

An Internship Report On

Credit Risk Management of Prime Bank Limited

**Submitted By
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**Submitted To
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Date of submission: August 21, 2014



Letter of Transmittal

Date: 21.08.14

Mr. Mahmudul Haq
Assistant Professor
BRAC Business School
BRAC University

Subject: Submission of Internship Report.

Dear Madam,

It is a great pleasure and privilege to present the internship report titled “ **Credit Risk Management of Prime Bank Limited**”

This was assigned to me as a partial requirement for the completion of MBA Program.

Throughout the study I have tried with the best of my capacity to accommodate as much information and relevant issues as possible and tried to follow the instructions as you have suggested. I tried my best to make this report as much informative as possible. I sincerely believe that it will satisfy your requirements. However sincerely I believe that this report will serve the purpose of my internship program.

I am grateful to you for your guidance and kind cooperation at every step of my endeavor on this report. I shall remain deeply grateful if you kindly take some pan to go through the report and evaluate my performance.

My effort will be reworded only if it adds value to the research literature

Shantanu Ghose
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Preface

The discussing report is the terminal formalities of the internship program for the degree of Master of Business Administration course of BRAC Business School of BRAC University which is compact professional progress rather than specialized. This report has prepared as per academic requirement of after the successfully completion of 3 (three) months internship organized at Prime Bank Limited, at Gulshan Branch with the view to familiarized the students with the practical implementations of the knowledge provides the theoretical aspects of practical life.

It is my pleasure and great privilege to submit my report titled "" **Credit Risk Management of Prime Bank Limited**"" worked out at **Gulshan Branch**.

As the presenter of this report, I have tried my level best to get together as much information as possible to enrich the report while working at Credit Department of Prime Bank Limited. I believe that it was a fascinating experience to work in the banking sector and it has enriched both my knowledge and experience.

However, after all this, as a human being, I believe everyone is not beyond limitation. There might have problems regarding lack and limitation in some aspects and also some minor mistake such as syntax error or typing mistake or lack of information. Please pardon me for that mistake and clarify these of my further information on those matters.

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Acknowledgement

First of all I am expressing my sincere gratefulness to Almighty for enabling me to prepare this term report in a complete form.

In our country getting information is not easy, no one is so steadfast to provide all information of the concern, though they are many time assured that the information will be used only for educational purpose only.

I would like to thank my supervisor, Mr. Mahmudul Haq, Assistant Professor of Brac Business School, Brac University, for his continuous support and guidance throughout the internship period. I am extremely thankful to the management of Prime Bank Limited and Credit Risk Department for helping me to complete my internship report.

Finally, I would like to thank all the team members of corporate banking division, credit administration division of Prime Bank Limited for their sincere help and prompt co-operation.

All of these people were very co-operative throughout the preparation of the Report paper. Once again I thank them all.

Shantanu Ghose
ID # 11164072
MBA Program

Executive Summary

To accomplish the requirement of our M.B.A. program at Brac University, this report has been done in a renowned Bank named Prime Bank Limited. During the three months long internship program, it has been oriented with the banking operation of commercial bank.

As a report work paper is to be developed on the direct observation of the banking operation, the topic named “**Credit Risk Management by PBL**”. Bangladesh Bank continuously provides different guidelines as mandatory to operate the banking business or service. In compliance to the CIB report by Bangladesh Bank, Prime Bank limited develops different manuals on credit and credit risk management and keeps them in written with every Branch of the PBL.

Prime Bank Limited maintains the robust Credit Risk Management Policy to handle the credit risk furnish proper credit assessment & approval procedures, remedies to default credits.

Before developing a research paper on “**Credit Risk Management by PBL**”, here the PBL with its Business activities, products and services, financial position & reviews are given. Furthermore, some numerical figures and graphs are presented complied with the research work. These numerical figures and graphs will represent the bank with its financial activities to basic operations and credit management.

At the final explanatory section different Bibliography and Appendices have been attached with.

This research report is an empirical study on Credit Risk management by Prime Bank Limited, an emerging commercial bank in Bangladesh.



CHAPTER-1

INTRODUCTION

1.1 Origin of the Report:

Learning knowledge becomes worthy and useful when it is implemented in the practical field. That is why learned people say - theoretical knowledge tests its perfection with application or theoretical education must be backed by real life practice. The importance of practical knowledge along with academic education is increasing day by day. For this the assignment has been introduced as an integral part of the degree Master of Business Administration (MBA). I am very much delighted to have the opportunity to prepare this assignment. I was assigned to prepare an assignment on Credit Risk Management of Prime Bank Limited . I have applied for my best effort to analyze the relevant information, conversation, web page information, journal, reference, relevant books and data. In spite of time limitation and other difficulties, I have tried my level best within the shortest possible time to cover all the significant aspects of the topics.

1.2 Objective of the Study:

The main objective of the study is to reflect the practical knowledge that I have gained during the course of time and to relate the long theoretical and practical report analysis. Besides this broad objective, the following were given emphasis-

- To know the operation of commercial banks in Bangladesh.
- To get an overall idea about the management policy of PBL as well as commercial Bank.
- To know about over all foreign exchange operation of PBL Sonargaon Road Branch.
- To evaluate the performances of . Credit Risk Management of Prime Bank Limited
- To relate theoretical knowledge with practical experiences in several functions of the Bank.
- To know the tasks of different department of the bank
- To describe the customer service process of PBL Bank Limited
- To know about the culture that the bank follows
- To identify how the bank is careful to segregate the duties & responsibilities of all employees.
- To identify the main problems that the bank is facing.

1.3 Scope of the Report:

The report is highlighting the major functional area of credit department and procedure of credit assessment & approvals it could minimize the default credit risk. It is not possible to pinpoint the each & every aspects of credit due to this short span of time.

1.4 Methodology of the study:

The methodology of this report is very different from conventional reports. Here the report was based on practical observation though this report has to need some primary and secondary data. Nevertheless, eventually almost the entire report consists of the practical observation. While preparing the report, information were collected from the following sources:

1.4.1. Primary Sources:

- Direct Observation of banking activities,
- Conversation with the in-charge officers of the Credit department,
- Customer dealing while internship program,
- Dealing with some credit approvals directly.

1.4.2 Secondary Sources:

- Various publications on banking operation,
- Website of Bangladesh Bank,
- Website of Prime Bank Limited,
- Annual Report of the Prime Bank Ltd,
- Different prospectus about the credit products,
- Personal investigation with bankers,
- Different circulars issued by Head Office and Bangladesh Bank.

1.4.3 Data Analysis:

- Annual Report of the Prime Bank Ltd
- Different prospectus about the credit products,
- Various publications on banking operation

1.5 Limitations of the Report:

This report is subject to the following limitations;

- ➡ The study was limited only to the Prime Bank Limited.
- ➡ The credit risk department was so busy that it was really difficult to get information as required for the study although they have good intention to provide.
- ➡ Three-month time is not sufficient to have practical knowledge and prepare such a report on Credit Risk Management.
- ➡ While collecting data they did not disclose much information/data due to the secrecy of the organization.
- ➡ Limited access to the observation of credit activities of the department



CHAPTER-2
OVERVIEW OF
PRIME BANK LIMITED (PBL)

2.1 Background of Prime Bank Limited (PBL):

Prime Bank started its journey in the year 1995 with the firm commitment of providing superior customer service with a difference. Its vision remained to be the best private commercial bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability. Having recorded progress in all areas PBL has now established itself as the leading and strongest among private commercial banks in Bangladesh.

PBL was formally launched in April 1995 with one branch at Motijheel Commercial Area, Dhaka. It started its Islamic Banking operations in December of the same year. It was listed with both the bourses of Bangladesh viz. Chittagong Stock Exchange and Dhaka Stock Exchange in 1999 and 2000 respectively through initial public offering. It was registered as Merchant Banker with the Securities and Exchange Commission, Bangladesh in 2000 for starting its Investment Banking and Advisory services.

In 2003 PBL became primary dealer for buying and selling securities under the license issued by Bangladesh Bank.

The Bank has also expanded its services cross border with a view to providing banking services globally. It has opened its first fully owned subsidiary - Prime Exchange Co. PTE Ltd. in Singapore, which started its operation from 8th July 2006 to offer remittance service to Bangladeshi nationals living in Singapore. This is the first ever fully owned Exchange Company of a Private Sector Bank of Bangladesh established in Singapore with the approval of Bangladesh Bank and the Monetary Authority of Singapore. Opening of a fully owned subsidiary in Singapore has added a new dimension to the Bank's remittance operation widening its global reach for remittance services.

Offshore Banking is a unique solution for Banks across the globe to carry out international banking business involving Non-resident foreign currency denominated assets and liabilities taking the advantages of low or nonexistent taxes/levies and higher return on investment. With the aim to offer innovative banking service to the Non-resident customers, PBL opened its first Offshore Banking unit in 2007 at DEPZ, Savar, a new dimension in its customer friendly business activities.

2.2 Mission, Vision & Core Values of Prime Bank Limited:

Vision of PBL:

To be the best private commercial bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity.

Mission of PBL:

To build prime bank limited into an efficient, market driven, customer focused institution with good corporate governance structure.

Continuous improvement in our business policies, procedures and efficiency through integration of technology at all levels.

Core values:

For customers ➤	To become most caring bank by providing the most courteous and efficient service in every area of our business.
For employees ➤	Promoting being of the members of the staffs
For shareholders ➤	To ensure fair return on their investment through generating stable profit.
For community ➤	Assume its roles as socially responsible corporate entity in a tangible manner through close adherence to national policies and objectives

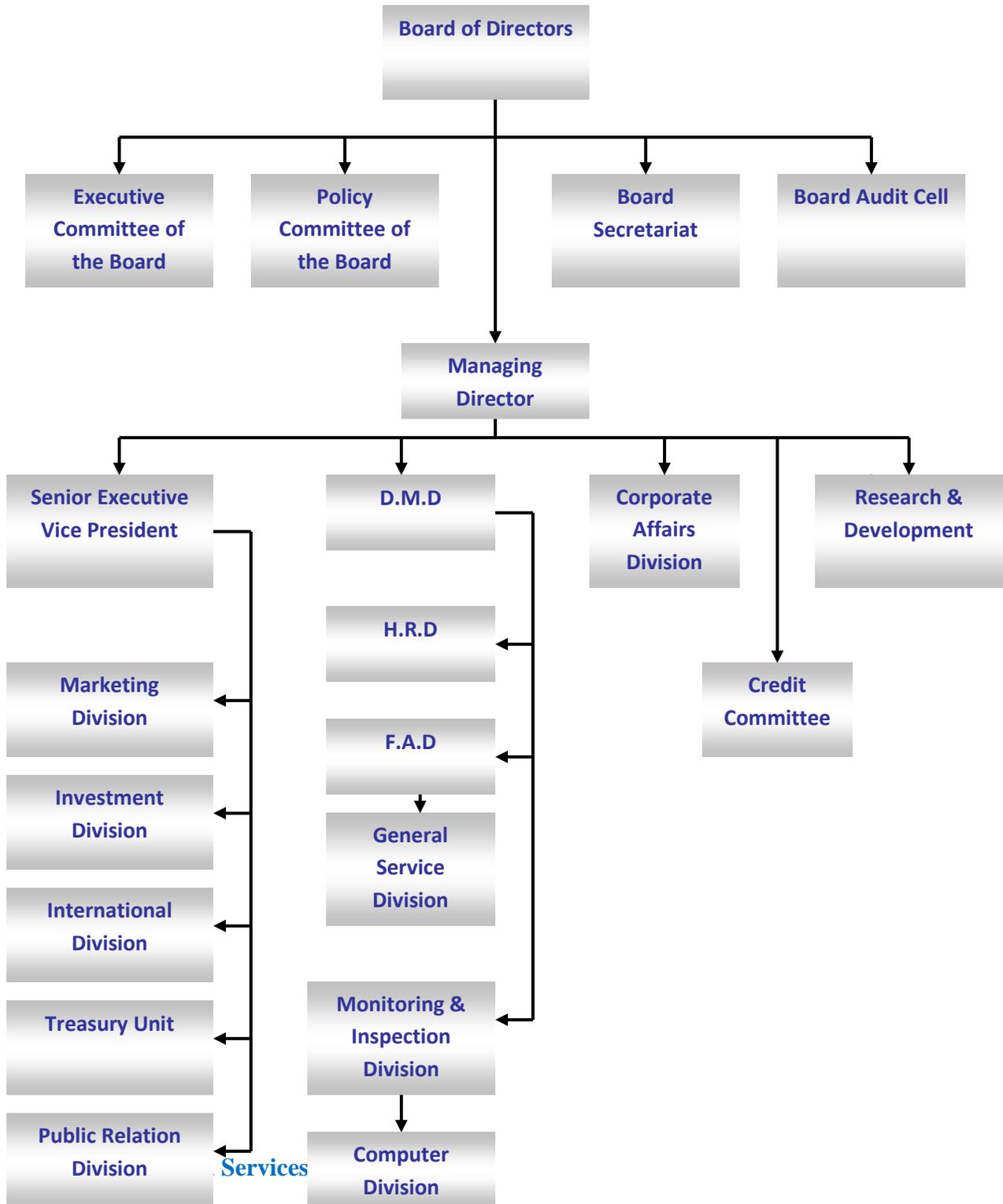
2.4 Corporate Operation:

Prime Bank's corporate business provides tailored services to corporate and institutional clients. The financing is based on both conventional and Islami Shariah mode. While providing large loans to our customers, the policy of Bangladesh bank is strictly followed. The customer relationship program has been strengthened and frequent interaction has been ensured to care the growing needs of our customers. Corporate finance in both modes - conventional and Islami Shariah showed steady growth. PBL has been a dominant player in arranging syndicated loan for its customers. PBL already proved itself as a trusted partner of both syndication participants and large loan borrowers and it is expected that demand for structured projects. The sectors of financing include pharmaceuticals, chemicals, cement, ceramic, steel micro finance, food and allied industry, power station, infrastructure. It raises funds from the market for financing term loans, working capital at the most competitive rates under secured terms and condition.

2.5 Corporate Governance and ICS of PBL:

The bank has given proper importance to the compliance of all the rules, regulations and guidelines of Bangladesh bank, Securities and Exchange Commission and other regulatory bodies. The board approves the bank's budget and review the business plan of the bank on monthly basis so as to give direction as per changing economic and market environment. The board reviews the policies and operating procedures of the various segments of business in order to effective risk management in credit and other key areas of operations. Board meetings are held regularly at least once in each month. Board/EC reviews the compliance of their directives by the Management. The Board, EC and the Audit Committee are updated on new regulation and statutory requirements. The External Auditors are given absolute freedom to conduct audit and to verify the compliance, risk management and preparation of accounts as per prescribed standard. Audit Committee discusses with the external Auditors regarding the financial statements etc. To improve awareness on corporate governance the members of the Board and the Management are encouraged to join seminar, workshops and other programs. We have taken steps for rating of the Bank every year in order to give a level playing field for the investors.

2.6 Organogram of Prime Bank Limited:



2.7 Products and Services of PBL:

Prime Bank Limited offers various kinds of deposit products and loan schemes. The bank also has highly qualified professional staff members who have the capability to manage and meet all the requirements of the bank. Every account is assigned to an account manager who personally takes care of it and is available for discussion and inquiries, whether one writes, telephones or calls.

Deposit Products

- Monthly Contributory Savings Schemes (CSS)
- Monthly Benefit Deposit Receipt (MBDR)
- Special Deposit Receipt Scheme (SDR)
- Education Savings Scheme (ESS)
- Fixed Deposit Receipt Scheme (FDR)
- Current Account
- Savings account
- Short Term Deposit

Loan Schemes:

- ✚ General Loan Scheme
- ✚ Consumer Credit Scheme
- ✚ Lease Finance
- ✚ House Building Loan & Apartment Loan Scheme
- ✚ Advance against Shares
- ✚ Custodial Services for investors (both individual & institutional) investing in through Stock exchange.

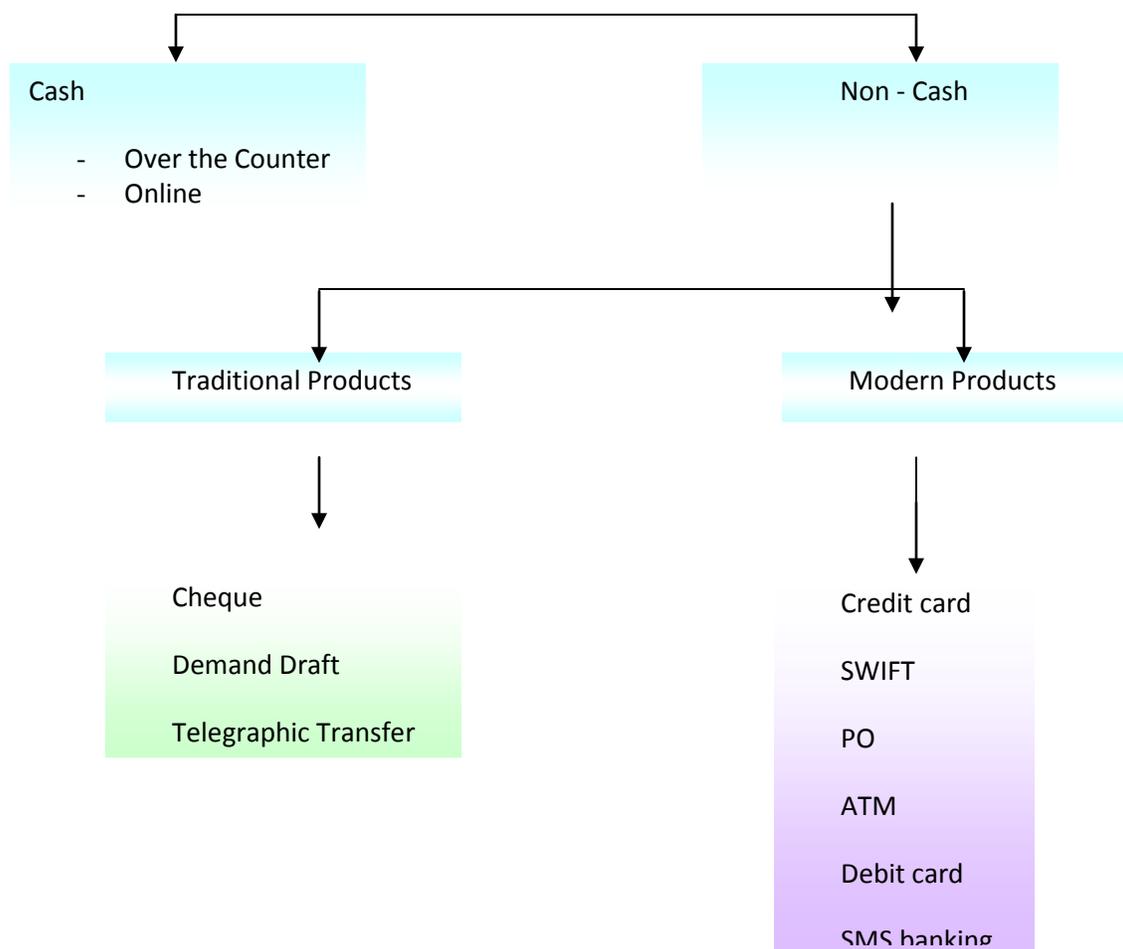
✚ One stop services for payment of utility bills.

✚ Credit card

2.8 Payment and Transaction Product of PBL:

PBL's firm commitment to excellent customer service delivery has resulted to remarkable progress in all areas of operation during 2010. PBL adopted various payment and transaction products and services for smooth payments and transactions for the customers. These include both traditional and modern products. Traditional products still dominate the lion share of the payment and transaction of the country as the NCBs are still lagging behind modern technology application. As such the traditional products remained main product for semi urban and rural areas where PBL operates.

Payment and Transaction Product of PBL



Customer service improvement program and related activities are continuously being developed, reviewed and implemented with the objective of providing excellent service to our customers. In order to give easy access to our products and to give best possible services at the doorstep of our existing and potential customers, the Bank introduced Direct Selling Services by recruiting highly trained and customer focused professionals. Locker service is provided to the customers for keeping their valuables under safe custody. Special counters are usually opened to meet the service demand of customers during heavy customer flow, especially during IPO offering, Bill collection, Eid holidays etc.

2.9. An Overview of Gulshan Branch, Dhaka:

Name of the Branch :	Gulshan Branch
Date of Establishment :	1998
Address :	Plot # 1,Block CEN(H), Road # 109,Gulshan Avenue,Gulshan,Dhaka-1212, Bangladesh
Phone no :	(02) 8815885
Fax :	880-2-9884977
Web-Site :	www.primebank.com.bd

Prime Bank Limited started its operation in the year 1995 as “A bank with a difference”. Out of 140 branches of the Bank Gulshan branch was established in 1998. Because of its popularity and management’s commitment toward social well being gradual expansion of Prime Bank’s Banking operations is assured.



CHAPTER-3

CREDIT RISK MANAGEMENT

3.1 Credit risk management:

Credit risk is a risk where the borrower may not be able or willing to repay the debt he or she owes to the Bank, or to honor other contractual commitments. Despite continual development and improvement of the Bank's credit risk management system, running a commercial bank inevitably entails exposure to a certain level of credit risk. The Bank deals with these credit risks by establishing different levels of authority for credit approval depending on the type of business and / or the size of the credit line. In approving each loan application, the Bank considers the purpose of the loan, assesses the repayment ability from the applicants operating cash flows, business feasibility, capability of management and collateral. The Bank also reviews the levels of credit risk ratings on a regular basis.

Credit risk is risk due to uncertainty in a counterparty's (also called an obligor's or creditor's) ability to meet its obligations. Because there are many types of counterparties—from individuals to sovereign governments—and many different types of obligations—from auto loans to [derivatives](#) transactions—credit risk takes many forms. Institutions manage it in different ways. In assessing credit risk from a single counterparty, an institution must consider three issues:

- **Default probability:**

What is the likelihood that the counterparty will default on its obligation either over the life of the obligation or over some specified horizon, such as a year? Calculated for a one-year horizon, this may be called the **expected default frequency**.

- **Credit exposure:**

In the event of a default, how large will the outstanding obligation be when the default occurs?

- **Recovery rate:**

In the event of a default, what fraction of the exposure may be recovered through bankruptcy proceedings or some other form of settlement? When we speak of the credit quality of an obligation, this refers generally to the counterparty's ability to perform on that obligation. This encompasses both the obligation's default probability and anticipated recovery rate.

The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

Most of a bank's funds are used either to make loan or to purchase debt securities. For either use of funds, the bank is acting as a creditor and is subject to credit (default) risk, or the possibility that credit provided by the bank will not repaid. The type of loans provided and the securities purchased will determine the overall credit risk of the asset portfolio. [A bank also is exposed to credit risk if it serves as guarantor.

An important part of credit risk management is to measure it. This requires a credit assessment of loan applicants. The bank employ credit analyst who review the financial information of a corporation applying for loans and evaluate their creditworthiness. The evaluation should indicate the possibility of that a firm meet its loan payment so that the bank can decide whether to grant the loan.

3.2 Principles of Credit risk management:

- ❖ While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties.
- ❖ Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks.
- ❖ A prudent Banker should always adhere to the following general principles of lending funds to his customers.
 - Background, Character and ability of the borrowers
 - Purpose of the facility,
 - Term of facility,

- Safety,
 - Security,
 - Profitability,
 - Source of repayment,
 - Diversity.
- ❖ Since exposure to credit risk continues to be the leading source of problems in banks world-wide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred.
- ❖ While the exact approach chosen by individual supervisors will depend on a host of factors, including their on-site and off-site supervisory techniques and the degree to which external auditors are also used in the supervisory function. For smaller or less sophisticated banks, supervisors need to determine that the credit risk management approach used is sufficient for their activities and that they have instilled sufficient risk-return discipline in their credit risk management processes.
- ❖ A further particular instance of credit risk relates to the process of settling financial transactions. If one side of a transaction is settled but the other fails, a loss may be incurred that is equal to the principal amount of the transaction. Even if one party is simply late in settling, then the other party may incur a loss relating to missed investment opportunities. Settlement risk (i.e. the risk that the completion or settlement of a financial transaction will fail to take place as expected) thus includes elements of liquidity, market, operational and reputational risk as well as credit risk. The level of risk is determined by the particular arrangements for settlement. Factors in such arrangements that have a bearing on credit risk include: the timing of the exchange of value; payment/settlement finality; and the role of intermediaries and clearing houses.

3.3 Internal and external risk factors of credit risk:

The landing risk is to be primarily calculated from two angles, namely, Business risk and security risk. The Business risk is again divided under two categories of risk, i.e., industrial risk and company risk, which again divided into six categories of risks, namely, supply, sales,

performance, reliance, management competence and integrity risks, the security risk has been divided into security control and security cover risks.

A form has been designed by the FSRP to help assessment of these risks. The form and a short description is given below

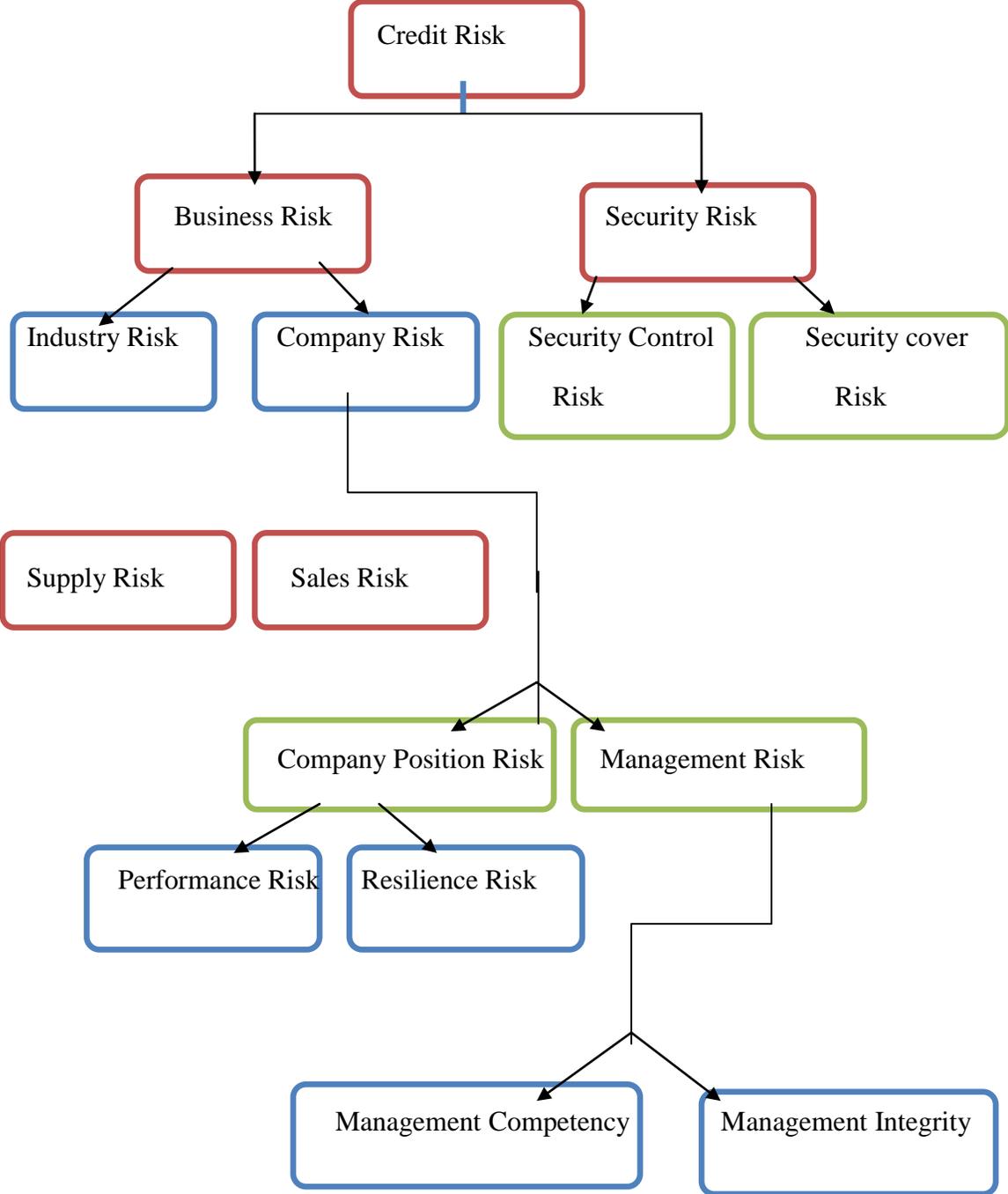


Chart No-1: Flow chart of different Credit Risk

3.3.1 Business Risk

Supplies Risk: Supplies risk indicates the risk that the business suffers from external disruptions to the supply of inputs. The components of supplies risk are labor, power, machinery and equipment, factory premises, raw materials etc.

Sales Risk: Sales risk refers to the risk that the business suffers from external disruption to sales. Sales may be disrupted by changes to market size, increase in competition, changes in regulations or due to the loss of a single large customer.

Company Risk: Company risk is of two categories – Company Position Risk and Management Risk. Company Position Risk is of two kinds – Performance Risk and Resilience Risk. Management Risk may be Management Competence Risk and Management Integrity Risk.

Company Position Risk – Performance: Performance risk represents the risk that the company's financial position may be so weak that it will be unable to repay the loan, even under favorable external conditions.

Company Position Risk – Resilience: Resilience risk refers to the risk that the company fails due to lack of resilience to unexpected external conditions. The resilience of a company depends on its leverage, its liquidity and the strength of its connections.

Management Risk – Management Competence: It refers to the risk that the company fails because the management is incompetent. The competence of the management depends upon their ability to manage the company's business efficiently and effectively.

Management Risk – Management Integrity: Management integrity risk is the risk that the company fails to repay loan due to lack of management integrity. Management integrity is a combination of honesty and dependability.

3.3.2 Security Risk

Security risk is of two categories – Security Control Risk and Security Cover Risk.

Security Control Risk: Security Control Risk refers to the risk that the bank fails to realize the security. The risk of failing to realize the security depends on the difficulty with which the bank can both obtain a favorable judgment and take possession.

Security Risk – Security Cover: Security cover risk refers to the risk that the realized value of security is less than the exposure; security cover depends on speed of realization and liquidation value.

3.4 Benefit of credit risk management:

Maximize the value of your risk-management activities

Effective credit portfolio management is critical to the financial health of your company. Your goal is to drive profitability through the acquisition of new customers and the ongoing management of customer relationships. This means setting the right credit amount and terms at account origination and, on revolving lines of credit, determining the right credit-line adjustments to profitably grow and retain existing customers.

1. Gain a competitive advantage
2. Maximize the portfolio profitability
3. Make appropriate risk-reward decisions like:
 - Set credit strategies that increase profitability while minimizing credit losses
 - Determine how frequently to adjust credit lines in your portfolio
 - Know how much additional credit to extend to a customer based on his or her behaviors and your overall portfolio goals
 - Create effective risk-adjusted pricing strategies
 - Calculate the incremental impact on profit and losses if you alter your credit policies
4. Gain more control and insight
5. Manage existing customers
6. Maximize collections effectiveness



CHAPTER-4
CREDIT RISK
MANAGEMENT
BY PBL

4.1 Credit Risk Management by PBL:

4.1.1 Risk Management:

The Risk of PBL is defined as the possibility of losses, financial or otherwise. In today's challenging financial and economic environment effective risk management is vital for sustainable growth of shareholders value. The major areas, of risk in which the activities of the banking operation are exposed to, are Credit Risk, Liquidity Risk, Market Risk, Operation Risk and Reputation Risk due to Money Laundering Risk. Market risks include Foreign exchange risk, Interest rate risk and Equity risk.

4.1.2 Risk Management Process:

PBL's activities involve analysis, evaluation, acceptance and management of some risk or combination of risks. Risk management is emphasized not only for regulatory purpose but also to improve operational and financial performance of the Bank. The prime objective of the risk management is that the Bank takes well calculative business risks while safeguarding the Bank's capital, its financial resources and profitability from various risks.

The Risk management policy of the Bank operates under 5 broad principles:

- Oversight by the Board /Executive Committee, Board approves policies and processes of risk management recommended by the management and Executive Committee approves the credit proposals submitted by the management;
- Audit Committee of the Board reviews the internal audit reports of the Bank and risk management covering credit risk, operational risk including money laundering risk, market risk and liquidity risk;
- Dedicated independent risk management units viz. Credit Risk Management units, Credit Administration Unit, Credit Monitoring and Recovery Unit, Internal Control and Compliance Unit are responsible for implementation of the risk policies and monitoring of compliance with risk policies. They are also responsible for identification of and measuring risks.
- Dedicated committee at management level has been set. up to monitor risk viz. credit risk through Credit Review Committee/and Risk Management Division, Operational Risk through Management Committee and Internal Control and Compliance Division, market and Liquidity risk through Asset Liability Committee (**ALCO**); Information risk through **MRS** Committee and

Reputation risk arising out of money laundering through Chief Compliance Officer of the Bank and Compliance Officers of the branches;

- In order to streamline risk control features in a more effective manner, PBL has put in places all manuals as suggested in the core risk management guide lines of Bangladesh Bank. Its Standard Operating Procedure (SOP) contains all the guide lines and also includes some of the internationally accepted best practices. SOPS cover all operating departments including corporate banking, SME banking, retail banking, credit card, foreign exchange, treasury, human resources and financial administration. The SOPS include all processes related to the initiation, maintenance, settlement/closure and recording for the entire range of products offered by the Bank. SOPS will help the bank maintain control over its operations, clarify the links with the IT system, act as an effective communication tool that will reduce training time, improve risk management and work consistency.

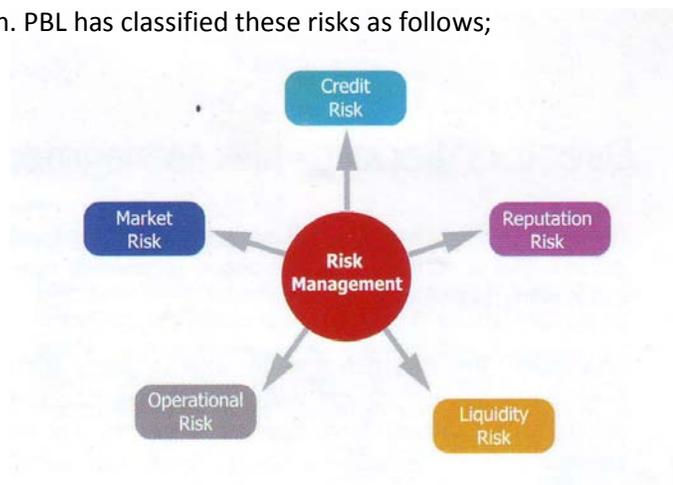
4.1.3 Risk Management & Internal Control Systems:

Banking activities involves accepting of some degree of risk or combination of risks. A critical success factor for sustained profitability and continuous delivery of shareholders value lies in effective risks management. Banks are exposed to a number of risks viz. Credit Risk, Liquidity Risk, Market Risk (Interest rate risk, Foreign exchange risk and Equity risk) Operational Risk and Reputation Risk particularly arise out of money laundering and terrorist financing. Prime Bank's activities involve analysis, evaluation, acceptance and management of risk. Risk management is emphasized not only for regulatory purpose but also to improve operational and financial performance of the Bank. Audit Committee meeting is convened regularly to review the risk, internal control and compliance issues.

4.1.4 Types of Risks, PBL Faces:

Prime bank limited faces some risks that exist in the market, internal environment and operating procedures. These risks arise due to some unavoidable occurrences. However PBL gives die attention to these risks adhered with its banking operation. PBL has classified these risks as follows;

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk



- Foreign exchange risk
- Equity risk
- Operational risks (cause based)
- Operational risks (effect based)
- Operational risks (event based)

Operational Risks (Effect Based) –

- a) Legal liability,
- b) Regulatory compliance and penalties,
- c) Loss or damage to assets,
- d) Restitution, Loss of recourse,
- e) Write-downs.

Operational Risks (Event Based) –

- a) Internal fraud
- b) External fraud
- c) Employment practice and workforce safety
- d) Clients, products and business practices
- e) Damage to physical assets
- f) Business disruption and system failures
- g) Execution, delivery and process management

4.1.5 Risk Control and Measurement are taken by PBL as under:

Manuals and Standard Operating Procedure is in place and its implementation is regularly monitored;

Regular review of system and network by Management Committee (MANCOM) and Management Information System Committee (MRS);

Management through Internal Control and Compliance Division controls operational procedure of the Bank. Internal Control and Compliance Division undertakes periodical and special audit of the branches and departments at Head Office for review of the operation and compliance of statutory requirement.

Comprehensive and special audit of branches and business units by internal audit, internal control and compliance division;

Risk based audit by internal audit division;

Segregation of duties and multi-tier approval procedure;

IT Audit is conducted on a regular basis;

Establishing a Data Center for backup of data and information

Regular testing of system's back-up procedure and contingency plan.

4.1.6 Credit Risk Management Process:

Credit risk is one of the major risks faced by the Bank. This can be described as potential loss arising from the failure of a counter party to perform according to contractual arrangement with the Bank. The failure may arise due to unwillingness of the counter party or decline in economic condition etc. Hence the Bank's risk management has been designed to address all these issues.

A thorough credit risk assessment is done before extending loan. The Credit Risk Assessment includes borrower risk analysis, industry risk analysis, historical financial analysis, projected financial performance, the conduct of the account, and security of proposed loan. The assessment originates from relationship manager/account officer and approved by Credit Review Committee at Head Office. The Credit Committee under delegated authority approves the credit proposals. Executive Committee of the Board approves the proposals beyond the authority limit of the Management. The Board of Directors reviews the proposals approved by the Executive Committee.

In determining Single borrower/Large Loan limit, the instructions of Bangladesh Bank are strictly followed. Segregation of duties has been established for Credit Approval, Relationship Management and Credit Administration. Internal audit is conducted on periodical interval to ensure compliance of Bank's and Regulatory polices. Loans are classified as per Bangladesh Bank's guidelines.

Mortgage documents shall be properly vetted by the Bank's Legal Counsel. He/she will also certify that proper documentation, borrower's legal standing and enforcement of securities are in place. Finally, Lawyer's Satisfaction Certificate shall have to be obtained regarding documentation where there are securities / collaterals other than Personal Guarantee and Financial Obligation.

The Bank has segregated duties of the officers/executives involved in credit related activities. Credit approval, administration and monitoring and recovery functions are segregated. For this purpose three separate units have been formed within the credit division. These are-

1. Credit Risk Management
2. Credit Administration Unit
3. Credit Monitoring and Recovery Unit.

Credit Risk Monitoring Unit is entrusted with the duties of maintaining asset quality, assessing risk in lending to a particular customer, sanctioning credit, formulating policy/strategy for lending operations.

Risk grading of the accounts have been done as per Bangladesh Bank's guidelines. Any credit approval/sanction shall be subject to the banking regulations in force or to be imposed by the regulatory body from time to time and to the changes in the Banks policy. This is to be specifically mentioned in the sanction letter issued to the customer. Data collection check list and limit utilization format have been prepared for regular assessment. Internal audit division independently reviews the risk grading at the time of auditing the branches.

PBL has a system of tracking Early Alert Account. An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention of the management. If such weaknesses are left uncorrected, they may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date with a likely prospect of being downgraded. Early identification, prompt reporting and proactive management of Early Alert Accounts are prime responsibilities of all Relationship Managers / Officers and the whole process is a continuous one. An Early Alert Report is completed by the RM and sent to the approving authority in CRM for any account that is showing signs of deterioration. The Risk Grade is changed and referred to CRM department for assistance in recovery.

The Recovery Department (RD) of Credit Division manages accounts with sustained deterioration. The RD's primary functions are:

- 1) Determine Account Action Plan / Recovery Strategy;
- 2) Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate;
- 3) Ensure adequate and timely loan loss provisions are made based on actual and expected losses;

- 4) Regular review of non-performing accounts;
- 5) Management of classified loans and special mention accounts;
- 6) Writing off B/L loan accounts and related works with the approval of the Board.

The recovery of problem loans is a dynamic process, and the associated strategy together with the adequacy of provisions is regularly reviewed. A process is established to share the lessons learned from the experience of credit losses in order to update the lending guidelines.

The credit risk is managed by the Credit Approval & Assessment unit, which is completely segregated from sales. The following elements contribute to the management of credit risks:

The risks associated with the products are managed in the following manners:

- ➡ Loans will be given only after proper verification of customer's static data and after proper assessment & confirmation of income related documents, which will objectively ascertain customer's repayment capacity.
- ➡ Proposals will be assessed by independent Credit Unit completely separated
- ➡ Every loan will be secured by hypothecation over the asset financed, and customer's authority taken for re-possession of the asset in case of loan loss. For Car Loan, the vehicle will be registered in bank's name, which will give the bank the legal right of re-possession when required.
- ➡ The loan approval system is parameter driven which will substantially eliminate the subjective part of the assessment procedure.
- ➡ There will be dedicated 'collection' force that will ensure timely monitoring of loan repayment and its follow up.
- ➡ The Credit & Collection activities will be managed centrally and loan approval authorities will be controlled centrally where the branch managers or sales people will have no involvement

4.1.7 Functions of Credit Risk Management Department:

The Credit Risk Management Department performs the following duties -

- Assess risks inherent in the credit proposal sent by Corporate Division and also evaluate proposed facility pricing based on risks, security, structuring and terms and conditions to suit the business condition and to protect

- Compliance to the existing rules and regulations of the Bank and all regulatory authorities and laws of the country and to advise the corporate Division for rectification, if required
- Advise the Corporate Division about changes, if required, in the structure and, terms and conditions of the proposed facility.
- Process credit proposal for approval of the competent authority
- Issue sanctions advice for credit facilities or decline.
- Review the performance of the customer on Off-site Basis and prescribe appropriate remedial measures, if required until the loan account becomes a "Special Mention" one.
- Review/revise risk grading of the customer from time to time based on the "Early Alert Report" and Downgrade Proposal submitted by Corporate Division.
- Handover loan to the Recovery Department as and when it is degraded to Special Mention or below

4.2 Credit Risk Assessment by PBL:

The primary factor determining the quality of the bank's credit portfolio is the ability of each borrower to honor, on timely basis, all credit commitments made to the Bank. This is accurately determined by the authorized credit Officers/ Executives prior to approval. Therefore a thorough credit risk assessment is conducted prior to the sanction of any credit facilities. While assessing a credit proposal more emphasis is given on repayment potential of loans out of funds generated from borrowers business (cash flow) instead of realization potential of underlying securities. Credit risk assessment process in the Bank is governed by the following principles:

4.2.1 Assessment Frequency:

A comprehensive credit assessment due diligence is conducted before sanction of any loan. Thereafter it will be done annually for all types of credit facilities i.e. demand loan, continuous loan and term loan.

4.2.2 Assessment Documentation:

The result of the Credit Assessment is always presented in the credit Assessment Form. Initially, it will be originated by the Relationship Officer of the Branch and reassessed in Corporate banking

division and finally in Credit Risk Management Unit of Credit Division. Evidences of credit assessment are filed properly in the respective credit file.

4.2.3 KYC Policy:

Bank's KYC policy applicable for depositors is also applicable for borrowing customers. In addition, before sanctioning any credit facility the concerned relationship officer always physically visits the business premises of the customer, talk with important personalities of the locality, collect information on the borrower from his/her existing banker, if any and summaries information in the Pre-sanction Inspection Report.

4.2.4 Accountability:

The Relationship Manager (presently Head of Branch) is treated as the owner of the customer relationship and is held responsible to ensure the accuracy of the entire credit application/assessment form submitted for approval. He/she feels responsible for conducting due diligence on the borrower, principals and guarantors.

4.2.5 Filling up Credit Assessment Form:

Credit Assessment Form is filled in with accurate information in full. No field in the assessment form is erased or overlooked. If information is not available, concerned field is filled in with "Information Not available or NA" with proper justification.

4.2.6 Payment Source:

Repayment source of the borrower is to be validated in the Credit Assessment Form by cash flow and other financial analyses. For such analyses, at least three years financials are considered to be reviewed. Loan amount and tenor are commensurate with the repayment capacity of the borrower.

4.2.7 Credit Requirement:

Credit requirement of the borrower is assessed properly. The relationship officer applies prudence to find out actual credit requirement of the borrower and place his/her findings in the Credit Assessment Form.

4.2.8 Risk & Mitigating Factors:

Risks inherent in a credit proposal are properly identified and appropriate mitigating factors should be applied. These are summarized in the credit Assessment Form.

4.2.9 Collateral:

Collateral offered against a credit facility is properly valued and verified by the concerned Relationship Officer and/or Relationship Manager and revalued and re-verified annually in

the subsequent period (s). In addition to the valuation of the Relationship Officer/Manager, the same collateral is again valued and verified by an enlisted surveyor of the Bank if the total credit facility to the concerned customer exceeds Tk 25.00 Lac (Taka Twenty five Lac). Any valuation of collateral must be supported by the photograph and site map, where applicable.

4.2.10 Insurance Coverage:

Adequacy and extent of insurance coverage is assessed in the credit Assessment Form. Customer's preference for not taking required insurance policy is justified properly and it must be mentioned as deviation. The policy is obtained from approved insurer of the Bank.

4.2.11 Adherence to Policy:

It is clarified whether the customer is agreed to comply with bank's internal policy and external regulatory requirements. Any deviation from the policy or other internal or external requirements is justified properly and mentioned as Deviation in the Credit Assessment form. Furthermore, the originating officer affixes a declaration in the Credit Assessment form that the proposal does not contradict with any rules and regulations of the Bank, banking Companies Act, any circulars of Bangladesh Bank etc.

4.2.12 Syndicated loans:

Proposal for syndicated loans shall be analyzed with respect to risk and return in the same manner as directly sourced loans. In case of participation in a syndication deal, Bank will independently assess the proposal and does not solely depend on the credit assessment of the Lead Arranger.

4.2.13 Change in pricing:

Any changes in the pricing of an existing credit facility is always highlighted and justified in the Credit Assessment Form.

4.2.14 Others:

In fine, detailed and complete credit risk assessment for each facility and customer relationship is of paramount importance. The steps that are followed in carrying out such an assessment are set out in

the Credit operational manual and in Head Office circulars issued from time to time. No proposal is put up for approval unless there has been a complete written analysis. It is the responsibility of the originating officer to collect all necessary –documents / papers before the facility request is sent to the competent authorization for approval.

4.3 Credit Risk Grading:

While providing credit facility to a customer; Bank undertakes many risks among which credit risk is considered to be the most important one. As such, an in depth study is conducted on the borrower's creditworthiness which will help the bank to identify all possible risks underlying in a particular credit transaction. A formal evaluation of borrower's financial health and ability to repay - debt obligation is called credit rating which helps the Bank to grade the concerned customer. As such, it is also called credit risk grading, and risk identified through credit rating/risk grading is quantified for better understanding and taking appropriate mitigating technique. Besides, it helps the Bank to charge commensurate risk premium on a particular credit facility. Therefore it is important to accurately measure the risks in a transaction and rate/ grade the facility accordingly.

4.3.1 Basic Framework:

As per recommendation of the Financial Sector Reform project (FSRP) Bangladesh Bank made it mandatory for the Banks to conduct a "Lending Risk Analysis (LRA)" in the prescribed format before sanction of a loan which is still in force. Later, Bangladesh Bank instructed all commercial Banks to develop its own credit risk grading system vide its Guidelines on Credit Risk Management. In the said Guideline, Bangladesh Bank provided a sample Risk Grading model and advised Banks to design their own model in line with that one.

4.3.2 Prime Bank's Risk Grading Framework:

All credit proposals must be supported by a comprehensive risk analysis. It will encompass the following three things:

- A. Lending Risk Analysis (LRA)
- B. Risk Grading Scorecard, and
- C. Risk Grading.

No proposal can be put up for approval unless there has been a complete written analysis subject to the condition that LRA will be conducted where it is applicable as per Bangladesh bank guideline. It is the absolute responsibility of the proposal originating offices to comprehensive risk analysis and affix its result e.g. Risk Grading Score, Risk Grade etc in the proposal. The officer also ensures that all necessary documents/ papers/ information in support of the proposed risk grading annexed with the proposal before the facility request is sent to the competent approval authority.

4.3.3 Lending risk Analysis (LRA):

Lending Risk Analysis (LRA) is conducted for the credit facilities of Tk 50 Lac or above in the prescribed form. The lending risk analysis tool concentrates on analysis of both the business risk and security risk. The important part of this analysis is the assessment of risk of failure to repay which deals with the overall lending risk composed of the business risks and security risks i.e.

- 1) Suppliers risk
- 2) Sales risk,
- 3) Performance risk,
- 4) Resilience risk,
- 5) Competence Risk,
- 6) Management Integrity Risk,
- 7) Security Cover risk
- 8) Security Control Risk.

The overall matrix provides four kinds of lending risks for decision-makers i.e.

- a. Good,
- b. Acceptable,
- c. Marginal, and
- d. Poor.

Prime Bank does not approve any credit facility having overall risk at "Marginal" or "Poor" level without proper justification except for renewal of existing facilities under compelling circumstances.

4.3.4 Risk Grading Scorecard:

As per instruction of Bangladesh Bank, Prime Bank Limited has developed risk Grading Scorecard which will be used to find out rating of all credit facilities and/ or customers of the bank

except the loans under Retail Credit Division. The score of the risk grading scorecard will be weighted one. There are 10 (ten) rating criteria and separate parameters have been set to measure borrower's position against each criterion. After analyzing borrower's financials or other relevant documents, the Relationship Officer will first find out the points the borrower earns against each criterion based on the parameters set and then multiply the points obtained by the relevant risk weight which will produce weighted score. A snapshot of criteria and weight assigned to each criterion is as follows:

Sl No	Criteria	Weight (%)
A	Gearing	15
B	Liquidity	10
C	Profitability	15
D	Account conduct	10
E	Business Outlook	10
F	Management/ Key Person	15
G	Age of Business	5
H	Size of Business	5
I	Personal Banking Relationship	5
J	Security	10

The relationship officer prepares risk grading scorecard in case of new proposal, renewal and/ or enhancement of existing facility, any deterioration in the borrower's business position, any breach of contract by the borrower or as and when he/she feels it necessary.. In addition, weighted score of the customer is to be affixed in the relevant field of the credit assessment sheet.

4.3.5 Risk Grading:

After preparation of risk grading scorecard, concerned relationship officer assigns risk grade to the customer within the following the credit risk grading model-

Risk Grade	Letter Grade	Numeric Grade	Definition
Superior low risk	AAA	1	Facilities re fully secured by the cash deposits, government bonds or counter guarantee from a top Tier international bank. All security documentations are in place.
Good satisfactory risk	AA	2	The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow and have an unblemished track record. All security documentation should be in place. Aggregate score of 95 or greater based on the risk grade scored card.
Acceptable fair risk	A	3	Adequate financial condition though may not be able to sustain any major or continued setbacks. Those borrowers are not as strong as Grade 21 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. A borrower should not be graded better than 3 if realistic audited financial statements are not received. These assets would normally be secured by acceptable collateral (1 st charge over stocks / debtors / equipment/ property). Borrowers should have adequate liquidity, cash flow and earnings. An Aggregate Score of 75-94 based on: the Risk Grade Scorecard.
Marginal watch list	B +	4	Grade 4 assets warrant greater attention due to

			<p>conditions affecting the borrower, or the economic environment. These borrowers have an above average risk to liquidity, higher than normal leverage, thin cash flow and/or inconsistent earning. Facilities should be downgraded to 4 if the borrower incurs a loss, loan payments routinely falls past due, account conduct is poor or other untoward factors are present. An Aggregate Score of 65 - 74 based on the Risk Grade Scorecard.</p>
Special mention	B	5	<p>Grade 5 assets have potential weaknesses that deserve management close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30 – 60 days, or if a significant petition or claim is lodged against the borrower. Full repayment of facilities is still expected and interest on still be taken into profits. An aggregated score of 55 – 64 based on the risk grade score card, if loan payments remain past due for 30 – 60 days</p>
Sub standard	C	6	<p>Financial condition is weak and capacity or inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans. Loans should be downgraded to 6 if loan payments remain past due for 60-90 days, if the customer intends to create a lender group for debt restructuring purposes, the operation has ceased trading or any indication suggesting the winding up or</p>

			closure of the borrower is discovered. Not yet considered non-performing as the correction of the deficiencies may result in an improved condition, and interest can still be taken into profits. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.
Doubtful (non performing)	D	7	Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Loss. Assets should be downgraded to 7 if loan payments remain past due in excess of 90 days, and interest income should be taken into suspense (non-accrual). Loan loss provisions must be raised against the unrealizable amount of all facilities. The adequacy of provisions must be reviewed at least quarterly on non-performing loans, and the bank should pursue legal options to enforce security, to obtain or negotiate an appropriate loan rescheduling. In all cases, the requirements of Bangladesh Bank in CIB reporting, loan rescheduling and provisioning must be followed. An aggregate score of 35 – 44 based on the risk grade scorecard.
Bad & Loss (non performing)	E	8	Assets graded S are long outstanding with no progress in obtaining repayment (in excess of 180 days past due) or in the late stages of wind up/ liquidation. The prospect of recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not

			warranted, and the anticipated loss should have been provided for. This classification reflects that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An aggregate score of 35 or less based on the risk grade score card. An aggregate score of 35 or less based on the risk grade score card.
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The relationship officer inserts the risk grade of the customer in the concerned field along with Risk Grading Score and forwards the same through proper channel to the Credit Risk Management Unit for approval.

4.3.6 Subjective Grading:

The more conservative risk grade (higher) is strictly applied if there is a difference between the personal judgment and Risk Grading score card result and Credit Risk Grading Model. This will remain at the absolute discretion of the concerned relationship officer (s) of the branch or corporate banking division, head office and credit officer of the branch or credit risk management unit, head office.

4.3.7 Down Grading:

The Relationship Officer of particular customer shall continuously monitor the customer and bears the responsibility of rating/grading surveillance. If any deterioration in risk, whatever may be the reason, is noted or adverse information is received, the Relationship Officer will propose change(s) in the risk grading of the customer and prepares Early Alert Report and forward the same to the Credit Risk Management Unit, Credit Division for approval. Changes in risk grade will be in effect only when it is approved by the Credit risk management Unit, Credit Division. Once a credit facility/customer is downgraded to a lower grade, it will not be postponed until the next annual review process. In case of downgrading, credit facility to the customer may be immediately changed / restructured, if possible.

4.3.8 Asset Migration:

Risk Grading Model is used for assessing / measuring risk in the credit exposure taken on a particular customer. It is the key measurement of bank's asset quality. Therefore, all facilities are assigned to a risk grade. And asset portfolio of the Bank is reviewed quarterly. At each quarter end, credit risk management unit, credit division report summarizing the migration of the assets with respect to risk grade and place before the management for review. The management ensures non-concentration of assets in lower grades.

4.3.9 External Rating:

At last top twenty five clients/ obligors of the Bank may preferably be rated by an outside credit rating agency.

4.3.10 System Review:

Proper application of the Risk Grading Scorecard and Risk Grading Model in Credit operation is reviewed at least once in a year. And, if change is required, it will be done at the year-end. Furthermore, accuracy and consistency of the concerned officers/executives will be reviewed annually.

4.4 Compliance of Bangladesh Bank Guidelines by Prime Bank Limited (PBL):

In the previous sections of this report we have critically analyzed prime Bank's existing credit risk management system as well as Bangladesh Bank's best practices guidelines for managing credit risk. Comparing Prime Bank's current credit risk management system with the BB best practices guideline we see that Prime Bank maintains the best practices in banking industry which can be generated in the following way-

4.4.1 Credit Policies/ Lending Guideline:

In the above analysis we have seen that Prime Bank limited has a written credit policy. Branch managers always follow this written credit policy when critical issues arise.

Thus Prime Bank limited has a lending guideline available in every branch so that credit officers can take quick decision whether to accept or reject a project. The lending guideline includes the following-

- Industry or business segment focus.
- Types of loan facilities
- Details of single borrower/ group limit
- Lending caps
- Discouraged business type
- Loan facility Parameters
- Cross Border risk

4.4.2 Credit Assessment & Risk Grading:

To assess credit properly, PBL maintains a risk grading system. It adopts the credit risk grading system to ensure account management, structure and pricing are commensurate with the risk involved.

4.4.3 Approval Authority:

In Bangladesh Bank's guideline it is written that "Approval authority should be delegated to individual executives and not to committees to ensure accountability in approval process". In Prime Bank limited I have observed that every credit goes to the board via credit committee. Hence, there may have a unexpected chance of occurring a bad loan due to unavoidable consequences.

4.4.4 Segregation of Duties:

According to Bangladesh Bank Guideline Banks should aim to segregate the following lending functions to improve the knowledge levels and expertise in each department:

- Credit Approval/ Risk Management
- Relationship Management/ Marketing
- Credit Administration

Prime Bank limited follow a proper segregation of duties. In small branches of PBL, the jobs like loan marketing, risk assessing and credit administration are segregated properly.

4.4.5 Internal Audit:

Prime Bank limited has a segregated internal audit/ control department charged with conducting audit of all departments as suggested by Bangladesh bank guideline.

4.4.6 Preferred Organizational Structure:

Prime Bank follows the preferred management structure as suggested by BB guideline. The key feature in the preferred management structure is the segregation of Marketing/ Relationship function from approval/ Risk management/ Administration function.

4.4.7 Approval process:

According to BB's best practice guideline, 'The recommending or approving executives should take responsibility for and be held accountable for their recommendations and approval'. The recommended delegated approval authority levels are as follows

Head of Credit/CRM Executives	Up to 15% of capital
Managing Director/ CEO	Up to 25% of capital
EC/ Board	All exceed 25% of capital

Prime Bank limited always follows the BB guidelines for approval of a credit.

4.4.8 Credit Administration:

The BB guidelines suggest that Credit administration be strictly segregated from relationship management/ marketing. As a result the possibility of controls being compromised or issues not being highlighted at the appropriate level can be avoided. The credit administration has the following functions-

- Disbursement
- Custodial duties
- Compliance requirement

In Prime Bank Ltd credit officers are under supervision of Branch Credit In-charge or Manager also carry out all the three functions of credit administration.

4.4.9 Credit Monitoring:

To minimize credit losses, monitoring procedures and systems should be in place that provides an early indication of the deteriorating financial health of a borrower. Early identification, prompt reporting and proactive management of Early Alert Accounts are prime credit responsibilities of all relationship Managers. An early Alert Account is one that has risks or potential weakness of a material nature requiring monitoring, supervision or close attention by management.

In Prime Bank credit monitoring is also done by credit –in - charge or branch managers. As a result Early Alert Accounts get that much attention as needed.

4.4.10 Credit Recovery:

According to BB guideline the recovery unit (RU) of CRM should directly manage accounts with sustained deterioration. On a quarterly basis, a Classified Loan review (CLR) should be prepared by the RU Account Manager to update the action/ recovery plan, review and assess the adequacy of provisions, and modify as appropriate.

In Prime Bank the non-performing loan is very low (below 3%) and the recovery unit is yet to be formed. But for personal loan program, Personal Banking Division has also a recovery unit.

4.4.11 Incentive Program:

The BB guideline also encourages Banks to introduce incentive programs for the Recovery Unit Account Managers to bring down the Non Performing Loans (NPLs) Prime Bank Limited currently has incentive program as it has a Recovery Unit.



CHAPTER-5
CONCLUSION
&
RECOMMENDATION

Conclusion:

Prime Bank Ltd started with a vision to be the most efficient financial intermediary in the country and it believes that the day is not far off when it will reach its desired goal. PBL looks forward to a new horizon with a distinctive mission to become a highly competitive modern and transparent institution comparable to any of its kind at home and abroad. Prime Bank Ltd. is one of the most potential Banks in the banking sector. It has a large portfolio with huge assets to meet up its liabilities. The management of this bank is equipped with the expert bankers and managers in all level of management. So it is not an easy job to find out the drawbacks of this bank and branch also. Prime Bank Ltd. gives personalized services. All the officers have to give concentration to the customers. Every staff tries to reduce irregularities in their jobs. Since the sitting arrangement is very insufficient comparing to the number of customers, PBL must pay attention to this issue. Prime Customers are offered occasional gifts and discounts, which can make them more attractive and keep consumer delight.

Recommendations:

After noting out the major findings it becomes necessary to provide some recommendations to the way of removing the major weaknesses to the operation of Prime Bank Limited. Here are some recommendations that can be followed

- The Bank should establish the prescribed organogram for credit risk division at the office, which includes Corporate Banking Unit, Credit Risk Management Unit, Credit Administration Unit, and Credit Recovery Unit.
- The number of responsible officer is very limited to maintain all the credit duties. It is die need to increase the number of officer for better implementation of credit operation.
- There needs for increased incentives to the officers.
- Appropriate and ethical marketing strategy should be implemented and followed.
- The Bank should expand the payback period if the interest rate can't be reduced
- PBL should include more differentiate product in their CCS, such as – Teacher Loan, Shop Financing Scheme, Personal Loan for Women etc. to gain competitive advantage.
- Every job should be defined clearly to the officers.
- Bank may reduce the SWIFT charge without disrupting the facilities.
- The Remittances Section needs more staffs for smooth working. The respective officer, who used to record the incoming and outgoing DD, MT and TT, often does all the works by himself. This is totally a tremendous pressure on him. A helping hand for him should be given for smooth operation.
- A process should be established to share the lessons learned from the experience of credit losses in order to update the lending guidelines.

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