

# **MANAGING CORE RISKS OF FINANCIAL INSTITUTIONS**

## **CREDIT RISK MANAGEMENT**

*Industry Best Practices*



21 July 2005

**BANGLADESH BANK**

# **CREDIT RISK MANAGEMENT**

## ***Industry Best Practices***

**PREPARED FOR:**

**BANGLADESH BANK**

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**FOCUS GROUP  
ON  
CREDIT RISK MANAGEMENT**

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## Credit Risk Management

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# **Abbreviations**

ALMC	Asset/Liabilities Management Committee
AOA	Articles of Associations
BA	Borrower's Application
BB	Bangladesh Bank
BCA	Borrower Credit Application
BOD	Board of Directors
BR	Board Resolution
BRTA	Bangladesh Road Transport Authority
CA	Credit Application
CC	Credit Committee
CEO	Chief Executive Officer
CIB	Credit Information Bureau
CLR	Classified Loan Review
CLRR	Cash Liquidity Reserve Ratio
CPA	Certified Public Accountants
CRG	Credit Risk Grading
CRM	Credit Risk Management
CRMC	Credit Risk Management Committee
CRMD	Credit Risk Management Department
EC	Executive Committee
FG	Focus Group
Forex.	Foreign Exchange
FI	Financial Institution
FSV	Forced Sale Value
HOBU	Head of Business Unit
HOCRO	Head Office Credit Risk Officer
IT	Information Technology
KYC	Know Your Customer
L/C	Letter of Credit
MD	Managing Director
MIS	Management Information System
MMD	Mercantile Marine Department
MOA	Memorandum of Articles
NPL	Non Performing Loan
RAJUK	Razdhani Unnayan Kartipakha
RFA	Request For Action
RJSC	Registrar of Joint Stock Companies
RM	Relationship Manager
RU	Recovery Unit
SME	Small and Medium Enterprise
SRO	Statutory Regulator Order
ULR	Ultimate Realizable Value
WEDB	Wage Earners Development Bond
ZCRO	Zonal Credit Risk Officer

# **INTRODUCTION**

Risk is the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any time. In the financial arena, enterprise risks can be broadly categorized as Credit Risk, Operational Risk, Market Risk and Other Risk. Credit risk is the possibility that a borrower or counter party will fail to meet agreed obligations. Globally, more than 50% of total risk elements in banks and FIs are Credit Risk alone. Thus managing credit risk for efficient management of a FI has gradually become the most crucial task. Credit risk may take the following forms:

- In direct lease/term finance: rentals/principal/and or interest amount may not be repaid
- In issuance of guarantees: applicant may fail to build up fund for settling claim, if any;
- In documentary credits: applicant may fail to retire import documents and many others
- In factoring: the bills receivables against which payments were made, may fail to be paid
- In treasury operations: the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases
- In securities trading businesses: funds/ securities settlement may not be effected
- In cross-border exposure: the availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the sovereign

Credit risk management encompasses identification, measurement, matching mitigations, monitoring and control of the credit risk exposures to ensure that:

- The individuals who take or manage risks clearly understand it
- The organization's Risk exposure is within the limits established by Board of Directors with respect to sector, group and country's prevailing situation
- Risk taking Decisions are in line with the business strategy and objectives set by BOD
- The expected payoffs compensate the risks taken
- Risk taking decisions are explicit and clear
- Sufficient capital as a buffer is available to take risk

Credit risk management needs to be a robust process that enables FIs to proactively manage facility 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, and consolidation it is essential that FIs 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 FIs that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of the FIs in Bangladesh. Credit risk management is of utmost importance to FIs, and as such, policies and procedures should be endorsed and strictly enforced by the MD/CEO and the BOD of the FI.

The guidelines have been organized into the following sections:

## **1. POLICY & STRATEGY 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 RISK MANAGEMENT STRUCTURE & RESPONSIBILITIES**

- 2.1. Preferred Risk Management Structure
- 2.2. Key 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 Financial Institutions operating in Bangladesh.

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

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## **1. POLICY & STRATEGY GUIDELINES**

This section details fundamental credit risk management policies and strategies that are recommended for adoption by all FIs 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 FIs. It is the overall responsibility of FI's Board to approve FI's credit risk strategy and significant policies relating to credit risk and its management which should be based on the FI's overall business strategy. To keep it current, the overall policy and strategy has to be reviewed by the Board, preferably annually.

### **Credit Risk Policy**

Every FI should have a credit risk policy document that should include risk identification, risk measurement, risk grading/ aggregation techniques, reporting and risk control/ mitigation techniques, documentation, legal issues and management of problem facilities. The senior management of the FI should develop and establish credit policies and credit administration procedures as a part of overall credit risk management framework and get those approved from Board. Such policies and procedures shall provide guidance to the staff on various types of lending including Corporate, SME, Consumer, Housing etc. Credit risk policies should:

- Provide detailed and formalized credit evaluation/ appraisal process
- Provide risk identification, measurement, monitoring and control
- Define target markets, risk acceptance criteria, credit approval authority, credit origination/ maintenance procedures and guidelines for portfolio management
- Be communicated to branches/controlling offices. All dealing officials should clearly understand the FI's approach for credit sanction and should be held accountable for complying with established policies and procedures
- Clearly spell out roles and responsibilities of units/staff involved in origination and management of credit

In order to be effective, these policies must be clear and communicated down the line. Further any significant deviation/exception to these policies must be communicated to the top management/Board and corrective measures should be taken. It is the responsibility of senior management to ensure effective implementation of these policies duly approved by the Board.

### **Credit Risk Strategy**

The very first purpose of FI's credit strategy is to determine the risk appetite of the FI. Once it is determined the FI could develop a plan to optimize return while keeping credit risk within predetermined limits. It is essential that FIs give due consideration to their target market while devising credit risk strategy. The credit procedures should aim to obtain an in-depth understanding of the FI's clients, their credentials & their businesses in order to fully know their customers.

- Each FI should develop, with the approval of its Board, its own credit risk strategy or plan that establishes the objectives guiding the FI's credit-granting activities and adopt necessary policies/ procedures for conducting such activities. This strategy should spell out clearly the organization's credit appetite and the acceptable level of risk-reward trade-off for its activities

- The strategy would, therefore, include a statement of the FI's willingness to grant facilities based on the type of economic activity, geographical location, currency, market, maturity and anticipated profitability. This would necessarily translate into the identification of target markets and business sectors, preferred levels of diversification and concentration, the cost of capital in granting credit and the cost of bad debts
- The strategy should delineate FI's overall risk tolerance in relation to credit risk, the institution's plan to grant credit based on various client segments and products, economic sectors, geographical location, currency and maturity
- The strategy should provide pricing strategy and ensure that FI's overall credit risk exposure is maintained at prudent levels and consistent with the available capital
- The strategy should provide continuity in approach and take into account cyclic aspect of country's economy and the resulting shifts in composition and quality of overall credit portfolio. While the strategy would be reviewed periodically and amended, as deemed necessary, it should be viable in long term and through various economic cycles
- Senior management of a FI shall be responsible for implementing the credit risk strategy approved by the Board

## **1.1 LENDING GUIDELINES**

All FIs should have established "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 facilities to be approved. The Lending Guidelines should be updated at least annually to reflect changes in the economic outlook and the evolution of the FI's facility 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 FI based on the endorsement of the FI's Head of Credit Risk Management and the Head of Business Units. (*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 facilities that do not comply with Lending Guidelines should be restricted to the FI's Head of Credit or Managing Director/CEO or 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 FI's facility portfolio. For each sector, a clear indication of the FI's appetite for growth should be indicated (as an example, Textiles: Grow, Cement: Maintain, Construction: Shrink). This will provide necessary direction to the FI's marketing staff.

- **Types of Facilities**

The type of facilities that are permitted should be clearly indicated, such as Lease, Term Loan, Home Loan, and Working Capital etc.

▪ **Single Borrower/Group Limits/Syndication<sup>1</sup>**

Details of the FI's Single Borrower/Group limits should be included as per Bangladesh Bank guidelines. FIs may wish to establish more conservative criteria in this regard.

▪ **Sector Lending Caps**

An important element of credit risk management is to establish exposure limits for single obligors and group of connected obligors. FIs are expected to develop their own limit structure while remaining within the exposure limits set by Bangladesh Bank. The size of the limits should be based on the credit strength of the obligor, genuine requirement of credit, economic conditions and the institution's risk tolerance. Appropriate limits should be set for respective products and activities. FIs may establish limits for a specific industry, economic sector or geographic regions to avoid concentration risk.

▪ **Product Lending Caps**

FIs should establish a specific product exposure cap to avoid over concentration in any one product.

▪ **Discouraged Business Types**

FIs should outline industries or lending activities that are discouraged. The FI may have segregated sectors to be discouraged based on the following:

Government Specified	Best Practice	Company Specific
<ul style="list-style-type: none"> <li>• Military Equipment/Weapons Finance</li> <li>• Lending to companies listed on CIB black list or known defaulters</li> </ul>	<ul style="list-style-type: none"> <li>• Highly Leveraged Transactions</li> <li>• Logging, Mineral Extraction/Mining, or other activity that is Ethically or Environmentally Sensitive</li> <li>• Counter parties in countries subject to UN sanctions</li> </ul>	<ul style="list-style-type: none"> <li>• Finance of Speculative Investments</li> <li>• Share Lending</li> <li>• Taking an Equity Stake in Borrowers</li> <li>• Lending to Holding Companies</li> <li>• Bridge Loans relying on equity/debt issuance as a source of repayment.</li> </ul>

▪ **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:

- FIs should not grant facilities where the FI'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 facilities being granted. A recognized 3rd party professional valuation firm should be appointed to conduct valuations.

<sup>1</sup> Syndication means joint financing by more than one FIs or Banks 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 Arranger. In syndication financing, FIs also enter into an agreement that one of the lenders may act as Lead Arranger. In such cases, Lead Arranger 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 finalizing large obligor through syndicated financing to diversify risks.

- **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

## **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 a facility, 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 reviewed by Credit Risk Management (CRM) for identification and probable mitigation of risks. 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 FI'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 FIs should have established Know Your Customer (KYC) and Money Laundering guidelines which should be adhered to at all times.

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

- Amount and type of facility(s) proposed
- Purpose of facilities
- Facility Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangements
- Government and Regulatory Policies
- Economic Risks

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. Preferably an analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor financial statements should also be analyzed. The analysis should address the quality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed.
- Projected Financial Performance. Where term facilities (tenor > 1 year) are being proposed, a projection of the borrower's future financial performance should be provided, indicating an analysis of the sufficiency of cash flow to service debt repayments. Facilities should not be granted if projected cash flow is insufficient to repay debts.
- Credit Background. Credit application should clearly state the status of the borrower in the CIB (Credit Information Bureau) report. The application should also contain liability status with other Banks and FI's and also should obtain their opinion of past credit behavior.
- Account Conduct. For existing borrowers, the historic performance in meeting repayment obligations (trade payments, cheques, interest and principal payments, etc) should be assessed.
- Adherence to Lending Guidelines. Credit Applications should clearly state whether or not the proposed application is in compliance with the FI's Lending Guidelines. The FI's Head of Credit or Managing Director/CEO or Board should approve Credit Applications that do not adhere to the FI'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.
- Facility Structure. The amounts and tenors of financing proposed should be justified based on the projected repayment ability and facility purpose. Excessive tenor or amount relative to business needs increases the risk of fund diversion and may adversely impact the borrower's repayment ability.
- Purpose of Credit. FIs have to make sure that the credit is used for the purpose it was borrowed. Where the obligor has utilized funds for purposes not shown in the original proposal, FIs should take steps to determine the implications on creditworthiness. In case of corporate facilities where borrower own group of companies such diligence becomes more important. FIs should classify such connected companies and conduct credit assessment on consolidated/group basis.
- Project Implementation. In case of a large expansion, which constitutes investment of more than 30% of total capital of a company or for a green field project, project implementation risk should be thoroughly assessed. Project implementation risk may involve construction risk (Gestation period, regulatory and technical clearances, technology to be adopted, availability of infrastructure

facilities) funding risk, and post project business, financial, and management risks.

- Foreign Currency Fluctuation. Credit application should clearly state the assessment of foreign currency risk of the applicant and identify the mitigating factors for its exposure to foreign currency.
- Security. A current valuation of collateral should be obtained and the quality and priority of security being proposed should be assessed internally and preferably by a third party valuer. Facilities should not be granted based solely on security. Adequacy and the extent of the insurance coverage should be assessed.
- Type of Control on Cash Flow. The credit application should contain and assess if there is any control on the borrowers cash flow for securing the repayment. This may include payment assignment from export proceed, payment assignment from customers of the borrower etc.
- Exit Option. Credit application should clearly state the exit option from the borrower in case of early identification of deterioration of grading of the borrower.
- 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 facilities 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**

The Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure. A Credit Risk Grading deploys a number/ alphabet/ symbol as a primary summary indicator of risks associated with a credit exposure. Credit Risk Grading is the basic module for developing a Credit Risk Management system.

Credit risk grading is an important tool for credit risk management as it helps the Financial Institutions to understand various dimensions of risk involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a FI. The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage.

At the pre-sanction stage, credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the lending price, what should be the extent of exposure, what should be the appropriate credit facility, what are the various facilities, what are the various risk mitigation tools to put a cap on the risk level.

At the post-sanction stage, the FI can decide about the depth of the review or renewal, frequency of review, periodicity of the grading, and other precautions to be taken. Risk grading should be assigned at the inception of lending, and updated at least annually. FIs should, however, review grading as and when adverse events occur. A separate function

independent of facility origination should review risk grading. As part of portfolio monitoring, FIs should generate reports on credit exposure by risk grade. Adequate trend and migration analysis should also be conducted to identify any deterioration in credit quality. FIs may establish limits for risk grades to highlight concentration in particular grading bands. It is important that the consistency and accuracy of grading is examined periodically by a function such as an independent credit review group.

### **Functions of Credit Risk Grading**

Well-managed credit risk grading systems promote financial institution safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows FI management and examiners to monitor changes and trends in risk levels. The process also allows FI management to manage risk to optimize returns.

### **Use of Credit Risk Grading**

- The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of individual obligor, credit portfolio of a unit, line of business, the FI as a whole.
- CRG would provide a quantitative measurement of risk which portrays the risk level of a borrower and enables quick decision making,
- As evident, the CRG outputs would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to pricing (credit-spread) and specific features of the credit facility. These would largely constitute obligor level analysis.
- Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of an FI. It is also relevant for portfolio level analysis.
- CRG would provide a quantitative framework for assessing the provisioning requirement of a FI's credit portfolio.

### **Risk Grading for Corporate and SME**

- The proposed CRG scale is applicable for both new and existing borrowers.
- It consists of 8 categories, of which categories 1 to 5 represent various grades of acceptable credit risk and 6 to 8 represent unacceptable credit risk. However, individual FI depending on their risk appetite may implement more stringent policy.

<b>GRADING</b>	<b>SHORT NAME</b>	<b>NUMBER</b>
<b>Superior</b>	SUP	1
<b>Good</b>	GD	2
<b>Acceptable</b>	ACCPT	3
<b>Marginal/Watchlist</b>	MG/WL	4
<b>Special Mention</b>	SM	5
<b>Sub standard</b>	SS	6
<b>Doubtful</b>	DF	7
<b>Bad &amp; Loss</b>	BL	8

- Having considered the significance of credit risk grading, it becomes imperative for the financial system to carefully develop a credit risk grading model, which meets the objective outlined above.
- 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 judgment and the Risk Grade Scorecard results. It is recognized that the FIs 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	⇒ Credit facilities, which are fully secured i.e. fully cash covered. ⇒ Credit facilities fully covered by government guarantee. ⇒ Credit facilities fully covered by the guarantee of a top tier international Bank.
Good – Satisfactory Risk	2	⇒ Strong repayment capacity of the borrower ⇒ The borrower has excellent liquidity and low leverage. ⇒ The company demonstrates consistently strong earnings and cash flow certainty. ⇒ Borrower has well established, strong market share. ⇒ Very good management skill & expertise. ⇒ Credit facilities fully covered by the guarantee of a top tier local Bank. ⇒ Aggregate Score of 85 or greater based on the Risk Grade Score Sheet
Acceptable – Fair Risk	3	⇒ These borrowers are not as strong as GOOD Grade borrowers, but still demonstrate consistent earnings, cash flow certainty and have a good track record. ⇒ Borrowers have adequate liquidity, cash flow and earnings. ⇒ Credit in this grade would normally be secured by acceptable collateral (1st charge over inventory / receivables / equipment / property). ⇒ Acceptable management ⇒ Acceptable parent/sister company guarantee ⇒ Aggregate Score of 75-84 based on the Risk Grade Score Sheet
Marginal - Watch list	4	⇒ This grade warrants 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. ⇒ Weaker business credit & early warning signals of emerging business credit detected. ⇒ The borrower incurs a loss ⇒ Facility repayments routinely fall past due ⇒ Account conduct is poor, or other untoward factors are present. ⇒ Credit requires attention ⇒ Aggregate Score of 65-74 based on the Risk Grade Score Sheet

<b>Risk Rating</b>	<b>Grade</b>	<b>Definition</b>
Special Mention	5	<p>⇒ This grade has 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.</p> <p>⇒ Severe management problems exist.</p> <p>⇒ Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage),</p> <p>⇒ An Aggregate Score of 55-64 based on the Risk Grade Score Sheet.</p>
Substandard	6	<p>⇒ Financial condition is weak and capacity or inclination to repay is in doubt.</p> <p>⇒ These weaknesses jeopardize the full settlement of facilities.</p> <p>⇒ Bangladesh Bank criteria for sub-standard credit shall apply.</p> <p>⇒ An Aggregate Score of 45-54 based on the Risk Grade Score Sheet.</p>
Doubtful and Bad (non-performing)	7	<p>⇒ Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.</p> <p>⇒ However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Bad &amp; Loss.</p> <p>⇒ Bangladesh Bank criteria for doubtful credit shall apply.</p> <p>⇒ An Aggregate Score of 35-44 based on the Risk Grade Score Sheet.</p>
Loss (non-performing)	8	<p>⇒ Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/liquidation.</p> <p>⇒ Prospect of recovery is poor and legal options have been pursued.</p> <p>⇒ Proceeds expected from the liquidation or realization of security may be awaited. The continuance of the facility as a bankable asset is not warranted, and the anticipated loss should have been provided for.</p> <p>⇒ This classification reflects that it is not practical or desirable to defer writing off this basically valueless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad facilities must be adhered to. Legal procedures/suit initiated.</p> <p>⇒ Bangladesh Bank criteria for bad &amp; loss credit shall apply.</p> <p>⇒ An Aggregate Score of less than 35 based on the Risk Grade Score Sheet.</p>

- 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.

## **Risk Rating for Consumer Lending**

For consumer lending, FIs may adopt credit-scoring models for processing facility applications and monitoring credit quality. FIs should apply the above principles in the management of scoring models. Where the model is relatively new, FIs should continue to subject credit applications to rigorous review until the model has stabilized.

### **1.2.3 Ratings Review**

The rating review can be two-fold:

- Continuous monitoring by those who assigned the grading. The Relationship Managers (RMs) generally have a close contact with the borrower and are expected to keep an eye on the financial stability of the borrower. In the event of any deterioration the grading are immediately revised /reviewed.
- Normally CRG should be reviewed at least once in a year. For risk grades starting from 5 to 8, CRG should be reviewed in every six months.
- Secondly the risk review functions of the FI or business lines also conduct periodical review of grading at the time of risk review of credit portfolio.

## **1.3 APPROVAL AUTHORITY**

All commercial activities, which commit the FI to deliver risk sensitive products, require prior approval by authorized committees/individuals. A FI may have the Board, Management/Executive Committee, and Credit Committees for reviewing and approving financing proposals. The FI may have threshold based on percentage of equity that sets limits for review and approval of credit proposals in different committees. The Board must approve the threshold limit. Besides, approval authority may be delegated further to individual executives based on security, the executive's knowledge and experience to ensure accountability and quick decision in the approval process. The concerned CRM officials should be the owner of their independent review and identification of risks based on the credit application.

The authority to sanction/approve facilities must be clearly delegated by the Managing Director/CEO & Board to the Corporate Center and further down to the Business Units. Business Units are independent and responsible for managing all business activities within the approved limits. However, the concerned RM of the sales team / branch staff responsible for facility sales should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the facility application submitted for approval. They must be familiar with the FI's Lending Guidelines and should conduct due diligence on new borrowers, purpose of the facilities and guarantors.

The vast majority of FIs serve a number of different customer segments. This segmentation is mostly used to differentiate the services offered and to individualize the respective marketing efforts. As a result, this segmentation is based on customer demands in most cases. Based on its policy, a FI tries to meet the demands of its customers in terms of accessibility and availability, product range and expertise, as well as personal customer service. In practice, linking sales with the risk analysis units is not an issue in many cases at first. The sales organization often determines the process design in the risk analysis units.

The delegation of authority needs to be clearly documented and must include as a minimum:

- Absolute and/or incremental credit approval authority being delegated
- Executives or positions to whom authority is being further delegated
- Ability of recipients to further delegate risk approval authority
- Restrictions, if any, placed on the use of delegated risk-approval authorities

The degree of delegation of authority will depend on a number of variables including:

- Nature of financial products
- Degree of market responsiveness required
- Types of risks being assessed
- Institution's risk philosophy and credit culture
- Experience of credit executives

The following guidelines should apply in the approval/sanctioning of facilities:

- 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
- 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 or Board
- All applications must be reviewed by the Head of Credit Risk Management for independent assessment and identification risks and approved by respective committees or individuals delegated by Board or CEO/MD
- Respective CRM officials will be held responsible for identification of risk.
- 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 FI's Lending Guidelines and should conduct due diligence on new borrowers, principals, and guarantors
- 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 of Credit Risk Management for review and approved by CEO/MD or Board
- MD/CEO must approve and monitor any cross-border exposure risk
- A monthly summary of all new facilities approved, renewed, enhanced, and a list of proposals declined stating reasons thereof may be reported by CRM to the CEO/MD
- Any breaches of lending authority should be reported to MD/CEO, Head of Internal Control, and Head of CRM

### **Approval Authority for Non Standardized Credits:**

The factors to be taken into account in drawing up the decision-making structure for non-standardized credits such as corporate and SME lending are the following:

- **Level of Exposure**

The level of exposure plays a decisive role in stipulating the decision-making structure. This is reflected in the fact that in most cases, the different levels of authority are defined by the level of exposure.

- **Value of Collateral**

The value of the collateral restricts the unsecured portion of the exposure and is therefore also of great significance. In most cases, the translation of this criterion is effected by showing separately the maximum unsecured volume within the scope of a level of authority.

- **Type of Borrower**

There are credits to Banks, FIs and to sovereigns, which are different from facilities to corporate and private customers because of the high volumes involved. As a result, the volumes used to define the levels of authority have to be determined separately depending on difference in risks associated.

- **Probability of Default**

The customer rating is usually taken as an indicator of the probability of default in this case. As such, decision making structure may commensurate with the risk hierarchical level of risk grading.

**Approval Authority for Standardized Credits:**

Standardized credits should be shown separately as the degree of standardization has a significant influence on the occurrence of procedural and substantive errors in the course of the credit approval process. Standardization can help reduce both sources of errors considerably. On the one hand, the shorter and usually rigid process structure allows less procedural errors to be made, and on the other, the credit rating processes applicable to standardized credits make it possible to assess the credit standing based on empirical statistical analyses and thus independently of the subjective evaluation of a credit officer or account manager

The standardized retail business in particular including home loan and car loan etc. does mostly without individual interventions in the credit decision process, with the result of the standardized credit rating process being the major basis for the credit decision. Increasingly, mostly automated decision processes are also used in the small business segment. The prerequisite is a clear definition of the data to be maintained for this customer segment.

**Delegation of Authority**

- FIs are required to establish responsibility for credit sanctions and delegate authority to approve credits or changes in credit terms. It is the responsibility of FIs Board to approve the overall lending authority structure, and explicitly delegate credit sanctioning authority to appropriate authorities. Lending authority assigned to officers should be commensurate with the experience, ability and personal character. It would be better if FIs develop risk-based authority structure where lending power is tied to the risk ratings of the obligor. Large FIs may adopt multiple credit approvers for sanctioning such as credit ratings, risk approvals etc to institute a more effective system of check and balance. The credit policy should spell out the escalation process to ensure appropriate reporting and approval of credit extension beyond prescribed limits. The policy should also spell out authorities for unsecured credit, approvals of disbursements excess over limits and other exceptions to credit policy.

- In cases where lending authority is assigned to the facility originating function, there should be compensating processes and measures to ensure adherence to lending standards. There should also be periodic review of lending authority assigned to officers.

### **Qualifications of Authorized Credit Executives**

It is essential that executives charged with approving facilities have relevant training and experience to carry out their responsibilities effectively. As a minimum, approving executives should have:

- At least 5 years working experience in corporate/credit department as a relationship manager or account executive of a FI or Bank. However, if a facility is fully backed by cash or highly liquid security, the experience of the delegated executives may be relaxed
- 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:
  - Introduction of accrual accounting
  - Industry / Business Risk Analysis
  - Borrowing Causes
  - Financial reporting and full disclosure
  - Financial Statement Analysis
  - The Asset Conversion/Trade Cycle
  - Cash Flow Analysis
  - Projections
  - Facility Structure and Documentation
  - Facility Management

## **1.4 SEGREGATION OF DUTIES**

Adequate segregation of duties is a prerequisite for an effective system of internal control. To be adequate, segregation must ensure that the following functions are performed by persons independent of each other, although, within limits, certain may be combined so long there is adequate supervision:

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

The credit approval team will be independent from the sales and branch team who will evaluate and approve the facility. The Credit Administration department will check and ensure the documentation and disburse the facilities. This will ensure better control of the FI asset and mitigate the risk of compromise of the duties. The purpose of the segregation is to improve the knowledge levels and expertise in each department, to impose controls over the disbursement of authorized facilities and obtain an objective and independent judgment of credit proposals.

## **1.5 INTERNAL AUDIT**

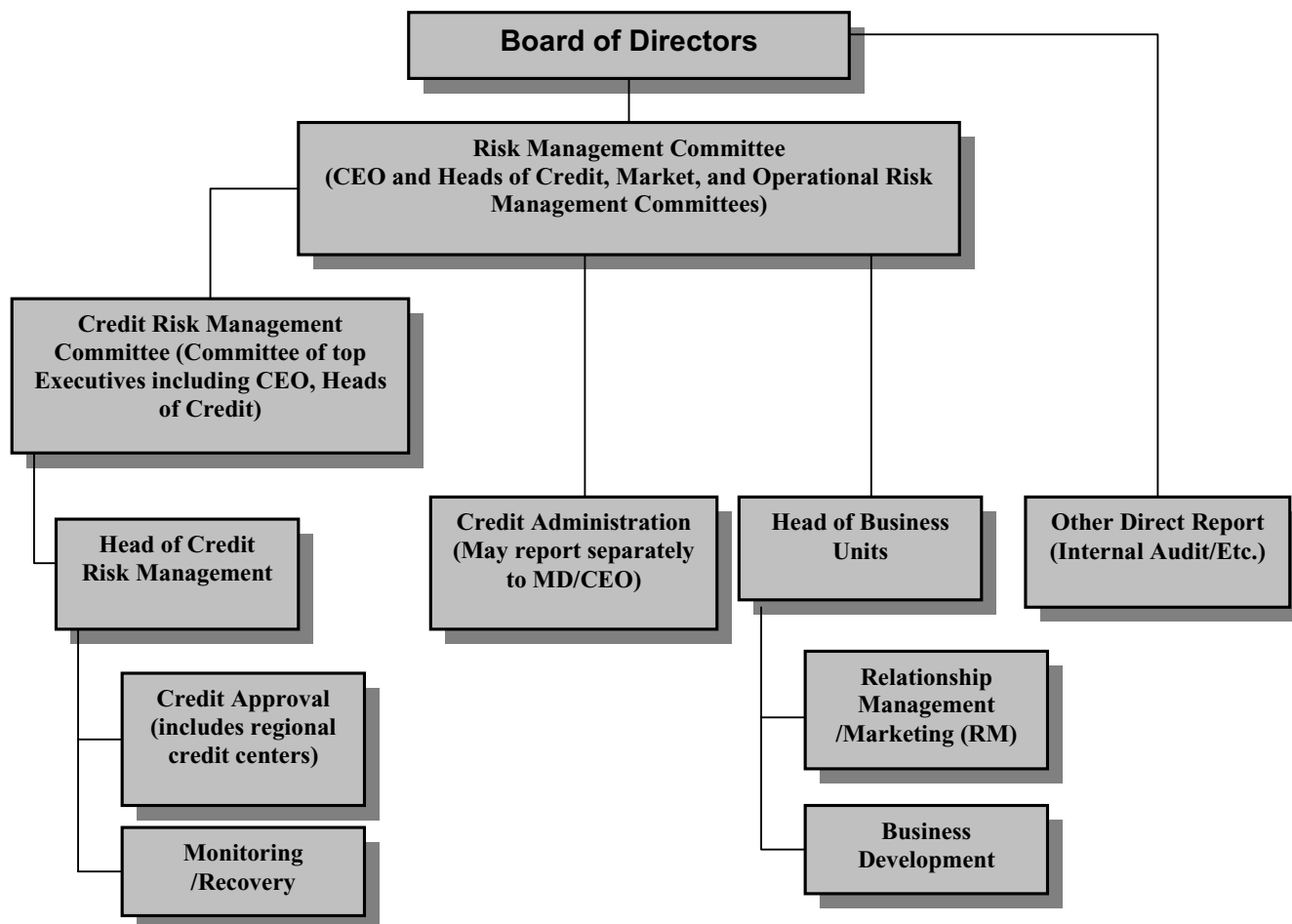
- FIs should have a segregated internal audit/control department charged with conducting audits of all departments
- Internal audit should verify the continuing adequacy and applicability of credit risk management policies and procedures, provide an independent assessment of the credit portfolios' existence, quality and value, the integrity of the credit process, and promotes detection of problems relating thereto.
- Every year, internal audit should prepare an auditing plan to be approved by the Board according to which the audits are carried out. This auditing plan should be carried out in a risk-oriented manner, taking into account size and nature of the credit institution, as well as type, volume, complexity, and risk level of the FI's activities. The frequency of auditing the individual audit areas should be stipulated in the FI's internal guidelines for internal auditing
- A comprehensive written audit report has to be prepared following each audit. It will usually be expedient to first report to the head of the audited organizational unit on the audit's findings in the course of a final meeting and to offer the opportunity to comment on the findings, with these comments to be taken into account in the audit report. Subsequently, all top executives and department heads are informed accordingly
- It is the task of internal auditing to monitor the swift correction of any problems detected in the audit as well as the implementation of its recommendations in a suitable form, and if necessary to schedule a follow-up audit
- Assessments of internal audit should, at a minimum, randomly test all aspects of credit risk management in order to determine that:
  1. Credit activities are in compliance with the FI's credit and accounting policies and procedures, and with the laws and regulations to which these credit activities are subjected to
  2. Existing credit facilities are duly authorized, and are accurately recorded and appropriately valued on the books of the FI
  3. Credit exposures are appropriately rated
  4. Credit files are complete
  5. Potential problem accounts are being identified on a timely basis and determine whether the FI's provision for credit losses is adequate
  6. Credit risk management information reports are adequate and accurate
  7. Improvement in the quality of credit portfolio
  8. Appraise top management
- The following audit areas are particularly relevant:
  1. All operational and business procedures within the credit institution
  2. Risk management and risk management control
  3. The internal review system
  4. The FI's internal rules and directives
  5. All mandatory audit areas (especially large-exposure investments, money laundering and compliance, diligence, reporting requirements, securities trading book)
- Credit audit is conducted on-site, i.e. at the branch which has appraised the advance and where the main operative credit limits are made available
- Reports on conduct of accounts of allocated limits are to be called from the corresponding branches
- Credit auditors may visit borrowers' factory/ office premises

## **2. PREFERRED RISK MANAGEMENT STRUCTURE & RESPONSIBILITIES**

To maintain FI's overall credit risk exposure within the parameters set by the Board of directors, the importance of a sound risk management structure is second to none. The appropriate organizational structure must be in place to support the adoption of the policies detailed in Section 1 of these guidelines. While the FIs may choose different structures, it is important that such structure should be commensurate with institution's size, complexity and diversification of its activities. The key feature is the segregation of the Marketing/Relationship Management function from Approval/Risk Management/Administration functions. It must facilitate effective management oversight and proper execution of credit risk management and control processes.

### **2.1 PREFERRED RISK MANAGEMENT STRUCTURE**

The following chart represents the preferred risk management structure:



The **Board of Directors** should have the overall responsibility for management of risks. The Board should decide the risk management policy of the FI and set limits for liquidity, interest rate, foreign exchange and equity price risks.

The **Risk Management Committee** will be a Board level Sub committee including CEO and heads of Credit, Market and Operational Risk Management Committees. It will devise the policy and strategy for integrated risk management containing various risk exposures of the FI including the credit risk. For this purpose, this Committee should effectively coordinate between the Credit Risk Management Committee (CRMC), the Asset Liability Management Committee and other risk committees of the FI, if any. It is imperative that the independence of this Committee is preserved. The Board should, therefore, ensure that this is not compromised at any cost. In the event of the Board not accepting any recommendation of this Committee, systems should be put in place to spell out the rationale for such an action and should be properly documented. This document should be made available to the internal and external auditors for their scrutiny and comments. The credit risk strategy and policies adopted by the committee should be effectively communicated throughout the organization.

Each FI may, depending on the size of the organization or facility/ investment book, constitute a high level **Credit Risk Management Committee (CRMC)**. The Committee should be headed by the Chairman/CEO/ED, and should comprise of heads of Credit Department, Treasury, and Credit Risk Management Department (CRMD). The functions of the Credit Risk Management Committee should be as under:

- Be responsible for the implementation of the credit risk policy/ strategy approved by the Board
- Monitor credit risk on a FI wide basis and ensure compliance with limits approved by the Board
- Recommend to the Board, for its approval, clear policies on standards for presentation of credit proposals, financial covenants, rating standards and benchmarks
- Taking decisions in terms of capital allocation and defining limits in line with the risk strategy
- Decide delegation of credit approving powers, prudential limits on large credit exposures, standards for facility collateral, portfolio management, facility review mechanism, risk concentrations, risk monitoring and evaluation, pricing of facilities, provisioning, regulatory/legal compliance, etc.

Concurrently, each FI should also set up **Credit Risk Management Department (CRMD)**, independent of the Credit Administration Department. The CRMD should:

- Measure, control and manage credit risk on an organization basis within the limits set by the Board/ CRMC
- Enforce compliance with the risk parameters and prudential limits set by the Board/ CRMC
- Lay down risk assessment systems, develop MIS, monitor quality of facility/ investment portfolio, identify problems, correct deficiencies and undertake facility review/audit. Large FIs could consider separate set up for facility review/audit.
- Be accountable for protecting the quality of the entire facility/ investment portfolio. The Department should undertake portfolio evaluations and conduct comprehensive studies on the environment to test the resilience of the facility portfolio.

Credit risk committees must be distinguished from those committees (often referred to as credit committees) which have to make decisions on credit approval, extension etc.

The committee usually meets at least once a month and whenever necessary. The advantages of the committee structure are the holistic perspective of the credit risk, the possibility to make decision based on this holistic approach, as well as the fact that several areas can be integrated resulting in better acceptance of the decisions. Similarly, the

integration of the chief risk officer and institution-wide risk management control ensures that the credit risk is analyzed with regard to the FI's overall risk.

## **2.2 KEY RESPONSIBILITIES**

The key responsibilities of the above functions are as follows. Please also refer to ***Appendices 2.1A-D*** for sample job descriptions:

### **Credit Risk Management (CRM)**

#### **Risk Management Functions**

- Oversight of FI's credit policies, procedures and controls relating to all credit risks arising from corporate/commercial/institutional/personal/ treasury operations
- Oversight of the FI's asset quality
- To ensure that lending executives have adequate experience and/or training in order to carry out job duties effectively.

#### **Credit Functions**

- To review Credit Applications recommended by RM and to provide independent risk assessment and recommendation to MD/CEO/Board for approval
- To provide advice/assistance regarding all credit matters to line management/RMs

#### **Monitoring Functions**

- Directly manage all Substandard, Doubtful & Bad and Loss accounts to maximize recovery and ensure that appropriate and timely facility loss provisions have been made

### **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 FI
- To control facility 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 FI 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, FI policies and Bangladesh Bank directives. Reports directly to MD/CEO or Audit committee of the Board.

### 3. **PROCEDURAL GUIDELINES**

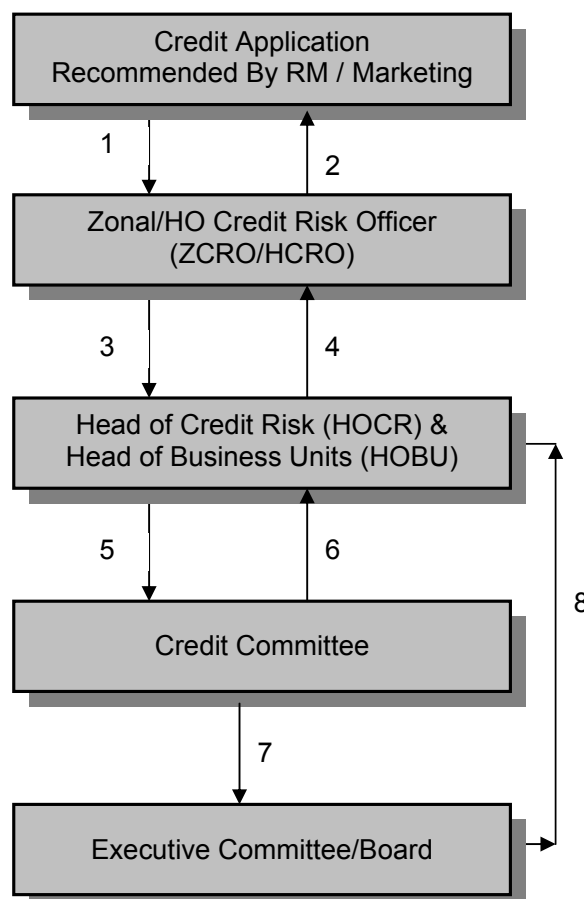
This section outlines of the main procedures that are needed to ensure compliance with the policies contained in Section 1.0 of these guidelines.

#### 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 business unit. Credit Applications should be recommended for approval by the RM team and forwarded to CRM for their review and assessment. The credit should subsequently be approved by proper approval committee.

FIs may wish to establish various thresholds, above which, the recommendation of the Head of business unit is required prior to onward recommendation to CRM and subsequent appropriate authority for approval. In addition, FIs may wish to establish regional credit centers within the approval team to handle routine approvals.

The recommended procedure for all the business units is as follows:



1. Application forwarded to Zonal Office or Head Office for review by the ZCRO or HCRO
2. Advise the review to recommending branches

3. ZCRO/HCRO supports & forwarded to Head of Business Units (HOBUs) within their delegated authority and to Head of Credit Risk (HOCR) for onward recommendation
4. HOCR advises the review to ZCRO
5. HOCR & HOBUs supports & forwarded to Credit Committee
6. Credit Committee advises the decision as per delegated authority to HOCR & HOBUs
7. Credit Committee forwards the proposal to EC/Board for their approval within their respective authority
8. EC/Board advises the decision to HOCR & HOBUs

The approval process may vary among FI's depending on the types of products and exposure. For example, lending to Corporate and SME's is mostly unstructured due to diverse nature of risk exposure. On the other hand, consumer lending is mostly structured by standardizing the product and risk aspects of individuals. As such applications for consumer lending may be done within the head of consumer unit subject to delegation of authority to do so.

#### **Indicative Delegated Approval Authority Levels**

Credit Committee	Up to 10% of Capital
Management Committee	Up to 20% of Capital
Board	Above 20% of Capital

### **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 financial 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.

Ongoing administration of the credit portfolio is an essential part of the credit process. Credit administration function is basically a back office activity that support and control extension and maintenance of credit. A typical credit administration unit performs following functions:

#### **3.2.1 Documentation**

It is the responsibility of credit administration to ensure completeness of documentation (facility agreements, guarantees, transfer of title of collaterals etc) in accordance with approved terms and conditions. Outstanding documents should be tracked and followed up to ensure execution and receipt.

Security documents are prepared in accordance with approval terms and are legally enforceable. Standard 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 authorization from an appropriate executive in CRM.

**3.2.2 Disbursement**

Disbursements under facilities should 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 facilities & facilities to Directors guided by Bangladesh Bank circulars & related section of financial Institutions Act should be complied with. All Credit Approval terms must be met before disbursement. A sample documentation and disbursement checklist is attached as **Appendix 3.2.1**, which FIs may wish to use to control disbursements.

**3.2.3 Credit Monitoring**

After the facility is approved and draw down allowed, the facility should be continuously watched over. These include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.

**3.2.4 Facility Repayment**

The obligors should be communicated ahead of time as and when the principal/markup installment becomes due. Any exceptions such as non-payment or late payment should be tagged and communicated to the management. Proper records and updates should also be made after receipt.

**3.2.5 Custodial Duties**

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

**3.2.6 Compliance Requirements**

All required Bangladesh Bank returns should be 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, CA Firms etc.) are approved and performances are reviewed on an annual basis. FIs should be referred to Bangladesh Bank circular outlining approved external audit firms that are acceptable.

**3.3 CREDIT MONITORING**

To minimize 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 facility covenants
- Non-receipts of financial statements on a regular basis and any covenant breaches or exceptions made
- Action not taken on time for findings of any internal, external or regulator inspection/audit

All borrower relationships/facilities are reviewed and approved through the submission of a Credit Report at least annually. Refer to the Credit Report 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 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 FI's credit position at some future date with a likely prospect of being downgraded to CRG 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, facilities 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 FI'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 facility 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 FI. Representation from the FI 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 regularized 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). FIs may wish to transfer EXIT accounts graded 4-5 to the RU for efficient exit based on recommendation of

CRM and Corporate FI. 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 facilities (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 FI/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 FI and to the Branch/office where the facility was originally sanctioned. This initial CLR should highlight any documentation issues, facility 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 authorities.
- 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)
- Prompt legal action is taken if the borrower is uncooperative

### **3.4.3 Rescheduling**

FI's should follow clear guideline for rescheduling of their problem accounts and monitor accordingly

Rescheduling of problem accounts should be aimed at a timely resolution of actual or expected problem accounts with a view to effecting maximum recovery within a reasonable period of time.

#### **Purpose of Rescheduling:**

- (i) To provide for borrower's changed business condition
- (ii) For better overdue management
- (iii) For amicable settlement of problem accounts

#### **Cases for Rescheduling:**

Rescheduling would be considered only under the following cases-

- (i) Overdue has been accumulated or likely to be accumulated due to change in business conditions for internal or external factors and the borrower is no way able to pay up the entire accumulated overdue in a single shot.
- (ii) The borrower should be in operation and the assets have a productive value and life for servicing the outstanding liabilities.
- (iii) The borrower must be capable of and willing to pay as per revised arrangement.

#### **Modes of Rescheduling:**

Rescheduling can be done through adopting one or more of the following means.

- (i) Extension of financing term keeping lending rate unchanged
- (ii) Reduction of lending rate keeping financing term unchanged
- (iii) Both reduction of lending rate and extension of financing term
- (iv) Bodily shifting of payment schedule
- (v) Deferment of payment for a short-term period with or without extending the maturity date (this may be a temporary relief to prevent the inevitable collapse of a company).

**However, under any circumstances reschedule period must not exceed economic life of the asset.**

#### **Analysis of Rescheduling Case and decision on different modes of rescheduling:**

An account, which has been going through liquidity crisis, may be considered for rescheduling after identifying symptoms, causes and magnitude of the problem. For rescheduling an account, the criteria mentioned in Bangladesh Bank guideline, if any has to be followed strictly.

#### **Post Rescheduling Requirements:**

- Rescheduling of a contract must require prior approval of CRM and management
- All rescheduled accounts are to be kept in a separate watch list so that post-rescheduling performance of the accounts can be monitored closely

- An individual account cannot be rescheduled more than three times

#### 3.4.4 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 FI's strategy as appropriate. The Board may decide the level of authority for approving the CLR based on percentage of equity.

#### 3.4.5 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 FIs are encouraged to adopt more stringent provisioning/write off policies. Regardless of the length of time a facility 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 facility outstanding 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 3.4.2B**)

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.	Facility Value (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 (See Note below)	( XXX )
	Net Facility 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 FI, 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 Facility value for provision purposes. Conservative approach should be taken to arrive at provision requirement and Bangladesh Bank guideline should be properly followed.

#### **3.4.6 Incentive Programme:**

FIs 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

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## CREDIT PROPOSAL

### Appendix 1.2.1

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 FACILITY DETAILS

Group	ABC Group	Date	Date/Month/Year
App Company	ABC Company Limited (ABCCL)		
Address			
Sector			
Relationship Since			
Facility Type	Disbursed Amount	Current Exposure	Proposed Facility
			Total Cumulative Exposure (if approved)
Lease			
Term Loan			
Other Facilities			
Total			
Prev. High. Exposure			

##### 1.2 FINANCING PROPOSAL

- a) Purpose of Financing
- b) Tenure
- c) Secured by

##### 1.3 COMPANY BACKGROUND

Company brief history, progress, main sponsors, management strength etc.

##### 1.4 ACTIVITIES/MARKET

- ☐ Activities
- ☐ Group Activities
- ☐ Financial Performance
- ☐ Market

##### 1.5 KEY RISK ISSUES & MITIGANT

Highlight the major risks associated with this particular proposal and its mitigant.

##### 1.6 WHY DO WE WANT TO DO IT

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

##### 1.7 SOURCE OF REPAYMENT

Primary:  
Secondary:  
Tertiary:

##### 1.8 CREDIT POLICY COMPLIANCE

- Lending Guidelines -Complied/Not complied
- Credit Policy -Complied/Not complied
- o Please give reason for non compliance.

##### 1.9 PAYMENT PERFORMANCE

CIB report (Immediate last quarter ending), Performance of existing contracts,  
Performance with other Banks and FIs

## Appendix 1.2.1 (Cont.)

**2. DETAIL PROPOSAL****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**

- Legal status of the borrower
- Ownership structure may be described as per the following format

Name	Designation	Relationship	Taka Amount	Shareholding
			Xx,000	Xx%
			Xx,000	Xx%
<b>Total</b>			<b>Xxx,000</b>	<b>Xxx%</b>

**2.3 CORPORATE OBJECTIVE/STRATEGY/VISION**

Clear and definite Corporate objective, mission, and vision to be mentioned for large, medium, and small enterprises. It enables cross selling of products, as well as to better assess risk.

**2.4 ACTIVITIES/PRODUCTS/MARKET**

- Products
- Sourcing
- Sales
- Market

**2.5 CRITICAL SUCCESS FACTORS:****2.6 COMPETITORS**

Should include direct and indirect competitors. Implications of a “shrinking world” and “single market” concept should be factored in.

**2.7 TRIGGER POINTS:**

Under what circumstances, the credit facility to be called back

**2.8 MANAGEMENT, LABOR AND OTHER RESOURCES**

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

**2.9 INFRASTRUCTURE REPORT AS PER VISIT**

- Where is the business located and is this a good location?
- Physical infrastructure like land, building, machinery
- Availability of Utilities and connected load
- Inventory situation
- Operating condition of the factory
- Approval from all regulatory authorities

Appendix 1.2.1 (Cont.)

**2.10 IMPLEMENTATION SCHEDULE**

Implementation schedule in case of new project or large expansion

**2.11 CREDIT INFORMATION**

- Particulars of facilities currently being enjoyed
- Credit check with other Banks & FI's
- Clarification of any overdue as found in the CIB report

**3. ANALYSIS OF RISK**

The risks identified and the mitigants for those risks may be presented as per the following format:

Risks	Mitigants

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. Some 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

Appendix 1.2.1 (Cont.)

### 3.2 FINANCIAL RISK

#### **Key Indicators**

Period: Jan-Dec	Year-1	Year-2	Year-3	Proj-1	Proj-2
<b>Operating Performance</b>					
Turn Over					
Gross Profit					
Net Profit After Tax					
<b>Balance Sheet</b>					
Fixed Assets					
Current Assets					
Total Assets					
Current Liabilities					
Long Term Liabilities					
Net Worth					
<b>Financial Ratio</b>					
Current Ratio					
Gearing Ratio					
Cash Cycle					

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

### 3.3 MANAGEMENT RISK

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

### 3.4 STRUCTURAL RISK

- ☐ Identify requirement type of financing facility
- ☐ Relate the requirement with capacity utilization/sales volume/asset conversion cycle etc.
- ☐ 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.
- ☐ 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.

Appendix 1.2.1 (Cont.)

**3.5 SECURITY RISK**

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

**3.6 ACCOUNT PERFORMANCE RISK**

- ☐ Credit Turnover vs stock movement & sales
- ☐ Repayment track record of working capital facilities and installment facilities

**4. REWARD/RELATIONSHIP STRATEGY**

- ☐ Account Strategy:      Grow  
   Hold/Maintain  
   Reduce/Restructure  
   Exit

**5. RECOMMENDATION**

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Relationship Manager

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Head of Business Unit

Appendix 1.2.2

CREDIT RISK GRADING SCORE SHEET

Reference No:

Date:

<b>Borrower:</b>		Aggregate Score: _____  Risk Grading: _____	
<b>Group Name (if any):</b>			
Branch:			
Industry/Sector:			
Date of Financials:			
Completed by:			
Approved by:			
<b>Number</b>	<b>Grading</b>	<b>Short</b>	<b>Score</b>
1	Superior	SUP	Fully cash secured, secured by Government/International Bank Guarantee
2	Good	GD	85+
3	Acceptable	ACCPT	75-84
4	Marginal/Watchlist	MG/WL	65-74
5	Special Mention	SM	55-64
6	Substandard	SS	45-54
7	Doubtful	DF	35-44
8	Bad/Loss	BL	<35

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
<b>A. Financial Risk</b>	<b>50%</b>				
1. Leverage:		<ul style="list-style-type: none"> <li>Less than 0.25×</li> <li>0.26× to 0.35 x</li> <li>0.36× to 0.50 x</li> <li>0.51× to 0.75 x</li> <li>0.76× to 1.25 x</li> <li>1.26× to 2.00 x</li> <li>2.01× to 2.50 x</li> <li>2.51× to 2.75 x</li> <li>More than 2.75×</li> </ul>	15 14 13 12 11 10 8 7 0		
Debt Equity Ratio (×) Total Liabilities to Tangible Net worth					
2. Liquidity:		<ul style="list-style-type: none"> <li>Greater than 2.74×</li> <li>2.50× to 2.74 x</li> <li>2.00× to 2.49 x</li> <li>1.50× to 1.99 x</li> <li>1.10× to 1.49 x</li> <li>0.90× to 1.09 x</li> <li>0.80× to 0.89 x</li> <li>0.70× to 0.79 x</li> <li>Less than 0.70×</li> </ul>	15 14 13 12 11 10 8 7 0		
Current Ratio (×) Current Assets to Current Liabilities					

3. Profitability: Operating Profit Margin (%)  $\frac{\text{Operating Profit}}{\text{Sales}} \times 100$	<ul style="list-style-type: none"> <li>▪ Greater than 25%</li> <li>▪ 20% to 24%</li> <li>▪ 15% to 19%</li> <li>▪ 10% to 14%</li> <li>▪ 7% to 9%</li> <li>▪ 4% to 6%</li> <li>▪ 1% to 3%</li> <li>▪ Less than 1%</li> </ul>	15 14 13 12 10 9 7 0		
4. Coverage Interest Coverage Ratio (×)  $\frac{\text{Earning Before Interest \& Tax (EBIT)}}{\text{Interest on debt}}$	<ul style="list-style-type: none"> <li>▪ More than 2.00×</li> <li>▪ More than 1.51× Less than 2.00×</li> <li>▪ More than 1.25× Less than 1.50×</li> <li>▪ More than 1.00× Less than 1.24×</li> <li>▪ Less than 1.00×</li> </ul>	5 4 3 2 0		
<b>Total Score–Financial Risk</b>		<b>50</b>		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
<b>B. Business/Industry Risk</b>	<b>15%</b>				
1. Size of Business (Sales in BDT crore)		<ul style="list-style-type: none"> <li>▪ &gt; 60.00</li> <li>▪ 30.00 – 59.99</li> <li>▪ 10.00 – 29.99</li> <li>▪ 5.00 - 9.99</li> <li>▪ 2.50 - 4.99</li> <li>▪ &lt; 2.50</li> </ul>	5 4 3 2 1 0		
2. Business Outlook		<ul style="list-style-type: none"> <li>▪ Favorable</li> <li>▪ Stable</li> <li>▪ Slightly Uncertain</li> <li>▪ Cause for Concern</li> </ul>	3 2 1 0		
3. Industry Growth		<ul style="list-style-type: none"> <li>▪ Strong (10%+)</li> <li>▪ Good (&gt;5% - 10%)</li> <li>▪ Moderate (1% - 5%)</li> <li>▪ No Growth (&lt;1%)</li> </ul>	3 2 1 0		
4. Market Competition		<ul style="list-style-type: none"> <li>▪ Dominant Player</li> <li>▪ Moderately Competitive</li> <li>▪ Highly Competitive</li> </ul>	2 1 0		
5. Entry/Exit Barriers		<ul style="list-style-type: none"> <li>▪ Difficult</li> <li>▪ Average</li> <li>▪ Easy</li> </ul>	2 1 0		
<b>Total Score-Business/Industry Risk</b>			<b>15</b>		

Criteria	Weight	Parameter	Score	Actual Paramete r	Score Obtained
C. Management Risk	15%				
1. Experience (gement & Management Team)		▪ More than 10 years in the related line of business	5		
		▪ 5–10 years in the related line of business	3		
		▪ 1–5 years in the related line of business	2		
		▪ No experience	0		
2. Second Line/ Succession		▪ Ready Succession	5		
		▪ Succession within 2-3 years	3		
		▪ Succession within 3-5 years	2		
		▪ Succession in question	0		
3. Team Work		▪ Very Good	5		
		▪ Moderate	3		
		▪ Poor	2		
		▪ Regular Conflict	0		
Total Score-Management Risk			15		

Criteria	Weight	Parameter	Score	Actual Parameter	Score Obtained
D. Security Risk	10%				
1. Security Coverage (Primary)		▪ Fully pledged facilities/substantially cash covered	4		
		▪ Registered Hypothecation (1 <sup>st</sup> charge/1 <sup>st</sup> Pari passu charge)	3		
		▪ 2 <sup>nd</sup> Charge/Inferior charge	2		
		▪ Simple hypothecation/negative lien on assets.	1		
		▪ No security	0		
2. Collateral Coverage (Property Location)		▪ Registered Mortgage on Municipal Corporation/Prime area property.	4		
		▪ Registered Mortgage on Pourashava/semi-urban area property	3		
		▪ Equitable Mortgage or No property but plant & machinery as collateral	2		
		▪ Negative lien on collateral	1		
		▪ No collateral	0		
3. Support (Guarantee)		▪ Personal guarantee with high net worth or Strong Corporate Guarantee (Guarantor's Grading Acceptable or higher)	2		
		▪ Personal Guarantees or Corporate Guarantee with average financial strength	1		
		▪ No Support/Guarantee	0		
Total Score- Security Risk			10		

<b>Criteria</b>	<b>Weight</b>	<b>Parameter</b>	<b>Score</b>	<b>Actual Parameter</b>	<b>Score Obtained</b>
<b>E. Relationship Risk</b>	<b>10%</b>				
1. Utilization of Limit (actual/projection)		<ul style="list-style-type: none"> <li>▪ More than 70%</li> <li>▪ 51% - 70%</li> <li>▪ 30% - 50%</li> <li>▪ Less than 30%</li> </ul>	3 2 1 0		
2. Account Conduct		<ul style="list-style-type: none"> <li>▪ More than 3 (three) years accounts with faultless record</li> <li>▪ Less than 3 (three) years accounts with faultless record</li> <li>▪ Accounts having satisfactory dealings with some late payments</li> <li>▪ Frequent Past dues &amp; Irregular dealings in account</li> </ul>	3 2 1 0		
3. Compliance of Covenants/Conditions		<ul style="list-style-type: none"> <li>▪ Full Compliance</li> <li>▪ Some Non-Compliance</li> <li>▪ No Compliance</li> </ul>	2 1 0		
4. Personal Deposits		<ul style="list-style-type: none"> <li>▪ All personal accounts of the key business Sponsors/ Principals are maintained in the bank, with significant deposits</li> <li>▪ Principals maintain some accounts, but have relationship with other banks</li> <li>▪ No depository relationship</li> </ul>	2  1  0		
<b>Total Score-Relationship Risk</b>			<b>10</b>		
<b>Grand Total- All Risk</b>			<b>100</b>		

Sample Job Descriptions

Appendix 2.1A

**Job Title: Head of Credit Risk**

**Reports to: Managing Director/CEO**

**Purpose of Job:**

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

**Principal Accountabilities:**

**Credit Risk Management Functions**

1. Promote strong asset quality and endeavor to ensure that outstanding classified as Grades 1 to 4 are at least 92% of total outstanding assets.
2. Updating the FI's lending guidelines/credit policies as and when required, but at least annually.
3. Ensure a prudent level of portfolio diversification.
4. Contribute to the development of credit risk management skills of staff in Credit Administration and Business Unit Marketing departments.
5. Analysis of FI's portfolio risks and provides input/advice to the MD/CEO regarding the formulation of strategic operating plans.

**Credit Functions**

1. Ensure credit recommendations/approvals are taken in a timely manner.
2. Ensure compliance with internal policies and procedures and external regulatory requirements.

**Monitoring Functions**

1. Maximize recovery of problem facilities, and minimize credit losses and collection expenses.

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

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

**Sample Job Descriptions**

**Appendix 2.1B**

**Job Title: Head of Business Units**

**Reports to: Managing Director/CEO**

**Purpose of Job:**

To plan, develop and manage the FI's corporate, commercial, retail, and institutional businesses to ensure high profitability and sustained growth in line with the FI's strategic plan, credit policies and business objectives. To coordinate marketing efforts for the FI's business, including the formulation of strategy, establishment of performance tracking systems and joint campaigns with other FI departments. Serve on the FI's Asset and Liability Management and Credit approval Committees.

**Principal Accountabilities:**

1. Oversee the marketing and business development activities of the FI's business.
2. Maximize profitability through cross sales of all FI products and appropriate 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 FI Credit Policies and Central Bank regulations.
6. Contribute to the development of relationship management skills of staff in Corporate, Commercial, and retail financing business.
7. Provide input/advice to the MD/CEO regarding the formulation of strategic operating plans.

Agreed by: \_\_\_\_\_  
Head of Business Units

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

Sample Job Descriptions

Appendix 2.1C

**Job Title: Credit Administration Manager**

**Reports to: CEO / MD**

**Purpose of Job:**

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

**Principal Accountabilities:**

**Credit Administration Functions**

1. Ensure documentation, proper compliance of approved terms and conditions prior to disbursement/firm commitment.
2. Ensure that exceptions are appropriately approved prior to disbursement / firm commitment.
3. Ensure that department operations, including the preparation of facility documentation, insurance, recording of charges, and reporting of exceptions is done in a timely and efficient manner.
4. Ensure compliance with internal policies and procedures and external regulatory requirements, and that all internal and external audit recommendations are implemented.

**Reporting Functions**

1. Ensure accurate and timely submissions of returns of both the Central Bank and the FI's head office.

**Collection Functions**

1. Ensure timely receipt of facility installments and generate exception report there against.

Agreed by: \_\_\_\_\_  
 Credit Administration Manager CEO / MD

**Sample Job Descriptions**

**Appendix 2.1D**

**Job Title: Relationship Manager**

**Reports to: Head of Business Units**

**Purpose of Job:**

Serve as the primary relationship contact with the FI's corporate, commercial, and retail 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:**

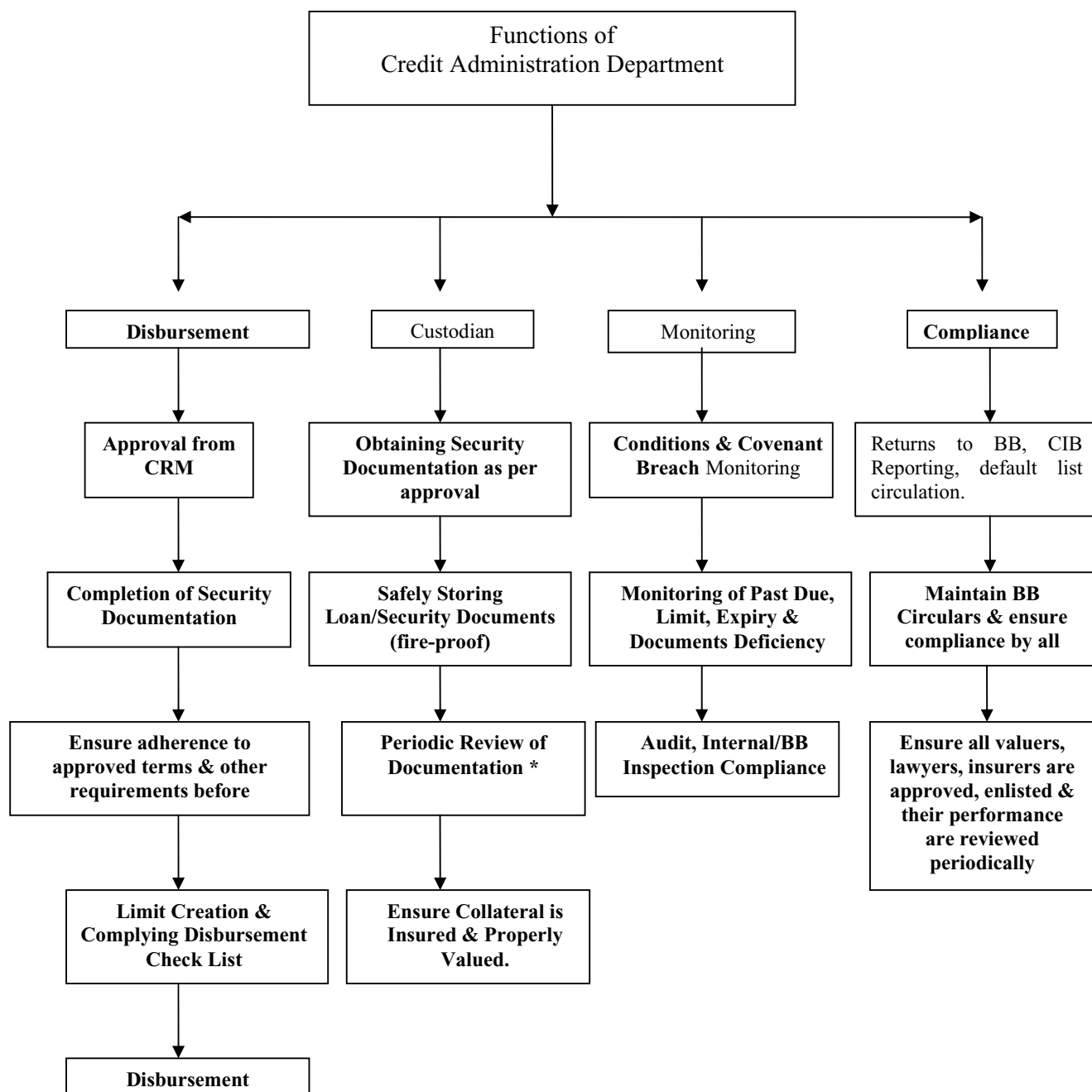
1. Provide good customer service while ensuring that the FI's interest is protected.
2. Grow the customer base through marketing and business development efforts, including cross selling to existing customer base.
3. Ensure that credit quality is maintained and customer reviews are completed in timely 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, repayments and all documentary requirements of the FI.
8. Ensure compliance with FI's credit policies and Central Banks guidelines.

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

\_\_\_\_\_  
Head of Business Units

**Credit Administration Flowchart**

**Appendix 3.1**



\* Periodically Means: if Risk Grade is > 6 – Quarterly, if 4-5 - Semi-Annual, if 1-3 - Annually

Security Documentation Checklist

Appendix 3.2.1

**SECURITY COMPLIANCE CERTIFICATE CHECK LIST**

		YES/NO
<b>A)</b>	<b>Initial Requirements:</b>	
1	<i>Facility Application has been properly approved and signature verified.</i>	
<b>B)</b>	<b>Post Approval and Prior to allow Draw down</b>	
1	<b>Clean C.I.B. Report</b>	
2	<b>Within Large Facility Requirements?.</b>	
<b>C)</b>	<b>FI Arrangements Letter:</b>	
	All alterations if any has been counter signed by the signatory / RM	
	Un-conditional acceptance of Approval Letter	
	Acceptance Signature verified	
	Revision of any facility must be unconditionally accepted by client and fresh facility agreement should be executed to the effect	
<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)	Multi borrowing resolution must be supported by an undertaking & RMs confirmation to maintain the borrowings level up to the Board approved limit.	
<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 common 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 (as per stamp rate) / Non judicial stamp	
c	Signature verified.	
<b>3</b>	<b>Letter of Guarantee (Individual)</b>	
a	Full Name and address of the executant.	
b	Date and amounts are correct	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	

d	Signature verified	
e	Wealth Statement certified by tax authority	
<b>4</b>	<b>Letter of Guarantee (Joint &amp; Several)</b>	
a	Full Name and permanent address of all executant(s) quoted.	
b	Date and amounts are correct	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
d	Signature verified	
e	Wealth Statement = certified by tax authority	
f	Acknowledgement/Annuaire Reminder issued	
<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 common seal affixed.	
d	Date and amounts are correct	
e	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
f	Signature verified	
<b>6</b>	<b>Letter of Hypothecation over Stocks</b>	
a	Properly executed (as per BR), Company common seal affixed.	
b	Date, amounts, Location and Particulars are correct	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
d	All Pages Signed	
e	Signature verified	
f	Form XVIII Properly filled in case of limited company and duly signed by Customer & FI	
g	Form XIX duly filled-in if applicable	
h	Fee collected and submitted to RJSC for registration with original receipt.	
i	Registration Certificate along with original obtained from RJSC.	
j	Search Report from RJSC.	
<b>7</b>	<b>Collateral Letter of Hypothecation over Book Debts</b>	
a	Properly executed (as per BR), Company common seal affixed.	
b	Date and amount are correct	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
d	Signature verified	
e	Form XVIII Properly fill-in duly signed by Customer & FI	
f	Form XIX duly filled-in if applicable	
g	Fee collected and submitted to RJSC for registration with original receipt.	
h	Registration Certificate along with original obtained from RJSC.	
i	Search Report from RJSC.	
<b>8</b>	<b>Letter of Hypothecation over Machinery</b>	
a	Properly executed (as per BR), Company common seal affixed.	
b	Date, amounts, Location and Particulars are correct schedule attached	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
d	All Pages Signed	
e	Signature verified	
f	Form XVIII Properly fill-in duly signed by Customer & FI	

g	Form XIX duly filled-in if applicable	
h	Fee collected and submitted to RJSC for registration with original receipt.	
i	Registration Certificate along with original obtained from RJSC.	
j	Search Report from RJSC.	
k	Power of Attorney	
<b>8(A)</b>	<b>PARI-PASSU SECURITY SHARING AGREEMENT</b>	
a	FIs interest noted	
b	Particulars of Facility Arrangements are properly noted.	
c	All parties properly signed	
d	Signature verified	
e	Submitted to RJSC for their recording	
f	Copy of All charge documents/registration certificate held duly registered by RJSC with original receipt.	
<b>8(B)</b>	<b>MODIFICATION (AMOUNT /FIS ETC.)PARI-PASSU SECURITY SHARING AGREEMENT</b>	
a	FIs interest noted	
b	Particulars of Facility Arrangements are properly noted.	
c	All parties properly signed	
d	Submitted to RJSC for their noting	
e	Copy of All charge documents/registration certificate held duly registered by RJSC.	
f	Signature verified	
<b>9</b>	<b>REGISTRATION OF THE VEHICLES</b>	
a	BRTA Registration Form Signed by the FI	
b	BRTA acknowledgement receipt	
c	Registration Fee deposited and received from BRTA. On due date	
d	Original Registration Certificate held	
e	Comprehensive Insurance Policy along with Premium paid receipt held	
F	Owners copy of registration (Original)	
<b>10</b>	<b>DOCUMENTATION OF VESSELS</b>	
<b>10(A)</b>	<b>Ocean going vessel (if registered in client's name)</b>	
a	Notarised Bill of Sale showing sale of vessel to client	
b	Mortgage of vessel with Principal Officer, Marine Mercantile Department, Chittagong after obtaining due clearance from Ministry of Shipping.	
c	Certified copy of Registration Certificate of vessel	
d	Written confirmation of mortgage from MMD (if registered in Bangladesh)	
e	Notarised Affidavit by owner of the vessel, confirming that the vessel is free of all maritime lien	
f	Notarised Power of Attorney to sell / transfer ownership of the vessel	
g	Assignment of Insurance Policy (atleast Hull) in favour of FI	
h	Letter of Hypothecation	
i	Creation of charge with RJSC if owned by limited company	
j	Builder's Plan	
k	Assignment of bills receivables in case of tanker	
l	Notarized power of attorney to collect bills in line with the above.	
m	Written Confirmation from bill assignee	

<b>10(B)</b>	<b>Inland vessel (if registered in client's name)</b>	
a	Notarised Bill of Sale showing sale of vessel to client	
b	Mortgage of vessel with Bangladesh Inland Water Transport Authority.	
c	Notarised Power of Attorney to sell / transfer ownership of the vessel	
d	Assignment of Insurance Policy (Comprehensive)	
e	Letter of Hypothecation	
f	Creation of charge with RJSC if owned by limited company	
g	Builder's Plan	
h	Assignment of bills receivables in case of tanker	
i	Notarized power of attorney to collect bills in line with H above.	
j	Written Confirmation from bill assignee	
<b>10(C)</b>	<b>Letter of Hypothecation (Over Vehicles) with schedule</b>	
a	Properly executed(as per BR), Company common seal affixed.	
b	Date, amounts and Particulars of Vehicles are correct schedule attached	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
d	Signature verified	
e	Form XVIII Properly fill-in duly signed by Customer & FI	
f	Form XIX duly filled-in if applicable	
g	Fee collected and submitted to RJSC for registration with original receipt.	
h	Registration Certificate along with original obtained from RJSC.	
i	Search Report from RJSC.	
j	Properly noted our interest with BRTA.	
<b>11</b>	<b>Letter of Modification:(a)Stocks(b)Book Debt,(c)Machinery(d)Property</b>	
a	Properly executed (as per BR), Company common seal affixed.	
b	Particulars of modifications i.e. increased/decreased amount, additional stocks/assets and locations are correct	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
d	Signature verified	
e	Form XVIII Properly filled in duly signed by Customer & FI	
f	Form XIX duly filled-in if applicable	
g	Fee collected and submitted to RJSC for registration with original receipt	
h	Registration Certificate along with original Modification obtained from RJSC.	
i	Search Report from RJSC.	
<b>12</b>	<b>Letter of Hypothecation (For limited company)</b>	
a	Properly executed (as per BR), Company common seal affixed.	
b	Date and amount correct	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
d	Signature verified	
e	Power of Attorney	
f	RJSC filing	
<b>13</b>	<b>NON-RESIDENT GUARANTEE (INDIVIDUAL/CORPORATE ETC.)</b>	
a	Local format obtained	
b	Resident Country Format obtained	
c	2 witness held	

d	Signature Verified	
e	Acknowledgment issued	
f	Legal opinion held	
<b>14</b>	<b>LIEN OVER FDA/STD/TDR/SB ETC. A/C WITH LOCAL BANKS &amp; FIs</b>	
a	Letter of Lien & set-off over deposit Account - properly executed, Proper Stamp affixed, Signature verified.	
b	Guarantee of 3rd party FDA/STD/TDR/SB A/c etc. holders. -do-	
c	Board Resolution if Limited Co. Verify signatures.	
d	Memorandum of Association to check Mortgage/Lien authority of company assets.	
e	Printout confirming Lien Marked, Refer, Reject marked held.	
f	Confirmation held to remit fund at our request without reference to customer signature verified	
<b>15</b>	<b>PLEDGE OVER 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 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/FI 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 FI/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>16</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	
r	Approved plan for structure, if any	
<b>17</b>	<b>Lease property :</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 registry office	
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 of the mortgage deed	
	<b>For creating charge over company property in the office of RJSC.</b>	
a	Form XVIII Properly filled in duly signed by Customer & FI	
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>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	Mortgage Clause	
<b>19</b>	<b>Negative Pledge</b>	
a	Board Resolution covering negative Pledge and signatory.	
b	Properly executed (as per BR), Company common seal affixed.	
c	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
d	Signature verified	
e	Negative Pledge with expiry in line with accepted approval letter	
<b>20</b>	<b>Letter of Subordination</b>	
a	Board Resolution covering corporate subordination and signatory.	
b	Properly executed (as per BR), Company seal affixed.	
c	Loan Subordination acknowledged by the authorized signatory of the Borrower & Lender	
d	Signature verified	
<b>21</b>	<b>Letter of Awareness</b>	
a	Standard wordings	
b	Supported by Board Resolution	
c	Signature verified	

<b>22</b>	<b>Letter of Comfort</b>	
a	Standard wordings	
b	Supported by Board Resolution	
c	Signature verified	
<b>23</b>	<b>Bank/Insurance Guarantee/Indemnity</b>	
a	Valid and Current	
b	Text authorized	
c	Issuer risk approval held	
d	Signature verified	
e	Acknowledgment issued	
<b>24</b>	<b>Letter of Pledge over stocks</b>	
a	Properly executed (as per BR), Company common seal affixed.	
b	Schedules are correct	
c	Witnessed	
d	Proper Stamp affixed as per Pledge Valuation.	
e	Signature verified	
f	Form XVIII Properly filled in duly signed by Customer & FI	
g	Form XIX duly filled-in if applicable	
h	Fee collected and submitted to RJSC for registration with original certificate.	
i	Registration Certificate along with original obtained from RJSC.	
j	Search Report from RJSC.	
k	Power of Attorney	
<b>25</b>	<b>Irrevocable Letter of Authority</b>	
a	Standard wordings	
b	Supported by Board Resolution, if Limited Co.	
c	Signature verified	
<b>26</b>	<b>PROPRIETORSHIP/PARTNERSHIP BORROWERS = HYPOTHECATION(S)</b>	
a	Partnership Deed to check borrowing/mortgage authority of the partners.	
b	Partnership Resolution duly signed by all partners	
c	Resolution Date, Borrowing Amount, Authorized Signatory are correct.	
d	Signature verification	
e	Simple Letter of Hypothecation(s) properly executed, Company seal affixed.	
f	Date, amount, Location and Particulars are correct	
g	Proper Adhesive Stamp affixed (as per stamp rate) / Non judicial stamp	
h	Signature verified	
i	Letter of undertaking to deposit sales proceeds.	
<b>26(a)</b>	<b>Notarized Irrevocable General Power of Attorney to sell the Assets without reference</b>	
a	Hypothecation & Power of Attorney refers to the same property.	
b	Signature verified	
<b>27</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>28</b>	<b>Procurement Documents – For Lease Finance</b>	
	Original Quotation, Bill, Delivery Challan, Money Receipt	
	Original copy of Invoice, L/C, L/CA, Copy of Bill of Entry, Bill of Lading, Airway Bill, Truck Receipt, MRR, Packing List and other shipping documents	
	Insurance Policy	
<b>29</b>	<b>If office/factory is located on a rented premise</b>	
	a) Letter of disclaimer to be signed by the land owner, witnessed by the borrower	

Appendix 3.2.1 (cont.)

**Facility Disbursement Checklist & Authorization**

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

Security Documentation is in Place: ☐

Approval Terms Complied With: ☐

Covenants/Conditions Precedent Have Been Met: ☐

Large Facility Compliance/ B.B Approvals Obtained as Required: ☐

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

Appendix 3.3.1

Early Alert Report

<b>Borrower/Group:</b>  <b>Branch:</b>  <b>Total Limits:</b>  <b>Total Net Exposure:</b>  <b>Existing Risk Grade:</b> _____	<b>Current Date:</b>  <b>Last Review Date:</b>  <b>Strategy: Hold / Reduce / Restructure / Exit</b>  <b>Proposed Risk Grade:</b> _____
---	--

<b>Facility Details:</b>			
<u>Limit</u>	<u>Purpose</u>	<u>Net Exposure</u>	<u>Security</u>

<b>Is Security Complete?</b> Y   /   N	<b>Externally Checked?</b> Y / N
<u><b>Details of any Deficiencies:</b></u>  <div style="height: 40px;"></div>	

<b>Symptoms Requiring Early Alert Reporting:</b>  <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;">           _____ <b>Industry Concerns</b>            _____ <b>Ownership/management concerns</b>            _____ <b>Balance Sheet Weaknesses</b> </div> <div style="width: 45%;">           _____ <b>Cash Flow Weakness</b>            _____ <b>Poor Account Conduct</b>            _____ <b>Expired limits/ pending docs.</b> </div> </div> <u><b>Provide Details of Symptoms Indicated above:</b></u>  <div style="height: 150px;"></div>
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**Credit Risk Management-Industry Best Practices**

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Appendix 3.3.1 (cont.)

**Account Strategy to Regularize 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**

## Appendix 3.3.2

Typical Characteristics						
Definition of Early Alert Accounts						
Industry & Competition	Ownership/ Management	Balance Sheet	Cash flow/Repayment source	Performance	Expired Limit /Incomplete	
EA1	EA2	EA3	EA4	EA5	EA6	
Weaknesses or potential weaknesses which require close monitoring and pro- active account management to protect the FI's position. If these weaknesses are not corrected they may result in deterioration of repayment prospects, with the likelihood of downgrade to risk grade 8 within 12 months.	<ul style="list-style-type: none"><li>Position within industry rapidly eroding</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></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></ul>	<i>Payment Default:</i>	<ul style="list-style-type: none"><li>Facilities expired for more than 30 days.</li></ul>	
	<ul style="list-style-type: none"><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>Owners show lack of commitment to support business operations.</li></ul>	<ul style="list-style-type: none"><li>Operating results are deteriorating and/or working capital cycle deteriorating.</li></ul>	<ul style="list-style-type: none"><li>cashflow is unlikely to cover both mandatory debt service (principal plus interest) and other business needs (e.g. Capex).</li></ul>	<ul style="list-style-type: none"><li>Interest or principal 15 days overdue</li></ul>	<ul style="list-style-type: none"><li>Security documentation pending after 30 days from the approved time frame.</li></ul>
		<ul style="list-style-type: none"><li>are deteriorating working capital cycle deteriorating.</li></ul>	<ul style="list-style-type: none"><li>Ability to reduce working capital FI lines is limited or non existent.</li></ul>	<ul style="list-style-type: none"><li>Temporary overdraft 90 days or more which has not been regularized via formal limit and security documentation</li></ul>		
		<ul style="list-style-type: none"><li>Highly geared relative to peers / industry and on upward trend.</li></ul>	<ul style="list-style-type: none"><li>Evidence of misuse of funds or monies diverted into non-core activities.</li></ul>			
		<ul style="list-style-type: none"><li>Rapid acquisition of assets without proper financial structuring</li><li>Declining asset cover for short- term debt.</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 Net Exposure		
4.	Group Net Exposure (if applicable)	Limit:	N/E:
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		
13.	Takeover memo issued?		
14.	Has RU met with the company?		
15.	Immediate action? (eq issue demand)		
16.	Working limits required?		
	- if YES, CA		
	- if NO, limits zeroed		
17.	Guarantors and Directors – any accounts with the FI? 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 FIs' actions?		
21.	Evidence of fraudulent transactions? If so, auditor advised?		
22.	Comments / Observations		

Relationship Manager

Recovery Unit Manager

**REQUEST FOR ACTION**

**Appendix 3.4.2A**

Customer Name:		Group Name	
Credit Grade:		Status Code:	
Account Manager:		Date Downgraded 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

Customer Name:		Group Name	
Credit Grade:		:	
Account Manager:		Date Downgraded Below 5:	
RU Head:		Group Exposure :	
RU Regional Manager:		Group Impaired Exposure	
Related Accounts:		Brief Description of Business:	

## Overview

**Account Status:**

### Causes Leading to Classification:

### Strategy and Recovery Plan:

Entity	Facility	As At : <current quarter>				As At : <previous quarter>			
		Limits	Off Bal O/S	On Bal O/S	Total O/S	Limits	Off Bal O/S	On Bal O/S	Total O/S
Total									

Interest In Suspense								
Existing Provision								
Net At Risk Before Security								
FSV								
Net After FSV								
Un-drawn Commitments								
Total Borrowings From All FIs and Banks								
Date Relationship Entered								

**Comments for Facility Details:**

### Comments on Security Assessment

**Date of Last Security and Documentation Review**

### Present Status

### Critical Loss Factors

### **Actions of Other Banks/FIs**

**Loss/Recovery Prospects (timings, amounts and reasons)**

### Account Objectives and Milestones

**Objective 1 :**

**Target Date:**

**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:**