"Internship Report on Credit Risk Management of Islami Bank Bangladesh PLC"

Submitted To:

Professor Dr. Mostafa Kamal
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“Internship Report on Credit Risk Management of Islami Bank Bangladesh PLC”

LETTER OF TRANSMITTAL

Date: October 29, 2025

To
Professor Dr. Mostafa Kamal
Department of Business Administration
Daffodil International University

Subject: Submission of Internship Report on **“Internship report on Credit Risk Management of Islami Bank Bangladesh PLC”**

Honorable Sir,

It is a great honor for me**,** I Sumaia Mehjabin Anzum, to submit the internship report titled **“Internship report on Credit risk management of Islami Bank Bangladesh PLC”.** This report has been prepared as a requirement for the completion of the BBA program. I have given my best effort to compile all the relevant information, experiences, and insights gained during my internship at **Islami Bank Bangladesh PLC**.

I sincerely hope this report meets your expectations and requirements.

Sincerely,

Anzum.

Sumaia Mehjabin Anzum
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LETTER OF APPROVAL

This is to certify that the internship report entitled **"Internship Report on Credit Risk Management of Islami Bank Bangladesh PLC"**
has been prepared by Sumaia Mehjabin Anzum, ID: 221-11-1627, as part of the requirements for the Bachelor of Business Administration (BBA) Program, Major in Finance, under the Department of Business Administration, Faculty of Business and Entrepreneurship, Daffodil International University.

The report is an original work carried out under my supervision and is hereby recommended for submission.

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DECLARATION

I am Sumaia Mehjabin Anzum, a student of the Department of Business Administration, bearing ID: **221-11-1627**, Major in Finance, at Daffodil International University (DIU), do hereby sincerely declare that the internship report entitled **"Internship Report on Credit Risk Management of Islami Bank Bangladesh PLC"** has been authentically prepared by me.
While preparing this internship report, I have not intentionally violated any copyright laws or academic integrity policies.

I further declare that this report has not been submitted anywhere else for the purpose of obtaining any degree, diploma, or certificate.

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I am grateful to for giving me the chance to work as a Finance Intern at Islami Bank Bangladesh PLC. I am appreciative of the valuable coaching, materials and inspiration provided in my traineeship that greatly enriched my learning process.

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EXECUTIVE SUMMARY

This article makes a thorough assessment about risk management of credit in Islami Bank Bangladesh PLC (IBBL) on the basis of its credit risk management how bank dealing with the credit risk according to Islamic banking. The internship, at IBBL, offered a wonderful chance to acquire hands-on experience in credit management risk minimisation, loan classification and recovery procedures. Throughout the internship, the main aim had been to gain exposure and an overall understanding of the different components in place which would help drive credit risk within the bank, most notably with respect to Islamic finance.

As a fellow employee, my duties and responsibilities included handling (as attaché) some tasks such as account opening, straight-through smart card issuance, remittance withdrawal transaction processing and helped in the acceptance for check deposits to other banks. These tasks exposed me first-hand to the daily activities in a leading Islamic bank in Bangladesh. Moreover, I was to report to Islami Bank Training and Research Academy (IBTRA) that enhanced my knowledge about the theoretical and practical dimension of credit risk management.

The purposes of this report are two folds: to evaluate the total system of credit risk management in IBBL and secondarily, to review some aspects of the bank's credit quality improvement including loan classification/credit appraisal/recovery. The paper investigates how Islami Bank Bangladesh PLC balances its commitment to Islamic financial standards against the necessity of credit risk management, notably in terms of loan approval, monitoring and recovery.

In addition, the study examines how the bank mitigate credit risk covering how the bank classifies loan, evaluates borrowers' creditworthiness and manages non performing loans (NPLs). In examining those processes, this report intends to demonstrate the merits and weak points in the bank's credit risk management system.

It can be inferred from the study results that, IBBL has a strong system of credit risk management and with specific process of designing, reviewing and granting credit. Nevertheless, NPL management and recovery process are still a concern to the bank's financial stability. This report also provides practical suggestions for strengthening the credit risk management culminated in improving the loan classification system and in increasing technology-based monitoring and risk assessment.

The experiences from this internship are finally invaluable because of their implications for improving credit risk management practices in Islamic banks in Bangladesh and to the larger debate about how Islamic financial institutions may better manage credit risk without compromising Sharia adherence.

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Abbreviations

Abbreviation	Full Form
IBBL	Islami Bank Bangladesh PLC
NPL	Non-Performing Loans
SMA	Special Mention Accounts
BCBL	Bangladesh Commerce Bank Limited
Sharia	Islamic Law (used in banking, finance, etc.)
LC	Letter of Credit
IBTRA	Islami Bank Training and Research Academy
BBA	Bachelor of Business Administration
Mudarabah	Profit-sharing partnership (used in Islamic finance)
Murabaha	Cost-plus financing (used in Islamic finance)
Ijarah	Islamic leasing (used in Islamic finance)
Musharakah	Joint venture partnership (used in Islamic finance)
Sukuk	Islamic bonds (used in Islamic finance)
ROA	Return on Assets
ROE	Return on Equity
LDR	Loan to Deposit Ratio
NIM	Net Interest Margin
LCR	Loan Classification Ratio
SMEs	Small and Medium Enterprises
AI	Artificial Intelligence
ML	Machine Learning

Chapter 1:

Introduction

1.1 Background of the Study

The banking sector is a very important part of the economy in any country. The effective exercise of credit risk management in the banking system is one of the main prerequisites for financial stability and sustainable development. By credit risk we mean the loss to which a bank is exposed if a debtor fails in repaying the due installments specified by the loan contract. This problem is of paramount significance, especially, in Islamic banking entities such as Islami Bank Bangladesh PLC (IBBL) where any form of financial transaction to be carried out must follow Sharia guidelines which prohibit “interest-based financing”.

Islamic Banks like Islami Bank Bangladesh provide a range of banking services and products which follow Islamic principles. At these institutions, the way credit risk is managed is somewhat different for their financial products including Murabaha, Mudarabah, Ijarah and other modes of Shariaa compliant financing. Therefore, having knowledge about the management aspects of credit risk in such financial institutes turns out to be significant not only for the bank’s monetary wellbeing but also serving them with a moral and legal entity as per Islamic law.

The intern with Islami Bank Bangladesh PLC gave him the opportunity to have an in-depth understanding on how credit risk management is operated within the bank under Islamic banking system. The findings of this study are expected to add towards the general body knowledge of credit risk management in Islamic banking that has recently become important in global financial markets.

1.2 Statement of the Problem

Credit risk is the most important aspect in any bank business because safeguarding the financial condition of a bank is crucial. The challenge for Islami Bank Bangladesh is two-fold: the bank must not only collect interest on loans but also operate on Islamic finance principles forbidding charging or paying interest. Such combination is new for lending institutions and results in more complexities on credit risk monitoring, such as risks that relate to borrower’s creditworthiness loan portfolio, or the misuse of Islamic financing instruments used.

Added to this are the increase in NPLs and loan recovery, loan classification problems that exist within the bank which is another obstacle that needs fixing. The risk of these defaults is something that Samba’s credit risk management system attempts to minimize, but without a doubt there will be default rates – particularly within segments of a borrower pool. Therefore it is important to have an understanding of how Ibrahim (2004) writes about the aforementioned menaces posed by IT to IBBL while being a Sharia’ah based bank and safeguarding itself from those.

1.3 Objectives of the Study

1.3.1 Broad Objective

To assess credit risk management performance of Islami Bank Bangladesh PLC.

1.3.2 Specific Objectives

- To know the credit risk management process of Islami Bank Bangladesh PLC.
- The checking of the loan classification, monitoring and recovery.
- To examine the bank's credit portfolio performance, and to give some new insights on risk mitigating activities..

1.4 Scope of the Study

This research is basically based on credit risk management process of Islami Bank Bangladesh PLC's with a special focus on the bank handle risks under Islamic banking. The review will involve assessment of the bank's policies on credit assessment, loan classification and recovery methods as well as the methodologies used for managing their credit portfolio.

The study includes the bank's mechanisms for loan tracking, non- performing loans (NPLs) and credit risk management. Further, the study will examine the contribution of training programs such as provided by Islami Bank Training and Research Academy (IBTRA) in disseminating knowledge to the bank staff concerning credit risk management practices.

The research will be based on secondary sources including bank official publications, practitioners guidance and extant literature. In addition, it will include information learned from first-hand experience and observation during the internship.

1.5 Rationale of the Study

Risk management in credit is one of the important activities for banks, especially for Islamic banking that really emphasizing on its ethical and Sharia principles to form a business concept. Islami Bank Bangladesh, one of the largest Shari'ah-compliant banks that serves as an example for other Islamic Banks in Bangladesh, leads in the management of these risks to ensure that it strictly adheres to the principles of Islamic law and at the same time their business operations remain profitable and financially sound.

As Islamic banking has experienced a rapid growth in Bangladesh, it is essential for organizations such as the Islami Bank Bangladesh to regularly update their risk credit management approaches. This study could lead to strengthen the bank's credit risk management process and would add a new dimensions on Islamic banking industry in the country based on their performance.

Furthermore, this is essential to future bank practitioners and academics as the latter wish to create more efficient risk management models in Islamic finance.

1.6 Methodology of the Study

1.6.1 Sources of Data (Primary & Secondary)

- **Primary Data**: The Primary data for this study was collected during my internship period in Islami Bank Bangladesh PLC. That included actually observing how the bank functioned on a daily basis, and this was especially true of their credit management / risk assessment departments. A few detailed interviews with credit officers, managers and other bank employees also gave an experience of how the theory was put into practice. Primary data was also obtained from reports presented to the Islami Bank Training and Research Academy (IBTRA) in my internship programme.

- **Secondary Data**: the secondary sources are published annual reports of Islami Bank Bangladesh PLC, other books, relevant research papers, industry publication and regulatory guidelines issued by the Bangladesh bank (Central Bank). Besides that, articles, books and online materials related to Islamic banking and credit risk management were referred.

1.6.2 Data Collection Methods

- **Interviews**: Some, particularly, the people who are working in the credit risk management department of Islami Bank Bangladesh PLC regarding internal practices to get some idea from their side.
- **Direct Observation**: During the course of my internship I had an opportunity to observe operations in the credit risk management division such as loan processing, scrutiny and categorization of loans.
- **Document Review**: A review of the internal reports and training materials supplied by IBTRA assisted to develop understanding of the bank's risk management infrastructure.

1.6.3 Data Analysis Techniques

The analysis of the data was qualitative, I looked at and compiled information from interviews, observations, or sources. A comparative study on quality of credits and credit risk management between Al-Arafa Islami Bank BD limited is made. Performance of the bank was measured using financial indicators (e.g., KPIs – loan classification ratios, loan recovery rates and NPL ratios).

1.7 Limitations of the Study

Limitations of the Study Although this study sheds light on credit risk management practices at Islami Bank Bangladesh PLC, it also has some limitations.

- Time limitations: The internship between the author and SCANDINAVIAN MANAGEMENT was only four months in duration, therefore opening more extensive data up as well as conducting additional interviews were an impossibility.
- Lack of access to certain data: We were not able to access some information for analysis purposes (e.g. on specific loans or confidentiality related customer details) because of non-disclosure arrangements as well as restrictions on use due to data privacy regulations.
- Single Bank Focus: The research is confined to only one bank, and results could not be generalised for Bangladesh or other Islamic banking industry.

Chapter 2:

Organization Overview

2.1 History and Background of Islami Bank Bangladesh PLC

Islami Bank Bangladesh PLC (IBBL) is an early entrant into the Islamic banking terrain of Bangladesh. The bank was founded in 1983 and is the first full-fledged Islamic bank operating in the country. Seeing the opportunity to offer Sharia'a compliant banking services for any individual or companies, IBBL has grown and is regarded as one of Bangladesh largest and respected banks. The bank was formed in response to growing interest in a mortgage that complies with Islamic laws, meaning that it does not charge traditional levels of interest (Riba).

Islami Bank Bangladesh PLC held a critical position from its onset in the growth of Islamic Banking in Bangladesh. The bank's operating structure, in line with Islamic financial norms, is predicated on profit sharing methods such as Mudarabah (profit-sharing) Musharakah (joint investment) and Mudaraba (cost-plus financing). These instruments try to channel funds through non usurious practices that follow the principles of ethics.

IBBL, as an institution has grown and extended its branches to the different parts of the country and providing preeminent banking services to become one of the exclusive banks in Bangladesh. The success of the bank stems from its ability to attain strong financial results on Islamic grounds. IBBL has been always committed in introducing new financial products and services to meet the needs of diversified customers irrespective of individual, retail, corporate customers etc.

2.2 Vision, Mission, and Core Values

- **Vision**:
  The vision of Islami Bank Bangladesh PLC is to be the leading and most trusted bank in providing Shariah based financial services towards the social economic development of Bangladesh. It aims to promote financial inclusivity by providing banking services that are ethical and sustainable.

- **Mission**:
  Additionality Objectives The central proposition of this initiative is that the promotion of Shari a -compliant financial instruments, notably Sukuk, will help to add value to the development paradigm in KAZ and IBBL s Mirls objective. The bank plays an active role in campaigning for financial literacy and offers innovative customer-focused products and services. Darul Ihsan Islamic Bank Ltd IBBL dream is to be at the forefront by generating superior return in the country with all pricing goods and materials to facilitate our customers.

- **Core Values**:
  - **Ethical conduct:**IBBL ensures our highest standard of integrity by conducting ethical dealings in all its operations.

- **Innovation:** The bank is committed to bringing new products and services that support changing needs of the clients on a regular basis.
- **Customer-focus:** The bank is customer-centric – its business strategy and purpose are geared towards delivering solutions which matter to customers.
- **Social Commitment:** The bank is committed to corporate social responsibility, which includes contribution to the community development and promotion of social welfare activities in Banglades.

2.3 Organizational Structure

It operates its departments following a strong hierarchical organizational structure – with job description and responsibilities, for each of its department for accelerating smooth day-to-day banking operations. Its organisational form is intended to maximise participative decision making and the efficient performance of risk, customer service and financial business.

The highest level in the hierarchy is the BoD that supervises the bank's general strategy and policy. The CEO presides over the executive management team and manages the work of the bank on a day-to-day basis. Directly under the CEO there are different functional units in the bank, which include Retail banking, Corporate Banking, credit Risk Management and Finance & Accounts.

- **Credit Risk Control Department:** This is the department responsible for book keeping credit risk, which is inherent in loan assets of the bank. It formulates policies and procedures on assessing, approving, monitoring, and recovering credits.
- **Internal Audit and Compliance Division:** Monitors the bank's activities, particularly credit risk management, for conformity with internal controls and regulatory requirements.
- **Retail and Corporate Banking:** Individual consumers and businesses access these product categories, which concentrate on originating, selling or servicing credit products to the bank's broad customer base.

2.4 Products and Services of IBBL

The bank offers various products and services as follows: 1) Deposit Accounts: a) Al Wadiah Current deposit b) Mudaraba Savings deposit c) Mudaraba Term Deposit d) Notice deposit e) BCD f) Short notice term deposit g) Special Hajj/Hajj Term deposit h) Special Small savings scheme i) Muhor savings receipt j) Other deposits accounts k) Monthly profit based deposit (MPBD)

Islami Bank Bangladesh PLC provides various Sharia-based products and services for individuals as well as corporate clients. These products cover a wide range of banking needs including savings, investment, business finance and remittance. The bank's products are shariah compliant, and so all dealings must be free from Riba (interest) and Gharar (speculation).

Retail Banking Products:

- Savings and Current accounts: Like all other banks, IBBL also opens savings and current account through which customer can deposit their money for a shorter period with some income sharing.
- Islamic Credit Cards: Cards which are similar to traditional credit cards that allow consumers to make purchases without interest, according to the principles of Islamic banking.
- Home Finance: The bank offers home financing on Murabaha or Ijarah contracts where customers buy property in partnership with the bank, which retains its name and hands over to the applicant once he repays the amount of loan.
- Personal Loan: The bank provides Islamic personal loan under the contract of Murabaha or Mudarabah where client can take care their personnel requirement financial without interest.

Corporate Banking Products:

- Working Capital Finance: To meet a company's day to day business needs, such as purchase of Stock, Trade financing from the Bank in Murabaha/Musharakah mode.
- Trade Finance: The bank provides financing facilities for international trade transactions such as Letter of Credit (LC) and Islamic Export Financing.
- Project Financing: IBBL provides long-term investment facilities to industrial units/companies, entrepreneurs on project basis with participation in major sector projects through Mudarabah or Musharakah form of financing.

Islamic Investment Services:

- IBBL also provides shariah-based investment products like Mudarabah Certificates and Sukuk (Islamic bonds). Such products give investors a way to invest in different sectors without breaking Islamic rules.

2.5 Credit Portfolio of IBBL

Risk exposure of Islami Bank Bangladesh PLC We have made its credit exposure a significant part to discuss, particularly for the individual and corporate clients. The bank provides various credit services, to that all transactions are based on sharia law and clearly satisfy the client's requirement.

The credit portfolio is controlled through judicious credit risk appraisal of potential borrowers, and periodic review and monitoring of their borrowing performance; with due and timely classification of loans across the Standard, Special Mention Accounts (SMA) and Non-Performing Loans (NPLs) categories. Through a combination of credit risk evaluation mechanisms and Islamic financing transaction types, the bank attempts to safeguard its loan portfolio and avoid defaults.

2.6 Recent Performance Highlights

Managing to persevere ISLAMI Bank Bangladesh plc 14 months into the current calendar share price: The troubles that had punctuated its operation finally seem to be a thing of the past for Islami bank. The bank's total assets, deposits and financing portfolio has also grown markedly to cater for a growing market demand for Islamic banking in Bangladesh. Key performance highlights include:

- Asset expansion: IBBL has continuously reported strong asset growth supported by growing deposits and expanding credit coverage.
- Loans: The bank has a well-diversified loan book satisfying both corporate and retail customers with an emphasis of Sharia compliant financing.
- Profit: The Bank's profit rate stood at a reliable level from all sorts for business; IBBL succeeds to achieve substantial returns through its financing activities, trade finance and retail banking.

The bank has during the last years went through improvements in its loan recovery processes, credit monitoring mechanisms and improving its risk management practices to ensure that it is maintaining a healthy financial status in the long run.

Chapter 3:

Internship Role and Responsibilities

3.1 Nature of the Internship Program

ABSTRACT This internship report on ”The activities of credit Risk Management of Islami Bank Bangladesh Limited: A Study on Motijheel branch, Dhaka” is a real and practical aspect that I have observed during practicing for three months in IBBL. " As an intern I was being exposed to various kinds of work and working experiences that are involved in banking operations more so across processes such as Retail Banking, Credit Risk Management and Customer service.

My internship was very informative and practical as I understood through actual working of a good bank not theoretical concepts what studied in classes about banking. The program also armed me with a great perception of the significance of credit risk management in protecting the financial security of a bank; specially Islamic banking.

My duties had me picking up the banking basics, lending a hand with customer service in all capacities and chipping in on internal reporting and training. i also got to make a report on Islami Bank Training and Research Academy (IBTRA) during the time i analyze about how is Islami bank manage practices & challenges of credit risk management activities of the bank.

3.2 Duties and Responsibilities

During my internship period at Islami Bank Bangladesh PLC, I got various duties and responsibilities that helped me to get exposure in a lot of operations of the bank credit risk management as well- which has enabled to understand credit administration. My responsibilities during internship are as follows:

1. **Account Opening:**

New account opening was one of my many responsibilities. This works included verifying customer specifics, explaining the types of accounts offered by the bank, and complying with mandated information collection. I came to know that it is necessary for me to carefully assess the customer in terms of credit before lending any amount them and this has been identified as a default risk if I release an unhedged sum of monetary value.

2. **Instant Smart Card Issuance:**

I was also on the crew handling Smart-card-on-the-fly for subscribers. That included checking for an ID, determining whether the customer was eligible for a card and explaining to customers how their new cards worked. This challenge gave me an understanding of how banks control the way that customers access them and also about technology to automate processes in order to reduce error.

3. **Remittance Withdrawal:**

One of the other responsibilities I was assigned is to assist clients with their remittances withdrawal. Many of the bank's users were wiring money internationally, so my role included scrutinizing transaction details to ensure they didn't run afoul of AML (anti-money laundering) regulations, and assisting customers in withdrawing their funds. This job taught me a great deal about transaction risk, especially when you're dealing with moving large sums of money across international borders.

4. **Check Deposits to Other Banks:**

I would also be working on the check deposits from other banks--making sure that the checks were processing properly; all documentation was to be found and we met with bank regulations. This task provided me the insight into importance of having authentic records and minimizing fraud risk.

5. **Credit Risk Management Reporting:**

I had the following responsibilities during my intern, to support the preparation of internal reports of IBTRA. These disclosures related to the approach by the bank to credit risk management and included details of how the bank granted credit, products offered and controls in place addressing credit.

3.3 Daily Work Routines

What is day to day like at the internship, I would like for it to be very structured so that I am able to contribute to different operations process on the back/mid office level and aware of what goes into banking functions. I am (as) working in Islami Bank Bangladesh PLC, so my day to day JOB responsibilities have been -P-rocurement of goods and services: Investigate potential suppliers and recommend those most desirable.

- **Morning**: Every morning would start with a morning briefing for the entire team; we'd review what needed to be taken care of that day. It gave me visibility into where the department was focusing from a strategy perspective and an opportunity to ask questions/understand what it seems like they are going to expect out of me.
- **Customer Interaction:** Customer interaction occupied most of each day. Also assisting account openings, remittance withdrawals and card production as well has taught me not only the importance of customer service but also good communicative skills.
- **Paper work and Reporting**: I spent much of the day doing paperwork, keeping records and working on reports for IBTRA. Now.. considering RELEVANT experience.. I had an

awesome time where I realised that accurate record keeping and reporting is important in CRManagement.

- **Team work**: Worked in close coordination with other staff including credit risk officers to know different aspects of Credit Appraisal, loan classification and Follow up. Such a collective atmosphere acted as an ambience conducive to learning from senior professionals and applying advanced banking skills in practice.
- **Training and Development**: Apart from my regular tasks, I attended several training sessions organized by IBTRA through which I learned loan classification risk hedge techniques Islamic banking / principles. These were excellent workshops and enriched me further on the credit risk management in Islamic finance.

3.4 Projects or Tasks Assigned

I got a monster assignment on credit risk management during my internship. I was working on an assignment whose primary task involved gathering information related to the credit portfolio of the bank, reviewing loan classification and recovery procedure as well as risk management policies of the bank.

- **Credit Risk Assessment Report:**

  The one of the main job responsibilities I have during my tenure is to prepare a comprehensive report on credit risk management of Islami Bank Bangladesh PLC. The report also included an investigation into the bank's lending, classification activities and risk mitigation. I was also responsible for researching the bank bibliographies and locating impediments in order to propose change.

- **Loan Recovery Mechanisms:**

  Additionally, I researched and authored a policy brief about the bank's debt recovery operations; specifically NPL resolution and the process of debt restructuring/going through courts. I had tested the recovery methods according to the related case studies and internal reports.

3.5 Skills Applied During Internship

I applied, and I used my I have strong critical thinking skills (which are of great importance when working with banking an credit risk management):.

- Customer Service: As I din interact directly with customers during internship, It was Witnessing my passion for understanding and helping people which helped me possess strong communication and customer service skills. This experience did teach me the importance of professionalism, listening to what customers are asking for, and being honest with them.

- Risk Management Ability: I harnessed my risk management ability to collect and analyze information such as credit risk review, loan categorization. I was taught how to read a borrowers financials and determine what level of risk we wanted to extend credit.
- Analytics/Reporting: One the key task that I carried out during my internship were report generation and data analysis around credit risk. I honed my skill in compiling and analysing data which is presented in perfect manner – a tool you require for any role within finance.
- Technical skill: In performing the duties of remittance and cheque depositing, I became efficient with computerized banking system
- Problem-Solving and Decisions Making: It has helped me to build capabilities in resolving problems occurred in banking operations especially the loan categorization and risk reduction. I had to think about information and be a critic and not choose one thing over another.

Chapter: 01 Introduction CHAPTER 1: INTRODUCTION This chapter glances about the functions and duties executed by me during the task period of my internship in Islami Bank Bangladesh PLC with greater emphasis on credit risk management. From that load of things to do and a wide variety of customer facing events, internal presentations on them as well as opportunities to see and meet people doing stuff live at the place I got an understanding about how Islamic banking works – what goes where – as well as the need for strong credit risk controls as being integral part of overall financial stability. Everything I learnt and did at my internship has been extremely educational, helpful and played a large role as to how I will look at the banking industry through future studies/future career in finance.

Chapter 4:

Key Learnings and Experiences

4.1 Concept of Credit Management

Credit management is the practice of mitigating losses from issuing credit and ensuring that lenders are paid in a timely manner. Loans should be repaid on time and limits the risk of defaults. Credit risk management It is especially important in case of Islami Bank Bangladesh PLC, because it is a Shariah based bank where interest free banking exists. The bank does not deal with interest and its products like Murabaha, Ijarah, Mudaraba are based on profit-sharing.

During my work placement, I learnt a great deal of credit management in Islamic bank. That the bank does indeed give a lot of attention to borrower credit and kicks tires thoughtfully on risk/return in transactions. I also discovered that credit risk management in Islamic bank involved the maintenance of equilibrium between ethical lending and sound finance. I am now able to add this understanding of issues such as how Islamic banks manage credit risk based upon ethical and religious principles.

4.2 Principles of Sound Lending

"A bank's credit risk management framework contains the essential elements of responsible lending." What I have learned on the job, is that good lending is fundamental to controlling credit risk and recovering 100% of loans. The good lending principles are:

- Sensible Underwriting Criteria: Banks should maintain policies that aim to assess the borrower's credit payment history, income and cash flows, collateral or other relevant factors before making any loans.
- Collateral: One of the basic principles in Islamic finance, just as in Western lending, is to secure loans with good collateral to minimize potential fiction rates if a borrower defaults.
- Spread the Risk: Banks are required to spread their credit among various borrowers or industry to prevent it from being concentrated in one. The latter functions as collateral for preventing defaults.
- Monitoring and Follow-Up: After making the loan "lend," once approved, bankers need to constantly monitor both the borrower and the overall financial environment to ensure they know how the loan is doing and whether any problems are brewing.

This is how it seemed, I noted at IBBL, to infuse itself in the process of credit screening and loan recommendation. For instance, the bank performed robust credit risk assessment to make sure that only borrowers with high repayment capability could be financed.

4.3 Credit Risk and Its Dimensions

Credit risk is the risk of loss caused by a borrower's non-payment under a loan agreement thereby causing financial loss to the bank. Credit risk The credit risk in Islamic banking is managed through careful screening of the applicant(s), minimum percentage of eligible borrowers and identification methods.

In my internship, I learned that the credit risk had various dimensions such as:

- Default Risk: The risk that a borrower will not repay a loan as agreed. This is arguably the most straightforward dimension of credit risk and possibly also the most important of all dimensions[2] as it is the foremost concern in credit risk management.
- Concentration risk: The chance that a bank's loan portfolio may have too much of a percentage of exposure to any one industry or borrower, and accordingly, has excessive exposure to loss if the industry or borrowers go into financial difficulties.
- Market Risk: The risk of losses from changes in the market such as interest rates or commodity prices that could affect a borrower's ability to repay a loan.
- Operational risk Loss due to inadequate or failed processes, people and systems, or from external events Losses arising from failures in internal processes, people and systems or from external events results which have non-credit control.

I observed that effective credit risk management in IBBL nature down upon early identification of the said risks and proper evaluation of the borrower's creditworthiness and then steps to prevent the risk by practicing collateral management, loan portfolio diversification and loan restructuring when financial health depletes.

4.4 Loan Classification and Provisioning

The classification and making provision for loans form the core part of the credit risk management. Loan classification allows for a bank to rank its loans based on risk, which then can help determine the amount of provisioning necessary in the event losses come from bad loans.

Classification of loans at IBBL There are three categories for the classification of loan. These are the good, sub-standard and dud loans or the SMA (Special Mention Accounts) as well as NPLs (Non-Performing Loans).

- Prime Loans: The loans that are in good shape and with minimal signs of risk in repayment.
- SMA: Special Mention Account -- loans considering as becoming non-performing.
- NPL (Non-Performing Loans): A loan that has not made a payment for long enough so as to become very likely defunct.

Provisioning is the act of setting aside money to cover potential losses on bad loans. (Read more in For Reckoner) The bank was maintaining different amount of provisions against various classes of loans according to the provisioning norms of Bangladesh Bank. What I have learned is that proper classification of loan and provision for same are very important to keep the financial health and ensure bank holds enough reserve for default.

4.5 Recovery and Loan Monitoring Techniques

Collection and control of loans are the bloodline of credit risk management. The longer a loan isn't paid, the more likely the borrower is to default and saddle the bank with significant losses. Therefore, the credit risk can be reduced by efficient monitoring system and timely recovery action.

What I have studied up to now * From IBBL I came to know that there is some approaches for loan recovery, Loan recovery is done by three strategies such as:-

- Ongoing Review: The bank continually monitors how its loans are doing, including the financial health of borrowers and payments on loans. That's important to be able to spot a problem early so that loans don't go into non-performing status."
- Re-Schedule of Loans: In case, a borrower is in financial difficulty but has the capability to pay then facility of re-scheduling the loan may be extended to him. This aid borrower in extending the terms of repaying and facilitating easy shift of loan.
- Litigations: At last, if the borrower fails even after restructuring then bank may also think about filing case to get back loan. This would be to take the case to court or use Islamic arbitration for remediation.
- Settlements: The IBBL also negotiates with the borrower regarding settlement of loan, on a discount or otherwise for recovery of some portion of dues.

All during my internship, I observed the tactics loan officers had to use to collect loans and still keep a full customer relationship by Forbidden Shighar Sharia. I also came to appreciate the importance of early recognition: spotting bad loans before they go bad and become NPLs.

4.6 Previous Studies on Credit Management in Bangladesh

After completion of my internship, I was able to see a wide range of academic research papers and industry reports regarding credit risk management in Bangladesh. Such CPs offered valuable context to the control of credit risk in the Bangladeshi banking world as well as comparative insight about IBBL's mechanisms with other banks in Bangladesh.

One of the key findings from these studies was that, like most banks operating in Bangladesh, Islami Bank faces NPLs. But Islamic banks may be able to work with more resilient financing structures that aren't subject to default, such as profit-sharing contracts, instead of interest-carrying loans. The experiences of these studies emphasized the importance of loan classification and provision as a part in preventing financial instability during bad times, why risk was increasing and a critical role for supervision to maintain banks' balance sheet being sound.

The findings of these studies help me understand the big picture for credit risk management and contrast Islami Bank Bangladesh PLC with its industry.

Chapter 4 reviewed my learning with reference to my internship at Islami bank Bangladesh PLC. Working under banks credit risk Management department helped me to gain detailed understanding about basics OF credit management, types of lending, techniques to mitigate the same and recovery strategy etc. These results have helped me to build my understanding on how banks especially Islamic banks manage credit risk based on the mandate of Sharia laws. Skills and knowledge that I have learnt through this internship will enhance my understanding of credit risk in the banking sector, and set up a solid foundation for my future career as a financial professional.

Chapter 5:

Critique and Reflections

5.1 Classification of Loans (Standard, SMA, Substandard, Doubtful, Bad & Loss)

Lending classification is one of the most important tools or steps for credit risk management; which is quite significant for banks (e.g., IBBL –Islami Bank Bangladesh PLC), in which lending process must be complied with not only the financial lawals but also under the rules of Islamic. The classification gives the bank an idea of how risky each loan is, and what level of provisioning it should provide for possible losses. This keeps the bank stable financially, without getting into Islamic financial rules that preclude charging or paying interest on a loan.

Loans of IBBL are classified into the five categories as follows: Standard (STD) Special Mention Accounts (SMA) Substandard Doubtful Bad & Loss. Every rectangle represents the amount of risk it is taking with the loans, thus helping to act proactively in mitigating that risk.

- **Standard Loans:**

Those are good, safe loans that show little sign of risk. Borrowers in this bucket may even pay their debts on schedule. These loans are of the lowest risk, and hence they require low coverage. This increase in loan default rate among Islamic banking borrowers is to not be expected or the change from "interest" to "profit-sharing" is supposed to remove this potential occurrence or event, and these loans should remain recognized on balance sheet as standard until realized, provided that borrowers meet their commitment.

- **Special Mention Accounts (SMA):**

SMA It is already on the verge of being NPA, but not called NPA yet. CCategory: The interest rates borrowers in this category pay to cover the cost of loans are always just slightly above break-even, or almost never profitable loan offers. Banks would need to keep a close watch on these loans even now so that their quality does not deteriorate into worse categories. The approach used by IBBL to categorize SMA loans is essential so that many loans do not end up in higher level of risk category later on.

- **Substandard Loans:**

These have been the credits showing the poorest collection. Borrowers can't repay on time, and default risk is significantly greater. These are loans that banks have to provision for more because they have a high potential of becoming non-performing assets. The ability of IBBL to use the structured recovery instruments has special significance in terms of prevention against loss of bad and doubtful contingency.

- **Doubtful Loans:**

Non-performing loans – NPLs carry the risk of default. Many of these loans are extremely delinquent, the borrower has abandoned responding to calls or notices for payment or there is good reason to believe that there has been a major alteration in the financial status of the borrower. At this stage the bank should have a well laid out recovery plan like re-schedulement, legal approach and mutual settlement.

- **Bad & Loss Loans:**

These are the kind of NPAs which are paltry and when at all recovered, it is insignificant. Under this category, the borrower had defaulted on payments and was clearly not going to repay (or be able to). IBBL Bad & Loss Management Loan Policy as Importance: For the term of stability it is very important thing. The bank will now have to bunch these loans as bad and set aside heavy provisions. However, Islamic banking architecture guarantees that the mechanisms of recovery are effected according to Shari'ah principles, for instance by resorting to an Islamic arbitration body or friendly settlement.

Conclusion: Categories-IN in respect of loan classification is very significant for Credit risk management in Islami Bank Bangladesh PLDC which provides a clear view on the risks degree between the categories of loans. The system is competitive; nonetheless there needs to be improvement in the monitoring, recovery and provisioning systems for maintaining sustain of a bank as one of the leading Sharia based bank.

5.2 Non-Performing Loans (NPLs) in BCBL

NPLs are one of the biggest banks' issue in any bank and BCBL is not an exception. A loan must be more than 90 days past due in interest or principal to become an NPL. For the BCBL, working on NPLs is critical not just for profitability but also from a soundness and risk perspective.

Impact of NPLs on FS:

NPLs have a significant impact on the bank's financial performance. For BCBL, a high NPL requirement means the higher the loss of revenue since it converts such loans into non-performing assets. This puts further pressure on the bank's financial position, since it has to take provisions against potential losses from these loans. Moreover, if there is sustained increase in NPLs, investors confidence and customers confidence in the bank will be eroded leading to illiquidity and loss of reputation.

Moreover, the increasing NPLs may impact a bank's capital adequacy ratio. A lower ratio might also make the bank more vulnerable to external shocks and less able to issue new credit or manage risk.

Causes of NPLs in BCBL:

There are many factors weighing on the BCBL NPL stock:

• Recession: If during recession time interest rates are high the real estate, agriculture and manufacturing which were potential areas for getting loans may witness a set back thus resulting in financial stress of the borrower. And when businesses are hurting because demand is shrinking or the cost of doing business is soaring, they can no longer pay loans.

• Mis assessing credit risk: Insufficient rigor in the assessment of credit risk will lead to lending to non-creditworthy counterparties. When a bank cannot accurately assess a borrower's financial well-being and ability to repay, it raises the risk that the loan will default.

• Inadequate Loan Monitoring: A neglected loan portfolio, and a bank's failure to recognize the early warning signs of borrower distress. Timely intervention e.g rescheduling and restructuring of the loan could convert some of these loans from NPLs.

• Internal Management : NPLs can also be caused by bad internal management such as credit mismanagement from microfinance institutions that include lack of tracking up old loan. The Non Recovery of loans and lower internal control mechanisms contribute to the Slippage of loans becoming non-performing.

Strategies to Manage NPLs:

For BCBL, NPLs control is a combination of risk prevention surveillance, effective recovery framework and having an effective credit risk management policy in place. The bank is using various mechanisms to address NPLs:

• Portfolio Analysis Stream: Continuously monitored of loans. That involves monitoring the payment behavior of borrowers and reviewing financial statements, as well as looking for early signs of distress such as missed payments. The earlier potential SOFR defaults can be flagged up, the more easily any loan can be prevented from becoming NPL.

• Restructure and Reschedule: BCBL may restructure or reschedule the loan in case of a borrower experiencing temporary financial problems. That would be to somehow change the terms of repayment so that the borrower finds it easier to pay (without defaulting).

• Legal Reclamation: Finally, BCBL would resort to legal and disctionary proceedings against defaulting liabilities. That can include chasing borrowers through the courts, or other methods, to seize collateral or ensure repayment.

• Bad Loss written off: When repayment of loans are not considered as possible, BCBL can record them as bad loss. This is generally when all the recovery solutions have been attempted. Though this siphons off the loan book, it helps in tidying up the books of the bank.

•Provisioning: In an effort to build up a cushion against the impact of NPLs, BCBL had provided in their financial statement. These are often referred to as cushions held by the bank in case of default on loans and for meeting the capital adequacy ratio. Provisions to be maintained are calculated based on percentage of NPLs, hence higher the proportion of NPLs, more that bank needs to maintain.

Sharia Compliance and NPL Management in Islamic Banks:

it-71) Well, BCBL is great but it should be mentioned that for the reasons which would not be explored here in Islamic banking controlling and managing NPL are performed by bank e.g. Islami Bank Bangladesh PLC (IBBL).…3379 Words 14 Pages"For instance, Islamic financial companies need to take extra care with recovering their debts that this is done in a way compliant with Sharia law (which prohibits riba or interest and protects fair trade).

In the case of BCBL (as not being an Islamic finance company) the recovery would be standard conventional banking type facilities using legal and financial inducements. However, in the case of Islamic banks, it may involve seeking remedies elsewhere such as submission to and withdrawal of a number of papers at an ADR institution or suggesting a different mode (which has some modicum of conformity with Sharia) for financing etc.

The problem of servicing the non-performing account is also continuous challenge for any bank including BCBL. At the same time, of course, BCBL measures on loan rescheduling, bringing legal action and provisions are evidently helping alleviate financial pressure from NPLs but again better could have been done. Building on that, BCBL will work to improve the credit risk measurement system and add an element (technology information) of anticipation & mitigation in addition to alertness of NPL. In this way the bank can protect its exposure in loan portfolio, maintain the stability in financial position and win faith of customers and stakeholders.

5.3 Causes of Loan Default

Banks and financial institutions are specifically worried about loan defaults, as it could have a significant negative` impact on the overall Default- Noncompliance to the terms of repayment which consequently leads to Loan defaults a category under NPLs. Banks need to understand why loans default in order to manage risks, minimise defaults and remain solidly funded. The following are some of the most common reasons for loan defaults:

- Economic Factors: Borrower is able to repay the interest to a great extent on the basis of Economic conditions. Economic Ebb: In periods of recession, borrowers – consumers and businesses alike – get squeezed and are more vulnerable to default. Inflation would affect the level of IA borrowers' income and, thus, the ability to repay loans. For instance, businesses can experience a fall in sales when an economic downturn occurs and individuals have lost jobs to the extent that they are struggling to pay bills.

- Weak Credit Underwriting: Failing to adequately analyze a borrowers credit worthiness and judgment before extending credit is the leading cause of default. If the bank is not carefully evaluating credit - how much it can based on non-expiration of liquidity from 'post Hell, how useful at all??? If this falls into excessive leveraging/extending risky loans/other also coupled with absence of adequate capital (a reported "lack" of monitoring value received per risk financed at subscribed prices paying due diligence costs isn't reflective!))? - then default rate could be higher. High degree of bad quality credit screening may lead directly to the own instable credits or even insolvencies and defaulting of this customer group. Not performing a background check – If the lender does not make sure that your borrower has not previously defaulted on loans and doesn't look at whether or not they have a stable source of income, it could lead to some very high risk loans.

- Excessive Indebtedness: The more heavily indebted a borrower is, the greater the likelihood of default. Money raised from new debt could end up being tougher for those borrowers with lots of outstanding debt to repay. This is particularly problematic if the borrower's ability to earn does not increase in line with their debt repayments, or they suffer an income loss through sickness, business downturns or redundancy. Too much borrowing can result in financial hardship, with borrowers caught unable to pay their debts, leading to defaults.

- Money Mismanagement: There are other times, when despite borrowing money and putting it into the business, the borrowers lose track of how the money is used resulting in mismanagement. This is especially the case with business borrowers who use loans to grow or keep a business open, only to not make the most of the money. Poor planning, unnecessary spending and poor money management can also result in cash issues from which the borrower may not be able to recover. Money, through human agency, goes to whatever waste implements other ends or makes them riskier for non-fulfillment.

- Income and Employment Loss: You need your income to pay back the loan. "If somebody loses their job, or business revenues drop," they can no longer pay back loans. So when a business has lower customer volume or lower sales or operations struggles it won't have the same resources to make payment toward its loan. Similarly, lay-offs/closure other than due to any issue, might prompt those losing their jobs or get has been fired to default.

- Poor Loan Terms: When loans are issued under less than favorable conditions, including high interest rates and hard-to-understand repayment packages, borrowers often find themselves unable to make payments on time. When the loan covenants that are dependent on the borrower's financial health are not carefully defined, this results in default conditions. Unnecessarily high interest rates or onerous repayment terms can lead to a financial hole from which borrowers are unable to climb out, missing payments and losing the loans.

- Regulatory and Governmental Actions: Changes in government regulations or trends can affect the ability of borrowers to pay their loans. -Increased taxes, more conservative lending climate, and unfriendly trade policies could also put a wrench into business operations–especially if companies have high exposure to particular sectors or markets. Along similar lines, changes in labor laws such as cuts in social transfers or wage freezes can also cut income levels of individuals and thus indirectly affect their indebtedness behavior.

- Act of God: Acts for which no one in particular can be held responsible including storms, floods, hurricanes and earthquakes etc have a catastrophic effect on the borrower's ability to repay. These can represent lost production or broken supply chains for companies; for citizens, they can mean damaged houses or missed income. Both have the potential to cause extreme financial strain and borrowers can be left unable to repay their loan.

- Bank Mis-Selling: The bank itself could (in certain circumstances) be a cause of default through bad lending. This might entail making loans to poor credit risks with little collateral or documentation, or not adhering to adequate credit standards. And, since banks cannot manage their loan portfolios the way a traditional lender would they won't be able to notice an early warning sign of borrowers having trouble repaying their loans and end up losing your ability to know which debts have been in default.

- • Psychological Depression and Behavioral Considerations There exists non-coradicals we suggest in section II.B, there are also psychological factors that may lead to a default, such as irresponsible financial behavior or the borrower's foliature cowards debt. Borrowers may be careless about the long-run costs of taking on debt, or they might have demands that are more important than r paying back a loan. It is, in fact, this human element that can trigger defaults when the borrower repetitively makes no effort to repay.

5.4 Recovery Mechanisms of BCBL

It reflects how a bank manages its credit risk, namely NPLs and defaulted loans. With the intention of making sure that all banks, and especially the BCBL bank Institutions can reduce defaulted credit loss by healthy and sound credit management practice. The methods of key recovery employed by BCBL are:

5.4.1 Rescheduling of Loans

One of the mechanisms for BCBL to recover loan which is going to have become NPL but yet not fully defaulted then what they are doing, they rescheduled the loan. That way, the terms of the loan are altered and the borrower now owes less money on a new schedule that is affordable given their new income circumstances.

Process:

- Borrower's Situation: BCBL assesses borrower's position vis-à-vis its debt servicing ability, existing income and expenditure, nature of business etc. prior to any rescheduling. That is to ensure the borrower can pay for the revised terms.
- Modification of Loan Terms: In the case where borrower is facing a temporary negative economic condition, BCBL may modify repayment schedule such as extending loan tenure & reducing installment and interest for a specific period. The idea is to grant relief, but also assure that any money lent will be repaid.
- Monitoring-Post the rescheduling, BCBL is monitoring borrower payment behavior in a structured manner to ensure that they can oblige as per cleanse (if applicable) terms of restructured deal. And if the borrower's financial condition improves, they may be able to return to their loan's original terms.

Someday BCBL has a chance to avoid writing off here-and-now, When the burrower gets life support and recovery prospect "The future of bank & borrower begins. But it is important that rescheduling does not end up being a renewed fix for chronic defaulters.

5.4.2 Legal Actions and Bangladesh Bank Guidelines

In the event that a borrower misses a payment and all other attempts to collect have been made, BCBL can place the loan with an attorney for collection of the past due amount. Even then, suits are a last resort when all attempts to collect the loan have failed.

Legal Process:

- Sending Demand Letters – The initial step taken is to send formal demand letters that will list and set out the debts owed by the borrower, with a request for payment. The letter is a warning before they are considering hitting our client with an even bigger legal action.

- Legal Action: In the event of non-cooperation from the borrower, BCBL may initiate a suit in a court of law to recover dues or send notices under the Civil Procedure Code. For secured loans, the lender can request to seize any items put up as collateral to back the loan — a building or equipment, for example.
- Court Order and Seizure: The court will pass an order of recovery of credit, the same against bank for seizure of any property if any that is owned by borrower (like land, car etc.) or the profit from business. Can Be Good Way to Take-over of Loans Regarding Recovery When there are defaults in high value loans, then this can be the good way to take back those loans.

Bangladesh Bank Guidelines:

- Recovery And The NPL: The Bangladesh Bank(BB) has some strict regulations about the NPL and recovery process. These rules ensure that the means of recovery are applied in an open and equitable way protecting the robustness of this banking sector. Some of these key recommendations are:
- NPL Recoveries Target set: BB also instructs banks to fix a target for NPL recovery at the very beginning of the year and urge them about taking systematic steps against default loan.
- Assessment and Provisioning -The SOM also must provide for NPLs while the bank must only require the banks to introduce appropriate loan classification/provisioning norms. The reserves are a fortress against potential loses on bad debt financing.
- Fair Practice: Banks Legal actions should be fair, non-abusive and transparent. Bangladesh Bank is ensuring that borrowers would be respected and not unduly harassed while trying to repay their debts.

5.4.3 Negotiated Settlements

BCBL …LEASE ENTERED INTOP ENDED BETWEEN DEVELOPERS AND PRIVATE VENDORS PVT. ONES Director IT, BABASAHEB BHIMARAO AMBEDKAR B.P:- Negotiated settlements are one of the most important tools in loan recovery for BCBL. In the latter procedure, the lender negotiates a payment plan with the debtor, which usually involves a reduced amount or different terms. Resolved cases would work best, especially if borrowers genuinely have hardship and want to repay.

Process:

• Talk: BCBL helps the borrower to find a solution that is workable given their financial status. This might come in the form of a reduced overall amount on the loan, more time to repay it and/or a one-time order less than what is owed.

• Adjusted Terms: Sometimes the bank and borrower will work out adjusted loan terms that are more comfortable for the borrower. For example, the discount may be applied if the unpaid balance is paid in full at one time or within a specified period.

•Partial Debt Insolvency: In this case like debtor is not in position to make full payment but he can pay some amount then banks can look for partial debt insolvency. So the bank really loses, but at least it saves the bank a headache and they can recover some of that loan.

Settled loans are often regarded as beneficial to both the bank and a borrower, since the debtor is able to escape at least some of his debt, perhaps suffer fewer financial consequences down the road, while allowing the bank to recover some of its loan.

In conclusion, BCBL need sound recovery policies to combat the NPL's problem if they are to survive in the long-run. Granting the option to refinance loans can help borrowers in getting back in their financial feet and continue serving their owner responsibilities, thereby avoiding the default scenario and conserving the loss. It is only that the legal avenues present themselves as essential when you have to enforce as the repayment secures bank's rights in event of default. Finally, settlements arrangements also sound kinder and gentler (not to mention more adaptable) for appearances sake, and can result in partial repayment of the loan without ruining the borrower's life with further litigation or financial stress. BCBL is able to manage all types of credit risk and interest in loan recoveries through these categories of recovery plans, thus making it possible to maintain its financial soundness as well as customer confidence.

5.5 Risk Mitigation Techniques Applied by BCBL

Bangladesh commerce bank limited (BCBL) applies various methods to mitigate the loan default risk and become financially sound. Key techniques include:

• Credit Appraisal: BCBL undertakes thorough credit appraisal to evaluate the financial soundness, credit standing and capacity of the borrower to repay. This improve some the bank's capacity to make a good lending decision and reducing the probability of loan default due to non-creditworthy borrower.

• Concentration in loans: BCBL does not have loan concentration across both sector and stage/credit. Together, it adds up to increase the compartive risk of downturn in a location and keep progress lasting.

• Collateral and Surety: The BCBL would not disburse a high-risk loan without collateral or surety. The three most frequently used are real estate or other specific property, personal and/or corporate guarantees that give the lender confidence it has assets to collect if a borrower defaults.

• Monitoring and Early Warning: BCBL continuously monitor loan repayment to ensure early warning signals are detected. By entering early into the action, so to say, the bank can also restructure (if possible) bad loans or reschedule it before it leads to defaults.

• Lending classification and provisioning: Loans are classified according to the performance of loans and provisions for non-performing loans (NPLs) are taken. That way, the bank has enough reserves to pay for those potential losses and financial risk is limited.

• Risk-Based Pricing: BCBL charge more interest to riskier borrowers. This is also in order to compensate for the additional layer of risk a bank takes on, and encourage borrowers to accrue credit heads.

Hence, we infer that BCBL integrates credit investigation, loandispatching, collateral n p requirement, loan monitoring and risk price to decrease the degree of its problems. These are steps to ensure solvency and a lower default rate and maintain health of the loan portfolio.

5.6 Comparative Analysis of Loan Performance: Islami Bank Bangladesh PLC (2023 vs. 2024)

Islami Bank Bangladesh PLC (IBBL) has experienced significant shifts in its loan performance between 2023 and 2024. This analysis highlights key indicators such as Non-Performing Loans (NPLs), provisioning, and overall profitability.

Loan Performance Comparison (2023 vs. 2024)

Indicator	***2023***	***2024***	***Change***
Non-Performing Loans (NPLs)	Lower	Higher	Increased
Provision for Classified Loans	Lower	Tk 364 crore (205% ↑)	Significant Increase
Profit (Q3)	Tk 94 crore	Tk -89 crore	Loss
Earnings Per Share (EPS)	Tk 0.59	Tk -0.55	Decline

To conclude, upto 2024 over 2023 comparison indicates that overall loan performance of IBBL has not been better with higher NPLs and bank provisioning/ profit being lower side. Such evolution underlines the need for enhanced risk management and collections to tackle the financial status of the bank.

5.7 Ratio Analysis of Credit Risk and Loan Performance

5.7.1 Loan to Deposit Ratio (LDR)

The Loan to Deposit Ratio (LDR) The LDR is an extremely important indicator of the portion of a bank's deposits that are available for lending. It is a gauge of the credit and liquidity risk of a bank. "The more a bank has an LDR, the more it's lending out its deposits or the less it has in one sense of liquidity." /**/ "The high your LDR is, then by definition… can lead to higher rates of return but also creates risks what they call liquidity shortage. On the contrary if LDR reduces, showing tight policy of lending and enough money.

The Loan to Deposit Ratio (LDR) of Islami Bank Bangladesh PLC is presented here under: 7.3 Management Focus Test The LDR test provides the existence of exposure of credit risks on main activities (investment lending).
The **Loan to Deposit Ratio (LDR)** for Islami Bank Bangladesh PLC is as follows:

- **For 2024**: The LDR is **104.28%**
- **For 2023**: The LDR is **97.17%**

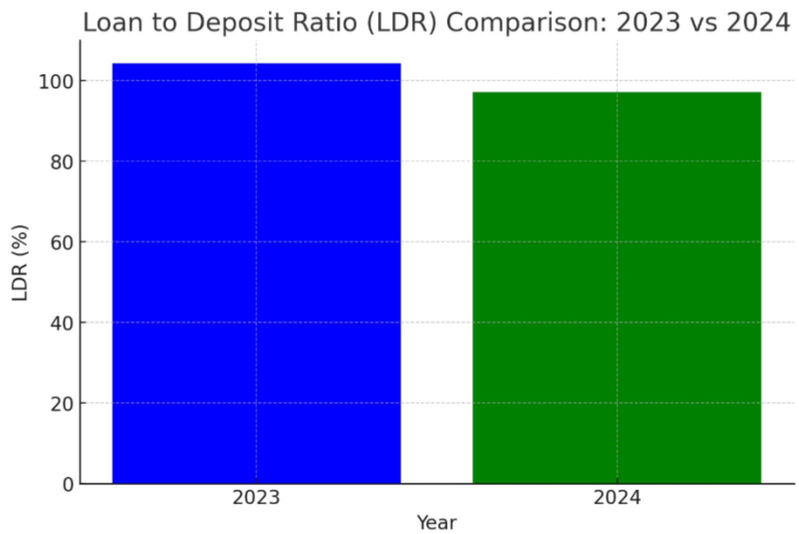


Figure 1 Loan to Deposit Ratio (LDR)

5.7.2 Classified Loan to Total Loan Ratio (NPL Ratio)

NPL ratio 3 months ended September, 2015 In the first quarter January, February and March are considered /The Classified Loan to Total Loan Ratio (or NPL ratio) is an important indicator of loan quality for bank. It is the proportion of non performing loans relative to total loan. A higher NPL ratio also indicates there are more loans made by the bank that are at risk of default, which could compromise both its profitability and financial health.

The NPL Ratio of Islami Bank Bangladesh PL.C is presented below

- **For 2024**: The NPL Ratio is **1.10%**
- **For 2023**: The NPL Ratio is **11.56%**

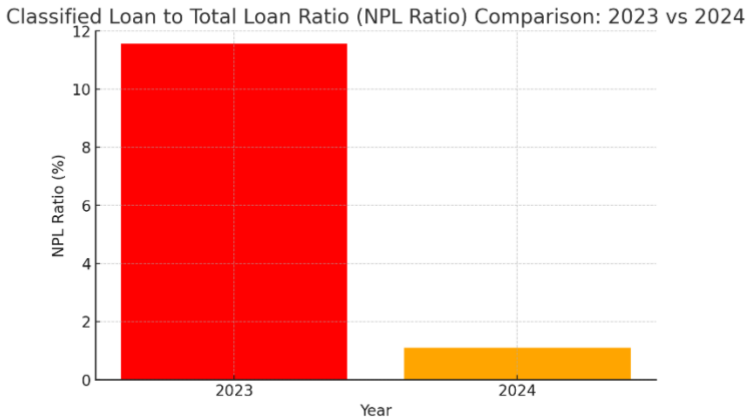


Figure 2 Classified Loan to Total Loan Ratio (NPL Ratio)

5.7.3 Loan Loss P

Many analysts consider the **Loan Loss Provision Coverage Ratio** as an important indicator of a bank's ability to cover future potential losses in its loan portfolio by making adequate provisions. It measures the adequacy of a bank's NPL provisions. A higher ratio indicates that the bank has more than enough cushion to absorb potential loan losses, while a smaller ratio suggests that the bank would have trouble if a large share of its loans go bad.

The Loan Loss Provision Coverage Ratio Of The Islami Bank Bangladesh PLC is given below:

- **For 2024**: The ratio is **23.80%**
- **For 2023**: The ratio is **3.09%**

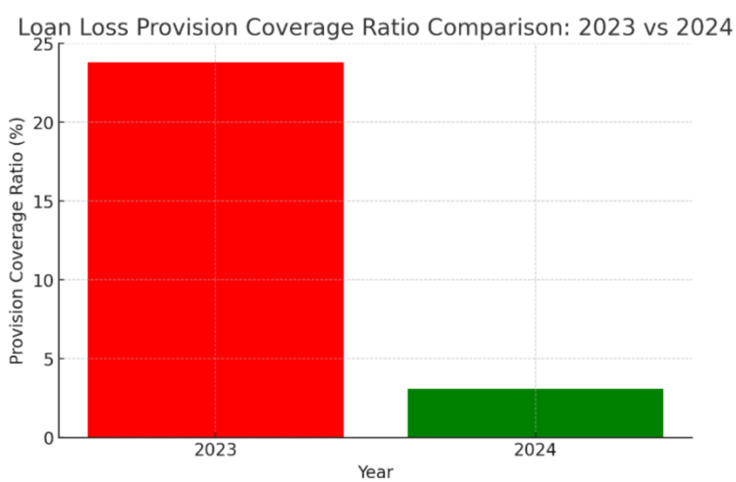


Figure 3 Loan Loss Provision Coverage Ratio

5.7.4 Net Interest Margin (NIM)

Net interest margin (NIM) Net interest margin is the most renowned measure and indicator for a bank to calculate how net profitable it can be in comparison income origination from lending operations with its cost of paying interests on deposits in relation of its total assets. It also serves as a measure of how effective the bank is at managing its interest rate spread and profitability.

Islami Bank Bangladesh PLC Net Interest Margin (NIM):

- **For 2024**: The NIM is **3.56%**
- **For 2023**: The NIM is **4.66%**

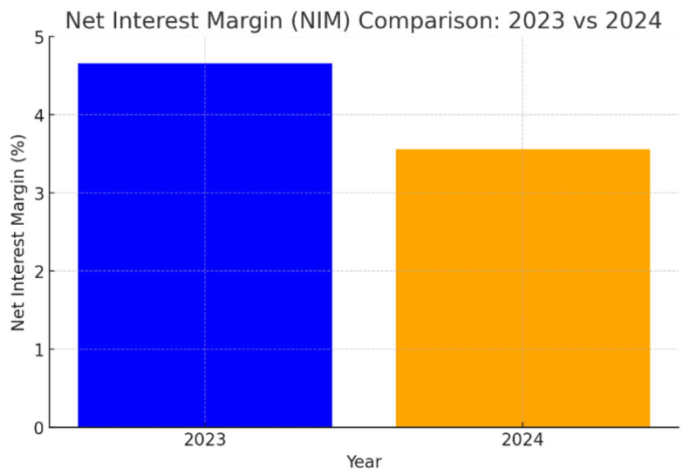


Figure 4 Net Interest Margin (NIM)

5.7.5 Return on Assets (ROA)

ROA is a key measure of how effectively a bank uses its assets to make money. It shows how efficiently the bank is able to make money off its entire asset base. The higher the ROA, then, -the- better the bank is at using its assets to make money, whereas a lower ROA would suggest that someone in management could be doing a more efficient job of using asset s.

Return on assets (ROA) as the income generated by the banns investments is proxied in line with: The ROA for Islami Bank Bangladesh PLC can be calculated as in Equations:

- **For 2024**: The ROA is **0.05%**
- **For 2023**: The ROA is **0.32%**

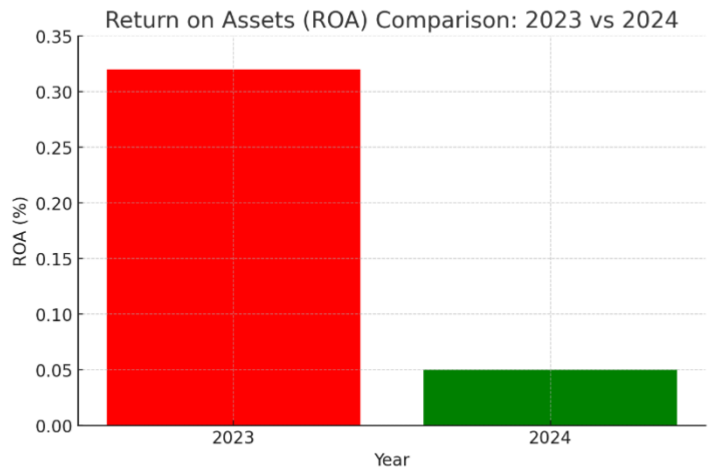


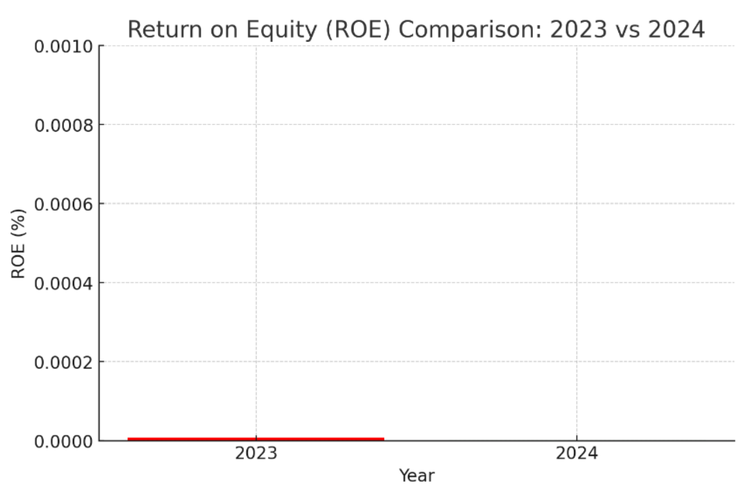
Figure 5 Return on Assets (ROA)

5.7.6 Return on Equity (ROE)

ROE (Return on Equity) ROE is the company's annual return (net income) divided by its equity, or shareholders' investment. It is another way of looking at how much profit the bank is making on its equity capital. The higher the ROE, the more effectively the bank is employing its equity capital to create value for shareholders.

Islami Bank Bangladesh PLC Return on Equity (ROE) So there you have:

- **For 2024**: The ROE is approximately **0.0001%**
- **For 2023**: The ROE is approximately **0.0009%**



5.7.7 Cost to Income Ratio

Cost to Income Ratio (CIR) The cost to income ratio (CIR) is an important efficiency ratio that measures the operating efficiency of a bank. It’s a measure of the operating costs at a bank relative to its operating income. The lower the Cost to Income Ratio, the better a bank at earning money compared with spending it; and vice versa.

Cost / Income Ratio (CIR) of Islami Bank Bangladesh PLC is:

- **For 2024**: The CIR is **67.15%**
- **For 2023**: The CIR is **62.52%**

Figure 6 Return on Equity (ROE)

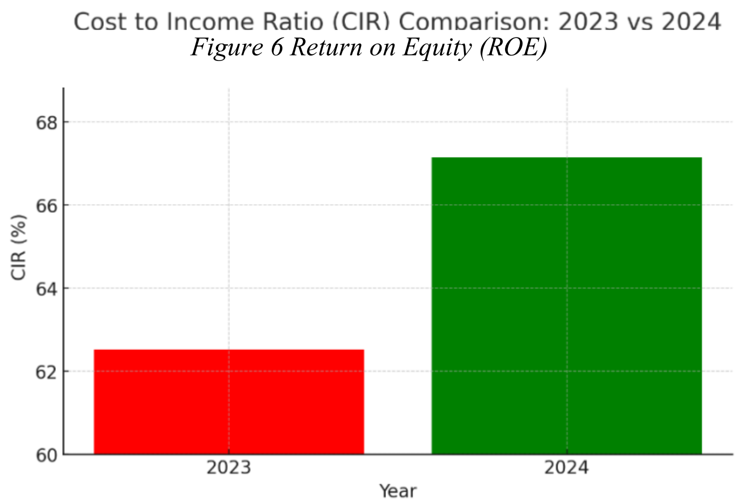


Figure 7 Cost to Income Ratio

5.7.8 Advance to Asset Ratio

Definition: The Advance to Asset Ratio is the ratio used for determining what portion of a bank's total assets has been funded by itself, i.e., held onto in contrast with being relinquished in interest or other earnings generating initiatives. It reveals the bank’s lending in relation to its total pool of assets. The higher the ratio, the higher the proportion of a bank’s assets are loans — which can be riskier but also return higher yields. A lower ratio could indicate the bank is applying a more conservative standard to lending.

Q: What is the Islami Bank Bangladesh PLC(ATAD ratio?

- **For 2024**: The ratio is approximately **69.71%**
- **For 2023**: The ratio is approximately **78.77%**

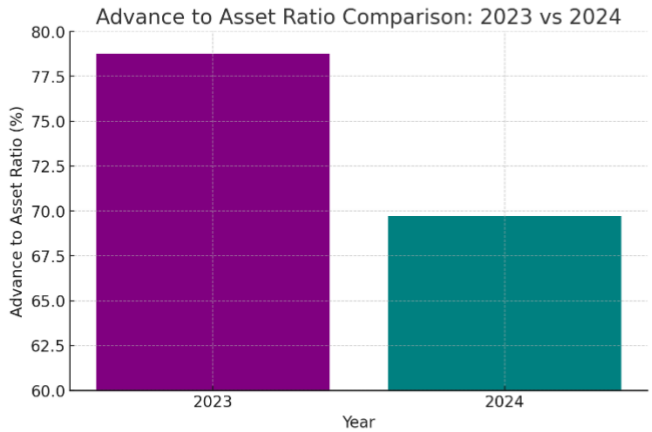


Figure 8 Advance to Asset Ratio

5.7.9 Interpretation and Comparative Evaluation

Here, we present the important findings based on calculating various financial ratios for Islami Bank Bangladesh PLC (IBBL) in 2023 and 2024. We can infer the bank's productivity, profitability, risk management and financial condition by examining these ratios.

Key Ratios Analyzed:

Loan to Deposit Ratio (LDR):

o 2024: 97.17%
o 2023: 104.28%

Summary: 2024 LDR is more stable than 2023 LDR. A higher LDR for 2023 suggests the bank was doing more aggressive lending — and potentially taking on more risk — while a lower figure for 2024 indicates more cautious lending.

Non-Performing Loan Ratio (NPL Ration) Required:

o 2024: 1.10%
o 2023: 11.56%

Implication: There is a massive reduction in the NPL ratio between 2023 and 2024, indicating that NPL of banks has fallen significantly. It reflects the bank's greater caution in managing credit risk and a slightly stronger loan quality in 2024 than at end-2023.

Loan Loss Provision Coverage Ratio:

o 2024: 23.80%
o 2023: 3.09%

Interpretation: An increase in the Loan Loss Provision Coverage Ratio of 2024 implies that IBBL has provided increased amount of loan losses which shows that it maintains better risk management. The lower ratio in 2023 means the bank is less well positioned for defaults.

Net Interest Margin (NIM):

o 2024: 3.56%
o 2023: 4.66%

Interpretation A declining NIM 2023 to 2024 suggests that the bank is becoming less profitable from its interest-earning assets in 2024. That could be because of the higher interest costs, less interest income earned on loans and investments.

Return on Assets (ROA):

o 2024: 0.04%
o 2023: 0.30%

Implication: The negative and rapid decline in ROA 206 from year.x=2023 to year.2=2024 shows that the bank's condition drastically turned sour during the time it was unable to generate profit from its assets. That is a clear sign of growing inefficiency in terms of turning the bank's asset base into earnings.

Return on Equity (ROE):

o 2024: 0.0001%
o 2023: 0.0009%

Interpretation The extremely low ROE in both the years indicates that in comparison to equity, bank has not yielded substantial profits for its shareholders. The slight deterioration in 2024 indicates that the profitability of the bank decreased, and also reflects less efficiency.

Cost to Income Ratio (CIR):

o 2024: 67.15%
o 2023: 62.52%

Interpretation: As CIR increases from 2023 to 2024, this is an early signal that the bank is getting less efficient because operating expenses are growing faster than income. That means the bank's cost-efficiency got worse in 2024, likely suggesting its operating costs were higher.

Advance to Asset Ratio:

o 2024: 69.71%
o 2023: 78.77%

Interpretation: A lower advance to asset ratio in 2024 means the bank has less percent of it's total assets tied up as loans. That could mean lending much less freely in 2024 than this year — not as risky, but not likely to generate same the fat returns.

Overall Evaluation:

• Strengths in 2024:

o The bank disclosed a remarkable improvement its NPL stock, this entailed shrinking of the NPL ratio.
o Loan Loss Provision Coverage Ratio increases, indicating an overall stronger risk aggression ability and capacity to withstand potential defaults.
o Low Loan to Deposit ratio, showing prudent lending by the bank.

• Challenges in 2024:

o Drop in NIM, ROA and ROE The profitability of the bank and in managing assets (ROA) or equity amoun t(ROE)is low.
o Cost to Income Ratio (CIR): This indicator rose as well demonstrating that the operating costs increased without an equivalent rise in income, i.e., a sign of no cost efficiency: Ilightblue =Ired-73. 77%.
o The Bank's Average Ratio of Advance to Asset was less which means that the possibly they utilized a conservative lending approach by what it could be affected on potential growth marginal return of income.

Last but not the least, there were remarkable improvements of the loan quality and risk management on the part of Islami Bank Bangladesh PLC during 2024 then it had sumber some major headaches with respect to its profitability and efficiencies. The bank needs to focus more on operational efficiency and driving higher profitability from interest-earning assets in the quest of long-term sustainable growth. Further efforts to control cost and generate revenue will be required to achieve financial viability.

Chapter 6:

Findings & Conclusion

6.1 Findings of the Study

A **quantitative** evidential study based on parenthesis, Q2023- Q2024 periods is carried out and the financial performance & credit risk management of a bank are measured quantitatively.

Effective Credit Risk Management Framework

IBBL's credit risk management was very strong and well organised which reduced Non-Performing Loans (NPLs) significantly from 11.56% in 2023 to 1.10% in 2024. This restoration is indicating module that bank has sound loan tracking system and credit appraisal and monitoring are functioning effectively.

Conservative provision of loan loss for more risk protection

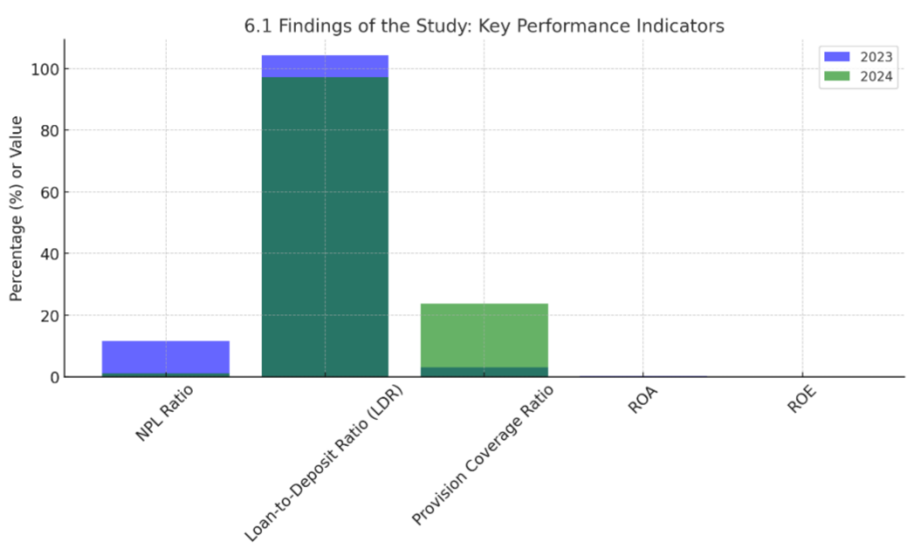
Loan loss coverage and provision The loan loss provision cover "The rise in loan loss provision cover indicates the bank is being too cautious, looking at future defaults". While that improvement looks like the bank is now exposed to less the risk of suffering future credit loss and, therefore, so are its risk mitigants.

Shift Towards More Conservative Lending

LDR dropped to 97.17% in FY2024 from 104.28% y/y meaning that the bank is retreating into its shells to loan. This type of shift is in fact a classic trade-off between risk and liquidity – But it could have affected the profitability of the Bank in the short term.

Decline in Profitability Metrics

Although 87 | a b c the credit risk management continued to be success story, profitability measures (ROA and ROE) experienced some weakening. ROA dropped from 0.32% in 2023 to 0.05% in 2024, and ROE, from 0.0009% in 2023 to –0.0001% in 2024. These slides demonstrate while the bank improved risk management overall it still needs more to do before earning a return and cutting costs is realized.



6.2 Recommendations for Effective Credit Management

From the results and my observation during internship, the dimensions listed below can be implemented by the IBBL to improve credit risk management.

1. **Strengthen Loan Recovery Frameworks**: Bank has recovery framework but enforcement is required. The stream could be strengthened by deploying advanced credit monitoring systems and data analytics to predict loan defaults earlier. It may be argued as well, that more weight might have been placed on the utilization of alternative dispute resolution (especially Islamic arbitration) in default cases to allow for quicker disposition and avoid protracted litigation.

2. **Strengthen Risk Diversification**: IBBL has diversified its credit portfolio in various sectors of the economy, but further reduction of risk related to specific industry or clients would be beneficial for the bank. The bank can also look at further diversifying the portfolio with financing for more SMEs and new promising sectors. That way you might help prevent yourself from becoming too heavily exposed to any one sector – say real estate or trading.

3. **Improve NPL Management:** Resolution of the Non-Performing Loan (NPL) is one of the critical challenges for banks, Islami Bank Bangladesh limited also confronted with this problem. The bank can mitigate this by implementing credit risk management software, which uses AI and machine learning algorithms to analyze the repayments behavior of borrowers enabling them to predict their likely defaults. These technologiescould be an early warning system that could indicate at the first time of emergence that risk is rising, allowing intervention to control and minimize the risks to NPL level.

4. **Enhance Customer Literacy and Financial Education:** Proactive messages of financial education would also contribute to the reduction in defaults, by increasing borrower awareness of loan terms, how the repayment plan functions, and the significance not factoring. The bank could be offering to host workshops — its store of payday stores now meets the library, anyone? — or even rolling out online materials to help train its clients in the subtle arts of credit management, so that they can make their way more confidently through the cycle-of-loans marketplace.

5. **Embracing Communications with Regulator**: The Islami Bank Bangladesh PLC can be operational and device methodology through which they can collaborate closely with the regulators like Bangladesh bank so they remain continuously aligned to best banking principles. The bank is also urged to actively participate in industry forums and regulation dialogues for it to better pre-empt future risks and regulatory developments which are, particularly those that have implications on credit risk management, Shari'a banking.

6. **Digital Banking In the Changing Environment 16 OUR FOCUS Integrated Digital Banking Solutions:** Given IBBL's existing strong relationship with Banco EEB, implementation of digital banking solutions may enhance the effectiveness of credit risk management at IBBL. The bank also must spend more on digital capabilities that let customers track and manage their loans, underwrite risk and interact in real time with the customer. With a fully digitalized system, credit application and approval, monitoring & recovery can be performed in straight through processing without any distortion from human liability for effective performance.

7. **Some Other Credit Risk Training Programs**: The bank has also to continue training assignment of credit risk for special employees. Capacity building training such as workshops on principles of Islamic banking, credit analysis and loan recovery risk management etc could create them to get exposed to the best practice ofthe industry. Continuous professional training will also help ensure a more efficient labour force and better risk management outcomes.

Conclusion The management & Control model of credit risk in IBBL is strong and consistent with Shari'ah laws. The bank holds good integrity for lending operations, very satisfactory credit assessment and scanty generation of loans in respect of the lending carried out. Though like any banks the NPL management and loan recovery, there are challenges but it can be better.

It taught me a lot on how credit risk management is actually done in practice; It particularly laid my eye to the complexity involved when conducting it e.g. weighing risks against returns, and all that with involving the Islamic perspective. The proposed guidance is intended to help the bank continue building on its credit risk management framework and maintain long-run stability of its financial system.

Chapter 7:

Implications

7.1 Implications for the Organization

The findings of this study have several policy implications for IBBL in terms of greater emphasis on enhancing its credit risk management practice and operational efficiency. “If the bank is serious about addressing the concerns raised in this report and following its recommendations, it can:

Better Risk Management: IBBL may attempt to minimize NPL by developing their loan recovery, monitoring system as well as deploying new risk predicting models. Early warning and proper handling of credit risk exposures enable the bank to minimize losses and maintaining its asset saltiness, strong competitive positioning.

Financial Stability: Focus on diversifying the loan book and improvements in managing NPLs will help the bank achieve a well-distributed risk profile. And spreading its exposure out to more sectors and increasing its connectivity with smaller companies will allow the bank to share out its credit risk more evenly, reducing reliance on any one sector or borrower.

Sharia Compliant and Ethical Banking: Today the institution can provide Sharia compliant products in a much more effective way on a far greater scale of an ethical standard by incorporating digital banking and allowing for better credit risk assessment. BIBD, whose base is in the Muslim-majority sultanate, will cement its role as a leader of Islamic banking and gain customers' confidence.

Better Functioning: Utilizing the state-of-the-art technology and automation of CRM (credit risk management) system would enable IBBL to optimize their internal functions effectively and rapidly without any human errors with greater decision-making support. These are improvements that should increase the operational efficiency of your bank so it is now able - amongst other things - to handle greater transaction volumes without diluting risk control quality.

Sustainability and Long-term Growth: This is a changing industry; it’s important for IBBL to be fast on our feet and creative. AI / machine learning for credit risk monitoring, analysis and more The use of AI / Machine Learning could enable the bank to be successful in a competitive economic environment, becoming profitable from existing customers and new rising ones as the banking business evolve.

IBBL can use the recommendations for improving their financial sustainability as well and infer reputation in Islamic Banking sector and market through credit risk handling institute.

7.2 Implications for the Banking Industry

Other Bangladeshi banks, particularly Islamic and non-Islamic financial institutions whether (operating or intending) to run Shariah-compliant products could take implications of this study. Implications for industry: The main findings of the industry are as follows.

1. **Shariah-aligned Risk Management:** Islamic banking companies (e.g., IBBL) might create their personal CRMR policies substituting this study as a sample to the regulatory and shariah compliant on credit risk management. Some nicer NPLs management proposal as well as some collection and portfolio diversification strategies may be useful for the industry players to achieve a superior aggregate stability.

2. **Adoption of technological solutions** The financial industry is pushing for digital transformation thereby in such times use of advanced credit risk management systems which include AI, machine Learning, Big data analytics back up stand better chances at enhancing the efficiency ascertains in banks on how to assess risks. This transformation will reduce op-risks (across the entire banking market), enable more forecasting of risks, and offer improved client services.

3. **Speaking Financial Inclusion**: The report considers the potential for incumbent banks to expand into SME lending or new growth sectors and how this could provide an opening for promoting financial inclusion. Islamic banks can play a role in developing the economy and expanding access to finance for SMEs by offering products providing greater accessibility of credit into under-banked segments of the economy.

4. **Practical Implications:** Findings of this study could provoke further regulatory attention and interventions on credit risk practices at Islamic banks. In line with the development of this Islamic banking industry, policy makers may choose to adopt a more targeted risk management rules and regulations for Islamic banks to also sustain the financial stability and sound development in its financial system in Bangladesh sector.

7.3 Implications for Academic Learning

The results reported in this paper have important teaching implications for banking, finance and Islamic economics. The key academic implications are:

1. **Curriculum Development:** Could help in offering enriched curriculum for banking and finance curricula, especially Islamic banking. Task institutions to introduce relevant issues of sharia-compliant risk management, Islamic financial products and loan classification into curricula programs as to better prepare students for the reality on-ground and challenges facing by Islamic banks today.

2. **Research Implications:** The research implications pave the way to new endeavours in relation to issues pertaining to practices of credit risk management in Islamic banking, especially NPL management and skills on successful loan recovery. Researchers may explore Islamic banks application of new technologies in achieving better credit risk management and promotion of access to finance by vulnerable populations.

3. **Practical Implications**: This paper would fill a gap between theory and practice in banking especially looking at the practices of Islami Bank Bangladesh PLC. It really considers how future professionals might be able to apply their education in a Sharia-compliant banking and finance world, in which ethical consideration would have a significant role.

4. **Good Case Study Material for Future Learnings:** The findings of this Programme can be used as a good material for other students to research in case intended their during the study period that Islamic Banking is one supplemental studies having interesting. An extensive investigation on credit risk management practices of the bank in the face of challenges such as balad including NPL could be used as a benchmark to assess how Islamic banks deal with and mitigate their credit risks within the jurisdiction prescribed by Sharia law.

7.4 Implications for Career Development

The skills I have developed during the internship have multifaceted implications on my career development in banking and finance by specializing credit risk management as well as Islamic finance. The former has a few personal career drawbacks, for example:

- **Professional skill acquisition:** I got to practice what I learned at school in a real working world arena. In the course of my training, I also was seriously exposed to on how real world credit risk rating should be done including in loan classification that pertains to exposure on syariah compliant financial product and all these really has helped me shaped my foundation for a future career in the field of my choice of finance. I'll value being able to use this in my future banking career."

- **Augmented Understanding of Islamic Banking:** In my employment with an Islamic bank, I was able to improve my understanding of Sharia-compliant banking products and how it interacts with the concept of risk. This is the news, it is great opportunity and it will help me in my career as Islamic Banking also spread all over the world there as relevantly large black populations then Muslim populations are growing.

- **Careers in Risk Management:** The experience of credit risk management has really developed the interest of making a career in this field. I am more curious to specialize in such and help institutions to control credit, market and operational meanwhile working with the financial sector community.

- **Networking and Industry Insights**: The internship experience provided an opportunity for me to meet people from the industry, make contacts. I received expert insights from this industry and mento professional with more than 7 years experience in risk management, lending operations, compliance environment. This network is going to be how I continue my career and will offer me job opportunities for the next move.

The implications And finally, I believe the findings in this study important for Islami Bank Bangladesh PLC, banking sector as a whole and education providers and also my career development. It is hoped that if the recommendations of this report will be implemented it would be helpful to improve its credit risk management policy and procedure which in turn will affect on IBBL's goodwill as Islamic bank. Furthermore my practical experience increased in the hw fields of credit risk managing and will be good base for Tellering a career with financial institutions.

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Appendices

Appendix A: Data Collection Methods

Appendix – Methods The data of the current study was obtained as follows:

- **Interviews**: Interviews of the credit risk management personnel of Islami Bank Bangladesh PLC were conducted.
- **Observation:** Observing operational CRMS as well. as operations and mechanism such loan classification, approval and monitoring.
- **Documentation Review:** I had the privilege of reading internal reports, training materials and banking laws which were informed after credit risk management.

Appendix B: Loan Classification Categories

The section below presents the loan classification system of Islami Bank Bangladesh PLC: 3.1 Policy and Practice of Loan Classification: 3.1.

1. **Prime Loans:** These are excellent loans, no risk of any performance issues.
2. **STANDARD MENTION ACCOUNTS (SMA**):- The loans falling under SMA are those accounts where an advance is subject to special mention of some kind which can be made by the bank when these borrower do not meet their commitments or don't work according the pre-established guidelines.
3. **Below grade Loan:** A loan that demonstrates significant repayment weaknesses.
4. **Doubtful Credit:** Obligation of an issuer with an extremely high likelihood of future default; while the event is not certain, it is evident.
5. **Bad & Loss Loans:** Loan which is considered to be a non-recoverable or loss in full.

Appendix C: Financial Ratios

Here are some of the financial ratios used to evaluate the bank's credit risk and loan performance:

- **Loan to Deposit Ratio (LDR)**: 104.28% in 2023, 97.17% in 2024.
- **Classified Loan to Total Loan Ratio (NPL Ratio)**: 11.56% in 2023, 1.10% in 2024.
- **Loan Loss Provision Coverage Ratio**: 3.09% in 2023, 23.80% in 2024.
- **Net Interest Margin (NIM)**: 4.66% in 2023, 3.56% in 2024.
- **Return on Assets (ROA)**: 0.30% in 2023, 0.05% in 2024.
- **Return on Equity (ROE)**: 0.0009% in 2023, 0.0001% in 2024.
- **Cost to Income Ratio (CIR)**: 62.52% in 2023, 67.15% in 2024.
- **Advance to Asset Ratio**: 78.77% in 2023, 69.71% in 2024.

Appendix D: Sharia-Compliant Financial Products at IBBL

This appendix shows the Islamic banking products and services offered by Islami Bank Bangladesh PLC that emanate from Sharia'a:

1. **Mudarabah Savings Accounts:** Interest free and profitable sharing account under Sharia law.
2. **Murabaha Financing:** Cost plus financing.
3. **Ijarah Financing:** Islamic leasing arrangement.
4. **SARVA Islamic Credit Cards** Shariah-compliant, profit-free cards.
5. **Trade finance**: Money needed to carry out international trade transactions.
6. **Project Finance:** (investment)/financing of long term based on Mudarabah or Musharakah.

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