

An Internship Report On

Financial Performance

Of

The Hongkong and Shanghai Banking Corporation



Limited (HSBC).



Prepared For

**Dr. Tanbir Ahmed Chowdhury
Professor
Department of Business Administration
East West University**

Prepared By

Maheen Kaiser

ID: 2007-2-10-016

**Department of Business Administration
East West University**

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EAST WEST UNIVERSITY



Letter of Transmittal

Dr.Tanbir Ahmed Chowdhury
Professor
Department of Business Administration
East West University, Bangladesh
Subject: Submission of Internee Report.

Dear Sir,

It is a great pleasure and privilege to present the intern report titled “Performance Evaluation of HSBC” which was assigned to me as a partial requirement for the completion of BBA program. Throughout the study I have tried with the best of my capacity to accommodate as much information and relevant issues as possible and tried to follow the instructions as you have suggested.

I am grateful to you for your guidance and kind cooperation at every step of my endeavor on this report. And my effort will be rewarded if it adds value to the research literature.

Maheen Kaiser
2007-2-10-016
Department of Business Administration
East West University, Bangladesh

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Executive Summary

The HSBC Asia Pacific group represents HSBC in Bangladesh. HSBC Opened its first Bangladesh branch in December 1996 to provide banking services, trade and corporate services and custody services. The bank primarily focuses on urban areas have branches in most areas of the capital city of Dhaka, it also has branches in the cities of Chittagong and Sylhet. The bank also has a good number of ATM booths in the cities present; it also has booths in most five star hotels.

HSBC Bangladesh is rated 'AAA' in the Long-term and ST-1 rating in the Short-term, which are the highest level of ratings for any bank or financial institution in Bangladesh.

HSBC Bangladesh offers a comprehensive range of financial services such as commercial banking, consumer banking, payments and cash management, trade services, treasury, and custody and clearing. The bank also offers offshore banking in the Export Processing Zones, this is only limited to investors in the EPZs. A special service called NRB Services is also available for non- resident Bangladeshis, this service allows consumers to maintain accounts in US Dollars, Pound Sterling and Euros. People using this service can freely remit money from Bangladesh to any part of the world and can access their money from any HSBC booth around the world.

HSBC Bangladesh has a help center which operates on a daily basic. It is one of the very few banks in the country to offer day night banking.

HSBC's global Islamic banking system called Amanah is available in Bangladesh. There is a special branch dedicated just for this service. Under this service customers can also avail debit and credit cards.

During my intern period I was placed in the Service Delivery Department of HSBC. I heavily enjoyed the work of this department. The work experience gave me a good idea of the overall banking system and taught me the professionalism at work place.

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Chapter 1: An Overview

1.1 Report Origin

This is internship report was prepared on one of the leading financial institution of the world. The brand called “HSBC” with its Hexagon symbol it is known to a lot of countries and territories. The bank is pretty new in our country with respect to its past history and its own culture. I consider myself very luck to obtain an opportunity to work in this organization as an intern student from East West University. During my internship period, I was placed in the HSBC’s Service Delivery Department (SD). In working with different personnel’s this department I got the opportunity to observe the operations that are done in the department and learnt quite a few operational activities during my internship period. In this process I observed a lot of banking operational disciplines which were being taken care of by the officers in SD. By the consent of my line manager Mr. Ashraful Hassan and the approval of my advisor at East West University **Dr Tanbir Ahmed Chowdhury**, I decide to prepare an internship report on “Performance Evaluation of HSBC”.

1.2 Purpose

The purposes of this report cognates the internship purpose. The internship objective is to gather practical knowledge and experiencing the corporate working environment with the close approximation to the business firm and the experts who are leading and making strategic decisions to enhance the growth of a financial institution. To this regard this report is contemplating the knowledge and experience accumulated from internship program. With the set guidelines and proposal by Department of Business Administration of East West University and with the kind advices of the organization and the internship supervisor, this report comprise of an organization part and a project part.

Objectives:

- To present a brief overview of Hongkong and Shanghai Banking Corporation Ltd.



- Give a very brief overview of the Loans & Credit System.
- To apprise the Financial Performance
- To identify problems of HSBC
- To Suggest remedial measure for Development of HSBC

1.3 Scope

The scope of this report is limited to the overall description of the company, its services and its financial performance analysis. The scope of the study is limited to organizational setup, functions, and performances Since HSBC is still in its growth stage in Bangladesh; it has still to go a long way to achieve its destination. Here in this report I used data for 5 years from 2006-2010. The report will mainly focus on the financial performance of HSBC, loans & credit system of HSBC and if there is relationship among the customers who are defaulting to pay the installments accordingly.

1.4 Methodology

Both the primary as well as the secondary form of information was used to prepare the report. The details of these sources are highlighted below.

Primary Sources:

- Interviews with 7 approval officers as well as the sales and collection teams.

Secondary Sources:

➤ Internal Sources

- ▶ HSBC Collection Manual
- ▶ HSBC Bank's Annual Report
- ▶ Group Business Principal Manual
- ▶ Group Instruction Manual (GIM) & Business Instruction Manual (BIM)
- ▶ Customer database and historical data of delinquent customers

- ▶ Different books and periodicals related to the banking sector
- ▶ Bangladesh Bank Circulars
- ▶ Newspapers
- ▶ Website information

Data collecting instruments:

➤ **In-depth interview**

- ▶ During the exploratory research, in-depth interviews were conducted with managers, approval officers, mobile sales officers (MSO) & collection tea of HSBC.

1.5 Limitations

- Being an intern of “Service Delivery – Operation (Analytics) department” of HSBC Motijheel, it was difficult to stay in continuous contact with other departments.
- As per Bank’s compliance, as an intern I was unable to obtain indispensable experiences of different departments.
- Details of many aspects of the services of HSBC Bangladesh Limited have been skipped in this report due to various constraints, including time and space, security reason.

One of the main barriers in writing this report was the confidentiality of data. Though I had access to lot of information regarding the performance of the bank, I am unable and not authorized to use this information due to legal restrictions.

Chapter 2: An Overview of HSBC Bangladesh

2.1 HSBC Bangladesh

The HSBC Asia Pacific group represents HSBC in Bangladesh. HSBC opened its first branch in Dhaka in 17th December, 1996 to provide personal banking services, trade and corporate services, and custody services. The Bank was awarded ISO9002 accreditation for its personal and business banking services, which cover trade services, securities and safe custody, corporate banking, Hexagon and all personal banking. This ISO9002 designation is the first of its kind for a bank in Bangladesh. The Hong Kong and Shanghai Banking Corporation Bangladesh Ltd. primarily limited its operations to help garments industry and to commercial banking. Latter, it is extended to pharmaceuticals, jute and consumer products. Other services include cash management, treasury, securities, and custodial service.

Realizing the huge potential and growth in personal banking industry in Bangladesh, HSBC extended its operation to the personal banking sector in Bangladesh and within a very short span of time it was able to build up a huge client base. Extending its operation further, HSBC opened a branch at Chittagong, three branch offices at Dhaka (Gulshan, Mothijheel and Dhanmondi) and an offshore banking unit on November 1998.

HSBC Bangladesh is under strict supervision of HSBC Asia Pacific Group, Hong Kong. The Chief Executive Officer of HSBC Bangladesh manages the whole banking operation of HSBC in Bangladesh. Under the CEO there are heads of departments who manage specific banking functions e.g. Personal banking, corporate banking, etc.



Currently HSBC Bangladesh is providing a wide range of services both two individual and corporate level customers. In the year 2006, the bank launched a wide array of personal banking products designed for all kinds of (middle and higher-middle income) individual customers. Key business areas of HSBC are:

- Personal Financial Services
- Commercial Banking
- Corporate and Institutional banking
- Global Markets
- Shariah Compliant Banking

HSBC in Bangladesh also specializes in self-service banking through providing 24-hour ATM services. In total HSBC currently has a Network of 13 offices, 39 ATMs, 9 Customer Service Centers, an offshore banking unit, and offices in 7 EPZs. And currently HSBC has 1051 employees as of December 2010.

2.2 Different Activities in Bangladesh

As one of the largest international banks in Bangladesh, HSBC has a long-term commitment to its customers and provides a comprehensive range of financial services: personal, commercial and corporate banking; trade services; cash management; treasury; consumer & business finance; and securities, and custody services.

Personal Banking Services:

The Hongkong and Shanghai Banking Corporation Limited offers a full range of personal banking products and services designed to take care of its customers' growing needs and requirements. HSBC in Bangladesh has launched a number of loan products during 2006. **Personal Installment Loan** is an unsecured loan that does not require any personal guarantee or cash security; **Car Loan**, also, does not require any down payment or personal guarantee. The Bank has already launched **Phone banking**, a state-of-the-art automated telephone banking service available 24 hours a day, 7 days a week, and 365 days a year, which allows customers to access their account from the comfort of the office or home. HSBC is the market leader in the local **Auto pay** service with which the company can initiate bulk Taka payments to, or Taka collections from, any HSBC current or savings accounts of counterparts for a specified sum at a specified date, regardless of the branch. HSBC also offers **Power vantage**, a unique all-in-one package of products and services designed to give total financial control to the customer; a unique savings account, which allows the customer to do any number of transactions without any charges being incurred or credit interest lost. To satisfy the growing needs of real estate HSBC Bangladesh recently launched **Home Loan** Scheme and a special type of deposit product named "Bangladesh International" for non-resident Bangladeshi.

Corporate Banking Services:

The Hongkong and Shanghai Banking Corporation Limited offers a wide range of cash financing, working capital, short and medium-term loans and guarantee facilities from its Head Office and Chittagong branch. The Offshore Banking Unit (OBU) provides US Dollar denominated working capital as well as short-term finance for capital imports to eligible businesses. Using high-speed communication links, HSBC connects customers to international payment systems.

Trade Services:

As the leading provider of trade finance and related services to importers and exporters in Asia, HSBC in Bangladesh operates a highly automated trade-processing network and offer an



Electronic Data Interchange (EDI) capability through **Hexagon**. The Bank also uses **SWIFT**, an efficient and secure mechanism for bank-to-bank global communications used for all trade related activities including fund transfers and issuance of DC's (Documentary Credit).

Financial Institutions:

HSBC provides global trade services and cash management services to local banks. HSBC's worldwide network strength, with over 7000 offices in 81 countries and territories, coupled with a world class reputation in Trade Finance ("Best Trade Documentation Bank" – Euro money) and an unparalleled presence in Asia ("Best Bank in Asia" — Euro money), places HSBC in an ideal position to render unmatched correspondent banking services.

HSBC's commanding presence in the USA (5th largest USD clearing bank globally), UK (largest GBP clearing bank globally), and the Euro land (largest Euro clearing bank in the UK) both in terms of network strength and clearing ability allows the Bank to provide first class cash management solutions in 3 major global currencies; US dollar, Pound sterling, and the Euro.

Payments and Cash Management (PCM):

HSBC is the pioneer in introducing electronic cash management solutions in Bangladesh, by introducing its state-of-the-art proprietary software, Hexagon, back in 1997. This was initially made available to corporate clients only but has since been expanded to include banks and retail clients.

With Hexagon, the Bank's proprietary cash management system, corporate customers can access banking services from anywhere in the world to view account balances and statements, make transfers and international payments, and to open documentary credits, by using only a PC, a modem, and a telephone line.

Chapter 3: Deposits & Loans

3.1 Deposits:

HSBC has different deposit schemes & these schemes are designed in such a way that customers can maximize their benefits. Proper planning today holds the key to a better tomorrow. Rewrite your future with HSBC Deposits plan. Different deposit schemes of HSBC are given below:

3.1.1 Savings Account:

- No ledger fees
- No matter how many transactions you make in your savings account, there is no charge involved and no loss on interest earned.
- PhoneBanking Service lets a customer conduct his banking transactions - 24-hours a day, seven days a week, 365 days a year.
- Personalized Chequebook

3.1.2 Smart Savers Plan:

- No sign-up fee
- Attractive savings interest rates and competitive rates on Overdraft facilities
- Customer can purchase as many units as you desire
- The tenure of the plan is 3 years
- Ideal units of BDT5,000; BDT50,000; BDT100,000 & BDT500,000.
- Convenient monthly instalments of BDT1,000; BDT2,400; BDT4,700 & BDT23,062
- Overdraft facilities upto 90% against your deposit with a minimum amount of BDT90,000

3.1.3 Current Account:

- Easy Pay machines offer customers and non-customers an easy, convenient and quick way to make deposits, payments and instructions. The Easy Pay machines provide services 24-hours a day, seven days a week.
- Imagine being able to access customers account through an ATM card, without having to visit a branch! A Customer can access his current account via ATM 24-hours a day, seven days a week

3.1.4 Savings Plus:

- Interest will be paid at the end of each month instead of six months.
- Free ATM card with daily withdrawal limit of BDT50,000.
- Free phone banking facilities.
- Free personalised chequebook
- Monthly statements.

3.1.5 Term Deposit:

- Flexible deposit periods to suit customers needs
- Customers can place Term Deposits with HSBC, for varying periods of time, 1, 3, 6 or 12 months.
- High interest with customers deposits
- Customers can earn higher interest on their term deposits with attractive rates. Interest is calculated from the date of the deposit until maturity, at the rate applicable when the deposit is first placed or renewed, and is paid when the deposit matures. Larger amounts attract extra interest, so the more a customer deposit, the more they earn!
- Renewal, transfer or withdrawal facilities
- On maturity of Term Deposit, HSBC will automatically renew it with the interest earned. Alternatively, a customer can transfer it to any of other accounts with us, or withdraw the Term Deposit and interest.



3.2 Loans:

Wish to have enough money to take an overseas vacation? Maybe buy a computer or furniture? A customer can now do all these and more, with a Loan from HSBC. Even a customer can face different unexpected situation at that time HSBC's Personal secured Credit can help you to get out of the uncertainty.

3.2.1 Personal Installment Loan (PIL)

- Any purpose loan – no cash security
- Minimum monthly income BDT 15,000/-, 2 years service in a well reputed, stable company, minimum age 25 and maximum 56
- Valid income proof documents must be furnished, unsecured loan, & no personal guarantee required
- Minimum loan amount is BDT 50,000/- and maximum loan amount is BDT 20,00,000/- or 4 times of salary
- Interest rate will be 18% per annum
- Maximum loan tenure is 36 months. If loan amount is BDT 4, 00,000/- or above then maximum tenure is 48 months
- Auto Pay customers will get discounted interest rate: 15.5% and loan amount: 6 times of salary or 2 million whichever is lower
- CEPS customers will get discounted interest rate: 15.5% and loan amount: 10 times of salary or 2 million whichever is lower
- Personal loans will be granted at discounted rates to employees of blue chip companies against assignment of terminal benefits as per agreement with employer. Loan tenure will be up to 5 years.

- For salaried individuals additional income including rent will be considered, provided these are substantiated with requisite documentation or evidence.
- For businessmen the TIN certificate and CIB (Credit Information Bureau) report will remain a mandatory document for income verification.
- A current account needs to be opened by the customer before applying for Personal Installment loan (PIL).

3.2.2 Travel Loan

Travel Loan is offered within the existing Personal Installment loan structure. The purpose of launching this product is to attract and aid customers with their travel related services.

- Loan amount is minimum loan amount is BDT 50,000/- and maximum loan amount is BDT 5,00,000/-
- Interest rate: 15%
- Tenure: Maximum loan tenure is 36 months. If loan amount is BDT 4,00,000/- or above then maximum tenure is 48 months.
- Loan processing fee: 1% of the loan amount or BDT 1,000/- whichever is higher + stamps BDT 170/-
- No personal guarantee is required

3.2.3 Car Loan

- Eligibility- minimum monthly income BDT 20,000/-, 2 years service in a well reputed, stable company, minimum age 25 and Maximum 56
- Valid income proof documents must be furnished
- No personal guarantee is required
- Minimum loan amount is BDT 4,00,000 maximum is 20,00,000/-

- Interest rate will be 14.5% per annum
- Maximum loan tenure is 60 months
- Loan processing fee is 1% of the loan amount or BDT 1,000/- whichever is higher + stamps BDT 170/-
- Car will be registered in Bank's name (no joint registration)
- Comprehensive insurance in discounted rate from selected insurance company in Bank's name is mandatory and automatically debited from customers account every year.
- CEPS salaried customers will get 0.5% discount in loan processing fee, i.e. 14%

3.2.4 Home Loan

It's easier than ever to own a dream home-

- Eligibility- minimum monthly income BDT 40,000/-, 2 years service in a well reputed, stable company, minimum age 25. The loan must end before borrower's age reaching 60 years or retirement date, which ever is earlier.
- This loan is provided for completed flats / apartments – less than 20 years of age
- No personal guarantee is required
- Minimum loan amount is BDT 7,50,000/- and maximum loan amount is 100,00,000/-
- Maximum loan tenure is 15 years, loan must be repaid prior to 57 years of age
- A maximum loan amount of 70% of the total value of the apartment costing up to BDT 50,00,000/- and 60% of the total value for the apartments over BDT 50,00,000/-. The total loan value is inclusive of the registration cost.
- Interest rate is 14% per annum
- Loan processing fee is 1.5% of the loan amount or BDT 20,000/- whichever is higher + stamp charge
- Security: Registered mortgage and original title deed
- Insurance: Fire, earthquake, flood, cyclone

3.2.5 Personal Secured Loan

Personal Secured Loan is a simple stand by loan against the Time Deposit and NRB Bonds and the loan is repayable in equal monthly installment.

- Standby loan against TMD and NRB bonds (WEDB/USDB)
- WEDB (Wage Earners Development Bond) or USDB (US Dollar Bond) issued from HSBC and other multinational banks are considered.
- Interest rate 12.5% for loan amount below BDT 5,00,000/- and 12% for loan amount of BDT 5,00,000/- and above
- Interest rate against LCY TMD is 13%
- Minimum loan amount BDT 90,000/-
- Maximum loan amount 90% of LCY TMD amount or WEDB and 80% of FCY TMD or USDB
- Processing fee against certificate issued from HSBC is BDT 1,000/- + stamps BDT 170/-

3.2.6 Personal Secured Credit

Credit facility against the investments-

Personal Secured Credit is a credit facility against Time Deposits and NRB Bonds that enables customers to have the flexibility to meet short-term commitments without unlocking their long-term investments.

- Customers can borrow up to 90% of their LCY TMD's and WEDB value
- WEDB and USDBs issued from HSBC and other multinational banks are considered
- Minimum loan amount is BDT 90,000/-
- Maximum loan amount 90% of LCY TMD amount or WEDB and 80% of FCY TMD or USDBs.

3.2.7 Credit Card:

Increase the spending power-

Product Name: HSBC – Prime Co-branded Master Card Gold Card

Card Type: Local Master Card Gold Card

Card Limit: Staff Card: BDT 15,000/- to 1, 00,000/-

Master Card Gold Normal: BDT 50,000/- to 1, 00,000/-

Master Card VIP: BDT 1, 00,000/- to 2, 00,000/-

Eligibility:

- **Primary Eligibility:** Minimum BDT 25,000/- gross income from regular sources. Bangladeshi Citizen 21-65 years of age and has account with HSBC
- For Supplementary card the person has to be at least 18 years of age
- **Card Life:** By default 2 years for all cards new and renewed
- **Billing Cycle:** 7th day of the month
- **Repayment Period:** 26th day of every month. Maximum 50 days interest free period
- **Minimum Payment Calculation**
- 8% of the current balance shown on the statement or BDT 500/- which ever is higher. If current balance is less than BDT 500/-, then full payment
- For over limit account: 8% of the credit limit plus exceeded amount

Personal Installment Loan

Product	Factors	Interest Rate		Loan Amount (BDT)	Processing Fee	Other Fees/ Offers
Personal Installment Loan Inclusive of 1. Professional 2. Life Style 3. Furniture 4. Wedding Loans	Regular	18%	15.5% for all Transcom Products Amount: BDT 30K to 100K 20OCT04-31OCT05	Min: 50,000 Max: 1,000,000 or 4 times of salary	1% of the loan amount or BDT 1,000 whichever is higher	<ul style="list-style-type: none"> Partial prepayment (at least 30% of the loan outstanding) fee is BDT 1,000 Early settlement fee: BDT 1,000. If paid within 3 months, 1% of outstanding amount or BDT 1,000 whichever is higher
	CEPS and Auto Pay	15%		Min: 50,000 Max: 2,000,000 or salary's 6 times for AutoPay and 10 times for CEPS		
PIL: Partial Secured	30% secured	17.5%		Min: 400,000 Max: 3,000,000	1% of the loan amount or BDT 1,000 whichever is higher	For 500K and above max 60 months
	50% secured	16.5%		Min: 400,000 Max: 5,000,000		
Motor Bike	Regular	18%		Min: 50,000 Max: 200,000 or 4 times of salary	1% of the loan amount or BDT 1,000 whichever is higher	Maximum loan tenure is 36 months
	CEPS and AutoPay	15%		6 times for AutoPay & 10 times for CEPS whichever is lower		
	Regular	18%		Min: 50,000		

Student Loan	CEPS and AutoPay	15%	Max: 750,000 or 4 times of salary 6 times for AutoPay & 10 times for CEPS whichever is lower	1% of the loan amount or BDT 1,000 whichever is higher	50K-399K=max36 months 400K-750K=max60 months
Travel Loan	Regular	18%	Min: 50,000 Max: 500,000 or salary's 4 times 6 times for AutoPay 10 times for CEPS	1% of the loan amount or BDT 1,000 whichever is higher	50K-350K Max36 months 351K-500K Max48 months
	CEPS and AutoPay	14%			
	With AMEX & Malaysia Airlines	14%			FCY endorsement commission 0.5%
CNG Conversion Loan	Regular	18%	Min: 30,000 Max: 50,000 or salary's 4 times	BDT 1,000 flat	12-24 months max



Car Loan					
Product	Factors	Interest Rate	Loan Amount (BDT)	Processing Fee	Other Fees/Offers
Car Loan	Unsecured	13%	Min: 100, 000 Max: 8,000,000	1% of the loan amount or BDT 1,000 whichever is higher	<ul style="list-style-type: none"> • Partial prepayment (at least 30% of the loan outstanding) fee is BDT 1,000 • Early settlement fee: BDT 1,000 • If paid within 3 months 1% of outstanding amount or BDT 1,000 whichever is higher
	100% secured	11%			
	30% secured	12.5%			
	50% secured	12%			
	CEPS and AutoPay	13%			

Loan Against Terminal Benefit & Home Loan

Against		Min: 100,000		
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Secured Loan

Personal Secured Loan	LCY TMD	TMD rate+3%	Min: 95,000 Max:	<ul style="list-style-type: none"> For HSBC security: BDT 1,000 + stamp charge BDT 170 For other bank security: BDT 1,500 + stamp charge BDT 170 	<ul style="list-style-type: none"> Partial prepayment (at least 30% of the loan outstanding) fee is BDT 1,000 Early settlement fee: BDT 1,000. If paid within 3 months, 1% of outstanding amount or BDT 1,000 whichever is higher
	FCY TMD and NRB Bonds	12%	<ul style="list-style-type: none"> LCY security: 95% of security FCY security: 80% of security 		
Personal Secured Loan	LCY TMD	TMD rate+3%	Min: 90,000 Max:	<ul style="list-style-type: none"> For HSBC security: BDT 1,000 + stamp charge BDT 170 For other bank security: BDT 1,500 + stamp charge BDT 170 	<ul style="list-style-type: none"> Partial prepayment (at least 30% of the loan outstanding) fee is BDT 1,000 Early settlement fee: BDT 1,000. If paid within 3 months, 1% of outstanding amount or BDT 1,000 whichever is higher
	FCY TMD and NRB Bonds	12%	<ul style="list-style-type: none"> LCY security: 90% of security FCY security: 80% of security 		

Terminal Benefit	Regular 12%		Max: 100% of the amount liened with HSBC	BDT 1,000 flat	
Home Loan	Regular 13.5%	For CEPS & AutoPay 13%	Min: 750,000 Max: 10,000,000	1.5% of the loan amount (This fee does not include valuation and legal vetting fee) 1% of loan amount For Rupayan, Living Stone, Sunmar, Equity Prpperty Management Ltd.	<ul style="list-style-type: none"> • Partial prepayment allowed (at least 30% of the loan outstanding) fee is BDT 1,000 • Early settlement fee is 1% of the loan outstanding or BDT 10,000 whichever is higher

Car Loan Special Offers (Loan Amount: BDT 50,000 – 4,000,000)

Rangs: MOU expired BDT 7,000 flat from Rangs Motor's (No loan processing fee from the customer)	<ul style="list-style-type: none"> • 1st – 0% from customer 11.5% from Rangs • 2nd year onwards – 14% OR • a flat rate of 13% for the full loan tenure
Rancon: MOU expired	<ul style="list-style-type: none"> • 1st yr – 0% from customer 11.5% from Rancon • 2nd year onwards – 13.5% OR • a flat rate of 13% for the full loan

	tenure
DHS Motors: MOU valid till 30 June 2011 1% processing fee	13%
A-1 Motors: MOU expired	
MTCL: 15Aug09 – 15Aug10 1% processing fee	
Khansons: 10Nov06 – 10Nov10 BDT 7,000 flat from customer for Khansons Automobiles 1% processing fee	

PFS Special Loan Offers For Other Organizations				
Name of the Company	PIL	Car Loan	Against terminal benefit	Home loan
BAT	13%	13%	11%	13%
Grameen Phone	13%	13%	N/A	13%
Nestle	13%	13%	11%	13%
GTZ .5%of the loan amount or BDT 1000 whichever is higher 50K-399K=Max 36months; 400>max 48 months	13.5%	13%	N/A	13%
SIEMENS 5%of the loan amount or BDT 1000 whichever is higher 50K-399K=Max 36months; 400>max 48 months Maximum tenure:4 yrs for 100000 and above	14%	13%	12%	13%
PBTL(City Cell)	13%	13%	12%	13%
DFID Processing fee to be waived if SCB loan being taken over	11.5%	13%	N/A	13%
BEXIMCO Pharma	13%	13%	N/A	13%
Uniliver Bangladesh	13%	13%	11%	13%
Advanced Technology Computer Limited	13%	13%	N/A	13%
American International University Bangladesh	13%	13%	N/A	13%
Navana Pharma	14%	13%	12%	13%
Tech Velly Computers Ltd	13%	13%	N/A	12%
TM International BD Ltd	13%	13%	N/A	13%
Youngone Hi-Tech Sportswear Ind. Ltd.	13%	13%	12%	13%
KENPARK BANGLADESH LTD	14%	N/A	N/A	N/A

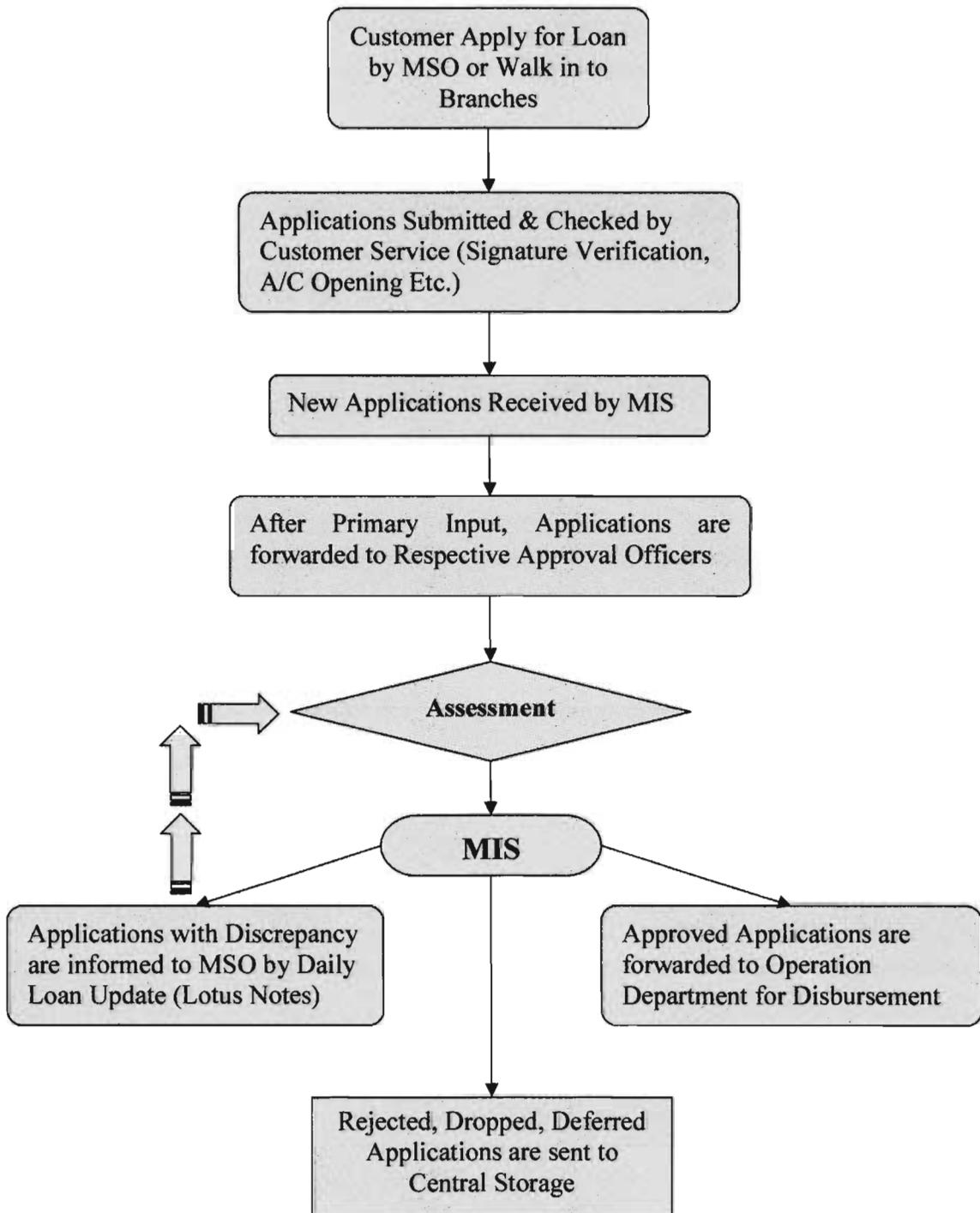
Processing Fee:

PIL: 1% of loan amount or BDT 1000 whichever is higher

CAR Loan: 1% of loan amount or BDT 1000 whichever is higher

Loan against Terminal Benefit: BDT 1000 FLA

Credit Assessment Criteria:



3.2.8 Corporate Banking Services

HSBC offers wide range of cash financing, working capital, short, and medium-term loans, and guarantee facilities to its corporate customers. Its offshore banking Unit (OBU) provides US dollar denominated working capital as well as short term finance for capital imports to eligible businesses. HSBC is a worldwide leader in banking and financial services whose success is based on its relationships with its clients. Whether locally or around the world, HSBC offers a comprehensive range of services that can be tailored to the company's needs. Some major services provided by HSBC corporate division are Custody services, Global payment & cash management, Trade services, & Hexagon.

3.2.9 Global Payments & Cash Management (PCM)

HSBC's Global Payments and Cash Management services are designed to help its clients to operate efficiently, profitably and with comprehensive support. The aim is to provide a service that takes full account of the customers' local needs as well as regional and international requirements using our expertise and global resources of the HSBC Group. PCM provides the following services to its clients:

- **Accounts & transaction management services:** Structuring of bank accounts to optimize the management and flow of funds within or across national borders.
- **Cash & Liquidity management services:** Cash is a company's most volatile asset and HSBC provides the best service to manage its client's cash efficiently.

3.2.10 HSBC Trade Services (HTV)

HSBC is the leading provider of trade finance and related services to importers and exporters in Asia. The bank operates a highly automated trade-processing network and offers an electronic data interchange (EDI) capability through Hexagon. Some services provided by HTV are as follows:



Import Services

A full range of import services handled by experienced staff is available, ensuring that clients import documents are processed without delay. Some import related services are- Import collection services, Import financing services, Import documentary advising, Processing, and advising on shipping guarantees.

Export Services

HSBC provides advices on any aspect of export document preparation. It also provides working capital finance to help the sourcing of raw materials. Some other export services are- Pre-shipment Financing, Post shipment Financing, Purchase of Export bills, Back-to-Back credit, and LC, Documentary credit advising, Documentary checking.

Risk management

HSBC has developed a unique range of specialized products aimed specifically to reduce a company's exposure to international trade risk. The services in this area are-

Trade Collect Service:

A dedicated US dollar export bill collection service from HSBC.

Trade Safe Service:

A major concern for many exporters is the reliability of the LC issuing bank, particularly if shipments are going to less familiar markets. If these banks get into difficulties, the exporter may not get paid. That's where HSBC comes in. Under the Trade Safe Service, HSBC absorb the bank and country risk, allowing clients to concentrate on growing business. **So these are some of the services provided by HSBC trade services.**

Chapter 4: Evaluation of Financial Performance

4.1 Profitability Ratios:

The first step in evaluating the performance of a bank is to determine its goals and objectives. The main objective of any firm is to maximize the value of the firm, i.e., maximize the value of

its stockholders. In order to evaluate whether the bank's performance is fulfilling its objective we have calculated the following profitability ratios of HSBC.

Table 1: Total Deposits:

Year	Deposit	Relative Size in the Industry	Relative Size in the Group	Rank in the Industry	Rank in the Group
2006	4766	0.40%	9.03%	30	5
2007	5643	0.45%	11.03%	32	5
2008	5894	0.51%	15.01%	29	4
2009	5993	0.57%	19.34%	29	4
2010	6123	0.61%	22.02%	29	3

This Table shows that in 2006 total number of deposit was 4766 & it is increasing every year. In 2010 number deposits increased to 6123 and the bank achieved 3rd position in the group.

Table 2: Total Advances:

Year	Advances	Relative Size in the Industry	Relative Size in the Group	Rank in the Industry	Rank in the Group
2006	2,055	0.32%	9.00%	30	4
2007	2,456	0.36%	10.08%	28	4
2008	2,755	0.39%	10.65%	28	4
2009	3,325	0.43%	11.03%	28	4
2010	3,749	0.47%	11.59%	28	4

Similarly if you look at the table you can see that total number of advances is also in a increasing trend throughout the years. In 2010 it was maximum 3,749.

Table 3: Total Foreign Trade:

Year	Foreign Trade	Relative Size in the Industry	Relative Size in the Group	Rank in the Industry	Rank in the Group
2006	28,114	2.78%	15.30%	13	5
2007	32,355	3.55%	17.06%	12	5
2008	38,000	4.62%	19.22%	11	4
2009	41,278	5.12%	21.37%	11	4
2010	45,162	5.96%	23.64%	11	4

Foreign trade of HSBC is increasing since 2006 at a good pace. If you look at the foreign trade of 2006 it was 28,114 & now in 2010 it is 45,162 which is huge.

Table 4: Total Assets:

Year	Total Assets	Relative Size in the Industry	Relative Size in the Group	Rank in the Industry	Rank in the Group
2006	3,888	0.37%	6.28%	31	4
2007	4,200	0.39%	6.98%	30	4
2008	4,340	0.41%	6.73%	31	5
2009	4,521	0.40%	6.64%	30	4
2010	4,661	0.39%	6.93%	30	4

This table shows the total assets of HSBC. As the year goes by it is increasing, in 2006 it was 3,888 but now in 2010 its 4,661. Total number of assets of HSBC shows an increasing trend from year 2007- 2009.

4.2 ROA & ROE

Year	ROA	ROE	Credit Deposit Ratio
2006	1.26	9.51	63.54
2007	3.05	8.52	67.52
2008	4.50	10.03	65.05
2009	4.91	10.38	66.31
2010	5.01	11.11	67.95

Both ROA & ROE increased throughout the years from 2006 -2010. In 2006 ROA was 1.26 while ROE was 9.51 in 2010 ROA was 5.01 & ROE was 11.11 which show that the HSBC's Return is in a very good trend. Even the credit deposit ratio is also in a good position over the years from 2006 – 2010.

Return on Equity (ROE):

ROE is the rate of return flowing to bank's shareholders, i.e., the net benefit the investors have received from investing their capital in the bank.

ROE is calculated as follow:

$$\text{ROE} = \text{Net Income after Tax} / \text{Total Equity Capital}$$

The calculated ROE figures have shown a increasing trend from the year 1998 to 2010. It has increased to 11.11% during this period. The main reason behind this result is the well tax management efficiency of HSBC that result in higher net income after tax. Another reason is the increase in Equity/Total Asset ratio improves the earnings as much as expected. As a result the ROE has increased.

Return on Asset (ROA):

ROA is a managerial efficiency indicator that shows how successfully the management has been converting the bank's assets into net earnings. ROA is calculated as follow:

$$\text{ROA} = \text{Net Income after Tax} / \text{Total Asset}$$

It has increased due to higher percentage increase in net income compared to percentage increase in total asset i.e., the bank has utilized its asset efficiently.

4.3 Net Interest Margin:

It measures how large a spread between interest revenues and costs management has been able to achieve by control over Bank's earning assets and the pursuit of the cheapest sources of fund. It is calculated as follow:

$$\text{Net Interest Margin} = (\text{Interest Income} - \text{Interest Expense}) / \text{Total Asset}$$

During the period 2008-2010 net interest margins were 2.71%, 3.81%, and 3.98% respectively. This shows that the interest revenue has risen relative to the interest expense over these years. This shows a very effective control of the management over the revenue and expense.

Net Non-Interest Margin:

It measures the amount of non-interest revenue stemming from service charges the bank has been able to collect relative to the amount of non-interest cost incurred. The formula for determining the net non-interest margin is-

$$\text{Net Non-I Margin} = (\text{Non-Interest Revenue} - \text{Non-Interest Expense}) / \text{Total Asset}$$

Net non-interest margin of HSBC was negative in 2006, and then it improved a little bit to 0.23% during 2007 and again it has fallen to .01% in 2008, and till 2010 Net non-interest margin of HSBC is stable. These results clearly show the inefficiency in controlling the non- interest expenses, which exceeds the non-interest revenue earned by the Bank.

4.4 Net Operating Margin:

It indicates how well management and staffs have been able to keep the growth of revenues ahead of rising costs. It is actually the combination of net interest margin and non-interest margin. Net operating margin is calculated as follow:

$$\text{Net Operating Margin} = (\text{Total Operating Revenues} - \text{Total Operating Expenses}) / \text{Total Asset}$$

HSBC's net operating margin was respectively 2.71%, 4.03%, and 3.99% during the years 2008, 2009, and 2010. It has fallen during the periods 2008-2010 due to lower net non-interest margin, i.e., increased non-interest expense in 2009 compared to 2008.

Earning Spread:

The spread measures the effectiveness of the bank's intermediation function in borrowing and lending money and also the intensity of competition in the bank's market area. Earning spread of a bank is calculated as follow:

$$\text{Earning Spread} = (\text{Total Interest Income} / \text{Total Earning Asset}) - (\text{Total Interest Expenses} / \text{Total Interest Bearing Bank Liabilities})$$

Earning spread of HSBC has declined from 3.41% to 3.39% during 2008-2010 due to increase in competition and again it increases to 3.50% during year 2010.

Earning Base in Assets:

It is the measure of non-earning assets versus earning assets. It is calculated by the following equation:

$$\text{Earning Base in Assets} = \text{Total Earning Assets} / \text{Total Assets}$$

HSBC's earning base in assets has seemed to be high in the past three years. It was 73.97% in 2008 and it increases to 94.18% in 2009 and being unchanged during 2010. These figures certainly indicate the HSBC's efficiency in acquiring earning assets.

4.5 Net Profit Margin:

The profit margin reflects the effectiveness of cost control and service pricing policies of a bank. Net profit margin of a bank is determined by the following formula:

$$\text{Net Profit Margin} = \text{Net Income after Tax} / \text{Total operating Revenue}$$

Net profit margin of HSBC has declined from 19.74% during 2008 to 13.87% during 2009. It further deteriorated to 12.81% during 2010. This certainly indicates the poor management of costs that results in declined percentage of operating revenue converted to net income.



4.6 Asset Utilization Ratio:

It reflects the portfolio management policies, especially the mix and yield on a bank's asset. The asset utilization ratio of a bank is calculated as follow:

$$\text{Asset Utilization Ratio} = \text{Total Operating Revenue} / \text{Total Assets}$$

The asset utilization ratio of HSBC has an increasing trend during the period 2008-2010. It increases from 8.47% to 11.35% during this period. This trend indicate that yield on the Bank's asset has been increasing and credit for this goes to the portfolio management policies formed by the management.

Equity Multiplier:

Equity multiplier reflects the leverage or financing policies that indicates the sources chosen to fund a bank (debt or equity). The following formula is used to calculate equity multiplier of a bank:

$$\text{Equity Multiplier} = \text{Total Assets} / \text{Total Equity Capital}$$

Equity multiplier of HSBC has decreased from 12.44 x during 2008 to 10.93 x during 2009 and it has further deteriorated to 9.93 x during 2010. These ratios certainly indicate that equity financing of the Bank has been increased during this period. The decreasing ratios reduce the Bank's potential for high returns for its stockholders. On the other hand, it reduces the exposure to failure risk of the Bank since the larger equity portions absorb losses on the Bank's assets.

Tax Management Efficiency:

It reflects the bank's use of security gains or losses and other tax management tools to minimize its tax exposure. Tax management efficiency of a bank is calculated by using the following formula:

$$\text{Tax Mgt Efficiency} = \frac{\text{Net Income after Tax}}{\text{Net Income before Tax \& Security gains}}$$

The tax management efficiency of HSBC shows a decreasing trend during the period 2008-2010. This means management of HSBC is facing problem in controlling its tax expenses since the tax management efficiency ratio has fallen from 61.84% to 51.63% during this period. The main reason behind this drop is the lower debt ratios used by the bank during this period. The debt ratios were 91.96 % during 2008, 90.85% during 2009 and 89.93 % during 2010.

Expense Control Efficiency:

It is a measure of operating efficiency and expense control. It indicates the amount of revenue survive after operating expenses are removed. Expense control efficiency of a bank is calculated as follow:

$$\text{Expense Control Efficiency} = \frac{\text{Net Income before Tax \& Security Gains}}{\text{Total Operating Revenue}}$$

Expense control efficiency of HSBC was 31.93% during 2008, 25.35% during 2009 and 24.82% during 2010. This decreasing trend indicates the poor expense control policies of the Bank. So, HSBC should be aware and monitor carefully the operating expenses specially the non-interest expenses of the Bank.

4.7 Operating Efficiency Ratio:

It is also an expense control measurement. It is calculated by the following formula:

$$\text{Operating Efficiency Ratio} = \frac{\text{Total Operating Expenses}}{\text{Total Operating Revenues}}$$

Operating efficiency ratio of HSBC has declined from 68.07% during 2008 to 63.96% during 2009 and during 2010 the ratio has slightly increased to 64.82%. The decreasing trend during this three-year period implies that operating expenses of the Bank has declined as a percentage of operating revenue, which indicates to its improved expense control management.

4.8 Liquidity Indicator Approach:

The liquidity position of HSBC can be determined by using certain financial ratios or liquidity indicators. For example:

Cash Position Indicator:

$$\text{CPI} = \frac{\text{Cash and Deposit Due}}{\text{Total Assets}}$$

This ratio for HSBC was 23.25% in 2008, 25.85% in 2009 and 38.97% in 2010. This shows the significant improvement in the proportion of cash that indicates a stronger position to handle immediate cash needs.

Liquid Security Indicator:

LSI = Government Securities / Total Assets

This ratio of HSBC has increased from 3.29% during 2008 to 6.92% during 2009 and it further increased to 9.10% during 2010. This increasing trend certainly indicates that the Bank's holding of readily marketable securities has been improved, which indicates its stronger liquidity position.

Net Federal Fund Position:

NFFP = (Federal Funds Sold – Federal Funds Purchased) / Total Asset

It measures the comparative importance of overnight loans (federal funds sold) to overnight borrowings of reserves (federal funds purchased). Net federal fund position HSBC has increased from 0.63% to 1.75% during 2008-2010. These figures indicate that the proportion of net federal funds has been very low but it has improved during last two years and so does the liquidity position of the Bank.

Capacity Ratio:

CR = Net Loans and Leases / Total Assets

Capacity ratio of HSBC has increased from 30.99% to 48.23% during 2008-2010 periods. This implies that the proportion of loans and leases, the most illiquid assets of a bank, have increased during this period. As a result, the liquidity position of HSBC may have affected adversely.

Pledged Securities Ratio:

PSR = Pledged Securities / Total Security Holdings

Pledged securities ratio of HSBC has declined from 9.13% during 2008 to 6.57% during 2009 and further declined to 2.37% during 2010. This implies that the proportion of pledged securities of HSBC has decreased since 1998 and so higher proportion of securities is available to sell when liquidity needs arise.

Hot Money Ratio:

HMR = Money Market Assets / Money Market Liabilities



HSBC's hot money ratio has increased from 0.55x to 0.67x during 2008-2010. This implies that the Bank has increased its money market borrowing with increase in its money market assets that could be sold quickly to cover its money market liabilities.

Core Deposit Ratio:

CDR = Core Deposit / Total Assets

Core deposits are defined as total deposits less all deposits over Tk.100,000/-. These deposits are considered unlikely to be withdrawn on short notice and so carry lower liquidity requirement. The core deposit ratio of HSBC has increased from 46.53% to 57.89% during 2008-2010 and it again has fallen slightly to 52.82% during year 2009. But it can be inferred that in terms of core deposit the liquidity position of HSBC has been improved during 2009-2010.

Deposit Composition Ratio:

The deposit composition ratio of HSBC was 22.36% in 2008, 18.59% in 2009, and 18.42% in 2010. This decreasing trend implies that HSBC has greater deposit stability since amount of demand deposit has declined during this period, and therefore the Bank has lessened need for liquidity.

Chapter 5: Problems of HSBC :Skip Customer's Demography and Trend Analysis

5.1 Delinquency and skip customers:

Delinquency is one of the most difficulties that banks are facing at this moment. The primary task of the collection department of bank is to reduce the delinquency level or keep it under control. As the delinquency level of a bank begin to rise it worsens the financial condition and the consequence can be fatal. As skip customers we can refer to those who have overdue or have not paid their monthly installments on time. And there is a basic difference between delinquent and skip customers. Skip customers are those who have overdue and from collection point of view the due amount is uncollectible. As example we can consider the customers who have provided false address and could not be contacted later on, the deceased customers, customers

who have shifted to another country permanently, job less, job changed, fraud etc are skip customers.

Data regarding the Skip customers of HSBC shows that it still in a tolerable level but showing a increasing tendency. The main reason is that some certain groups of customers have been delinquent very often and skipping without any trace. According to the Delinquency Cycles of HSBC's personal asset products, "Skip" customers are the defaulters who have not paid EMI (Equal Monthly Installment) regularly and its not possible to collect or repayment of overdue amount from the customers. Moreover, once a borrower is conserved as a Skip or default customer, cheques are bounced rendering the borrower criminally liable, legal notice served of defaulter to repay; failing this an arrest warrant/summons is issued by the court. Finally, on failure to repayment, those account are written off with due approval of from Manager PFS or Manger CRM. Analyzing the nature of skip customers of personal asset products will reveal whether there is any natural tendency among the skip customers or if there is any correlation among them. Moreover, analysis will help to find out the steps that should be taken to control or bring the skip customers tendency at a nominal level

In-depth interviews were conducted with credit collection officers of the department of CCR of PFS since they are responsible to follow up customers for repaying their loans. In detail conversation with them, eight groups have been sorted out based on skip customers' characteristics.

5.2 Skip Customers Nature:

LOB - Loan Overburden:

Most of these customers have taken loans not only from HSBC but also from other banks. Some of them invested the loan amount in own business or taken the loan for friends and relatives. Therefore, too much loans have created over burden on them, which results into irregular payment of loan of HSBC.

JOC - Job Changed:

This group have changed job after availing the loan. Now, they are receiving lower salary than before, this is not enough to repay the loans.

JOL - Job Less:

These customers are currently job less. They have lost their jobs somehow after availing the loan. Therefore, they are having serious problems in paying loan installments.

FRA - Fraud Activities:

Post-approval verification found that these customers have taken loans by providing false documents and information.

SAL - Salary Problem:

These customers are facing salary problems i.e. either their employers are not paying them or they are irregularly paid which results into irregular payment of loan installments.

IND - Intentional Defaulter:

These customers have no intention to pay off the loan. They do not want to maintain any kind of relationship with the bank after availing the loan.

TRA - Traceless:

Customers having invalid contact no, false references and false addresses are included in this group. Therefore, collection officers cannot contact them and force them to pay off the loan.

STC- Shifted to other Country:

Customers have intentionally escaped or permanently shifted to other country without informing the bank as well as not paying the overdue of the loan. In this situation after taking every possible step to contact customers, the loan is written-off from the book and defined as bad and loss. But bank take legal action like filing case against the skip customers.



OTH - Others:

Customers who have other reasons like serious illness, address change, family crisis, temporary financial problem etc. are included in this group.

There are 74 “Skip” customers as of February 2005 of personal asset products of HSBC. The analysis has been done on this database and each skip customer’s nature has been derived by interviewing collection officers’ of CCR, PFS, and HSBC.

Analyzing Nature of Skip Customers:

The following data have been collected from the Skip customers’ database of MIS department and comments are supported by in-depth interviews with credit collection officers, tele-collector and collection supervisor of the department of CCR, PFS.

Ratio of nature of Skip customers based on their characteristics:

Nature of Customers	No. of Customers	%
LOB	32	42
IND	3	4
JOC	4	6
JOL	8	11
TRA	20	27
STC	3	4
FRA	4	6
Total	74	100

From the analysis we can see that about 42% of total Skip customers are having loan over-burden problems, 4% customers are intentional defaulters, 6% customers are not paying due to job-switching or 11% of are job-less. 27% customers are totally traceless; therefore payments are not coming from them. Finally, 4% customers skipped as they move to another country without

repaying the loan. Some of them found fraud (6%) or having other problems like illness, financial crisis or have passed away.

Ratio of Asset-Products of Skip Customers:

From the above table, it is found that 92% of skip customers have taken personal installment loan and 8% have taken car loan. The ratio of skip customers of car loan is very low since the vehicle; insurance and registration documentation are held as the security against the loan. If a customer reaches to Grade-6, collection officers initiate the repossession proceedings. Besides, it is noteworthy that there are no skip customers of personal secured credit and personal secured credit since these loans are given against the bonds. Normally the security is encashed if the customer misses three consecutive EMIs. Since the apartment, property insurance and documents are held as security in the case of home loan, there is no skip customer of home loan.

Ratio of CEPS/AutoPay in Skip Customers:

Customers Type	No. of Customers	%
CEPS/AUTOPAY	15	20
General	59	80
Total	74	100.00

It is found that only 15% of total skip customers are having CEPS/AutoPay background. Since Autopay customers’ salary is deposited in HSBC’s account, their chances of becoming delinquent are very low. In addition, customers with CEPS background are from high-profile companies. Their loan repayment behavior has been good over the years.

Nature of CEPS/AutoPay Customers:

Nature of Customers	CEPS/AUTOPAY	%
LOB	5	8
IND	4	7
JOC	15	25
JOL	7	12
TRA	8	1
STC	10	17
FRA	6	10
Other	4	7
Total	59	100

It is found that 5% of total CEPS/Autopay customers are having loan overburden problems, 22% customers are from job-changed and job-left group and 4% customers are international defaulter. Finally, 8 % of the skip customers are delinquent since they are traceless, have no intention to pay or have salary problem. It is evident that, some of these customers have availed the loan at lower interest rate using company reputation or autopay advantages. 10% skip customers have left the country without repaying the loan and have no intention to pay in future. And 4% of the customers have other reason like death, illness, mental retarded etc. However the overall ratio is satisfactory so far.

Companies in Terms of Skip Customers:

Company	CAR	PIL	Company	CAR	PIL
A K Lub Oil Pvt Ltd		1	Learning Spree Era		1
Access Telecom Bd Ltd		1	Legacy Footwear Ltd		1
AIN O Salish Kendro		1	Li & Fung Bd Ltd		1
Arshi		1	M/s Kamal Enterprise	1	1
Asset Devel & Holdings Ltd		1	Macro Footwear Ltd		1
Aurora Associates		1	Malaysia Airlines		1
AZE CD & COMPUTER		1	Marks & Allys Ltd		1
Babul Traders		1	Navana Electronics Ltd		1
Bang Shilpakala Academy		1	New Horizons		1
BAT Bd Ltd		3	Newport Express Bd Ltd		2
BATA Shoe Co. (Bang) Ltd		1	Youngone (CEPZ)		2
Beximco Pharmaceuticals Ltd		1	Opex Group	1	5
Beximco Textiles Ltd		1	Orion Taxi Cab Pvt Ltd	1	1
Boichitra		1	Pathfinder Development Bd Ltd		3
Conversyl Departmental Store		2	Philips Van Heusen Far East Ltd		1
DANIDA		1	Quasem Zinc Ltd.		1
Dhaka Sheraton Hotel		3	Rangs Ltd		1
Dolphin Computers Ltd		1	Royal Brunei Airlines		1
Etcetera Bd		1	Scholastica Ent Pvt Ltd		1
Fabian Group		2	Sheba Electric (BD) Ltd		1
General Pharmaceuticals Ltd		1	Tex-Ebo Int Pvt Ltd		1
George Washington School		1	Travel World		1
Global Brand Pvt Ltd		1	West Wind Internatioal		1
Grameen Phone		1	Beximco Textile Ltd	2	3
GrameenSoftware Ltd		1	Grand Total	5	69
KAFCO's		2			
Karnaphuli Ltd		1	Total Skip Customers		74

It is found that, Opex Group have been producing highest no (5) of skip customers and in the second place Dhaka Sheraton Hotel, British American Tobacco, Pathfinder Development Bd Ltd have been producing the second (3) number of delinquent customers. From interview with collection officers, it is found that those customers are lower level employees (mainly chefs and waiters) but receive high salary (16,000-25,000/=). They don't have higher education, which is a major reason for unwillingness to pay off loans. Besides, some of them have loans with other banks or they are intentional defaulter. Whenever they get salary, they are more interested in meeting other commitments, family needs etc but not in paying loan installments. Collection officers have found them very problematic and commitment- breaker.

These reasons are applicable for KAFCO's (2) employees also. Though, they get handsome salary but they are over-burdened with other loans, which create problems in paying loan installments.

Next, Beximco Textile Ltd (2) and Youngone (CEPZ) Ltd (2) are other riskier companies in terms of having delinquent customers. As Beximco Textile Ltd is not a financially strong and profitable company, they do not pay their employees regularly. They pay them once in every 3-4 months, which create problems for a customer in paying loan installments.

Besides, in Youngone (CEPZ) Ltd, the ratio of job-left and job-switch cases are high. More over, this company doesn't pay its employees regularly also. Therefore, there are some delinquent customers of this company. The Ratio of rest of the companies can be ignored but have to be monitored closely as applicants from these companies might give a significant rise in skip customer's trend.

Riskier Sectors in Terms of Skip Customers:

Sector	CAR	PIL	%
Academy of fine & performing arts		1	2
Airlines & Aviation		1	2
Pharmaceuticals		1	2
Buying House		3	6
Cargo & Airlines		1	2
Cellular Service Provider		1	2
Cigarette Manufac. & Mkt.		3	6
Computer Education Centre		1	2
Construction & Trading		1	2
Construction and Supply	2	3	6
Courier		1	2
Dying, Knitting & Packaging		2	4
Electrical goods import & trading		1	2
Fabrics Manufacturing		1	2
Garments Accessories	1	1	2
Garments Item		1	2
Hotel Services		3	6
Human rights and legal aid		1	2
Industrial Thread Manufacturer		2	4
ISP		1	2
PC accessories		1	2
Producing & Distrib. of Drugs		1	2
Real Estate developer		1	2
RMG	1	5	10
Shipping, Manufacturing		1	2
Show Retailing		1	2
Taxi Cab Company	1	1	2
Tele Communication		1	2
Ticketing and Cargo		2	4
Trading & Marketing		3	6
Grand Total	5	51	100

From the above table, it is found that 10% of total Skip customers own or work in garment factories; dying, knitting and packaging industries or fabrics manufacturing companies. It has been observed that, people, working in this sector are more likely to change the job, leave the job due to irregular salary payment from the employer. Therefore, this sector can be considered risky in giving loans.

There are about 6% skip customers in Pharmaceutical sector. From interview with credit collection officers, it is found that, most of the people, working in pharmaceutical companies, are sales officers. Their salary is mainly commission-based. When they fail to reach their sales-target, assigned by their companies, they don't get commissions. Therefore, they face serious problems in paying loan installments.

There are 4% skip customers in dyeing, knitting, and packaging sector. In this sector, the practice of job change is very apparent. Moreover it is a sensitive sector, which fluctuates simultaneously with market-demand. Some the owners, who have taken loan from HSBC, became skip customer due to financial instability of the firm. Another analysis, it is found that people, who work in hotel sector, do not have good record in loan repayment, too. Skip customers rate in this sector is like 6%, due to dependability on the market demand heavily. Other risky sectors are Developer and Construction suppliers sector (6%), Buying/Trading Houses (6%) etc.

People, who work in developing and construction businesses, always having shortage of cash in hand. Whenever they get money they invest in the business as soon as possible. Therefore, they often fail to pay loan installment due to crisis of liquid money. The ratio of leaving job or job mobility is high in trading and marketing business. Moreover, people who work in this sector often hide their actual salary and avail the loan by showing their salary much higher. In addition, these people work in sales department. Their fixed salary is very low. They totally depend on sales-commission. Therefore, it is hard for them to pay loan installment when they are in a bad situation.

In the ticketing and shipping cargo sector, is another sector where the rate of skip customers is about 4%. Primary reason for this we say about their income level which is not high and commission based. They are over-burdened with other loans taken from either friends or from other banks. Therefore, they often face financial problem or others difficulties in paying loan installments when there is downtrend in RMG, construction, food supply business. Because these are the business that uses the cargo service mostly.

Besides, some businessmen have become hardcore defaulters who work in buying or trading companies. Usually, those buying houses' financial stability have been very poor and some of them are losing businesses. Showing false salary to avail the loan is also a common practice in this sector. In addition, in some cases, it is found that, some customers have taken loans by showing ownership of buying houses, though that house does not exist at all. Moreover, some trading houses owner have availed loan by representing false documents and information.

Finally, other risky sectors are- real estate business, cigarette manufacturing and marketing etc. The ratio of rest of the sectors can be ignored as they have very negligible percentage of total delinquent accounts.

Skip Customers in terms of Age, Service Tenure and Income Level:

Loan over Burden:

Service Tenure	No of Customers	%
2-3 Years	9	28
3-5 Years	5	16
5-7 Years	8	25
7(+) Years	10	31
Total	32	100.00

Monthly Income	No of Customers	%
15000-25000 tk.	12	38
36000-45000 tk.	8	25
26000-35000 tk.	7	22
45000(+)	5	16
Total	32	100.00

Age	No of Customers	%
25-30Years	15	47
31-40Years	9	28
41(+) Years	8	25
Total	32	100.00

It is found that, 47% of total skip customers are due to loan over burden is from 25-35 years age group, 38% customers' monthly income range is 15000-25000 tk, 28% customers' service tenure is between 2-3 years. 28% of total skip customers are due to loan over burden is from 31-40 years age group, 25% customers' monthly income range is 36000-45000 tk, 16% customers' service tenure is between 3-5 years. We can find a trend from the analysis that those who are working more than 7 yrs in a company within income range of 15000 – 25000 tk are overburdened more than other categories.

Analysis implies that, most of the LOB customers' work experience and income level is not very high. Moreover, they are from young age group. From interview with the collection officers, it is found that, in most of the cases, customer deliberately concealed the actual purpose for taking the loan and used vague terms like “Purchasing household appliances”, “Personal expenditure” etc. Most of these customers have personal loans with other banks or with their friends and relatives and taken loan from HSBC just to repay those loans. Moreover, they provided misinformation regarding their monthly income and expenditure to lower the DB ratio. For

providing false contact number and references it was not possible for the collection team to locate or contact them.

Intentional Defaulter:

Service Tenure	No of Customers	%
3 (+) Years	4	67
2-3 Years	2	33
Total	6	100.00



Monthly Income	No of Customers	%
25000 (+) tk.	5	83
15000-25000 tk.	1	17
Total	6	100.00

Age	No of Customers	%
36-45 Years	3	50
25-35 Years	3	50
Total	6	100.00

It is found that, 67% of total IND customers have more than 3 years work experience, 83% earn more than 25000/=, 50% belong to 36-45 age group- usually all these ratio are considered as strength for a customer. However, IND customers have taken loans using this strength. Even they have provided valid phone numbers, addresses and references, but later on they found as

hardcore defaulters and skipped as well. Though having the ability to pay off the loan, they are totally unconscious about payment and they took loan without having the intention to repay.

Job Changed:

Service Tenure	No of Customers	%
2-3 Years	2	50
3 (+) Years	2	50
Total	4	100.00

Monthly Income	No of Customers	%
15000-25000 tk.	3	75
25000 (+) tk.	1	25
Total	4	100.00

Age	No of Customers	%
25-35 Years	3	75
36-45 Years	1	25
Total	4	100.00

From the analysis, it evident that 50% of total JOC customers have 2-3 years work experience, 75% earn from 15000 to 25000/= and 75% belong to 25-35 age group. It seems that, the trend of job switching is high in young age group. Therefore, their service tenure is not too long. Besides, 15000 -25000/=, this income group have tendency to change job to get more salary. However, some of them have found that they are receiving lower salary or irregular salary in the new job than before. As a result, they are not paying loan installments. Some of them have availed loan by applying as service-holders, which are actually small businessmen. They do this just to avoid providing authenticated tax paper. It has been observed that people working in pharmaceuticals, trading -buying houses, insurance companies, advertising and media companies and construction – supply have higher tendency of job change.

Job Less:

Service Tenure	No of Customers	%
2-3 Years	6	75
3(+) Years	2	25
Total	8	100.00

Monthly Income	No of Customers	%
15000-25000 tk.	5	63
25000(+) tk.	3	37
Total	8	100.00

Age	No of Customers	%
25-35 Years	4	50
36-45 Years	3	38
45(+) Years	1	12
Total	8	100.00

It is found that, 75% of total JOL customers have 2-3 years work experience, 63% earn from 15000 – 25000 tk and 50% belong to 25-35 age groups. The characteristics of JOL customers are more or less similar to JOCs' characteristics. It has been found that people working in different types of buying house, constructions – supply business, computer education centers, courier services, internet service providers (ISPs) and RMG sectors, have higher tendency of leaving or switching to another job.

Traceless:

Monthly Income	No of Customers	%
15000-25000 tk.	10	50.00
45000 (+) tk	6	30
26000-35000 tk.	3	15
36000-45000 tk.	1	5
Total	20	100.00

Age	No of Customers	%
25-35 Years	12	60
45(+) Years	5	25
36-45 Years	3	15
Total	20	100.00

In this analysis it is evident that 50% of total TRA customers earn from 15000 to 25000 tk and 64% belong to 25-35 age groups. It is worth mentioning that most of TRA customers are young and earning minimum salary to avail a loan. From interview with the collection officers, it is found that some of TRA customers permanently left the country. Some of them have left the job without notifying both employer and the bank. Some of them have provided false phone number and references or addresses. So it is too tough to contact them. Therefore, they are totally out of sight of the collection department and considered as skip customers.

Salary Problem: (Fraud)

Service Tenure	No of Customers	%
2-3 Years	4	57
3(+) Years	3	43
Total	7	100.00

Monthly Income	No of Customers	%
25000-35000 tk.	5	71
35000(+) tk.	2	29
Total	7	100.00

Age	No of Customers	%
25-35 Years	5	71
36-45 Years	2	29
Total	7	100.00

It is found that, 57% of total SAL customers have 2-3 years work experience, 71% earn from 25000 to 35000/= and 71% belong to 25-35 age group. It seems that SAL customers earn handsome amount of money though having service tenure not too long. Actually, they have availed loans by providing false salary statement, which is much higher than original. In other cases, some companies like garments manufacturing organizations pay their employees irregularly, which make them incapable to pay loan installments.

Fraud Activities:

Service Tenure	No of Customers	%
Less than 3 Years	3	75
3(+) Years	1	25
Total	4	100.00

Monthly Income	No of Customers	%
15000-25000 tk.	4	100.00

Total	4	100.00
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Age	No of Customers	%
25-35 Years	2	67
36-45 Years	2	23
Total	3	100.00

It is found that, 75% of total fraud category customers have less than 3 years work experience, all of them earn from 25000 to 35000 tk and 67% belong to 25-35 yrs age group. It is significant that FRA customers do not have long work experience and consists of young aged people. Some of them provided misinformation regarding their employer or business concern. Post approval verification revealed that these customers' mentioned business concerned does not at all have any existence. In most cases, the applicant mentioned their friends and colleagues as immediate relatives and cousins. Besides, some of them have provided false tax paper, LOI etc. Actually, they have taken loan from other banks also by using same techniques, for which they can be considered as professionals. So it is quite evident that these types of customers had no intention to repay the loan from the very beginning and intentionally skipped.

Others:

This group contains different types of customer like those who are temporarily job less, having financial problem, sudden death, family crisis, illness etc. A customer may be skipped for these various reasons. Since this group contains very few accounts, the analysis in terms of age, income and service tenure is not done for this group. But measures should be taken to keep this group under control.

5.3 Findings of Skip Customer's Analysis:

Based on the above analysis following facts have come out-

- ➔ 42% of total Skip customers are not paying loan installments due to having loan overburden problems. Either they have loan with other banks or they have taken loan



from their friends and relatives. They are incapable of paying off these loans since their income have been remaining same. So they have a good reason to be skipped.

- ➔ 25% of total Skip customers are not paying for either they have changed their previous jobs or currently they are job less. People, who have changed job, are not paying loan installment since they are receiving lower salary than before. Job less people is not paying because at present they have no source of income.
- ➔ 4% of total Skip customers are intentional defaulters. They are not paying without any valid reason though they are capable enough. Form the interview of the collection officers it has come out that most of them have strong political backup and used the political influence to sanction the loan. This kind of cases the bank has not much to do even though anticipating subsequent risk is involved.
- ➔ The rest of the customers (27%) are not paying for different reasons like collection officers cannot contact them, customers have moved to another country permanently, some of them found fraud and some of them are facing salary problems or they are facing other problems.
- ➔ Among five asset-products, Personal Instalment Loans (PIL) has been facing about all of the Skip customers. This is because, no invoice, quotation, personal guarantee or cash security are required for these loans. Even no down payment is required to disburse this loan.
- ➔ Only 15% of total Skip customers have taken loan as CEPS/AUTOPAY. However, a certain group of these people, who had no intention to payback, have availed the loan using this advantage.
- ➔ In terms of delinquent accounts and skip cases, comparatively riskier companies are BAT Bd Ltd, Conversyl Departmental Store, Opex Group, Pathfinder Development Bd Ltd,

Fabian Group, Newport Express Bd Ltd, Dhaka Sheraton Hotel, KAFCO, Youngone (CEPZ), and Beximco Textile Ltd. These companies have the highest number of Skip customers in terms of both CAR and PIL.

- In terms of number of skip customers' accounts, comparatively riskier sectors are Garments Manufacturing Companies, Pharmaceuticals, Cigarette manufacturing and marketing, Construction and supply, Dying, Knitting, and packaging, Trading and marketing, Hotel Services, Ticketing and Cargo sectors. These sectors contain the highest number of Skip customers.
- Most of the LOB customers are taking loans by hiding their other loan details, deliberately mentioning higher salary, providing false address and references, contact numbers, showing very less expenditure and hiding the original purpose of taking loans. In some cases skip customers take favor of some fraud officers to conceal their actual designation, salary, date of joining in LOI (Letter of introduction) to make the sanction of the loan reasonable.
- Most of the IND customers have more than 3 years work experience, earn more than 25000/= and belong to 36-45 age group- usually all these ratio are considered as strength for a customer. However, IND customers have taken a loan using these strengths both political and social. Though having these strengths, they are totally unconscious about repayment and become traceless after taking the loan.
- A particular group, withdrawing salary 15000-25000/=, have work experience less than 3 years and belong to 25-35 age group are more likely to switch the job. It has been observed that people working in RMG, Buying House, Hotel business, Trading and marketing business, insurance companies, advertising and media companies and NGOs have higher tendency of job change.

- ➔ It has been found that people working in different types of project (UN, CARE etc), computer education centers, courier companies, internet service providers (ISPs) and garments sectors, have higher tendency of leaving job.
- ➔ A certain group of people have availed loans by providing false phone number and references or addresses. Another group provided misinformation regarding their employers or business concerns. Post approval verification revealed that these customers' mentioned business concerned does not have any existence at all. In most cases, the applicant mentioned their friends and colleagues as immediate relatives and cousins. Besides, some of them have provided false tax paper, LOI etc.
- ➔ It is also found that, most of the SAL customers have 2- 3 years work experience, earn from 25,000 to 35,000 tk and belong to 25-35 yrs age group. It seems that SAL customers earn handsome amount of money though having service tenure not too long. Actually, they have availed loans by providing false salary statement, which is much higher than original with the help of some officers. In addition, some companies like garments manufacturing companies, buying house, hotel services, construction and supply business pay their employees irregularly which make them incapable to pay loan installments. In the future these type of customer become skip customers.

Chapter 6: Recommendations & Conclusion

6.1 Based on the findings following recommendations are provided:

- ➔ Customers' expenditure-income details and loan details must be carefully verified to minimize loan overburden problems. To minimize the risk of facing JOL or JOC customers if any customer changes the job, the company should inform HSBC and present location of the customer will be mentioned too. In addition, the management must verify employments details. The collections officers to collect the loan instalments should handle intentional defaulters carefully. Since they are very sensitive customers,

continuous follow up activities should be organized to create awareness about paying loan installments.

- ➔ To minimize the risk of having FRA and TRA customers, all the applicants preferably should have land phone (PABX not applicable) and the concerned people must verify all the contact phone numbers. References must be immediate relatives and verified over phone before approvals. Customers' address and other information must be also be verified by the concerned people.
- ➔ Personal installment loan may be taken for any purpose but should be specific and clearly stated in the application. The bank may ask for quotation in case of CAR loan. In addition, the loan fund should be disbursed favoring the vendor for specific purposes on a case-to-case basis. This will protect the misuse of funds.
- ➔ Company approval required before receiving any application from new company i.e. financial strength, stability, and contribution to the economy. LOI signatory must be verified by authorized signature provided by the company. For Autopay /CEPS customer the financial burden, service length, previous job experience of the customer and social reputation and nature of the company should be taken into consideration with greater importance.
- ➔ Management should carefully handle the loan application from some particular companies and sectors that have been producing skip and delinquent customers. Application received from the risky sectors should be verified carefully and more authentications should be created to assess those particular applications.
- ➔ Loan applications from customers from young age group, having shorter service tenure and lower income level, should be carefully assess

- ➔ Another important thing is that HSBC should make the **CIB (Credit information Bureau)** report mandatory for every sort of applicants. This report provided by Bangladesh Bank will create more transparency about the comers, reveal the past repayment record of loan facility from other banks, applicants credit worthiness, integrity level would be verified by this report. Making CIB report mandatory for the applicant I think the tendency of skip customers will be reduced to a subsequent level.
- ➔ Collection efforts should be given more emphasized to ask the customers make the repayment regularly. Customers with due of 1 and 2 payments should be monitored carefully and prevent them to from reaching the in due 3 category.
- ➔ Legal actions taken against the skip and delinquent customers should be strengthen to discourage the applicants becoming delinquent or skip customers.
- ➔ Sales team can play an important role in reducing skip customers. Avoiding risky sectors as well as giving importance to banks' interests and profits will persuade them to bring good customers and help to reduce the skip tendency at a tolerant level.
- ➔ Finally, the management should strictly follow group policy before proceeding for any loan application.

6.2 Conclusion:

HSBC is a global banking and financial services organization headquartered in London. The group's international network comprises more than 5000 offices in 81 countries and territories, operating the Asia Pacific region, Europe, USA, and Middle East & Africa. HSBC Group is represented in Bangladesh by its subsidiary bank HSBC, Bangladesh. I had the opportunity to work for this banking giant during my internship program. I was placed at the customer service department of HSBC Main Office, Anchor Tower. During this time I got an opportunity to

observe the overall service process of HSBC service delivery division. I also got the scope to interact with customers and reveal their expectations and perceptions about the bank's services. During my interaction with customers I felt that somewhere there are gaps between customer expectations and banks services and since the CEO of HSBC Bangladesh has given emphasis on better customer service and more customer satisfaction.

This research has provided some interesting insight into what is the performance of HSBC as a financial institution. It is quite obvious from the research that the customer requirements are not fully met and they are very dissatisfied with some of the aspects of the bank (location, saving rates, credit services, investment services, etc.). Again the research revealed that only one third of customers were more or less satisfied with the services of the bank and more than half of the respondents were on the neutral side of satisfaction line. HSBC should attract this half and bring them to the positive side of the road so that strong relationship with the customers can be maintained.

