AMERICAN JOURNAL OF ECONOMICS AND BUSINESS MANAGEMENT

ISSN: 2576-5973
Vol. 2, No.2, June 2019

Financial Management of Private Commercial Bank in Bangladesh : An Empirical Study on Prime Bank Limited

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Abstract: This paper purposes to explore the financial management practices of private commercial bank in Bangladesh based on the information provided in the financial statements. For this, Prime Bank Limited (PBL), a reputed private commercial bank operating in Bangladesh, has been studied for 2010-14. This study finds that major contributor of PBL's operating revenue is funded income, major areas of fund employment are Secured overdraft / Quard against TDR, Cash credit / Murabaha, and Loans (General) while the major fund source is Term deposits / Mudaraba term deposits. PBL has always maintained higher return from credit than the cost of funds for deposit. However, the amount of unclassified loan is decreasing over the years while classifieds are increasing. The treasury income of PBL is increasing over the years and maximum portion of the income comes from interest income on Government Securities. In case of liquidity gap, overall positive gap is observed. The repricing gaps model for interest risk shows cumulative negative gap of PBL over the years while financing surpluses over the years are observed. Based on the analysis, this study calls for special focus of PBLs' management in the areas of operating performance, credit risk management, and asset quality management.

Keywords: Asset Management, Bangladesh, Bank, Financial Management, Operating Performance.

Introduction

In an economy, the banking sector plays a crucial role in resource mobilization and driving economic growth (Khatun, 2016). Bangladesh is not an exception. After independence, the banking sector has contributed in economic growth through the promotion of capital formation, promotion of trade and industry, agricultural development, implementation of monetary policy, and comprehensive promotion of economic activity (Zaman, 2017). Currently, there are 58 scheduled banks i.e. state-owned commercial banks (6), specialized banks (3), private commercial banks (40), and foreign commercial banks (9), and 5 non-scheduled banks operating in Bangladesh (Bank, 2018).

As of 2016, 9,654 number of branches have been established with total assets of this sector about BDT 11,626.6 billion and total deposit of BDT 8,933.9 billion (Bank, 2018). In addition, net interest income (NII) of this sector has been reported as BDT 328.7 billion, return on assets of 0.68%, return on equity of 9.42%, and liquidity ratio of 24.9 (Bank, 2018). However, for the banking sector, to maintain present performance or for improvement, the necessity of effective financial management practices can't be ignored. The bank which is more effective and efficient would be able to management fund in most profitable way than the others. Therefore, this study would try to investigate over the financial management practices of private commercial bank in Bangladesh.

Objective of the Study

The objective of the study is to explore the financial management practices of a private commercial bank in Bangladesh in context of operating performance, credit-deposit mix, asset quality, capital adequacy, treasury performance, liquidity management, and management of interest risk, market risk, and liquidity risk.

Methodology

This paper is designed on secondary data. Annual reports of Prime Bank Limited has been collected for 5 years (2010-14) and the stand-alone financial statements of the bank are used instead of consolidated as the consolidated statements lack many information required for this analysis. Microsoft Excel has been used to perform relevant analysis.

Operating Performance Analysis

Composition of Operating Revenue

The sources of operating revenue of PBL include funded and non-funded income where funded income is generated from the net interest income (NII) and investment income and non-funded income comes from the commission, exchange and brokerage (CEB) and other operating sources. Table 1 shows the operating revenue of PBL and the contribution of different sources for 2010-14. It can be observed that PBL earned the highest operating income of Tk. 13,472 million in 2012 which was backed by the maximum funded income of Tk. 10,045 million (74.56%) in that year. And, the lowest operating income of Tk. 10,793 million is seen in 2010 with the lowest funded income of Tk. 7,366 million (68.25%). Highest non-funded income is found in 2011 of Tk. 3,716 million and the lowest Tk. 2,968 million in 2013. In case of percentage distribution, NII is showing decreasing trend after 2012 where the investment income is increasing from 2011. For non-funded, CEB is showing decreased contribution from 2010 except 2014 while others income have mixed trend.

Table 1: Composition of Operating Revenue (in million Taka)

Component	2010		2011		2012		2013		2014	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Funded Income										
NII	4,648	43.07	4531	36.16	5,411	40.17	4,332	33.63	2,872	24.12
Investment Income	2,718	25.18	4,282	34.18	4,633	34.39	5,583	43.33	6,194	52.03
Total Funded Income	7,366	68.25	8,814	70.34	10,045	74.56	9,915	76.96	9,067	76.15
Non-Funded Income										
CEB	2,718	25.19	2,916	23.27	2,628	19.51	2,155	16.73	2,033	17.08
Others	708	6.56	800	6.39	799	5.93	813	6.31	806	6.77
Total Non-Funded Income	3,427	31.75	3,716	29.66	3,427	25.44	2,968	23.04	2,840	23.85
Total Operating Income	10,793	100	12,530	100	13,472	100	12,883	100	11,906	100

Analysis of Primary Drivers of Operating Revenue

The major source of operating revenue of PBL is the funded income as table 1 shows, for 2010-14, about 68-76% of the total operating income of PBL came from the funded income and this income consists of the net interest income and investment income. A detailed discussion on these primary drivers of operating income i.e. net interest income (NII) and investment income is made below.

Net Interest Income (NII)

The net interest income is the difference between the interest income and interest expense. From 2010 to 2013, both the interest income and interest expense have an increasing trend but reduced in 2014 creating the lowest net interest income. On 2014, the NII was the lowest as loans against trust receipts, lease finance, secured overdraft was condensed by a significant amount and a higher amount of interest have to be paid on saving bank deposits.

Table 2: Net Interest Income of PBL (2010-14) (in million Taka)

Particulars	2010	2011	2012	2013	2014
Interest Income	12,023	12,147	16,737	22,011	18,446
Interest Expense	7,790	7,824	12,648	17,678	15,574
Net Interest Income	4,234	4,323	4,089	4,332	2,872

The areas of interest income of PBL are shown in table 3 with their relative contribution in total interest income. The major areas of interest income are Loans (General) / Musharaka, Loans against trust receipts, Cash credit / Bai-Muajjal, and Secured overdraft. The maximum, about 19%-22%, of the interest income is earned from secured overdraft and on average minimum from credit card. Over the years, loans (general)/musharaka, consumer credit scheme, and others income are showing increasing trend where loans against trust receipt, lease fiancé/ijara, secured overdraft, and documentary bills purchased are showing decreasing trend.

Table 3: Composition of Interest Income of PBL (in percentage)

Particulars	2010	2011	2012	2013	2014	Average
Loans (General) / Musharaka	15.88%	15.27%	17.02%	19.10%	19.20%	17.30%
Loans against trust receipts	15.55%	16.14%	14.43%	8.74%	6.29%	12.23%
Lease finance / Izara	5.77%	5.68%	5.69%	4.70%	3.90%	5.15%
Hire purchase	4.72%	4.59%	4.74%	5.17%	4.89%	4.82%
Cash credit / Bai-Muajjal	13.77%	14.13%	12.30%	13.31%	13.61%	13.42%
Secured overdraft	20.41%	20.82%	22.75%	21.71%	19.72%	21.08%
Consumer credit scheme	9.69%	9.12%	7.92%	8.70%	10.98%	9.28%
Small and Medium Enterprise	0.97%	2.13%	3.07%	3.34%	2.51%	2.40%
Documentary bills purchased	5.73%	5.39%	4.06%	3.52%	1.14%	3.97%

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Particulars	2010	2011	2012	2013	2014	Average
Interest income from credit card	0.99%	0.88%	0.84%	3.41%	1.29%	1.48%
Others	6.51%	5.84%	7.17%	8.29%	16.47%	8.86%
Total Interest Income	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

In interest expense, as shown in table 4, the major areas of expense are Term deposits / Mudaraba term deposits (50% -58%) and Deposits under scheme (22%-34%). The lowest interest expense is seen for call deposit followed by others interest expense.

Table 4: Composition of Interest Expense of PBL (in percentage)

Particulars	2010	2011	2012	2013	2014	Average
Savings bank / Mudaraba savings deposits	6.38%	5.01%	4.32%	4.70%	5.91%	5.27%
Special notice deposits	3.11%	2.56%	3.03%	5.35%	4.94%	3.80%
Term deposits / Mudaraba term deposits	50.34%	58.74%	56.02%	58.00%	52.89%	55.20%
Deposits under scheme	34.61%	25.24%	22.43%	27.29%	32.06%	28.33%
Call deposits	0.52%	1.42%	5.84%	1.36%	0.24%	1.88%
Repurchase agreement	1.13%	4.18%	5.96%	0.66%	0.21%	2.43%
PBL bond	3.30%	2.27%	1.66%	1.64%	1.85%	2.15%
Others	0.60%	0.58%	0.75%	1.00%	1.91%	0.97%
Total Interest Expense	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Investment Income

In table 1, it can be observed that investment income of PBL is rising over the years reaching highest Tk. 6,194 million in 2014. From the percentage distribution of investment portfolio in table 5, it is found that the major areas of income are Interest on treasury bills / Reverse repo / bonds, Gain on discounted bond / bills, and Gain on Government security trading where the maximum percentage (74% -83%) is the interest on treasury bills, reverse repo, and bonds.

Table 5: Composition of Investment Income of PBL (in percentage)

Particulars	2010	2011	2012	2013	2014	Average

Interest on treasury bills / Reverse repo / bonds	74.72%	63.15%	82.16%	83.31%	80.69%	76.80%
Interest on debentures / bonds	1.21%	1.84%	2.53%	1.73%	0.92%	1.64%
Gain on discounted bond / bills	4.59%	6.18%	10.74%	12.04%	16.62%	10.03%
Gain on sale of shares	0.94%	0.02%	0.24%	0.05%	0.28%	0.31%
Gain on Govt. security trading	18.11%	18.96%	2.00%	2.73%	4.13%	9.19%
Dividend on shares	0.43%	11.25%	5.49%	1.61%	1.29%	4.01%
Less: Loss on revaluation of security trading	0.00%	1.40%	3.15%	1.46%	3.93%	1.99%
Total Investment Income	100%	100%	100%	100%	100%	100%

Operating Performance Ratios

Operating performance ratios i.e. Net Interest Margin (NIM), Spread, and Operational Efficiency of PBL are shown in table 6. From the table 6, it can be interpreted that Net Interest Margin (NIM) of PBL is showing positive value over the years but has a decreasing trend with lowest 1.99% in 2014. The reason can be the increased focus of the bank to investment rather loans. Therefore, the interest income from credit is decreasing while the decrease in expense for deposit is not proportional to that of interest income over the years.

Table 6: Operating Ratios of PBL (in percentage)

Ratio	Formula	2010	2011	2012	2013	2014
NIM	[(Interest Income – Interest Expense) / Interest Earning Assets] x 100	4.05	3.69	2.90	2.92	1.99
Spread	[(Interest Income/ Interest Earning Assets) – (Interest Expense/Interest Bearing Liabilities)] x 100	4.03	2.97	3.10	4.86	4.23
Operational Efficiency	Operating Expense/Operating Income	36.94	35.75	36.62	41.98	48.29

However, Spread, the difference between the lending and borrowing rate of PBL is showing fluctuating trend over the years. The highest spread was found in 2013 due to the highest interest income against lowest earning asset out of those five years. And, the lowest spread was seen on 2011 because of higher Interest expense to liabilities ratio than other years. On the other hand, Operational Efficiency of PBL is indicating an increasing trend over the years which means that the banks operating expense is increasing more relative to the operating income. In addition, the decreases of operating income in 2013 and 2014 have boosted the ratio more than other years which call for the need of operational efficiency by better cost management and fund utilization.

Credit-Deposit Analysis

Composition of Credit

Table 7 shows the credit mix of PBL for 2010-14 in percentage. It can be observed that the major areas of fund employment are Secured overdraft / Quard against TDR, Cash credit / Murabaha, and Loans (General) holding average 24.50%, 14%, and 20.73% respectively of total credit. Over the years, Loans (General) and Credit card are showing increasing trend where Loans against trust receipt, Payment against document, Lease finance, and SME loan are decreasing.

Table 7: Composition of Loans, Advances and Lease / Investments (in percentage)

Particulars	2010	2011	2012	2013	2014	Average
Secured overdraft/Quard against TDR	21.22%	27.55%	25.08%	22.90%	25.73%	24.50%
Cash credit / Murabaha	13.73%	13.28%	14.86%	15.40%	12.75%	14.00%
Loans (General)	19.41%	16.89%	19.81%	22.55%	24.97%	20.73%
House building loans	3.16%	2.75%	2.36%	2.58%	2.52%	2.68%
Loans against trust receipt	18.18%	15.84%	11.55%	7.56%	5.19%	11.67%
Payment against document	0.68%	0.53%	0.44%	0.18%	0.09%	0.38%
Retail loan	8.55%	8.29%	7.37%	8.24%	8.79%	8.25%
Lease finance / Izara	5.56%	5.72%	5.33%	4.00%	3.42%	4.81%
Credit card	0.48%	0.57%	0.60%	0.71%	0.79%	0.63%
SME loan	1.00%	0.97%	0.64%	0.42%	0.53%	0.71%
Hire purchase	5.31%	5.42%	5.29%	5.39%	4.32%	5.15%
Other loans and advances	2.73%	2.19%	6.67%	10.07%	10.89%	6.51%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Composition of Credit based on Quality

The credit portfolio of PBL can be differentiated as unclassified and classified loans where unclassified i.e. standard and special mention account are loans with reasonable potentiality of repayment and classified i.e. sub-standard, doubtful, and bad have more potentiality of being default. For PBL, from table 8, it can be observed that the amount of unclassified loan is decreasing over the years while classified are increasing. In 2010, the percentage of total unclassified loan was 98.92% but in 2014 it is 92.39% while the classified has increased from 1.18% to 7.61%. And, this is indicating poor performance of credit department of PBL.

Table 8: Composition of Credit based on Quality (amount in million Taka)

Particulars	2010	2011	2012	2013	2014
	Amount	Amount	Amount	Amount	Amount
Unclassified					
Standard including staff loan	112,947	135,761	150,891	141,282	130,536
Special mention account	1,741	1,179	3,830	4,492	5,616
Total Unclassified Loan	114,689	136,940	154,721	145,774	136,152
Classified					
Sub-standard	534	561	2,287	874	1,852
Doubtful	124	310	709	1,055	1,268
Bad / Loss	709	1,038	3,173	5,886	8,094
Total Classified Loan	1,368	1,908	6,168	7,815	11,215
Total Loan	116,057	138,848	160,890	153,589	147,367

Analysis of Deposit

From table 9, it can be observed that the maximum percentage of deposit of PBL is Term deposits / Mudaraba term deposits which are about 72.24% on average. After that, the Current/Al-wadeeah current deposits represent about 14.77% of total deposit portfolio where Savings bank/Mudaraba savings deposits hold about 11.35%. The higher term deposits indicates that bank has funds those can be employed in long term investment for higher return.

Table 9: Composition of Deposits and Other Accounts (in percentage)

Particulars	2010	2011	2012	2013	2014	Average
Current / Al-wadeeah current deposits	17.37%	14.79%	15.04%	13.18%	13.47%	14.77%
Bills payable	1.96%	1.87%	1.88%	1.03%	1.44%	1.64%

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Savings bank / Mudaraba savings deposits	12.28%	11.23%	10.54%	10.46%	12.26%	11.35%
Term/ Mudaraba term deposits	68.39%	72.11%	72.54%	75.33%	72.84%	72.24%
Total	100.00%	100.0%	100.0%	100.0%	100.0%	100.0%

Credit- Deposit Spread Management

Table 10 shows the spread among credit return and deposit expense of PBL over 2010-14. The percentage return from credit and expense for deposit is showing increasing trend over years except 2014 when both have decreased. But PBL has always maintained higher return from credit than they've cost in deposit which results in positive spread for the five years.

Table 10: Spread Management of Credit and Deposit (in percentage)

Particulars	2010	2011	2012	2013	2014
Interest Income from Credit/Total Credit	10.16%	11.75%	13.78%	14.18%	12.35%
Interest Expense for Deposit/Total Deposit	5.94%	7.25%	8.22%	8.37%	7.31%
Spread	4.21%	4.50%	5.55%	5.81%	5.04%

Analysis of Treasury Performance

Treasury Division of PBL primarily focuses on expanding transaction volume, utilizing different market opportunities, strengthening ALM operations, and creating a diversified fund management channel by accurate assessment of domestic and overseas market trends and movements. Through proper Asset Liability Management (ALM) and efficient trading operations, Treasury strives to minimize market and liquidity risks. Besides, for profitability enhancement, Treasury makes proper assessment of the market trend and allocation of its assets and liabilities in line with the market trend.

Table 11 shows the treasury income of PBL for 2012-14. The bank doesn't provide this information for 2010-11. PBL's maximum treasury income comes from interest income on Govt. Securities about 66%-69%. The reason is as PBL is a PD, they have to buy government securities devolved by Bangladesh Bank in addition to their SLR requirements, and therefore, their investment portfolio is dominated by government securities. Interest Income on Govt. Securities was the highest Tk. 4,998.19 million in 2014 due to the highest investment in government securities about Tk . 70,928.31 million (97.64% of total investment). After that, comes the income from foreign exchange gain, gain on discounted bond/bills and other including Interest Income Call Loan, Placement /Deposit, Debenture/Bonds, Capital Gain for Sell of Govt. Securities, and Underwriting Commission against Treasury Bill/Bond. All of these incomes are increasing over the years except Foreign Exchange Gain.

Table 11: Treasury Income of PBL (amount in million Taka)

Particulars	2012		2013		2014	
	Amount	%	Amount	%	Amount	%
Interest Income on Govt. Securities	3,806.59	66.36	4,650.71	68.81	4,998.19	66.52
Foreign Exchange Gain	1,123.57	19.59	930.44	13.77	876.41	11.66
Gain on discounted bond/bills	497.41	8.67	672.17	9.94	1,029.56	13.70
Others Treasury Income	308.66	5.38	505.87	7.48	609.84	8.12
Total Treasury Income	5,736.23	100.00	6,759.19	100.00	7,514.00	100.00

Liquidity Gaps Management

Liquidity gap measures the maturity wise difference between assets and liabilities of a bank as represented by liquidity statement. From table 12, it can be observed that PBL has maintained positive gap in all years in all categories except up to 1 month in 2012 and 1-3 months in 2013 and 2014. It means that PBL has the capacity to meet the liquidity needs when arises.

Table 12: Liquidity Gap of PBL (in million Taka)

Year	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
2010	565.11	538.62	6,244.81	5,078.06	571.53	16,768.52
2011	994.70	396.42	870.42	461.11	16,416.08	19,138.72
2012	(1,518.59)	3,719.54	7,972.75	2,921.43	15,130.99	20,787.04
2013	9,430.78	(13,021.47)	18,613.20	3,154.38	4,852.74	23,029.62
2014	5,391.87	(7,470.08)	23,142.57	153.48	3,242.88	24,460.71

Capital Adequacy Analysis

During the 2010 to 2014, PBL has maintained increasing Tier-I capital (core capital) reaching the highest in 2014 of Tk. 22,611 million and highest regulatory capital of Tk. 27,424 million in the same year also. In percentage composition on average, maximum portion of PBL's Tier-I capital comes from Paid-up Capital (43%) followed by Statutory Reserve (33%), Retained Earnings (13%), Share Premium (11%) and General Reserve (0.13%). On the other hand, the maximum portion of Tier-II Capital (supplementary capital) comes from Subordinated Bond (36%) followed by General provision maintained against unclassified loans / investments (32%) and General provision maintained against off-balance sheet exposure (19%) and Revaluation reserve for fixed assets (8%).

Table 13: Core and Supplementary Capital of PBL (in million Taka)

Items		2010	2011	2012	2013	2014
Total Tier-I capital		15,791	18,744	20,664	21,708	22,611
Total Tier-II capital		5,692	5,485	5,252	5,104	4,812
Total Regulatory capital		21,483	24,229	25,916	26,812	27,424
Risk-weighted Assets		183,747	194,380	205,103	222,791	216,320
Capital Adequacy Ratio						
Tier-I CAR	Required	5%	5%	5%	5%	5%
	Held	8.59%	9.64%	10.07%	9.74%	10.45%
Tier-II CAR	Required	5%	5%	5%	5%	5%
	Held	3.10%	2.82%	2.56%	2.29%	2.23%
Total CAR	Required	10%	10%	10%	10%	10%
	Held	11.69%	12.46%	12.64%	12.03%	12.68%

From table 13, it can be observed that in all years PBL has maintained higher total CAR than the required 10%. In addition, it has also complied with the Tier-I CAR of 5% in all years while the Tier-II was not held to required amount in any years, but they've met the gap by holding more reliable Tier-I capital which indicates the banks financial strength and stability.

Risk Management of PBL

Interest Rate Risk Management

To understand the interest rate risk management of Prime Bank Limited Repricing/Funding Gap Model is used. Table 14 shows the repricing gaps for 2010-14 in 6. Here, it can be observed that the bank has a cumulative negative repricing gap over the years representing more rate sensitive liabilities than rate sensitive assets. It interprets that rising interest rate would have negative effect on the bank's earnings because the bank will have to source fund with higher interest rate while their earlier assets were utilized at lower interest rate.

Table 14: Repricing Gaps of PBL (in million Taka)

Particulars	2010	2011	2012	2013	2014
Payable (repayable) on demand	(2,437.8)	(2,992.6)	(3,421.4)	(2,081.4)	(2,942.9)
Up to 1 month	(3,198.68)	2,790.68	8,242.20	3,036.38	85.60
Over 1 month but not more than 3 months	298.81	103.60	(5,796.03)	(25,442.93)	(27,520.81)
Over 3 months but not more than 1 year	7,083.53	(3,040.12)	6,376.43	13,889.44	21,286.02
Over 1 year but not more than 5 years	5,614.59	(10,310.25)	(6,094.42)	3,809.33	(13,240.77)
Over 5 years	(15,877.60)	(7,518.60)	(20,469.78)	(41,529.19)	(35,138.22)
Total	(8,517.10)	(20,967.29)	(21,163.02)	(48,318.38)	(57,471.08)

In addition, rising borrowing rate will lead the rise in lending rate which is a negative incentive to borrowing, therefore, the bank may need to economize their spread. Reverse scenario can be observed in case of decrease of interest rate. In Bangladesh, as interest rate showed a decreasing trend over the last couple of years as evident by declining yield curve of government securities, the maintenance of negative gap seems logical for Prime Bank. As they are having negative gaps, their liabilities are repricing early on lower interest rate than the assets.

Liquidity Risk Management

Table 15 shows the financing gap/surplus for PBL which is the difference between average loan and average deposit of a bank. It is evident here that PBL has financing surplus is every year as its average loans is lower than the average deposit, therefore, loans can be financed by core deposits without costing its cash and other liquid assets or borrowing funds on the money market those are costlier. It indicates financial soundness of the bank in terms of liquidity and there may be less need for the bank to reach for borrowed funds with high premium in future.

Table 15: Financial Gap/Surplus of PBL (in million Taka)

Particulars	2009	2010	2011	2012	2013	2014
Loan	89,252.22	116,056.52	138,848.43	160,889.85	153,588.76	147,366.65
Average Loan	-	102,654.37	127,452.48	149,869.14	157,239.30	150,477.71

Deposit	106,956.27	124,573.63	159,815.72	182,052.87	201,907.14	204,837.73
Average Deposit	-	115,764.95	142,194.67	170,934.30	191,980.01	203,372.44
Financing Gap	-	(13,110.58)	(14,742.20)	(21,065.16)	(34,740.70)	(52,894.73)

Market Risk Management

Table 16 shows the Daily Earnings at Risk (DEAR) for equity portfolio of PBL for 2011-14. The value of Equity position is the market value of quoted share held as investment. As unquoted shares' values do not change with market, these are not considered here. PBL did not have any quoted share in 2010, so DEAR is not calculated for 2010. The Standard Deviation of market Return is calculated from daily return of DSEX index in 2014 and used as a proxy for every year. It can be seen that the potential daily loss on position increases as the value of position increases. For PBL, the maximum equity position is observed in 2013 of Tk. 256.34 and the potential loss exposure for that year is also the highest at Tk. 2.28 million. On the other hand, the lowest exposure of Tk. 0.52 million is seen in 2011 because of minimum equity position of Tk. 58.40 million.

Table 16: DEAR for Equity Portfolio

Sl.	Particulars		2011	2012	2013	2014
1	Equity Position (million Tk)		58.40	250.51	256.34	238.27
2	Standard Deviation of market Return (m)		0.007412			
3	Beta (B)		1.2			
4	Stock Market Return Volatility	2*3	0.008895			
5	DEAR (million Tk)	1*4	0.52	2.23	2.28	2.12

Conclusion and Recommendations

This study attempts to understand the financial management of Prime Bank Limited (PBL) from different perspectives. It is found that the operating income of PBL was in an increasing trend from year 2010-2012, but changed the direction from 2013 and now, it is in a decreasing trend. This drop has occurred mainly for reduction in NII. For increasing NII, PBL can go for increasing interest income from the lending or reducing cost of borrowing. But, it may create some adverse consequences i.e. reduced volume of lending or borrowing, so increasing the non-funded income by extended customer service can be a logical move for PBL.

On the other hand, Net interest margin (NIM) of PBL remained positive over the years but has a decreasing trend with the lowest in 2014 because of the increased focus of the bank to investment rather loans. The spread is sustaining around 4% in recent years. But, operational efficiency ratio is showing increasing trend which calls for better cost management and fund utilization. In credit quality, the amount of unclassified loan is decreasing over the years while classified are increasing. It results in increasing specific provision. As provision works as a reduction factor of the net income, PBL should check this by giving more emphasize on the credit risk grading (CRG), wholesale or retail decision making under the credit risk management.

PBL has financing surplus in every year, therefore, loans can be financed by core deposits without costing its cash and other liquid assets or borrowing which is more costly. It indicates the financial soundness of PBL in terms of liquidity. Treasury Performance Analysis of PBL shows that PBL's maximum treasury income (66% -69%) comes from interest income on Govt. Securities. The repricing gap schedule is showing a cumulative negative gap which seems rational for Bangladesh as interest rate is decreasing in recent years. But, PBL should be vigilant about interest rates' potential movement as up move can be disastrous for them.

So, overall, the assessment of financial management of PBL results in well positioning of PBL in terms of credit-deposit mix, capital adequacy, treasury performance, liquidity management, and risk management practices. In addition, the areas those call for special focus of PBL management are credit risk management, operating performance, and asset quality management. And, It is hoped that if these are taken care-off PBL will be able to sustain and/or improve its position in the banking sector of Bangladesh.

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