

Report On
**”Role of Credit Risk Management for Affordable Home Loans in
IPDC Finance Ltd.”**

By

**Tasmin Islam Esha
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**An internship report submitted to the Brac Business School in partial fulfillment of the
requirements for the degree of
Bachelors of Business Administration; BBA**

**Brac Business School
Brac University
May 2021**

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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing my degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material that has been accepted or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

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Letter of Transmittal

Ahmed Abir Choudhury
Lecturer,
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66 Mohakhali, Dhaka-1212

Subject: Letter of Transmittal

Dear Sir,

Hope you are doing well. With due respect, it is my pleasure to submit my report on the topic “*Role of Credit Risk Management for Affordable Home Loans in IPDC Finance Ltd.*” as approved by you.

Along with the acquired knowledge, I have given my best effort in the completion of the report, accumulated from the official website of IPDC Finance Ltd., official policies and guidelines and personal understanding of the organization. The report is designed in a detailed yet comprehensive manner to provide a complete overview of my experience and the organization itself.

I truly hope that the report will be able to demonstrate its purpose. For any further clarification, I would be delighted to assist. Thank you for your time and consideration.

Sincerely yours,

Tasmin Islam Esha

Tasmin Islam Esha
17104136
BRAC Business School
BRAC University
Date: May 30, 2021

Non-Disclosure Agreement

This agreement is made and entered into by and between IPDC Finance Ltd. and the undersigned student at BRAC University, Tasmin Islam Esha.

Hereby, I, Tasmin Islam Esha, declare that I have not disclosed any information of IPDC Finance Ltd. that is confidential to the organization or that may cause any harm to it. This report is made for the sole purpose to complete the procedure of my undergraduate degree; for academic purposes only. This report will be retained by BRAC University as a record of my degree completion and shall not be used for publishing afterwards.

IPDC Finance Ltd. also agrees to the fact that, for me to complete my report and the course BUS400, I will have to provide certain minor information and no confidential information would be used here or in case of the presentation.

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Ashik Md. Jakaria

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Assistant General Manager of CRM (AHL)
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Acknowledgement

This report could not have been completed without the assistance and participation from people who might not be set forth here but their contribution is wholeheartedly appreciated and acknowledged.

However, it is my honour to express my deepest appreciation and gratitude to my academic supervisor Ahmed Abir Choudhury, Lecturer of BRAC Business School for his endless support throughout the period, who, despite the hurdles, has been providing the most feasible solutions to my problems.

Extending my gratitude to my on-site supervisor, Ashik Md. Jakaria, Assistant General Manager of CRM (AHL) at IPDC Finance Ltd. in addition to my reporting in-charge, Nusrat Jahan Heaba, Management Associate of CRM (AHL) at IPDC Finance Ltd. for enlightening experience in IPDC Finance Ltd. Providing the proper guidance throughout my tenure, helping me to develop and nourish my skills for the corporate surrounding. I would also like to express my regards to Mr Pijush Sen, Analyst - CRM (HL), Mr Shakil Ahmed, Analyst - CRM (HL), Mr Zakir Hossain, Senior Analyst - CRM (HL), and Mr Showkat Osman, Assistant Manager - CRM (HL), for providing me with a 360-degree knowledge of the service offering and the analysis procedure.

Lastly, but foremost would like to thank Almighty; Allah for giving me the ability to complete my report with the help of such talented and learned individuals.

Executive Summary

IPDC Finance Ltd. is one of the leading Non-Banking Financial Institutions (NBFI) in Bangladesh, with a set of diverse and innovative service offerings, IPDC Finance has taken quite the spotlight in a small period. IPDC Finance Ltd. commenced its journey as the first private financial institution of Bangladesh, back in 1981, with the name "Industrial Promotion and Development Company of Bangladesh Limited". At inception, the company started with a prominent set of shareholders such as International Finance Corporation (IFC), Commonwealth Development Corporation (CDC), etc. and even the Government of Bangladesh and in addition, currently partnered with the top industries and projects, playing a vital role in industrial landscaping of the country.

To innovate the Home Loan service in Bangladesh, which concentrated towards the Upper and Upper-Middle Class, IPDC Finance Ltd. launched “Bhalo Basha” to make it affordable for the low or middle-income class people to build their dream home.

Keywords: Non-Banking Financial Institutions (NBFI); Government of Bangladesh; Home Loan; “Bhalo Basha”, Dream Home

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List of Acronyms

ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
AGM	Assistant General Manager
AHL	Affordable Home Loans
AKFED	Aga Khan Foundation for Economic Development
ALCO	Asset-Liability Committee
Amen. OL	Amended Offer Letter
BDT	Bangladesh Taka
BM	Branch Manager
BSCEA	Bangladesh Supply Chain Excellence Awards
CAF	Clientele Acknowledgement Form
CC	Credit Controller
CCA	Chief Credit Appraisal
CDC	Commonwealth Development Corporation
CEO	Chief Executive Officer
CFF	Clientele Feedback Form
CFO	Chief Financial Officer
CIB	Credit Information Bureau
CM	Credit Memo

CPV	Contact Point Verification
CRM	Credit Risk Management
CSR	Corporate Social Responsibility
DBH	Delta Brac Housing
DBR	Debt Burden Ratio
DCR	Duplicate Carbon Receipt
DEG	German Investment and Development Company
E-TIN	Electronic - Taxpayer's Identification Number
ECB	Election Commission of Bangladesh
EMI	Equated Monthly Installments
EPS	Earnings Per Share
ERC	Employee Recreation Ceremony
FDR	Fixed Deposit Receipt
FI	Financial Institution
HoCRM	Head of Credit Risk Management
HR	Human Resource
ICAB	Institute of Chartered Accounts of Bangladesh
ICSB	Institute of Chartered Secretaries of Bangladesh
IFC	International Finance Corporation

IFRC	International Finance Reporting Council
IFRS	International Financial Reporting Standards
IPDC	Industrial Promotion and Developments Company of Bangladesh
IT	Information Technology
KYC	Know Your Customer
LGF	Lead Generation Form
LOS	Loan Origination System
LTR	Land Tax Receipt
LTV	Loan Amount Value
MANCOM	Management Committee
MCC	Management Credit Committee
MD	Managing Director
MIS	Management Information System
MME	Medium Market Enterprise
NBFI	Non-Banking Financial Institution
NID	National Identity Card
NPL	Non-Performing Loan
OL	Offer Letter
OPs	Operations Department

PDC	Post Dated Check
PGs	Personal Guarantors
PPG	Product Promotion Guideline
QAT	Quality Assurance Team
RM	Relationship Manager
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SAFA	South Asian Federation of Accountants
SME	Small Medium Enterprise
SWOT	Strengths, Weaknesses, Opportunities and Threats
TAT	Turn Around Time
TIN	Taxpayer's Identification Number
TL	Team Leader
WIP	Work In Progress

Glossary

Clientele		CAF helps to maintain transparency while communicating
Acknowledgement Form (CAF):		to a client and the language is set according to the client's preference.
Clientele Feedback Form (CFF):		CFF provides transparency and accountability to the client and the language is set according to the client's preference.
Credit Information Bureau (CIB)		CIB is a unit of Bangladesh Bank, which maintains a database to frequently collect, process and update it for providing credit information to the Financial Institutions.
DOCUDEX		Is an information management system for IPDC Finance Ltd. that includes all customer records.
Earnings per Share (EPS)		The return of profit against each unit of share.
Land Mutation		Change or transfer of property authorization, used for deciding tax liability
Non-Banking Financial Institutions (NBFIs)		An NBFIs is a Financial Institutions that conducts its transactions through regular banks but does not have a banking license.
Non-Performing (NPL)	Loan	A customer is marked as NPL when they fail to pay consecutive payments.
SHIRI		Automated loan origination system of IPDC Finance LTD. to build better customer relationship providing seamless loans.

Chapter 1

Overview of Internship

1.1 Student Information

Student Name: Tasmin Islam Esha

Student Brac University ID: 17104136

Program: Bachelors of Business Administration (BBA) of Brac Business School

Major/Specification: Finance & Accounting

1.2 Internship Information

1.2.1 Internship Company's Information

Period: From February 18th, 2021 till May 19th, 2021

Company Name: IPDC Finance Ltd.

Department/Division: Credit Risk Management (CRM), Home Loan

Address: Head Office, Hosna Centre (4th Floor), 106 Gulshan Avenue, Dhaka 1212

1.2.2 Internship Company's Supervisor's Information

Supervisor's Name: Ashik Md. Jakaria

Supervisor's Position/Designation: Assistant General Manager, Credit Risk Management
(Affordable Home Loan)

1.2.3 Job Scope

My responsibilities and duties as an intern at the credit risk management department included the following:

1. Documenting and extracting client's information to the data server
2. Provide clarification of the client's information from CIB also analyzing individual client risk
3. Check Credit memos for any possible existing loophole in the client's application
4. Create Top sheets for the client and send for verification to the Manager of CRM
5. Check Valuation Reports from the clients for mortgage or credit validation
6. Create and Update Amendment Memos for the clients for re-approval from the Head of CRM
7. Provide Offer Letters after verifying the client's information
8. Creating performance reports based on the branches or Relationship Managers
9. Coordinating with the Relationship Managers of each branch to source out missing documents
10. Proceed documents to the AGM for client background check
11. Drafting reports being delivered to the Head of CRM
12. Setting responsibilities for the Relationship managers and Branch manager
13. Coordinate between the Analysts, Branch Managers, Relationship Managers and Sales Centers
14. Reporting weekly to the Manager of CRM and suggestions for improvement or changes

1.3 Internship Outcomes

1.3.1 Student's Contribution to the Company

As the only intern of the Credit Risk Management (CRM) Department for the tenure, I had the following contributions to the company:

1. Coordinating information to the Credit Controllers (CC):

The Credit Controllers in IPDC manage the lending requests of each department and products respectively, therefore, I had to examine primary forms to find any missing data or information from the client's end. I had to check if the rate provided for the approved amount was correct or not, if the monthly EMI calculations are done accurately, calculate the DBR and LPV for the application. Look for any other existing loan applications and the credit score of the client, nominees and the personal guarantors (PGs). Then examine the purpose of the loan, if a proper background check was conducted to ensure reliability if the pictures of the mortgaged property demonstrated a proper valuation of the land and also if the disbursement conditions were modified according to the client's condition and ability. Listing down the missing and inadequate information, I would then contact the CC to provide the unavailable information and then inspect the conditions of the client all over again. If everything was adequate, the client's application would be sent further to the AGM for approval.

2. Created Client's Interview Form

For the background check, the Relationship Managers (RMs) had to visit the client's mortgage location, also the client's residence, to ensure if the property is fully/partially owned by the client; as claimed. The RM verifies the information from the client and the neighbourhood as well and also is supposed to take pictures of the mortgaged or proposed property. Therefore, I developed a questionnaire for the RMs to take an

interview with the client, to get a better understanding of the client's behaviour as well as the surrounding. The form included basic information along with a detailed list, such as:

- Where they have heard about IPDC Finance Ltd.
- How did they apply for the Loan
- Which property they are mortgaged for the Loan
- What is their Desired Rate Of Interest
- If the property is Fully/Partially Owned
- Their Credit History
- Personal Guarantor Details
- Academic Qualification
- Detailed Occupation Study
- Current Residence Status; If Owned Or Rental
- Available Asset Backup
- Existing Liability Details, etc.

In addition to these, the RM will analyse the behaviour of the client while asking the questions, if they panic in any of them, what they are offering the RM as food or refreshments, their current living condition, etc.

3. Introduced Relationship Manager (RM) Guideline:

It often occurs, that the RM misses out on important details or duties that they are supposed to collect to while communicating with a client. Therefore, I suggested providing RMs with a guideline that will have the list of documents they have to collect

from the client so that the transport cost and the hassle to communicate with the client is reduced. The documents included:

- Passport Size Picture (recent)
- E-Tin (clear photocopy)
- NID (clear photocopy)
- Bank Statement DPS Statement, Portfolio Statements; last 12months
- Utility Bill/Tax Holding Receipt (clear photocopy)
- Visiting card/Office ID card/Trade License
- Mutation and DCR, Partition deed (in case of inherited land), Possession deed (in case of possession purchased shop)
- Copy of Wage Earners Bond, Insurance Policy, Sanchay Patra, FDR (wherever applicable)
- Registered Ownership Deed of the property
- Other documents as per the source of income

4. Valuation Report Analysis for 100 recent files:

From the database system of IPDC Finance Ltd., named SHIRI, I collected past data of 100 clients to make a valuation analysis. Showing which branch generated better client service and greater revenue to the institution. This consisted of a breakdown of the client according to the Divisional Branches, Relationship Managers (RM), Profession of the client and the Credit Controllers (CC). As a result, the branch or RM that were underperforming were detected easily. The analysis report also made it easier for the Management Credit Committee (MCC) to decide on which occupation of the client would provide a steady credit score for the loan and which are likely to be Non-

Performing Loans (NPL) in the long term based on the customer behaviour. This also represented the highest paying branch and demonstrated how well performed the Branch Managers were in case of retraining the monthly instalments. Ms Nusrat who was my in-charge in IPDC Finance Ltd. helped to communicate the information directly to the RMs and once the report was completed, Mr Ashik my supervisor helped me to represent my hard work in front of the Head of the CRM Department (HoCRM).

5. Created Performance Analysis Report of CRM:

The Affordable Home Loan or “Bhalo Basha” service of IPDC Finance Ltd. was introduced in January 2020 and since then the demand for Home Loans had seen a hike despite the pandemic. As it is one of the most recent services introduced in IPDC Finance Ltd. therefore to calculate the performance of the CRM department I created a comparison analysis with the other services of IPDC Finance Ltd. such the Auto Loan, Personal Loan, etc. for the past year of its activation. The report analysed the financial statements of IPDC Finance according to the service offering. This allowed the department to see their best performing analyst based on their records of checked and approved files, their daily work speed in comparison to the other departments. This also demonstrated the entire contribution of the CRM department of Affordable Home Loans to IPDC Finance Ltd. after its activation. How the department verifies client information, ensuring accuracy over time. My analysis report was later presented to the MCC for their approval to add it to their training sessions.

6. Scrutinized unavailable documents of clients:

I always ensured the record of complete data of the clients is available to IPDC Finance Ltd., therefore regularly checked their Database System for past and existing clients missing information if the valuation reports, Duplicate Carbon Receipts (DCR) or

Know Your Customer (KYC) forms are present within the organization. If the reports were not available, I would list down the required reports and mail the Relationship Managers to send the reports if they already have them with them or talk to the client in providing the necessary documents. Then call the RMs, if they were clear regarding the information asked or not. After collection of all the reports per client, I would make sure that the database was updated with the client's information and the full set of required documents. This helped the institution to get hold of necessary documents of a client at a single platform while scrutinizing.

7. Prepared drafts for changes in current Offer Letters (OL):

Offer Letters are provided to the clients once their application has been approved. The offer letter would generally include the terms of the loan along with the approved rate and the disbursement conditions. However, the documents were corrected numerous times so that both parties conditions were met. Therefore, I introduced changes that enhanced the RMs role to communicate to the client, on behalf of the institution and make the offer letter at once which could only be generated from CRM to avoid discrepancy. Which was approved afterwards.

8. Ensuring trace of Tranche Disbursements of AHL:

Tranche disbursement is the phases of the loaned amount provided by IPDC Finance Ltd. to the client for construction or renovation or purchase, etc. and it is approved manually every time a tranche is supposed to be disbursed, depending on the fact that the client has used the previous tranche for the purpose they mentioned. I ensured track and record of the tranche disbursements, with the specifications of which phase was being disbursed, for the ease of the Management Credit Committee (MCC) to approve. This also helped the department to keep track of the weekly and monthly cash outflow

from Credit Risk Management of Affordable Home Loans to the clients. Once the tranche was approved with the given conditions from the MCC, it would be rechecked and sent to the Disbursement Department to proceed with checks to the client.

9. Maintain records of Approved, Rejected and Disbursed files:

AHL being one of the most hyped service products of IPDC Finance Ltd., the daily applications registered were high in number. With the rigorous inspection of the applications through various departments, once the application is approved by the Management Committee (MANCOM) or Management Credit Committee (MCC), the file starts processing for step by step disbursements and continuous monitoring till the end of the term.

Clients can get rejected for any other tranches if their history is not satisfactory. Therefore, I had to keep the data updated of which files have been newly approved and completely rejected, which files are going in for disbursement or tranche disbursements. The approval or rejection is provided in the central email from the Head of CRM (HoCRM). Therefore, as soon as the applications are approved or rejected or are supposed to be disbursed, I updated the records with the application data to ensure the central data is refreshed.

10. Verifying client's information from CIB and ECB:

Once a client's application is received by the CRM Department, a Credit Information Bureau (CIB) request is asked for complete verification of the client's credit history. If a client has recently availed for a loan from any other Financial Institution (FI) or Non-Banking Financial Institutions (NBFI) more than one CIB request will be shown which means that the client is going for multiple loans at the same time, as a result, will get rejected. The information provided by the client is matched with their National

Identification from the Election Commission of Bangladesh (ECB). I had to do the complete verification from the pictures to the signature to the names to ensure that the data provided by the client is correct and the CIB request is accurate too. If not, then I proceed with the application to the legal department to check through the land document and ask the RM personally about the client, if they are legitimate or not.

11. Providing weekly suggestions for improvement to the Manager:

Maintaining a journal of my activities and a to-do list for the upcoming week or month, I always kept a mandatory follow-up meeting with the CRM manager of what I learned and what according to me should be improved, both in the short term and the long term. With proper justifications and implication methods, I managed to activate my plans and suggestions with the help of my in-charge Ms Nusrat and present them to Management Committee (MANCOM) for long term implication. In case of sudden problems in the suggestions, I had to be agile in every task, as it was completely my responsibility to deal with it and further discussed with the Manager to ensure stability in the long term.

1.3.2 Benefits to the Student

Working as an intern in IPDC Finance Ltd. has helped me to learn a lot; the first job corporate job experience as a Finance and Accounting major student. Since the beginning of my undergraduate, I was used to calculations and reports only for existing situations, but the dynamic shift to the real-life scenarios occurring daily has helped me to gain first-hand experience and improve agility. If not all, but a few noteworthy benefits would be:

1. Ability to learn the Risk Management for Loan applicants:

Learning about the rigorous process of scrutinizing application files, the functions of Offer Letters, CIB requests and the process of sending them for approval. Having physical visits

to the client's property locations, to obtain profound knowledge in what should be checked in the locations and ways to verify the information provided by the client helped me to understand how IPDC Finance Ltd. functioned as a Non-Banking Financial Institution (NBFI). While studying the functions of an NBFI, I only knew what should be done, however, my internship in IPDC Finance Ltd. has helped to enrich both my knowledge and skills in the physical environment and that too in the context of Bangladesh's economy.

2. How an application is processed in an NBFI:

The application flow inside the organization; how everyone was aware of all applications coming in, has made me understand the operation flow in an NBFI. Starting from the regional outlets, then to the CCs for Credit Appraisal, to the CRM department for the 360-degree check. Physical visits then to MCC for approval and if approved, going on to disbursement. The way all departments were linked and working together for every single applicant has helped me to learn how the institution operates to create a smooth workflow. This experience has made me achieve wisdom which will perpetuate in greater significance.

3. Learning communication through the Hierarchy levels:

Throughout my learning at the university, I did understand the levels of hierarchy that has to be maintained in an organization. But, I learned ways and real implications in IPDC Finance Ltd. of the ways and norms that had to be maintained why sending in emails to different departments, the regional communication, etc. I encountered the virtual communication methods used in Corporates and also the way I should be communicating with the MANCOM and MCC. The way the employees were friendly upholding individual's respect for one another was something that I could not have learned without the on-site experience. It also taught me how the work should be communicated through the entry levels without being rude or harsh to them.

4. Experiencing Corporate Culture and Etiquettes:

My internship at IPDC Finance Ltd. helped me to experience the corporate culture closely. Despite the tedious work, the way they always balanced their surrounding environment, with inspirational quotes from legends throughout the office to tea breaks where all departments would sip into their cup of refreshments; relieving themselves for a while from the stress and head back with a fresh mind, with more energy. The way they celebrate all occasions in a lively manner, whether it be Pohela Baishakh or Pohela Falgun, Women's Day or organize quiz talent shows for the employees and even celebrate every employee's birthdays with presents and acknowledgement. This truly helped me learn how to ensure the employees are working with their whole hearts in such a large organisation. On the other hand, the way I was taught to deal with the loan applications, I learned how to represent a corporate institution to the people.

5. Discovering Divisional differences in Bangladesh”

Attending client meetings and RM discussions with my in-charge, have helped me to know the various methods of communication that should depend on person to person and also depend division-wise. Clients and RMs in Khulna had a different communication method and experience than the ones in Gazipur. IPDC Finance Ltd. taught me how respect should be provided to all categories of clients from every other region.

6. Grasping Financial work experience:

Despite the extracurricular activities and part-time job experiences, I never had experienced a full-time corporate job. But from IPDC Finance Ltd., not only I had the opportunity to refine my experience of a corporate job but got a place where I got to implement the knowledge from my courses, opening opportunities for me to learn something new every day with every application. Every day had something new in store from me and the

appreciation that I received from my department and my colleagues was commendable. The way they have taught me, I believe, will prove to outshine as something very significant as the days pass by.

7. Learned about Industry practices and the Economy of Bangladesh:

Starting from the complete verification process to the other departments and the divisional roles of individuals, the property visits, the reports and analysis has made me understand the industry practices of an NBFIs or FI. The way they process information from one end to another and lastly to the customer, which usually seems easy from the other end, involves quite a lot of people. IPDC Finance Ltd. also enriched my knowledge with the norms that need to be followed in Bangladesh's Financial Institution context. The rules, regulations and compliances they need to maintain while analysing a file, dealing with customers and operate in the territory. This helped me learn how the changes in the digits in the NID of an applicant, how it should be reformed to align with the government websites. The understanding that the NBFIs or FIs will function in compliance with the set standards by Bangladesh Bank and any change in the regulations will result in major changes for the organization will have a prolonged effect. Despite the numerous changes in the policies by Bangladesh Bank, IPDC Finance Ltd. ensured a smooth workflow which can be also seen from their response to the COVID outbreak. I retained their decision-making ability that they demonstrated within two days, as soon as the cases of COVID-19 started to rise again in April. Their responsibility towards the employees was something that I will always look up to, with mask distributions, hourly maintained sanitisation of the entire premise and roster based work.

1.3.3 Difficulties during the Internship Tenure:

IPDC Finance Ltd. has a fresh work environment and I would be honoured to rejoin them any time soon, but a few difficulties that I encountered throughout my tenure would be:

- The chaotic environment, as the entire office premise, consisted of all departments without any partitions. The environment was quite loud for deeper concentration to be made. It was also difficult for the colleagues of my department to maintain full concentration on their work with other departments being loud and vice versa.

- The way female colleagues were treated; a very common norm in Bangladesh being the inequality in the workplace. As not everyone holds the same values in them, some remain in the workplace who are not comfortable in working with female employees.

- The lack of organised files in the database. Whenever a file or report has to be looked for, I had to go through several databases, RMs and email, which eventually was very time-consuming.

However, with my department and the way they taught me everything, these inconveniences seem minor, as they were so helpful and friendly towards me, always looking after me and my wellbeing in the workplace.

1.3.4 Recommendations for Future Internship Offerings

IPDC Finance Ltd. already being the leading employers and Financial Institutions in Bangladesh has hardly the scope for improvement. However, a few suggestions that might help them in case of future interns would be:

1. Provide a Virtual Recruitment Process and Orientation:

I interviewed in IPDC Finance Ltd. in January 2021 when the COVID outbreak was at ease. However, candidates in this situation would have been more comfortable if the interview was taken online and if they could provide a transparent recruitment process so that the candidate would be assured if they are still being considered or not. Once selected, hosting an orientation, for the interns, to know their colleagues better and start their job with a sense of motivation and belongingness.

2. Create Partitions and Adding more Office Space:

Dividing the departments with partitions will help to enhance the concentration of the employees to their work and be subject to less chaos. IPDC Finance Ltd. can extend their office space to another floor to get more moving space and maintain their employee's focus with better deadlines being met sooner.

3. Central Database:

To store all records of the organization as well as the client's information; both past and current, so that they can be retrieved any time by the employees for recheck or comparison. Compiling them in order, in a single location, making it less time consuming and more efficient.

Chapter 2

Organization Part: Overview, Operations and a Strategic Audit

2.1 Introduction

2.1.1 Objective

The sole objective of this chapter is the strategic audit of IPDC Finance Ltd., to provide an overview of the organization from a detailed perspective and their working methods, differences in their departmental practices and norms. This will demonstrate the organisation to provide a markable perspective.

2.1.2 Methodology

The audit conducted is based on available literature; primary data and secondary data, collected from authentic sources to conduct the strategic audit on IPDC Finance Ltd.

- The Primary Data:

The enquiries and questions I had regarding the institution, their practices, rules and regulations were addressed and is collected from employees from various departments, MCC, MANCOM and stakeholders at IPDC Finance Ltd. for my strategic audit.

- The Secondary Data:

The official website is the basic source of the secondary data for conducting my audit on IPDC Finance Ltd. along with that, I have utilised their financial statements for the past two years; 2019 and 2020.

2.1.3 Scope

The period of the analysis was of three months; my internship tenure. Where I communicated through various departments of the institution along with the division managers and heads to get a better understanding of the norms and practices. I went on to property visits and to the other departments to communicate with the employees, top management and clients, for collecting data required for the strategic audit and kept record based on our verbal communication.

2.1.4 Limitations

The obstacles I faced while acquiring information from my colleagues and clients was the confidentiality policies of IPDC Finance Ltd. As I was not allowed to get hold of any official papers of the clients or the PPG of the products service and as an Intern, I was not allowed to the confidential discussions between the MCC or MANCOM with the departments.

2.1.5 Significance

This report will provide the overall knowledge of the institution, IPDC Finance Ltd. being one of the leading NBFIs in Bangladesh, with a divine drive towards growth and remodelling. The provided strategic audit is an effort to demonstrate the institution's business structure and what makes them one of the leading NBFIs brand with such growth and success. With the strategic audit, the report will position the company's practices and will provide a detailed understanding of my topic.

2.2 Overview of the Company

2.2.1 IPDC Finance Ltd. – Initiation

IPDC Finance Ltd., previously known as the “Industrial Promotion and Developments Company of Bangladesh” commenced its journey in 1981 as the first private-sector financial institution of Bangladesh. Significant people were included as the founding stakeholders, such as International Finance Corporation (IFC), German Investment and Development Company (DEG), The Aga Khan Foundation for Economic Development (AKFED), Commonwealth Development Corporation (CDC) and the Government of Bangladesh. With currently 12 branches nationwide, a total of 843 employees and a loan portfolio of BDT 57.6 billion against a deposit portfolio of BDT 50.4 billion. Demonstrating significant growth with the partnered projects in various industries in Bangladesh, such as IDLC Finance Ltd., Westin Hotels & Resorts, Apollo Hospitals, etc. [1]

2.2.2 IPDC Finance Ltd. – Core Values, Mission & Vision

IPDC Finance Ltd. has reformed its Mission, Vision and Core Values to ensure that they are on track to bring in growth and innovation, transforming the financial institution of Bangladesh for international competitiveness. [2]

2.2.2.1 Core Values

The Core values of IPDC Finance Ltd. include:

1. “Embracing Customer’s Passions”
2. “Accepting No Limits”
3. “Relentless Pursuit for Innovations”

These represent their motive to provide an extraordinary experience to their customers, ensuring that their business conduct is always integrated to position in the market nationwide,

with enhancing diversity at workplace and for customers as well. Promoting teamwork at the workplace with no set boundaries in using technology to deliver the best to the customers to enrich the community with standard Corporate Citizenship. [2]

2.2.2.2 Mission

“To enable our customers and communities to rise unbound, to live up to their fullest potential by extending innovative financial solutions in a friendly, timely, transparent and cost-effective manner.” [2] IPDC Finance Ltd. believes in transparency with its customers and helping them to all extents, bringing in innovative offers and products that ease the burden.

2.2.2.3 Vision

“To become the most passionate financial brand in the country with special focus on youth, women and underserved areas.” [2] Showing how they are ready to embrace changes and innovation with youth empowerment and creating workplace equality for female employees, in hands with the rural areas.

2.2.3 IPDC Finance Ltd. – Market Offerings

IPDC Finance Ltd. has set its business model in such a manner that the product range has been strategically divided into three units; Retail, SME and Corporate, according to two prime divisions; Deposit Products and Loan Products and are offered nationwide.

2.2.3.1 Deposit Products:

- a. Deposit Schemes: [3]
 - i. Annual Profit Scheme (APS): Where at least BDT 10,000 must be deposited to receive interest annually.

- ii. Fixed Deposit General (FDR GEN): Where at least BDT 10,000 must be deposited with at least 3 months' time period (to maturity) to receive interest at maturity.
- iii. Cumulative Profit Scheme (CPS): Where at least BDT 10,000 must be deposited to receive interest at maturity.
- iv. Monthly Profit Scheme (MPS): Where at least BDT 50,000 must be deposited with at least 3 months' time period to receive monthly interest.
- v. Quarterly Profit Scheme (QPS): Where at least BDT 50,000 must be deposited with at least 1 year time period to receive quarterly interest.
- vi. Double Money Deposit Scheme (DMDS): Where at least BDT 50,000 must be deposited, which is doubled after a specific time.

b. Savings Schemes: [4]

- i. Deposit Premium Scheme (DPS): Monthly fixed deposits till maturity, with a deposit of at least BDT 1,000 and minimum tenure of 2 years, the sum of interest paid at maturity.
- ii. Millionaire Deposit Scheme (MDS): Minimum initial deposit of BDT 50,000 and flexible fixed deposits till maturity, minimum tenure of 2 years & 9 months, the sum of interest paid at maturity.
- iii. Ultiflex Deposit Scheme (UDS): Flexible deposits at any time of any amount, with a deposit of at least BDT 5,000 and minimum tenure of 2 years, the sum of interest paid at maturity plus easy withdrawal, providing 25% of the initial deposit (within the tenure).

2.2.3.2 Loan Products:

- a. Retail Products: [5]
 - i. Personal Loan: Providing loan up to BDT 2,000,000 with repayment at 6 months to 5 years.
 - ii. Auto Loan: Any amount; backed by income from 60 months to 72 months with 100% coverage
 - iii. Home Loan: Any amount; backed by income up to 25 years with 85% of the property value.

- b. SME Products: [6]
 - i. Lease Finance: For small/medium businesses to acquire fixed assets with tenure from 12 months to 60 months.
 - ii. Long Term Finance: For small/medium businesses to meet capital/fixed expenditure with tenure from 24 months to 60 months.
 - iii. Short Term Finance: For small/medium businesses to meet urgent fund needs, with a tenure of a maximum of 12 months.
 - iv. Joyee: For women entrepreneurs with tenure from 24 months to 60 months.

- c. Corporate Products: [7]
 - i. Lease Finance: For businesses to acquire fixed assets with tenure from 1 year to 5 years.
 - ii. Term Loan: For long term business purpose with tenure from 1 year to 5 years.

- iii. Project Financing: Large scale investments from fundraising, tenure is flexible to the project.
- iv. Short Term Financing: For large scale businesses, with a tenure of a maximum of 12 months
- v. Preference Share Investments: Purchases preferred shares for clients, repaid from dividends.
- vi. Factoring: Provides advanced cash against pending invoices, interest charged daily.
- vii. Work Order Financing: Funds provided against Work Orders, almost 70% of the total operation.

2.2.4 IPDC Finance Ltd. – Strategic Target

To maintain and grow its market position, IPDC Finance Ltd. outgrows in the following methods to achieve its strategic targets:

- **Empowering Small/Medium Business**, to motivate entrepreneurs
- **Creating Belongingness among Employees**, to encourage company growth and enhance performance
- **Promoting Women Entrepreneurs**; through their flexible schemes to strengthen women-led businesses
- **Products for the Mass**; introducing loans and schemes for the wider audience range to build their dreams to reality, throughout the country

2.3 Management Practices

IPDC Finance Ltd. prefers to label its employees as their capital infrastructure, motivating them to surpass their competencies and achieve innovation and efficiency to reach targets.

They set interactive session, training camps, maintain occupational health and safety, etc. to ensure that their Human Capital has a direct contribution to their turnover.

2.3.1 Organogram – IPDC Finance Ltd.

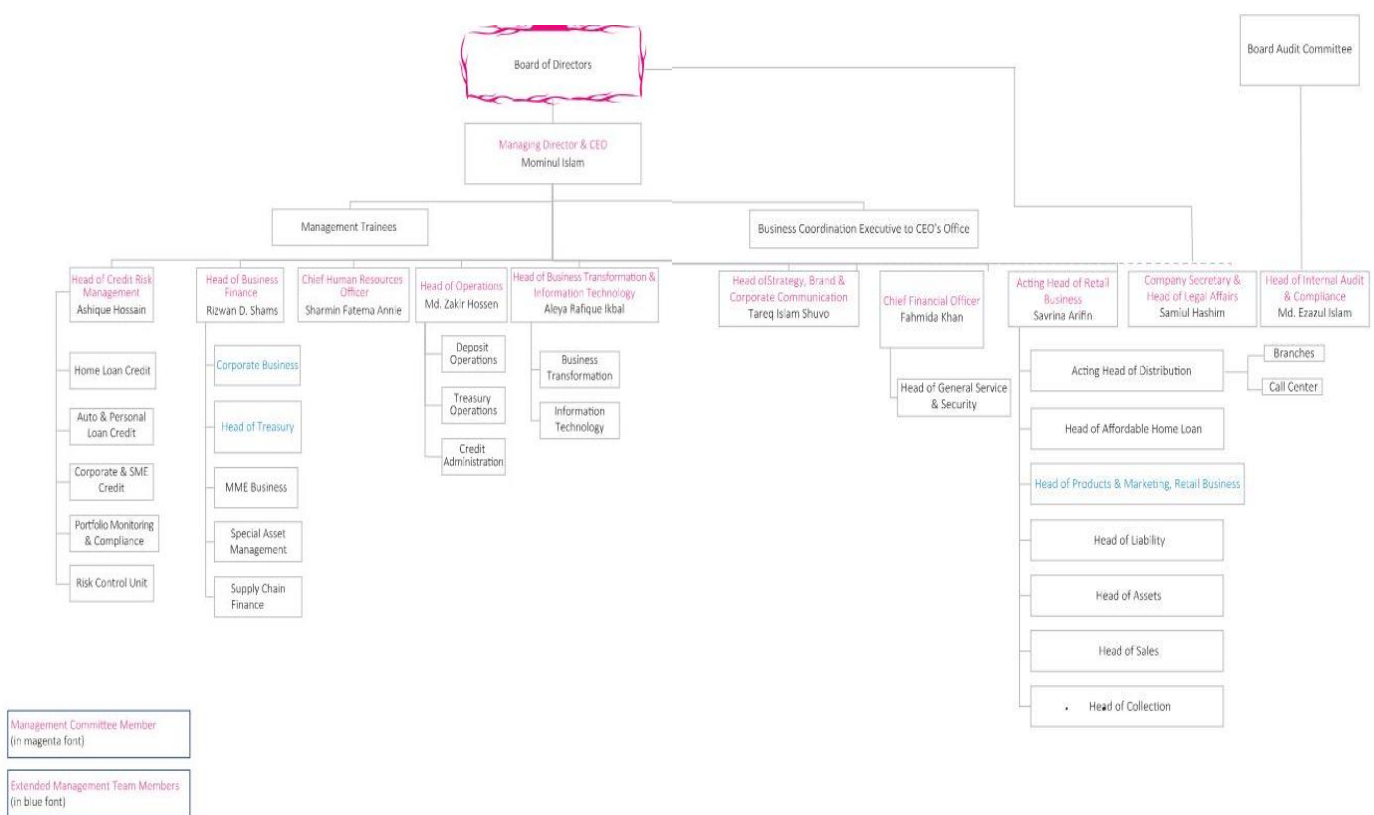


Figure 1 Organogram of IPDC Finance Ltd. 2020

Retrieved from: Annual Report of IPDC Finance Ltd. as of 2020

2.3.2 The Decision Makers

The board and committees formed by IPDC Finance Ltd. are given below, they work in sheer tenacity to achieve the Vision: [8]

- **Management Committee (MANCOM):** The top of the hierarchy level with the Chairman, CEO and Managing Director, Independent Directors, Nominated Directors and other Departmental Heads of IPDC Finance Ltd.
- **Risk Management Forum:** consists of the CRO and a team formed from the risk managers of IPDC Finance Ltd.
- **IT Steering Committee:** consists of the CEO, CFO and other strategic Heads of the Departments formulating IT strategies.
- **Sustainable Finance Committee:** formed with the Head of all Departments to ensure that the strategies are aligned with their value of sustainability.
- **Asset-Liability Committee (ALCO):** includes the CEO, CFO, HoCRM and other department heads connected to Finance and Treasury to deal with the assets and liabilities of IPDC Finance Ltd.
- **National Integrity Strategy Committee:** consisting of departmental heads of mostly HR and Internal Audit and Compliance along with retail and Finance to ensure that the company is abiding by the Bangladesh Bank policies, maintaining transparency among the employees and customers.
- **Management Credit Committee (MCC):** this committee approves the credit assessments and approved files, consisting of the CEO, CFO, HoCRM, HoTreasury, etc.

- **Policy Review Task Force (PRTF):** formed with the CEO, CFO, Head of Internal Audit and Compliance and Company Secretary and Head of Legal Affairs.

2.3.3 HR Strategies, Approaches, Results and Rewards

The Human Resource Management department has its unique way of maintaining employees equity. It implies various strategies for their employees for which the results and achievements throughout the year are quite evident. The strategies that they maintain for the enriched employee performance are: [9]

1. Creating a diversified and vibrant workplace to keep the employees creative
2. A complete technology-driven set-up for the convenience of the employees and enhance efficiency.
3. Provide inbound learning Opportunities for the employees through training and workshops
4. Targetting performance-based career growth, so that employees are keen to work
5. Competitive compensation and rewarding system for the employees to ensure they are innovative with their ideas
6. Empowering women through equal opportunity being provided to all genders.

Approaches: [9]

- Improving employee diversity to foster innovations and creativity
- Nurture a culture of continuous learning through job rotation and training
- Instil organizational values through teambuilding
- Focus on talent sourcing and succession planning to ensure sustainability

Results: the innovative and upgraded strategic approach towards the employees has helped IPDC Finance Ltd. to maintain a low employee turnover as it retains most of its employees for years to nurture.

Rewards: This consistency has made employees of IPDC Finance Ltd. do wonder at their jobs and to ensure that they are always motivated to work the following compensation and awards are provided: [10]

- Chairman's Award
- Achievement Award
- Excellence Award
- Long Term Incentive Award
- Performance Bonus
- Integrity and Honesty Award
- High Performer's Club
- Champion of Innovation Award

2.4 Marketing Practices

The Magenta colour in IPDC Finance Ltd. symbolises the vibrance the organization possesses. They present differentiated offerings to the market to ensure healthy competition in Bangladesh, with a marketing team always working to increase the market penetration and as a result the current market share of their products nationally. IPDC Finance Ltd. believes that their customization of the products according to the needs of the customers is one of the main drives to their sustainability.

2.4.1 To Optimise Strategies:

IPDC Finance Ltd. entails the following marketing methods to ensure their positioning: [11]

- Attract and retain skilled individuals, that would add value to the innovation and creativity of the organization
- Focus on low cost-high yield channels for market communication
- Creating a customer-centric business solution to create a better customer relationship management system with business intelligence
- To promote strategic products such as the Affordable Home Loans, Supply Chain Finance and Consumer White Good Finance, flagship events are organised at regular intervals for enriching the products and brand awareness

2.4.2 Results, Achievements and Outreach:

2.4.2.1 Results:

Throughout the past years, with the outstanding performance, IPDC Finance Ltd. has bagged in quite a few awards in its portfolio showing its market presence. This also demonstrates how its campaigns and products have made a substantial position in the market as well as to its customers.

2.4.2.2 Achievements:

The following are the awards secured in 2020: [11]

- Superbrand 2020
- Best Financial Institution Award 2020
- AAA Credit Rating
- Bangladesh Supply Chain Excellence Awards 2020
- Outstanding Development Project Award 2020 by ADFIAP
- ICAB & SAFA for Best Published Annual Report Award 2019
- ICSB for Corporate Governance Excellence 2019

2.4.2.3 Outreach:

In the year 2020, despite the COVID-19 outbreak, IPDC Finance Ltd. has outgrown within its capabilities and that is evident from both the digital presence and public presence is shown in the tables below:

Table 1 Digital Presence of IPDC Finance Ltd. 2020

Particulars	Number
Official Page Followers	356,540
Engagement	35,161,897
Reach	29,272,806
Impression	129,180,878

Source: Annual Report 2020 IPDC Finance Ltd.

Table 2 Public Presence of IPDC Finance Ltd. 2020

Particulars	Number
Press Release	42
Feature Articles	5
Interview	1
Press Conference Arrangements	2
Media Visits	3
Events	7 Signature events
PR Value	274,616,000
Interview	129,180,878

Source: Annual Report 2020 IPDC Finance Ltd.

2.5 Financial Performance and Accounting Practices

2.5.1 Financial Performance

The financial statements being audited by the Chartered Accountants of KPMG Bangladesh to ensure transparency to the stakeholders worldwide. The statements were prepared in compliance with the IFRS compliance and regulations. The tables provided demonstrate their financial performance for two years; 2020 and 2019. [12]

2.5.1.1 Balance Sheet as at 2020

Table 3 Balance Sheet as at 31st December, 2020

		2020	2019
Property and assets			
Cash	5		
In hand (including foreign currencies)		420,000	395,000
Balance with Bangladesh Bank and its agent bank(s) (including foreign currencies)		615,138,625	901,983,717
		615,558,625	902,378,717
Balance with other banks and financial institutions	6		
Inside Bangladesh		14,057,966,405	8,874,989,218
Outside Bangladesh		-	-
		14,057,966,405	8,874,989,218
Money at call and short notice		-	-
Investments	7		
Government securities		3,471,349,057	-
Other investments		1,672,220,523	1,570,822,111
		5,143,569,580	1,570,822,111
Loans, advances and leases	8		
Loans, cash credits, overdrafts etc.		53,609,693,044	50,725,778,746
Bills purchased and discounted		-	-
		53,609,693,044	50,725,778,746
Fixed assets including land, building, furniture and fixture	9	776,576,142	787,574,658
Other assets	10	1,762,316,958	1,536,803,435
Non banking assets	11	3,752,405	3,752,405
Total assets		75,969,433,159	64,402,099,290
Liabilities and capital			
Liabilities			
Borrowings from other banks, financial institutions and agents	12	10,946,478,220	7,037,982,481
Deposits and other accounts	13		
Current accounts and other accounts		-	-
Bills payable		-	-
Savings deposits		-	-
Term deposits		52,456,341,963	46,361,357,299
Bearer certificate of deposits		-	-
Other deposits		-	-
		52,456,341,963	46,361,357,299
Other liabilities	14	6,503,180,913	5,426,777,837
Total liabilities		69,906,001,096	58,826,117,617
Shareholders' equity			
Paid up capital	15	3,710,915,470	3,534,205,210
Share premium	16	402,627,680	402,627,680
Statutory reserve	17	804,068,582	662,955,660
Revaluation reserve on govt. securities		134,654,817	-
Assets revaluation reserve	18	307,432,179	309,129,013
Retained earnings	19	703,733,335	667,064,110
Total shareholders' equity		6,063,432,063	5,575,961,673
Total liabilities and shareholders' equity		75,969,433,159	64,402,099,290
Net Asset Value (NAV) per Share	43	16.34	15.03

Source: Annual Report 2020 of IPDC Finance Ltd.

2.5.1.2 Income Statement as at 2020

Table 4 Income Statement as at 31st December, 2020

Particulars	Note	2020	2019
		Taka	Taka
Interest income	22	6,902,297,687	6,715,949,423
Less: Interest paid on deposits and borrowings, etc.	23	4,885,297,253	4,773,189,684
Net interest income		2,017,000,434	1,942,759,739
Investment income	24	638,727,866	115,160,975
Commission, exchange and brokerage	25	108,377,072	78,227,182
Other operating income	26	65,689,929	29,550,807
Total operating income		2,829,795,301	2,165,698,703
Salary and allowances	28	679,085,443	552,779,741
Rent, taxes, insurance, electricity, etc.	29	25,607,916	24,291,154
Legal expenses	30	36,685,799	49,552,789
Postage, stamp, telecommunications, etc.	31	11,554,138	9,558,394
Stationery, printing, advertisements, etc.	32	102,726,750	120,504,963
Managing director's salary and allowances	33	13,695,000	13,695,000
Directors' fees	34	1,689,326	996,884
Auditors' fees	35	805,000	923,340
Charges on loan loss		-	-
Depreciation and repair of assets	36	165,593,369	120,189,972
Other expenses	37	112,768,275	88,822,928
Total operating expenses		1,150,211,016	981,315,165
Profit before provision		1,679,584,285	1,184,383,538
Provision for loans and advances	38	478,139,603	152,138,776
Provision/(reversal) for diminution in value of investments	39	23,394	10,126,672
Other provisions		-	28,500,000
Total provision		478,162,997	190,765,448
Profit before tax		1,201,421,288	993,618,090
Provision for taxation			
Current tax expense	14.4	500,253,085	431,255,239
Deferred tax expense/ (income)	40	(4,396,408)	(108,904)
		495,856,677	431,146,335
Net profit after tax		705,564,611	562,471,755
Appropriations			
Statutory reserve	17	141,112,922	112,494,351
General reserve		-	-
Proposed dividend		-	-
		141,112,922	112,494,351
Retained surplus		564,451,689	449,977,404
Earnings per share (EPS)	41	1.90	1.72

Source: Annual Report 2020 of IPDC Finance Ltd.

2.5.1.3 Budgeted for 2020

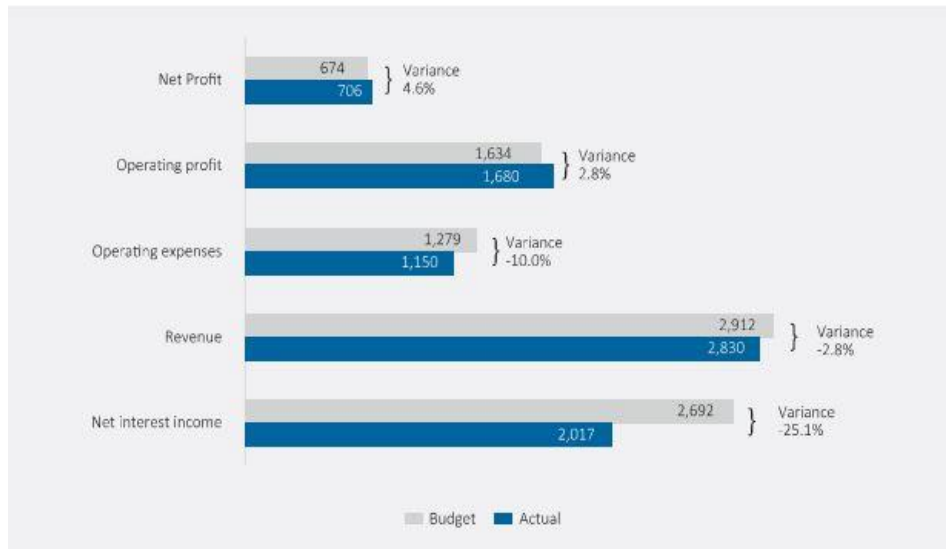


Figure 2 Budget and Actual comparison for 2020

Source: Annual Report 2020 of IPDC Finance Ltd.

2.5.2 Accounting Practices

2.5.2.1 Practices by IPDC Finance Ltd.

The External Auditor, KPMG Bangladesh along with the Internal Audit Committee of IPDC Finance Ltd. complies with the regulation from Bangladesh Bank and the Government of Bangladesh while preparing the Financial Reports and is prepared at the year-end being 31st December of the specific year. The Internal Audit Committee of IPDC Finance Ltd. also closely works with the Risk Management Committee and the National Integrity Strategy Committee to control risks in a financial volatile market. The company also provides a detailed list and explanation of the compliances followed by them and that is issued by Bangladesh Bank and the Government of Bangladesh, in its reports.

2.5.2.2 Accolades for Accounting Practices

For the Accounting practices that IPDC Finance Ltd. has been following, it has received numerous appreciations from the nation and worldwide. The ones achieved recently for their practices are: [11]

- ICAB for Best Published Annual Report Award 2019
- SAFA for Best Published Annual Report Award 2019

2.6 Operations Management and Information System Practices

2.6.1 Operations Infrastructure:

IPDC Finance Ltd. operates in 12 different branches in Bangladesh with 9 till 2020, though the company has not expanded in the number of branches in 2020, but aims to grasp in more areas of Bangladesh. In the longer term, it aims to reduce the turn-around time by eliminating redundant processes and documentations to increase operational efficiency. [13]

2.6.2 Manufacturing Capital Optimization:

Expanding beyond the megacities, to ensure that minimal resource is being used and maximize operational efficiency is achieved, the manufacturing capital plays a huge role, as it aims: [13]

- To enhance presence in key strategic areas of Bangladesh
- To optimize processes with a strong infrastructure
- To allocate the limited resources of the company in such projects that help them to achieve their strategic objective
- To de-centralise the process, so that the turn-around time is reduced and more efficient

2.6.3 Achievements in Capital:

The year 2020 had a volatile effect on the financial market, therefore, tactically investing in the IT infrastructure of IPDC Finance Ltd. has dissolved several redundant processes and has enhanced efficiency eventually. The several achievements in 2020 are: [14]

- Operating in 12 branches in 9 districts nationwide
- Decreased expenditure from BDT 250 million to BDT 46 million
- Fixed assets reached BDT 653 million
- Developed CRM-LOS named SHIRI for loan orientation system

2.7 Industry and Competitive Analysis

With the complete industry analysis of Financial Institutions, I have also highlighted the prime peers of the industry such as IDLC Finance Ltd, Lanka Bangla Finance Ltd, DBH and United Finance. To get a better understanding of IPDC Finance Ltd.'s current market position, I have analyzed the data of 2020 of the industry and the peers, examining the Operating Profit, ROA, ROE, Key Investor Ratio and its competitiveness with Porter's Five Forces and SWOT analysis.

2.7.1 Operating Profit

Operating Profit enables investors to see the flexibility of a company, how well they have been managing their costs and allocating their resources efficiently. It also provides a better comparison of the competitor's financial positioning. The basic formula to calculate the Operating Profit would be, $\text{Operating Profit} = \text{Net Profit} + \text{Interest Expenses} + \text{Taxes}$. [15]

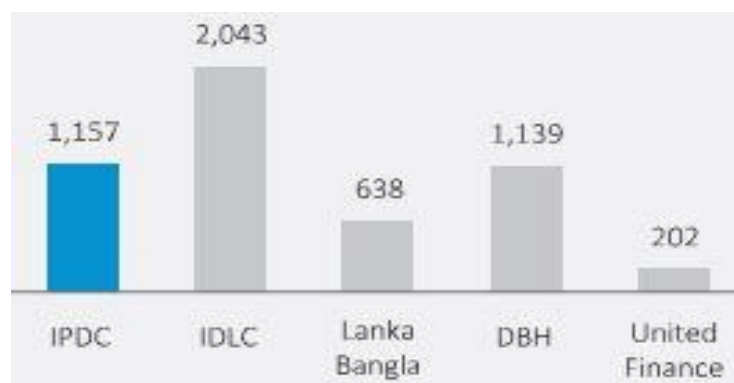


Figure 3 Operating Profit Comparison for the year 2020

Source: Annual Report 2020 of IPDC Finance Ltd.

Though the Operating Profit in Figure 3 is less than that of IDLC Finance Ltd., it is higher than the other competitors of the industry and being at the growing stage with products of such customization makes them incur greater costs. [16]

2.7.2 Return on Equity (ROE) & Return on Assets (ROA):

Return on Equity demonstrates the returns a company achieves based on the common stockholders of the company. The higher the return shows a superior position of the company to the stakeholders while comparing with the industry. ROE is calculated with the formula; $ROE = \text{Earnings Available for Common Shareholders} / \text{Common Stock Equity}$.

Return on Assets represents the return of the company based on their assets available, shown to the stakeholders to highlight the company's stability. The higher the return the stronger the company is in terms of its assets. ROA is also known as Return on Investment (ROI) and is calculated with the formula; $ROA = \text{Earnings Available for Common Shareholders} / \text{Total Assets}$.

Table 5 IPDC Finance Ltd.'s ROA & ROE from the years 2016-2020

Particulars	2016	2017	2018	2019	2020
ROA	2.0%	1.1%	1.0%	1.0%	1.0%
ROE	11.5%	11.4%	13.1%	12.1%	12.1%

Source: Annual Report 2020 of IPDC Finance Ltd.

Table 5 shows the individual ROA & ROE of IPDC Finance Ltd. from 2016 to 2020, the decrease in ROA is due to the increase in cash inflow over the years and the ROE increased to the overall increase in Earnings Available for Common Shareholders. [16]



Figure 4 Comparison of ROA & ROE for the year 2019 and 2020

Source: Annual Report 2020 of IPDC Finance Ltd.

Figure 4 above shows the ROA and ROE of IPDC Finance Ltd. and the industry. The reduction in IPDC's ROA and ROE is because of the inflow of deposits and common stockholders, however, the industry's ROA and ROE increased as the classification rules were relaxed. [16]

2.7.3 Peer Performance Comparison

The peers IDLC Finance Ltd, Lanka Bangla Finance Ltd, DBH and United Finance are selected based on their market position, the similarity of business operation; NBFI, profitability and business context to Bangladesh.

Table 6 Comparative Analysis of Peer Companies for the year 2020

Particulars	IPDC	IDLC	Lanka Bangla	DBH	United Finance
Loans and Advances	51,056	85,606	54,032	42,633	14,812
Growth (YTD)	0.7%	-6.4%	-10.9%	-4.2%	-1.2%
Deposit	50,991	81,479	44,381	45,646	12,538
Growth (YTD)	10.0%	2.5%	-5.4%	5.1%	1.6%
Revenue	1,987	3,517	1,823	1,528	652
Growth (YoY)	29.1%	3.0%	-26.7%	4.6%	-19.9%
Operating Profit	1,157	2,043	638	1,139	202
Growth (YoY)	37.5%	5.4%	-44.1%	7.6%	-43.4%
Net Profit	503	1,515	460	548	94
Growth (YoY)	13.4%	27.9%	1.8%	-33.2%	-45.7%
Net Cash Inflow	1,615	9,303	1,066	1,404	(886)

Source: Annual Report 2020 of IPDC Finance Ltd.

Table 6 shows the second-highest Cash Inflow and Operating Profit shows the stability in business operations and the steady growth for IPDC Finance Ltd. [16]

2.7.4 Key Investor's Ratio for IPDC Finance Ltd.

Figure 5 below shows the important ratios needed for the stakeholders while concluding, the values are shown below portray a stable position of IPDC Finance Ltd. in the year 2020, despite the COVID – 19 outbreak. [17]



Figure 5 Key Investor's Ratio for IPDC Finance Ltd. for the year 2020

Source: Annual Report 2020 of IPDC Finance Ltd.

2.7.5 Porter's Five Forces for IPDC Finance Ltd.

The Financial Institution sector of Bangladesh is packed with 34 Non-Banking Financial Institutions (NBFIs) and 59 banks, with severe competitiveness and all of them experiencing simultaneous growth. Amidst this back pull situation, IPDC Finance Ltd. has focused on strategizing its moves. Figure 6 shows Porter's Five Forces for IPDC finance Ltd. for the year 2020, implicating their priorities for the year. The threat from the substitutes remains low due to their partnership with the prime rival institutions. [18]

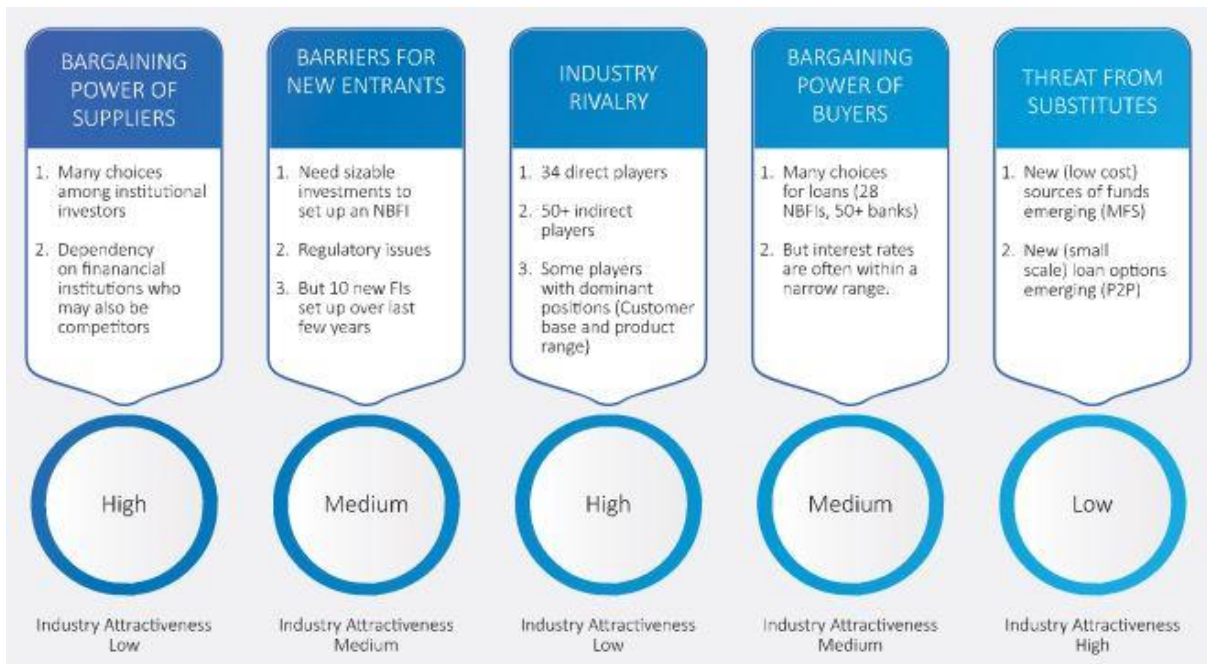


Figure 6 Porter's Five Forces for IPDC Finance Ltd. for the year 2020

Source: Annual Report 2020 of IPDC Finance Ltd.

2.7.6 SWOT for IPDC Finance Ltd.

SWOT Analysis shows the Strengths, Weaknesses, Opportunities and Threats for an organization, with the help of this, IPDC Finance Ltd. will be able to develop an awareness of which factors need attention while decision-making is done for a short period. It will help them to exercise the opportunities they have available being aware of the threats internally and externally also keeping its internal weaknesses in mind. Figure 7 below shows the SWOT analysis for IPDC Finance Ltd. for the year 2020. [18]

SWOT ANALYSIS		STRENGTH	WEAKNESS
			<ol style="list-style-type: none"> 1. Unique Shareholding structure 2. Relationship with corporate houses 3. Risk management framework
OPPORTUNITIES	<ol style="list-style-type: none"> 1. Regulatory advantage in retail lending 2. Emergence of middle income class 3. Growing women entrepreneurs 4. Collaboration with BRAC 5. Growing services sector 6. Young people coming into workforce 7. Increasing mobile and internet penetration 	<ol style="list-style-type: none"> 1. Leverage corporate relationship for retail lending and supply chain finance 2. Launched women focused products and services 3. Use shareholder strengths for low cost multisource funds 	<ol style="list-style-type: none"> 6. Build HR and IT capacity for retail and supply chain finance 7. Build strategic alliance with stakeholders for incubation of sales and distribution points 8. Build brand in retail segment
THREATS	<ol style="list-style-type: none"> 1. Competition from banks in corporate lending 2. Regulatory restriction on low cost deposit 3. Portfolio infection 4. Limited product 	<ol style="list-style-type: none"> 4. Customize risk management framework for retail and factoring finance 5. Bring in IT enabled products and services 	<ol style="list-style-type: none"> 9. Build strong collection management system for retail lending 10. Optimize ticket size of SME finance
Strategic Response			

Figure 7 SWOT Analysis of IPDC Finance Ltd. for the year 2020

Source: Annual Report 2020 of IPDC Finance Ltd.

2.8 Summary and Conclusion

2.8.1 Summary

Chapter Two shows the complete picture of the company and its journey, moving ahead with innovation and creativity to ensure that they are abiding by its vision, mission and core values. The way IPDC Finance Ltd. has grown since 1981, truly communicates their growth, their objective and strategies being one of its kind; designed to adapt to any challenge that comes in their way. The placement and direction that the departments have coherent to their personal goals as well, help them to grow with significance to IPDC Finance Ltd.'s business model.

2.8.2 Conclusion

In my opinion, financial institutions, opting to start or grow their ventures in Bangladesh have a lot to accommodate from IPDC Finance Ltd. From their strategies to capture the market, fill in the income inequality with their innovative and feasible product offerings, maintaining ethical practices despite the difficult outbreak, motivating their employees and keeping them engaged to a personal level with the organization makes it more superior to me in terms of their values. The way the company has self-driven in the outbreak in 2020, shows its dedication to work for the people of Bangladesh and help in remodelling the infrastructure to the utmost effort. Even when the finances did not represent their target position, they ensured that their customers are content with their offerings. In the competitive environment of Bangladesh, IPDC Finance Ltd. has partnered with the direct competitor; IDLC Finance Ltd. to ensure that the customers are receiving the best of both rather than being exploited with price wars.

Therefore, I believe that IPDC Finance Ltd. stands as a true inspiration to any other company whether it is in the same industry or not. This development will only enhance the economy of Bangladesh, no matter what comes in the way.

2.9 Recommendations

After conducting the detailed strategic analysis, IPDC Finance Ltd. has proven its position as one of the top NBFIs of Bangladesh, nevertheless, the few suggestions, according to me that might take them to the top would be:

- **Decentralisation** of their branches nationwide, all applicant files are sent into the Head Office in Dhaka, brought in by the RMs. Empowering each branch, to do their risk management analysis, would provide efficiency and reduce the need for paperwork and travelling costs. This will reduce the turn-around-time and the processing time as well; making disbursements easier
- **Central Database Storage**, currently they use SHIRI to provide Offer Letter, DOCUDEX for their file storage, and a careers website for their employees, as a result, makes it more time consuming and costly. Generating a central storage and recording system will help them to reduce the hassle for the employees as everything will be available at a single website.
- **Reaching out to other age groups**, as before joining IPDC Finance Ltd., I was not aware of what the company has to offer or how competent it is as an NBF. Most Non-Finance student hardly knows what an NBF does for the people or the economy; as they are more familiar with the Banks. Therefore, creating a platform where IPDC Finance Ltd. would directly interact with them will help the company to increase word-of-mouth too. In the longer term, grasping potential customers.

Chapter 3

Project Part: Role of Credit Risk Management for Affordable Home Loans in IPDC Finance Ltd.

3.1 Introduction

3.1.1 Background

3.1.1.1 Overview on Credit Risk Management (CRM)

The role of CRM is immense while assessing for risk factors. They are the crucial decision-makers if the customer's application should be processed or not. The analysts calculate the chances of the customers becoming Non-Performing Loans (NPL); not able to repay. In such cases, the cost of debt for the company increases, leading to an increase of the liability as unrecoverable. The customer's that is the borrower's ability to repay is assessed based on their backgrounds; their credit history, existing capital resources, source of income, accruals, any collateral and the conditions placed. With the rise in innovation in FinTech, companies are emphasizing building a superior CRM team to reduce chances of getting NPL. Different financial institutions apply various CRM techniques to get the optimum output. [19]

3.1.1.2 Credit Risk Management (CRM) of IPDC Finance Ltd.

The CRM Department in IPDC Finance Ltd. consists of 6 members as analysts and credit controllers (CC) and the institution abides by the CRM model of Know Your Customers (KYC). KYC enables the customer to closely bond with the organization as they can have one-to-one communication with the individuals at the organization. As a result, the reliability of the organization to its customers is enhanced with transparency. Data collection is easier and accurate as they are provided by the customers themselves, enriching their database for other

future referrals. The bond created over the loaned tenure, create a sense of loyalty towards IPDC Finance Ltd. which ensures that this is the best choice as a lender. IPDC Finance Ltd. introduced SHIRI, their CRM-LOS, managing their system dealings of providing offer letter, CIB requests, showing a compiled version of work for the CRM department. The CRM team is led by two individuals as the Head of CRM (HoCRM), who approve of every new policy or every applicant file that is registered after the adequate screening.

3.1.1.3 Key Objective of Credit Risk Management in IPDC Finance Ltd.

IPDC Finance Ltd. maintains a few objectives to ensure efficiency in managing credit risk, such as:

- Approving good borrowers
- Robust credit assessment
- Diversifying their credit portfolio for reduced risk
- Strong monitoring of the borrower and risk
- Separate recovery team for NPLs
- Small concentration to each borrower

3.1.1.4 AHL and Products Key Features

Affordable Home Loans, also known as “Bhalo Basha” was introduced by IPDC Finance Ltd. in 2019, which is aimed toward the low-middle income individuals, who, with a substantial income range dream of building their own homes. However, being a pioneering concept, this is also provided for commercial purposes. Given to individuals with a minimum of BDT (if Salaried 40,000, if Government Service: 25,000, if Self Employed 50,000 and if Landlord: 40,000). [5] The products envision a goal of providing homes to every family by going beyond the megacities. The product had already reached a customer base of 1000 people by the mid-

2020s across Bangladesh in 54 districts. they maintain their consistency from their service centres provided locally across the districts and collaborating with the other industries to provide construction assistance.

The key features are: [20]

- Leading in terms of Turn Around Time (TAT) of the industry
- Extended Customer Assistance
- Divine support from Dhaka and Chittagong metropolitan
- Coverage of Nationwide network
- Designed for the Low-Middle Incomed
- Flexible and Efficient process and delivery
- Maximum tenure up to 25 years
- No limitation on loan amount
- Interest and Cost of Borrowing varies on the capability of the customer
- Customizable loan conditions
- Disbursement within 15 working days
- Need for collateral

3.1.1.5 Limitations of the Analysis

A quarter of the study had to be completed online due to the outbreak of COVID-19 and therefore access to physical documents were not possible, the data and analysis shown are completely based on collected emails, documents and websites.

3.1.2 Objectives

The objective of the analysis and study is to get a **better understanding** of the Credit Risk Management Department in IPDC Finance Ltd. and its **contribution to generating revenue** for the organization, the **methods they follow**, the **factors they consider**, the **compliances** and how this is contributing to IPDC Finance Ltd. as well as to the **economy of Bangladesh**. This analysis shows the **crucial role that CRM** holds while approving individual applicant in IPDC Finance Ltd.

3.1.3 Significance

The thought of bringing Affordable Home Loans in perspective to Bangladesh was an act of intelligence by IPDC Finance Ltd. and this report depicts the need for CRM to assure the reliability of the applications that are registered into the organization. The residential security that the products provide has led to the boom in demand for AHL and CRM helps to make their dreams come true with approval. By this, IPDC Finance Ltd. has experienced substantial growth over the past. An idea for the rural problems will not only provide institutions with sustainability but resolve thousands of economical crisis. As a result, increasing GDP per capita, Standard of living and employment in an economy.

3.2 Methodology

Over the tenure of preparing several reports and attending property visits, I comprehended that the CRM department measures performance based on the approved applications throughout the year. Even though AHL is a recently launched product, it has gathered in a wide customer range which evaluates into their performance reports. The department ensures that the client's information is authentic with direct communication with the Team Leaders (TLs) and Relationship Managers (RMs). This, as a result, ensures that the claimed 15 days of disbursement is proven into action. Even if the client's applications are rejected, the CRM team in coordination with the district heads provide an opportunity for re-approval.

3.2.1 Data Collection

The data collection for this report completely relied upon:

- my interactions with IPDC employees; including my in-charge, supervisor, other analysts and colleagues, the Head of CRM.
- the survey; conducted on the employees of IPDC Finance Ltd. from different departments for a complete overview along with people from other Banking and Non-Banking Financial Institutions.
- secondary data from the websites and reports

Format of the Questionnaire:

Close-ended questionnaire; as employees had a busy schedule already, providing options to select their answers from was an effective and efficient way. However, options were provided with the questions, if they preferred to express more to the questions making them **Open-ended** as well.

Sections provided in the form:

- **Section A: Basic Personal Information:** to know the age range, profession and highest education level
- **Section B: Income Related Information:** to know income range, methods of income and total earning members
- **Section C: Loan History:** to know if they availed any loan in the past and what kind it was
- **Section D: Current preference understanding:** of the institution they want to apply to for a loan, the rate they are willing to spend every month and their comfort advice.

Observation while Data Collection:

I surveyed a sample of 75 people from IPDC and other institutions to conclude the following observation:

- Employees hesitate in sharing detailed information
- Emails are only exchanged with the organization email IDs
- No data can be transferred from the database
- They emphasize more monthly reports and performance

3.2.2 Process Flow

The movement of an Affordable Home Loan application is demonstrated below:

1. Starts from the **Sales Centers** with a **Lead Generation Form**, filled up by the customer or the RM, with maintaining a good customer relationship, the RM helps to extract all information and ensure declaration for further verification with documents:
 - a. Recent passport size picture
 - b. NID (clear photocopy)

- c. E-Tin (clear photocopy)
- d. Bank Statement DPS Statement, Portfolio Statements; last 12months
- e. Utility Bill/Tax Holding Receipt (clear photocopy)
- f. Visiting card/Office ID card/Trade License

The application is assessed by the RM if rejected, not proceeded anymore.

2. If approved, sent to the Team Leader (TL) for further verification and processing, the TL sends the file to the **Chief Credit Appraiser (CCA)** for the CRM to generate **CIB documents** and ensure that these documents are **authentic** from the **ECB** and CIB sites:
 - a. Trade License
 - b. NID photocopies
 - c. CIB undertaken
3. The **CRM examines the CIB patterns** to identify repetition or fraudulent activity, if anything found suspicious; rejected. If approved, the CIB is **sent back to the CCA** that the CIB is accurate and should proceed, the CCA sends it back to the TL.
4. The TL sends the **Clients Application Form** along with all other necessary documents to the **Branch Manager (BM)**,
5. The BM sends it to **the Credit Controller (CC) for file screening**
6. The CC then mails the **TL for additional required documents** to be sent for the file screening, also sends the legal documents to the **Legal Department for authentication** of the technicalities and sends the file to the **CRM Technical department** requesting the **Work In Progress (WIP) report, Contact Point Verification (CPV) report and the Valuation Report.**

Here, the opinion of Legal and CRM technical is not mandatory but advisable. Then the documents are sent to the CC again.

7. If everything is satisfactory, the file is sent to **AHL Credit Team for review**
8. If approved by the AHL Credit Team, sent to the **Assistant General Manager (AGM) of CRM for a recommendation**, then sent to the Management (Head of CRM; HoCRM or MCC) who decide if approved or not.
9. Once approved, sent to the **Quality Assurance Team (QAT)** for **DCL** and **recheck** for pending documents and then to the **Operations (OPs)** to check if all is approved. The documents required by OPs include:
 - a. Recent passport size picture
 - b. NID Verifications of Applicant and two Personal Guarantor (PG)
 - c. Trade License
 - d. Clientele Acknowledgement Form (CAF) and Clientele Feedback Form (CFF)
 - e. Memorandum of Deposition of Cheques
 - f. Assignment Payment Letter
 - g. Legal Documents
 - h. Net Worth Statements
 - i. Disbursement Request Letter
10. Once all documents are complete, **checks and memos** are printed with required signatures for **Disbursement** to the client.

3.3 Findings and Analysis

3.3.1 Income Range and Living:

- **Average Income of AHL applicants income range from BDT 100,000- BDT 200,000**

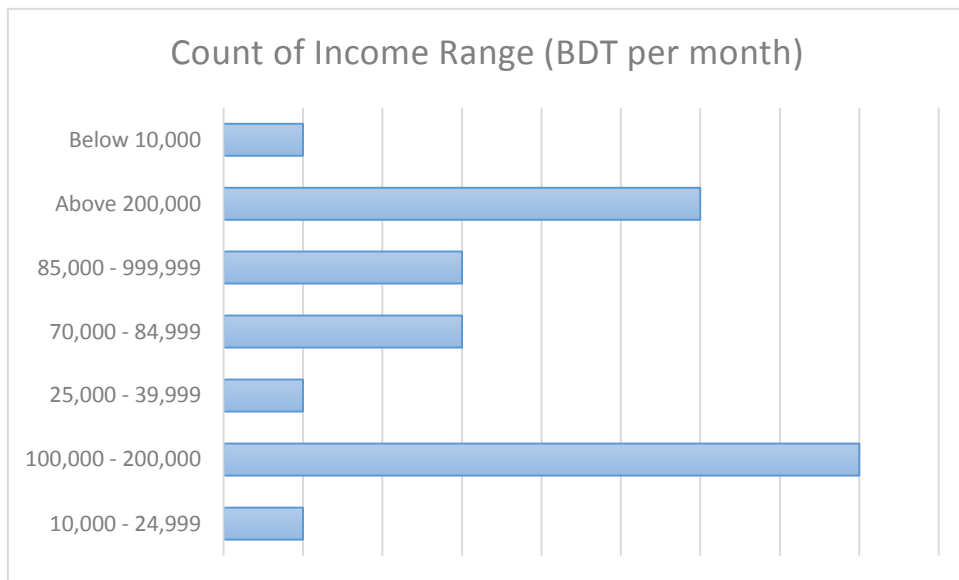


Figure 8 Average Income of AHL Applicants per Month

Figure 8 above shows that the AHL applicants have a range of BDT 100,000- BDT 200,000 as their monthly income a total of 34.8% of all, and second being above BDT 200,000.

- **Dhaka remains the prime location for awareness**

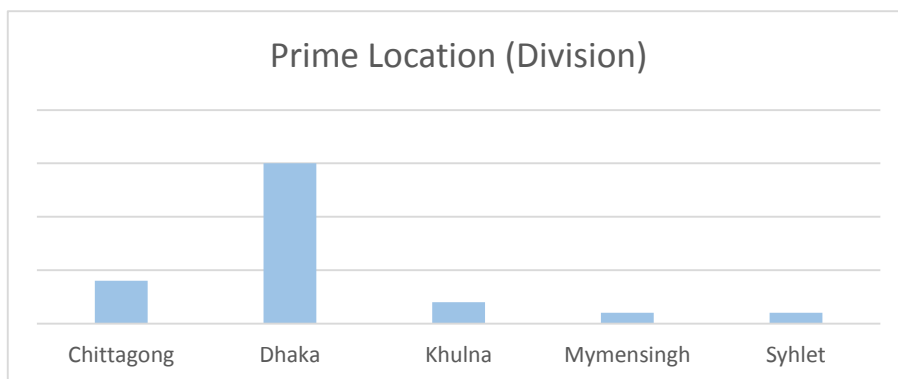


Figure 9 Prime location for Awareness

Figure 9 above shows the prime location used to aware the customers of their products, here it demonstrates Dhaka with 65.2% to be at the top and second being Chittagong.

Comment: The higher the income range, the greater willingness to spend on loans, though the data shows that people of mid-ranged incomes need the loans more and Dhaka remains the prime location of people availing for loans due to the greater need for a standard of living.

3.3.2 Loan availability and Type:

- **A substantial amount of people did not avail of any loan**

Figure 10 below shows that 60.9% of people agreed that they have applied for loans previously whereas 29.1% have no loan experience. The people surveyed answered yes or no to this question.

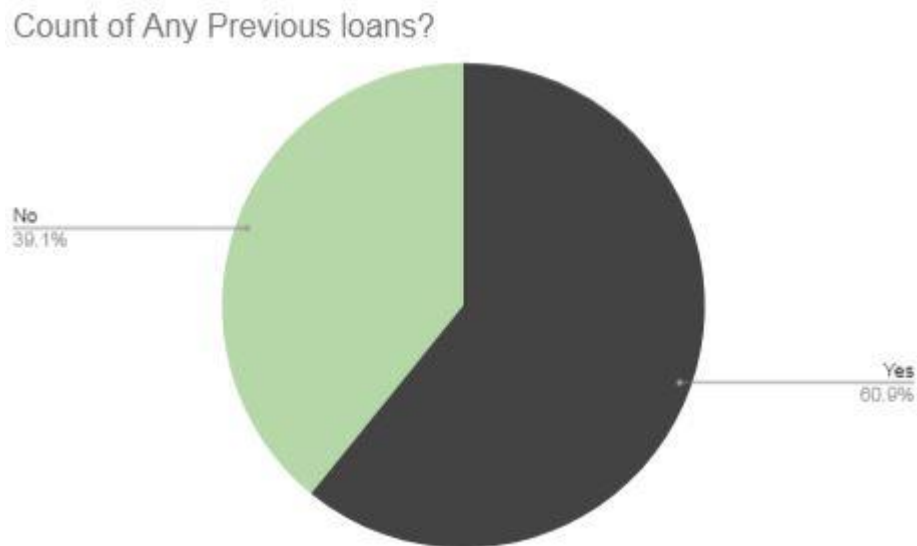


Figure 10 People who Previously Applied to Loans

- **Nobody availed for Home Loans**

Figure 11 below shows that people who had taken loans previously, nobody had taken Home Loan, the majority has taken Personal Loan in past.

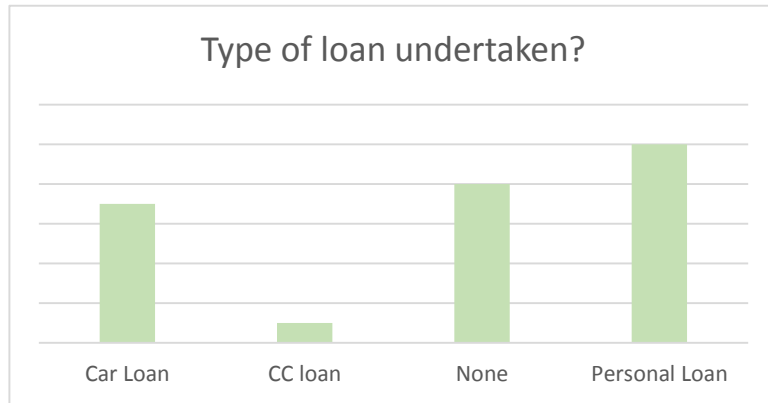


Figure 11 Types of Loan Undertaken

Comment: Though 60.9% availed for loans previously, none availed for Home Loans, representing the unwillingness of people to avail themselves for Home Loans. This can be either due to the lack of flexibility of the loan schemes or the unawareness among people regarding the schemes. Despite Dhaka being the superior of the locations, people in Dhaka are still unaware of the offers or schemes institutions have to provide for them.

3.3.3 Source of Reliability:

- **Suitable Institution for Home Loan**

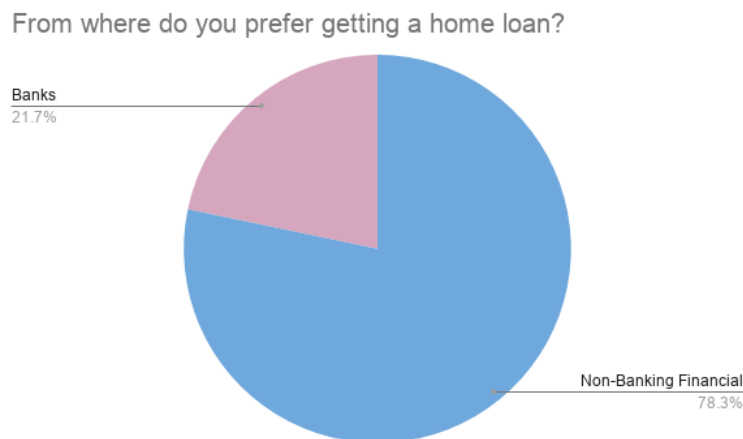


Figure 12 Institutions to Avail Home Loans from

Showing the huge difference between the percentages people chose for Banks and NBFIs, the majority of 78.3% chose NBFIs over Banks to be willing to avail themselves their home loans, and only 21.7% chose Banks, as demonstrated in Figure 12 above.

- **Trust and reliability from:**

Out of 75 people consulted, the majority of 47.8% prefer to consult the Branch Manager of the institutions while considering for home loan and secondly rely on their family and relatives for information with 21.7%, people preferring personal research are of 17.4% and asking for Consultation services are of 13% as shown in Figure 13 below.

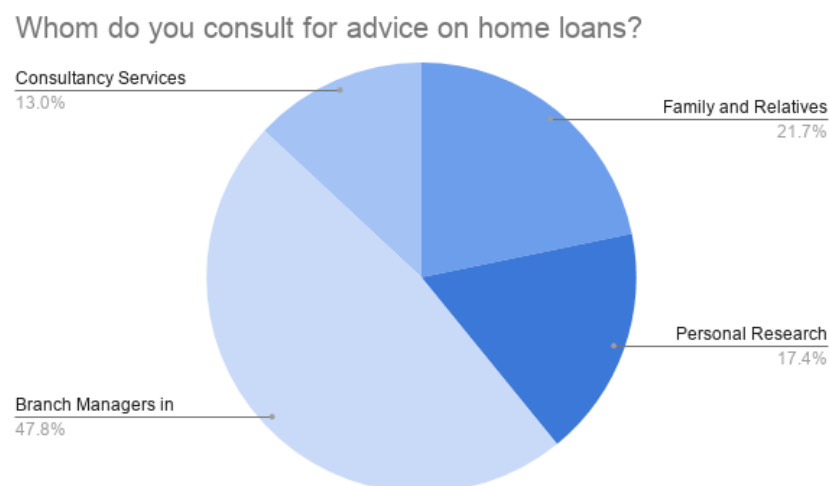


Figure 13 Source of Information for Home Loans

Comment: with both the findings, it becomes easier to conclude that when it comes to home loans people prefer NBFIs over Banks and rely upon the information provided by the Branch Managers, therefore it is very important that the managers are well aware of the product and policies.

3.3.4 Home Loan in IPDC Finance Ltd. from Peoples Perspective

- Property for establishing or constructing a building

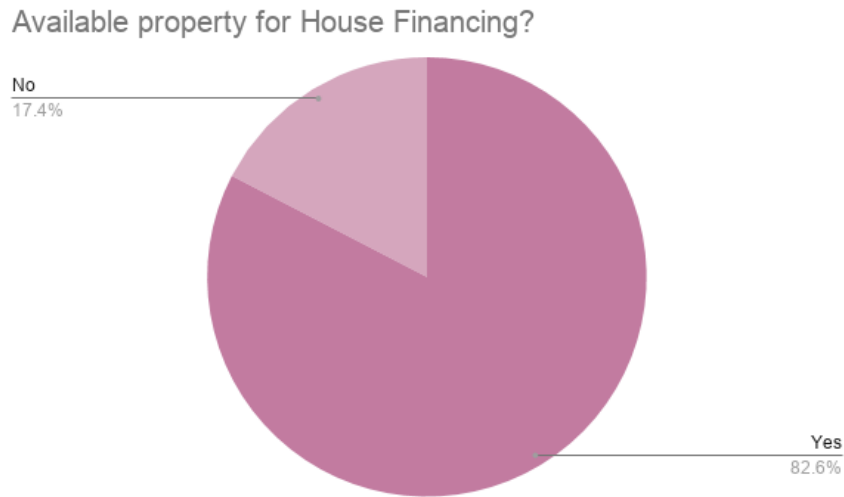


Figure 14 Property availability for House Financing

Figure 14 above shows the availability of land property for house financing, if they want to, among the 75 people consulted. The majority of 82.6% responded saying yes, they have the property available whereas 17.4% did not have a property available for house financing.

- Preferred Institution

Figure 15 below shows how the majority of people chose IPDC Finance Ltd. to avail themselves their Home Loans, with 39.1% agreeing to IPDC Finance Ltd., the second majority agreeing to IDLC Finance Ltd. with 30.4%, then with 26.1% to City Bank Ltd. and lastly 4.3% of Brac Bank Ltd.

Likely to get Home Loan at max Rate: (for 5 years)

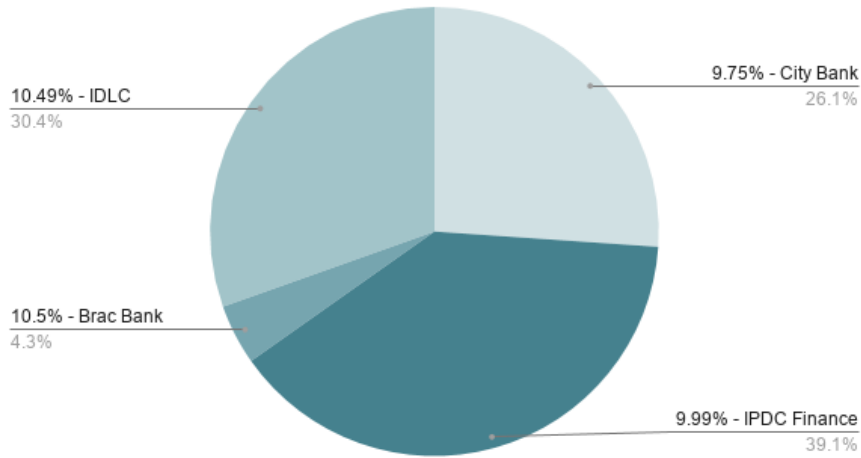


Figure 15 Preferred Institution for Home Loan

- Purpose of Home Loan

Most people in Bangladesh will prefer to purchase a flat for residence if they take a home loan, as shown in Figure 16 below., where a majority of 34.8% chose flat purchase for residential use, 30.4% chose to construct a building for residential use, 21.7% chose to construct a building for commercial use and 13% chose flat purchase for commercial use.

Home Loan Purpose

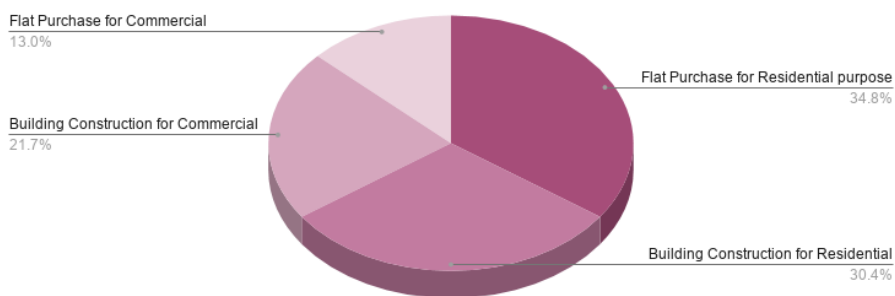


Figure 16 Purpose of Home Loan, if availed

- **Willingness to spend on Home Loan Monthly Instalments**

With an average income of BDT 100,000 – BDT 200,000, the majority of 39.1% of the people are willing to spend 33% of their income on the EMI payments of a Home Loan. On the other hand, 34.8% of people are willing to spend 44% of their income, 17.4% are willing to spend 62% of their income, whereas 8.7% are not sure about it as shown in Figure 17 below.

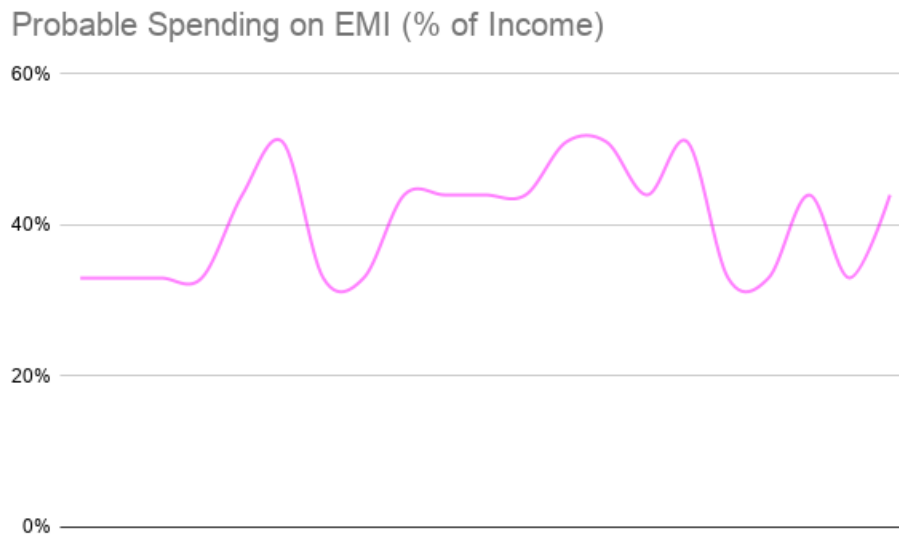


Figure 17 Spending on monthly EMI as a percentage to monthly Income

Comment: With the above analysis, it can be deduced that despite having vacant property people are not availing of house financing due to the lack of awareness and if people are going in for house financing, they will prefer IPDC Finance Ltd. over any other Financial Institution, despite their comparatively higher interest. The only reason being the growth of AHL and the consistency in the CRM performance by the organization. As a result, people prefer purchasing a flat for residential purpose over the others, which is the most demanded section of AHL or “Bhalo Basha” and are even willing to pay a significant amount of their monthly income for their dream home.

3.4 Summary and Conclusion

3.4.2 Summary

IPDC Finance Ltd. has been able to attain its customer base because of its policies and relationship with the customer, maintaining personal contact even to rectify the flaws while the CRM check has convinced the customers for a longer term with the company. The smooth operation flow in CRM has helped AHL to be one of the most demanded schemes of IPDC Finance Ltd. as a result people can build their own home; enriching the standard of living in Bangladesh.

3.4.2 Conclusion

Despite all the other major active departments while processing a file, CRM remains the most crucial as it is the centre in case of verification. Without the concrete team of CRM, there would have been no verifications of the documents that are processed. Bangladesh Bank has only allowed one individual in the entire organization to get access to the CIB site along with a provided ID and password and the same goes for the ECB site. With an individual analyst generating CIB, another generating offer letters, the Management Associates providing a 360-degree review of the documents with assistance from the BM, TL, CCA. Providing Amendment Offer Letters (Amend. OL) for any corrections needed or providing customized conditions for the loan according to the client. Till the final tranche of payment has been disbursed, the CRM has to remain active to make sure there is complete accuracy and holds accountability for any occurrences. CRM has helped AHL to reach the top in the shortest period among all of the products in IPDC Finance Ltd, ensuring a long term customer base. The impact of AHL in its lifetime has shown wonders, as a result, it expanded to a greater number of districts nationwide. This has helped people to make their long-lost dreams come into reality and groom the standard of living in Bangladesh.

3.5 Recommendations

The way IPDC Finance Ltd. has proven itself with AHL despite the pandemic has shown the need and importance people of Bangladesh hold to build their residences. The entire scrutinizing process made so smooth from CRM helps customers to experience a hassle-free environment, coming back for future essentials. According to my experience gathered, a few more additions will help CRM of IPDC Finance Ltd. to excel in the institution as well as the country, such as:

- **Localise CRM:** currently, the CRM is situated in the Head Office in Dhaka. Where all files are collected to be assessed by the centralized CRM department, which increases transportation cost as the TL travels to Dhaka with the files in hand. Therefore, decentralizing it to the districts will reduce processing time and cost.
- **Consolidated Database System:** IPDC Finance Ltd. recently introduced SHIRI for their loan origination and uses DocuDex for the storage which makes it a hassle for CRM to keep moving in and forth. Creating a centralized information database system will reduce turn-around-time (TAT) significantly.
- **Reduce use of Hard Copy of Application forms:** when the applications are generated, the forms are handwritten, making the process very risky and can be misunderstood. This can result in loss of confidential information and more stress to the client. Therefore, automating the entire process will make the work of CRM easier and efficient.
- **Providing a separate location for CRM:** The current location where the CRM department is located is quite chaotic, relocating them in partitions or somewhere else will help the analysts concentrate more on their work rather than the surrounding noisy environment.

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Appendix A.

Questionnaire on “ Impact of Credit Risk Management for Home Loans in Bangladesh”

Section A: Basic Personal Information

1. Age

2. Profession

- Student
- Business
- Private Service
- Government Service
- Other

3. Highest Level of Education

- None
- High School
- Bachelors
- Masters
- PhD
- Other

Section B: Income Related Information

4. Income Range (per month)

- Below 10,000
- 10,000 - 24,999
- 25,000 - 39,999
- 40,000 - 54,999
- 55,000 - 69,999
- 70,000 - 84,999
- 85,000 - 99,999
- 100,000 - 200,000
- Above 200,000

5. Source of Income

- Salary
- Rental
- Pension
- Business
- Other

6. Earning Members in your family

7. Location of Residence (Division)

- Barishal
- Chittagong
- Dhaka
- Khulna
- Mymensingh
- Rajshahi
- Rangpur
- Sylhet

Section C: Loan History

8. Any Previous loans?

- Yes
- No

9. If yes, type of loan undertaken?

- Home Loan
- Car Loan
- Personal Loan
- Other

10. Do you have a mortgage?

- Yes
- No

11. If yes, what kind of mortgage do you have? *

- My Own Home
- Investment Property
- None
- Other

Section D: Current preference understanding

12. From where do you prefer getting a home loan?

- Banks
- Non-Banking Financial Institutions

13. How much of your monthly gross income do you think you should spend on Installments?

- 33%
- 44%
- 51%
- 62%
- Not sure

14. Available property for House Financing? *

- Yes
- No

15. Likely to get Home Loan at max Rate: (for 5 years)

- 10% - Eastern Bank Limited
- 10.5% - Brac Bank Limited
- 9.75% - City Bank Limited
- 9.99% - IPDC Finance Limited
- 10.49% - IDLC Finance Limited

- Other

16. Would you prefer a Non-Banking Financial Institution over a Financial Institution for Home Loans? *

- Yes
- No

17. Whom do you consult for advice on home loans? *

- Family and Relatives
- Branch Managers in Institutions
- Consultancy Services
- Personal Research
- Other

18. If you apply for a Home Loan, you are most likely to apply for? *

- Building Construction for Residential purpose
- Building Construction for Commercial purpose
- Flat Purchase for Residential purpose
- Flat Purchase for Commercial purpose
- Other

19. How do you describe your credit score? *

- Poor
- Satisfactory
- Substantial

20. Would you be comfortable with a personalized Background Check?

- Yes
- No