Deposit
- Modaraba Savings Deposit
- Mudarabah Short Term Deposit
- Mudarabah Term Deposit: (1to 36 months{1,3,6,12,24})
- Foreign Currency Deposit
- Mudarabah Savings Scheme

2.Investment

- Investment / Utilization of the funds:

➢ Ijara (Leasing)

➢ Musharaka (Joint-Venture, Profit-Sharing)

➢ Mudaraba (Trustee Profit-Sharing)

➢ Hire-Purchase

➢ Ijara (Leasing)

➢ Post Import Investment

➢ Purchase and Negotiation of Export Bills

➢ Murabaha Import Bills

➢ Pre-Shipment Investment

3.Letter of Guarantee

➢ Tender Guarantee

➢ Guarantee for Sub-Contracts

➢ Shipping Guarantee

➢ Advance Payment Guarantee

➢ Guarantee for exemption of Customs Duties

4.Letter of Credit (L/C)

5.Specialized Schemes

- ➢ Tender Guarantee
- ➢ Consumer Investment Scheme
- ➢ SME Investment Scheme,
- ➢ Lease Investment Scheme,
- ➢ Hire Purchase,
- ➢ Mortgage Investment

6.Foreign Remittance

7.Utility Bill Payment

8.Locker Service

9.Lockers available in various sizes.

10.Inland and Online Transaction Services

11.Foreign Exchange Business Transaction

Chapter -Three
Overview of Credit Management of FSIBL

3.1 Definition of Credit Management:

A business uses a middle ground to improve and manage credit management in order to optimize liquidity while minimizing risk. This procedure includes fundraising, lowering borrowing costs, making loans to more qualified consumers, improving credit management, and is also known as credit management.

3.2 Loan Disbursement:

submitting a loan application and having the loan amount approved which are having prerequisites. Cash distributions are actually withdrawals from bank accounts. The loan is approved as soon as the approved funds are credited to the account of the borrower and can be used. And also the account holder receives the transfer from the lender's account.

3.3 Types of Loan

1. Continuous loan

Bonus accounts have a lot of trading flexibility and the final adjustment date can appear to be endless lending. Examples include CC (cash credit), OD (squeeze out),and others. To proceed with the loan, the consumer must present specific security to the financial institution. If a customer wants to withdraw funds from their FDR as quickly as possible, they must provide complete FDR (or any account from the financial institution) records. In addition, he also obtains a mortgage secured by immovable property such as his house and land.

2. Demand loans

Demand loans are an amount that financial institutions can request to be repaid at any time. Any contingent debt or other liability converted into mandatory loans will also be a problem when applying for the loan (i.e. not pre-approved like regular loans). LIM, PAD, FBP, and forced IBP are some examples. If a bank wants funding, a paid office job is required (discussedin section 3.4). Before valuing the goods and granting a mortgage of up to 80% of the value of the goods in case the consumer requests a home mortgage loan, the financial institution must first verify the documents and supporting documents of each good. is valid.

3.Term Loan

Term loans are those that have a specific repayment schedule and must be repaid within a certain period of time. Term loans range in length from several months to several decades.

3.4 Rules for Application

Subject to the following terms, affected customers must visit one of our financial institution's branches:

1. Complete documents according to the form provided by the financial institution.
2. Two authenticated passport-sized photographs.
3. Monthly declaration of the agent's net profit (in the case of a carrier).
4. The seller must have authorization from the bank.

3.5 Loans Documentation

- Demand Promissory Note (Single)
- Demand Promissory Note
- Delivery Letter
- Letter of Guarantee
- Letter of Undertaken
- Letter of Disbursement
- Letter of Arrangement
- Letter of Installment
- Letter of Debit
- Authority of A/C
- Agreement with Buying Agent
- Letter of Declaration
- Hire Purchase Agreement

3.6 Credit Products

As a whole, FSIBL provides the following credit products (loans and advances), as well as this Branch:

a. Cash Credit

b. Term Loan

c. Secured Overdrafts

d. Hire Purchase Scheme

e. Small Enterprise Financing

3.7 Loan Process:

Step 1: Submit the Summary of Business

Step 2: Preliminary Screening (Credit investigation Bureau (CIB)

Step 3: Submit Details Plan of Business

Step 4: Initial Screening

Step 5: Telephone Interview

Step 6: Secondary Interview

Step 7: Mortgage Valuation

Step 8: Documentation

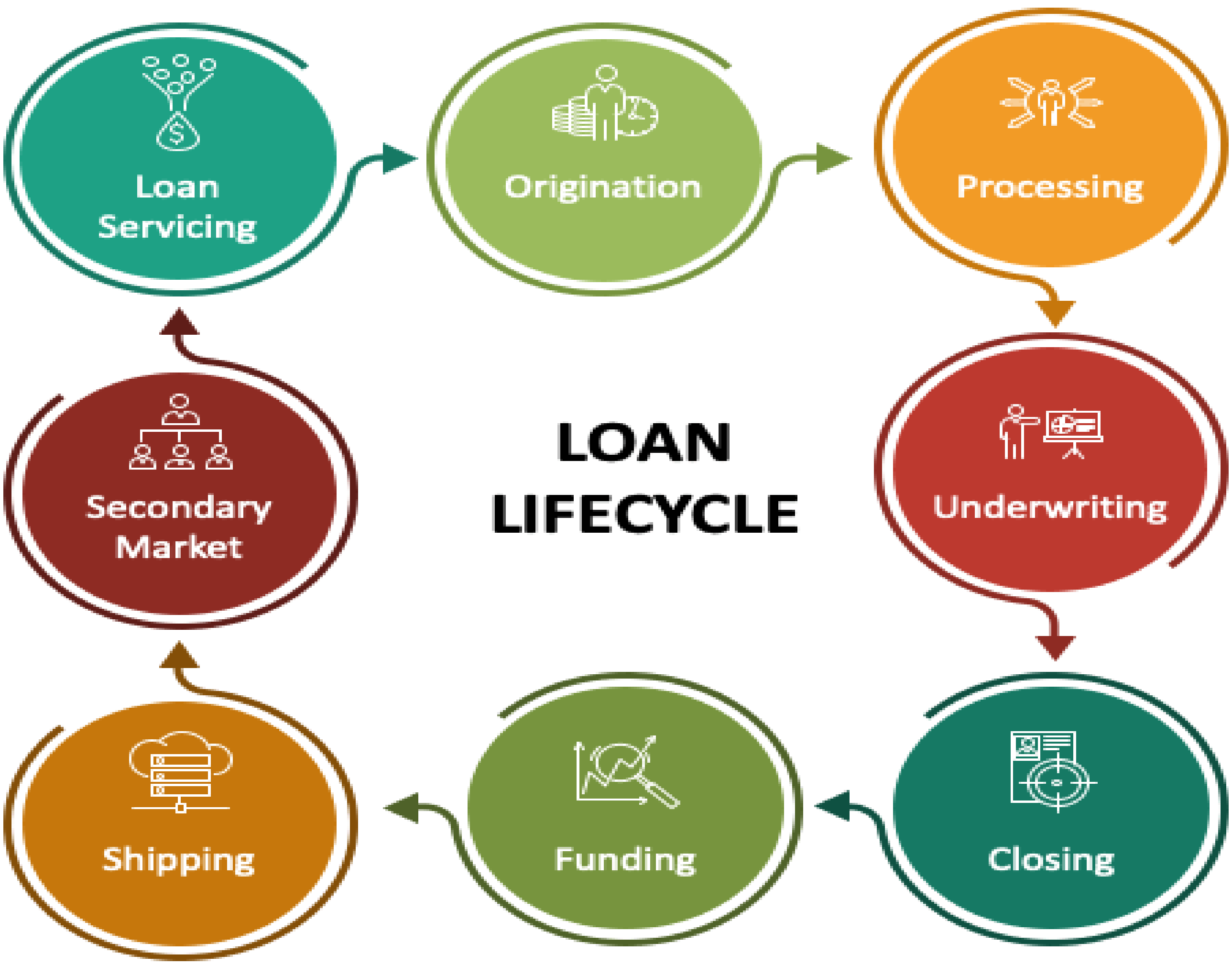
Step 9: Advisory Board Review

Step 10: Preliminary Approval

Step 11: Approve from Head Office

3.8 Life Cycle of Loan

To avail a mortgage loan from FSIBL, the borrower has to fulfill the following conditions. Those who qualify must be sponsored by a fund. Applicants must submit a complete application that describes the borrower's ability to pay the mortgage and explains their objectives.



Chapter- Four
Credit Management Of First Security Islami Bank Ltd.

4.1 What is Credit Management Analysis?

Credit management analysis is a type of economic investigation conducted by bond investors or portfolio managers on companies, governments, municipalities, and other debt issuers. Its purpose is to assess the ability of the debtor to fulfill their debt obligations. The primary objective of credit ratings is to identify the suitable level of default risk linked to investing in debt securities issued by a specific company.

4.2 Why Do We Do Credit Management Analysis?

Credit management analysts assess the riskiness of credit unions issued through corporations or other entities todetermine a company's ability to meet its obligations.

- The purpose of credit scoring analysis is to determine the relative risk of investing in that particular institution in relation to the investment.
- The risk ratings will be assigned based on the impact on the credit ratings of the originator and the borrower.

4.3 How Credit Management Analysis Works?

Financial institutions, bond investors, and analysts assess a company's debt to determine its ability to meet financial obligations. Analysts evaluate various aspects of a company's performance, including financial projections, cash flow analysis, trend analysis, and financial forecasting, as well as credit reporting and collateral examination to assess the creditworthiness of the business. Credit scores are utilized to gauge the likelihood of a borrower defaulting on a loan and the potential losses associated with it. The results of credit analysis may be used to assign a risk score to a borrower, helping lending institutions decide whether to approve a loan and the loan amount.

4.4 What is CAMELS Rating?

If a bank doesn't have enough money to keep going, it could fail. In 1979-80, the US put in place CAMELS Rating to help prevent bank failures and to figure out how well the banking system was doing. It's been proven to be a great way to show how strong a financial institution is and help regulators decide if a bank is doing well.

The CAMELS grading system consists of six rates.

- Capital Adequacy
- Asset Quality
- Management Effectiveness
- Earnings Capability
- Liquidity Management
- Sensitivity to market

These specific qualities can indicate to areas where the bank outperforms or falls short of competitors. Based on this ranking, controllers can quickly reclaim their competitive advantage in several aspects of help. The Central Bank of Bangladesh first entered CAMELS. Standing since 1993, and with an unchanging monitoring view on Bangladesh's banking assiduity, this study intends to examine the overall banking performance of First Suraksha Islami Bank Limited, with a focus on critical monetary policy roles. The goal is to quantify FSIBL's trading positions from multiple sources and classify the numbers into relevant orders, where it is difficult to assess the company's overall financial performance using the CAMELS positioning system, as well as utilizing a time frame analysis to compare.

4.5 Sector-wise Classification of Loans

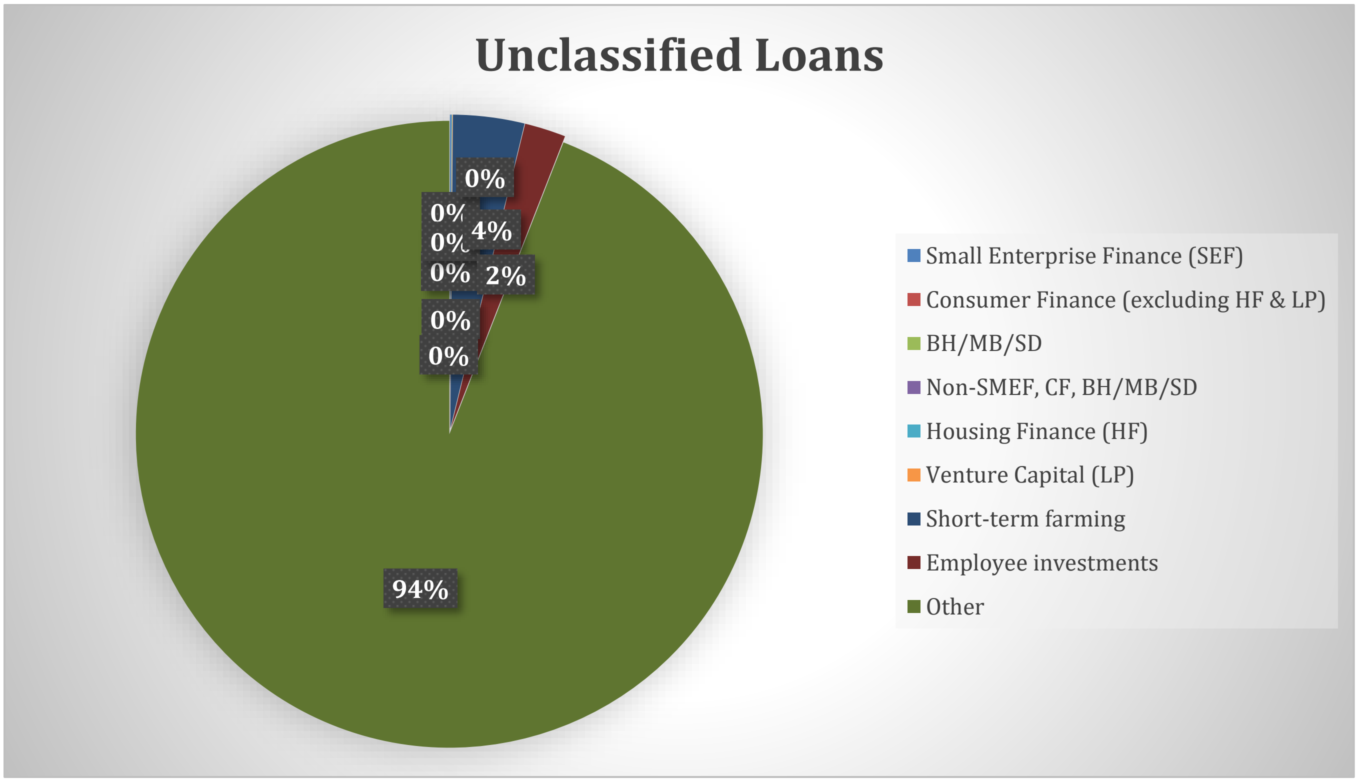
There is 2 sectors of classifications of loans.

They are:

1. **Unclassified**
2. **Classified**

Unclassified:

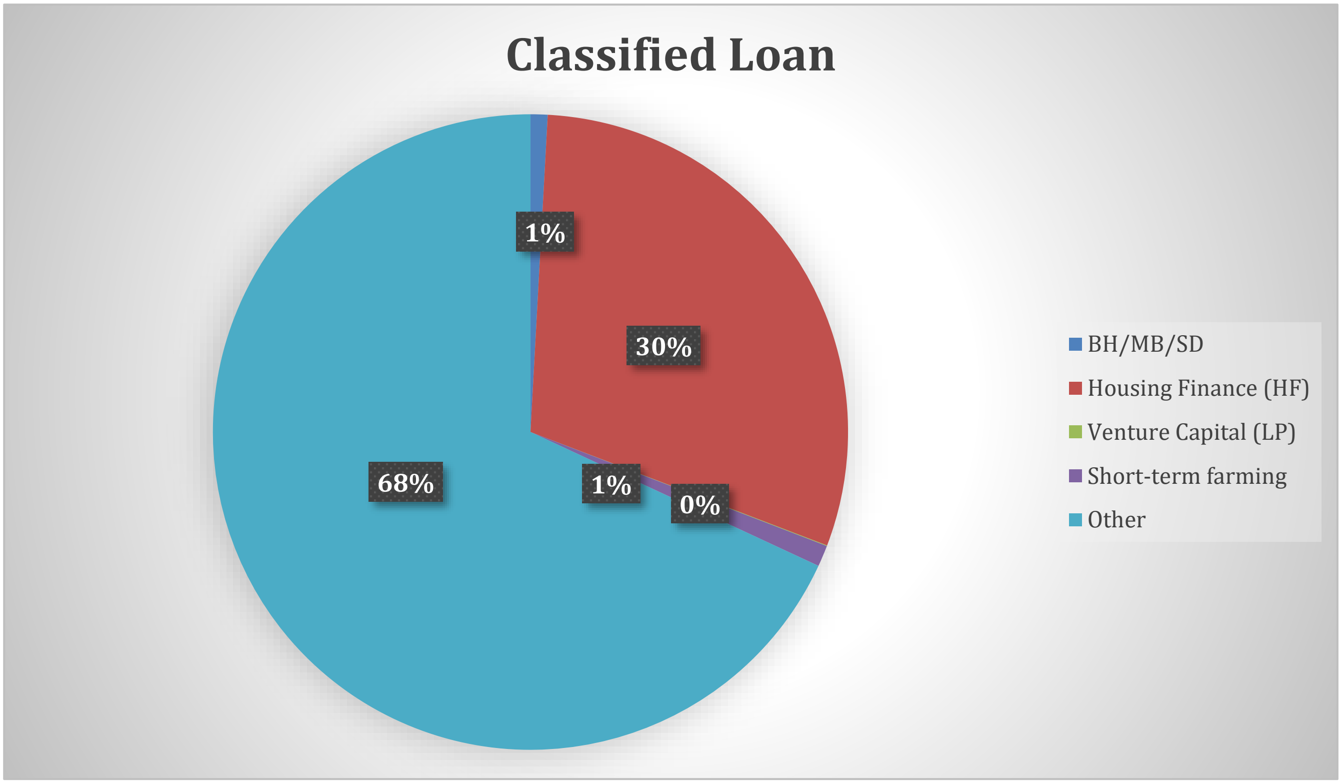
The presentation of the undisaggregated financial data reveals the distribution of wealth across sectors. Small Enterprise Finance (SEF) at 39,036,870 BDT and consumer finance (excluding HF & LP) at 181,025 BDT. The total investment for BH/MB/SD against the shares is 800,500 BDT, with an additional 315,356 BDT allocated to non-SMEF, CF and BH/MB/SD companies Significant transfers have been made to Housing Finance (HF), totaling 21,720,391 BDT. Financial services also help businesses set up businesses through venture capital (LP), totaling 15,180,000 BDT. Short-term farming. The investment shows a large concentration in agriculture, with a notable amount of 2,125,662,383 BDT. The focus is on employee investments, with a total supply of 1,227,542,095 BDT coins. Finally, a capital amount of 54,393,682,736 BDT is categorized as "other," referring to financial commitments or investments in projects beyond specified categories This classification provides insight into the pattern of financial allocation internal capabilities for various industries and across industries.



Classified:

The Small Business Finance (SEF) has a total investment unit of 1,868,544,443 BDT. Additionally, excluding mortgages and LPs, the value of consumer finance is 7,266,420 BDT. The total amount of investments spread to businesses (BHs), microbusinesses (MBs), and small businesses (SDs) in the total share was 100,689,516 BDT. The fund is identified for sectors such as Small Enterprise Finance (SEF), Consumer Finance (CF), and Businesses/Small Enterprises/Small Enterprises (BHs/MBs/SDs) in addition to 8,074,763,875 BDT units Housing Finance (HF) gets a special share of 3,481,004,999 BDT. On the other hand3,848,681 has been allocated to entrepreneurs seeking assistance for business establishment, which is divided into investment for business establishment (LP) Short-term agricultural investment is set at 125,273,111 BDT. Lastly, a capital sum of

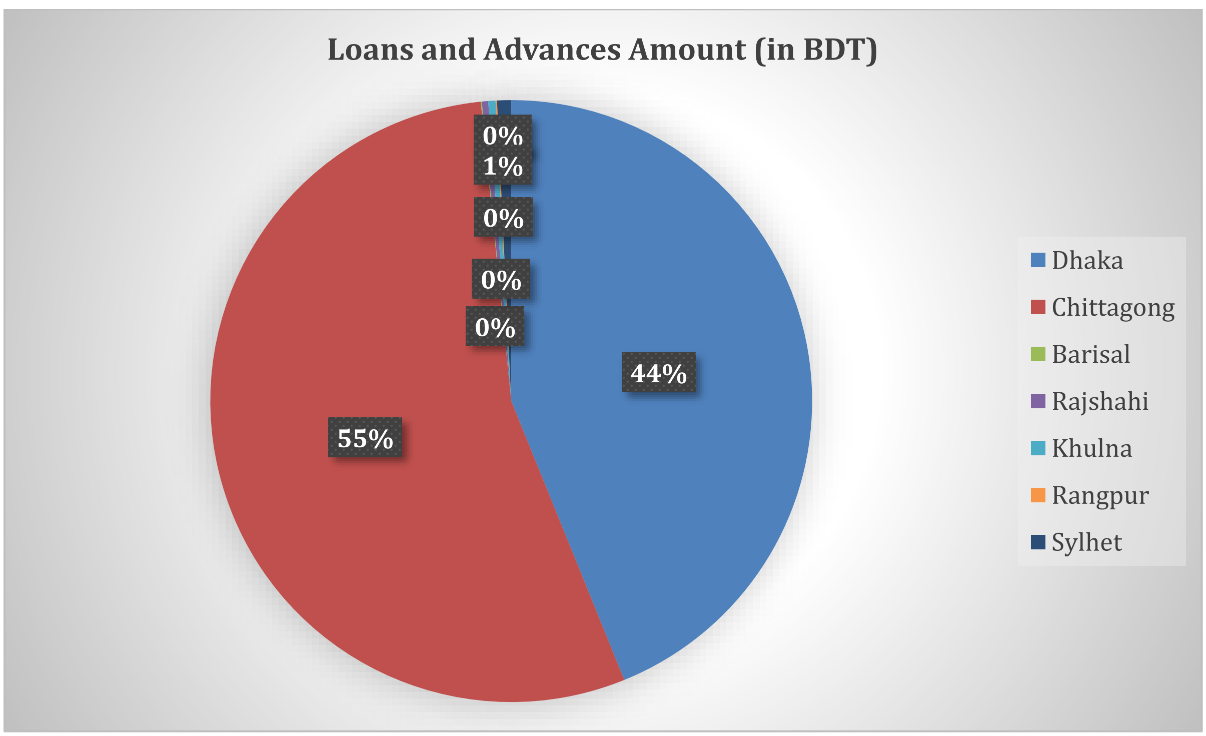
7,913,966,625 BDT has been set aside for the purposes listed under "Other."



4.6 Geographical Location-wise Loan and Advances

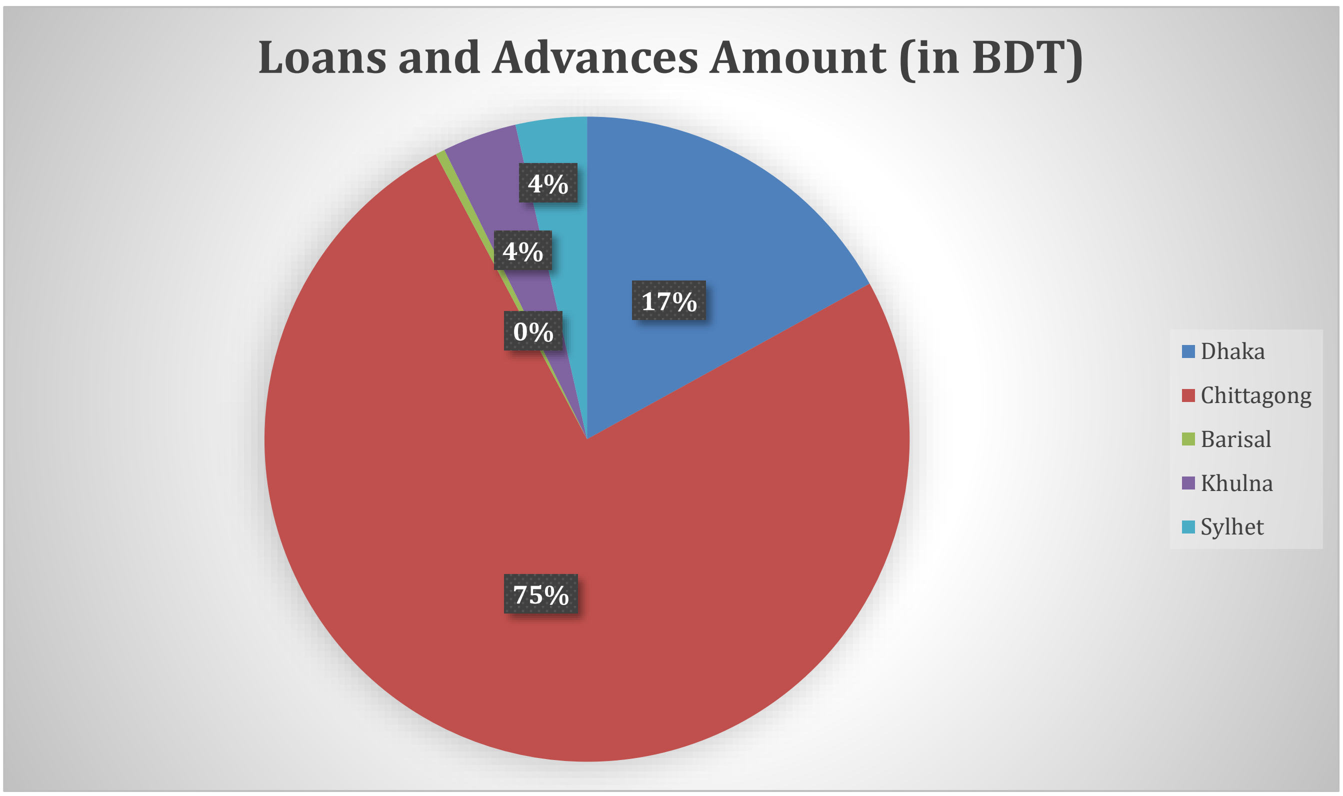
Urban:

In 2022, Dhaka, the capital of Bangladesh, recorded the largest loans and advances, totaling 49,621,248,607 Bangladeshi taka in urban Another major city and port in Chittagong, 61,666,755,960 Bangladeshi in that same period of the same There were large advances of loans and advances of -taka. Moving to Barisal, the loan disbursements and advances stood at 62,109,032 Bangladesh taka. The total amount of loans and advances to Rajshahi, known for its historical importance, amounted to 383,697,826 Bangladeshi Taka. Khulna, a major industrial and commercial hub, also received a loan disbursement of Bangladeshi taka 440,665,255 in 2022. Rangpur in the north of the state received a loan disbursement of Bangladeshi taka 88,988,784 in Sylhet known for lands it is pretty 852 in urban areas the same year They recorded loans and advances amounting to ,188,497 Bangladeshi Taka.



Rural:

In 2022, the distribution of rural loans and disbursements in different parts of Bangladesh exhibited different currencies. Dhaka received a total of 252,510,571 loans, while Chittagong received a much higher borrowing in terms of loans and disbursements of 1,118,163,912. Barisal, on the other hand, had comparatively few loans at 7,112,882, while Khulna received 55,370,768 loans. Sylhet also witnessed a large amount, where the total loans disbursed stood at 52,986,084. These figures reflect different distributions of financial resources across different sectors in rural areas of the country in a given year.



4.7 Non-Performing Loan

What is Non-Performing Loan (NPL)?

Non-performing loans (NPLs) refer to loans in which the borrower has defaulted and failed to make the monthly principal and interest repayments within a specified timeframe. Typically, NPLs occur when borrowers encounter financial difficulties or face challenging circumstances that hinder their ability to continue repaying the loan. It is of utmost importance for borrowers to prioritize loan repayments in order to avoid falling into arrears or defaulting on their obligations.

Banks commonly classify loans as non-performing when the borrower has not made principal and interest repayments for a period exceeding 90 days, or as stipulated in the loan agreement. Once a loan is categorized as an NPL, the likelihood of receiving repayments significantly diminishes.

This situation can have detrimental effects on banks, as it can lead to a loss of income and restrict their capacity to provide additional credit. To mitigate the risk of non-performing loans, banks must implement effective risk management systems.

How Banks Managing Non-Performing Loans?

Defaulting on a loan is never a good thing, and non-performing loans can be especially problematic for both the borrower and the Bank. When borrowers are unable to make their payments towards a loan for a certain period of time, the loan can be classified as non-performing. This can lead to significant financial issues for both the borrower and the lender. Banks that have a high number of non-performing loans on their balance sheet may take action to recover the amounts owed.

One of the most common ways lenders do this is by taking possession of collateral pledged by the borrower. For example, if the borrower used a car as collateral, the lender may take possession of the car and sell it to recoup some of the money owed. In some cases, banks may foreclose on homes where the borrower has failed to make mortgage payments for more than 90 days. Alternatively, lenders may sell non-performing loans to collection agencies or outside investors at a discount. These agencies will then attempt to recover as much of the money owed as possible.

Types of Non-Performing Loans:

The International Monetary Fund (IMF) defines non-performing loans as follows:

• Borrowers have missed at least 90 days of principal and interest payments, and the lender has lost faith in their ability to pay. In this situation, the loan is recorded as a bad debt in the lender's books of account.

• Changes in the loan arrangement result in capitalizing, refinancing, or delaying interest payments for 90 days.

• The borrower's principal and interest payments are less than 90 days late, and there are concerns about their ability to repay the debt completely.

NPL Impact on a Bank:

It's important to note that when borrowers default on their loans and fail to make payments, it can have a significant impact on the lender's financial performance. This is because banks and other lenders typically earn money from the interest they charge on their loans. When borrowers are unable to make payments on their loans, lenders are unable to collect the owed interest payments, which means they have less money available to create new loans and pay operating costs. As a result, a high percentage of non-performing loans relative to a lender's total assets can pose a significant risk to the company. This not only affects the lender's profitability, but it also leaves potential borrowers with fewer options for obtaining loans from that lender. Investors are also interested in investing in companies with healthy financials. When a lender's percentage of non-performing loans increases, the lender's stock price may go down. This is because the more non-performing loans a bank holds on its books, the less attractive it is to potential investors. This is because the lender's future profitability is likely to suffer if it is unable to earn income from its credit business.

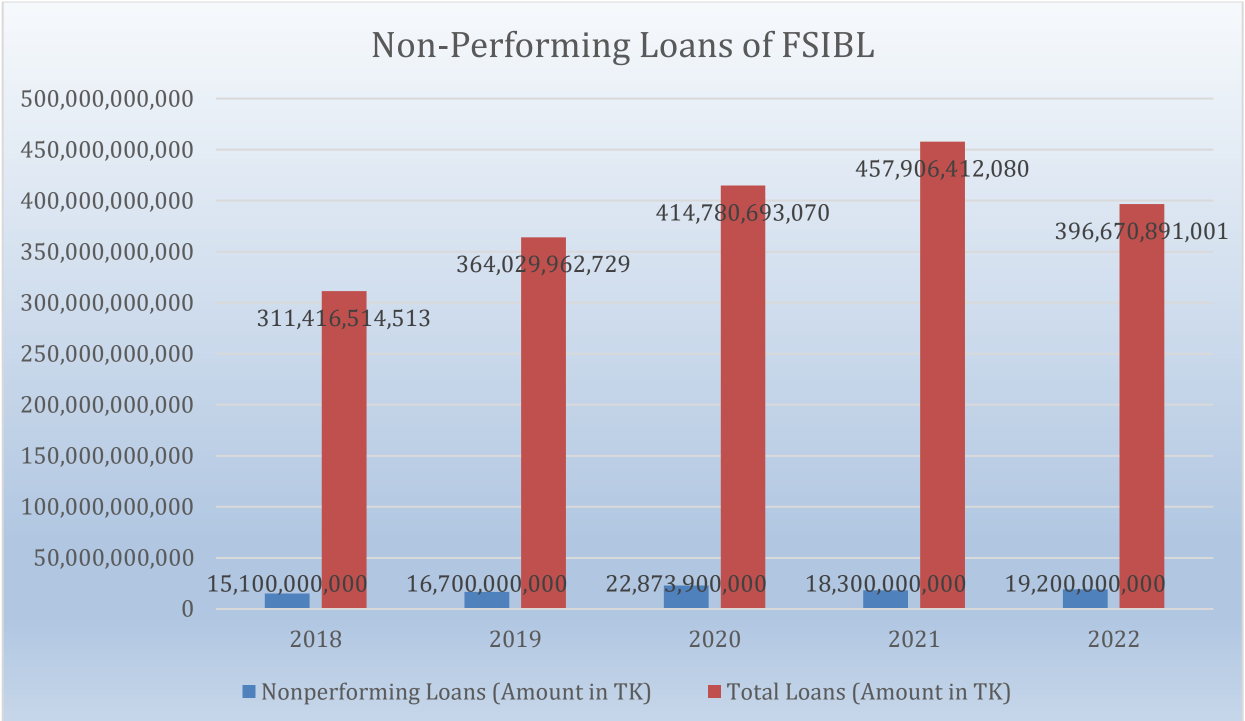
Non-Performing Loans to Total Loans Ratio:

Banks are required by law to declare their non-performing loans to total loans ratio, which measures the bank's credit risk and the quality of its outstanding loans. A higher ratio suggests that the bank is more likely to suffer financial losses if it fails to recover the loan amounts owed, whilst a lower ratio indicates that the outstanding loans pose the bank's least risk.

4.8 Non-Performing Loan Ratio

Table-26: Non-Performing Loans of FSIBL

Non-Performing Loans	2018	2019	2020	2021	2022
Nonperforming Loans (Amount in TK)	15,100,000,000	16,700,000,000	22,873,900,000	18,300,000,000	19,200,000,000
Total Loans (Amount inTK)	311,416,514,513	364,029,962,729	414,780,693,070	457,906,412,080	396,670,891,001
Non-performing Loans/Total Loans	4.85%	4.59%	5.51%	3.99%	4.84%
IA	**5.90%**	**5.04%**	**4.26%**	**3.91%**	**4.59%**



<u>Interpretation:</u>

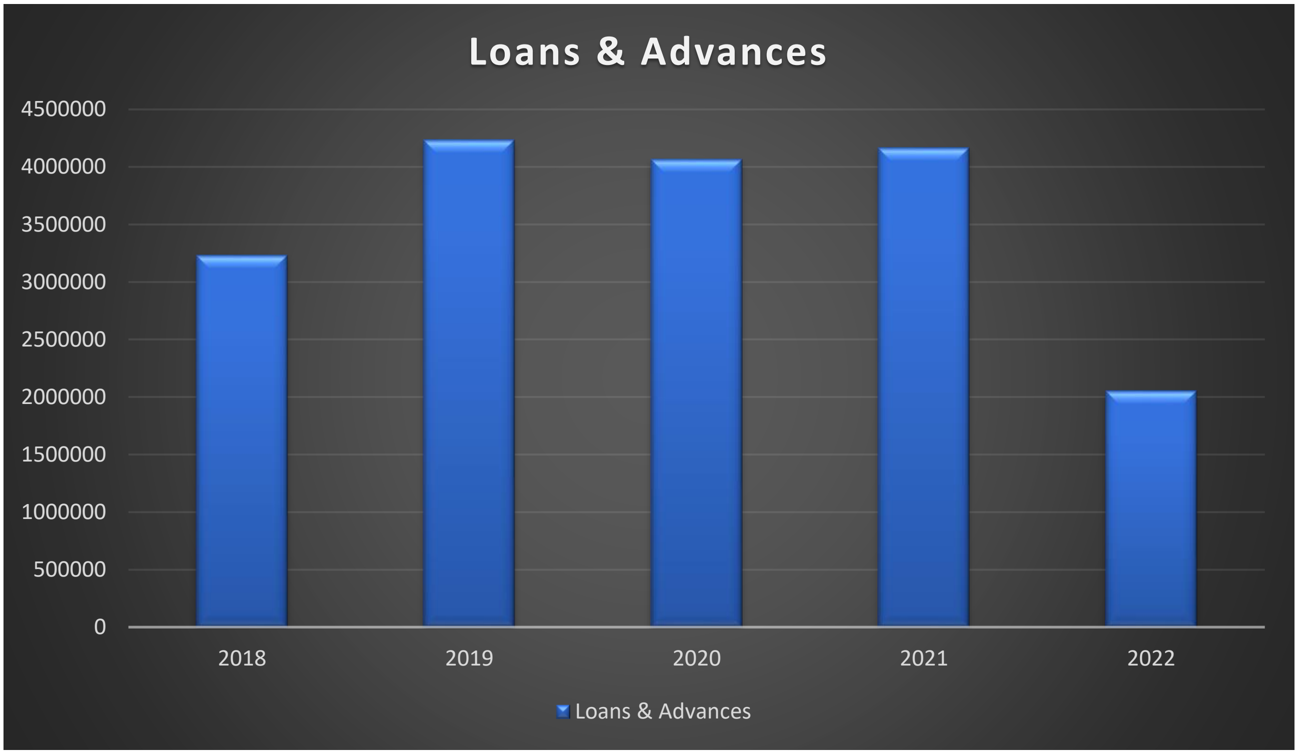
FSIBL's NPL Ratio for the year 2020 stands at 5.51 percent, signifying that approximately six out of every 100 loans extended by FSIBL are deemed uncollectible. The NPL percentage experienced a decline of 2.74 percent from 2018 to 2020, showcasing a positive trajectory in the bank's overall performance. When compared to the industry benchmark, First Security Bank's non-performing loans ratio is subpar; historically, it has been notably higher, as illustrated in the provided table and graph, which poses a significant threat to the bank's liquidity position. Consequently, it is imperative for FSIBL to concentrate on minimizing the volume of non-performing loans to enhance their financial stability.

Chapter - Five

Credit Performance Analys

5.1 Year Wise Different Categories of Loan & Advances (Amounts in Million)

	2018	2019	2020	2021	2022
Small Financing loan	305627	333645	413651	918524	44560
Consumer loan	243791	1804919	163347	668890	439083
House Loans	451345	942336	187754	206879	433559
Venture Capital	181495	248955	207384	454690	215333
Staff Loan	247099	660716	10709	29801	258031
Short Term loan	923509	92350	197497	897808	950138
Advances	1712653	830962	871662	54728	1890893
Total	4065519	4166883	2052004	3231320	4231597



Interpretation:

The graph shows that year 2018 and 2022 shows downward trends while rest other years like 2018,2019 and 2020 shows upward trends. This means that loan disburse tendency of that period looks positive. This could indicate that FSIBL’s developing its strategy for increasing giving more loans in 2018,2019,2020. But in 2022 it was the lowest.

5.2 Cost to Income Ratio

Cost/Income Ratio	2018	2019	2020	2021	2022
Operating Cost (Amount in TK)	5,777,785,56 3	6,366,894,03 4	7,298,582,10 7	6,209,315,90 6	7,158,141,24 9
Operating Income (Amount in TK)	11,207,963,5 10	12,317,499,9 1 9	13,460,491,8 6 2	9,137,940,31 2	11,925,238,3 67
Operating cost/Operati ngincome	51.55%	51.69%	54.22%	67.95%	60.02%
IA	**48.44%**	**48.35%**	**54.98%**	**48.57%**	**50.38%**

Interpretation:

FSIBL's cost-to-income ratio stood at 54.22 percent for the fiscal year 2020, indicating that the company allocated 54.22 Tk towards operating expenses for every 100 Tk of operational revenue. Despite having the highest exposure to income ratio in 2020, FSIBL's ratio was still relatively lower than the industry average of 54.57 percent. Although there was a downward trend from 2019 to 2018, FSIBL's ratios remained significantly above the industry average, which is considered unsatisfactory. In order to mitigate liquidity risk, FSIBL should prioritize reducing operating expenses while maximizing operational revenue.

5.3 Capital Adequacy Ratio (CAR)

	2018	2019	2020	2021	2022
Tier 1 Capital (Amount in BDT crore)	1,253.45	1,450.99	2,109.62	1,618.67	1,478.80
Tier 2 Capital (Amount in BDT crore)	829.66	1,252.36	1,362.67	747.89	1,160.43
Total Risk-Weighted Assets (Amount in BDT crore)	20,468.59	23,998.63	28,678.15	25,142.09	31,987.22
(Tier 1 Capital + Tier 2)Capital)/Total Risk-Weighted Assets	10.18%	11.26%	12.11%	9.40%	8.25%
IA	**11.67%**	**12.04%**	**10.84%**	**12.58%**	**12.27%**

Interpretation:

In 2020, the Capital Adequacy Ratio of FSIBL stood at 12.11%, indicating that the bank will reserve 12.11% of its total capital for every risk-weighted asset. To uphold a sound level of liquidity risk management, First Security Bank should aim to generate returns exceeding 14% on all capital allocated to risk-weighted assets, as the benchmark was set at 14.36%.

5.4 Return On Asset

	2018	2019	2020	2021	2022
Net Income After Tax (Amount in BDT)	1,594,654,48 4	2,080,506,10 6	2,792,579,87 4	2536912879	296100000
Total Assets (Amount in BDT)	372,183,319, 9 66	437,831,586, 4 20	497,342,492, 7 39	543880184472	61645300000
Net Income After Tax/Total Assets	0.45%	0.51%	0.60%	0.40%	0.41%
IA	**0.77%**	**0.56%**	**0.54%**	**0.75%**	**0.82%**

<u>Interpretation:</u>

FSIBL achieved a commendable return on assets (ROA) of 0.60 percent in 2020, signifying that the bank earned 0.60 percent on each 100 units of its assets. While their performance is noteworthy, it is advisable for them to aim for a higher rate of return on their assets to enhance their management of liquidity risk. It is worth noting that the industry average for 2020 stands at 0.53 percent.

5.5 Return on Equity

	2018	2019	2020	2021	2022
Net Income After Tax (Amount in BDT)	1,594,654,484	2,080,506,106	2,792,579,874	2536912879	2961400000
Total Equity (Amount in BDT)	13,361,352,465	15,413,827,638	17,945,502,468	22440210356	20476827100
Net Income After Tax/Total Equity	11.93%	13.50%	15.56%	11.30%	11.44%
IA	**13.52%**	**9.40%**	**10.59%**	**11.34%**	**12.99%**

Interpretation:

FSIBL achieved a return on equity (ROE) of 15.56 percent in 2020, implying that for every 100 units of equity, the bank generated a return of 15.56 percent. The graph provided illustrates that this year's ROE reached its highest point. Surpassing the industry average of 9.04 percent for 2020, FSIBL outperformed its competitors in terms of profitability. Consequently, in order to maintain its outstanding financial performance and establish efficient liquidity risk management, FSIBL should strive for a further increase in its ROE.

5.6 Credit to Deposit

	2018	2019	2020	2021	2022
Total Loans (Amount inTK) in million	311,416.52	364,029.96	414,780.69	5156790.89	4312670.13
Total Deposits (Amount in million TK)	320,011.19	376,609.70	428,687.22	4690618.68	4730463.17
Total Loans/Total Deposit	97.31%	96.66%	96.75%	109.93%	91.16%
IA	**83.26%**	**82.66%**	**88.80%**	**94.26%**	**88.75%**

Interpretation:

In the year 2020, FSIBL's Loan-to-Deposit Ratio stood at 96.75%, signifying that the bank extends 0.9675 BDT in loans for every 1 BDT deposited. This figure falls below the optimal loan-to-deposit ratio, being less than 100 percent but more than 90 percent. Nevertheless, it is imperative for the bank to aim for a significant reduction in its loan-to-deposit ratio, which currently stands at 85.42%, when compared to the industry standard. Should the ratio exceed the industry average, the bank might face challenges in meeting unforeseen financial obligations due to insufficient liquidity.

Findings

- The cost-to-income ratio for 2021 was 50.76%. Which is the lowest among 2018, 2019, and 2020,2022.

- In 2018, First security Islami bank obtained the greatest capital adequacy ratio (12.11%) compared to the previous four years. It signifies that the bank is in a better situation.

- In 2021, the return on asset ratio was the lowest. That was 0.41%.

- In 2021, the lowest return on equity was 11.30%. Following that, in 2018 (11.93%), 2019 (13.50%), and 2020 (15.56%). It implies that FSIBL's ROE is growing, respectively.

- The credit-to-deposit ratio of 82.82% in 2020 was the lowest, indicating the bank's solid status in terms of loan and deposit.

- FSIBL has the lowest Non performing loan in 2021 at 3.91%. However, in 2018 they had 5.90% NPL, which is not acceptable compared to 2021. Cause A bank's NPL is not expected to rise.

Recommendation

- To run their bank efficiently, FSIBL should enhance current assets while decreasing current liabilities.
- FSIBL should reduce long-term liabilities.
- To better serve its clients, the bank should speed up loan processing.
- To maintain a strong portfolio of Financial Statements, First Security Islami Bank should vary their lending offerings. Lending for agricultural and SME should be enhanced.
- Effective and efficient supervision and monitoring are needed for minimizing loan losses and increasing revenue.
- To maintain favorable financial performance and improve liquidity risk management, FSIBL should prioritize increasing ROE in the future.
- Although FSIBL outperforms competitors, it should aim for a greater rate of return.
- FSIBL aims to reduce non-performing loans to improve asset quality and financial stability.
- Hiring skilled personnel can improve the efficiency of financial operations.
- FSIBL's marketing department can boost total deposits by encouraging more customers to conduct transactions with the bank.

Conclusion

The objective of this study is to evaluate the credit management of First Security Islami Bank. However, it is important to continuously monitor and optimize key operational ratios such as Return on Asset, Cost-to-Income, and Non-Performing Loan Ratios.

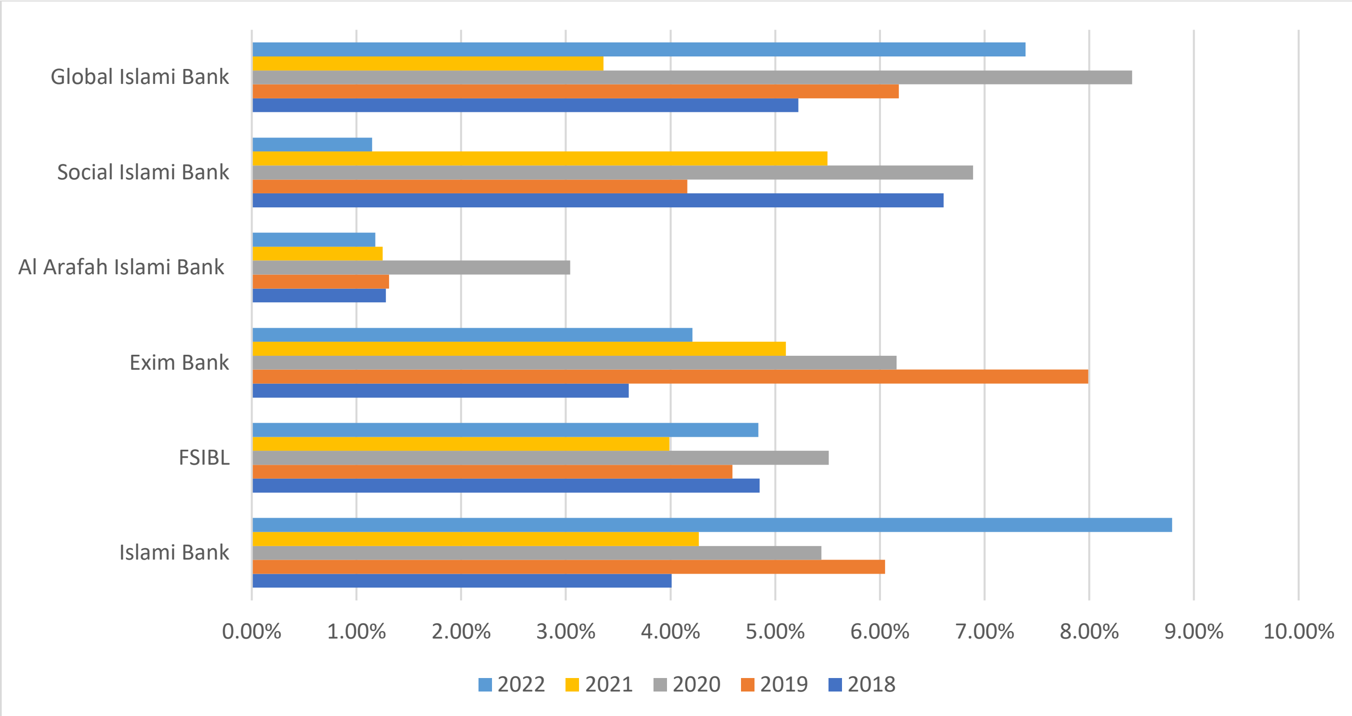
First Security Islami Bank Limited is considered one of the leading commercial banks in the country, primarily due to its positive reputation, extensive branch network, engaging corporate culture, and strong teamwork among employees. The Mirpur 10 Branch of FSIBL offers a range of loans and advances to customers in accordance with Bangladesh Bank's investment banking guidelines and regulations. The bank's main source of income is derived from lending to various parties. The bank places great importance on serving its large clientele and meeting their expectations. While the bank's performance is satisfactory, it falls short of being classified as a top banking company.

The bank's recent 5-year financial position (2018-2022) indicates a focus on financing for trade and commerce, as well as consumer loans and significant corporations. However, financing is not the bank's top priority. To provide services, attract, and retain customers, the bank relies on experienced and professional employees. Additionally, FSIBL maintains an average level of non-performing loans. Although not exceptional, the bank's NPL ratio is respectable compared to the industry average. By introducing new services such as Mobile Banking, credit sales, and marketing, the bank can increase its earnings and sustain its dominant position in the banking industry. Proper monitoring, supervision, and recovery activities can also assist the bank in reducing loan losses and maximizing investment returns.

Appendices

NPL/Total Loans=

	2018	2019	2020	2021	2022
Islami Bank	4.01%	6.05%	5.44%	4.27%	8.79%
FSIBL	4.85%	4.59%	5.51%	3.99%	4.84%
Exim Bank	3.60%	7.99%	6.16%	5.103%	4.21%
Al Arafah Islami Bank	1.28%	1.31%	3.04%	1.25%	1.18%
Social Islami Bank	6.61%	4.16%	6.89%	5.50%	1.15%
Global Islami Bank	5.22%	6.18%	8.41%	3.36%	7.39%



Formula - Operating cost/Operating income =

	2018	2019	2020	2021	2022
FSIBL	51.55%	51.69%	67.95%	50.76%	60.02%
Islami Bank	49.41%	44.45%	49.82%	43.28%	35.60%
Exim Bank	43.76%	47.07%	51.92%	45.96%	45.90%
Al Arafah Islami Bank	48.28%	48.70%	61.97%	52.24%	55.34%
Social Islami Bank	51.50%	46.51%	45.13%	48.17%	51.09%
Global Islami Bank	46.12%	51.70%	53.12%	51.02%	54.37%

Formula - (Tier 1 Capital + Tier 2)Capital)/Total Risk Weighted Assets

	2018	2019	2020	2021	2022
FSIBL	10.18%	11.26%	12.11%	9.40%	8.25%
Islami Bank	14.68%	14.58%	15.97%	13.06%	14.91%
Exim Bank	10.88%	12.55%	13.27%	12.09%	11.77%
Al Arafah Islami Bank	11.38%	9.23%	7.66%	9.71%	9.17%
Social Islami Bank	12.91%	11.09%	9.83%	16.78%	14.28%
Global Islami Bank	10.01%	13.56%	6.22%	14.42%	15.29%

Formula - Net Income After Tax/ Total Assets =

	2018	2019	2020	2021	2022
FSIBL	0.63%	0.48%	0.34%	0.40%	0.41%
Islami Bank	0.99%	0.73%	0.64%	1.23%	1.08%
Exim Bank	0.66%	0.59%	0.61%	1.06%	1.09%
Al Arafah Islami Bank	0.63%	0.48%	0.34%	0.55%	0.56%
Social Islami Bank	0.71%	0.59%	0.82%	0.48%	1.01%
Global Islami Bank	1.01%	0.46%	0.51%	0.82%	0.78%

Formula - Net Income After Tax/Total Equity =

	2018	2019	2020	2021	2022
FSIBL	11.38%	9.23%	7.66%	11.30%	11.44%
Islami Bank	10.46%	10.05%	10.05%	14.07%	15.70%
Exim Bank	8.35%	8.30%	9.42%	12.19%	11.78%
Al Arafah Islami Bank	9.57%	11.81%	9.26%	14.27%	14.89%
Social Islami Bank	9.85%	15.00%	19.35%	12.24%	13.67%
Global Islami Bank	6.80%	9.17%	11.86%	13.87%	15.91%

Table: Loan/Deposit Ratio IA

	2018	2019	2020	2021	2022
FSIBL	97.31%	96.66%	96.75%	109.93%	91.16%
Islami Bank	74.95%	70.72%	68.88%	85.85%	78.23%
Exim Bank	101.96%	96.87%	99.93%	89.00%	89.91%
Al Arafah Islami Bank	97.42%	94.54%	87.44%	102.07%	93.61%
Social Islami Bank	72.16%	68.52%	98.06%	86.07%	91.82%
Global Islami Bank	52.19%	72.22%	59.66%	92.67%	87.82%

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