

Internship Report
On
The Credit Risk Management of
Standard Chartered Bank Limited, Mirpur Branch



Internship Report
On
The Credit Risk Management Of Standard Chartered Bank, Ltd.

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Letter of Transmittal

May 7, 2014

Dr. SalehUddin Ahmed

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Sub: **Submission of Internship Report.**

Dear Sir,

It is my great pleasure to submit the report on “Credit Risk management of Standard Chartered Bank Ltd. (Mirpur)” as a part of my Internship program. I have closely observed different departments operations of Standard Chartered Bank Ltd. (Mirpur) in my internship period.

I enjoyed preparing this report, which enriched my practical knowledge of the theoretical concept. I tried to reflect the practical operational aspects of the Bank, which is complementary to the theoretical lessons. I am very much glad that you have given me the opportunity to prepare this report for you & hope that this report will meet the standards of your judgment.

Sincerely yours,

.....

Rifat Shrmin

ID#10264013

MBA Program

BRAC Business School

Supervisor's Certificate

This is to certify that the Internship Report on “**Credit Risk Management Of Standard Chartered Bank Ltd.**” in the bona fide record at the report is done by Rifat Sharmin as a partial fulfillment of the requirement of Masters of Business Administration (MBA) degree from the BRAC Business School.

The Report has been prepared under my guidance and is a record of the bona fide work carried out successfully.

.....
Signature

Dr. Salehuddin Ahmed
Professor
BRAC Business School
BRAC University

DECLARATION

I do hereby solemnly declare that the work presented in this Internship report has been carried out by me and has not been previously submitted to any other University/College/Organization for an academic qualification/certificate/diploma or degree.

The work I have presented does not breach any existing copyright and no portion of this report is copied from any work done earlier for a degree or otherwise.

I further undertake to indemnify the Department against any loss or damage arising from breach of the foregoing obligations.

.....

Rifat Sharmin

ID No.: 10264013

MBA Program

BRAC Business School

.....

Date

TO WHOM IT MAY CONCERN

It is my pleasure to write on behalf of Rifat Sharmin who is working with Standard Chartered Bank Ltd. as an Internee for 3 months.

During this time with us Rifat Sharmin is a dedicated and valuable employee and she is working hard at any and all tasks. She is quite confident and is a consummate professional. She has always exhibited sound judgment in her work and she is a trusted worker. She is unique to take initiative and I am very satisfied with her performance. Her performance is quite helpful in the advancement of our organization.

Furthermore, her co-workers are all pleased with her and they feel comfortable in teaming and coordinating with her to work towards common goal and objectives. While she will be missed, I wish her all the best of luck in her future endeavors.

.....

Tusher Kanti Sannal

Manager

Standard Chartered Bank

Mirpur, Dhaka.

Acknowledgement

I am pleased to get this opportunity to give special thanks to the persons whose ideas; views and supports have provided fluency to prepare this report and also enriched this report. I am grateful to all officials and staffs of Standard Chartered Bank – as they for their huge cooperation. And also grateful to the persons whose books, working papers, journals and related materials give me continuous support to write this report.

I am greatly appreciated and inspired by Dr. Salehuddin Ahmed, Faculty of Finance, MBA Program, BRAC Business School to write this internship report on Credit risk management of Standard Chartered Bank. I would like to thank Mr. Ismail Hossain, Head of the department of RRD, for giving me the opportunity to work on his department. My special thanks goes to Mr. Tusheranti Sannal, manager of RRD of Standard Chartered Bank. I would also like to express my gratitude to all the employees of Standard Chartered Bank, for supervising me at the time of my internship attachment with their best efforts.

At all I am greatly thanking to the persons whose enrich books, journals and working papers on international financial management have provided a guideline to me in preparing this report. Moreover, I am very much grateful to all officials of Standard Chartered Bank. This report would not be possible without the cooperation of all officials of SCB. So my heartiest appreciation goes to those officials. Finally, I would like to thank all others whose strong support makes us able to complete this report.

Executive Summary

The Internship report is prepared as requirement of MBA program of BRAC University. This report is on “Credit Process and Risk Management” of Standard Chartered Bank. This report is intended to assist the reader in detailed understanding the credit risk management process. It also attempts to capture the procedures practiced in Standard Chartered Bank (SCB) in relation to credit handling. The purpose of this report is to have an idea about the credit process and risk management procedure of Standard Chartered Bank and then to assess its effectiveness in connection with.

In this report, first of all I’ve discussed about the objectives, scopes, limitations and the methodology containing the sources of data I’ve collected from.

Secondly, in the organizational part I have provided detailed information about the organization with its company profile, Corporate Vision and Mission, product & service and resources.

Thirdly I’ve discussed about the overall credit processes and risk management of SCB which starts with the branch and done fully under head office’s credit department.

Finally I tried to give some suggestion to the base of my knowledge and experience which I have achieved during internship at SCB Mirpur Branch, for further growth in credit and convenience in credit risk management and expansion of this Branch.

The whole system has been described elaborately keeping in mind the most important segments. In addition the diagrams Credit Approval Process & Credit documentation, Credit Risk Grading score sheet add a clear understanding of the system.

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CHAPTER 1

INTRODUCTION



1.1 Introduction

In recent days, people are becoming more aware about the management of their resources. As the banks do business by lending their depositors' money, they are more responsible to manage their credit portfolio smoothly. Bank's reputation is a critical factor for its success and therefore multinational banks must follow appropriate guidelines, policies and relevant manuals regarding credit extension and recovery. The usage of banking service for any type of financial activities is increasing day by day. People are taking loans to start different types of businesses as well as other purposes. It is now very important to know the internal credit processes of the banks.

1.2 Background of the Report

A developed banking sector plays a vital role for financial stability of a country. In the MBA program, the internship is one of the vital parts, which has to be done by every student. The internship program provides an opportunity for the student to minimize the gap between theoretical and practical knowledge and will help in practical life. After completing my Masters of Business Administration (MBA) as a student I wanted to complete my Internship program from a reputed Bank which would be helpful for my future professional career. I got this great opportunity to perform my internship program in the STANDARD CHARTERED BANK LTD. I have completed internship program based on theoretical and practical knowledge. I was sent to Mirpur Branch. It was three months practical orientation program. This report is originated as the requirement of SCB.

I have selected Credit Risk of SCB as my concentration topic. I have worked in Regulatory Reporting Department mainly but I had to work on others departments like ShanchayPatra department and Loans and Advance as I was an Intern. As a Finance student I liked to choose Credit Risk Management as the topic of my internship report.

1.3 Problem Statement

In today's world, Credit officers skilled in evaluating the credit request of business firms rank among the most experienced and highest paid people in the financial services field along with investment bankers. Well, SCB credit department try their best in maintenance of credit.

My research report basically focuses on business Credit management of SCB by a practical example.

1.4 Origin of the Study

The internship program is partial requirements of the MBA program, which will be helpful to become familiar with the practical business operations. After the completion of all the courses of MBA program every student need to complete month's internship program in any organization. As a student of MBA program of BRAC University I have done 3 months internship in SCB Mirpur branch. I have work on *Credit Risk Management* of SCB. Credit Management System enables an organization to manage concerns that are involved in loan processing from loan request to its maturity. Many phases are covered in between, for instance loan request, approval, documentation, schedule, disbursement and maturity. That is start from selection of borrower to sanctioning loan at last monitoring the borrower.

1.5 Objective of the Study

The main objectives of the study are follows:

Broad Objectives

- ❖ To fulfill the requirement for the completion of MBA program.
- ❖ To observe& learn the Credit process &Risk Management of SCB and its services.

Specific Objectives

The objective of the internship program is to familiarize students with the real business situation, to compare them with the business theories & at the last stage make a report on assigned task.

Specific objectives are as follow:

- ❖ To fulfill academic requirement;
- ❖ To gather knowledge about banking companies operations in practical field.
- ❖ To gather practical knowledge and real life experience in official environment.
- ❖ To apply theoretical knowledge in the practical field.
- ❖ To have exposure to the functions of foreign exchange section.
- ❖ To understand procedures of foreign exchange management of commercial banks in Bangladesh.
- ❖ To observe the working environment in commercial banks.
- ❖ To identify a link between practical operational aspects of the Bank to complementary the theoretical lessons
- ❖ To get an overview of the private Banking in our country.

1.6 Methodology of the Study

Methods followed to perform a job or conducting activities to complete a task is called methodology. In conducting this report the following methodology was adopted in data & information, preparation of reports etc. Both qualitative and quantitative methods were applied for preparing this report. The data were analyzed and presented by Microsoft excel and shows percentage, graphical presentation and different types of charts. Best effort was given to analyze the numerical findings.

The main focus is on numerical data in preparing the report. Also theoretical portion of the report has been used as the demand of the report. Analyzing foreign trade management of a bank, both theoretical and technical knowledge are necessary for execution, then everything with accuracy.

Data Collection

Source of data of this report can be divided into two categories.

Primary Sources

- ❖ Three months practical participation in internship
- ❖ Face-to-Face conversation with the respective officers and staffs
- ❖ Relevant file study provided by the officers concerned

Secondary Sources

- ❖ Credit Risk Grading Manual, published by Bangladesh Bank.
- ❖ Banking Credit Risk Management Manual.
- ❖ Credit Policy Guide-Guidelines for Credit Risk Management of SCB.
- ❖ Daily Affairs of SCB Mirpur Branch.
- ❖ Relevant books, Research papers, Newspapers and Journals.
- ❖ Internet and various study selected reports.

Research Design

Nature of Research :The descriptive method is used in this report.

Sampling Unit :Credit processes and risk management procedures of SCB.

Sample Size : Only a branch has been taken as sample size.

1.7 Scope of the Study

As I've worked only in credit division in SCB's Mirpur branch. This report only includes the credit processes and credit risk management procedures under credit department of SCB. This report does not include deposit service of SCB. Besides this report does not include the services of other private and public commercial banks and non banking institutions.

1.8 Limitation of the Report

- ❖ **Time limitation:** The duration of our internship program is only 3 months. The allocated time is not sufficient for us to gather knowledge and to make the study a complete and fruitful one. It was one of the main constraints that affected covering all aspects of the study.

- ❖ **Lack of Secondary Information:** The study also suffered from inadequacy of data provided by Standard Chartered Bank. Secondary source of information was not sufficient for the completion of the report.

- ❖ **Limitation of the Study:** Much confidential information was not disclosed by respective personnel of the department.

Other limitations are as follows:

- ❖ For the lack of our practical knowledge, some shortcoming may be available in the paper.
- ❖ The bank has naturally shown us some indifference connecting its most confidential information.
- ❖ The executives of SCB were too busy to spare time for the internee.

1.9 Rationality of the Study

Banking sector is one of the fastest growing sectors in our country. There are more than 50 banks are operating which includes local and foreign venture. Some new banks are coming in the market. Therefore, the banking industry is very much lucrative and at the same time very competitive too. All banks are offering newer products and facilities to attract the customers and retain them. Appropriate customer selection and retention is vital for bank profitability.

In case of sanctioning credit selection of borrowers, credit investigation is must. Not only these but also preparation of credit report credit approval process & administration following proper credit risk management is crucial for any bank. Because if there is any lack in credit management the loan may default this may run a bank in bankruptcy.

In time of preparing this report I found it have some lacking in this branch of SCB although it is good in credit management. This branch has a good recovery rate & also has satisfactory profit.

CHAPTER 2

ORGANIZATION PART



2.1 History and Organization Profile

Standard Chartered Bank was formed in 1969 through the merger of two separate banks, the Standard Bank of British South Africa and the Chartered Bank of India, Australia and China. The Chartered Bank was founded by James Wilson following the grant of a Royal Charter by Queen Victoria in 1853. The bank opened in Mumbai (Bombay), Kolkata and Shanghai in 1858, followed by Hong Kong and Singapore in 1859.

Standard Chartered PLC is the holding company. The Company operates globally and is principally engaged in the business of retail and commercial banking and the provision of other financial services. The Company operates in two business segments: Consumer Banking, which meets the needs of private, small and medium-sized enterprises (SMEs), priority and personal banking customers across its franchise and Wholesale Banking, which includes lending and portfolio management; transaction banking, including trade and cash management and custody; global markets, including financial markets, asset and liability management, corporate finance and principal finance. As of December 31, 2013, it comprised a network of more than 1,500 branches and outlets in 71 markets. On April 8, 2011, the Company acquired GE Money Pte Limited, a specialist in auto and unsecured personal loans in Singapore. On September 2, 2011, it acquired Gryphon Partners Advisory Pty Ltd and Gryphon Partners Canada Inc.

- ❖ Country Chief Executive Officer: Jim McCabe
- ❖ Local time: GMT +6 hours
- ❖ Language: Bengali, English
- ❖ Population: 164 million (July 2013 est.)
- ❖ Currency name: Taka (BDT)
- ❖ No. of branches: 26
- ❖ Established: 1905 (including ANZ Grindlays experience; Standard Chartered Bank originally established its first branch in Chittagong in 1948)
- ❖ We are the oldest and largest foreign bank in Bangladesh
- ❖ Only bank that never closed its doors over 100 years of banking operation in the country
- ❖ First international bank to extend credit lines to Bangladesh and open the first external letter of credit (LC) in Bangladesh in 1972

- ❖ Financial Institutions business is the largest contributor to USD Clearing in New York
- ❖ A leading price player in treasury instruments and foreign currencies
- ❖ Leader and pioneer in Consumer Banking

Today, Standard Chartered Bank is the largest international bank in Bangladesh with 26 Branches, 90 ATMs and 20 Financial Kiosks; employing over 1,300 people are permanent and 1500 are third party contractual. We are the only foreign bank in the country with presence in 6 cities – Dhaka, Chittagong, Khulna, Sylhet, Bogra and Narayanganj; including the country's only offshore banking units inside Dhaka Export Processing Zone (DEPZ) at Savar and Chittagong Export Processing Zone (CEPZ).

The acquisitions of Grindlays bank (in 2000) and the commercial banking business of American Express Bank in Bangladesh (in 2006) are reflections of the Bank's increasing commitment to Bangladesh. The bank increasingly invested in people, technology and premises as its business grew in relation to the country's thriving economy. We currently provide both Consumer Banking and Wholesale Banking Services, ranging from Personal & Corporate Banking to Institutional Banking, Treasury and Custodial services. Extensive knowledge of the market and essential expertise in a wide range of financial services underline our strength to build business opportunities for corporate and institutional clients in Bangladesh. Continuous upgrading of technology and control systems has enabled the bank to offer new and improved services such as Phone banking, I-banking, e-Lending.

2.2 Corporate Vision and Mission

Vision Statement

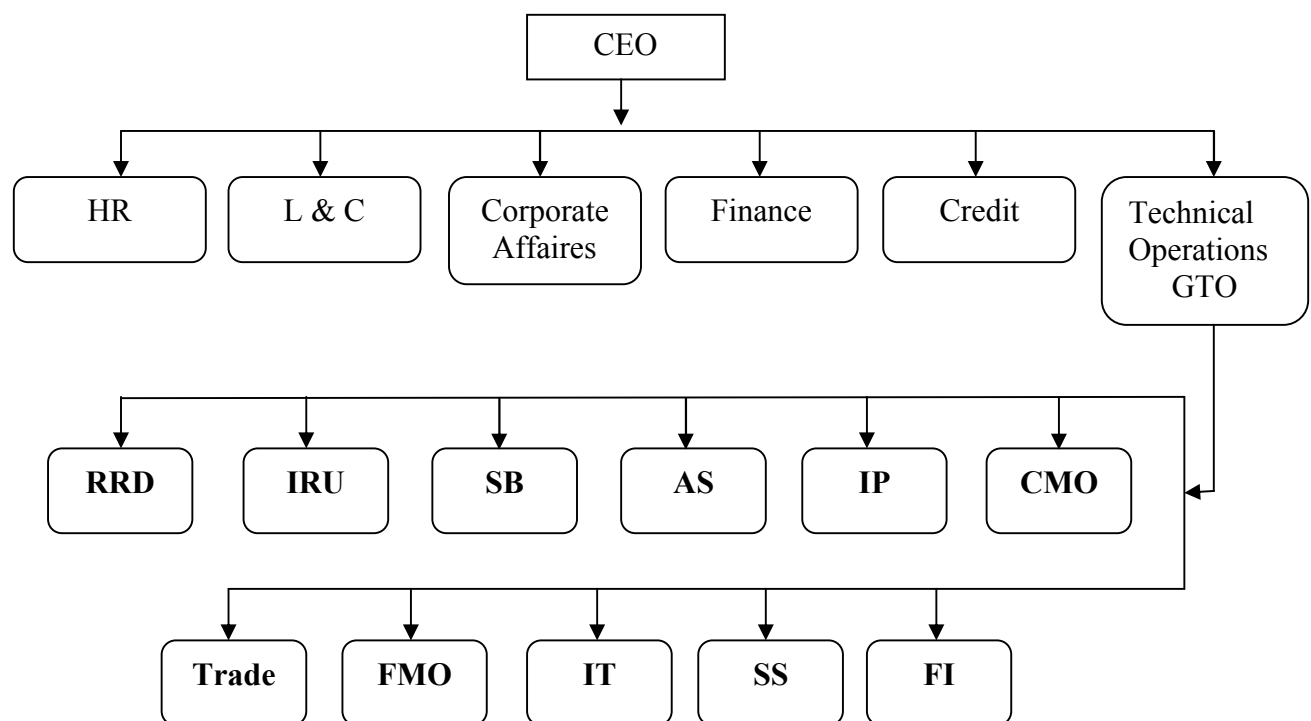
- ❖ The world's best international bank.

Mission Statement

- ❖ Built trusted relationships with the people, companies and institutions shaping our market futures.
- ❖ Be recognized as a leader in growing and protecting our clients wealth.
- ❖ Play a leading role in facilitating investment and deepening financial market.

- ❖ Establish sufficient scale and balance sheet and franchise strength to be relevant and influential in our key markets.

2.3 Management Hierarchy of SCB



2.4 Management Hierarchy of SCB Mirpur Branch



2.5 Products & Services

The bank is suitably equipped to meet customer expectations by offering its products & services

1. Retail Banking
2. Corporate Banking
3. Commercial Banking
4. Online Banking
5. Capital Market Operation
6. Islamic Banking Services

2.6 Resources & Facilities

1. Deposits Schemes
2. Credit Advances
3. General Banking

The General Banking division, in SCB, generally performs the following functions

- ❖ Account opening
- ❖ Cheque book issue
- ❖ FDR issue
- ❖ FDR encashment
- ❖ Product issue and encashment
- ❖ Account transfer from one branch to another branch
- ❖ Pay order issue and encashment
- ❖ Fund transfer from one account to other account
- ❖ Inward Remittance
- ❖ Outward Remittance
- ❖ Demand Draft (DD) issue
- ❖ Over Draft(OD) facility
- ❖ Issue of solvency certificate

CHAPTER 3

CREDIT RISK MANAGEMENT



3.1 Credit Risk

Credit risk is a risk due to uncertainty in counterparty's ability to meet its obligation. There are many types of counterparty's obligations ranging from individuals to sovereign governments. Risk is inherent in all aspects of commercial operation. However for banks and financial institution, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the banks dealing with or lending to corporate, individuals and other banks or financial institutions.

3.2 Credit Risk Management

The goal of credit risk management is to maximize a bank's risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Bank need to manage the credit risk exposure inherent in the entire portfolio as well as the risk in individual credit or transactions. Bank should consider the relationship between credit risk and other risk. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long term success of any banking organization. Assessing credit risk an institution must consider three issues:

- ❖ Default Probability
- ❖ Credit Exposure
- ❖ Recovery Rate

3.3 Principal of credit Risk management

The management of credit risk is essential to a sound credit management process, the basic principles a bank has to follow in its credit risk management are:

- ❖ Background, Character and ability of the borrowers
- ❖ Purpose of the facility
- ❖ Term of facility

- ❖ Safety and Security
- ❖ Profitability
- ❖ Source of repayment
- ❖ Diversity of loan portfolio

3.4 Tools used in Credit Risk Management

The quality of the credit portfolio of banks depends to large extent on the quality of its borrower.

To judge the quality of a borrower the bank s takes into consideration the following:

- a) Character: It refers to the willingness of the customers to pay.
- b) Capacity: The customer's ability to meet credit obligations.
- c) Capital: The customer's financial reserves
- d) Collateral: Adequate net worth to support for the loan
- e) Conditions(economic)Recent trends in borrower line of credit
- f) Compliance(law & regulations)

CHAPTER 4

CREDIT RISK MANAGEMENT DEPARTMENT OF SCB



Banking business consists of borrowing and lending. Banks act as intermediaries between surplus and deficit economic units. Thus a banker is a dealer in money and credit. Banks accept deposit from large number of customers and then lend a major portion of the accumulated money to those who wish to borrow. In this process banks secure reasonable return to the savers, make funds available to the borrowers at a cost and earn a profit after covering the cost of funds. Banks, besides their role of intermediation between savers and borrowers and providing an effective payment mechanism, have been allowed to diversify into many new areas of better paying business activities.

4.1 Credit Risk Management: A Study on SCB Mirpur Branch

The credit risk management process followed in SCB can be categorized in the following specific segments.

- ❖ Mission Statement
- ❖ Credit Policy Guidelines
- ❖ Credit Assessment
- ❖ Credit Risk Grading
- ❖ Credit Approval Process
- ❖ Credit Risk Management
- ❖ Credit Recovery

4.2 Types of Credit Facilities (LOAN)

- ❖ PL(Personal Loan)
- ❖ BL(Business Loan)
- ❖ ML(Mortgage Loan)
- ❖ Al(Auto Loan)

PL(Personal Loan)

The loan amount which is 100000-1000000 taka is called PL. Two types of people are eligible to get PL. One who is salaried person, getting salary through any bank's salary account and for the private organization's employees getting salary at least 20000taka and for the public organization's employees getting salary at least 17000taka as take home salary are eligible to apply for PL. On the other hand the persons who have small/medium business, having trade license, TIN (tax identification number) certificate (for more than 5lacs),TNT number and bill copy(for more than 5lacs) and also have been maintaining at least a bank account of their individuals or business name are eligible to apply for PL.

The process of PL starts with filling up the forms and getting the required materials from the eligible customers. After making ready all copies and files, at first two 3rd managers check them all and give sign after that the 2nd manager or STM (sales team manager) check and give sign and seal. Then the complete file is given to the Head Office's credit department. If the person applied for loan is low risky, the file is taken to verify on 'LEVEL-1', the risky is in 'LEVEL-2' and high risk is in 'LEVEL-3' of SCB's Head Office. After verifying, the loan is approved and the approved loan amount is mentioned .After the approval of loan, a LRA (loan repayment account) is opened .After that 2UDC (Undated cheque) is given to the applicant's branch. Among them one is given to the applicant .But before the disbursement of loan, PDC (Post datedcheque) according to tenure is collected as mandatory from the applicant .One UDC and all PDC are given to Head office. Then the loan's approved amount is given to that particular account. And with the rest one UDC the applicant withdraws the loan amount .and the applicants EMI (equated monthly installment) is taken through PDC. The rate of interest for PL is 16-19% per annum. Thus the process of PL is fulfilled.

BL(Business Loan)

The loan amount which is 2000,000-30,000,000 taka is called BL. Only business men who own their business are eligible to apply for BL. For applying BL the individuals' bank account's turn over must be at least 1.5 crore a year with good balance. The mandatory requirements are: business deed, trade license, TIN(tax identification number) certificate, TNT number and bill copy and also have been maintaining at least a bank account of their individuals or business name.

If the person is a new loan taker from SCB or didn't take any loan from any bank, the individual must open a FD (Fixed Deposit) which is 50% of loans approved amount. And if the person have taken BL at least once from SCB, the individual must open a FD which is 30% of loan's approved amount in applicant's SCB branch as security amount. The non SCB loan taker will get OD facility against his FD after 1 Year according to BL's rate of interest. On the other hand the previous SCB's loan taker will get OD facility after 1-6 months.

The process of BL is same as PL. But the rate of interest for BL is 20% per annum.

ML(Mortgage Loan)

The loan amount is given to individual against property is called ML. The persons who maintain business of his own or for the salaried persons who get salary of more than 50000taka and have flat building are eligible to take ML. But for the business person, the individual's bank account's turn over must be at least 1.5 crore a year with good balance.

The mandatory requirements are: land deed or flat's deed, other files related to deed, trade license, TIN certificate, salary certificate (for salaried persons), 1 year bank statement.

According to the property value and place, the loan amount is approved. But with the loan application form the loan sales person has to add a short report on the applicant's property.

The process of ML is same as PL. But the rate of interest o ML is 17% per annum.

AL(Auto Loan)

The loan amount is given to individual for the purpose of buying car is called AL. The persons who maintain business of his own or for the salaried persons who get salary of more than 70000taka are eligible to take AL. But for the business person, the individuals' bank account's turn over must be at least 1.5 crore a year with good balance.

The mandatory requirements are: the company name of car, the total value of car, total features of car and the name of Auto garage from where the applicant wants to buy the automobile.

The applicant will get 30% of the total expenditure of automobile.

The process is same as PL, BL and ML. The rate of interest is 18% per annum.

4.3 Credit Process & Risk Management

Contemporary banking organizations are exposed to a diverse set of market and non-market process and the management of risk has accordingly become a core function within banks. Banks have invested in risk management for the good economic reason that their shareholders and creditors demand it. But bank supervisors, such as the Bangladesh Bank, also have an obvious interest in promoting strong risk management at banking organizations because a safe and sound banking system is critical to economic growth and to the stability of financial markets. Indeed, identifying, assessing, and promoting sound risk management practices have become central elements of good supervisory practice.

4.3.1 What is credit?

Credit includes

- ❖ Credit cards &
- ❖ Loans

4.3.2 What is credit risk management?

- ❖ Credit risk is the potential that a bank borrower or counterparty fails to meet its obligation in accordance with agreed term.

Risk management includes

- ❖ Identification,
- ❖ Measurement,
- ❖ Planning and management,

4.3.3 Credit Risk Management Process

Main parts of credit risk management:

- ❖ Through insurance
- ❖ Through PDC(Post Dated Cheque)
- ❖ Through verification
- ❖ Through Credit Analysts

Through insurance

Insurance is added with each of the credit. The insurance premium is paid by the borrower with his/her EMI (equated monthly installment). So if any borrower defaults or die before closing of the loan the insurance company will provide loss to the bank. Otherwise the total insurance amount will be kept by the insurance company.

Through PDC(Post Dated Cheque)

Before the disbursement of the loan, cheques /PDC of borrower's maintained bank according to the number of EMI is collected from the borrower. As a result the borrower doesn't need to pay EMI to the bank. The bank collects the borrower's EMI through PDC.

Through verification

After applying for loan by the borrower, the field verification team of SCB head office comes to the borrower to check the borrower's residence, work address and the guarantor of the loan. If

the team find everything correct which has been mentioned in the application form, the loan is taken in process to approve loan. If the team finds any of the information as incorrect, the loan is considered as invalid and doesn't take the loan to process.

Through Credit Analysts

After the verification is completed correctly, the loan is taken by the analysts to approve. The analysts analyze the borrower's monthly income, how much the borrower can pay to the bank as per installment for applied loan and some other factors. Then the loan and the loan amount are approved.

By adopting these 4 major parts SCB manage and reduces the risk of the credits.

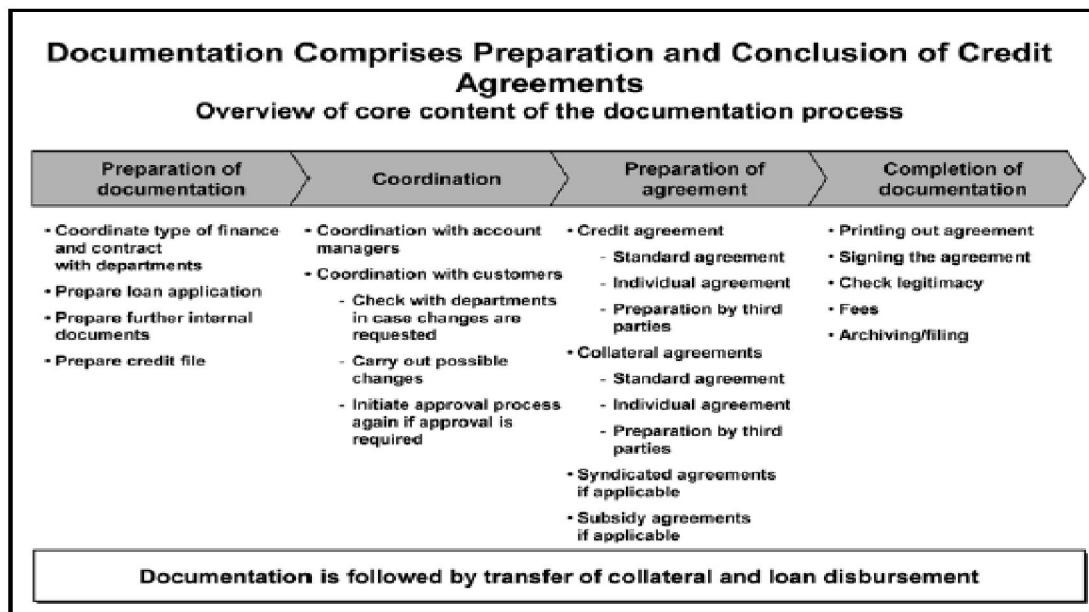
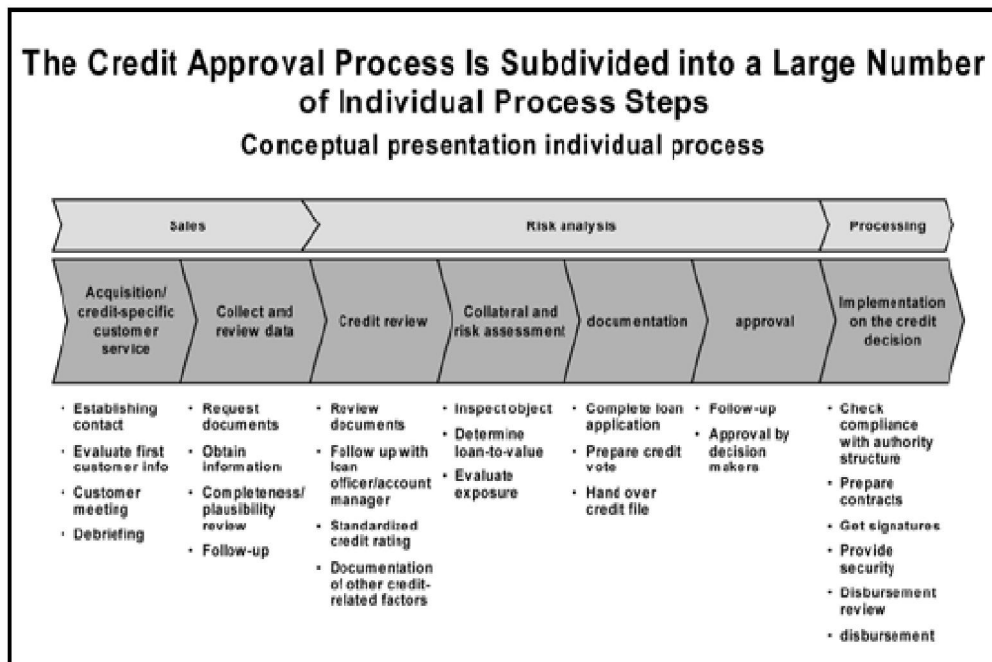
4.3.4 Credit risk management process should cover the entire credit cycle starting from the origination of the credit in a financial institution like this:

- ❖ Credit processing/appraisal
- ❖ Credit approval/sanction
- ❖ Credit documentation
- ❖ Credit administration
- ❖ Disbursement
- ❖ Monitoring and control of individual credits
- ❖ Monitoring the overall credit portfolio (stress testing)
- ❖ Credit classification and
- ❖ Managing problem credits/recovery

4.3.5 Under credit risk management the following tasks are also done

- ❖ Collect all relevant data from different models and information systems for analyzing risk.
- ❖ Assess the quality, completeness and correctness of all relevant data needed to analyze risks.
- ❖ Highlight risky portfolios and deficiencies of the bank on timely manner with recommendations and suggestions.
- ❖ Analyze data through preparation of paper named risk management paper.
- ❖ Identify, evaluate, control and monitor major risks in line with the standard set in the policy guideline to avoid necessary loss and ensure the banks in pricing all risk correctly .
- ❖ Review market conditions and take precautionary measures towards facing abnormal market situation.
- ❖ Ensure through independent oversight that different risks are identified, evaluated, monitored and reported within the established risk management frame work.

4.4 Credit Approval Process & Credit Documentation



Source: Credit Risk Management Manual of SCB

4.5 Credit Risk Grading

According to Bangladesh Bank guidelines, all Banks should adopt a credit risk grading system. Therefore, SCB has duly implemented a credit risk grading policy in its credit risk assessment program. The system defines the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. (Focus Group on Credit Risk Management, (2005), Credit Risk Management: Industry Best Practices, Managing Core Risks of Financial Institutions, Bangladesh Bank)

Risk grading is a key measurement of a Bank's asset quality. All facilities are assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities are immediately changed. Credit Memorandum includes a clear statement of the borrower's risk grade.

CHAPTER 5

LOANS & ADVANCES OF SCB



5.1 Loan Process

5.1.1 Application for the loan

The loan process start with the submission of loan application by the borrower. The borrower submits the loan application to the branch manager. In the loan application the borrower provides following information.

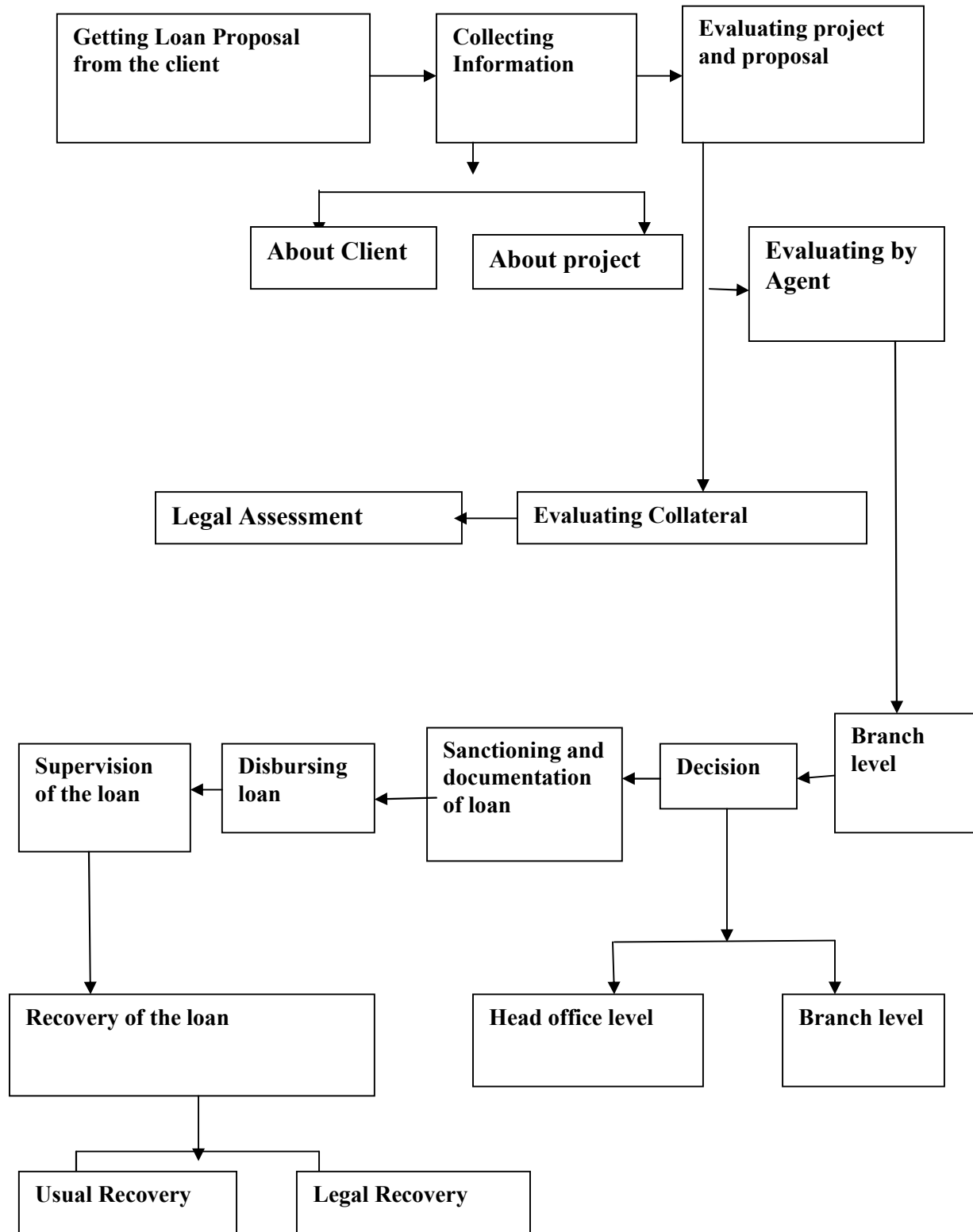
- ❖ Personal detail of applicant
- ❖ Nature of business
- ❖ Amount and duration of the loan
- ❖ Purpose of the loan
- ❖ Details of the collateral

5.1.2 Preparation of loan proposal

Based on financial and management analysis and need of the client and his capability of operating the business, RM shall design the credit keeping in mind on the following issues:

- ❖ Purpose of the credit
- ❖ Experience in the similar business
- ❖ Risk, Remuneration
- ❖ Ancillary business
- ❖ Validity Loan Period & Business Profitability
- ❖ Debt Equity Ratio
- ❖ Repayment capacity & Production capacity
- ❖ Market demand of the product

5.2 Loan Procedure of SCB



Loan Procedure of SCBL

5.3 Documentation

Before sending proposal to the approving authority, the branch ensures that the following documents have been completed properly:

- ❖ Current CIB report
- ❖ Audited financial report
- ❖ Forecasted Financial statement
- ❖ CRG score sheet of the business
- ❖ Bank statement regarding the bank transaction of the borrower.
- ❖ Net worth of the business
- ❖ Net worth of the individual
- ❖ Total debit and credit of the business
- ❖ Trade license of the business
- ❖ Income tax return of the borrower

5.4 Assessment of the loan proposal

Borrower Analysis

The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed, and risks mitigated.

Industry Analysis

The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.

Supplier/Buyer Analysis

Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.

Historical Financial Analysis

Preferably an analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balancesheet. Specifically, cash flow, leverage and profitability must be analyzed

Projected Financial Performance

Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Facilities should not be granted if projected cash flow is insufficient to repay debts.

Credit Background

Credit application should clearly state the status of the borrower in the CIB (Credit Information Bureau) report. The application should also contain liability status with other Banks and FI's and also should obtain their opinion of past credit behavior.

Account Conduct

For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) should be assessed.

5.5 Credit approval process

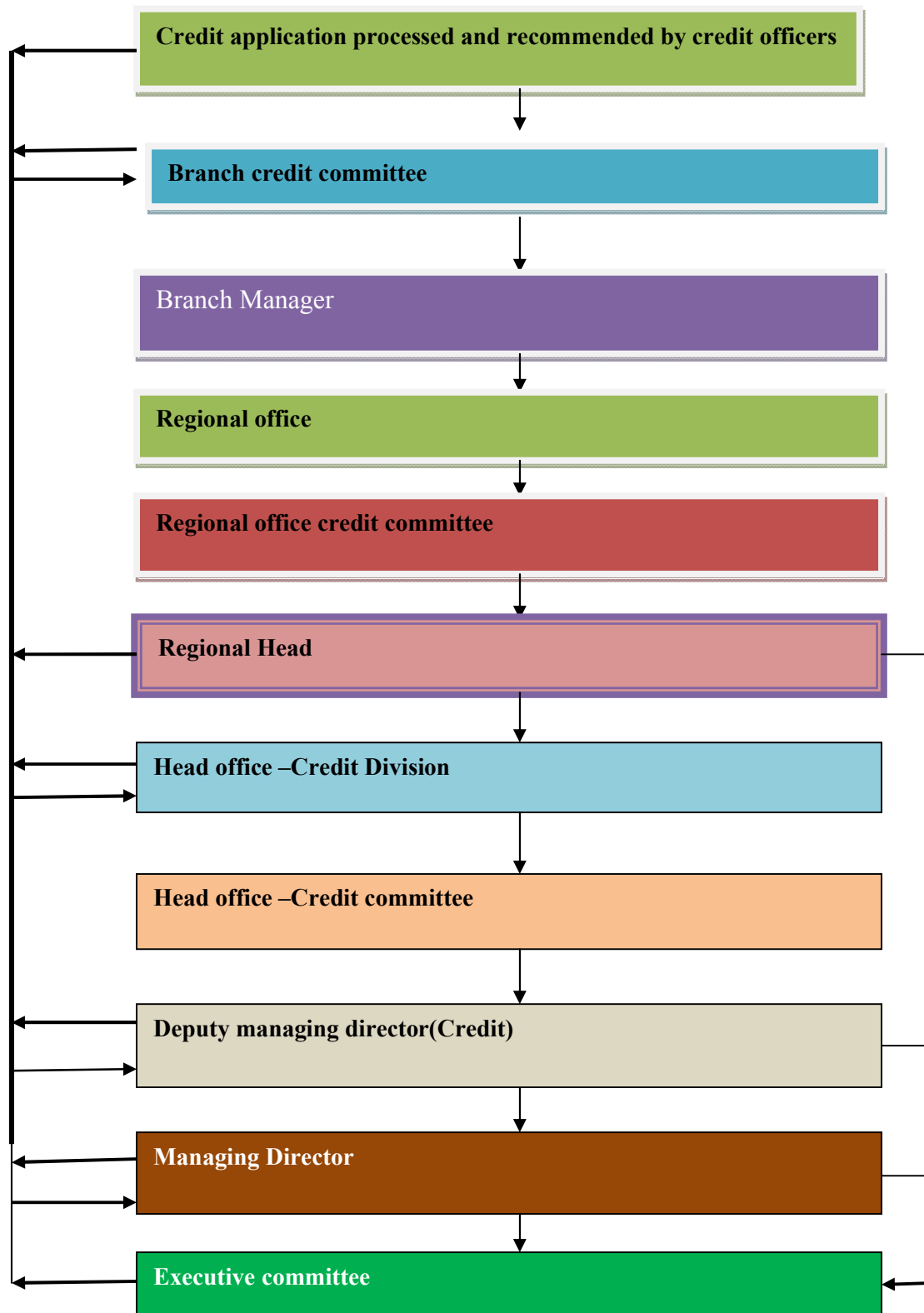


Chart of the approval process of loan and advance of NBL

5.6 Securities

Modes of securities

- ❖ Pledge
- ❖ Hypothecation
- ❖ Lien
- ❖ Mortgage

Documentation of loan agreement

Following documents are compulsory while giving loans:

- ❖ Letter of guarantee
- ❖ Letter of authority
- ❖ Letter of recall the loan
- ❖ Letter of continuity
- ❖ Letter of revival
- ❖ Letter of undertaking

5.7 Loan Disbursement

After completing all the necessary steps for sanctioning loans bank will create a loan account by the name of the borrower and deposit the money to that account. Bank will give chequebook to the party and advise them to draw the money and use it as soon as possible.

Loan and Advance Disbursement of SCBL

In the last five year loan growth was moderate. Particularly the last three years growth of loan was high. It was the result of changing the policy. Especially sanction limit of the branch manager was increased.

CHAPTER 6

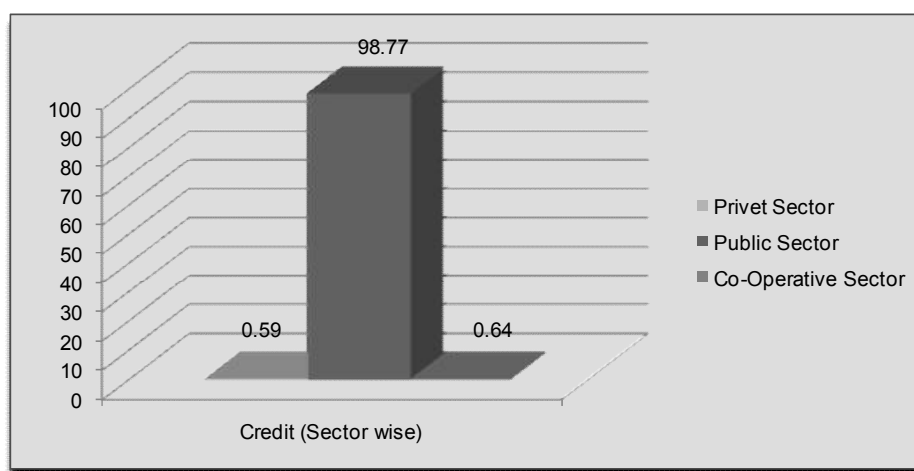
FINANCIAL ANALYSIS



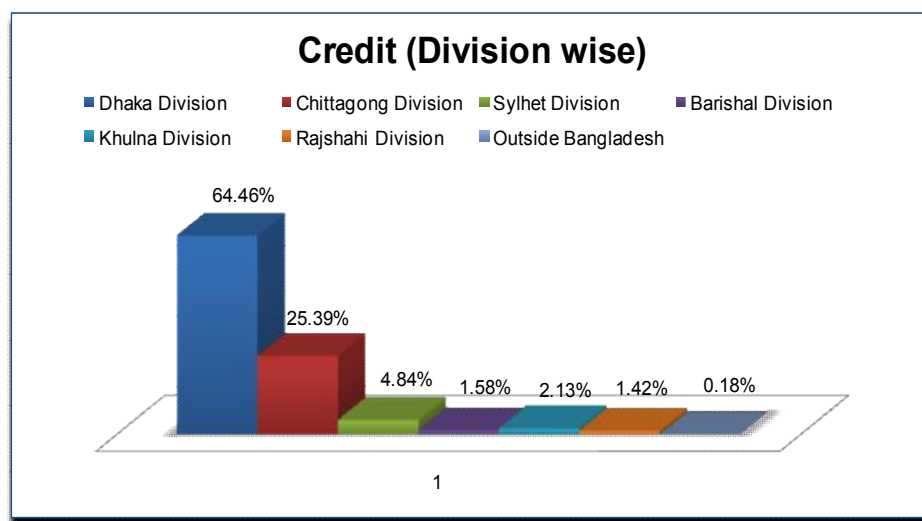
A detailed analysis of loans and advances of SCB is given bellow:

6.1 Credit (Sector wise) (Source: Annual Report-2012)

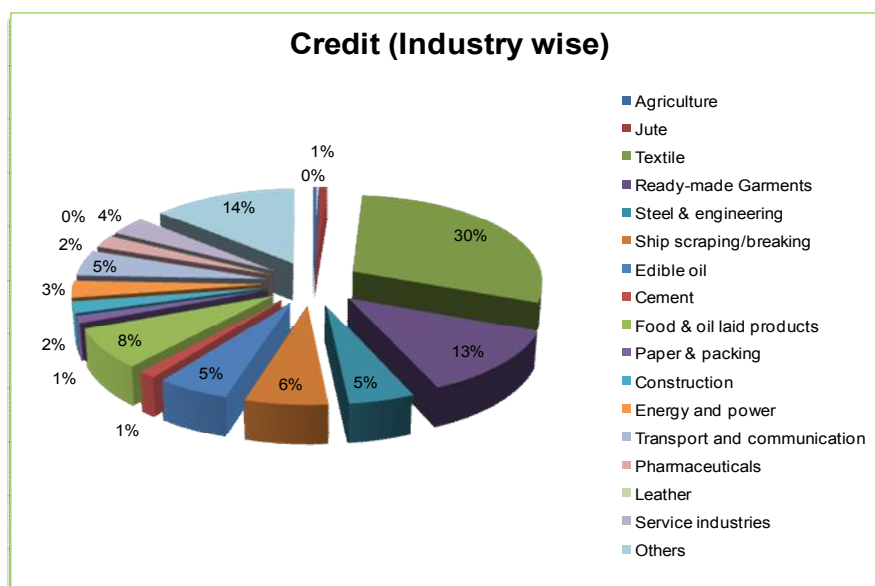
- Privet Sector 98.77%
- Public Sector 00.59%
- Co-Operative Sector 00.64%



6.2 Credit (Division wise)



6.3 Credit (Industry wise)



Analyses of Loan & Advances of SCB Mirpur Branch (Source: Annual Report-2012)

6.4 Loan & Advances

Loan and advance is one of most important part of SCB Mirpur branch. There is the scenario of last four years.

Total Deposits and Total Loan& Advances

Year	2009	2010	2011	2012
Total Deposits	708,554,769	746,652,650	776,030,211	822,295,149
Total Loan& Advances	441,588,573	472,727,022	549,116,858	512,695,557

Source: SCB Manual

CHAPTER 7

SWOT ANALYSIS



7.1 SWOT Analysis

SWOT Analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help the organization to navigate in the turbulent ocean of competition.

The acronym for SWOT stands for...



STRENGTHS

- ❖ **Company Reputation:** Since SCB is a multinational company itself, it is well qualified to advise other companies on aspects of international business. SCB has already established a favorable reputation in the banking industry of the country particularly among the new comers. SCB has established a firm footing in the banking sector having tremendous growth in the profits and deposits. All these have led it to earn a reputation in the banking field.
- ❖ **Facilities and Equipment:** SCB has adequate physical facilities and equipment to provide better services to the customers. The bank has computerized banking operations under the software. Counting machines in the teller counters have been installed for speedy service at the cash counters. Computerized statements for the customers as well as for the internal use of the banks are also available. All the branches of SCB are equipped with telex, SWIFT and fax facilities.

- ❖ **Team work at midlevel and lower level:** At SCB midlevel and lower level management, there are often team works. Many jobs are performed in-groups of two or three in order to reduce the burden of the workload and enhance the process of completion of the job. People are eager to help each other and people in general are devoted to works.
- ❖ **Invest Opportunity:** There is a great opportunity to take new dimension of banking such as **Islamic banking Unit**. Because a large portion of our population is Muslims and they prefer Islamic Banking to Conventional Banking. Otherwise, there are many sectors where this can give special privileges.
- ❖ **Globalize the Business:** As the bank has a strong business brand image, it holds a great opportunity to globalize their business more extensively. They can arrange more foreign correspondent banks or by establishing more foreign branches as the foreign branches have better and big business opportunities.
- ❖ **Well Organized:** SCB is a well organized bank as it is a multinational bank. It follows all international rules and regulations. Their management is very strict to maintain their systems and activities.

WEAKNESSES

- ❖ **Centralized Decision-Making:** At SCB, corporate decisions, the CEO, DMD and other top management officials craft policies and strategies and then they are cascaded down. At times the Board of Directors is also engaged in making corporate decisions. As a result of this practice there is only a top down flow of communication at SCB. The scope for bottom up communication is very limited and many bright ideas or opinions are not being able to climb up the ladder to the top management. Ideas remain their forever. The Branches of the bank have to depend on its Head office for any minor decisions.

- ❖ **Agency Problem:** The front desk employees are often found not to be too keen on taking care of their customers. Though they have a long employee line in some branches, their loyalty to the company and their ethics level are not very satisfactory. Most of the employees always think about their own interest, which proves that agency problem is there.

OPPORTUNITIES

- ❖ **Diversification:** SCB can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify into leasing and insurance. By expanding their business portfolio, SCB can reduce their business risk.
- ❖ **Product line proliferation:** There are several opportunities for SCB to expand its product line. In this competitive environment SCB must expand its product line to enhance its Sustainable Competitive Advantage (SCA). As a part of its product line proliferation, SCB can introduce the following products.
- ❖ **ATM:** There are enough ATM booths of SCB but it should increase more ATMs.
- ❖ **Reduces Charges & Grow up Customers:** Bangladesh has a huge consumer base for maintaining several accounts. So SCB has the opportunity to keep these customers by reducing its current fees and charges.

THREATS

- ❖ **Other Banks:** The emergence of the other multinational banks and local commercial banks and their rapid expansion poses a potential threat to the SCB. Due to the booming energy sector, more foreign banks are expected to arrive in Bangladesh. Moreover, the already existing foreign banks such as, HSBC, CITI N.A are now pursuing an aggressive

branch expansion strategy. Since the local people have more trust on local bank, it will pose a threat to foreign banks to a certain extent in terms of grabbing the lucrative clients.

- ❖ **Contemporary Banks:** The contemporary banks of SCB such as HSBC, Citi Bank, Woori bank and Commercial Bank of Ceylon are its major rivals. SCB and others are carrying out aggressive campaign to attract lucrative corporate clients as well as big time depositors. SCB should remain vigilant about the steps take by these banks as these will in turn affect SCB strategies.

- ❖ **No new deposit creation:** This is a problem and a threat faced by the whole banking sector of Bangladesh. Due to the current economic slowdown, there is hardly any new deposit creation as there few investments and savings accompanied by a galloping inflation. As a result the new banks are not being able to attract absolutely new depositors but rather they have to hunt or snatch away depositors from other banks.

- ❖ **The Central Bank changing the interest rates:** In Bangladesh the Central Bank decides the interest rates. They give a range and with in that range the banks have to maintain the interest rates they offer. So the result is that all the banks end up having very similar interest rates. It is not up to the banks to decide what interest rate they will offer on the deposits. In fact it is the Central Government that makes that decision for them whether the banks like it or not. Also if the Central Government comes up with additional regulations that will mean more costs for the banks to maintain them.

CHAPTER 8

Findings and Recommendations



8.1 Findings

As a international private bank, SCB must ensure faster services by removing the problems. From my study on the overall performance and activities of SCB I have got some major findings, which are given below:

- ❖ Bangladesh bank credit management policies requires bank to set lending guideline which SCBL does and reviews on annual basis.
- ❖ In the financial statement of 2012 of SCB is titled as Auditor's report which means auditors were not independent in inspecting the financial statement.
- ❖ SCBL's detailed product definition shows that each product falls under Bangladesh bank broad classification of loan product.
- ❖ SCBL follows the BB guideline regarding discouraged lending activities.
- ❖ Both interest rate on deposit and loan are lower compared to other strong participants of the market.
- ❖ The profitability ratio indicates that in last five year SCB made adequate profit which is in mounting trends.
- ❖ SCB is much strong in capital adequacy along with good management of liquidity but the asset quality is not so good.
- ❖ Modern banking service like online Banking, wide range of ATM service, and one stop banking service are available.
- ❖ The number of employee is not enough according to the total customer it serves through its all branches.

- ❖ Foreign exchange contribution is appreciable to total income.

8.2 Recommendations

The recommendations given below are not decisions; rather they are only suggestions to improve the customer's service in order to fulfill the customer's satisfaction so that customers give more preference to SCB. The recommendations are given below:

- ❖ Develop more customized parameters for credit approval process under the general guideline of BB to increase its market.
- ❖ ATM booths should be increased
- ❖ More research and innovative ideas should be made.
- ❖ SCB should give more emphasize on liquidity management in a balanced way.
- ❖ Emphasize on more advertisements should be made.
- ❖ Website of SCB Bangladesh need to be enriched.
- ❖ Continuous improvement should be made in the lending procedure which would reduce the default risk of the bank and increase profitability.
- ❖ All the branches should be computerized.
- ❖ Employees should be given training for better customer service.

CHAPTER 9

CONCLUSION



Banking is the backbone of national economy. Banking sector no more depends on only on a traditional method of banking. Banking industry has been treated as a prospective financial sector in Bangladesh. Bangladesh's banking system is heavily affected by bad loans. This is not only makes conservative, contracts the lending system, it discourages investment. As a result the growth of the economy is impeded. One major reason for default loan is banks ineffectiveness of assessing credit risk of a proposed investment. With time Bangladesh bank has set rules and general guidelines to help banks asses risk and mitigate their credit risk. In spite of that many banks fail to attract good credit and run profitably. Thus it is not only the guidance provided by the Bangladesh bank that a commercial lending institution need to follow own lending policies should be in place to ensure maximum effectiveness of credit assessment.

Credit risk management is becoming more and more important in today's competitive business world. It is all the more important in the context of Bangladesh. The tools for improving management of consumer credit risk have advanced considerably in recent years. Therefore, as a responsible and reputed commercial bank, SCB has instituted a contemporary credit risk management system. From the study, it is evident that the bank is quite sincere in their approach to managing the consumer credit risk though there are rooms for improvement. They have to be more cautious in the recovery sector and preferential treatments to some big clients should also be stopped. However, they follow an in-depth procedure in assessing the credit risk by using the credit risk grading techniques which provides them a solid ground in the time of any settlement.

From the discussion in this report, it has become clear that credit risk management is a complex and ongoing process and therefore financial institutions must take a serious approach in addressing these issues. They have to be up to date in complying with all the required procedures and must employ competent people who have the ability to deal with these complex matters. Utmost importance should be given to the improvement of the networking system which is essential for modern banking environment and obviously for efficient and effective credit risk management process.

SCB is well prepared to and capable of meeting the demand for a broad range of banking services. It has got adequate resources, both human and physical, to provide the customers with

the best possible services. SCB has already developed goodwill among its client by offering its excellent services. This success has resulted from the dedication, commitment and dynamic leadership of its management over the periods. But they must concentrate more on customer oriented services and provide better technological advancement relating to banking activities.

CHAPTER 10

REFERENCES & APPENDIX

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10.2 Appendix

List of Abbreviated Words

AL-	Auto Loan
BL-	Business Loan
FD-	Fixed Deposit
ML-	Mortgage Loan
OD-	Over Draft
PDC-	Post dated Cheque
PL-	Personal Loan
SCB-	Standard Chartered Bank
UDC-	Undated Cheque