

# **MANAGING CORE RISKS IN BANKING:**

## **CREDIT RISK MANAGEMENT**

*Industry Best Practices*



**BANGLADESH BANK**

# **CREDIT RISK MANAGEMENT**

## ***Industry Best Practices***

### **PREPARED FOR:**

**BANGLADESH BANK**

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CREDIT & RISK MANAGEMENT**

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## **INTRODUCTION:**

Risk is inherent in all aspects of a commercial operation, however for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the bank's dealings with or lending to corporates, individuals, and other banks or financial institutions.

Credit risk management needs to be a robust process that enables banks to proactively manage loan portfolios in order to minimize losses and earn an acceptable level of return for shareholders. Central to this is a ***comprehensive IT system***, which should have the ability to capture all key customer data, risk management and transaction information including trade & Forex. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and dis-intermediation, it is essential that banks have robust credit risk management policies and procedures that are sensitive and responsive to these changes.

The purpose of this document is to provide directional guidelines to the banking sector that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of the banking sector in Bangladesh. Credit risk management is of utmost importance to Banks, and as such, policies and procedures should be endorsed and strictly enforced by the MD/CEO and the board of the Bank.

The guidelines have been organised into the following sections:

### **1. POLICY GUIDELINES**

- 1.1. Lending Guidelines
- 1.2. Credit Assessment & Risk Grading
- 1.3. Approval Authority
- 1.4. Segregation of Duties
- 1.5. Internal Audit

### **2. PREFERRED ORGANISATIONAL STRUCTURE & RESPONSIBILITIES**

### **3. PROCEDURAL GUIDELINES**

- 3.1. Approval Process
- 3.2. Credit Administration
- 3.3. Credit Monitoring
- 3.4. Credit Recovery

These guidelines were prepared and endorsed by senior credit executives from private sector, foreign and nationalized commercial banks operating in Bangladesh. They are intended for use in the corporate/commercial banking businesses.

It is the expectation of Bangladesh Bank that these guidelines will be adopted, particularly for those institutions that have a high rate of non-performing loans and weak credit risk management procedures. Bangladesh Bank may, based on its regular examination of individual banks, enforce the specific adoption of these guidelines.

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## **1. POLICY GUIDELINES**

This section details fundamental credit risk management policies that are recommended for adoption by all banks in Bangladesh. The guidelines contained herein outline general principles that are designed to govern the implementation of more detailed lending procedures and risk grading systems within individual banks.

### **1.1 Lending Guidelines**

All banks should have established Credit Policies (“Lending Guidelines”) that clearly outline the senior management’s view of business development priorities and the terms and conditions that should be adhered to in order for loans to be approved. The Lending Guidelines should be updated at least annually to reflect changes in the economic outlook and the evolution of the bank’s loan portfolio, and be distributed to all lending/marketing officers. The Lending Guidelines should be approved by the Managing Director/CEO & Board of Directors of the bank based on the endorsement of the bank’s Head of Credit Risk Management and the Head of Corporate/Commercial Banking. (*Section 2.1 of these guidelines refers*)

Any departure or deviation from the Lending Guidelines should be explicitly identified in credit applications and a justification for approval provided. Approval of loans that do not comply with Lending Guidelines should be restricted to the bank’s Head of Credit or Managing Director/CEO & Board of Directors.

The Lending Guidelines should provide the key foundations for account officers/relationship managers (RM) to formulate their recommendations for approval, and should include the following:

- **Industry and Business Segment Focus**

The Lending Guidelines should clearly identify the business/industry sectors that should constitute the majority of the bank’s loan portfolio. For each sector, a clear indication of the bank’s appetite for growth should be indicated (as an example, Textiles: Grow, Cement: Maintain, Construction: Shrink). This will provide necessary direction to the bank’s marketing staff.

- **Types of Loan Facilities**

The type of loans that are permitted should be clearly indicated, such as Working Capital, Trade Finance, Term Loan, etc.

- **Single Borrower/Group Limits/Syndication**

Details of the bank’s Single Borrower/Group limits should be included as per Bangladesh Bank guidelines. Banks may wish to establish more conservative criteria in this regard. Appendix-3.4.3 provides brief description of financing under syndicated arrangement.

- **Lending Caps**

Banks should establish a specific industry sector exposure cap to avoid over concentration in any one industry sector.

- **Discouraged Business Types**

Banks should outline industries or lending activities that are discouraged. As a minimum, the following should be discouraged:

- Military Equipment/Weapons Finance
- Highly Leveraged Transactions
- Finance of Speculative Investments
- Logging, Mineral Extraction/Mining, or other activity that is Ethically or Environmentally Sensitive
- Lending to companies listed on CIB black list or known defaulters
- Counterparties in countries subject to UN sanctions
- Share Lending
- Taking an Equity Stake in Borrowers
- Lending to Holding Companies
- Bridge Loans relying on equity/debt issuance as a source of repayment.

- **Loan Facility Parameters**

Facility parameters (e.g., maximum size, maximum tenor, and covenant and security requirements) should be clearly stated. As a minimum, the following parameters should be adopted:

- Banks should not grant facilities where the bank's security position is inferior to that of any other financial institution.
- Assets pledged as security should be properly insured.
- Valuations of property taken as security should be performed prior to loans being granted. A recognized 3rd party professional valuation firm should be appointed to conduct valuations.

- **Cross Border Risk**

Risk associated with cross border lending. Borrowers of a particular country may be unable or unwilling to fulfill principle and/or interest obligations. Distinguished from ordinary credit risk because the difficulty arises from a political event, such as suspension of external payments

- Synonymous with political & sovereign risk
- Third world debt crisis

For example, export documents negotiated for countries like Nigeria.

## **1.2 Credit Assessment & Risk Grading**

### **1.2.1 Credit Assessment**

A thorough credit and risk assessment should be conducted prior to the granting of loans, and at least annually thereafter for all facilities. The results of this assessment should be presented in a Credit Application that originates from the relationship manager/account officer ("RM"), and is approved by Credit Risk Management (CRM). The RM should be the owner of the customer relationship, and must be held

responsible to ensure the accuracy of the entire credit application submitted for approval. RMs must be familiar with the bank's Lending Guidelines and should conduct due diligence on new borrowers, principals, and guarantors.

It is essential that RMs know their customers and conduct due diligence on new borrowers, principals, and guarantors to ensure such parties are in fact who they represent themselves to be. All banks should have established Know Your Customer (KYC) and Money Laundering guidelines which should be adhered to at all times.

Credit Applications should summaries the results of the RMs risk assessment and include, as a minimum, the following details:

- Amount and type of loan(s) proposed.
- Purpose of loans.
- Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangements

In addition, the following risk areas should be addressed:

- Borrower Analysis. The majority shareholders, management team and group or affiliate companies should be assessed. Any issues regarding lack of management depth, complicated ownership structures or inter-group transactions should be addressed, and risks mitigated.
- Industry Analysis. The key risk factors of the borrower's industry should be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces should be addressed and the strengths and weaknesses of the borrower relative to its competition should be identified.
- Supplier/Buyer Analysis. Any customer or supplier concentration should be addressed, as these could have a significant impact on the future viability of the borrower.
- Historical Financial Analysis. An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analysed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analysed.
- Projected Financial Performance. Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Loans should not be granted if projected cash flow is insufficient to repay debts.
- Account Conduct. For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) should be assessed.

- Adherence to Lending Guidelines. Credit Applications should clearly state whether or not the proposed application is in compliance with the bank's Lending Guidelines. The Bank's Head of Credit or Managing Director/CEO should approve Credit Applications that do not adhere to the bank's Lending Guidelines.
- Mitigating Factors. Mitigating factors for risks identified in the credit assessment should be identified. Possible risks include, but are not limited to: margin sustainability and/or volatility, high debt load (leverage/gearing), overstocking or debtor issues; rapid growth, acquisition or expansion; new business line/product expansion; management changes or succession issues; customer or supplier concentrations; and lack of transparency or industry issues.
- Loan Structure. The amounts and tenors of financing proposed should be justified based on the projected repayment ability and loan purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.
- Security. A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed. Loans should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.
- Name Lending. Credit proposals should not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations should be discouraged and treated with great caution. Rather, credit proposals and the granting of loans should be based on sound fundamentals, supported by a thorough financial and risk analysis.

**Appendix 1.2.1** contains a template for credit application.

## 1.2.2 Risk Grading

All Banks should adopt a credit risk grading system. The system should define the risk profile of borrower's to ensure that account management, structure and pricing are commensurate with the risk involved. Risk grading is a key measurement of a Bank's asset quality, and as such, it is essential that grading is a robust process. All facilities should be assigned a risk grade. Where deterioration in risk is noted, the Risk Grade assigned to a borrower and its facilities should be immediately changed. Borrower Risk Grades should be clearly stated on Credit Applications.

The following Risk Grade Matrix is provided as an example. *Refer also to the Risk Grade Scorecard attached as **Appendix 1.2.2**.* The more conservative risk grade (higher) should be applied if there is a difference between the personal judgement and the Risk Grade Scorecard results. It is recognized that the banks may have more or less Risk Grades, however, monitoring standards and account management must be appropriate given the assigned Risk Grade:

| <b>Risk Rating</b>       | <b>Grade</b> | <b>Definition</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Superior – Low Risk      | 1            | Facilities are fully secured by cash deposits, government bonds or a counter guarantee from a top tier international bank. All security documentation should be in place.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Good – Satisfactory Risk | 2            | The repayment capacity of the borrower is strong. The borrower should have excellent liquidity and low leverage. The company should demonstrate consistently strong earnings and cash flow and have an unblemished track record. All security documentation should be in place. Aggregate Score of 95 or greater based on the Risk Grade Scorecard.                                                                                                                                                                                                                                                                                                  |
| Acceptable – Fair Risk   | 3            | Adequate financial condition though may not be able to sustain any major or continued setbacks. These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record. A borrower should not be graded better than 3 if realistic audited financial statements are not received. These assets would normally be secured by acceptable collateral (1 <sup>st</sup> charge over stocks / debtors / equipment / property). Borrowers should have adequate liquidity, cash flow and earnings. An Aggregate Score of 75-94 based on the Risk Grade Scorecard.                  |
| Marginal - Watch list    | 4            | Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment. These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings. Facilities should be downgraded to 4 if the borrower incurs a loss, loan payments routinely fall past due, account conduct is poor, or other untoward factors are present. An Aggregate Score of 65-74 based on the Risk Grade Scorecard.                                                                                                                               |
| Special Mention          | 5            | Grade 5 assets have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower. Facilities should be downgraded to 5 if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage), if loan payments remain past due for 30-60 days, or if a significant petition or claim is lodged against the borrower. Full repayment of facilities is still expected and interest can still be taken into profits. An Aggregate Score of 55-64 based on the Risk Grade Scorecard. |
| Substandard              | 6            | Financial condition is weak and capacity or                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

| Risk Rating                       | Grade | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                   |       | inclination to repay is in doubt. These weaknesses jeopardize the full settlement of loans. Loans should be downgraded to 6 if loan payments remain past due for 60-90 days, if the customer intends to create a lender group for debt restructuring purposes, the operation has ceased trading or any indication suggesting the winding up or closure of the borrower is discovered. Not yet considered non-performing as the correction of the deficiencies may result in an improved condition, and interest can still be taken into profits. An Aggregate Score of 45-54 based on the Risk Grade Scorecard.                                                                                                                                                                                                                                                                                                                                       |
| Doubtful and Bad (non-performing) | 7     | Full repayment of principal and interest is unlikely and the possibility of loss is extremely high. However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Loss. Assets should be downgraded to 7 if loan payments remain past due in excess of 90 days, and interest income should be taken into suspense (non-accrual). Loan loss provisions must be raised against the estimated unrealisable amount of all facilities. The adequacy of provisions must be reviewed at least quarterly on all non-performing loans, and the bank should pursue legal options to enforce security to obtain repayment or negotiate an appropriate loan rescheduling. In all cases, the requirements of Bangladesh Bank in CIB reporting, loan rescheduling and provisioning must be followed. An Aggregate Score of 35-44 based on the Risk Grade Scorecard |
| Loss (non-performing)             | 8     | Assets graded 8 are long outstanding with no progress in obtaining repayment (in excess of 180 days past due) or in the late stages of wind up/liquidation. The prospect of recovery is poor and legal options have been pursued. The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for. This classification reflects that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. An Aggregate Score of 35 or less based on the Risk Grade Scorecard                                                                                                                                                              |

At least top twenty five clients/obligors of the Bank may preferably be rated by an outside credit rating agency.

The Early Alert Report (**Appendix 3.3.1**) should be completed in a timely manner by the RM and forwarded to CRM for approval to affect any downgrade. After approval, the report should be forwarded to Credit Administration, who is responsible to ensure the correct facility/borrower Risk Grades are updated on the system. The downgrading of an account should be done immediately when adverse information is noted, and should not be postponed until the annual review process

### **1.3 Approval Authority**

The authority to sanction/approve loans must be clearly delegated to senior credit executives by the Managing Director/CEO & Board based on the executive's knowledge and experience. Approval authority should be delegated to individual executives and not to committees to ensure accountability in the approval process. The following guidelines should apply in the approval/sanctioning of loans:

- Credit approval authority must be delegated in writing from the MD/CEO & Board (as appropriate), acknowledged by recipients, and records of all delegation retained in CRM.
- Delegated approval authorities must be reviewed annually by MD/CEO/Board.
- The credit approval function should be separate from the marketing/relationship management (RM) function.
- The role of Credit Committee may be restricted to only review of proposals i.e. recommendations or review of bank's loan portfolios.
- Approvals must be evidenced in writing, or by electronic signature. Approval records must be kept on file with the Credit Applications.
- All credit risks must be authorized by executives within the authority limit delegated to them by the MD/CEO. The "pooling" or combining of authority limits should not be permitted.
- Credit approval should be centralised within the CRM function. Regional credit centres may be established, however, all large loans must be approved by the Head of Credit and Risk Management or Managing Director/CEO/Board or delegated Head Office credit executive.
- The aggregate exposure to any borrower or borrowing group must be used to determine the approval authority required.
- Any credit proposal that does not comply with Lending Guidelines, regardless of amount, should be referred to Head Office for Approval
- MD/Head of Credit Risk Management must approve and monitor any cross-border exposure risk.
- Any breaches of lending authority should be reported to MD/CEO, Head of Internal Control, and Head of CRM.

- It is essential that executives charged with approving loans have relevant training and experience to carry out their responsibilities effectively. As a minimum, approving executives should have:
  - At least 5 years experience working in corporate/commercial banking as a relationship manager or account executive.
  - Training and experience in financial statement, cash flow and risk analysis.
  - A thorough working knowledge of Accounting.
  - A good understanding of the local industry/market dynamics.
  - Successfully completed an assessment test demonstrating adequate knowledge of the following areas:
    - o Introduction of accrual accounting.
    - o Industry / Business Risk Analysis
    - o Borrowing Causes
    - o Financial reporting and full disclosure
    - o Financial Statement Analysis
    - o The Asset Conversion/Trade Cycle
    - o Cash Flow Analysis
    - o Projections
    - o Loan Structure and Documentation
    - o Loan Management.

Refer **Appendix 1.4** for brief objectives of the above modules.

- A monthly summary of all new facilities approved, renewed, enhanced, and a list of proposals declined stating reasons thereof should be reported by CRM to the CEO/MD.

#### **1.4 Segregation of Duties**

Banks should aim to segregate the following lending functions:

- Credit Approval/Risk Management
- Relationship Management/Marketing
- Credit Administration

The purpose of the segregation is to improve the knowledge levels and expertise in each department, to impose controls over the disbursement of authorised loan facilities and obtain an objective and independent judgment of credit proposals.

#### **1.5 Internal Audit**

Banks should have a segregated internal audit/control department charged with conducting audits of all departments. Audits should be carried out annually, and should ensure compliance with regulatory guidelines, internal procedures, Lending Guidelines and Bangladesh Bank requirements.

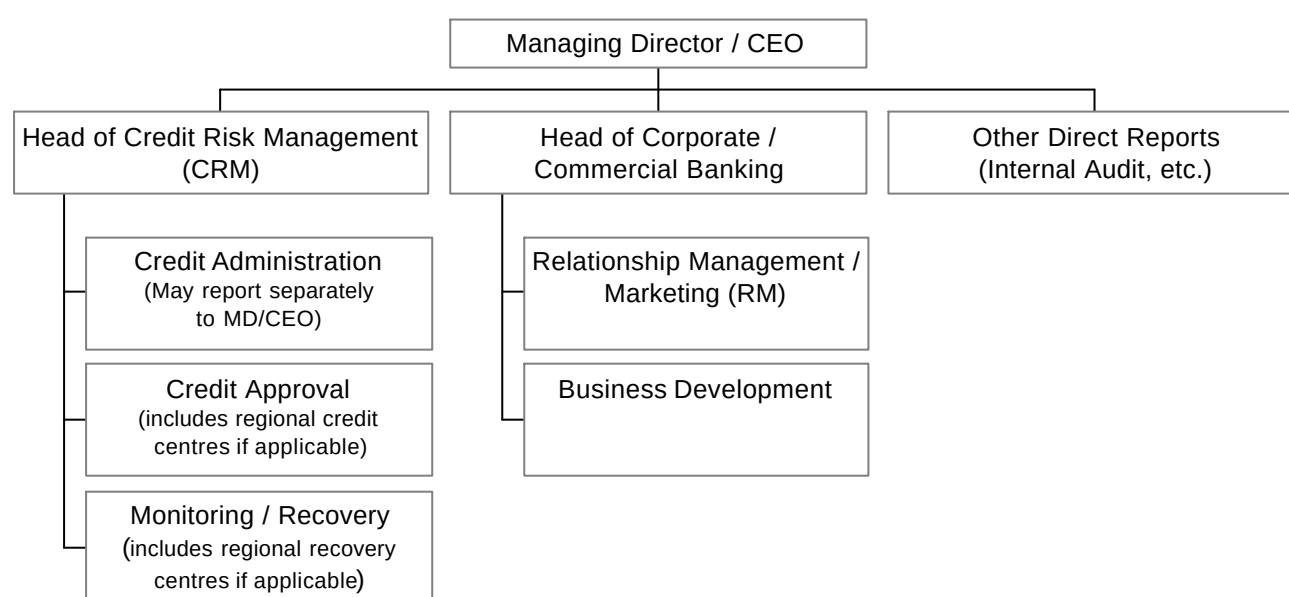
## 2. **PREFERRED ORGANISATIONAL STRUCTURE & RESPONSIBILITIES**

The appropriate organisational structure must be in place to support the adoption of the policies detailed in Section 1 of these guidelines. The key feature is the segregation of the Marketing/Relationship Management function from Approval/Risk Management/Administration functions.

Credit approval should be centralised within the CRM function. Regional credit centers may be established, however, all applications must be approved by the Head of Credit and Risk Management or Managing Director/CEO/Board or delegated Head Office credit executive.

### 2.1 **Preferred Organisational Structure**

The following chart represents the preferred management structure:



Detailed organogram is attached in ***Appendix 2.1***

### 2.2 **Key Responsibilities**

The key responsibilities of the above functions are as follows. Please also refer to ***Appendices 2.2A-D*** for sample job descriptions:

#### Credit Risk Management (CRM)

- Oversight of the bank's credit policies, procedures and controls relating to all credit risks arising from corporate/commercial/institutional banking, personal banking, & treasury operations.
- Oversight of the bank's asset quality.
- Directly manage all Substandard, Doubtful & Bad and Loss accounts to maximize recovery and ensure that appropriate and timely loan loss provisions have been made.

- To approve (or decline), within delegated authority, Credit Applications recommended by RM. Where aggregate borrower exposure is in excess of approval limits, to provide recommendation to MD/CEO for approval.
- To provide advice/assistance regarding all credit matters to line management/RMs.
- To ensure that lending executives have adequate experience and/or training in order to carry out job duties effectively.

#### Credit Administration

- To ensure that all security documentation complies with the terms of approval and is enforceable.
- To monitor insurance coverage to ensure appropriate coverage is in place over assets pledged as collateral, and is properly assigned to the bank.
- To control loan disbursements only after all terms and conditions of approval have been met, and all security documentation is in place.
- To maintain control over all security documentation.
- To monitor borrower's compliance with covenants and agreed terms and conditions, and general monitoring of account conduct/performance.

#### Relationship Management/Marketing (RM)

- To act as the primary bank contact with borrowers.
- To maintain thorough knowledge of borrower's business and industry through regular contact, factory/warehouse inspections, etc. RMs should proactively monitor the financial performance and account conduct of borrowers.
- To be responsible for the timely and accurate submission of Credit Applications for new proposals and annual reviews, taking into account the credit assessment requirements outlined in Section 1.2.1 of these guidelines.
- To highlight any deterioration in borrower's financial standing and amend the borrower's Risk Grade in a timely manner. Changes in Risk Grades should be advised to and approved by CRM.
- To seek assistance/advice at the earliest from CRM regarding the structuring of facilities, potential deterioration in accounts or for any credit related issues.

#### Internal Audit/Control

- Conducts independent inspections annually to ensure compliance with Lending Guidelines, operating procedures, bank policies and Bangladesh Bank directives. Reports directly to MD/CEO or Audit committee of the Board.

### 3. PROCEDURAL GUIDELINES

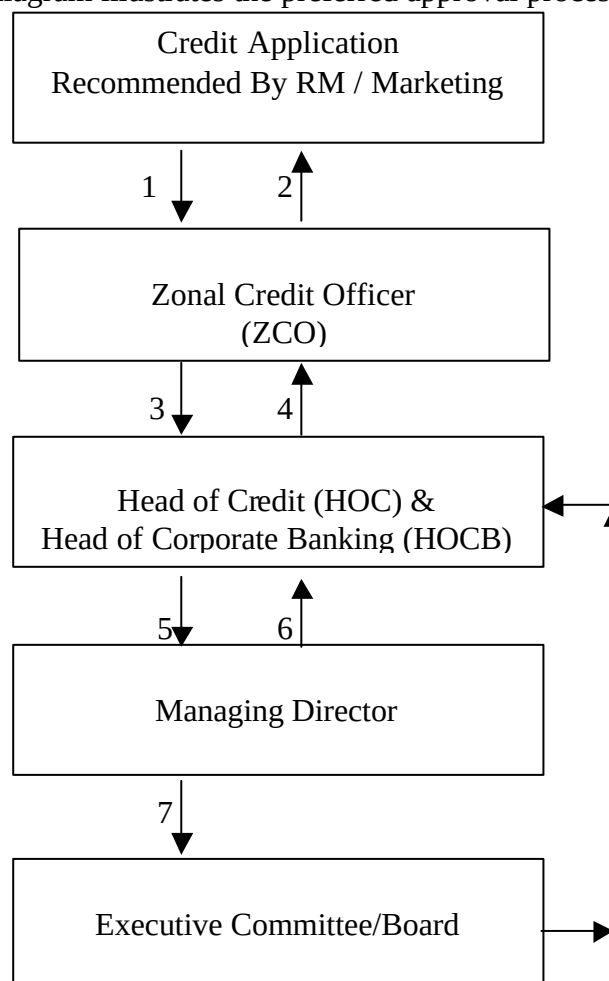
This section outlines of the main procedures that are needed to ensure compliance with the policies contained in Section 1.0 of these guidelines.

#### 3.1 **Approval Process**

The approval process must reinforce the segregation of Relationship Management/Marketing from the approving authority. The responsibility for preparing the Credit Application should rest with the RM within the corporate/commercial banking department. Credit Applications should be recommended for approval by the RM team and forwarded to the approval team within CRM and approved by individual executives. Banks may wish to establish various thresholds, above which, the recommendation of the Head of Corporate/Commercial Banking is required prior to onward recommendation to CRM for approval. In addition, banks may wish to establish regional credit centres within the approval team to handle routine approvals. Executives in head office CRM should approve all large loans.

The recommending or approving executives should take responsibility for and be held accountable for their recommendations or approval. Delegation of approval limits should be such that all proposals where the facilities are up to 15% of the bank's capital should be approved at the CRM level, facilities up to 25% of capital should be approved by CEO/MD, with proposals in excess of 25% of capital to be approved by the EC/Board only after recommendation of CRM, Corporate Banking and MD/CEO.

The following diagram illustrates the preferred approval process:



1. Application forwarded to Zonal Office for approved/decline
2. Advise the decision as per delegated authority (approved /decline) to recommending branches. A monthly summary of ZCO approvals should be sent to HOC and HOCB to report the previous months approvals sanctioned at the Zonal Offices. The HOC should review 10% of ZCO approvals to ensure adherence to Lending Guidelines and Bank policies.
3. ZCO supports & forwarded to Head of Corporate Banking (HOCB) or delegate for endorsement, and Head of Credit (HOC) for approval or onward recommendation.
4. HOC advises the decision as per delegated authority to ZCO
5. HOC & HOCB supports & forwarded to Managing Director
6. Managing Director advises the decision as per delegated authority to HOC & HOCB.
7. Managing Director presents the proposal to EC/Board
8. EC/Board advises the decision to HOC & HOCB

**\*\* Regardless of the delegated authority HOC to advise the decision (approval/decline) to marketing department through ZCO**

#### **Recommended Delegated Approval Authority Levels**

|                       |                           |
|-----------------------|---------------------------|
| HOC/CRM Executives    | Up to 15% of Capital      |
| Managing Director/CEO | Up to 25% of Capital      |
| EC/Board              | all exceed 25% of Capital |

#### **Appeal Process**

Any declined credit may be re-presented to the next higher authority for reassessment/approval. However, there should be no appeal process beyond the Managing Director.

### **3.2 Credit Administration**

The Credit Administration function is critical in ensuring that proper documentation and approvals are in place prior to the disbursement of loan facilities. For this reason, it is essential that the functions of Credit Administration be strictly segregated from Relationship Management/Marketing in order to avoid the possibility of controls being compromised or issues not being highlighted at the appropriate level.

Credit Administration procedures should be in place to ensure the following. Refer to flowchart attached as **Appendix 3.2**:

#### **3.2.1 Disbursement:**

- Security documents are prepared in accordance with approval terms and are legally enforceable. Standard loan facility documentation that has been reviewed by legal counsel should be used in all cases. Exceptions should be referred to legal counsel for advice based on authorisation from an appropriate executive in CRM.
- Disbursements under loan facilities are only be made when all security documentation is in place. CIB report should reflect/include the name of all the lenders with facility, limit & outstanding. All formalities regarding large loans & loans to Directors should be guided by Bangladesh Bank circulars & related section of Banking Companies Act. All Credit Approval terms have been met. A sample documentation and disbursement checklist is attached as **Appendix 3.2.1**, which banks may wish to use to control disbursements.

### 3.2.2 Custodial Duties:

- Loan disbursements and the preparation and storage of security documents should be centralised in the regional credit centres.
- Appropriate insurance coverage is maintained (and renewed on a timely basis) on assets pledged as collateral.
- Security documentation is held under strict control, preferably in locked fireproof storage.

### 3.2.3 Compliance Requirements:

- All required Bangladesh Bank returns are submitted in the correct format in a timely manner.
- Bangladesh Bank circulars/regulations are maintained centrally, and advised to all relevant departments to ensure compliance.
- All third party service providers (valuers, lawyers, insurers, CPAs etc.) are approved and performance reviewed on an annual basis. Banks are referred to Bangladesh Bank circular outlining approved external audit firms that are acceptable.

## 3.3 Credit Monitoring

To minimise credit losses, monitoring procedures and systems should be in place that provide an early indication of the deteriorating financial health of a borrower. At a minimum, systems should be in place to report the following exceptions to relevant executives in CRM and RM team:

- Past due principal or interest payments, past due trade bills, account excesses, and breach of loan covenants;

- Loan terms and conditions are monitored, financial statements are received on a regular basis, and any covenant breaches or exceptions are referred to CRM and the RM team for timely follow-up.
- Timely corrective action is taken to address findings of any internal, external or regulator inspection/audit.
- All borrower relationships/loan facilities are reviewed and approved through the submission of a Credit Application at least annually. Refer to the Credit Application format attached as **Appendix 1.2.1**.

Computer systems must be able to produce the above information for central/head office as well as local review. Where automated systems are not available, a manual process should have the capability to produce accurate exception reports. Exceptions should be followed up on and corrective action taken in a timely manner before the account deteriorates further. Refer to the Early Alert Process (section 3.3.1), and **Appendix 3.3.1**.

### 3.3.1 Early Alert process:

An Early Alert Account is one that has risks or potential weaknesses of a material nature requiring monitoring, supervision, or close attention by management.

If these weaknesses are left uncorrected, they may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date with a likely prospect of being downgraded to CG 5 or worse (Impaired status), within the next twelve months.

Early identification, prompt reporting and proactive management of Early Alert Accounts are prime credit responsibilities of all Relationship Managers and must be undertaken on a continuous basis. An Early Alert report (**Appendix 3.3.1**) should be completed by the RM and sent to the approving authority in CRM for any account that is showing signs of deterioration within seven days from the identification of weaknesses. The Risk Grade should be updated as soon as possible and no delay should be taken in referring problem accounts to the CRM department for assistance in recovery.

Despite a prudent credit approval process, loans may still become troubled. Therefore, it is essential that **early identification** and **prompt reporting** of deteriorating credit signs be done to ensure swift action to protect the Bank's interest. The symptoms of early alert shown in **Appendix 3.3.2** are by no means exhaustive and hence, if there are other concerns, such as a breach of loan covenants or adverse market rumors that warrant additional caution, an Early Alert report should be raised.

Moreover, regular contact with customers will enhance the likelihood of developing strategies mutually acceptable to both the customer and the Bank. Representation from the Bank in such discussions should include the local legal adviser when appropriate.

An account may be reclassified as a Regular Account from Early Alert Account status when the symptom, or symptoms, causing the Early Alert classification have been regularised or no longer exist. The concurrence of the CRM approval authority is required for conversion from Early Alert Account status to Regular Account status.

### 3.4 Credit Recovery

The Recovery Unit (RU) of CRM should directly manage accounts with sustained deterioration (a Risk Rating of Sub Standard (6) or worse). Banks may wish to transfer EXIT accounts graded 4-5 to the RU for efficient exit based on recommendation of CRM and Corporate Banking. Whenever an account is handed over from Relationship Management to RU, a Handover/Downgrade Checklist (**Appendix 3.4.1**) should be completed.

The RU's primary functions are:

- Determine Account Action Plan/Recovery Strategy
- Pursue all options to maximize recovery, including placing customers into receivership or liquidation as appropriate.
- Ensure adequate and timely loan loss provisions are made based on actual and expected losses.
- Regular review of grade 6 or worse accounts.

The management of problem loans (NPLs) must be a dynamic process, and the associated strategy together with the adequacy of provisions must be regularly reviewed. A process should be established to share the **lessons learned** from the experience of credit losses in order to update the lending guidelines.

#### 3.4.1 NPL Account Management

All NPLs should be assigned to an Account Manager within the RU, who is responsible for coordinating and administering the action plan/recovery of the account, and should serve as the primary customer contact after the account is downgraded to substandard. Whilst some assistance from Corporate Banking/Relationship Management may be sought, it is essential that the autonomy of the RU be maintained to ensure appropriate recovery strategies are implemented.

#### 3.4.2 Account Transfer Procedures

Within 7 days of an account being downgraded to substandard (grade 6), a Request for Action (RFA, **Appendix 3.4.2A**) and a handover/downgrade checklist (**Appendix 3.4.1**) should be completed by the RM and forwarded to RU for acknowledgment. The account should be assigned to an account manager within the RU, who should review all documentation, meet the customer, and prepare a Classified Loan Review Report (CLR, **Appendix 3.4.2B**) within 15 days of the transfer. The CLR should be approved by the Head of Credit, and copied to the Head of Corporate Banking and to the Branch/office where the loan was originally sanctioned. This initial CLR should highlight any documentation issues, loan structuring weaknesses, proposed workout strategy, and should seek approval for any loan loss provisions that are necessary.

Recovery Units should ensure that the following is carried out when an account is classified as Sub Standard or worse:

- Facilities are withdrawn or repayment is demanded as appropriate. Any drawings or advances should be restricted, and only approved after careful scrutiny and approval from appropriate executives within CRM.
- CIB reporting is updated according to Bangladesh Bank guidelines and the borrower's Risk Grade is changed as appropriate.
- Loan loss provisions are taken based on Force Sale Value (FSV).
- Loans are only rescheduled in conjunction with the Large Loan Rescheduling guidelines of Bangladesh Bank. Any rescheduling should be based on projected future cash flows, and should be strictly monitored.
- Prompt legal action is taken if the borrower is uncooperative.

#### 3.4.3 **Non Performing Loan (NPL) Monitoring**

On a quarterly basis, a Classified Loan Review (CLR) (**Appendix 3.4.2B**) should be prepared by the RU Account Manager to update the status of the action/recovery plan, review and assess the adequacy of provisions, and modify the bank's strategy as appropriate. The Head of Credit should approve the CLR for NPLs up to 15% of the banks capital, with MD/CEO approval needed for NPLs in excess of 15%. The CLR's for NPLs above 25% of capital should be approved by the MD/CEO, with a copy received by the Board.

#### 3.4.4 **NPL Provisioning and Write Off**

The guidelines established by Bangladesh Bank for CIB reporting, provisioning and write off of bad and doubtful debts, and suspension of interest should be followed in all cases. These requirements are the minimum, and Banks are encouraged to adopt more stringent provisioning/write off policies. Regardless of the length of time a loan is past due, provisions should be raised against the actual and expected losses at the time they are estimated. The approval to take provisions, write offs, or release of provisions/upgrade of an account should be restricted to the Head of Credit or MD/CEO based on recommendation from the Recovery Unit. The Request for Action (RFA) (**Appendix 3.4.2A**) or CLR (**Appendix 3.4.2B**) reporting format should be used to recommend provisions, write-offs or release/upgrades.

The RU Account Manager should determine the Force Sale Value (FSV) for accounts grade 6 or worse. Force Sale Value is generally the amount that is expected to be realized through the liquidation of collateral held as security or through the available operating cash flows of the business, net of any realization costs. Any shortfall of the Force Sale Value compared to total loan outstandings should be fully provided for once an account is downgraded to grade 7. Where the customer is not cooperative, no value should be assigned to the operating cash flow in determining Force Sale Value.

Force Sale Value and provisioning levels should be updated as and when new information is obtained, but as a minimum, on a quarterly basis in the CLR (**Appendix 3.4.2.B**)

Following formula is to be applied in determining the required amount of provision:

|    |                                                                                                                                             |         |
|----|---------------------------------------------------------------------------------------------------------------------------------------------|---------|
| 1. | Gross Outstanding                                                                                                                           | XXX     |
| 2. | Less: (i) Cash margin held or Fixed Deposits/SP under lien.                                                                                 | ( XXX ) |
|    | (ii) Interest in Suspense Account                                                                                                           | ( XXX ) |
| 3. | Loan Value<br>(For which provision is to be created <u>before</u> considering estimated realizable value of other security/collateral held) | XXX     |
| 4. | Less: Estimated salvage value of security/collateral held<br>(See Note below)                                                               | ( XXX ) |
|    | Net Loan Value                                                                                                                              | XXX     |

Note: The amount of required provision may, in some circumstances, be reduced by an estimated realizable forced sale value of (i.e. Salvage Value) of any tangible collateral held (viz: mortgage of property, pledged goods / or hypothecated goods repossessed by the bank, pledged readily marketable securities etc). Hence, in these situations, it will be advisable to evaluate such collateral, estimate the most realistic sale value under duress and net-off the value against the outstanding before determining the Net Loan value for provision purposes. Conservative approach should be taken to arrive at provision requirement and Bangladesh Bank guideline to be properly followed.

### 3.4.5 Incentive Programme:

Banks may wish to introduce incentive programmes to encourage Recovery Unit Account Managers to bring down the Non Performing Loans (NPLs). The table below shows an indicative incentive plan for RU account managers:

| Recovery as a % of Principal plus Interest | Recommended Incentive as % of net recovery amount |                |
|--------------------------------------------|---------------------------------------------------|----------------|
|                                            | If CG 7-8                                         | if written off |
|                                            |                                                   |                |
| 76% to 100%                                | 1.00%                                             | 2.00%          |
| 51% to 75%                                 | 0.50%                                             | 1.00%          |
| 20% to 50%                                 | 0.25%                                             | 0.50%          |
|                                            |                                                   |                |

# Appendices

|                 |                                                      |
|-----------------|------------------------------------------------------|
| <b>1.2.1</b>    | <b>Credit Application Template</b>                   |
| <b>1.2.2</b>    | <b>Risk Grade Scorecard</b>                          |
| <b>1.4</b>      | <b>Credit Skills Assessment</b>                      |
| <b>2.1</b>      | <b>Organizational Structure</b>                      |
| <b>2.2A – D</b> | <b>Sample Job Descriptions</b>                       |
| <b>3.2</b>      | <b>Credit Administration Flowchart</b>               |
| <b>3.2.1</b>    | <b>Security Documentation/Disbursement Checklist</b> |
| <b>3.3.1</b>    | <b>Early Alert Report Template</b>                   |
| <b>3.3.2</b>    | <b>Early Alert Characteristics</b>                   |
| <b>3.4.1</b>    | <b>Handover/Downgrade Checklist</b>                  |
| <b>3.4.2A</b>   | <b>Request for Action Template</b>                   |
| <b>3.4.2B</b>   | <b>Classified Loan Review Template</b>               |
| <b>3.4.3</b>    | <b>Syndication Financing</b>                         |

Facilities will only be provided after analysis of the risks associated with the counter-parties and facilities proposed in writing. A template of the credit application is provided below:

## 1. EXECUTIVE SUMMARY

### 1.1 REQUIREMENT/SECURITY

| Facility Type  | Existing limit | Proposed limit | Outstanding |
|----------------|----------------|----------------|-------------|
| L/C            |                |                |             |
| LATR           |                |                |             |
| Revolving Loan |                |                |             |
| Overdraft      |                |                |             |
| Term Loan      |                |                |             |
| Fx Fwd         |                |                |             |
| <b>TOTAL</b>   |                |                |             |

Secured by:

### 1.2 INTRODUCTION

### 1.3 ACTIVITIES/MARKET

- ☐ Activities
- ☐ Group Activities
- ☐ Market

### 1.4 KEY RISK ISSUES

- ☐ High leverage, sensitive to retail downturn
- ☐ One man business, no succession, no key man insurance
- ☐ Multibanked, unsecured but regular reliable management information.

### 1.5 WHY DO WE WANT TO DO IT

- ☐ In line with bank's budget & business strategy

### 1.6 SOURCE OF REPAYMENT

Primary:

Secondary:

Tertiary:

### 1.6 CREDIT POLICY COMPLIANCE:

Lending Guidelines -Complied/Not complied

Credit Policy -Complied/Not complied

- o Please give reason for non compliance.

## **Appendix 1.2.1 (Cont.)**

### **2.1: HISTORY/PROGRESS TO DATE**

This should be brief & kept to key features. In particular, it should cover, when the business was founded, incorporated, & where appropriately listed.

Major acquisition and mergers could also be included, as should major share issues.

### **2.2 OWNERSHIP/ORGANIZATION**

For groups, diagrams are particularly helpful. It is essential, for legislative reasons, that we satisfy ourselves as to the beneficial ownership of the borrower.

### **2.3 CORPORATE OBJECTIVE/STRATEGY**

Clearly, large corporate and quoted vehicles are there to survey Board shareholder base. Smaller businesses may well have different motives. We as Banker should know because amongst others things it enables us to cross sell products, as well as to better assess risk.

### **2.4 ACTIVITIES/PRODUCTS/MARKET**

2.4.1 Products:

2.4.2 Sourcing:

2.4.3 Sales:

2.4.4 Market

### **2.5 CRITICAL SUCCESS FACTORS:**

### **2.6 COMPETITORS**

Should include direct and indirect competitors & care should be taken of the implications of a “shrinking world” and “single market” concept.

### **2.7 TRIGGER POINTS:**

### **2.8 LOCATION OF BUSINESS**

Where is the business located and is this a good location.

### **2.9 MANAGEMENT, LABOR AND OTHER RESOURCES**

Who are the key Management? What size is the labor force, male/female, skilled/unskilled? Unionised? Militant? High turnover of staffs? Training undertaken?

## **3. ANALYSIS OF RISK**

This is the “meat” of the application and where we need to switch from historic facts to looking at the position today and future prospects and risks involved for the bank in the relationship.

There are numerous risks attached to every transactions/relationship but there is a need for certain fundamental risk aspects to be considered for every relationship. Certain of these risks have been identified which will be required to be commented upon on a mandatory basis.

### **3.1 BUSINESS RISK**

**SWOT Analysis on the following:**

- ☐ Industry
- ☐ Size
- ☐ Maturity
- ☐ Production
- ☐ Distribution
- ☐ Vulnerability
- ☐ Competition
- ☐ Demand- supply situation
- ☐ Strategic importance for the group and for the country
- ☐ Concentration
- ☐ Market reputation

### 3.2 **FINANCIAL RISK:**

#### *Key Indicators*

| BDT '000           | Yr -2 | Yr -1 | Yr 0 | Yr 1<br>(proj.) | Yr 2<br>(Proj.) |
|--------------------|-------|-------|------|-----------------|-----------------|
| Sales              |       |       |      |                 |                 |
| GP                 |       |       |      |                 |                 |
| NP                 |       |       |      |                 |                 |
| GCFO               |       |       |      |                 |                 |
| Total Debt         |       |       |      |                 |                 |
| <b>Net Worth *</b> |       |       |      |                 |                 |
| NWA Cycle          |       |       |      |                 |                 |
| Gearing            |       |       |      |                 |                 |

- ☐ Profitability
- ☐ Liquidity
- ☐ Debt management
- ☐ Post Balance sheet events
- ☐ Projections
- ☐ Sensitivity Analysis:
- ☐ Peer Group Analysis:
- ☐ Other Bank Lines:

### 3.3 **MANAGEMENT RISK**

- ☐ Experience/relevant background
- ☐ Track record of management in see through economic cycles
- ☐ Succession
- ☐ Reputation

### 3.4 **STRUCTURAL RISK**

- ☐ Identify working capital requirement
- ☐ Relate the requirement with asset conversion cycle
- ☐ Purpose of the facilities should be clear and thus mode of disbursement should be preferably structured in a manner to make direct payment to the third party through LC, pay order, BB cheques etc.
- ☐ In absence of proper monitoring, overdraft can turnout to be the longest possible term loan hence, all facilities should be time bound while a small overdraft facility may be allowed based on the business requirement to cater to the financing needs for payments of wages & salaries and other daily expenses.

### 3.4 **SECURITY RISK**

- ☐ Perishablilty
- ☐ Enforceability /Legal structure
- ☐ Forced Sale Value (calculations of force sale value should be at least guided by Bangladesh Bank guidelines)

### 3.5 ACCOUNT PERFORMANCE RISK

- ❑ Credit Turnover vs stock movement & sales
- ❑ Hard Core element or good swing
- ❑ Repayment track record of working capital loans and installment loans

#### 4. REWARD/RELATIONSHIP STRATEGY

- ☐ Revenue from the relationship:
    - Previous year's actual
    - Projected revenue for the next year
  - ☐ Account Strategy:
    - Grow
    - Hold/Maintain
    - Reduce/Restructure
    - Exit

## 5. RECOMMENDATION

## Appendix 1.2.2

### Risk Grade Scorecard

|                     |              |                   |                               |
|---------------------|--------------|-------------------|-------------------------------|
| Borrower / Group:   | <b>Score</b> | <b>Risk Grade</b> | <b>Aggregate Score:</b> _____ |
| Industry Code:      | 95+          | 2                 |                               |
|                     | 75-94        | 3                 |                               |
| Date of Grading:    | 65-74        | 4                 |                               |
|                     | 55-64        | 5                 |                               |
| Date of Financials: | 45-54        | 6                 | <b>Risk Grade:</b> _____      |
|                     | 35-44        | 7                 |                               |
| Completed by:       | < 35         | 8                 |                               |

| Criteria                                                                                                                                                                        | Weight      | Parameter   | Points | Actual | Points | Weighted Score<br>(Points * Weight) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|--------|--------|--------|-------------------------------------|
| <b>Gearing</b>                                                                                                                                                                  | <b>20 %</b> |             |        |        |        |                                     |
| The ratio of a borrower's <i>Total Debt to Tangible Net Worth</i> .<br><br>All calculations should be based on annual financial statements of the borrower (audited preferred). |             | < 0.25      | 100    |        |        |                                     |
|                                                                                                                                                                                 |             | 0.26 – 0.35 | 95     |        |        |                                     |
|                                                                                                                                                                                 |             | 0.36 – 0.50 | 90     |        |        |                                     |
|                                                                                                                                                                                 |             | 0.51 – 0.75 | 85     |        |        |                                     |
|                                                                                                                                                                                 |             | 0.76 – 1.25 | 80     |        |        |                                     |
|                                                                                                                                                                                 |             | 1.26 – 2.00 | 75     |        |        |                                     |
|                                                                                                                                                                                 |             | 2.01 – 2.25 | 70     |        |        |                                     |
|                                                                                                                                                                                 |             | 2.26 – 2.50 | 65     |        |        |                                     |
|                                                                                                                                                                                 |             | 2.51 – 2.75 | 60     |        |        |                                     |
|                                                                                                                                                                                 |             | 2.76 – 3.00 | 55     |        |        |                                     |
|                                                                                                                                                                                 |             | > 3.00      | 0      |        |        |                                     |

| Criteria                                                                                                                                    | Weight      | Parameter                                                                               | Points     | Actual | Points | Weighted Score<br>(Points * Weight) |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------------------------------------------------------------------------------|------------|--------|--------|-------------------------------------|
| <b>Liquidity</b>                                                                                                                            | <b>20 %</b> | <b>&gt; 3.50</b>                                                                        | <b>100</b> |        |        |                                     |
| The ratio of a borrower's<br><b><i>Current Assets to Current Liabilities</i></b>                                                            |             | <b>3.00 – 3.49</b>                                                                      | <b>95</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>2.75 – 2.99</b>                                                                      | <b>90</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>2.50 – 2.74</b>                                                                      | <b>85</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>2.00 – 2.49</b>                                                                      | <b>80</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>1.50 – 1.99</b>                                                                      | <b>75</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>1.10 – 1.49</b>                                                                      | <b>70</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.90 – 1.09</b>                                                                      | <b>65</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.80 – 0.89</b>                                                                      | <b>60</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.70 – 0.79</b>                                                                      | <b>55</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>&lt; 0.70</b>                                                                        | <b>0</b>   |        |        |                                     |
| <b>Profitability</b>                                                                                                                        | <b>20 %</b> | <b>&gt; 0.30</b>                                                                        | <b>100</b> |        |        |                                     |
| The ratio of a borrower's<br><b><i>Operating Profit to Sales.</i></b><br>Operating Profit defined as<br>Gross Profit minus all<br>expenses. |             | <b>0.25 - 0.29</b>                                                                      | <b>95</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.20 - 0.25</b>                                                                      | <b>85</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.15 - 0.19</b>                                                                      | <b>80</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.10 - 0.14</b>                                                                      | <b>75</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.05 - 0.09</b>                                                                      | <b>70</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.02 - 0.04</b>                                                                      | <b>65</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>0.0 - 0.01</b>                                                                       | <b>50</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>&lt; 0</b>                                                                           | <b>0</b>   |        |        |                                     |
|                                                                                                                                             |             |                                                                                         |            |        |        |                                     |
|                                                                                                                                             |             |                                                                                         |            |        |        |                                     |
| <b>Account Conduct</b>                                                                                                                      | <b>10 %</b> | <b>Customer for more than 2 years, with no past dues and faultless record.</b>          | <b>100</b> |        |        |                                     |
|                                                                                                                                             |             | <b>Customer for more than 6 months up to 2 years with faultless behavior.</b>           | <b>90</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>New Account with known satisfactory dealings with other banks.</b>                   | <b>80</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>Some late payments or bounced cheques, though always cleared in 15 days or less.</b> | <b>75</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>Frequent past dues, irregular items or bounced cheques.</b>                          | <b>0</b>   |        |        |                                     |
| <b>Business Outlook</b>                                                                                                                     | <b>10 %</b> | <b>Exceptional</b>                                                                      | <b>100</b> |        |        |                                     |
| A critical assessment of the medium term prospects of the borrower, taking into account the industry, market share and economic factors.    |             | <b>Favourable</b>                                                                       | <b>90</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>Stable</b>                                                                           | <b>80</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>Slightly Uncertain</b>                                                               | <b>70</b>  |        |        |                                     |
|                                                                                                                                             |             | <b>Cause for Concern</b>                                                                | <b>0</b>   |        |        |                                     |
|                                                                                                                                             |             |                                                                                         |            |        |        |                                     |

| Criteria                                                                                                                                      | Weight | Parameter                                                                          | Points | Actual | Points | Weighted Score<br>(Points * Weight) |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--------|------------------------------------------------------------------------------------|--------|--------|--------|-------------------------------------|
| <b>Management</b>                                                                                                                             | 5 %    |                                                                                    |        |        |        |                                     |
| The quality of management based on the aggregate number of years that the Senior Management Team (top 5 executives) has been in the industry. |        | > 30 years                                                                         | 100    |        |        |                                     |
|                                                                                                                                               |        | 25 – 30 years                                                                      | 90     |        |        |                                     |
|                                                                                                                                               |        | 20 – 24 years                                                                      | 80     |        |        |                                     |
|                                                                                                                                               |        | 15 – 19 years                                                                      | 75     |        |        |                                     |
|                                                                                                                                               |        | 10 – 14 years                                                                      | 65     |        |        |                                     |
|                                                                                                                                               |        | < 10 years or any succession issues or other management weaknesses are identified. | 0      |        |        |                                     |
| <b>Personal Deposits</b>                                                                                                                      | 5 %    |                                                                                    |        |        |        |                                     |
| The extent to which the bank maintains a personal banking relationship with the key business sponsors/principals.                             |        | All personal accounts are maintained in the bank, with significant deposits.       | 100    |        |        |                                     |
|                                                                                                                                               |        | Principals maintain some accounts, but have relationship with other banks.         | 75     |        |        |                                     |
|                                                                                                                                               |        | No relationship                                                                    | 0      |        |        |                                     |
| <b>Age of Business</b>                                                                                                                        | 5 %    |                                                                                    |        |        |        |                                     |
| The number of years the borrower has been engaged in the primary line of business.                                                            |        | > 25 years                                                                         | 100    |        |        |                                     |
|                                                                                                                                               |        | 20 – 25 years                                                                      | 95     |        |        |                                     |
|                                                                                                                                               |        | 15 – 20 years                                                                      | 85     |        |        |                                     |
|                                                                                                                                               |        | 10 – 15 years                                                                      | 80     |        |        |                                     |
|                                                                                                                                               |        | 5 – 10 years                                                                       | 75     |        |        |                                     |
|                                                                                                                                               |        | 2 – 5 years                                                                        | 70     |        |        |                                     |
|                                                                                                                                               |        | < 2 years                                                                          | 0      |        |        |                                     |
| <b>Size of Business</b>                                                                                                                       | 5 %    |                                                                                    |        |        |        |                                     |
| The size of the borrower's business measured by the most recent year's total sales. Preferably based on audited financial statements.         |        | Sales in BDT Millions                                                              |        |        |        |                                     |
|                                                                                                                                               |        | > 1,000                                                                            | 100    |        |        |                                     |
|                                                                                                                                               |        | 750 – 1,000                                                                        | 95     |        |        |                                     |
|                                                                                                                                               |        | 500 – 750                                                                          | 90     |        |        |                                     |
|                                                                                                                                               |        | 250 – 500                                                                          | 85     |        |        |                                     |
|                                                                                                                                               |        | 100 – 250                                                                          | 80     |        |        |                                     |
|                                                                                                                                               |        | 50 – 100                                                                           | 75     |        |        |                                     |
|                                                                                                                                               |        | 25 – 50                                                                            | 70     |        |        |                                     |
|                                                                                                                                               |        | < 25                                                                               | 0      |        |        |                                     |

**OBJECTIVES OF CREDIT SKILL ASSESSMENT:****Introduction to Accrual Accounting**

- Describe the information provided by the balance sheet and profit and loss account
- Identify the connecting links between the two statements
- Prepare and manipulate simple financial statements that reflect the business activities of a small company
- Apply the correct criteria to determine the point at which sales and expenses should be recognized on the profit and loss account
- Using financial statement information, calculate purchases of stock and fixed assets

**Industry Risk Analysis**

Managers should be addressing:

- Cost structure
- Maturity
- Cyclicalities
- Profitability
- Dependence
- Vulnerability to substitute products
- Regulatory environment (like Bangladesh Bank guidelines, Judiciary, Tax authority guidelines e.g. work hazard, child labor etc.)

**Business Risk Analysis**

- Determine whether the business's strategy increase or decrease the risks faced by all businesses in its industry
- State what additional risks are inherent in the company's strategy and practices on its financial statements- state how you would expect those statements to look

**Identifying Borrowing Causes**

- Use financial statements to diagnose probable borrowing needs
- Determine, based on the probable borrowing causes, whether loans should be short or long-term, and identify the probable repayment source.

**Financial Reporting and Full Disclosure**

- Describe the influence of accounting organizations and government agencies on the presentation of financial information
- Describe the scope of an accountant's role in compiling, reviewing, and auditing financial statements
- Recognize the different assurances of accuracy and fairness given in auditor's reports, and the extent of the accountant's legal liability
- Recognize the importance of full disclosure
- Use notes to accounts to find valuable information on a company's financial position

### **Financial Statement Analysis**

- Recognize typical asset and liability structures of different types of business
- Determine the degree of accounting risk present in a profit and loss account
- Understand the effects of differing accounting methods on the profit and loss account and balance sheet
- Understand the benefits of rearranging the elements of the statement for analysis
- Perform a common-size analysis and interpret the results
- Compare the company to similar companies in the industry and determine whether its performance is better or worse than the industry average
- Calculate liquidity, capital structure, and operating efficiency ratios
- Determine historical trends in the ratios

**Interpret these trends by examining changes in ratio components**

### **The Asset Conversion Cycle**

- Define the terms operating cycle and capital investment cycle
- Identify business activities as part of one of the cycles
- Explain the terms holding period, payment period, and collection period, and explain how changes in these periods can affect cash flow

### **Accounting for the Operating Cycle**

- Recognize appropriate and inappropriate application of basic principles that affect the quality of financial statement information
- Recognize ways in which the principles may affect your perception of information presented in financial statements
- Identify basic sources and uses of cash to analyze the total cash flow of the business

### **Accounting for the Investment Cycle**

- Recognize situations in which cash outflows are capitalized inappropriately or fixed assets are depreciated inappropriately
- Predict the effects of various depreciation methods on reported net income
- Assess the effects of differences between Inland Revenue rules and accountants' rules on reported net income and internally generated cash
- Differentiate between the market value of an asset and its stated book value
- Interpret notes to the accounts on fixed assets and depreciation
- Determine whether a company has properly classified an investment
- Calculate the amount of the source or use of funds represented by the 'intangible assets' and other 'assets' balance sheet.

### **Cash Flow Analysis**

- Prepare and analyze a cash flow summary
- Calculate quick cash flow to identify major cash inflows, outflows, and repayment capacity
- Analyze a company's cash flow statement prepared in accordance with GAAP

### **Projections**

- Develop logical hypotheses based on your assessment of possible future scenarios

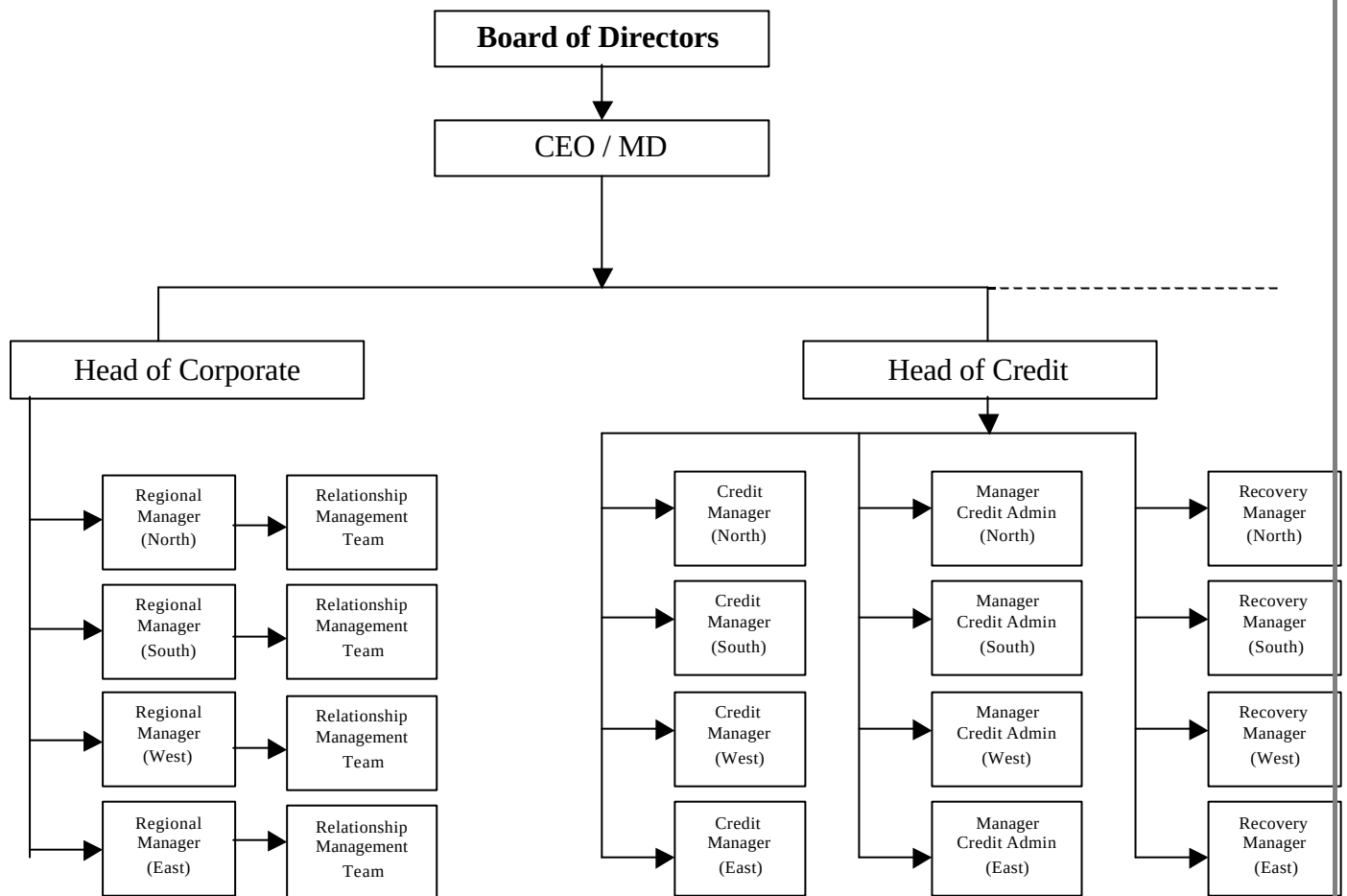
- Calculate the cash flow effect of your hypotheses
- Perform a sensitivity analysis of key variables affecting cash flow and cash flow projections
- Project a profit and loss account, cash flow summary, and balance sheet for a future period.

### **Loan Structure and Documentation**

- Identify the most appropriate credit facility
- Determine the timing for disbursing funds and establish a repayment schedule
- Determine whether support is needed, such as security or guarantees, and if so, the appropriate type
- Recognize how the risk characteristics of a loan should be reflected

### **Loan Management**

- Manage loans effectively by focusing on risks and opportunities identified in the underwriting process and supported by loan documentation.
- Preserve credit quality by recognizing and responding to early warning signals.
- Recognize how to evaluate and choose the best options of resolving a weak credit and exploiting a good credit

**Proposed Organizational Structure**

**Job Title: Head of Credit****Reports to: Managing Director/CEO****Purpose of Job:**

To ensure sound asset quality and a conservative credit culture throughout the lending and treasury trading/underwriting activities of the bank while ensuring the credit approval process is responsive to customer needs and credit losses and collection costs are minimized. To provide an independent, third party assessment/approval of credit and business risks of the bank, and serve on the Bank's Asset and Liability Management committee.

**Principal Accountabilities:**

1. Promote strong asset quality and endeavour to ensure that outstandings classified as Grades 1 to 3 are at least 92% of total outstanding assets.
2. Updating the Bank's lending guidelines/credit policies as and when required, but at least annually.
3. Ensure credit recommendations/approvals are taken in a timely manner.
4. Ensure a prudent level of portfolio diversification.
5. Maximize recovery of problem loans, and minimize credit losses and collection expenses.
6. Ensure compliance with internal policies and procedures and external regulatory requirements.
7. Contribute to the development of credit risk management skills of staff in Credit Administration and Corporate Banking departments.
8. Provide input/advice to the MD/CEO/Board regarding the formulation of strategic operating plans.

Agreed by : \_\_\_\_\_  
Head of Credit

\_\_\_\_\_  
Managing Director / CEO

**Job Title: Head of Corporate Banking****Reports to: Managing Director/CEO****Purpose of Job:**

To plan, develop and manage the Bank's corporate, commercial and institutional businesses to ensure high profitability and sustained growth in line with the Bank's strategic plan, credit policies and business objectives. To provide overall coordination of marketing efforts for the Bank's non-personal business, including the formulation of strategy, establishment of performance tracking systems and joint campaigns with other bank departments. Serve on the Bank's Asset and Liability Management Committee.

**Principal Accountabilities:**

1. Oversee the marketing and business development activities of the bank's non-personal business.
2. Maximize customer profitability through cross sales of all bank products and appropriate loan pricing.
3. Ensure credit quality is maintained and that reviews are current at all times.
4. Ensure a prudent level of portfolio diversification.
5. Ensure compliance with Bank Credit Policies and Central Bank regulations.
6. Contribute to the development of relationship management skills of staff in Corporate Banking.
7. Provide input/advice to the MD/CEO/Board regarding the formulation of strategic operating plans.
8. Maintain an in depth knowledge of the local market.

Agreed by: \_\_\_\_\_  
Head of Corporate Banking

\_\_\_\_\_  
Managing Director / CEO

**Job Title:** Credit Administration Manager

**Reports to:** Head of Credit

**Purpose of Job:**

To plan, organize, direct, control and review the operational and administrative functions of credit administration department to ensure efficient and effective support to the related banking departments in line with regulatory and Bank requirements while exercising appropriate control and independent judgment.

**Principal Accountabilities:**

1. Ensure loan documentation and securities are duly completed and in place prior to disbursement of loans.
2. Ensure accurate and timely submissions of returns of both the Central Bank and the Bank's head office.
3. Act on exception reports and ensure timely receipt of loan installments.
4. Ensure that adequate insurance is in place on all pledged assets, all approval conditions have been met, and any exceptions are appropriately approved prior to disbursement of loans.
5. Ensure that department operations, including the preparation of loan documentation, recording of charges, and reporting of exceptions is done in a timely and efficient manner.
6. Ensure compliance with internal policies and procedures and external regulatory requirements, and that all internal and external audit recommendations are implemented.

Agreed by: \_\_\_\_\_  
Credit Administration Manager

\_\_\_\_\_  
Head of Credit

**Job Title:** Relationship Manager

**Reports to:** Head of Corporate Banking

**Purpose of Job:**

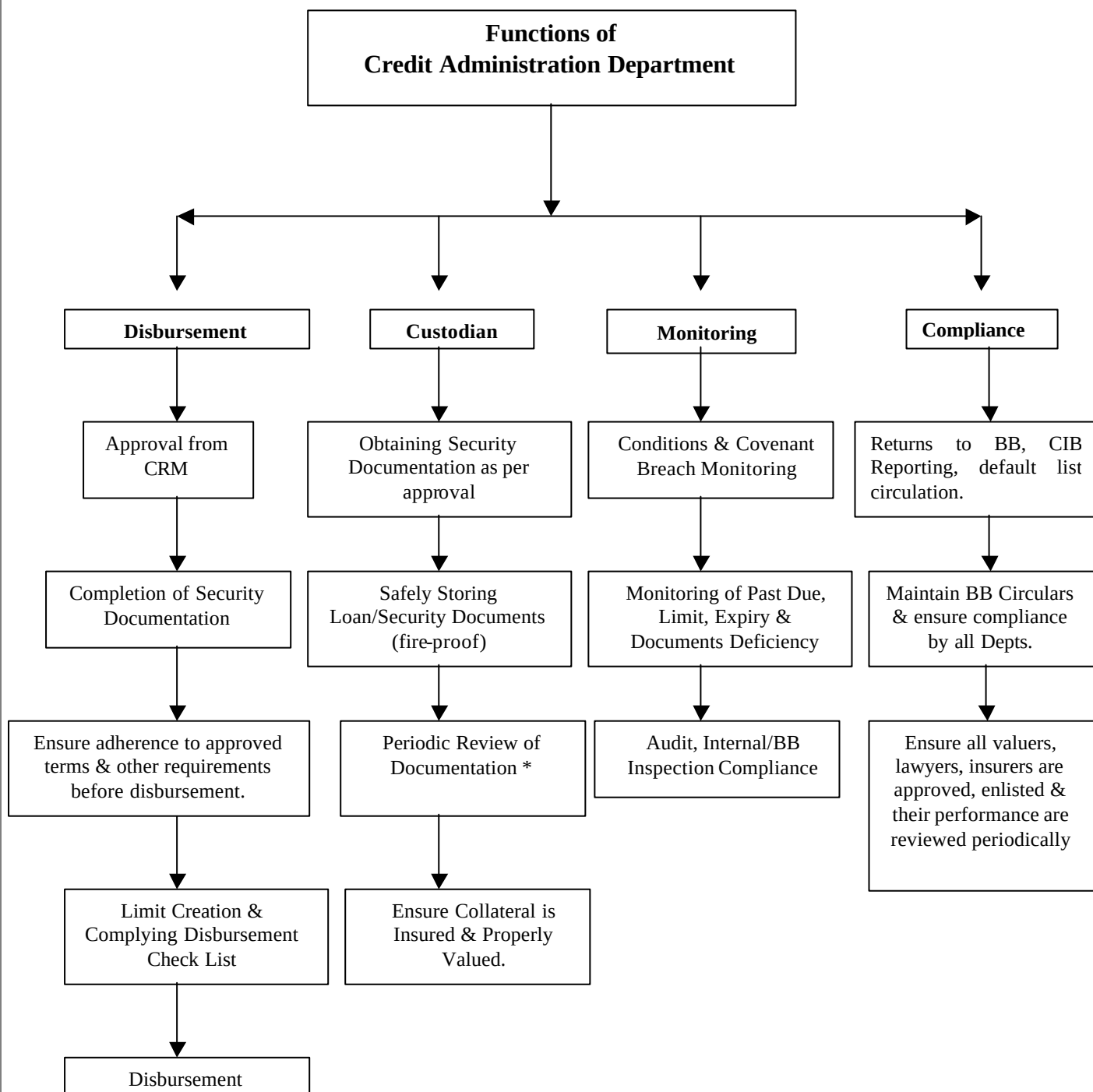
The jobholder serves as the primary relationship contact with the Bank's corporate and commercial customers. To maximize relationship profitability through cross selling. To minimize credit losses through thorough risk assessment and timely identification of deteriorating credit risk of customers.

**Principal Accountabilities:**

1. Provide good customer service while ensuring the Bank's interest is protected.
2. Grow the customer base through marketing and business development efforts, including cross selling to existing customer base.
3. Ensure that credit quality is maintained and customer reviews are completed in timely manner.
4. Maintain an in-depth knowledge of the customer's business through regular customer visits and industry research.
5. Ensure facility risk grades are accurate, and are changed in a timely manner as soon as adverse information is known.
6. Seek assistance from CRM at the earliest if adverse trends in a customer's financial position are noted.
7. Follow up with customers to ensure the timely receipt of financial statements, loan payments and all documentary requirements of the Bank.
8. Ensure compliance with internal policies and procedures and external regulatory requirements, and that all internal and external audit recommendations are implemented.

Agreed by: \_\_\_\_\_  
Relationship Manager

\_\_\_\_\_  
Head of Corporate Banking



\* Periodically Means:

Risk Grade  
> 6  
4-5  
1-3

Review Frequency  
Quarterly  
Semi- Annual  
Annually

**SECURITY COMPLIANCE CERTIFICATE CHECK LIST**

|           |                                                                                                                                                                                                                                            | YES/NO |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>A)</b> | <b>Initial Requirements:</b>                                                                                                                                                                                                               |        |
| 1         | <i>Limit Application has been properly approved and signature verified.</i>                                                                                                                                                                |        |
| 2         | <i>Updated Advanced Worksheet held (LA/BA Diary for 90 days expiry)</i>                                                                                                                                                                    |        |
| <b>B)</b> | <b>Post Approval and Prior to ISSUANCE OF SCC or LLI to allow Draw down</b>                                                                                                                                                                |        |
| 1         | <b>Clean C.I.B. Report</b>                                                                                                                                                                                                                 |        |
| 2         | <b>Within Large Loan Requirements?.</b>                                                                                                                                                                                                    |        |
| 3         | <b>Claused L/C approval from BB</b>                                                                                                                                                                                                        |        |
| <b>C)</b> | <b>Banking Arrangements Letter:</b>                                                                                                                                                                                                        |        |
|           | All alterations if any has been counter signed by the signatory / RM                                                                                                                                                                       |        |
|           | Un-conditional acceptance of B.A. Letter                                                                                                                                                                                                   |        |
|           | Acceptance Signature verified                                                                                                                                                                                                              |        |
|           | Reduction of any facility must be loaded as per BAL. Subsequent increase in any facility (maximum up to approved BCA) must be supported by accepted supplementary BAL.BCA & BLA to be marked for reduction of limits to avoid any mistake. |        |
| <b>D)</b> | <b>Borrowing Power (Memorandum and Article of Associates.)</b>                                                                                                                                                                             |        |
| 1         | Board Resolution (BR) covering as per object clause (MOA)                                                                                                                                                                                  |        |
| a)        | Resolution Date                                                                                                                                                                                                                            |        |
| b)        | Quorum fulfilled                                                                                                                                                                                                                           |        |
| c)        | Borrowing Amount                                                                                                                                                                                                                           |        |
| d)        | Mortgage/Hypothecation authority                                                                                                                                                                                                           |        |
| e)        | Authorized signatory                                                                                                                                                                                                                       |        |
| f)        | Signature verification                                                                                                                                                                                                                     |        |
| g)        | Borrowing resolution will expiry in line with BAL if a resolution accepts BAL.                                                                                                                                                             |        |
| h)        | Multi borrowing resolution must be supported by an undertaking & RMs confirmation to maintain the borrowings level up to the Board approved limit. Before issuance of SCC, CIB limit /outstanding must be verified.                        |        |
| <b>E)</b> | <b>Documentation As per L/A NO.                      Date</b>                                                                                                                                                                              |        |
| <b>1</b>  | <b>Promissory Note covering full amount and dated.</b>                                                                                                                                                                                     |        |
| a         | Properly executed (as per BR), Company seal affixed.                                                                                                                                                                                       |        |
| b         | Signed across the Revenue Stamp                                                                                                                                                                                                            |        |
| c         | Signature verified.                                                                                                                                                                                                                        |        |
| <b>2</b>  | <b>Letter of Continuation covering full amount, dated.</b>                                                                                                                                                                                 |        |
| a         | Properly executed (as per BR), Company seal affixed.                                                                                                                                                                                       |        |
| b         | Proper Adhesive Stamp affixed (BDT.150 W.E.F.1.7.98)                                                                                                                                                                                       |        |
| c         | Signature verified.                                                                                                                                                                                                                        |        |

|          |                                                                                                                                                      |  |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| <b>3</b> | <b>Letter of Guarantee (Individual)</b>                                                                                                              |  |
| a        | Full Name and address of the executing quoted.                                                                                                       |  |
| b        | Date and amounts are correct                                                                                                                         |  |
| c        | 2 Bank Officials Witness                                                                                                                             |  |
| d        | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                                         |  |
| e        | Signature verified                                                                                                                                   |  |
|          | Wealth Statement = certified by tax authority                                                                                                        |  |
|          | Acknowledgement/Annuaals Reminder issued                                                                                                             |  |
| f        | Letter of Guarantee (Acknowledgment of Liability) to be obtained before expiry of 3 yr. from the date of relative Guarantee or prior acknowledgment. |  |
|          | a) Signed across the Revenue Stamp                                                                                                                   |  |
|          | b) Signature verified.                                                                                                                               |  |
|          | c) Date and Guarantee particulars are correct.                                                                                                       |  |
|          |                                                                                                                                                      |  |
| <b>4</b> | <b>Letter of Guarantee (Joint &amp; Several)</b>                                                                                                     |  |
|          | Full Name and address of all executant(s) quoted.                                                                                                    |  |
|          | Date and amounts are correct                                                                                                                         |  |
|          | 2 Bank Officials Witness                                                                                                                             |  |
|          | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                                         |  |
|          | Signature verified                                                                                                                                   |  |
|          | Wealth Statement = certified by tax authority                                                                                                        |  |
|          | Acknowledgement/Annuaals Reminder issued                                                                                                             |  |
|          | Letter of Guarantee (Acknowledgment of Liability) to be obtained before expiry of 3 yr. from the date of relative Guarantee or prior acknowledgment. |  |
|          | a) Signed across the Revenue Stamp                                                                                                                   |  |
|          | b) Signature verified.                                                                                                                               |  |
|          | c) Date and Guarantee particulars are correct.                                                                                                       |  |
|          |                                                                                                                                                      |  |
| <b>5</b> | <b>Letter of Guarantee (Limited Company)</b>                                                                                                         |  |
| a        | Object clause permits to issue 3rd party guarantee                                                                                                   |  |
| b        | Board Resolution covering amount and signatory of Guarantee.                                                                                         |  |
| c        | Properly executed (as per BR), Company seal affixed.                                                                                                 |  |
| d        | Date and amounts are correct                                                                                                                         |  |
|          | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                                         |  |
| e        | Signature verified                                                                                                                                   |  |
|          | Check Balance Sheet : Wealth position                                                                                                                |  |
|          | Acknowledgement/Annuaals Reminder issued                                                                                                             |  |
| f        | Letter of Guarantee (Acknowledgment of Liability) to be obtained before expiry of 3 yr. from the date of relative Guarantee or prior acknowledgment. |  |
|          | a) Signed accrossed the Revenue Stamp                                                                                                                |  |
|          | b) Signature verified.                                                                                                                               |  |
|          | c) Date and Guarantee particulars are correct.                                                                                                       |  |
|          |                                                                                                                                                      |  |
| <b>6</b> | <b>Letter of Hypothecation over Stocks</b>                                                                                                           |  |
|          | Properly executed (as per BR), Company seal affixed.                                                                                                 |  |
|          | Date, amounts, Location and Particulars are correct                                                                                                  |  |
|          | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                                         |  |
|          | All Pages Signed                                                                                                                                     |  |
|          | Signature verified                                                                                                                                   |  |
|          | Form XVIII Properly fill-in duly signed by Customer & Bank                                                                                           |  |
|          | Fee collected and submitted to RJSC for registration.                                                                                                |  |

|             |                                                                                     |  |
|-------------|-------------------------------------------------------------------------------------|--|
|             | Registration Certificate along with original obtained from RJSC.                    |  |
|             | Search Report from RJSC.                                                            |  |
|             |                                                                                     |  |
| <b>7</b>    | <b>Collateral Letter of Hypothecation over Book Debts</b>                           |  |
|             | Properly executed (as per BR), Company seal affixed.                                |  |
|             | Date and amount are correct                                                         |  |
|             | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                        |  |
|             | Signature verified                                                                  |  |
|             | Form XVIII Properly fill-in duly signed by Customer & Bank                          |  |
|             | Fee collected and submitted to RJSC for registration.                               |  |
|             | Registration Certificate along with original obtained from RJSC.                    |  |
|             | Search Report from RJSC.                                                            |  |
|             |                                                                                     |  |
| <b>8</b>    | <b>Letter of Hypothecation over Machinery</b>                                       |  |
|             | Properly executed (as per BR), Company seal affixed.                                |  |
|             | Date, amounts, Location and Particulars are correct schedule attached               |  |
|             | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                        |  |
|             | All Pages Signed                                                                    |  |
|             | Signature verified                                                                  |  |
|             | Form XVIII Properly fill-in duly signed by Customer & Bank                          |  |
|             | Fee collected and submitted to RJSC for registration.                               |  |
|             | Registration Certificate along with original obtained from RJSC.                    |  |
|             | Search Report from RJSC.                                                            |  |
|             | Power of Attorney                                                                   |  |
|             |                                                                                     |  |
| <b>8(A)</b> | <b>PARI-PASSU SECURITY SHARING AGREEMENT</b>                                        |  |
|             | Banks interest noted                                                                |  |
|             | Particulars of Banking Arrangements are properly noted.                             |  |
|             | All parties properly signed                                                         |  |
|             | Signature verified                                                                  |  |
|             | Submitted to RJSC for their noting                                                  |  |
|             | Copy of All charge documents/registration certificate held duly registered by RJSC. |  |
|             |                                                                                     |  |
| <b>8(B)</b> | <b>MODIFICATION (AMOUNT /BANKS ETC.)PARI-PASSU SECURITY SHARING AGREEMENT</b>       |  |
|             | Banks interest noted                                                                |  |
|             | Particulars of Banking Arrangements are properly noted.                             |  |
|             | All parties properly signed                                                         |  |
|             | Submitted to RJSC for their noting                                                  |  |
|             | Copy of All charge documents/registration certificate held duly registered by RJSC. |  |
|             | Signature verified                                                                  |  |
|             |                                                                                     |  |
| <b>9</b>    | <b>Letter of Hypothecation over (Tea Crops)</b>                                     |  |
|             | Properly executed (as per BR), Company seal affixed.                                |  |
|             | Date, amounts, Location and Particulars are correct.                                |  |
|             | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                        |  |
|             | All Pages Signed                                                                    |  |
|             | Signature verified                                                                  |  |
|             | Form XVIII Properly fill-in duly signed by Customer & Bank                          |  |
|             | Fee collected and submitted to RJSC for registration.                               |  |
|             | Registration Certificate along with original obtained from RJSC.                    |  |

|              |                                                                                                                                    |  |
|--------------|------------------------------------------------------------------------------------------------------------------------------------|--|
|              | Search Report from RJSC.                                                                                                           |  |
|              |                                                                                                                                    |  |
| <b>10</b>    | <b>JOINT REGISTRATION/MORTGAGE OF THE VEHICLES</b>                                                                                 |  |
|              | BRTA Join Registration/mortgage Form Signed by the owner and Bank Jointly                                                          |  |
|              | Registration Fee deposited and due date received from BRTA.                                                                        |  |
|              | Original Registration Certificate held                                                                                             |  |
|              | Comprehensive Insurance Policy along with Premium paid receipt held                                                                |  |
|              | Power of Attorney                                                                                                                  |  |
|              |                                                                                                                                    |  |
| <b>10(a)</b> | <b>Letter of Hypothecation (Over Vehicles) with schedule</b>                                                                       |  |
|              | Properly executed(as per BR), Company seal affixed.                                                                                |  |
|              | Date, amounts and Particulars of Vehicles are correct schedule attached                                                            |  |
|              | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                       |  |
|              | Signature verified                                                                                                                 |  |
|              | Form XVIII Properly fill-in duly signed by Customer & Bank                                                                         |  |
|              | Fee collected and submitted to RJSC for registration.                                                                              |  |
|              | Registration Certificate along with original obtained from RJSC.                                                                   |  |
|              | Search Report from RJSC.                                                                                                           |  |
|              | Properly noted our interest with BRTA.                                                                                             |  |
|              |                                                                                                                                    |  |
| <b>11</b>    | <b>Letter of Acknowledgment of Liability in Respect of Hypothecation(s)</b>                                                        |  |
|              | Acknowledgment of Liability to be obtained before expiry of 3 yrs from the date of relative Hypothecation or prior acknowledgment. |  |
|              | Properly executed (as per BR), Company seal affixed.                                                                               |  |
|              | Outstanding Amount and Date are correct                                                                                            |  |
|              | Proper Revenue Stamp affixed                                                                                                       |  |
|              | Signature verified                                                                                                                 |  |
|              |                                                                                                                                    |  |
| <b>12</b>    | <b>Letter of Modification:(a)Stocks(b)Book Debt,(c)Machinery(d)Property</b>                                                        |  |
|              | Properly executed (as per BR), Company seal affixed.                                                                               |  |
|              | Particulars of modifications i.e. increased/decreased amount, additional stocks/assets and locations are correct                   |  |
|              | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                       |  |
|              | Signature verified                                                                                                                 |  |
|              | Form XXI Properly filled in duly signed by Customer & Bank                                                                         |  |
|              | Fee collected and submitted to RJSC for registration.                                                                              |  |
|              | Registration Certificate along with original Modification obtained from RJSC.                                                      |  |
|              | Search Report from RJSC.                                                                                                           |  |
|              |                                                                                                                                    |  |
| <b>13</b>    | <b>Letter of Hypothecation (General)</b>                                                                                           |  |
|              | Properly executed(as per BR), Company seal affixed.                                                                                |  |
|              | Date and amount correct                                                                                                            |  |
|              | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                       |  |
|              | Signature verified                                                                                                                 |  |
|              | Power of Attorney                                                                                                                  |  |
|              |                                                                                                                                    |  |
| <b>14</b>    | <b>NON-RESIDENT GUARANTEE (INDIVIDUAL/CORPORATE ETC.)</b>                                                                          |  |
|              | Local format obtained                                                                                                              |  |
|              | Resident Country Format through SCB obtained                                                                                       |  |
|              | 2 witness held                                                                                                                     |  |
|              | Signature Verified                                                                                                                 |  |

|              |                                                                                                                 |  |
|--------------|-----------------------------------------------------------------------------------------------------------------|--|
|              | Acknowledgment issued                                                                                           |  |
|              | Legal opinion held                                                                                              |  |
|              |                                                                                                                 |  |
| <b>15</b>    | <b>LIEN OVER FDA/STD/SB ETC. A/C WITH OUR LOCAL OFFICES.</b>                                                    |  |
|              |                                                                                                                 |  |
|              | a) Letter of Lien & set-off over deposit Account - properly executed, Proper Stamp affixed, Signature verified. |  |
|              | b) Letter of Lien & Right to set-off. properly executed, Proper Stamp affixed, Signature verified               |  |
|              | c) Guarantee of 3rd party FDA/STD/SB A/c etc. holders. -do-                                                     |  |
|              | d) Board Resolution if Limited Co. Verify signatures.                                                           |  |
|              | e) Memorandum of Association to check Mortgage/Lien authority of company assets.                                |  |
|              | f) BBS Printout confirming Lien Marked, Refer, Reject marked held.                                              |  |
|              | g) Half-yearly confirmation obtained.                                                                           |  |
|              | h) Confirmation held to remit fund at our request without reference to customer- s.v.                           |  |
|              |                                                                                                                 |  |
|              |                                                                                                                 |  |
| <b>15(a)</b> | <b>LIEN OVER FDA/STD/SB ETC. A/C WITH OUR OVERSEAS OFFICES.</b>                                                 |  |
|              |                                                                                                                 |  |
|              | All local formalities completed - item 15 above.                                                                |  |
|              | All overseas formalities require under their country regulation completed                                       |  |
|              | Confirm ation held to remit fund at our request without reference to customer- S.V.                             |  |
|              | Half yearly confirmation obtained.                                                                              |  |
|              |                                                                                                                 |  |
| <b>16</b>    | <b>PLEDGE OVER FDR/PSP/BPS/WEDB/ICB UNIT/SHARES ETC.</b>                                                        |  |
|              |                                                                                                                 |  |
|              | a) Letter of Pledge - properly executed, Proper Stamp affixed, Signature verified                               |  |
|              | b) Letter of Lien & Right to set-off. properly executed, Proper Stamp affixed, Signature verified               |  |
|              | c) Guarantee of 3rd party FDR/PSP/BSP/ICB/SHARES etc. holders. -do-                                             |  |
|              | d) Board Resolution if Limited Co., Signature verified                                                          |  |
|              | e) Memorandum of Association to check Mortgage/Lien authority of company assets.                                |  |
|              | f) Lien confirmation from issuing authority/Bank duly signature verified.                                       |  |
|              | g) Identity Slip for PSP/BPS duly marking lien and signature verified.                                          |  |
|              | h) Form DB-19 (3 sets) duly signature verified by the issuing authority for WEDB.                               |  |
|              | I) Form -117 duly signature verified by the issuing authority for ICB/SHARES ETC.                               |  |
|              | j) Lien Confirmation from issuing Bank/Branch duly signed by the authorized signatory-S.V                       |  |
|              | k)Confirmation held to remit fund at our request without reference to customer- S.V.                            |  |
|              | l)Half yearly confirmation obtained.                                                                            |  |
|              |                                                                                                                 |  |
| <b>17</b>    | <b>MORTGAGE OVER PROPERTY :</b>                                                                                 |  |
|              |                                                                                                                 |  |
|              | a) Original purchase deed and along with Bia deed(s)                                                            |  |
|              | b) SRO Certified copy purchase deed plus endorsed Deed delivery receipt(interim period)                         |  |
|              | c) Non-encumbrance Certificate with search fee paid receipt.                                                    |  |
|              | d) Certified Mutation Khatian including mutation fee paid receipt (DCR)                                         |  |
|              | e) S.A.,C.S.,R.S. Khatian(s) ,                                                                                  |  |
|              | f) Up to date rent paid/municipal tax paid receipt(s) etc.                                                      |  |
|              | g) Valuation Certificate - along with FSV                                                                       |  |
|              | h) Lawyers confirmation                                                                                         |  |
|              | i) Guarantee of third party mortgagors.                                                                         |  |
|              | j) Board Resolution if the property is in the name of Limited Co.                                               |  |

|           |                                                                                                                                  |  |
|-----------|----------------------------------------------------------------------------------------------------------------------------------|--|
|           | k) Memorandum of Association to check Mortgage authority of company's property.                                                  |  |
|           | l) Insurance Covering Construction value.                                                                                        |  |
|           | m) Certified Math Khatian                                                                                                        |  |
|           | n) Location Map ( if there is no holding number or outside main city).                                                           |  |
|           | o) Re-valuation Certificate - along with FSV every 3rd year.                                                                     |  |
|           | p) Topographical survey map on Mouza Manp for agricultural lands or covering the property where holding number is not available. |  |
|           | q) Power of Attorney                                                                                                             |  |
|           |                                                                                                                                  |  |
|           | <b>Lease property :</b>                                                                                                          |  |
|           |                                                                                                                                  |  |
|           | <b>NO VACANT PLOTS OF LEASE PROPERTY ARE NOT ACCEPTABLE AS SECURITY</b>                                                          |  |
|           |                                                                                                                                  |  |
|           | a) Original Lease deed and Bia deed(s) if any.                                                                                   |  |
|           | b) Allotment letter, Possession letter                                                                                           |  |
|           | c) No objection Certificate/Mortgage permission (business purpose)from RAJUK/M.WORKS.                                            |  |
|           | d) Non Encumbrance Certificate from RAJUK/M.WORKS.                                                                               |  |
|           | e) Our interest to be noted with RAJUK/M. WORKS.                                                                                 |  |
|           | <b>Collect Stamp duty/Regd.charges from customer to obtain stamps from TREASURY</b>                                              |  |
|           | a) Obtain Certified copy Registered Mortgage with Original Delivery Receipt duly endorsed                                        |  |
|           | b) Obtain Certified copy Power of Attorney with Original Delivery Receipt duly endorsed                                          |  |
|           | c) Diaries to obtain Original Registered Mortgage /Power of Attorney from SRO.                                                   |  |
|           | d) Title Deed & mortgage deed refers to the same property.                                                                       |  |
|           | e) Amount and Expiry date of the mortgage deed                                                                                   |  |
|           | **Full Value Memorandum Recording Deposit of Title Deeds on BDT.150 STAMP:-                                                      |  |
|           | <b>For creating charge over company property in the office of RJSC.</b>                                                          |  |
|           | a) Form XVIII Properly filled in duly signed by Customer & Bank                                                                  |  |
|           | b) Fee collected and submitted to RJSC for registration.                                                                         |  |
|           | c) Registration Certificate along with original Memorandum obtained from RJSC.                                                   |  |
|           | d) Search Report from RJSC.                                                                                                      |  |
|           | <b>e) For Full value Equitable Mortgage over personal property</b>                                                               |  |
|           |                                                                                                                                  |  |
| <b>18</b> | <b>INSURANCE POLICIES WITHOUT MENTIONING VALUE :</b>                                                                             |  |
|           |                                                                                                                                  |  |
|           | a) Original Insurance Policies covering adequate value and risks                                                                 |  |
|           | b) Original Premium paid receipt.                                                                                                |  |
|           | c) Location(s) of stocks/property are correct in the Policy                                                                      |  |
|           | d) Policy valid                                                                                                                  |  |
|           | e) Bank Mortgage Clause                                                                                                          |  |
|           |                                                                                                                                  |  |
| <b>19</b> | <b>Negative Pledge</b>                                                                                                           |  |
|           |                                                                                                                                  |  |
|           | Board Resolution covering negative Pledge and signatory.                                                                         |  |
|           | Properly executed (as per BR), Company seal affixed.                                                                             |  |
|           | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                     |  |
|           | Signature verified                                                                                                               |  |
|           | Negative Pledge will expiry in line with BAL if ....accepts BAL.                                                                 |  |
|           |                                                                                                                                  |  |
| <b>20</b> | <b>Letter of Subordination</b>                                                                                                   |  |
|           | Board Resolution covering corporate subordination and signatory.                                                                 |  |
|           | Properly executed (as per BR), Company seal affixed.                                                                             |  |

|           |                                                                             |  |
|-----------|-----------------------------------------------------------------------------|--|
|           | Parties name not known from part 1 current balance sheet copy held          |  |
|           | Loan Subordination acknowledged by the authorized signatory of the Borrower |  |
|           | Signature verified                                                          |  |
|           |                                                                             |  |
| <b>21</b> | <b>Letter of Awareness</b>                                                  |  |
|           | Standard wordings                                                           |  |
|           | Supported by Board Resolution                                               |  |
|           | Signature verified                                                          |  |
|           |                                                                             |  |
| <b>22</b> | <b>Letter of Comfort</b>                                                    |  |
|           | Standard wordings                                                           |  |
|           | Supported by Board Resolution                                               |  |
|           | Signature verified                                                          |  |
|           |                                                                             |  |
| <b>23</b> | <b>Bank Guarantee/Indemnity</b>                                             |  |
|           | Valid and Current                                                           |  |
|           | Text authorized                                                             |  |
|           | Bank Risk approval held for ..... valid up to .....                         |  |
|           | Signature verified                                                          |  |
|           | Acknowledgment issued                                                       |  |
|           |                                                                             |  |
| <b>24</b> | <b>Letter of Lien &amp; Right To Set Off.</b>                               |  |
|           | Properly executed (as per BR), Company seal affixed.                        |  |
|           | Witnessed                                                                   |  |
|           | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                |  |
|           | Signature verified                                                          |  |
|           |                                                                             |  |
| <b>25</b> | <b>Letter of Pledge over stocks</b>                                         |  |
|           | Properly executed (as per BR), Company seal affixed.                        |  |
|           | Schedules are correct                                                       |  |
|           | Witnessed                                                                   |  |
|           | Proper Stamp affixed as per Pledge Valuation.                               |  |
|           | Signature verified                                                          |  |
|           | Form XVIII Properly filled in duly signed by Customer & Bank                |  |
|           | Fee collected and submitted to RJSC for registration.                       |  |
|           | Registration Certificate along with original obtained from RJSC.            |  |
|           | Search Report from RJSC.                                                    |  |
|           | Power of Attorney                                                           |  |
|           |                                                                             |  |
| <b>26</b> | <b>Irrevocable Letter of Authority</b>                                      |  |
|           | Standard wordings                                                           |  |
|           | Supported by Board Resolution, if Limited Co.                               |  |
|           | Signature verified                                                          |  |
| <b>27</b> | <b>PROPRIETORSHIP/PARTNERSHIP BORROWERS = HYPOTHECATION(S)</b>              |  |
|           | Partnership Deed to check borrowing/mortgage authority of the partners.     |  |
|           | Partnership Resolution duly signed by all partners                          |  |
|           | Resolution Date, Borrowing Amount, Authorized Signatory are correct.        |  |
|           | Signature verification                                                      |  |
|           | Simple Letter of Hypothecation(s)                                           |  |
|           | Properly executed, Company seal affixed.                                    |  |
|           | Date, amount, Location and Particulars are correct                          |  |

|              |                                                                                                                                                                           |  |
|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|              | Proper Stamp affixed (BDT.150 W.E.F. 1.7.98)                                                                                                                              |  |
|              | Signature verified                                                                                                                                                        |  |
|              | Letter of undertaking to deposit sales proceeds.                                                                                                                          |  |
|              |                                                                                                                                                                           |  |
| <b>27(a)</b> | <b>Notarized Irrevocable General Power of Attorney to sell the Assets without reference</b>                                                                               |  |
|              | Hypothecation & Power of Attorney refers to the same property.                                                                                                            |  |
|              | Signature verified                                                                                                                                                        |  |
|              |                                                                                                                                                                           |  |
| <b>28</b>    | <b>INTER BORROWING AMONGST CORPORATE BORROWERS (3rd PARTY) :</b>                                                                                                          |  |
|              | a) Cross Corporate Guarantee(s) supported by Object clause of MOA.                                                                                                        |  |
|              | b) Board Resolution from both borrower and Lender                                                                                                                         |  |
|              | c) Memorandum of Association to check borrowing/lending authority of respective Company.                                                                                  |  |
|              | d) 3rd party letter of hypothecation over stocks/book debts/machinery etc.                                                                                                |  |
|              | e) Signature verified                                                                                                                                                     |  |
| <b>29</b>    | <b>TERM LOAN AGREEMENT – FOR TERMS LOANS.</b>                                                                                                                             |  |
|              |                                                                                                                                                                           |  |
| <b>30</b>    | <b>OTHER AGREEMENT</b>                                                                                                                                                    |  |
|              |                                                                                                                                                                           |  |
|              | <b>MANDATORY LEGAL OPINION REQUIRE FOR ANY NON-STANDARD DOCUMENTS.ALL NON-MANDATORY DOCUMENTS MAY BE EXPIRED IN LINE WITH BAL, IF IT IS PREPARED OR ACCEPTS BAL only.</b> |  |
|              |                                                                                                                                                                           |  |
|              | <b>MANDATORY LEGAL OPINION REQUIRE FOR ANY ACCOUNT DOWNGRADED TO MSG-12.</b>                                                                                              |  |
|              |                                                                                                                                                                           |  |
|              | <b>Update Security Ledger - lodgment particulars &amp; expiry dates are correct.</b>                                                                                      |  |
|              |                                                                                                                                                                           |  |
|              | <b>Update Insurance Diary - lodgment particulars &amp; expiry dates are correct.</b>                                                                                      |  |
|              | <b>Prepare Guarantee Acknowledgment/Biennial Confirmations</b>                                                                                                            |  |
|              |                                                                                                                                                                           |  |
|              | <b>Remove obsolete documents from Security</b>                                                                                                                            |  |
|              |                                                                                                                                                                           |  |
|              | <b>Up-date Control Diary for missing/irregular/expired documents.</b>                                                                                                     |  |

**Loan Disbursement /Limit Loading Checklist & Authorisation Appendix 3.2.1 (cont.)**

**Borrower:** \_\_\_\_\_ **Account #:** \_\_\_\_\_

Security Documentation is in Place: ÿ

Approval Terms Complied With: ÿ

Covenants/Conditions Precedent Have Been Met: ÿ

Large Loan Compliance/ B.B Approvals Obtained as Required: ÿ

Exceptions:

- 1.
- 2.
- 3.

I have reviewed the above documents/security and confirm the accuracy of the information contained herein. The required documentation/security is in place and enforceable.

Verified by: \_\_\_\_\_  
Credit Administration Officer

Authorized by: \_\_\_\_\_  
Credit Administration Manager

Exceptions Approved by: \_\_\_\_\_  
Credit & Risk Management

## Early Alert Report

| <b>Borrower/Group:</b><br><br><b>Branch:</b><br><br><b>Total Limits:</b><br><br><b>Total Outstandings:</b><br><br><b>Existing Risk Grade:</b> _____                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Current Date:</b><br><br><b>Last Review Date:</b><br><br><b>Strategy: Hold / Reduce<br/>/ Restructure / Exit</b><br><br><b>Proposed Risk Grade:</b> _____ |                                                                                                                       |                                                                                                                    |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|--------------|----------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| <b>Facility Details:</b><br><br><table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Limit</th> <th style="text-align: left; border-bottom: 1px solid black;">Purpose</th> <th style="text-align: left; border-bottom: 1px solid black;">Outstandings</th> <th style="text-align: left; border-bottom: 1px solid black;">Security</th> </tr> </thead> <tbody> <tr><td style="height: 40px;"></td><td></td><td></td><td></td></tr> <tr><td style="height: 40px;"></td><td></td><td></td><td></td></tr> <tr><td style="height: 40px;"></td><td></td><td></td><td></td></tr> <tr><td style="height: 40px;"></td><td></td><td></td><td></td></tr> </tbody> </table> |                                                                                                                                                              | Limit                                                                                                                 | Purpose                                                                                                            | Outstandings | Security |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Limit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Purpose                                                                                                                                                      | Outstandings                                                                                                          | Security                                                                                                           |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                              |                                                                                                                       |                                                                                                                    |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                              |                                                                                                                       |                                                                                                                    |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                              |                                                                                                                       |                                                                                                                    |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                              |                                                                                                                       |                                                                                                                    |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Is Security Complete?</b> Y   /   N <b>Externally Checked?</b> Y   /   N<br><br><u><b>Details of any Deficiencies:</b></u><br><br><div style="height: 40px;"></div>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                              |                                                                                                                       |                                                                                                                    |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Symptoms Requiring Early Alert Reporting:</b><br><br><table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;">           _____ <b>Industry Concerns</b><br/>           _____ <b>Ownership/management concerns</b><br/>           _____ <b>Balance Sheet Weaknesses</b> </td> <td style="width: 50%; vertical-align: top;">           _____ <b>Cash Flow Weakness</b><br/>           _____ <b>Poor Account Conduct</b><br/>           _____ <b>Expired limits/ pending docs.</b> </td> </tr> </table><br><u><b>Provide Details of Symptoms Indicated above:</b></u><br><br><div style="height: 150px;"></div>                                                                                           |                                                                                                                                                              | _____ <b>Industry Concerns</b><br>_____ <b>Ownership/management concerns</b><br>_____ <b>Balance Sheet Weaknesses</b> | _____ <b>Cash Flow Weakness</b><br>_____ <b>Poor Account Conduct</b><br>_____ <b>Expired limits/ pending docs.</b> |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| _____ <b>Industry Concerns</b><br>_____ <b>Ownership/management concerns</b><br>_____ <b>Balance Sheet Weaknesses</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | _____ <b>Cash Flow Weakness</b><br>_____ <b>Poor Account Conduct</b><br>_____ <b>Expired limits/ pending docs.</b>                                           |                                                                                                                       |                                                                                                                    |              |          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Appendix 3.3.1 (cont.)

**Account Strategy to Regularise Account:**

**Have These Been Agreed with the Customer? Y / N**

**Has the Agreement Been Documented? Y / N**

**Has the Customer Breached any Conditions Since the Most Recent Agreement?**

**When will these deficiencies be rectified?**

**Update Since Last Early Alert Report:**

**Relationship Management Comments:**

**Grade Justification:**

**CRM Comments:**

**Recommended by:** \_\_\_\_\_  
**Relationship Manager**

**Approved by:** \_\_\_\_\_  
**Credit and Risk Management**

| Typical Characteristics                                                                                                                                                                                                                                                                        |                                                                                                                                                                                          |                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                             |                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Definition of Early Alert Accounts                                                                                                                                                                                                                                                             | Industry & Competition                                                                                                                                                                   | Ownership/ Management                                                                                                                                                                                                                                 | Balance Sheet                                                                                                                                                                                                                                                                                                                                                                                                                                       | Cash flow/Repayment source                                                                                                                                                                                                                                                                                                                                                                                                                                              | Performance                                                                                                                                                                                                                                 | Expired Limit /Incomplete Documentation                                                                                                                                             |
|                                                                                                                                                                                                                                                                                                | EA1                                                                                                                                                                                      | EA2                                                                                                                                                                                                                                                   | EA3                                                                                                                                                                                                                                                                                                                                                                                                                                                 | EA4                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | EA5                                                                                                                                                                                                                                         | EA6                                                                                                                                                                                 |
| Weaknesses or potential weaknesses which require close monitoring and pro- active account management to protect the bank's position. If these weaknesses are not corrected they may result in deterioration of repayment prospects, with the likelihood of downgrade to CG12 within 12 months. | <ul style="list-style-type: none"> <li>- Position within industry rapidly eroding</li> <li>- Industry may be mature and in long term decline, and / or in a cyclical downturn</li> </ul> | <ul style="list-style-type: none"> <li>- Concerns over the ability of management to effectively manage existing operations, and/or the business expansion plans.</li> <li>- Owners show lack of commitment to support business operations.</li> </ul> | <ul style="list-style-type: none"> <li>- Delay in submission, stale financials and / or continued weakness and/or deterioration.</li> <li>- Operating results are deteriorating and/or working capital cycle deteriorating.</li> <li>- Highly geared relative to peers / industry and on upward trend.</li> <li>- Rapid acquisition of assets without proper financial structuring</li> <li>- Declining asset cover for short-term debt.</li> </ul> | <ul style="list-style-type: none"> <li>- Liquidity strained and there is a need for additional borrowing or capital now or in the near future.</li> <li>- cashflow is unlikely to cover both mandatory debt service (principal plus interest) and other business needs (e.g. Capex).</li> <li>- Ability to reduce working capital bank lines is limited or non-existent.</li> <li>- Evidence of misuse of funds or monies diverted into non-core activities.</li> </ul> | <i>Payment Default:</i> <ul style="list-style-type: none"> <li>• Interest or principal 15 days overdue</li> <li>• Temporary overdraft 90 days or more which has not been regularised via formal limit and security documentation</li> </ul> | <ul style="list-style-type: none"> <li>- Facilities expired for more than 30 days.</li> <li>- Security documentation pending after 30 days from the approved time frame.</li> </ul> |

Note:

- The matrix produced above is not a definitive checklist. The characteristics of any given Early Alert account may not exactly correspond to the specific descriptions for each of EAR1-EAR4. However the overall credit worthiness of the borrower will fit the general description given under the 'Definition' column.

**Handover / Downgrade Check-List****Appendix – 3.4.1**

|     |                                                                             |        |      |
|-----|-----------------------------------------------------------------------------|--------|------|
| 1.  | Group Name (if applicable)                                                  |        |      |
| 2.  | Company Name(s)                                                             |        |      |
| 3.  | Confirm Outstanding                                                         | CCY:   |      |
| 4.  | Group Outstandings (if applicable)                                          | Limit: | O/S: |
| 5.  | Relationship Manager & Code                                                 |        |      |
| 6.  | Existing Credit Grade                                                       |        |      |
| 7.  | New Credit Grade                                                            |        |      |
| 8.  | Date of Downgrade                                                           |        |      |
| 9.  | RU to Manage?                                                               |        |      |
| 10. | - if YES, Name of Manager                                                   |        |      |
| 11. | Downgrade RFA faxed to Credit Admin                                         |        |      |
| 12. | Received latest CA, financials, documents etc?                              |        |      |
| 13. | Takeover memo issued?                                                       |        |      |
| 14. | Has RU met with the company?                                                |        |      |
| 15. | Immediate action? (eg issue demand)                                         |        |      |
| 16. | Working limits required?                                                    |        |      |
|     | - if YES, CA                                                                |        |      |
|     | - if NO, limits zeroed                                                      |        |      |
| 17. | Guarantors and Directors – any accounts with the bank? If so, give details. |        |      |
| 18. | CLRR - Status                                                               |        |      |
| 19. | Documentation                                                               |        |      |
|     | - Full review of documentation?                                             |        |      |
|     | - Security valid & enforceable?                                             |        |      |
|     | - Property valuations updated?                                              |        |      |
|     | - Reviewed guarantors' capacity?                                            |        |      |
|     | - Updated Company search?                                                   |        |      |
|     | - Updated Land search?                                                      |        |      |
|     | - Insurance current?                                                        |        |      |
| 20. | Account Strategy & Action Plan – Status                                     |        |      |
|     | - Submitted?                                                                |        |      |
|     | - Approved?                                                                 |        |      |
|     | - Other banks' actions?                                                     |        |      |
| 21. | Evidence of fraudulent transactions? If so, auditor advised?                |        |      |
| 22. | Comments / Observations                                                     |        |      |

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**Relationship Manager**


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**Recovery Unit Manager**

**REQUEST FOR ACTION****Appendix 3.4.2A**

|                                |  |                             |  |
|--------------------------------|--|-----------------------------|--|
| Customer Name:                 |  | Group Name                  |  |
| Credit Grade:                  |  | Status Code:                |  |
| Account Manager:               |  | Date Downgraded<br>Below 5: |  |
| RU Head:                       |  | Group Exposure              |  |
| RU Regional Manager:           |  | Group Impaired Exposure :   |  |
| Brief Description of Business: |  | Customer Segment:           |  |
| Related Accounts:              |  |                             |  |

|                          |                |
|--------------------------|----------------|
|                          | Local Currency |
| Total Gross Outstanding: |                |
| Net At Risk:             |                |
| NAR After Security:      |                |
| Group Exposure:          |                |

|                |                                                                                                                                                                                                                                                                                                   |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Attachment(s): | List any and all documents which are physically attached to the RFA and considered necessary for making an informed decision. If there are too many documents to list without breaching the one-page rule, refer instead to a list of documents which can itself become an attachment to the RFA. |
| Reference(s):  | List any relevant documents which will be readily available to the Approver (such as the current SARR, an earlier RFA or other correspondence, which is known to be in the approver's possession).                                                                                                |
| Background:    | Focus on major issues regarding the account and be succinct. If additional detail is considered necessary, information memoranda may be attached and cross-referenced                                                                                                                             |
| Request(s):    | State succinctly the precise purpose of the request, together with a recommendation. Again, if additional detail is needed, information memoranda may be attached and cross-referenced.                                                                                                           |

Signed By :  
Comments :

Approved By :  
Comments :



## Appendix 3.4.2B (Cont.)

Objective 2 :

Target Date:

Objective 3 :

Target Date:

### Latest Payment Information

|                           | Date | Comments |
|---------------------------|------|----------|
| Last Payment Received     |      |          |
| Previous Payment Received |      |          |
| Previous Payment Received |      |          |
| Next Payment Due          |      |          |
| Next Payment Expected     |      |          |

### Account Payment Status

|                                                   |
|---------------------------------------------------|
| Is there an agreed restructure in place? Yes / No |
|---------------------------------------------------|

Comments on Payment History and Payment Forecast:

Comments on Events subsequent to Classification:

Ultimate Realizable Value (ULR) Calculation:

Comments on Adequacy of Provisions:

## SYNDICATION

Syndication means joint financing by more than one bank to the same clients against a common security. This is done basically, to spread the risk. It also provides a scope for an independent evaluation of risk and focused monitoring by the agent/lead bank.

In syndication financing banks also enter into an agreement that one of the lenders may act as Lead Bank. In such cases, lead bank has to co-ordinate the activities at various stages of handling the proposal i.e. appraisal, sanction, documentation, sharing of security, disbursement, inspection, follow-up, recovery etc. It may also call meetings of syndication members, whenever necessary to finalize any decision.

The central bank also suggests to finalize large obligor through syndicated financing to diversify risks.