

DIRECTORS' REPORT 2020

Bismillahir Rahmanir Rahim

Dear Shareholders

Assalamu Alaikum Wa Rahmatullah

On behalf of the Board of Directors and the Management, it is indeed a great privilege for me to welcome you to the 25th Annual General Meeting of the Company. We are pleased to place herewith the Directors' Report and the Auditors' Report together with the Audited Financial Statements of the Company for the year ended on 31 December 2020 for consideration, adoption and approval of our valuable Shareholders.

The Directors' Report has been prepared in compliance with the Section 184 of the Companies Act 1994, BSEC's Notification of 03 June 2018, the Dhaka and the Chittagong Stock Exchange (Listing) Regulations, 2015, guidelines of Bangladesh Bank and other applicable rules and regulations. Relevant disclosures and explanations relating to certain issues have been given by the Directors, which they consider important to ensure transparency and good governance practices.

Industry Analysis

The effects of Covid-19 lingered in 2020. Though the economy remained resilient compared to many of the other countries. Timely policies by the Government, intervention by Bangladesh Bank, infusion of funds in majority of the sectors and deferment of provisioning largely controlled a downward spiral. Injection of funds in the banking sectors, with clear directives from the Central Bank to keep lending activities at a sustainable level propped up the real sector. Despite this, banks were cautious in their lending activities and their area of lending activities focused on large institution where the risk element would be minimal.

The NBFIs sector in Bangladesh has faced major challenges in 2020. Loans and advances growth was mixed for NBFIs. Growth for the top ten institutions has been encouraging. However, for majority of NBFIs, liquidity remained a cause for concern with banks refusing credit facilities to NBFIs despite being awash with liquidity. Alternative borrowing platform like deposit mobilizing, sale of zero coupon bonds helped some of the NBFIs to maintain their liquidity balance. The overall growth has been lackluster and majority of NBFIs were compelled to slow down lending activities.

The year saw major outflow of funds with banks abruptly stopping lending to NBFIs and depositors withdrawing their funds prematurely ostensibly for heightened risk perception. The net result has been largely felt in the SME sector, since majority of Non-Banks were concentrating in this sector. Central Bank opened a window for NBFIs which was on reimbursement basis subject to fulfilment of conditions.

In 2020, NBFIs recorded growth in total assets, borrowings, deposits, and capital. In accordance with the Bangladesh Bank, the asset of NBFIs increased by 2.34% to Tk. 871.50 billion in 2019 from Tk. 851.60 billion in 2018. At the end of June 2020, the total assets of NBFIs increased by Tk. 860.30 billion. CMSME loan disbursement by banks and non-bank financial institutions increased by 4.25% to Tk. 1,624.27 billion in 2020 compared with Tk. 1,558.09 billion in 2018. NBFIs' investment at the end of June 2020 was 46.45% in industry, 19.41% in real estate, 2.22% in margin loan, 13.48% in trade and commerce, 3.34% in merchant banking, 2.30% in

agriculture and 12.44% in other sectors. At the end of June 2020, the outstanding of loan/lease was decreased by 1.26% to Tk. 669.54 billion from Tk. 678.10 billion. In addition to decreasing loan/lease, the total NPL was also decreased by 12.51% to Tk. 70.34 billion in 2020 from Tk. 80.40 billion in 2019 respectively.

Industry Outlook

Major efforts by the Central Bank finally resulted in a single digit borrowing and lending rates. Slowdown in the economy on account of the ravages of Covid 19, excess liquidity in the banking system had significantly helped in bringing down the interest rate. This helped NBFIs to bring down their cost of funds and remain somewhat competitive in their lending efforts. Deferment of provisioning of classified account helped to give an encouraging picture for banks and NBFIs. This is likely to have negative impact in financials of Banks and NBFIs in future. Source of funds remains to be a concern for a majority of NBFIs.

Overall economic activities remained subdued with real sector adopting a cautionary and belt tightening approach with limited capacity expansion. Some sectors like Cement, Steel, Pharmaceutical and real estate sector continued to remain buoyant.

Capital Market Scenario

During 2020 the country's capital market remained stagnant with investors remaining in the sidelines with a wait and see policy. Outgoing year was beset with lack of confidence and poor market capitalization. However there were encouraging signs with the change of leadership and there were early signs of a major thrust by the Government in the Capital Market through Initial Public Offerings, liquidity infusion to banks for encouragement in the investment activities in Stock Exchanges.

Business Activities

The prolonged pandemic situation along with continuation of liquidity restraints deteriorate the situation of lending in the market. As a result The Company's loans and advances retained in slow pace like the earlier year. It was more focused on meeting the challenges of repaying debt obligation like bank loans, institutional and public deposits. Many an NBFIs had problems in repayment of its debts which in turn culminated in public getting disillusioned with the financial sector.

Loan/lease portfolio in 2020 ended up with Tk. 8,685.30 mm. Despite the gloom in the Capital Market, the company's own portfolio showed a profit of Tk. (26.41) mm in 2020. Prudent Liability management policy of the company through collection of small size of deposit and imposition of interest on the loans and advances of Subsidiary and Associates resulted in an encouraging bottom line of Tk. 34.42 mm. In the outgoing year, the salary expenditure was markedly reduced as a number of employees resigned voluntarily. The minimal number of employees accomplished the same works as before instead of hiring new ones. This in turn led to reduction in operating costs. Funds from the banking sector remained stagnant throughout the year. The company intensified its efforts in Liability Management and started mopping up liquidity at a slightly higher rate. The recovery drive moved into overdrive and the company had an optimistic degree of success with decrease of provision to the tune of Tk. 60.93 mm in the outgoing year.

Principal Activities

Prime Finance continues to adhere to its core operation of lending in SME, Agricultural and Service sector. During the year under review there was no change in the nature of the principal business activities.

Financing Activities

During the year total disbursement of loan was Tk. 45.10 million where almost 99.78% was SME Financing. Due to the continued cautionary approach in terms of quality financing, we improved provisioning and reduced Tk. 60.93 million as provision against total classified loans of Tk. 1,056.57 million. NPL 14.80% was mainly driven by the exposures to the corporate before we started the navigational change. Considering the competitive market edge we were rational in fixing lending rate and sometimes diverged from ensuring three percent spread. As per directives of the regulatory authority number of contracts were deferred till the next year or restructured. Rescheduled was possible for a very few number of clients as to maintain the classification guideline. These altogether sketched the bottom line of the Company.

Term Finance

Term finance continued to be a leading product for Prime Finance. The strategy of focusing on the profitable but low risk business was continued. Particularly in this area, the market was characterized by severe competition and hence strong pressure on margins. Despite this difficult market environment, we managed to book few new businesses and our disbursement in term finance was Tk. 45.10 million in 2020.

Lease Finance

Lease financing, principal fund based activity of the Company, represents asset based financing. In the past years through lease financing we facilitated small and medium type of enterprises to access to the finance. We offer leasing as a modern financial instrument for managing corporate investments in movable equipment. We concentrated only on full payout financial lease transaction for financing a wide range of capital machinery, equipment and vehicles.

Liquidity and Funding

Distressing liquidity constraints continued throughout the year. This severely affected the funding activities of the company. As a result the company remained in a funding mismatch in terms of its Inflow and Outflow. We can only look for the optimistic signs that the money market is going to improve in the near future with imposition of few measurement taken by the authority which goes in favor of the NBFIs.

Operating and Financial Performance of the Company

Loans, advances and leases of the company recorded at Tk. 8,685.03 mn on 31 December 2020 registering 3.99% down against last year. Company's investment in shares decreases by 21.35% on 31 December 2020. Deposit stood at Tk. 5,428.14 mn resulting 1.49% diminution against last year. Under the circumstances, the Bank borrowing of the company was narrowed by 2.48% representing less dependency on bank fund. Due to current year's profit, equity attributable to shareholders' of the company increased to Tk. 3,209.35 mn as compared to Tk. 2,440.13 mn of last year.

Gross interest income of the company was Tk. 836.31 mn which was 21.15% lesser than that of 2020. Other income of the company was decreased by Tk. 21.20 mn. Operational expenses in 2020 were decreased by 23.21% and provision for loans, advances, leases and shares decreased by Tk. 43.80 mn.

The financial results of the Company for the year 2020 are summarized below:

(BDT in million except EPS)	2020
Operating revenue	774.60
Operating expenses	132.15
Profit before tax	43.65
Provision for tax	0.64
Profit/loss after tax	43.02
Earnings Per Share (EPS)	0.16

Significant deviation in operating result

During the year interest Income has reduced due to reduction of loan/lease portfolio and slow recovery resulting from prolonged effect of Covid-19 situation. Besides, interest expense has reduced as a result of lessening the interest rate against deposit and Bank Borrowings. Operating expenses was reduced significantly for taking appropriate measures by shifting offices of the Company to less costly spaces.

Significant variance between quarterly and annual result

The main reason for significant deviation in net profit/(loss), Net asset and Net Operating Cash Flow between Quarterly and annual results was due to decrease in revenue income resulting from slow recovery and loss incurred from capital market operation of the company.

Five Years' Financial Summary

Key operating and financial summary of preceding 5 (five) years of the company are the part of this report and have been summarized on 17 no. page of this Annual Report.

Share of loss/income from subsidiary and associate companies

Subsidiary and associate companies of Prime Finance & Investment Limited are engaged truly in capital market. During the year our proportionate sharing of loss/income from the subsidiary and associates were as follows:

Name of the Company	Status	Equity %	Income/ Loss	Proportionate sharing of Income/ Loss
Prime Finance Capital Management Limited	Subsidiary	60.00%	(8.59) mn	(5.16) mn
PFI Securities Limited	Associate	46.15%	3.54 mn	1.64 mn
Prime Finance Asset Management Co. Ltd.	Associate	49.00%	0.35 mn	0.17 mn
Prime Prudential Fund Limited	Associate	40.00%	0.48 mn	0.19 mn

Directors' report and audited financial statements of the subsidiary are given on 124 & 130 no. pages of this Annual Report.

Related Party Transaction

Compliant steps have been taken by the Board to avoid any conflict of interests that may arise, in transacting with related parties as per the definition of BAS & BFRS. A statement of related party transactions has been presented in note no. 41 on page 114 of this Annual Report.

Capital Expenditure

Capital Expenditure on acquisition of property, plant, computer applications, software and equipment of the Company amounting to Tk. 2.63 million (Tk. 4.39 million in 2019). The detailed note on acquisition of Property, Plant and Equipment is given on page 118 of this Annual Report.

Dividend

The Company will not paying any dividend for the year ended 2020. The Board of Directors in its meeting held on 31 August 2021 noted the regulatory restriction on declaration of dividend and recommended "No Dividend" for the year 2020. As per Article-89, Schedule-I of the Companies Act, 1994, dividend shall be declared out of profit i.e. from current year's profit and from previous years' retained profit. Although during the year ended the Company has registered income of Tk. 34.42 mn. The Board also states that no bonus shares or stock dividend has been paid during the year or will be paid in future as interim dividend.

Dividend Disbursement Policy

The Board of Directors formulated and approved the dividend disbursement policy in compliance with BSEC's Directive Ref. No. BSEC/CMRRCD/2021-386/03 dated 14 January 2021. The Dividend Disbursement Policy is disclosed in the official website of the Company.

Directors' Responsibilities for Financial Statements

The Board is responsible to present a fair, balanced and understandable assessment of the Company's position and prospect as part of good corporate governance and to that end the directors confirm to the best of their knowledge that-

1. the Financial Statements, prepared by the Management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
2. proper books of account as required by the law have been maintained;
3. appropriate accounting policies have been consistently applied in preparation of the Financial Statements and that the accounting estimates are based on reasonable and prudent judgments;
4. the Financial Statements was prepared in accordance with IAS/BAS/IFRS/BFRS;
5. the system of internal control is sound in design and has been effectively implemented and monitored.

Going Concern

The Board of Directors has reviewed the Company's overall business plans, strategies and is optimistic that the Company has adequate resources to continue its operations.

Accordingly, the financial statements of the Company are prepared based on the going concern concept.

Risk and Concerns

The Board of Directors is in charge of determining the Company's fundamental attitude toward risk while setting out the risk principles as well as the level of risk exposure. The Board of Directors are responsible for formulating risk policies, determining methods to measure and manage risk, setting commensurate risk limits and monitoring their performance. Fundamentally, the company believes in managing risk in a forward-looking manner and steering credit, interest rate, liquidity, market and operational risks through establishing strategies, models and parameters. The principles of Prime Finance's risk management philosophy are:

- Effectively managing and monitoring credit, interest rate, liquidity, market and operational risk and providing for appropriate allocation of capital among the types of risk;
- Managing risk in a forward-looking manner and identifying and analyzing risks from the beginning with the help of steering risk strategies, models and parameters;
- Creating maximum value for the shareholders, depositors and employees in long term;
- Being financially reliable and strong and establishing business relations with the stakeholders that will last for many years by creating the image of a financial institution that will stay in business permanently;
- Complying with guiding principles of Bangladesh Bank.

Management Discussion & Analysis

Pursuant to the BSEC's Notification dated 03 June 2018, the management discussion and analysis report is given on page 40 of this Annual Report.

Report on the Compliance of the Conditions of BSEC's Notification

In accordance with the BSEC's Notification dated 03 June 2018, the Board of Directors is required to report on the compliance of certain conditions. The notification was issued for the purpose of establishing a framework for ensuring good governance practices in the listed companies for the interest of the investors and the capital market. A statement on the compliance with the BSEC's conditions is given on page 51 of this Annual Report.

Pattern of Shareholding

The pattern of Shareholding of the Company as at end of the year 2020 is shown on page 48 of this Annual Report.

Directors' Meeting, Attendance & Remuneration

During the year ended on 31 December 2020 total 4 (four) meetings were held. The attendance in the Board meetings by each Director is given on 49 no. page of this Annual Report. Please note that the amount of total remuneration which has paid to the Directors including Independent Directors is given in note no. 30 on 111 no. page of this Annual Report.

Directors' Appointment & Re-appointment

As per Article no. 67 of the Articles of Association of the company, one-third of the Directors of the Company are required to retire by rotation at 25th Annual General Meeting (AGM) and being eligible the following members offered themselves for re-election as per Article no. 69 & 72 of the Articles of Association of the Company:

1. Mr. Md. Aminul Haque;
2. Mr. Tauseef Iqbal Ali;
3. Engr. Salah Uddin Ahmed;
4. Mr. Uzzal Kumar Saha.

The first tenure (3 years) of Mr. Ahmed Kamal Khan Chowdhury as Independent Director expired on 28 July 2021. Accordingly, the Board of Director reappointed him for further period of 3 years with effect from 29 July 2021. His reappointment is placed in the Annual General meeting for approval of Shareholders.

Biographies of the Directors proposed to be re-elected or re-appointed are given in 19 page of this Annual Report and the names of the Company where they have interest are mentioned in note no. 43 on 115 no. page of this Annual Report.

Corporate governance

Fundamentally, the conduct of the company is guided by our core values, our code of ethics and a commitment to openness and transparency. Prime Finance's Board of Directors endeavors always to provide learned and strategic direction for the company through applying the highest standards of corporate governance practice. To this end, we comply with all reporting regulations and requirements as defined in the Corporate Governance Code issued by the Bangladesh Securities and Exchange Commission. We establish necessary policies and procedures to protect the Company from risk and to provide it with clear strategic direction. We work to ensure all governance matters are transparent to shareholders as well as stakeholders through channels such as the Annual General Meeting (AGM), quarterly financial statements and this annual report. Besides, the minority shareholders have been protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and have effective means of redress.

Appointment of External Auditor

A.Qasem & Co., Chartered Accountants, has completed their third year as the statutory auditors of the Company. As per DFIM Circular no. 04 dated 30 April, 2015 of Bangladesh Bank, BSEC's order dated 27 July 2011, and Regulation # 15(2) of the Dhaka & the Chittagong Stock Exchange (Listing) Regulations, 2015, a Financial Institution can appoint any audit firm as its statutory auditors for a consecutive period of three (3) years. As a result, A. Qasem & Co., Chartered Accountants has carried out the audit consecutively their three years as statutory auditor of the company. On the basis of the proposal of the Board's Audit Committee, the Board recommends the appointment of Hoda Vasi Chowdhury & Co., Chartered Accountants, as the statutory auditors of the Company for the year 2021 and fixes their remuneration of Tk. 300,000/- (Taka three lac) only plus VAT. Now in exercise of the power conferred upon Section 210(10) of the Companies Act, 1994 the shareholders of the company will approve the appointment.

Appointment of Corporate Governance Code Compliance Auditor for the year 2020

In accordance with the BSEC's Notification dated 03 June 2018, the professional who will provide the certificate on compliance of this Corporate Governance Code shall be appointed by the shareholders in the annual general meeting. On the basis of the proposal, the Board recommends the appointment of SARashid & Associates, Chartered Secretaries, as Corporate Governance Code Compliance Auditor for the year 2021 at a fee of Tk. 30,000/- (Taka thirty thousand) plus VAT. Now in exercise of the power conferred upon the section 2CC of the Securities and Exchange Ordinance, 1969, the shareholders of the company will approve the appointment.

Business Outlook

The company will continue to capitalize on its strengths to generate sustainable revenue from Retail SME, SME and Corporate Financing, while expanding opportunities in Consumer Finance, Factoring, Treasury and Deposits. We will continue concentrating more on improving asset quality and strict recovery programs. Competition will remain intense among the NBFIs and Banks both in terms of asset and liability. As a result, interest spreads will continue to be under pressure like the previous year. Besides, we are concentrated on innovation and development to launch new products and services. To keep the pace, we hope to design more new products in the future. Overall, we are confident of recording a better financial performance for the year 2020.

However, "Outlook" section in this document is based on assumptions and the actual outcome is uncertain and the stakeholders will be judicious while reviewing this section.

Signing of Report

The Board in its 282nd meeting held on 31 August 2021 authorized the Chairman, Mr. Mohammad Masudur Rahim to sign Directors' Report 2020 and any addendum thereto.

Acknowledgement

We would like to acknowledge and place on record our gratitude to our valued clients, depositors and shareholders for the confidence in Prime Finance. Our sincere appreciation to the Bangladesh Bank, Bangladesh Securities and Exchange Commission, Dhaka and Chittagong Stock Exchanges, NBR, Banks and Financial Institutions, other government bodies and statutory auditors for their constructive suggestions and cooperation. We also express our appreciation for the dedication and efforts put in by the employees at all levels of the company.

For and on behalf of the Board,



Mohammad Masudur Rahim

Chairman

Dhaka, 31 August 2021