

Internship Report

on

Credit Risk Management of Standard Chartered Bank

Submitted to:

Department of Business Administration

Faculty of Business studies

Sonargaon University (SU)

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Dhaka-1215

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Submitted for the Partial Fulfillment of the Requirements for the Degree the Bachelor of Business Administration

Date of Submission: 07.01.2025

Sonargaon University (SU), Dhaka-1215

Letter of Transmittal

Date: 07.01.2025
Md. Shahbub Alam
Lecturer
Department of Business Administration,
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Subject: Submission of Internship Report

Dear Sir,

It is a great pleasure to submit my internship report titled **"Credit Risk Management of Standard Chartered Bank"**, prepared as part of the requirements for my Bachelor of Business Administration program at Sonargaon University (SU).

This report highlights my learning experience during the internship at Standard Chartered Bank, where I gained practical insights into credit risk management practices. The report covers various aspects of credit risk management, including the tools and techniques employed, challenges faced, and solutions implemented. I am grateful for your guidance throughout the process of preparing this report. Your valuable advice has been instrumental in organizing and presenting my findings.

Thank you for providing me with this opportunity. I hope the report meets your expectations. I would be happy to clarify any queries.

Yours sincerely,

Kamrun Nahar Sharmi
ID: BBA2101022060
Department of Business Administration,
Sonargaon University (SU)

Certificate of Supervisor

This is to certify that Kamrun Nahar Sharmi, a student of the Department of Business Administration, Sonargaon University (SU), Dhaka, with ID No: BBA2101022060, majoring in Finance, has completed the project report titled "Credit Risk Management of Standard Chartered Bank."

This report was prepared under my supervision as part of the partial fulfillment of the requirements for obtaining the Bachelor of Business Administration (BBA) degree. Throughout the project, Kamrun demonstrated dedication, a strong understanding of the subject matter, and the ability to apply theoretical concepts to practical scenarios in the field of credit risk management.

I hereby confirm that the project was carried out under academic guidelines and has been assessed based on the standards set by the university. I wish Kamrun Nahar Sharmi every success in her future academic and professional endeavors.

_____

Md. Shahbub Alam
Lecturer
Department of Business Administration
Faculty of Business Studies
Sonargaon University (SU), Dhaka-1215

Declaration of Student

I, Kamrun Nahar Sharmi, hereby declare that this internship report titled "Credit Risk Management of Standard Chartered Bank" is the result of my research and work carried out during my internship period. This report has been prepared as part of the requirements for the completion of my academic program and reflects my independent efforts.

I confirm that this report is an original piece of work, and no part of it has been copied or reproduced from any other source without proper citation. Additionally, this report has not been previously submitted or presented for any academic, professional, or other purposes. I understand that any form of plagiarism or unethical academic practices will lead to disqualification and/or disciplinary action, and I take full responsibility for the authenticity and accuracy of the content presented in this report.

I further affirm that all the data and information provided in this report are based on my understanding and analysis of the credit risk management practices at Standard Chartered Bank.

_____

Kamrun Nahar Sharmi

ID: BBA2101022060

Department of Business Administration

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Acknowledgment

This report would not have been possible without the support, guidance, and encouragement of many individuals, to whom I am deeply grateful.

First and foremost, I would like to express my sincere gratitude to my academic supervisor, **Md. Shahbub Alam**, for his unwavering support, insightful advice, and continuous encouragement throughout the preparation of this report. His expertise and constructive feedback were invaluable in shaping the direction and quality of this study.

I am immensely thankful to **Standard Chartered Bank** for providing me with the opportunity to work as an intern and gain valuable practical exposure to the bank's credit risk management processes. A special note of appreciation goes to my on-site supervisor and the entire team, whose patience, mentorship, and willingness to share their knowledge significantly contributed to my learning experience. Their professional guidance and support enriched my understanding of the banking sector and its risk management frameworks.

I would also like to extend my gratitude to my **university faculty members and classmates** for their support and collaboration during my academic journey. Their shared experiences and discussions provided valuable insights and a stimulating environment that contributed to my growth.

Lastly, I am deeply thankful to my **family, friends, and colleagues** for their constant motivation, encouragement, and belief in my abilities. Their unwavering emotional support helped me stay focused and determined throughout the completion of this report.

This acknowledgment reflects my appreciation for all the contributions, big and small, that made this project a reality.

Executive Summary

This internship report explores the credit risk management practices at Standard Chartered Bank. Credit risk management is critical for banks to maintain financial stability and meet regulatory requirements.

The report includes an organizational overview of Standard Chartered, an explanation of credit risk, and the tools and techniques used to manage it. Additionally, it highlights the challenges faced in credit risk management and provides recommendations for improvement.

Primary data from my internship and secondary data from reports and journals were used to prepare this report. Findings reveal that Standard Chartered employs robust policies and advanced tools but faces challenges like regulatory compliance and economic volatility.

Recommendations include improving risk assessment models and leveraging technology to enhance efficiency.

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Chapter 1: Introduction

1.1 Introduction to Credit Risk Management

Credit risk management is the practice of assessing and minimizing the likelihood of a borrower failing to meet their financial obligations. It plays a crucial role in the banking sector by ensuring financial stability and protecting assets. Banks implement various models and strategies to identify, evaluate, and mitigate risks associated with lending. By managing credit risk effectively, banks can reduce potential losses, safeguard profitability, and maintain smooth operations.

Credit risk arises from the possibility that borrowers or counterparties may default on their obligations, leading to financial loss for the bank. The goal of credit risk management is to establish a framework that allows banks to measure and control credit exposure, ensuring that the risk remains within acceptable levels. This involves setting credit limits, monitoring credit performance, and employing various risk assessment tools. Effective credit risk management not only protects banks from insolvency but also enhances investor confidence and regulatory compliance.

1.2 Background of the Study

Banks play a vital economic role by lending money to businesses and individuals. However, there is always a risk that the borrower may not repay the loan. This risk is called credit risk. Managing this risk is very important for banks to remain financially stable.

Standard Chartered Bank is one of the oldest and strong international banks in Bangladesh; it has a very strong financial management reputation. The focus of this study will be on how Standard Chartered Bangladesh manages credit risks. From this, by analyzing its policies and practices, we can understand how the bank minimizes its risks while helping the economy grow.

1.3 Objectives of the Study

This report analyzes the current credit risk management practices at Standard Chartered Bank. It aims to gain insights into the methodologies employed by the bank to assess and mitigate credit risks, with a focus on understanding both the strengths and challenges of the system.

General Objective:

- To understand the framework of credit risk management utilized by Standard Chartered Bangladesh.

Specific Objectives:

- To explore the methods and techniques used in credit risk appraisal and risk mitigation.
- To identify the key challenges and issues faced by the bank in managing credit risk.
- To propose recommendations for enhancing the bank's credit risk management practices.

The study primarily focuses on assessing the various credit risk management practices employed by the bank, including the tools, techniques, and policies used to evaluate and control potential credit risks. The findings are based on the insights gathered during the internship period and secondary data sources such as annual reports, industry journals, and research articles related to credit risk management.

1.4 Methodology

This report is based on a combination of both primary and secondary data, collected through various means to provide a comprehensive understanding of credit risk management at Standard Chartered Bangladesh.

Primary Data:

- **Observations:** During the internship, I had the opportunity to observe the daily operations of the bank's credit risk management team, including their decision-making processes and risk assessment strategies.
- **Informal Discussions:** I engaged in discussions with bank employees, which helped me gain a deeper understanding of the practical challenges they face while managing credit risk.

Secondary Data:

- **Annual Reports:** These provided valuable insights into the overall financial health of the bank and the policies implemented to manage credit risk.
- **Journals and Articles:** Research articles, case studies, and industry journals were reviewed to understand the global standards and best practices in credit risk management.

1.5 Limitations of the Study

While conducting the study, several challenges were encountered, which may have impacted the depth and breadth of the analysis:

- **Confidentiality:** Due to the nature of banking operations and data protection policies, certain sensitive data regarding the bank's specific credit risk management strategies and client information were not disclosed.
- **Time Constraint:** The limited duration of the internship made it difficult to fully explore every facet of the bank's credit risk management system, leading to a somewhat narrow scope of analysis.
- **Limited Resources:** Access to some internal tools, software, or reports was restricted, which hindered a more in-depth evaluation of the bank's risk management practices. Furthermore, some secondary sources were not readily available due to proprietary restrictions or privacy regulations.

Despite these limitations, the study provides valuable insights based on the available data and the experiences gained during the internship.

Chapter 2: Literature Review

2.1 Introduction

Credit risk management is an essential part of the banking sector. It helps banks to minimize the chances of financial losses by assessing and managing the risks associated with borrowers. Several studies and reports highlight the importance of credit risk management in maintaining the stability and profitability of banks.

In Chapter 1, credit risk management is described as the process of identifying, analyzing, and mitigating the risk of a borrower defaulting on a loan. This process ensures that banks can continue their operations smoothly, even if some borrowers fail to repay their debts. By applying various techniques and tools, banks can safeguard their assets and maintain profitability.

2.2 Definition and Importance of Credit Risk Management

Credit risk is defined as the risk of loss arising from a borrower's failure to repay a loan or meet contractual obligations. According to Basel II guidelines, managing credit risk is crucial to ensure the financial health of banks. Standard Chartered, like many global banks, follows these guidelines to reduce potential losses.

Techniques and Models in Credit Risk Management: Many researchers have explored different models and techniques to manage credit risk. According to Saunders and Allen (2010), banks use credit scoring models, loan classification, and portfolio management strategies to predict and mitigate risk. Credit scoring evaluates the likelihood of a borrower defaulting, while loan classification helps to identify high-risk loans early.

Risk Mitigation Strategies: Studies by Altman (2000) emphasize the importance of diversification in reducing credit risk. Diversification ensures that loans are spread across different sectors, minimizing the impact of defaults in one area. Additionally, establishing clear credit policies and improving borrower monitoring are widely recommended by scholars like Bessis (2011).

Challenges in Credit Risk Management: Despite various models and strategies, banks still face challenges in managing credit risk. According to Brown and Moles (2014), the unpredictability of market conditions and changes in economic environments can make credit risk management difficult. This is especially true for developing economies like Bangladesh.

Standard Chartered's Approach to Credit Risk Management: Standard Chartered Bank applies international best practices in credit risk management. As noted in their annual report (2023), the bank uses a combination of advanced credit scoring, risk-based pricing, and strict monitoring of high-risk clients. These approaches align with global standards and ensure that the bank remains resilient to potential risks.

Conclusion: The literature review highlights that credit risk management is vital for the banking sector's sustainability. Models, strategies, and policies must evolve to address new challenges in the financial environment. Standard Chartered Bank's adherence to international practices plays a key role in maintaining the bank's credit health and overall stability.

Chapter 3: Organizational Overview

3.1 History of Standard Chartered Bank in Bangladesh

Standard Chartered Bank is one of the pioneering international banks in Bangladesh. It started operation in 1948 in Chittagong, which is now known as Chattogram. The bank has grown over the years to become one of the largest providers of financial services in the country, both at the individual and corporate levels.

Headquartered in Dhaka, Standard Chartered has grown to become one of the most recognizable names in the banking industry. The bank has also contributed much toward the introduction of modern banking solutions into the Bangladeshi market.

3.2 Vision, Mission, and Values

Vision:

- This vision statement embodies the bank's commitment to long-term growth and sustainability. It signifies Standard Chartered Bangladesh's role as a responsible and reliable financial institution that strives to create value not only for its shareholders but also for its customers and the broader community. The focus is on building lasting relationships and supporting communities through financial services and initiatives that contribute to economic development and social well-being.

Mission:

- Standard Chartered Bangladesh's mission emphasizes the importance of fostering economic growth through diversity and inclusion. By leveraging its international network, the bank aims to bridge people and businesses across borders, providing them with access to essential financial services. The mission highlights the bank's role in facilitating global trade, empowering individuals and enterprises, and supporting the prosperity of the regions it serves.

Core Values:

- **Integrity:** Standard Chartered Bangladesh upholds the highest standards of ethical conduct, ensuring that all actions and decisions are guided by fairness, transparency, and trust. Integrity is fundamental to the bank's relationship with clients, employees, and the communities it serves.
- **Responsibility:** The bank takes its role in the financial sector seriously, recognizing its duty to contribute positively to the economy and society. This involves managing risks effectively, adhering to regulations, and taking steps to minimize any adverse impact on people and the environment.
- **Innovation:** Standard Chartered Bangladesh fosters a culture of innovation by continuously seeking new solutions to meet the evolving needs of customers. The bank

embraces new technologies and methodologies to improve its services, enhance customer experiences, and maintain a competitive edge in the financial industry.

- **Collaboration:** Collaboration is at the heart of the bank's operations, both internally and externally. Standard Chartered Bangladesh values teamwork and works closely with its employees, clients, and partners to achieve mutual goals. The bank understands that effective collaboration is key to solving complex problems and driving progress in a dynamic business environment.

These values are integral to the way Standard Chartered Bank operates and shapes its relationships with customers, employees, and the wider community. By adhering to these principles, the bank aims to remain a trusted and influential player in the global financial sector.

3.3 Organizational Structure

Standard Chartered Bank operates through several departments, each specializing in key banking areas. These include:

Retail Banking: This focuses on individual customers and small businesses.

Corporate Banking: This provides services to large organizations.

Wealth Management: It assists customers in managing their assets and investments.

Risk Management: Continuous monitoring and control of risks including credit risk.

The organizational hierarchy comprises the Country CEO, followed by department heads, managers, and officers to ensure smooth operations at all levels.

3.4 Products and Services

Standard Chartered Bank offers a range of products and services to its customers' needs.

Retail Banking Services:

- Savings accounts
- Current accounts
- Credit and debit cards
- Personal loans

Corporate Banking Services:

- Trade finance
- Working capital loans

- Project financing

Specialized Services:

- Digital banking solutions
- Treasury services
- Foreign exchange services

3.5 Contribution to the Economy

Standard Chartered Bangladesh plays a significant and transformative role in the economic development of the country. Through its extensive financial services and strategic initiatives, the bank helps fuel business growth, infrastructure development, and job creation, which in turn contributes to the broader national economy.

Providing Adequate Finance to Businesses: The bank serves as a crucial financial partner for both large corporations and small to medium-sized enterprises (SMEs). By offering a wide range of financial products such as loans, trade financing, and working capital solutions, Standard Chartered Bangladesh ensures that businesses have the resources they need to expand, innovate, and stay competitive in the marketplace. The bank's tailored financial solutions help businesses manage their cash flow effectively, enabling them to take on new opportunities and grow sustainably.

Encouraging Foreign Investment: Standard Chartered Bangladesh plays an instrumental role in attracting foreign direct investment (FDI) into Bangladesh. As part of a global banking group, the bank leverages its international presence to connect local businesses with foreign investors, providing access to international capital markets and financing opportunities. This not only strengthens the country's financial sector but also boosts economic development by supporting cross-border trade and investment flows. The bank's involvement in facilitating foreign investment contributes to creating a more favorable business environment and increasing Bangladesh's economic integration with the global market.

Bringing Inclusiveness to the Financial Arena: Standard Chartered Bangladesh is committed to fostering financial inclusion in the country by offering innovative banking services that cater to underserved segments of the population. Through initiatives such as mobile banking, digital financial services, and microfinance solutions, the bank helps bridge the financial gap, enabling individuals and businesses in rural or remote areas to access banking services. These efforts contribute to increasing financial literacy, empowering people to manage their finances better, and supporting small businesses in expanding their operations.

Supporting Major Infrastructure Projects: The bank plays a pivotal role in financing major infrastructure projects that are crucial to the country's long-term development. By providing financial solutions for sectors such as energy, transportation, telecommunications, and healthcare, Standard Chartered Bangladesh supports projects that improve the country's

infrastructure and enhance its global competitiveness. These projects create significant economic value by generating employment opportunities, enhancing productivity, and attracting further investment.

Supporting SMEs in Job Creation and Economic Development: Standard Chartered Bank places a strong emphasis on supporting SMEs, which are vital to the country's economic growth and job creation. By offering specialized financing options and advisory services, the bank helps SMEs scale their operations, increase their competitiveness, and create new job opportunities. The bank's focus on SMEs not only drives local economic development but also helps create a more diversified economy by encouraging entrepreneurship and innovation at the grassroots level.

In conclusion, Standard Chartered Bank's contribution to the economy extends far beyond traditional banking services. Through its financing solutions, support for foreign investment, focus on financial inclusion, and investment in infrastructure and SMEs, the bank plays an integral role in shaping Bangladesh's economic future. Its efforts are pivotal in fostering sustainable growth, enhancing productivity, and improving the standard of living for the people of Bangladesh.

Chapter 4: Credit Risk Management Overview

4.1 Definition of Credit Risk

Credit risk is the potential for a financial loss or adverse impact on an institution or investor when a borrower or counterparty fails to meet their contractual financial obligations. This risk arises in situations where there is a possibility that the borrower will default on repayment of a loan, fail to pay interest, or not fulfill other terms of a financial agreement. Credit risk can occur in a variety of contexts, including loans, bonds, derivatives, trade credit, and other financial transactions.

The magnitude of credit risk depends on the creditworthiness of the borrower, the terms of the contract, the value of collateral (if any), and the broader economic environment. For banks and financial institutions, managing credit risk is essential, as the accumulation of bad loans or defaults can negatively affect profitability, capital adequacy, liquidity, and ultimately, the institution's financial health.

Credit risk is a fundamental risk factor in the banking sector, affecting various areas, such as:

- **Corporate Lending:** Businesses that borrow funds may default due to operational or financial difficulties.
- **Retail Lending:** Individuals may fail to meet their loan obligations due to personal financial challenges.
- **Sovereign Risk:** Governments may default on debt payments, impacting investors or banks holding sovereign bonds.
- **Counterparty Risk in Derivatives:** The possibility that one party to a financial contract (e.g., a swap or futures contract) defaults on its obligations.

Credit risk management involves evaluating the likelihood of default, assessing the financial health of borrowers, setting appropriate interest rates, and utilizing risk mitigation tools such as collateral, guarantees, and credit derivatives. It is also important for banks and financial institutions to diversify their portfolios to spread risk across various sectors and borrowers.

4.2 Importance of Credit Risk Management

Effective credit risk management:

- Ensure conformance with regulatory requirements.
- Operate securely to retain customer trust.
- Support long-term profitability and sustainability.
- Assists banks in safeguarding their assets against probable losses.

If credit risk in countries like Bangladesh can be very volatile, good management automatically increases the need to avoid such market risks.

4.3 Key Components of Credit Risk Management

Credit Appraisal:
A close evaluation of the borrower's financial capability in repaying the loan with a consideration of past payments and creditworthiness for determining the eligibility of the loan.

Risk Grading System:
Borrowers are graded under different risk grades depending on factors such as income levels, past repayment history, etc., and stability in business concerns. Banks in Bangladesh use internal systems, although much in line with guidelines provided by Bangladesh Bank.

Loan Classification:
Loans are either classified as performing or non-performing, depending on the payback status. Much attention is paid to the NPLs to reduce or mitigate losses.

Monitoring and Recovery:
Continued supervision of loans leads to early detection of issues. To recover overdue amounts, several strategies in recovery are put into place, including reminders and legal action.

4.4 Regulatory Framework for Credit Risk Management

Credit risk management in Bangladesh is primarily guided by the policies and regulations set by the central bank, **Bangladesh Bank**. These guidelines are designed to ensure that banks operate in a sound and secure manner while minimizing potential losses from credit defaults.

Prudential Guidelines: Bangladesh Bank has established **prudential guidelines** to maintain financial stability in the banking sector. These guidelines address:

- **Capital Adequacy Requirements:** Banks are required to maintain a certain level of capital relative to their risk-weighted assets to absorb potential losses from defaults. This ensures that banks have a cushion to protect themselves from financial shocks.
- **Provisioning for Bad Debts:** Banks must set aside provisions to cover potential loan defaults. The provisioning requirement ensures that banks can cover bad debts, protecting their financial health and maintaining adequate liquidity.

Stress Testing: Stress testing is a crucial tool for assessing the bank's ability to withstand adverse economic conditions. Banks are required to conduct regular stress tests to evaluate how various stress scenarios (e.g., economic downturns, interest rate fluctuations, or large-scale defaults) would impact their financial position. This helps in identifying vulnerabilities and preparing strategies to mitigate potential risks. The results of these stress tests enable banks to strengthen their risk management frameworks and maintain financial stability even during tough times.

Basel III Standards: The **Basel III** framework is an international regulatory standard that sets global standards for capital adequacy, stress testing, and liquidity management. It aims to enhance the resilience of banks by ensuring they maintain sufficient capital buffers and liquidity to absorb shocks during financial crises. The key aspects of Basel III include:

- **Capital Conservation Buffers:** Ensuring banks maintain an additional capital buffer to protect against potential losses during periods of economic stress.
- **Leverage Ratio:** Limiting the amount of leverage a bank can take on, ensuring that it does not excessively rely on debt, which could increase the risk of default.
- **Liquidity Requirements:** Banks must hold enough liquid assets to meet their short-term obligations, reducing the risk of liquidity crises.

By adhering to these guidelines and international standards, banks in Bangladesh can better manage credit risk and contribute to the stability and growth of the national economy. The regulatory framework ensures that banks are well-equipped to handle adverse situations while safeguarding the interests of their stakeholders.

4.5 Challenges in Credit Risk Management

Economic Uncertainty: Sudden changes in the economy, like inflation of currency, can impact credit risk.

Lack of Accurate Data: Inadequate access to reliable credit data makes evaluating borrower risks complex.

High Non-Performing Loans: Most banks face problems relating to several non-performing loans that reduce profitability & It's tough to meet the requirements of the Bangladesh Bank and international standard requirements.

Weak Risk Assessment Frameworks: Some banks may lack sophisticated credit risk assessment tools and models, relying heavily on outdated or manual processes. This can lead to inaccurate risk evaluations, resulting in higher exposure to default. Inadequate risk assessment frameworks hinder the ability to detect early warning signs of potential credit issues, making it difficult to take preventive actions.

Limited Diversification: Over-concentration of credit in specific sectors or industries increases risk. If a bank's loan portfolio is heavily focused on one sector, such as real estate or textiles, any downturn in that sector can lead to widespread defaults. Lack of diversification limits the bank’s ability to absorb shocks and spreads risk unevenly across the portfolio, increasing overall credit risk.

Chapter 5: Credit Risk Management Practices at Standard Chartered Bank

5.1 Overview of Credit Risk Management at Standard Chartered

Standard Chartered Bank employs a structured and comprehensive framework for managing credit risk, ensuring stability and profitability while minimizing potential losses. The bank's credit risk management practices align with both **local regulations** set by **Bangladesh Bank** and **international standards**, such as **Basel III**. This dual adherence reflects the bank's commitment to sound financial practices and long-term sustainability.

The bank maintains a balance between **risk-taking** and **profitability** by carefully assessing the creditworthiness of borrowers and diversifying its loan portfolio. It leverages **advanced tools and technologies** to identify, measure, and mitigate credit risk at various stages of the lending process. These tools include **risk rating models, credit scoring systems, and portfolio stress testing**, enabling proactive identification of potential defaults.

Key Practices:

- **Risk Assessment and Monitoring:** The bank conducts thorough due diligence before approving loans and continuously monitors the performance of existing credit facilities. This helps in the early detection of distressed loans, allowing timely intervention.
- **Diversification Strategy:** Standard Chartered ensures credit risk is spread across various sectors, industries, and geographical regions, reducing the impact of adverse conditions in any single area.
- **Policy Framework:** The bank operates under **strict internal credit policies** that set limits on exposures to individual borrowers and sectors. These policies are regularly reviewed to adapt to changing market conditions.
- **Stress Testing:** Standard Chartered Bangladesh regularly performs **stress tests** to simulate adverse economic scenarios, assessing the resilience of its credit portfolio. This practice ensures the bank can withstand potential financial shocks.
- **Provisioning and Capital Buffers:** Adequate provisioning is maintained for non-performing loans (NPLs), and capital buffers are kept in line with regulatory requirements, ensuring the bank's financial strength even during periods of economic uncertainty.

By adopting these practices, Standard Chartered Bangladesh effectively manages credit risk while fostering sustainable growth and contributing to the broader financial stability of the country.

5.2 Credit Risk Assessment Process

The bank follows a comprehensive credit evaluation procedure to assess potential borrowers:

Customer Screening: The first step is to gather comprehensive information regarding the borrower, such as financial statements, credit history, and repayment behavior.

Risk Rating System: Standard Chartered has an in-house risk rating model that grades the borrowers based on the following factors:

- Financial strength
- Business stability
- Market conditions
- Past credit performance
- Approval Hierarchy:

Approvals are obtained depending on the amount and risk involved through designated authorities, which include credit committees and senior managers.

5.3 Tools and Techniques for Credit Risk Management

Various credit risk-reducing tools that are in use by Standard Chartered include:

Credit Scoring Models: This model aids in assessing the probability of a borrower failing to pay back their credit.

Portfolio Diversification: The bank minimizes this risk by spreading loans to several sectors, industries, and regions.

Collateral Requirements: Mostly, the borrowers have to put properties or other assets as security against the loans.

Loan Monitoring Systems: Advanced software monitors the performance of the loan. Potential issues will be identified early.

5.4 Strategies for Managing Non-Performing Loans (NPLs)

Managing NPLs is a critical aspect of credit risk management at Standard Chartered. The bank uses the following strategies:

Early Warning Signals: Monitoring repayment behavior to identify signs of potential defaults.

Restructuring Loans: Offering revised payment terms to borrowers facing financial difficulties.

Legal Action: Initiate legal proceedings to recover unpaid amounts when necessary.

Selling Bad Loans: Transferring non-performing loans to third parties or asset management companies to reduce the bank's risk exposure.

5.5 Risk Mitigation Policies

The bank has taken several policies to reduce the risks, which are as follows:

Credit Limits: Establishing a cap on the quantum of exposure to individual borrowers and industries to avoid overexposure.

Stress Testing: Regular conduct of stress tests to judge the bank's financial strength in unfavorable situations.

Regulatory Compliance: The guidelines provided by Bangladesh Bank and Basel III for risk management are followed properly.

5.6 Challenges Faced by Standard Chartered in Credit Risk Management

Despite having such advanced systems, the bank has some challenges it must face:

Market Uncertainty: Unpredictable market conditions can affect borrowers' ability to pay back loans.

Changes in Regulations: Frequent updates of policies by Bangladesh Bank require constant adjustments.

High Competition: Competing with other banks for low-risk borrowers at profitable levels.

Data Limitations: Inaccurate or incomplete information on borrowers increases risks.

Chapter 6: Findings and Analysis

6.1 Key Findings

After analyzing the credit risk management practices at Standard Chartered Bangladesh, the following points came to light:

Robust Credit Assessment Process: The bank has an efficient credit assessment process in place, utilizing various tools such as credit scoring and risk grading to assess the creditworthiness of its borrowers. This makes certain that credit is advanced to those customers who are relatively less likely to default.

Strong Monitoring and Control Systems: The Bank's loan monitoring systems at Standard Chartered Bangladesh have access to an automated, up-to-the-minute reporting system for loans outstanding, enabling it to recognize the early warning signals of loans that are likely to go sour and take corrective measures before the situation gets out of hand.

Diversification in Loan Portfolio: This has reduced the bank's risk of overexposure to any one borrower or sector. It enhances the overall financial soundness.

High Non-Performing Loans (NPLs): Despite having adequate systems in place, the bank still grapples with NPLs due to external factors such as volatility in the economy and borrowers unable to pay during crises like the COVID-19 pandemic.

Adherence to Regulations: The bank strictly adheres to Bangladesh Bank guidelines and international standards such as Basel III, which ensures risk mitigation and capital adequacy.

6.2 Analysis of Strengths and Weaknesses

Strengths: The bank has adopted modern techniques, such as stress testing and portfolio diversification, which reduce its overall credit risk.

Experienced Staff: Skilled employees and robust training programs enable the bank to handle complex credit risk scenarios effectively.

Technological Integration: The adoption of digital tools has improved efficiency in monitoring and managing loans.

Weaknesses:

Overdependence on Collateral: High dependence on collateral serves to restrict credit access by individuals and small businesses lacking sufficient assets.

Regulatory Pressure: Generally, improving regulatory requirements implies the need for more resources and constant adaptation.

Economic Sensitivity: Bank performance is influenced heavily by the general economic environment of Bangladesh.

6.3 Challenges in Credit Risk Management

External Economic Conditions: Events like inflation, currency fluctuations, and global financial crises affect the borrowers' repayment capability.

Limited Borrower Information: Access to credible credit data in Bangladesh is a problem, especially for new borrowers or SMEs.

High Competition in the Market: Competing with other banks for low-risk customers while maintaining profitability puts additional pressure on the bank's credit risk strategies.

Impact of Global Events: As an international bank, Standard Chartered is not immune to the vagaries of global events like pandemics, which disrupt economic activities and hence repayment capabilities.

Regulatory Changes and Compliance: Frequent updates in regulations by Bangladesh Bank or international bodies (such as Basel III revisions) require constant adjustments to credit policies and practices. Adapting to new compliance measures can strain resources and lead to operational complexities, impacting the bank’s ability to respond swiftly to credit risk issues.

Sector-Specific Risks: Certain industries, such as textiles or real estate, may experience volatility due to market demand, policy changes, or environmental factors. If a significant portion of the loan portfolio is concentrated in these sectors, any downturn can lead to increased defaults and heightened credit risk.

Digital Transformation Risks: While digital lending platforms enhance efficiency, they also introduce risks associated with **cybersecurity, fraud, and inaccurate data analytics**. Dependence on technology for credit assessments can sometimes overlook nuanced risks that traditional methods might catch, leading to unforeseen credit defaults.

6.4 Opportunities for Improvement

Smarter Credit Scoring Models: More sophisticated data analytics will go a long way in refining the accuracy of borrower evaluation.

Strengthening SME Financing: Customized products for SMEs, with flexible repayment terms, will lead to a better loan portfolio and profitability for the bank.

Digital Transformation: Further investment in digital technologies will improve loan tracking and monitoring, along with customer engagement.

Collaboration with Credit Agencies: Partnership with credit rating agencies can provide more accurate data and reduce information gaps.

Enhanced Risk Diversification: By diversifying the loan portfolio across various sectors, industries, and regions, the bank can minimize exposure to sector-specific risks. Expanding lending to emerging sectors with growth potential reduces dependency on a limited number of industries and spreads credit risk more evenly.

Proactive Early Warning Systems: Implementing advanced early warning systems that use predictive analytics can help detect signs of financial distress in borrowers at an early stage. This allows the bank to take corrective actions, such as restructuring loans or increasing monitoring, to prevent defaults and reduce non-performing loans.

Chapter 7: Recommendations and Conclusion

7.1 Recommendations

Leverage Advanced Analytics and Technology: The bank should invest in cutting-edge credit scoring tools powered by **big data, machine learning, and artificial intelligence (AI)**. These technologies enhance the accuracy of borrower evaluations by analyzing diverse data sources, predicting repayment behavior, and identifying patterns that traditional models might miss. By automating credit assessments, the bank can reduce manual errors and improve decision-making, ultimately minimizing default risks.

Tailored SME Financing Solutions: Small and medium enterprises (SMEs) are vital to Bangladesh's economic growth, yet they often face challenges in securing credit. Standard Chartered should design **customized financial products** that address the unique needs of SMEs, such as reduced collateral requirements, simplified documentation, and **alternative credit assessments**. Flexible repayment structures and relationship-based lending will help expand SME portfolios while mitigating credit risk through diversification.

Strengthened Loan Monitoring and Risk Detection: Real-time loan tracking systems can significantly improve credit risk management by **continuously monitoring borrower activity**. The bank should implement **automated early warning systems** that trigger alerts for delayed payments, unusual transactions, or deteriorating financial health. Proactive monitoring allows for timely intervention, such as renegotiating loan terms or restructuring debt to prevent defaults from escalating.

Promote Financial Literacy and Borrower Education: Educating borrowers, especially in rural and underserved areas, about **financial management, responsible borrowing, and credit discipline** can reduce default rates and improve loan performance. The bank can launch **financial literacy programs** through workshops, digital platforms, and community engagement initiatives, fostering a culture of trust and long-term banking relationships.

Foster Strategic Partnerships with Credit Agencies: Collaborating with **local and global credit bureaus** enhances access to reliable borrower data, reducing information asymmetry. Stronger partnerships can facilitate **comprehensive credit histories** and better risk profiling, enabling the bank to extend credit with greater confidence. By integrating credit agency data into the bank's internal risk models, the accuracy of credit assessments improves significantly.

Enhance Staff Competency and Risk Awareness: Regular **training and development programs** for employees ensure they stay updated on evolving credit risk management practices, regulatory changes, and new technologies. Equipping staff with the latest skills in credit analysis, fraud detection, and risk mitigation enables them to handle complex credit scenarios more effectively, reducing overall risk exposure.

Develop Robust Crisis and Contingency Plans: Economic downturns, global crises, and market disruptions can significantly impact credit portfolios. Standard Chartered should adopt a **dynamic risk management framework** that includes regular **stress testing** and scenario

analysis. Preparing for adverse conditions through **contingency planning and liquidity buffers** ensures resilience against external shocks, safeguarding the bank's financial health.

Diversify Credit Portfolios and Sectoral Exposure: Diversification across sectors, industries, and regions is crucial for managing credit risk. The bank should aim to **reduce over-concentration** in high-risk industries by expanding its lending activities into **emerging and resilient sectors**. This strategy spreads risk more evenly, minimizing the impact of sector-specific downturns.

By implementing these comprehensive strategies, Standard Chartered Bangladesh can further strengthen its credit risk management framework, drive sustainable growth, and enhance its position as a leading financial institution in the region.

7.2 Conclusion

Credit risk management is a fundamental pillar of banking operations, playing a crucial role in safeguarding financial stability and ensuring sustainable growth. As an international bank with a strong presence in Bangladesh, **Standard Chartered** faces the complex task of balancing risk and profitability in a dynamic and evolving economic landscape. The bank's structured approach to credit risk, guided by robust internal frameworks and regulatory compliance, has enabled it to navigate challenges while contributing significantly to the country's economic development.

Despite these strengths, **persistent challenges** such as rising non-performing loans, fluctuating economic conditions, and increasing regulatory demands highlight the need for continuous improvement. Addressing these issues requires **strategic innovation, enhanced technology adoption, and proactive risk management practices** that align with global standards and local market realities.

By **expanding digital capabilities, fostering partnerships, and strengthening SME engagement**, Standard Chartered can further solidify its leadership position in the financial sector. A forward-looking, **customer-centric approach** coupled with advanced credit assessment tools will not only enhance credit risk management but also drive **inclusive growth** across underserved segments of the economy.

As the banking industry continues to transform, **resilience, adaptability, and innovation** will be key to maintaining competitiveness. With a steadfast commitment to evolving its practices, Standard Chartered Bank is well-positioned to lead the way in providing secure, efficient, and sustainable banking solutions that contribute to the broader economic landscape.

Appendices

Appendix 1: List of Abbreviations

ABBREVIATION	FULL FORM
NPL	Non-Performing Loan
TIME	Small and Medium Enterprise
CRG	Credit Risk Grading
SCB	Standard Chartered Bangladesh
BASEL III	Basel III International Banking Framework
BDT	Bangladeshi Taka

Appendix 2: Credit Risk Grading (CRG) System

Standard Chartered Bangladesh uses the following CRG categories to evaluate borrower risk levels:

RISK GRADE	RISK LEVEL	DESCRIPTION
SUPERIOR (1)	Lowest Risk	Strong financial health and excellent repayment capacity.
GOOD (2)	Low Risk	Satisfactory financial health and good repayment record.
ACCEPTABLE (3)	Moderate Risk	Adequate financial health but with minor weaknesses.

MARGINAL/ WATCHLIST (4)	High Risk	Financial vulnerabilities that may lead to repayment delays.
SPECIAL MENTION (5)	Problematic	Clear repayment issues and financial stress.
SUBSTANDARD (6)	Very High Risk	Inability to meet payment obligations with significant losses expected.
DOUBTFUL (7)	Near Default	Severe financial distress, requiring extensive recovery actions.

Appendix 3: Example of Loan Approval Workflow

Step-by-Step Credit Approval Process in Standard Chartered Bank:

Application for Loans: The borrower submits the required documents, financial statements, and collateral details.

Credit Rating: The bank assesses creditworthiness through internal scoring models.

Approval by Credit Committee: Large loans or high-risk cases are approved by the senior credit committee.

Loan Sanction: The loan is sanctioned upon approval with defined terms and conditions.

Disbursement: The loan amount is transferred to the account of the borrower.

Monitoring: Loan performance is tracked from time to time.

Appendix 4: Sample Financial Ratios Used in Credit Assessment

Standard Chartered Bangladesh assesses the following ratios during credit evaluation:

Ratio	Purpose	Formula
Debt-to-Equity Ratio	Measure borrower's leverage.	Total Debt / Total Equity
Current Ratio	Assess short-term liquidity.	Current Assets / Current Liabilities
Interest Coverage Ratio	Evaluate the borrower's ability to pay interest.	EBIT / Interest Expense
Profit Margin	Measure profitability.	Net Profit / Revenue

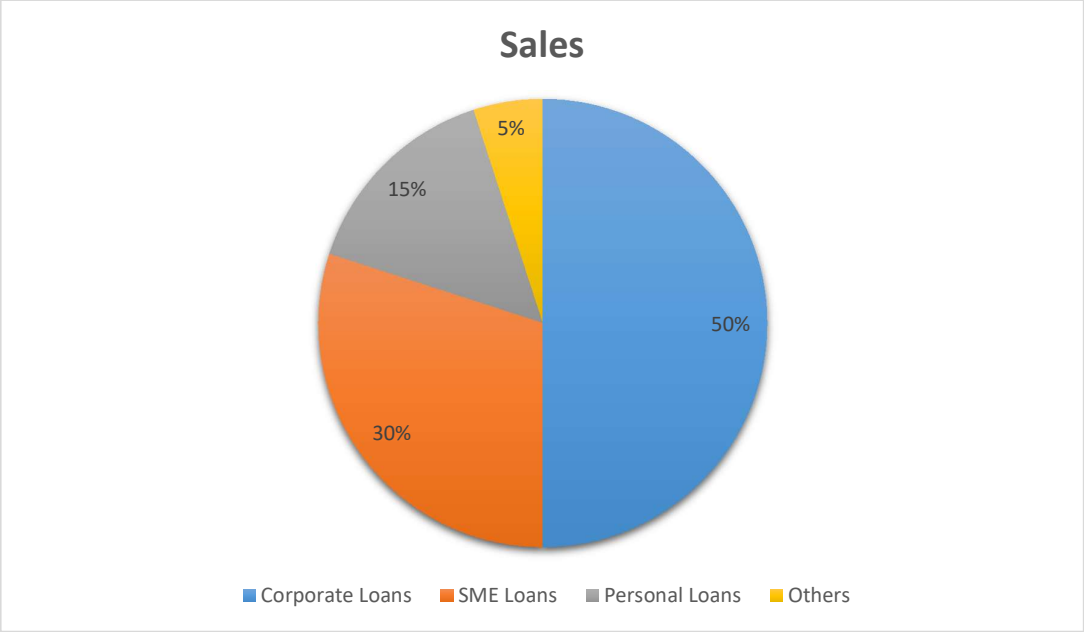
Appendix 5: Loan Portfolio Distribution of Standard Chartered Bank (2023)

Sector	Percentage of Total Loans
Corporate Loans	50%
SME Loans	30%
Personal Loans	15%
Others	5%

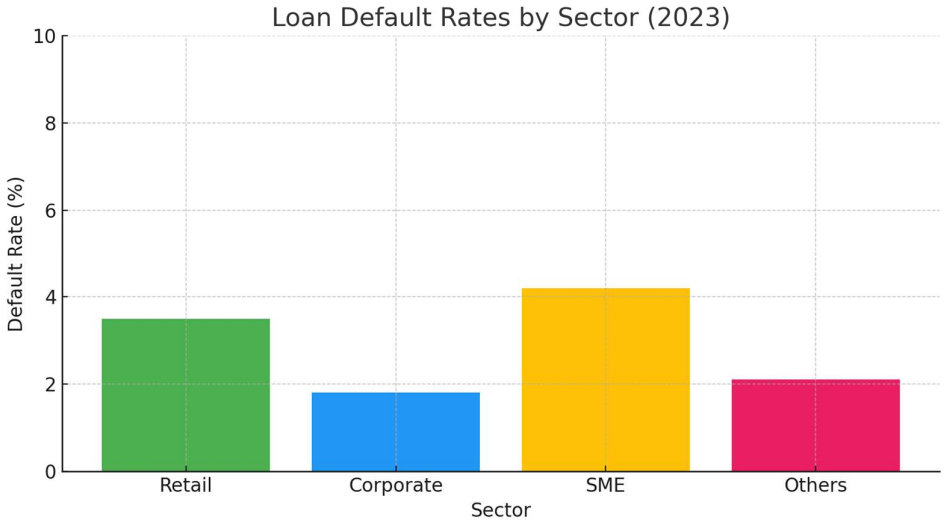
Graph 1: Loan portfolio (2023)

This graph depicts the loan portfolio distribution of Standard Chartered Bank for the year 2023, which is concentrated in four key sectors: corporate, retail, SMEs, and others.

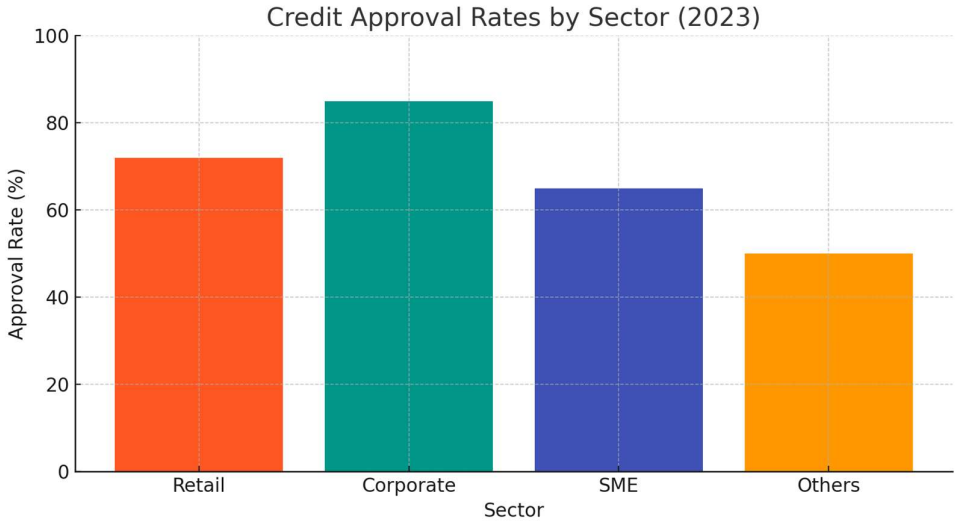
The corporate sector has the biggest share, which accounts for 50% of the total loan portfolio. This demonstrates that the bank is deeply interested in serving large businesses. The retail sector has a significant allocation of 25%, showing the bank's interest in individual customers. Loans to the SMEs constitute 20%, which shows the support of the bank for small businesses. The other categories take the remaining 5%, representing a meager concentration of less unusual sectors.



Graph 2: Loan Default Rates by Sector (2023)



Graph 3: Credit Approval Rates by Sector (2023)



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