

Report On  
**“What Strategy Should Premier Bank Adopt to be the No. 1 Financial  
Institution”**

By  
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17204024

An internship report submitted to the BRAC Business School in partial fulfillment of  
the requirements for the degree of  
Bachelor of Business Administration

BRAC Business School  
Brac University

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## **Student's Declaration**

I sincerely proclaim that the work provided in my Internship Report titled "**What Strategy Should Premier Bank Adopt to Be the No. 1 Financial Institution of the Country**" was completed by me under the supervision of Mr. Zaheed Hussein Mohammad Al-Din, Senior Lecturer, Brac University. The study contains no previously published or written by a third-party content, unless properly cited through thorough and correct referencing.

The work I have submitted does not violate on any existing copyright, and no piece of it has been duplicated from previous work done for a degree or elsewhere.

In addition, I have acknowledged all major sources of assistance.

**Student's Full Name & Signature:**

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**Anika Nawar Meem**  
**Student ID: 17204024**

**Supervisor's Full Name & Signature:**

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**Mr. Zaheed Hussein Mohammad Al- Din**  
**Senior Lecturer,**  
**BRAC Business School,**  
**BRAC University**

## Letter of Transmittal

November 22, 2022

Mr. Zaheed Hussein Mohammad Al-Din

Senior Lecturer

BRAC Business School

BRAC University

66 Mohakhali, Dhaka 1212.

**Subject: *Submission of Internship Report on 'What Strategy Should Premier Bank adopt to be the no.-1 Financial Institution of the Country'***

Dear Sir,

It is an honor that you have given me the opportunity to submit a report on 'What Strategy Should Premier Bank Adopt to Be the Number One Financial Institution in the Country' Banani SME Branch. Which you instructed me to complete as part of my internship program. This report is designed to satisfy the BUS 400 course requirement for a BBA degree at BRAC Business School.

I worked hard to write the report in the most comprehensive, straightforward, and thorough way possible, including all important facts. If any errors remain consistent, please accept my heartfelt apologies. I hope my errors are forgiven.

I am hopeful that the report will meet your expectations. Thank you again for your patience.

Sincerely yours,

.....

**Anika Nawar Meem**

ID- 17204024

BRAC Business School

BRAC University

## **Acknowledgement**

This is the last requirement of the BBA degree for students to be allocated a three-month internship with any company. Thus, as a BBA student, I was sent to Premier Bank Limited in order to do my internship at the Banani SME Branch. I would like to thank Mr. Zaheed Hussein Mohammad Al-Din, Senior Lecturer at BRAC Business School, BRAC University, for acting as my supervisor at the beginning of this report. I tried my best to complete this report with his guidance and counsel.

Mr. M. Reazul Karim, Managing Director and Chief Executive Officer of Premier Bank Ltd, Banani SME Branch, is also acknowledged for allowing my internship request. During my internship, I had tremendous assistance from Arifa Akhter (Senior Executive Officer and GB-in-Charge), Mohammad Neyamur Rageeb (Senior Executive Officer), and Mamunur Rashid (AVP and Operations Manager) and Lastly, Mesbahul Alam (SVP & Head of Branch).

During the preparation of the project, I've met a number of helpful, enthusiastic, and extremely experienced persons who contributed their thoughts, time, and considerate advice to the report's content. I would like to offer my sincere appreciation to all senior and junior Premier Bank Ltd. personnel and customers at this branch. Their advice and ideas were really helpful in acquiring the information and expertise necessary to finish the report.

## Executive Summary

During the last term of my final year of the Bachelor of Business Administration (BBA) degree, I was assigned to Premier Bank Limited to get practical experience in banking activities with internship topic '*What Strategy Should Premier Bank Adopt to be the No. 1 Financial Institution of the Country*'

Premier Bank Limited is a renowned private commercial bank that commenced operations under the Companies Act of 1991 in October 1999. Through its countrywide branch network, it provides customers with a complete and competitive banking service. Through its three core departments, General Banking, Credit, and Foreign Exchange, it offers a vast array of banking services to its consumers. Throughout my study, I have principally endeavored to assess critically the Credit Risk Management Activities of Premier Bank Ltd. Banani SME Branch. Credit risk results from either a failure to perform or a refusal to perform in relation to the pre-commitment contract. The credit risk is the divergence between the actual performance of a portfolio and its projected value. The credit risk of a bank affects its book value. The greater a bank's credit risk, the greater the likelihood of insolvency. Consequently, controlling credit risk for effective bank administration has become, over time, the most essential duty. Credit Risk Management involves identifying, measuring, mitigating, monitoring, and managing exposures to credit risk.

The first chapter of the report is the Introduction, which focuses on the study's context, source, purpose, scope, and objectives. The second part of the study provides an overview of Premier Bank Limited, including its history, vision, purpose, objectives, products, and services, as well as credit risk management information. The final segment focused on Plan, especially the Credit Risk Management strategy that Premier Bank Limited may employ to become the country's leading financial institution. Premier Bank Ltd. In addition, I endeavored to present a summary suggestion and conclusion based on my study at the end of the report.

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**Chapter 1**  
*'Overview of Internship'*

### 1.1 Student Information

Particular	Details
Name	Anika Nawar Meem
Student ID	17204024
Program	Bachelor of Business Administration
Major/ Specialization	Major in both Finance and Human Resource Management

### 1.2 Internship Information

#### 1.2.1 Company Information:

Particular	Details
Period	August 23, 2022 – November 22, 2022
Company Name	Premier Bank Limited
Department	General Banking
Address	Iqbal Center, 42 Kemal Ataturk Ave, Dhaka 1213

#### 1.2.2 Supervisor Information

Particular	Details
Name	Mamunur Rashid
Designation	AVP & Operation Manager
Email	r.mamun@premierbankltd.com

#### 1.2.3. Job Responsibilities

I was a Finance intern at Premier Bank Limited. I worked often in the General Banking department. I had been doing a number of responsibilities, including the completion of account opening forms, the receipt of cheque requisition slips, the maintenance of inbound shipment, and phone conversations. I strive to provide the client with the quality services. I sent a customer's request to talk with another department or a specific officer at the branch through an extension number.

I was also responsible for collecting the checkbook from the bearer. I was instructed to affix the accept seal to the office copy of the bearer in the list of delivered checkbooks. After obtaining the cheque book, I was required to extract the accompanying request list and requisition slip from the requisition file. Then, I placed the slips in accordance with the checkbook I had received. Following that, I counted the number of pages in the cheque book and reflected that number on the request form. The slip was then inserted into the checkbook. I had afterwards recorded this checkbook in the entry book. I was also responsible for delivering the check to the client. I had first validated both the authorized and bearer signatures. The customer then had to sign both the entry book and the requisition form. However, If the client is not a person but rather an organizational entity, I had to obtain the seal of that company or organization before delivering the cheque book to the client.

### **1.3 Internship Outcomes**

#### **1.3.1 Student's contribution to the company:**

An undergraduate student must do the internship before entering into their dream job. The main reason is that through the internship program they will get have hands on experience and knowledge. They will get to understand how the actual work environment looks like, how to behave in certain manner. I had zero knowledge on how a company operates on daily basis. However, after joining in the Premier Bank Limited I learnt a about how all the job market works and get to understand there is a major difference on how the real business environment looks like and how our academic book portraits on business environment. Additionally, I learnt how to behave with the colleagues, how to handle every customer and give them the service in rightful manner. Also, it helps me to how to take pressure while doing the work.

#### **1.3.2 Benefits to the Student:**

From the internship program, a student can gain a variety of skills for example, leadership skills, communication skills, interpersonal skills etc. which they would not be able to get through textbooks or academic knowledge. Furthermore, they will gain hands-on experience as well as an

understanding of the business world. Apart from these traits, a student can have other benefits after doing the internship. Those are given below -

- Allowing an undergraduate student to form excellent bonds with the colleague and supervisors.
- Graduates can gain commercial and market skills during their internship.
- Internships help students gain corporate skills and experience, such as time management, dependability, and pressure taking.
- Internship Programs help to be graduated students to have competitive convenience in the job market and broaden their CV.
- From the internship program, a strong reference can be established for a graduate student for future job opportunities and scholarship programs for study in abroad.

### **1.3.3 Problems/Difficulties:**

Premier Bank Limited provides an outstanding workplace. Each staff is kind and helpful. However, it was first tough for me to work since I was unfamiliar with the setting. I had various issues as a beginner. However, my mentor was always helpful, supported me with all of my responsibilities and made my work easier. Also, it needs no mention that when I had faced a difficulty, every member was there to encourage me and help me comprehend everything. The work atmosphere was so pleasant and the people so kind that it was difficult for me to leave. During my three-month internship, I never had any issues due to the assistance of my supervisor and coworkers. My whole internship was quite productive. I have learned a great lot from them. My supervisor had supported, guided and advised me. Along with him, my coworkers are always there to guide me. By analyzing these, I can say without any doubt that I never had any significant obstacles or issues throughout my internship.

### **1.3.4: Recommendations for future internships:**

After completing all of your coursework, internships are a wonderful way to have the practical knowledge. It is an obligatory aspect of an undergraduate student to have the taste of professional life before looking for their dream job. This is the first opportunity a student is exposed to the

corporate world. There are steps that must be followed to make the most of this lovely period. An undergraduate student may struggle to manage their work and personal life for the first time if they don't have a basic knowledge on how a real company operates. I was able to successfully balance my personal life and professional life. A future intern will acquire a variety of efficiency as a consequence of their internship program; For an undergraduate student learning is a never-ending cycle as they will get to learn and have experiences every day. It is crucial to have a thirst for knowledge. Learning fundamental skills can help you open many doors and increase your confidence. Additionally, learning the essential abilities can assist you in opening numerous doors and boosting your confidence.

Moreover, throughout this period, timeliness is essential. An undergraduate student, who is compelled to attend an internship Program should reconsider, since it will be challenging. Interns are often recognized as workers and hence are required to work standard office hours. It was little bit challenging for me since I had completed all of my academic courses except my internship program.

## **Chapter 2**

'About Premier Bank Limited'

## **2.1 Overview**

### **2.1.1. Foundation & Growth**

In order to enlighten the essence of the twenty-first century, The Premier Bank Limited embark its journey to success in 1999 with the slogan "Service First" in order to identify itself as a recognized supplier of financial services. The bank's slogan emphasizes client happiness, adaptability, reactivity, and efficiency. The service of Premier Bank Limited is not only aimed for customers but also for the community. They have committed for both profit and governance. Last but not the least, they assured the customer to have the dynamism, discipline, and responsibility.

Under the Companies Act of 1994, the Premier Bank Limited was induced in Bangladesh on June 10, 1999. The Bangladesh Bank, the nation's central bank, granted a banking license in compliance with the Banking Companies Act of 1991 on June 17, 1999. Premier Bank Limited commenced official banking activities on October 26, 1999, with a paid-up capital of BDT 2,242.30 million and an authorized capital of BDT 6,000.00 million. The headquarters of Premier Bank Limited are residing in Banani, one of the fastest-growing commercial and business areas in Dhaka.

### **2.1.2. Principal Business Entities**

#### **Vision of the Bank**

The Bank has clear vision towards its ultimate destiny - to be the best amongst the top financial institutions.

#### **Missions of the Bank**

- To be the most caring and customer friendly of financial services provider, creating opportunities for more people in more places.
- To ensure stability and sound growth whilst enhancing the value of shareholders investments.

- To aggressively adopt technology at all levels of operations and to improve efficiency and reduce cost per transaction.
- To ensure a high level of transparency and ethical standards in all business transacted by the Bank.
- To provide congenial atmosphere which will attract competent work force who will be proud and eager to work for the Bank.
- To be socially responsible and strive to uplift the equality of life by making effective contribution to national development.

### **2.1.3. Values of Premier Bank Limited**

#### **Service First:**

Premier Bank's slogan "Service First" accurately describes the institution's philosophy. It is the center and principal focus of the Bank's activities. It thinks that delivering timely and high-quality service is the defining characteristic of financial institutions.

#### **Easier Banking:**

Modern facilities at Premier Bank Limited have made daily banking activities simpler than ever before. The bank tries to establish a comfortable environment in which clients may complete financial operations with ease. Premier Bank splits its client base into as few persons as feasible in order to deliver the highest level of personalized care and to fulfill particular demands.

#### **Better Relationship:**

Premier Bank embraces a relationship with its most valued customers to attain a long-term objective. A bank's ability to comprehend clients' aims and proactively meet their financial requirements is facilitated by a solid rapport with customers throughout commercial interactions.



**Ensuring the Confidential Information:**

The Premier Bank Limited pursues business in the form of financial loss or gain. It maintains its momentous pledge to its customers that their banking transactions would be done in a secret and professional way so that customer feels protected while sharing the information.

**Good Corporate Governance:**

The Board of Directors of The Premier Bank Limited is comprised of business and industry professionals from throughout the globe. Because of their contributions, they are well-liked in society. The bank's executive staff is highly qualified and has vast expertise in both local and international banking. The bank supports and closely adheres to sound corporate regime norms and is under the regulatory oversight of Bangladesh Bank.

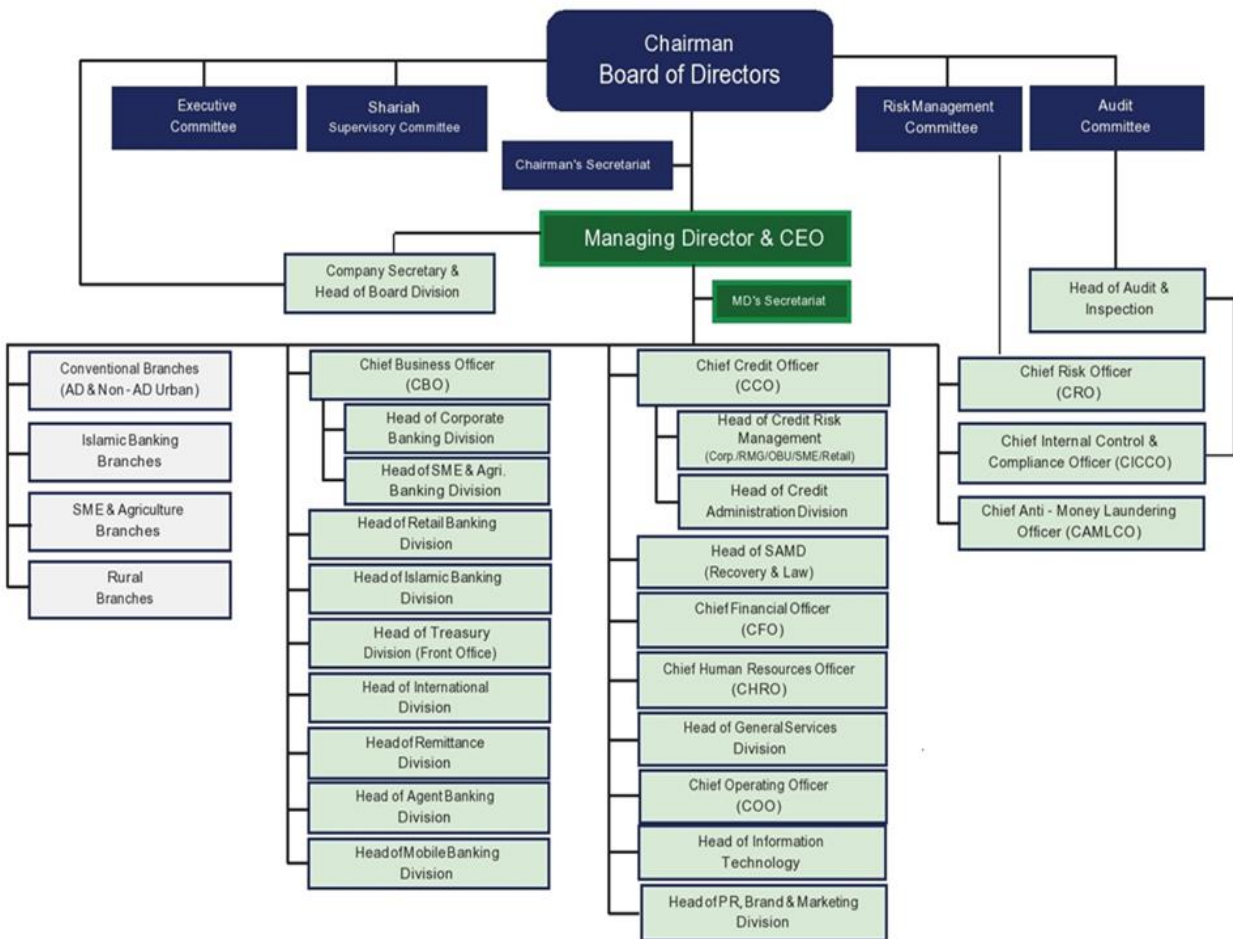
**Corporate Citizenship:**

Premier Bank Limited is a consequential bank that pays its tax on time. The bank encourages the customer environmentally for favorable investment. Also, the Bank is a responsible citizen in terms of maintaining the laws and regulations.

**2.1.4. Board of Directors**

The Premier Bank Limited Board of Directors consists of thirteen members, with Dr. H.B.M. Iqbal serving as Board Chairman. Members of the Bank's Board of Directors have prominent social roles. They are a member of a prosperous group of Bangladeshi firms and industries. Previously, there were 13 members on the board of directors. On December 8, 2021, however, Mr. Chowdhury Jafarullah Sharafath, an independent director, resigned from the leading bank. They play an effective role in the socioeconomic sector of the nation.

## 2.1.5. Organogram



## 2.2. Management Reviews & Analysis

### 2.2.1. Premier Bank is what Premier Bank does

Premier Bank believes that they do the exact things which they have promised to the customers. Online banking service made their banking service even more fruitful for them if the customer wants to go in foreign country, they can have the excellent service from any of the branches as a premium customer. They are the local bank to offer unique benefits on “premier 50 plus” and “premier genius” savings accounts which only designed for the senior citizen and respective students. In addition, Premier Bank Limited has been certified by Visa International as the first financial institution to achieve Visa International's primary membership to generate and purchase Visa-Credit and Debit Cards within Bangladesh. Premier Bank Limited believes it thrives in

generating innovative products and services. Its products are personalized and formalized to the distinct requirements of its consumer.

## **2.2.2. Products of Premier Bank Limited:**

### **2.2.2. 1. Deposit Products:**

#### **Fixed Deposit Rate (FDR):**

The products is designed for investors who shows willingness to deposit a big amount of money for a specific time. For instance, client may open an FDR for 30 days to one year or longer. With this, they earn a larger interest rate in return.

#### **Savings Account (SB):**

Compared to other commercial bank, Premier Bank provides a competitive interest rate on Savings Accounts (9,00% p.a.). Also, an account holder will get 24-hour access to an ATM.

#### **Current Account (CD):**

Current account is the most beneficial bank account for a client. It is an interest-free checking account. The client who open this account, they can free themselves from bearing the cash each month.

#### **Premier 50+ Account:**

If the client is over the age of fifty, then he can enjoy this service. It offers a number of additional perks, including a higher rate of interest (5.75% per year) on daily closing balances, and no monthly service fee.

#### **Double Benefit Scheme:**

According to this scheme, investments are quadrupled after six years. It enables for 10000Tk based payments. Similar to a Fixed Deposit, a custom-tailored document will be provided for the reserve

under this scheme. The security cannot be transferred and cannot be renewed. In the case of an early withdrawal after three months, the current savings rate might be applied to the deposit.

**Monthly Income Scheme:**

Here, the Customer makes an initial investment and receives monthly returns till the period ends. They will get principal amount returns at maturity.

**Monthly Savings Scheme:**

A consistent savings plan pays well in times of need. Through the Monthly Funds Scheme, individuals may save a little amount each month and see their savings increase over time.

**Special Notice Deposit Account:**

Individuals and corporations may create a short-term Special Notice Deposit Account. However, seven days' notice is necessary to remove interest-bearing funds from the account.

**Premier Esteem Savers:**

This is a unique kind of savings account. It provides more benefits, versatility, and other features than any other Premier Bank savings account to high-income users.

**2.2.2.2. Loan Products:**

**Personal Loan:**

Personal loans from Premier Bank may be used for any purpose. The objective might be anything legal, from the purchase of home items to medical emergencies. Purchases of technology products, home or workplace renovations, family weddings, advance rent payments, travel costs, and tax payments are a few examples. This approach is appropriate for compensated executives who are permanent personnel of well-known companies.

**Consumer Credit Scheme:**

Premier Bank has implemented a consumer loan program to increase the quality of life for those with restricted or fixed incomes. The loan is repaid via simple Equal Monthly Installments (EMI) usually range from twelve to sixty payments.

**Housing Loan:**

Premier Bank has created a Housing Loan with a low interest rate, recognizing the value of possessing one's own home. This loan is offered by the Bank for both residential and business reasons.

**SME Finance:**

Economic growth of Bangladesh would be contingent upon the adaptation of small and medium-sized enterprises. And since Premier Bank plays a significant part in fostering economic development, they have begun to fund SMEs. The SME products they provide, such as project financing, working capital financing, lease financing, and purchase order financing.

**Women Entrepreneur Finance:**

As a developing nation, Bangladesh has been striving for economic expansion. In this context, the expansion of small and medium-sized businesses would be essential. Recognizing this, Premier Bank has aggressively begun financing SMBs. The SME offerings include project financing, working capital financing, leasing or hire purchase, and work order financing, among others.

**Lease Finance:**

Premier Bank provides lease financing to meet customers' financial needs for the acquisition of business-expanding assets. They meet financial needs without using personal funds. Customers may buy leased assets while maintaining their funds. Thus, leasing enhances a customer's potential for fund raising. In addition, they offer Lease Finance for, amongst other things, manufacturing equipment, elevators, power generators, air conditioners, and crop protection products.

### **Student Credit Program**

Premier Bank is delighted to welcome a credit program through which talented students across the country will get a regular credit facility to meet education fees. If requested, the loan will also be disbursed in a one-time lump sum or monthly payments. Guardians have to submit an application and assessment of education expenditures on a defined form to any branch of the Bank authorized by the Head of Department or Head of Education Institution.

### **2.2.3. National and International Services:**

#### **Islamic Banking Service:**

Today, the Islamic banking system is a reality on a worldwide platform. It is well-liked and universally believed by both Muslims and non-Muslims. Premier Bank Limited has launched Islamic Banking via its two branches, Islamic Banking Branch Mohakhali in Dhaka and Islamic Banking Branch Laldighirpar in Sylhet.

#### **Remittance Service:**

Remittance Payment Method of Premier Bank is very reliable, convenient, and efficient. They have developed a significant number of long-term agreements with a group of very well foreign remittance partners, including, MoneyGram, Dolex, Xpress, Money Services.

#### **SME Service Centre:**

In order to provide the SME services to customer the bank have created many SME service Centre in various places such as Banani SME Centre, Bangla Bazar SME Centre, Kawran Bazar SME Centre, Mohammadpur SME Centre, etc.

#### **International Service:**

International Division oversees international banks arrangements and foreign trade transaction. To further offer its clients, the bank has international banks partnerships with 430 foreign banks

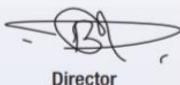
worldwide and operates 19 Nostro accounts in four currencies. The bank facilitates letters of credit, importing bill management, the acceptance of invoices, and import financing. They serve as guidelines on export letters of credit, confirmation of export letters of credit, assistance with export document preparation, collection of export bills, purchase of export bills and the facilities for both foreign and domestic trade.

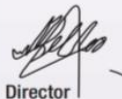
## 2.2.4. Financial Statement of Premier Bank Limited

### 2.2.4.1. Profit and Loss Statement

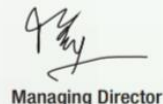
		Amount in Taka	
		2021	2020
<b>The Premier Bank Limited</b>		<b>Premier Bank</b> <i>service first</i>	
Profit and Loss Statement For the year ended 31 December 2021			
	<b>Notes</b>		
<b>OPERATING INCOME</b>			
Interest income/profit on Islamic investments	24	17,967,682,583	17,881,287,579
Interest/profit paid on deposits, borrowings, etc.	25	(13,159,510,700)	(14,690,678,246)
Net interest income/ net profit on investments		<b>4,808,171,883</b>	<b>3,190,609,333</b>
Investment income	26	4,710,585,767	5,309,092,376
Commission, exchange and brokerage	27	4,566,316,225	3,484,667,597
Other operating income	28	1,559,085,448	1,191,267,897
		<b>10,835,987,440</b>	<b>9,985,027,870</b>
<b>Total Operating Income (A)</b>		<b>15,644,159,323</b>	<b>13,175,637,203</b>
<b>OPERATING EXPENSES</b>			
Salary and allowances	29	2,700,561,533	2,427,036,157
Rent, taxes, insurance, electricity, etc.	30	1,381,651,905	1,180,461,090
Legal expenses	31	137,751,290	134,513,314
Postage, stamps, telecommunication, etc.	32	125,252,002	97,778,380
Stationery, printing, advertisement, etc.	33	748,548,230	512,703,526
Chief executive's salary and fees	34	17,460,000	15,300,000
Directors' fees	35	4,352,000	4,208,000
Auditors' fee		517,500	345,000
Depreciation and repair of Bank's assets	36	626,075,128	606,078,625
Losses on disposal of subsidiary	37	-	10,000,000
Other expenses	38	1,514,825,468	1,404,734,685
<b>Total Operating Expenses (B)</b>		<b>7,256,995,056</b>	<b>6,393,158,777</b>
<b>Profit before provision (C = A-B)</b>		<b>8,387,164,267</b>	<b>6,782,478,426</b>
Provision for loans & advances	39	1,670,000,000	1,512,970,632
Provision for off-balance sheet items	39	460,000,000	656,393,165
Provision for investment in shares	39	(87,558,429)	(245,562,033)
Other provision	39	901,371,412	1,183,225,286
<b>Total provision (D)</b>		<b>2,943,812,983</b>	<b>3,107,027,050</b>
<b>Profit before taxation (C-D)</b>		<b>5,443,351,284</b>	<b>3,675,451,376</b>
<b>Provision for taxation</b>			
Current tax	15.6	1,805,100,000	1,352,152,201
Deferred tax expense (Income)	10.1.2.1	369,125,970	259,663,358
		<b>2,174,225,970</b>	<b>1,611,815,559</b>
<b>Profit after taxation</b>		<b>3,269,125,314</b>	<b>2,063,635,817</b>
Retained earnings brought forward	20	3,758,264,921	3,653,813,043
Profit available for appropriation		<b>7,027,390,235</b>	<b>5,717,448,860</b>
<b>Appropriations</b>			
Statutory reserve	17	1,088,670,257	735,090,275
Start-up fund		53,327,611	-
General Reserve	19	-	300,000,000
Issue of bonus shares and Dividend paid	20	1,940,596,699	924,093,664
		<b>3,082,594,567</b>	<b>1,959,183,939</b>
<b>Retained earnings carried forward</b>		<b>3,944,795,668</b>	<b>3,758,264,921</b>
<b>Earnings per share (EPS)</b>	<b>40</b>	<b>3.13</b>	<b>1.98</b>

These Financial Statements should be read in conjunction with the annexed notes

  
Director

  
Director

  
Director

  
Managing Director



## 2.2.4.2 Owner Equity statement

### The Premier Bank Limited

Statement of Changes in Equity For the period ended 31 December 2021

Amount in Taka

Particulars	Paid-up capital	Statutory reserve	Other reserve	General reserve	Retained earnings	Total
<b>Balance as at 01 January 2021</b>	<b>9,702,983,510</b>	<b>6,372,883,331</b>	<b>107,231,676</b>	<b>300,000,000</b>	<b>3,758,264,921</b>	<b>20,241,363,438</b>
Surplus/deficit on account of revaluation of properties	-	-	-	-	-	-
Surplus/deficit on account of revaluation of investments	-	-	(50,251,471)	-	-	(50,251,471)
Currency translation differences	-	-	-	-	-	-
Adjustment of deferred tax income	-	-	-	-	-	-
Net gains and losses not recognised in the Profit and Loss Statement	-	-	-	-	-	-
Net profit for the year	-	-	-	-	3,269,125,314	3,269,125,314
Payment of cash dividend	-	-	-	-	(1,212,872,939)	(1,212,872,939)
Transfer to start-up fund	-	-	-	-	(53,327,611)	(53,327,611)
Transfer to statutory reserve	-	1,088,670,257	-	-	(1,088,670,257)	-
Transfer to general reserve	-	-	-	-	-	-
Issue of bonus shares	727,723,760	-	-	-	(727,723,760)	-
New issue of shares through RPO	-	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>10,430,707,270</b>	<b>7,461,553,588</b>	<b>56,980,205</b>	<b>300,000,000</b>	<b>3,944,795,668</b>	<b>22,194,036,731</b>
<b>Balance as at 31 December 2020</b>	<b>9,702,983,510</b>	<b>6,372,883,331</b>	<b>107,231,676</b>	<b>300,000,000</b>	<b>3,758,264,921</b>	<b>20,241,363,438</b>

  
Director

  
Director

  
Director

  
Managing Director

### 2.2.4.3. Balance Sheet

## The Premier Bank Limited

Balance Sheet as at 31 December 2021

	Notes	Amount in Taka	
		2021	2020
<b>PROPERTY AND ASSETS</b>			
<b>Cash</b>	4	<b>16,459,278,343</b>	<b>34,287,250,036</b>
In hand (including foreign currencies)	4.1	2,808,726,290	1,908,926,608
Balance with Bangladesh Bank and its agent bank(s) (including foreign currencies)	4.2	13,650,552,053	32,378,323,428
<b>Balance with other banks and financial institutions</b>	5	<b>4,727,660,107</b>	<b>3,993,720,437</b>
In Bangladesh	5.1	1,683,002,749	2,091,359,593
Outside Bangladesh	5.2	3,044,657,358	1,902,360,844
<b>Money at call on short notice</b>	6	<b>600,000,000</b>	<b>290,000,000</b>
<b>Investments</b>	7	<b>56,603,121,054</b>	<b>40,021,075,117</b>
Government securities	7.1	46,881,030,376	33,512,417,145
Others	7.2	9,722,090,678	6,508,657,972
<b>Loans, advances and lease/ investments</b>	8	<b>249,829,580,581</b>	<b>213,204,682,073</b>
Loans, cash credits, overdrafts, etc.	8.1.1	227,012,420,281	199,080,579,759
Bills purchased and discounted	8.1.2	22,817,160,300	14,124,102,314
<b>Fixed assets including premises, furniture and fixtures</b>	9	<b>3,332,025,016</b>	<b>3,201,151,684</b>
<b>Other assets</b>	10	<b>25,023,315,167</b>	<b>20,725,314,065</b>
<b>Non-banking assets</b>		-	-
<b>Total Assets</b>		<b>356,574,980,268</b>	<b>315,723,193,412</b>
<b>LIABILITIES AND CAPITAL</b>			
<b>Liabilities</b>			
<b>Borrowings from other banks, financial institutions and agents</b>	11	<b>34,725,903,112</b>	<b>26,790,530,656</b>
<b>Non-convertible Subordinated bonds</b>	12	<b>10,000,000,000</b>	<b>10,000,000,000</b>
<b>Premier Bank Perpetual Bond</b>	13	<b>2,000,000,000</b>	-
<b>Deposits and other accounts</b>	14	<b>268,803,053,082</b>	<b>241,630,242,769</b>
Savings / Mudaraba Saving deposits		20,860,458,810	15,729,821,128
Fixed deposits/Mudaraba term deposits		141,808,661,634	124,943,990,991
Current deposits and other accounts		102,334,267,257	97,056,225,894
Bills payable		3,799,665,381	3,900,204,756
<b>Other liabilities</b>	15	<b>18,851,987,343</b>	<b>17,061,056,549</b>
<b>Total Liabilities</b>		<b>334,380,943,537</b>	<b>295,481,829,974</b>
<b>Capital/ Shareholders' Equity</b>			
<b>Paid-up capital</b>	16	<b>10,430,707,270</b>	<b>9,702,983,510</b>
<b>Statutory reserve</b>	17	<b>7,461,553,588</b>	<b>6,372,883,331</b>
<b>Other reserve</b>	18	<b>56,980,205</b>	<b>107,231,676</b>
<b>General Reserve</b>	19	<b>300,000,000</b>	<b>300,000,000</b>
<b>Retained earnings</b>	20	<b>3,944,795,668</b>	<b>3,758,264,921</b>
<b>Total Shareholders' Equity</b>		<b>22,194,036,731</b>	<b>20,241,363,438</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>356,574,980,268</b>	<b>315,723,193,412</b>

# The Premier Bank Limited

Balance Sheet as at 31 December 2021

	Notes	Amount in Taka	
		2021	2020
<b>OFF- BALANCE SHEET ITEMS</b>			
<b>Contingent Liabilities</b>			
Acceptances and endorsements		228,259,542,876	163,144,977,150
Letters of guarantee	21.1	74,363,830,201	45,237,029,918
Irrevocable letters of credit		61,313,913,077	62,516,753,660
Bills for collection		59,465,264,211	35,875,305,850
Other contingent liabilities	21.2	33,116,535,387	19,515,887,722
		-	-
<b>Other commitments</b>			
Documentary credits and short term trade-related transactions		5,940,855,593	1,865,647,800
Forward assets purchase and forward deposits placed	22	-	-
Spot and forward foreign exchange contracts		5,940,855,593	1,865,647,800
Undrawn note issuance and revolving underwriting facilities		-	-
Undrawn formal standby facilities, credit lines and other commitments		-	-
		-	-
<b>Total Off-Balance Sheet Items including contingent liabilities:</b>		<b>234,200,398,469</b>	<b>165,010,624,950</b>
<b>Net asset value (NAV) per share</b>	42	<b>21.28</b>	<b>19.41</b>

These Financial Statements should be read in conjunction with the annexed notes



Director



Director



Director



Managing Director

## 2.2.4.4. Cash Flow Statement

### The Premier Bank Limited

Cash Flow Statement For the year ended 31 December 2021

	Notes	Amount in Taka	
		2021	2020
<b>Cash Flows from Operating Activities</b>			
Interest received in cash		21,265,700,013	21,956,087,352
Interest paid		(13,600,198,086)	(14,892,973,545)
Fee and commission received in cash		2,445,588,814	1,645,058,915
Payments to employees		(2,718,021,533)	(2,442,336,157)
Payments to suppliers		(842,829,519)	(617,278,730)
Income taxes paid		(2,059,275,162)	(2,406,975,027)
Receipts from other operating activities		1,559,085,448	1,191,267,897
Payments for other operating activities		(3,164,969,007)	(2,822,659,311)
<b>Cash generated from operating activities before changes in operating assets and liabilities</b>		<b>2,885,080,968</b>	<b>1,610,191,394</b>
<b>Increase/decrease in operating assets and liabilities</b>			
Loans and advances to customers		(37,491,287,540)	(24,488,312,039)
Other assets		(3,597,334,130)	(3,703,858,759)
Deposits from other banks		7,935,372,456	13,255,072,209
Deposits from customers		27,613,497,699	32,810,177,820
Other liabilities		257,129,789	1,042,684,368
		<b>(5,282,621,726)</b>	<b>18,915,763,599</b>
<b>Net cash from operating activities (A)</b>		<b>(2,397,540,758)</b>	<b>20,525,954,993</b>
<b>Cash Flows from Investing Activities</b>			
Purchase/sale of trading securities, shares, bonds, etc.		(3,213,432,706)	(750,000,000)
Purchase of property, plant and equipment		(662,048,329)	(254,329,166)
<b>Net cash used in investing activities (B)</b>		<b>(3,875,481,035)</b>	<b>(1,004,329,166)</b>
<b>Cash Flows from Financing Activities</b>			
Dividend paid		(1,212,872,939)	(462,046,834)
Issue of perpetual bond		2,000,000,000	-
Issue of non-convertible variable coupon rate bond		-	1,000,000,000
<b>Net cash from financing activities (C)</b>		<b>787,127,061</b>	<b>537,953,166</b>
<b>Net increase in cash (A+B+C)</b>		<b>(5,485,894,732)</b>	<b>20,059,578,993</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>		<b>2,120,727,411</b>	<b>1,839,608,682</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>72,018,078,831</b>	<b>50,118,891,156</b>
<b>Cash and cash equivalents for the period ended (*)</b>		<b>68,652,911,510</b>	<b>72,018,078,831</b>
(*) Cash and cash equivalents at the end of the year:			
Cash in hand (including foreign currencies)	4.1	2,808,726,290	1,908,926,608
Investments in government securities		46,865,973,060	33,447,108,358
Money at call on short notice	6	600,000,000	290,000,000
Balance with Bangladesh Bank and its agent bank(s)	4.2	13,650,552,053	32,378,323,428
Balance with other banks and financial institutions	5	4,727,660,107	3,993,720,437
		<b>68,652,911,510</b>	<b>72,018,078,831</b>
<b>Net operating cash flow per share (NOCFPS)</b>	41	<b>(2.30)</b>	<b>19.68</b>



Director



Director



Director



Managing Director

## 2.2.5. Business Performance (Year 2017- 2021)



This, however, does not indicate that everything will be flawless in 2020. As they penetrated the pandemic-ravaged economic scene, they had considerable influence. The Premier Bank Limited had a rough year in 2020, but they also set a number of records in their different operations, including operational and net profits. The company's operating profit declined from BDT 7,317.46 million a year ago to BDT 6,782.48 million, but this still represents a solid underlying performance across all of their businesses. They have every reason to anticipate a large increase in profits in 2021. The Bank continues to make substantial expenditures in goods, people, and technology, although the revenue and net income of its key divisions improved little. Despite a 15.58 percent increase in deposits and a 12.84 percent increase in loans, they were able to maintain stringent credit rules and a solid balance sheet.

## 2.2.6. Industry and Competitive Analysis

### 2.2.6.1. Porters' Five Force Model

The Porter's five forces model, which enhances in assessing the level of competition in a particular industry, is especially useful for new businesses and those entering new sectors. The bank must fight with the danger of new entrants and replacements, the bargaining power of suppliers and buyers, and the competitiveness of their specific sectors vis-à-vis one another in order to remain competitive. There are several factors that affect the profitability of a business or sector. When the five forces are at their most intense, nearly no company in this industry offers attractive investment

returns. on the other hand, if the five components are moderate, there is potential for greater rewards.

Competitive intensity is the pressure applied by competitor companies within the same industry. Some competition is advantageous since it fosters the creation of fresh ideas in the workplace. While competing against one another, teams and individuals attempt to do their best regardless of the circumstances. In order to maintain its competitive edge, The Premier Bank Limited reacts continuously to competitive considerations identified during the normal course of business. Intensity of competition is impacted by a variety of characteristics, including the following:

### **Threat of New Entrants**

Constant pressure is exerted on the government to permit new banks and financial institutions from prominent political personalities and groups. In addition, a number of multinational banks are now providing local businesses with cheaper lending rates and more flexible terms and conditions than in the past.

### **Strategy of Premier Bank Limited**

To combat the dangers presented by new entrants, they have implemented the following initiatives:

- They are making significant investments in digital banking to increase client convenience and improve their capacity to meet their increasingly complex needs.
- They are continuously launching innovative solutions and services to meet the demands and requirements of a diverse consumer base.
- They are maintaining the highest level of regulatory compliance by adhering to all applicable standards.



The retail and small and medium-sized enterprise (SME) sectors have already seen tremendous growth, and they are now focusing on expanding their present clientele. By offering fresh and varied services, they hope to attract new customers.

### **Bargaining Power of Consumer**

Customers may transfer relatively easily to other banks for all or a fraction of their service demands, resulting in a decrease of their total engagement with the bank. Investment customers have more negotiating power than ever before in the modern age of promotional campaigns. This is caused by the low switching expenses involved with the presence of a significant number of banks in the sector.

### **Strategy of Premier Bank Limited**

One of their techniques for attracting and retaining customers is the execution of the following programs:

- Providing deposit rates that are competitive with the market.
- Providing industry-leading service standards.
- Making digital banking available on the go, enabling people to do a range of financial activities on the go.
- Offering variable interest rates based on the property's worth, as well as flexibility in terms of foreclosure, processing expenses, etc.

### **Bargaining Power of Suppliers**

Depositors are the key source of capital for the banking industry, and their bargaining power in Bangladesh is greater than at any time in its history. Most financial institutions are afflicted by liquidity concerns. As banks compete for their business by giving them high interest rates,

depositors suddenly have the upper hand. The two primary sources of funding are client deposits and borrowings from other financial institutions, and both are vulnerable to market volatility.

### **Strategy of Premier Bank Limited**

To get a competitive edge over our supplier relationships, they use the following strategies:

- They provide competitive interest rates to their depositors and ensure that they get world-class service.
- Bank partners and investors can rest certain that we will meet their obligations and exceed their expectations when they entrust us with managing their funds.
- In order to help us reach their objectives and ambitions via their time, effort, and expertise, they give them with suitable salary and effective professional development programs.

### **Threat of Substitute**

Many financial services formerly exclusively accessible via banks have been made available to the general public by firms outside of the banking sector. Transferring money through BKASH, NAGAD, and other similar alternatives are only a few examples.

### **Strategy of Premier Bank Limited**

They are looking for new possibilities that may arise as a result of changes in technology and regulatory laws in order to capitalize on the benefits of being first to market. As a result, they are considering the introduction of a digital wallet.

### **Competitive Rivalry**

There are 61 scheduled banks, 5 non-scheduled banks, and 34 non-banking financial institutions in the nation's banking industry (NBFIs). Because of the substantial concentration of service



providers, switching from one provider to another is fairly straightforward. In addition, banks are in the process of developing new products and services, which will allow them to improve their customer acquisition

strategies while simultaneously diminishing the market share of existing service providers. In addition, a number of large local banks provide a variety of assets and liabilities solutions at competitive interest rates.

### **Strategy of Premier Bank Limited**

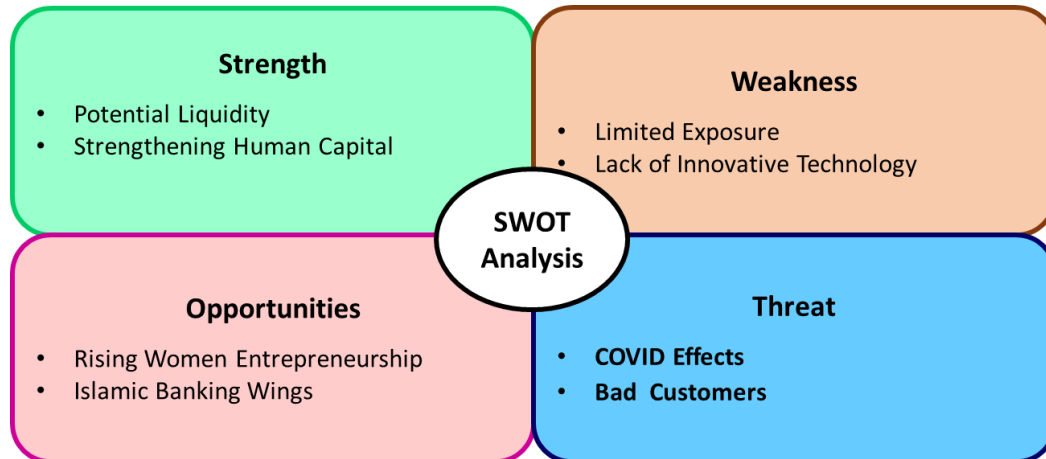
To protect their market and increase market share, they have taken the steps described below:

Investing in cutting-edge technology enables businesses to provide cutting-edge financial services and products to their clients, which strengthens consumer confidence and improves the whole experience.

- To create a difference, they think that service excellence cannot be oversaturated or replicated.
- As a consequence of their high service standards and great experiences, their customers return again.
- As a business, they have always had a loyal customer base. This provides them with a major advantage in a highly competitive industry, even as we seek to retain and expand their current client base.

### **2.2.5.2. SWOT Analysis**

SWOT analysis reveals that both internal (Strength, Weakness) and external (Opportunity, Threat) components are present in company's environment, which must consider in order to continue our day-to-day business operations.



According to Premier Bank, the following aspects are crucial to a SWOT analysis, and they are given in alphabetical order below.

### **Strength (Internal Factor)**

#### **(a) Potential Liquidity**

Premier Bank successfully maintained a CRAR (Capital-to-Risk-Weighted Assets Ratio) of 13.64 percent, and the cost-to-income ratio was decreased to an acceptable level.

#### **(b) corporate governance practices**

The bank analyzes the institution's compliance with the Central Bank on a regular basis and guarantees that high ethical standards are implemented across the company. The board of directors recognizes corporate governance rules are necessitated for the achievement of profound shareholder value and the safeguarding of all stakeholders' interests.

#### **(c) Strengthened human capital**

They have a well-developed human resource pool and a healthy work environment in order to provide the firm with the most potential value.

- To collect data on the efficiency of human resource utilization.

- To provide information on the condition of a human asset, such as whether it is being maintained effectively and whether it is appreciating or depreciating; and
- To aid in the development of successful human resource management practices by classifying the financial effects of various human resource management techniques.

#### **(d) Diversified Merchandise and Services**

Premier Bank offers a variety of modern corporate, retail, and SME products, as well as regulatory services, to its valued clientele.

#### **Weakness (Internal Factor)**

##### **(a) Limited Exposure to SME and Retail**

Premier Bank has low exposure to the retail and small- to medium-sized company (SME) industries, relative to other industry giants.

##### **(b) Reliance on the Core Banking Line**

Due to the decreasing deposit-loan ratio of 6-9 percent, Premier Bank's interest revenue income and overall income declined due to the absence of other large revenue sources.

##### **(c) Lack of Innovative Technology**

Premier Bank's investments in the information technology sector to grow physical infrastructure and modernize software are inadequate, and software upgrades are limited. It is already working on cyber security measures, but more effort is required in this area.

#### **Opportunities (External Factor)**

##### **(a) Initiatives of Governments Towards Development**

The Bangladeshi government is now investing in infrastructure development, including the Metro rail system, four-lane motorways, Padma Bridge, and the Big Port, as well as a variety of other

development projects. As part of this development, Premier Bank is prepared to collaborate with relevant stakeholders to address any potential issues.

### **(b)Rising Women Entrepreneurship**

In recent years, women's entrepreneurship has increased as literacy and educational attainment have increased. Premier Bank for Women Entrepreneurs offers specialized service desks. Women business owners may depend on our knowledgeable Relationship Managers and tailor-made solutions to fulfill all of their banking needs.

### **(c) Economic Growth and Other Business Development**

Bangladesh's development in the world of business and trade is due to its long-term robust GDP growth (save during the COVID-19 era) and its departure from low-income countries. As a consequence, the banking industry in Bangladesh has new development potential as the country's gross domestic product and per capita income increase.

### **(d)Islamic Banking Wings**

Since the majority of the population is Muslim, an Islamic shariah-based economy prevails. Currently, Islamic financial services and Shariah-compliant products and services are gaining popularity in the banking industry. To this purpose, Premier Bank, a subsidiary of an Islamic bank, is being developed as part of the bigger shariah-based financial system. Premier Bank's Prepaid Hajj Card is an innovative solution for your financial needs while doing Hajj in Saudi Arabia's Holy Lands.

### **Threat (External Factor)**

#### **Recent COVID 19 Epidemic Effects**

As a result of the lengthy lockdown imposed during the pandemic, GDP growth dropped to 5.20 percent instead of the projected 8.20 percent. It has had a detrimental effect on the business sector since bank loan disbursements and loan recoveries were so low that interest income declined dramatically.

**(a) Non- Corporation from Bad Customers**

Due to the effects of covid-19, the Bangladesh Bank granted interest-free loans for a limited time. A customer took advantage of the chance to avoid paying interest after being able to make timely interest payments. In addition, some clients misuse their loans by presenting fake documentation.

**(b) Unexpected Event**

Hackers and cybercriminals use the most advanced IT tools and technology currently available. A dramatic spike in cybercrime may cause customers to lose faith in bank security.

**(c) Lower Interest Rate**

With the exception of credit cards, the government has restricted the interest rate on loans at 9 percent. As a result, future sustainability was greatly affected.

## **Chapter 3**

*'Study on The Strategy Premier Bank Limited Should  
Adopt to be the no.1 Financial Institution'*

## **3.1 Introduction**

### **3.1.1 Literature Review**

A risk associated with bank loans is credit risk. In response to this potential problem, I've recommended the development of new financial products known as Credit Derivatives. This study analyzes how credit derivatives mitigate credit risk and how Premier Bank Limited might benefit from using them as a Credit Risk Management tool. Credit Risk is recognized as the most critical aspect of Premier Bank Limited. Through credit risk, one may determine the extent to which a bank is in a precarious situation. In another interpretation, the position of credit risk might indicate the riskiness of a bank. And based on this, the bank authorities choose what credit risk mitigation strategies they may use. Credit risk generally refers to the probability of losses arising from the borrower's incapacity to repay the loan within a predetermined timespan. In the event of default, the bank induces a loss since it will not receive all of the anticipated payments. Thus, Credit Derivative is recommended to hedge credit risk.

Credit derivatives are bilateral financial contracts with payoffs tied to credit-related events such as a default, banking collapse, or insolvency. (How much do banks use credit derivatives to reduce risk? Bernadette A. 2006). A bank may transfer some or all of the credit risk that comes with a loan to another party. Credit Derivative is a method that enables banks to more effectively and efficiently manage their credit risk portfolio. Alan Greenspan says in various speeches that the new tools of risk distribution have allowed the biggest and most sophisticated banks in their lending position to divest themselves of a substantial amount of credit risk by transferring it to organizations that have significantly less leverage (Greenspan, 2004). Credit Default Swaps are the biggest segment of credit derivatives. Despite the increasing use of Credit Derivative to manage credit risk on the worldwide market, Bangladesh is still a way away behind.

Primary objective of Credit Derivative is to hedge credit risk. Credit Derivative will not only assist in mitigating risk, but also in comprehending future movements of underlying assets (Chen J. 2022). Its value is reliant upon the creditworthiness of the entity mentioned in the contract. Adopting Credit Default Swap, a type of Credit Derivative, will be beneficial as a new strategy to

manage credit risk for Premier Bank Limited if we can construct this strategy as a significant instrument for Credit Risk Management.

### **3.1.2 Objective**

The purpose of this study is to complete the BBA degree at BRAC University and get a comprehensive understanding of the market of Bangladesh. My internship training has a secondary objective of bringing value to the organization. Premier Bank Limited claims that they are one of the most influential contributors to economic development. As shown by their AA rating from the Alpha Credit Rating Agency, they have a good ability to satisfy financial commitments. The objective of this internship is to learn about Credit Derivative, how it operates, and why Premier Bank Limited must use this financial instrument as a new Credit Risk Management tool while facing significant obstacles.

### **3.1.3. Significance**

This report attempts to determine the significance of Credit Derivatives in decreasing the Credit Risk of Premier Bank Limited. This study will also give detail information how Premier Bank Limited might use Credit Derivatives as a Credit Risk Management tool. By reading the study paper, it is anticipated that the Bangladesh government and Bangladesh Bank would advise other commercial banks to adopt credit derivatives to maintain a healthy credit risk balance. Additionally, all commercial banks will benefit from this study article. In addition, this study will aid finance students and the general public in understanding innovative techniques for mitigating credit risk.

## **3.2. Methodology**

### **Research Design**

The whole research paper is based on *Exploratory* research type. Exploratory research is a form of research strategy that helps to explore and examine an unclearly characterized topic. For this study, the researcher begins with broad concepts and uses the research as a means of identifying issues that may serve as future references. Typically, this sort of study is conducted at the beginning of a problem. This method of study is flexible and unstructured. By conducting explanatory research,



it will be able to gain a deeper comprehension of the Credit Derivative Strategy that will be advantageous to Premier Bank Limited.

### **1) Sampling technique**

- Elements: Employee of Premier Bank Limited, Banani SME branches
- Sampling size: Here, the responses are collected from mostly from Mohammad Neyamur Rageeb, Credit in Charge, Banani SME branch, from Mamunur Rashid, AVP & Operation Manager, and from Md. Mesbahul Alam, SVP & Head of Branch
- Sampling method: Cluster sampling technique was used to collect data.

### **2) Source of Data**

In this study, both primary and secondary data sources are used to gather information. Primary data are information that was created by the author for the aim of describing or studying a subject. Here, most of the primary data related to credit risk and what Premier Bank Limited does to mitigate credit risk. Additionally, secondary data are gathered mostly from the Internet. In addition, it was gathered to support or provide recommendations for the primary data. Which means apart from suggested approach about minimizing the credit risk of Premier Bank Limited, what other approaches may be employed and included in Credit Risk Management

#### **Primary data source**

- Questionnaire
- Face to Face Conversation

#### **Secondary data Source**

- Internet
- Internal Data of Premier Bank Limited.

## **3.3. Findings and Analysis**

### **3.3.1. Conceptual Framework of Credit Risk of Premier Bank Limited**

Credit Risk is an important component of banking activities and operations of Premier Bank Limited. They are exposed to Credit Risk in addition to other risks such as interest Rate Risk. It

must be managed effectively. Credit Risk refers to the possible loss that might result from a bank borrower failing to satisfy its obligations in line with the conditions agreed upon. The Premier Bank Limited is committed to providing its diverse borrowers with superior service. When they believe, however, that the borrower will be unable to repay the loan in a timely manner, they begin to manage the credit risk in accordance with their recommended strategy for mitigating credit risk.

Credit Risk of Premier Bank Limited is often impacted by both economic cycles and firm-specific events. Robert S. believes that credit risk rises during economic downturns because prospective borrowers' incomes decline, making loan payments more challenging (Robert S. Credit derivatives: New financial instruments for controlling credit risk, 1996).

#### **3.3.1.1. How Credit Risk affects the Premier Bank Limited**

Premier Bank Limited is susceptible to credit risk owing to their dynamic structure and the complexity of their operating environment. We are aware that Premier Bank Limited contributes significantly to economic progress. Therefore, the disruption in bank activities and operations caused by an increase in credit risk may have a negative impact on financial or economic condition of Bangladesh.

The main source of revenue for Premier Bank Limited is interest payments on loans. Now, if the borrower fails to return the loan, the credit risk will grow. And, an increase in credit risk causes marginal costs and bank financing to grow. (The Effect of Credit Risk on Financial Performance of Deposit. 2019). Moreover, the more a bank's exposure to credit risk, the greater its probability of facing a financial crisis.

#### **3.3.1.2. Loan Approval Process**

Main activities of Premier Bank Limited are collecting deposits from depositors and providing loans to borrowers. Technically, their liability is the deposits supplied by depositors, while their asset is the loan made to borrowers. Their main source of revenue is loans, since they generate income from the interest that borrowers pay on their borrowings. As loans are the earning source

of income for Premier Bank Limited, the bank must follow a number of procedures in order to approve a borrower's loan request. Those are given below:

**Step 1:** if a customer wants to take the loan from the bank, at the very beginning they must collect the Credit Application Form from the credit officer of branch. After filling the form, they will submit it along with necessary document. The necessary documents depend on the type of loan. For example, for taking the personal loan, the borrower need TIN certificate, CIB undertaking of both his and his guarantor, Last one year of bank statement, etc.

**Step 2:** Credit officer of branch inspect the form and necessary documents and create the primary assessment which focus on the borrower's ability to pay the loan based on their given documents. After going through the documents, if they found that proposal of loan of borrower is acceptable, then they will forward the proposal letter to the relationship manager otherwise they will reject the loan request of borrower.

**Step 3:** In this phase, Credit Officer will visit the borrower's business location. He will perceive the borrowers' company situation, when they need the loan, and, if they take the loan, how they will return it on time, among other factors. Aside from this, the manager will discuss with the borrower over how they will handle the credit to mitigate risk. Then, he will review the securities, which will enable him in developing the value report. Finally, the credit officer will consolidate the pre-sanction inspection where all pertinent information will be summarized. They will make the pre sanction in prescribed format which only recommend for the borrower. In addition, the Credit Officer will collect a thoroughly filled out "CIB Inquiry Form" from the client and transmit it to the Credit Information Bureau of Bangladesh Bank to the Credit Administration Department of the Head Office to receive the most updated CIB Report.

**Step 4:** The Head of Credit Division assigned Executive assigned by Head of Credit Division will try to evaluate the credit proposal. And, if necessary, they will contact with the credit officer of designated branch. After analyzing they give their decision to credit officer.

**Step-5:** In this process, on the request of branch, Credit Administration Department will send the request letter to Bangladesh Bank to send 'CIB Inquiry Form' about the particular borrower. And, later on Bangladesh Bank will send the CIB report via e-mail/courier service to the Credit Officer on receipt of the report. Loan will not be approved if the received CIB report states the negative sign.

**Step-6:** If the CIB Report reveals a favorable indication, the Credit Officer will submit a formal Credit Proposal including the instructions of the Relationship Manager, a reauthorization proposal, and a certification of the Credit Administration officer. After he has acknowledged it, it will be forwarded to the Credit Division at headquarters.

**Step-7:** After proper assessment, Credit Division will place the proposal before the Credit Committee.

**Step-8:** In this step, Credit Committee will analyze the proposal and if they find proposal as viable then they will recommend for approval to the appropriate approval authority to follow their discretionary power which provided in delegation of authority with their observations. If the proposal is endorsed by the Credit Committee, Credit Division will prepare required Memo, mitigating the risk factors and incorporating the suggestion of the Credit Committee for approval of the appropriate authority.

**Step-9:** If the service is permitted by the approval authorization, then the branch will be informed to release the sanction. Advice which later on will be jointly signed by two authorized officials of Credit Division.

**Step-10:** Lastly, originating branch will send the Sanction Letter to the customer following Credit Division's sanction advice. And, the sign of Relationship Manager and Credit Administration Officer of the Branch should be present.

### 3.3.1.3. Internal Credit Risk Rating of Premier Bank Limited

Like other Commercial Banks, Premier Bank Limited has developed an internal Credit Risk Rating System that analyzes a borrower's repayment capacity based on information about their financial condition, such as liquidity, cash flow, profitability, debt profile, market indicators, etc. Typically, Premier Bank Limited uses it to enhance portfolio management operations. It's a crucial component of their Credit Risk Management. In addition, it synchronizes the characteristics of various industries and sectors within a single model with a specified rate and score. The rate obtained from this system is known as the Internal Credit Risk Rate. And the score generated from the Internal Credit Risk Rate is known to as the Internal Credit Risk Score. Technically, before to granting a borrower's request for a loan, the bank examines the borrower's required documents and they give rates and scores the prospective borrower's repayment capabilities. Premier Bank Limited adheres to the Internal Credit Risk Rating mandated by Bangladesh Bank for all banks for using.

The ICRR consists of 4-notched rating system. The ratings and scores are mentioned below:

Rating	Scores Aggregate
Excellent	75% - above
Good	65% - 75%
Marginal	50% -65%
Unacceptable	Below 50%

The features of the different categories of Credit Risk Ratings are given below:

#### a) Excellent

- Aggregate score of 75 or greater in ICRR.
- Borrower have high capacity to repay the loan which can understand by evident by the high liquidity, strong earnings, and adequate cash flow.
- Established strong market share of borrower.

**b) Good**

- Aggregate score of 65 or greater but less than 75.
- These borrowers are not as strong as "Excellent" borrowers, but still demonstrate consistent earnings, adequate cash flow and have a good track record.
- Strong managerial ability & competence.

**c) Marginal**

- Aggregate score of 50 or greater but less than 65 and the quantitative score of at least 30.
- Have the significant weaknesses that deserve monitoring of management. If left uncorrected, these vulnerabilities may cause a reduction in the borrower's repayment chances.

**d) Unacceptable**

- Aggregate score of less than 50.
- There is neither the ability nor the willingness to repay the debt.
- Facilities should be demoted if prolonged financial deterioration is evident (consecutive losses, negative net worth)

**3.3.1.4. How Premier Bank Limited Manage the Credit Risk**

Most essential operations of Premier Bank Limited include the management of credit risk inherent in their loan portfolios, given their dependence on lending. Premier Bank Limited has established Credit Risk Management in order to control credit risk by segregating the tasks of officers and executives engaged in credit-related transactions. Credit Risk Management acts as the organ of Premier Bank Limited to take action against the bad loan or bad debt.

Usually, Premier Bank Limited conducts a background investigation on the potential borrower. They verify the credit worthiness of the consumer. Using the '5Cs'(Character, Capacity, Capital,

Collateral, Conditions), they review the customer's information in depth. Additionally, they will examine that the buyer has adequate cash on hand. If they determine that the consumer has the capacity to repay the principal amount plus interest, they will provide the loan. In addition, Premier Bank Limited utilizes the 'Know Your Customer' method, in which they analyze customer information. Here, a customer's creditworthiness is evaluated based on some general principles. Premier Bank Limited will not provide a loan to a prospective borrower if the bank judges that the applicant lacks sufficient collateral. The bank is unwilling to provide the loan owing to the possibility that the consumer would not be able to repay it on time. Because if they grant the loan, the credit risk might increase in the future. This is undesirable since it will result in an increase in bank funding.

Therefore, it is reasonable to conclude that Premier Bank Limited implements the '5Cs' and 'Know Your Customer' strategies to reduce potential losses. Due to these tactics, they are able to determine who is qualified for a loan, and they provide loans accordingly. In addition, they do their routine banking transactions.

### **3.3.2. Introduction of new Strategy to Premier Bank Limited**

Premier Bank Limited has vowed to contribute to the nation's economic development without compromising banking operations and activities. In order to accomplish this mission requires them to manage their credit risk. As banks are inherently vulnerable to credit risk, they use the 5Cs and Know Your Customer strategies as a Credit Risk Management tool.

In order to decrease the credit risk. By adhering to these principles, they do their utmost to minimize credit risk. Apart from these strategies, Premier Bank Limited can adopt Credit Default Swap, a type of Credit Derivative as a new strategy which can be a part or a tool of Credit Risk Management.

### **3.3.2. 1. Credit Derivative**

Credit Derivatives are an internationally well-known kind of financial transaction. The use of credit derivative in Bangladesh is very rare. Credit Derivatives may be interpreted as contracts where credit risk hedging is permitted between parties. It is a method in which one party transfers the credit risk of a portfolio of underlying assets to another party without transferring the portfolio itself. Typically, lenders attempt to sell loans to parties eager to invest in debt instruments. Its value is based upon the creditworthiness of the entity addressed in the contract. The lender pays the third party from whom they purchased the credit derivative in exchange for taking the risk. It is known as a "Premium" payment.

### **3.3.2.2. What is Credit Default Swap**

Credit Default Swap is the most commonly used kind of credit Derivative. This refers to the contract between two parties in which each party is accountable for paying payments. Exchange can handle the whole of the Credit Swap procedure. In this case, the seller or investor might negotiate an up-front fee to reimburse the buyer if they anticipate that the buyer would default. When a defined event, such as default or failure to make a payment by the borrower, occurs, the substantial investor or the seller will pay the buyer the exact amount of the loan together with interest. This procedure is mostly carried out via OTC and Exchange. As Bangladesh abolished the OTC market in 2021, Premier Bank Limited can done the whole process by exchanging the risk between them and the investor who will sell the risk protection. The investor will get the Premium payment due to the sale of risk protection.

### **3.3.2.3. How credit Default Swap will work for Premier Bank Limited**

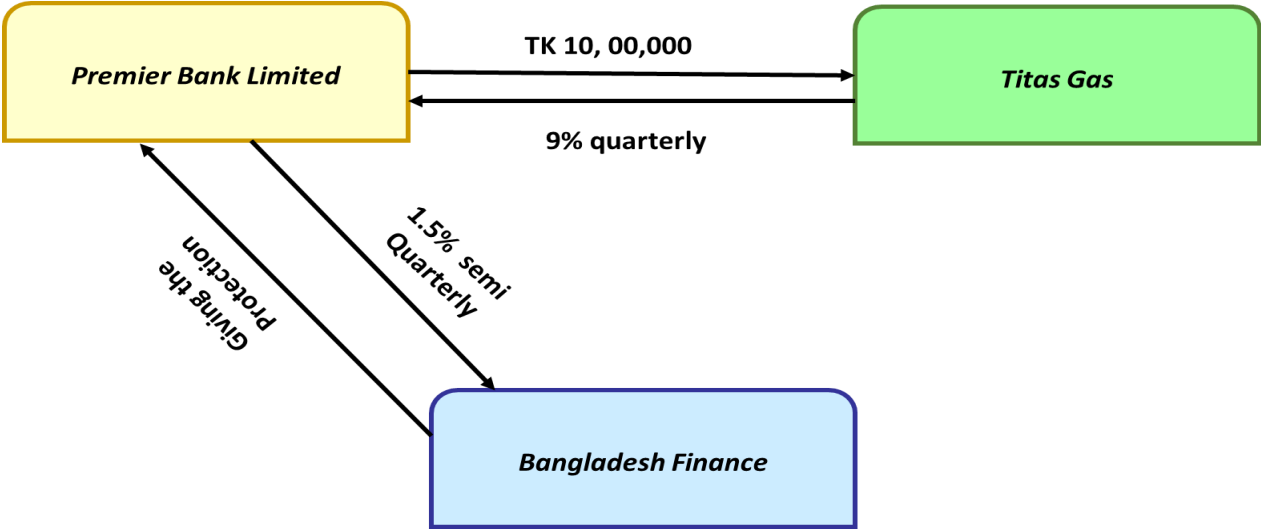
At first, Premier Bank must consider what the CIB report says about the prospective borrower before providing the loan. If the bank determines from the CIB report that the borrower's prior loan performance has been satisfactory, they may provide loan to the prospective borrower. However, after granting the loan, the bank may be exposed to credit risk if it is discovered that, in the future, the borrower would have difficulties promptly repaying the loan owing to unexpected situations. In this situation, they may utilize Credit Default Swap to limit the risk.



In order to access of Credit Default Swap technique, Premier Bank Limited must choose an investor who will agree to bear the risk of borrower if any case they fail to repay the loan. In a Credit Default Swap transaction, Premier Bank Limited will be one party and the investor chosen by the bank would be the other. The investor will sell the risk protection for the underlying asset to Premier Bank Limited. And Premier Bank Limited will give the investor a premium to offset the risk of credit loss that might impact the underlying asset's quality. In the Credit Default Swap agreement, it will be stated that the investor will receive a premium for risk protection, and that if the borrower experiences a negative credit event, the investor will pay Premier Bank Limited the value of the asset plus any interest that would have been paid up until the maturity date of the loan. Through a swap agreement, both the investor and Premier Bank Limited may gain.

### 3.3.2.4. Example of Credit Default Swap Contract

Suppose, Titas Gas want to take the loan of TK10,00,000 from Premier Bank Limited for launching a new project. After considering everything the bank has decided that they will give the loan for 10 years at 9% quarterly. Here, bank bears the risk of non-payment by Titas Gas. To shift the credit risk Premier Bank Limited has signed a Credit Default Swap agreement with Bangladesh Finance. In the agreement it is stated that if Titas Gas fails to repay the loan then Bangladesh Finance will pay the Premier Bank Limited the loan amount along with interest payment. And, they will get 1.5% semi quarterly premium payment for risk protection



### **3.3.2.5. How Premier Bank will be benefitted by Using Credit Default Swap**

Credit Default Swaps act as a major strategy for Premier Bank Limited since they enabled the bank to purchase insurance against an uncertain but catastrophic credit disaster. Since Credit Default Swap may be utilized as a new Credit Risk Management tool, banks must decide how this technique will help them. There are a lot of reasons why a bank should adopt this technique. Those are:

**Active tool to reduce the Risk:** Premier Bank Limited is able to hedge credit risks using Credit Default Swap without jeopardizing their connection with clients and while reaping the advantages of customers. Due to constraints including financial resources, ideal diversity is difficult to attain in the real world. In addition, Credit Default Swap enables the bank to tailor its credit risk portfolios. We are aware, for instance, that the car industry and the oil industry have a negative relation. Now, Premier Bank Limited is able to construct a portfolio that includes a portion of both sectors' exposures. However, there is a possibility that the bank is highly exposed to the car manufacturing business but has minimal exposure to the oil industry. With Credit Default Swap, the bank may offer Credit Default Swap protection on the oil sector, so creating an artificial exposure to the oil industry. This method might be considered as an alternative to making oil industry loans or purchasing bonds.

**Increasing Liquidity:** Credit default swap enhances the underlying asset markets' liquidity. Stulz (2010) contends that with Credit Default Swap, banks are able to provide loans that "they otherwise could not make." There is a significant distinction between Credit Default Swap and insurance, despite their similarities. Credit Default Swap contracts, unlike insurance, do not need the policyholder to have an insurable interest in order to be eligible for reimbursement. Therefore, an investor might wager on his anticipation of the loan's future prospects. These investor-provided speculative activities stimulate the expansion of Credit Default Swap since they have a beneficial impact on bank liquidity and pricing transparency.

### **3.3.2.6. Challenges while using Credit Default Swap**

As many advantages as there are to employing Credit Default Swap, there are equally as many disadvantages that Premier Bank Limited must evaluate before to implementing it. Credit Default

Swap might provide the bank a false sense of security. Also, while Credit Default Swap has the capacity to hedge credit risk, there is a substantial cost associated with decreasing bank monitoring incentives. After doing an analysis of Credit Default Swap, it has been determined that Premier Bank Limited must be aware of a number of issues that might interrupt their banking operations. Those are given below: -

**Increasing the risk-taking behavior:** One of the most prevalent criticisms of Credit Default Swap is that it allows banks to issue more loans. Jackson claims that with the use of Credit Default Swap, banks may have incentives to extend lending with less assessment anxiety, since they have a cushion to safeguard against non-performance (Jackson 2007; Partnoy and Skeek, 2007; Mingle, 2009; Weistroffer, 2009; Stulz, 2010). Additionally, Liu (2010) points out that when banks are able to hedge their credit risk via Credit Default Swap, they strive to enhance lending. In this sense, Premier Bank Limited may provide incentives to encourage its borrowers to take excessive risks so as to increase capital demand. With Credit Default Swap, they may synthetically move assets with a greater risk weight to risk-free categories, allowing them to maintain less capital while still satisfying regulatory requirements.

**Reducing loan Monitoring:** Credit Default Swap also promotes banks to increase loans with less oversight (Arnold, 2014; Partnoy and Skeek, 2007; Stulz, 2010; Weistroffer, 2009; Mingle, 2007) since, with the insurance given by Credit Default Swap, the success of borrowers would be of considerably less importance to banks. Technically, the ultimate risk bearers will inherit the banks' risk exposures; hence, they will be more involved with monitoring debtor performance (Partnoy and Skeel, 2007). However, the controversy on the fact that sellers of protection have less knowledge, expertise in regulating loans. Furthermore, Dickinson (2008) thinks that even if the Credit Default Swap counter-party were to closely monitor the debt, they would only have access to the protection buyers' sensitive information. Overall, it is proposed that Credit Default Swap minimize loan monitoring to individuals with less experience and expertise.

### **3.3.2.7. Credit Default Swap – Diversification Effect**

There is a financial idiom that states, "Do not put all your eggs in one basket." This term perfectly captures the notion of diversity, in our opinion. If Premier Bank Limited decides to purchase Credit Default Swap for risk protection from a single investor or seller, there is a chance that the bank would lose everything if the investor declares bankruptcy. However, if the bank purchases Credit Default Swaps from many investors, it will be better able to mitigate its possible credit risk.

When Premier Bank Limited implements the Credit Default Swap technique, the role of diversification is extremely crucial. By negotiating a credit default swap, the bank is able to diversify its loan portfolio, so increasing its ability to extend lending (Mengle, 2007, p.16). For instance, a company with a large loan portfolio on its balance sheet may be cautious to further expand its loan book, since doing so may jeopardize its connection with future customers and ultimately harm the organization as a whole. One strategy to prevent losing prospective clients is to approve the loan and simultaneously purchase a credit default swap that transfers the increased credit risk to a third party. The bank will thus accomplish its purpose of diversifying without endangering its connection with customers.

### **3.3.2.8. Credit default Swap as a tool of Credit Risk Management**

Credit Risk Management is an essential component of contemporary risk management. It is well known that the commercial banks of Bangladesh have developed complex techniques, such as 5Cs, based on the advice of regulators and supervisors.

Credit Default Swap may be adopted by Premier Bank Limited as a Credit Risk Management method. Despite the complex models of Credit Risk Management, this approach for transferring credit risk may be developed. This method is designed to facilitate risk transfer and price discovery. Premier Bank Limited relies heavily on risk management to achieve profitability and preserve the stability of the financial sector. They have a complex procedure for evaluating their inherent credit risk. In addition to advanced credit risk management, they may manage credit risk by transferring it.

Credit Default Swap may be regarded as a Credit Risk Management tool since its primary purpose is to hedge or reduce the credit risk of the lender or bank. It is the traditional representative that closely resembles insurance contracts. As with other Credit Risk Management instruments, Premier Bank Limited might use this strategy to safeguard their investment portfolio against a decline in market value. Since there is no OTC market in Bangladesh to provide the role, the bank may simply exchange the risk. In addition, they may utilize it to safeguard the referenced item. Where the purchaser will protect their property.

#### **3.3.2.9. Recommendation**

I highly recommend that Premier Bank Limited to adopt Credit Default Swap as a Credit Risk Management instrument. In the first place, it has become not merely an instrument that successfully hedges event risk, but also a versatile portfolio management tool. This method assists the bank in selecting investments that suit the investor's long-term financial objectives and risk tolerance. In addition, Credit Default Swap will assist the bank in acquiring sufficient liquidity for the underlying asset. Consequently, possibilities to provide credit protection to banks at a premium price might attract investors who are not capital limited. Thus, the bank will have sufficient liquidity. In addition, they are able to do standard banking operations without difficulty. Therefore, I would advise Premier Bank Limited to use this method as a Credit Risk Management instrument and become one of the leading financial institutions in Bangladesh.

#### **3.3.2.10. Summary and Conclusion**

Premier Bank Limited is one of the most well-known banks of the third generation. It competes with several other banks and new banks are about to enter the market. Therefore, it must contend with fierce competition in order to thrive. Managing credit risk is the primary job for banks to thrive in this competitive environment. In compliance with the advice of regulators and supervisors, banks have developed sophisticated quantitative and investment approaches to control this risk due to its significance. Risk management is key to ensuring bank profitability and financial system stability. In order to mitigate credit risk, they use tools such as 5C and KYC. Credit Default Swaps, which are a form of Credit Derivative, are still an essential instrument for credit risk

management. In recent years, Credit Default Swaps have become an indication of the risk assessment of financial assets. It began its voyage in 1994; nevertheless, it gained international attention in 2007. Bangladesh has not yet openly acknowledged this plan.

The Credit Default Swap approach will strengthen the banks' liquidity of market. This instrument enables the lender to trade risks that were not tradable before. This technique will benefit both the lender and the seller or investment. In addition, this method will enable Premier Bank to effectively and efficiently manage its loan portfolio. Additionally, it facilitates the disaggregation of debt related risks and the addition of liquidity to the capital markets. Aside from this, it is a unique approach in Bangladesh that has not yet been used by other commercial banks. Therefore, if Premier Bank Limited adopts this novel strategy, it can outperform all other commercial banks in terms of acquiring loans or clients.

However, The Premier Bank Limited must acknowledge that Credit Default Swap cannot always be relied upon to alleviate credit risk. This method will be quite unique in Bangladesh, therefore initially it will be difficult to regulate. Since there is no large agency that regulates the whole Credit Default Swap system to assure that the seller of the swap has the means to pay the holder in the case of loan default, the bank may have a false sense of security. Additionally, Premier Bank Limited must guarantee that their risk-taking behavior does not escalate. Even though Credit Default Swap would offer the bank a lowering in credit risk, this does not imply the bank may be reckless when assessing the creditworthiness of borrowers prior to processing loan requests. Because depending too heavily on Credit Default Swaps may force them to incur greater risks, which may hinder their day-to-day banking operations, it is not advisable for banks to rely excessively on Credit Default Swaps.

In conclusion, Premier Bank Limited may use this method as a Credit Risk Management tool to decrease credit risk. However, they must evaluate the controversial aspects before embracing it. If they can do this only then they can become the no. 1 financial institution in Bangladesh.

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