Report On

Credit Risk Management Practices in Citibank, N.A.

By

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ID: 181 640 52

An internship report submitted to the Department of Brac Business School in partial fulfillment of the requirements for the degree of
Master of Business Administration

Brac Business School
Brac University
January 2021

Declaration

It is hereby declared that

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

Student's Full Name & Signature:

Farhan

Farhan Zubair
ID 18164052

Letter of Transmittal

Dr. Nitai Chandra Debnath
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of Internship report for the semester of FALL 2020.

Dear Sir,

This is my pleasure to submit my internship report titled "Credit Risk Management Practices in Citibank, N.A." with the details regarding the credit portfolio selection and risk management of the same, which I was appointed by your direction.

I have attempted my best to finish the report with the essential data and recommended proposition in a significant compact and comprehensive manner as possible.

Moreover, I want to thank you for your support and patience with me. If you need any further information to evaluate the internship report, it would be my immense pleasure to furnish you the same.

Sincerely yours,

Farhan

Farhan Zubair
18164052
BRAC Business School
BRAC University
Date: January 09, 2021

Non-Disclosure Agreement

This agreement is made and entered into by and between Citibank, N.A. and the undersigned student at BRAC University Student in order to facilitate the internship report requirement for the purpose of partial fulfilment of Masters in Business Administration degree. The undersigned student hereby agrees to use the furnished data in this report only for academic purpose and nothing more.

Student's Full Name & Signature:

Farhan

Farhan Zubair
ID 18164052

Acknowledgement

At the beginning, I would like to thank the Almighty for providing me the scope to complete this internship report successfully. I would like to thank my internship supervisor Dr. Nitai Chandra Debnath for allowing me to work on the Credit risk management practices in Citibank, N.A. and also helping me in every step of my internship.

Furthermore, I would like to express my gratitude towards my organizational supervisor, Mr. Nafis Mazhar, Assistant Vice President, Citibank, N.A., for providing me the required information and allowing me to do the necessary works to complete this report. Finally, I will be obliged to those who will read this report and will be benefited from this report currently and in future.

Executive Summary

Banking system of Bangladesh has been developed through three stages including nationalization, privatization and financial sector reform. Citibank, N.A., Bangladesh (Citi) has started its journey as a representative office in 1987 and as full service branch in 1995 (Industry, n.d.). Citibank, N.A. follows the rules and regulation imposed by the central bank of Bangladesh, Bangladesh Bank (BB). To manage credit risk, Citi determines individual credit limits to the clients and obtains adequate collaterals as required. Credit risk in Citi is monitored, evaluated and examined by Credit Risk Management Services (CRMS). Citi has developed Asset-Liability Management Committee (ALCO) to decide the maximum credit risk exposure. Senior management is constantly updated about the guidelines of BB and has executed new capital requirement according to BASEL-III. As I have completed my internship in CRMS, to determine the efficacy of credit risk management (CRM) practices, key aspects including the process of CRM, credit risk faced by Citi along with the tactics to mitigate the risk are analyzed in a broad manner. The credit risk management practices of Citi found to be estimable. However, the document requirement list and the credit limit approval process is a bit lengthy compared to today’s fast moving world. Strict and constant monitoring along proper documentation of the credit portfolio is the key for such praiseworthy status. Although the bad loans are below 2% of the total loan portfolio, Citi should be vigilant and emphasize to reduce or not at least increase the classified and non-performing loans (NPL), especially at this critical time of COVID 19.

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List of Acronyms

Citi	Citibank, N.A.
BB	Bangladesh Bank
CRMS	Credit Risk Management Services
ALCO	Asset-Liability Management Committee
CRM	Credit Risk Management
NPL	Non-performing loans
MBA	Masters of Business Administration
NBR	National Board of Revenue
CIB	Credit Information Bureau
PAM	Parent Account Manager
CMSME	Cottage, micro, small and medium enterprise
DFI	Development Finance Institutions
CRR	Cash Reserve Ratio
SLR	Statutory Reserve Ratio
ADR	Advance to Deposit Ratio

Chapter 1

Overview of Internship

1.1 Student Information

In order to fulfil the partial requirement of MBA, this internship report was prepared and submitted for the perusal of internship supervisor. The details of the submitting student is as follows:

- Name: Farhan Zubair
- Student ID: 181 640 52
- Program: Masters of Business Administration
- Major/ Specialization: Finance

1.2 Internship Information

1.2.1 Internship Details

My tenure with Citi started in 2015 as an officer in CRMS. After completion of my BBA, Citi selected me to join their CRMS department. And I have selected my job as my internship project as allowed by my both academic and organizational supervisors. The address of Citibank, N.A. is Laila Tower, 8, Gulshan Avenue, Gulshan 1, Dhaka, Bangladesh.

1.2.2 Information of Supervisor

Mr. Nafis Mazhar, Assistant Vice President has been appointed as my supervisor during this internship period.

1.2.3 Job Scope

As my appointment as an officer was for a permanent role, hence my job description varied from the regular activities of any regular intern student. My broad job duties and responsibilities are as follows:

i. Active monitoring and controlling the credit limits advanced to clients
ii. Preparation and submission of various regulatory reports
iii. Preparation and safekeeping of credit related documents signed by clients
iv. Ensuring the credit approval and limit setting process in compliance with internal and regulatory guidelines
v. Preparation and updating the senior management regarding NPL
vi. Calculation and maintenance of sufficient provision for the credit portfolio
vii. Negotiation with clients regarding the clauses and conditions of credit to be approved to them

1.3 Internship Outcomes

1.3.1 Contribution to the company

As an employee of Citi, my job was to critically complete the tasks assigned to me by the supervisor. And it is a matter of pride that, there was not any major mistake at my part which cost any operational or financial loss for the bank. During my tenure in CRMS, I have prepared a lot of credit documents and have been engaged with local and global firms for clause negotiations. All the regulatory reports submitted were flawless and without any major issues.

1.3.2 Benefits to the student

By working in this bank, I have gained valuable experience regarding the critical activities performed by myself as credit risk operations analyst. Also, I have gained some knowledge regarding the other activities occurring in other departments as product related knowledge including Letter of Credit, Acceptance, Short term loan, Long term loan etc. is very critical to negotiate with clients. Additionally, the internal and regulatory guidelines of BB, ministry of finance and NBR has to be learned which not only helps in my professional life but also in my personal life as well.

1.3.3 Problems/Difficulties

The culture of Citi is one of the best as it was selected as referred employer many times and the same is true in my experience. The rules and policy oriented culture has no place for irregularities or negligence. The escalation procedure is well defined and any issues, problems or difficulties are escalated to the supervisors and those are really taken care of. In my tenure, I didn’t face any major difficulties as my supervisor and other employees were really very helpful

1.3.4 Recommendations

The internship program is really appreciable as offered by Citi. The harder anyone trains, the greater the chance to do well in professional life. As such, the intern students should engage in various activities to learn more about the credit risk and its mitigation. Citi should allow the interns to work on sensitive items to gain the hands on experience.

Chapter 2

Citi: Overview, Operations and a Strategic Audit

2.1 Introduction

Financial services including trading and credit activities are the pillars of any economy which has aged thousand years from now. With the tide of time, both trading and credit activities has become international with the touch of globalization. Banks are the primary intermediaries to accommodate these activities. As trading and credit extension has become global activities, to execute them the need for global banks upraised. Citi has the capability to serve both individual and corporate clients with diverse array of products and services with the experience of more than 200 years. The revolutionary transition from barter economy to today's sophisticated economy based on advanced financial framework is the major contribution of the modern banking organizations. The primary activity of the banks are to transfer funds from the surplus units to the deficit units both inside and outside countries along with devising customized financial products and service which are cost effective for the clients and profitable for the banks. However, the banking sector has become saturated and banks are in the continuous process to develop their market shares. "The idea of banks began as long ago as 1,800 BC in Babylon. In those days moneylenders made loans to people. In Greece and Rome banks made loans and accepted deposits. They also changed money. (In the Bible Jesus famously drove the money changers out of the temple in Jerusalem). However with the collapse of the Roman Empire trade slumped and banks temporarily vanished. However banking began to revive again in the 12th and 13th centuries in the Italian towns of Florence and Genoa. In the 16th century a German family called the Fuggers from Augsburg became very important bankers" (Lambert, 2020). The sustainable economic growth is largely dependent on the banking industry of any country as without the banking industry the industrialization is unimaginable.

2.1.1 Objectives

The objective for this chapter is to attain an in-depth knowledge regarding the process, policies, departments, management practices, marketing practices, accounting practices, industry analysis and performances from various aspects of Citi.

2.1.2 Methodology

To prepare this chapter regarding the internal and external environment of Citi, the relevant employees and some customers with their permission were interviewed. Also, some secondary sources including the annual reports of Citi, CRM guideline of BB, Credit Risk Grading manual by BB were utilized.

2.1.3 Scope

The scope of this chapter is to identify the overall performance of Citi along with the industry in which it is operating. After scrutinizing the overall process and procedures along with internal and external environments, some recommendations are made, which are believed to increase the operational and reputational efficacy of Citi, if followed meticulously.

2.1.4 Limitation

- The reliable personnel were assigned with their job duties and had less time to provide information
- Information security barrier was there which hindered flow of information
- Citi has a less developed public website in Bangladesh
- Since Citi deals only with corporate clients, their information and tactics are mostly not public.

2.1.5 Significance

The significance of this chapter is to attain some insights regarding Citi itself and the competitors along with the different strategies it chooses to take care the overall internal and external competitive environments along with some necessary recommendation for future developments.

2.2 Overview of Citi

2.2.1 Brief Introduction to Citi

Citi is one of the most reputable financial organization with its presence in over 165 countries currently. It offers a wide array of financial products and services including retail banking, retail credit, corporate & investment banking, insurance, securities brokerage and asset management globally in various countries. Citi has three major business groups including Global consumer services, Markets & banking and Global wealth management. The global consumer business has the offerings of advanced and diverse consumer services and products including retail banking, credit cards, insurance and loan products through state of art technology and a powerful global presence. Global banking, global capital market and transaction services are provided under market and business segment. Global wealth management is a great team of top-tier global wealth managers providing both private and institutional clients with the capabilities to maximize value for both Citi and consumers. Citi alternative investment business offers a broad array of alternative investment options including hedge funds, diversified credit structure, private equity, customized real estate services, other private placements and customized investment opportunities. Along with the traditional banking services, the online banking service is also enriched with approximately about 15 million active users. Citi started its business in Bangladesh in 1987 with the inauguration of representative office and the first full-service branch was opened on June 24, 1995. Till date through providing the multi-dimensional services it has become one of the most prominent and promising multinational banks in Bangladesh.

2.2.2 Citi's Mission: Enabling Progress

"Citi works tirelessly to provide consumers, corporations, governments and institutions with a broad range of financial services and products. We strive to create the best outcomes for our clients and customers with financial ingenuity that leads to solutions that are simple, creative and responsible" (Citi At a Glance | About | Citi, n.d.).

"With 200 years of experience meeting the world's toughest challenges and seizing its greatest opportunities, we strive to create the best outcomes for our clients and customers with financial solutions that are simple, creative and responsible. An institution connecting over 1,000 cities, 160 countries and millions of people, we are your global bank; we are Citi.

The four key principles — the values that guide us as we perform this mission — are:

- **Common Purpose:** One team, with one goal: serving our clients and stakeholders.
- **Responsible Finance:** Conduct that is transparent, prudent and dependable.
- **Ingenuity:** Enhancing our clients' lives through innovation that harnesses the breadth and depth of our information, global network and world-class products.
- **Leadership:** Talented people with the best training who thrive in a diverse meritocracy that demands excellence, initiative and courage" (Citibank, N.A., 2011).

2.2.3 History of Citi

"In 1811, a group of merchants takes the first steps towards setting up a new bank to help New York compete with rivals Philadelphia, Boston, and Baltimore. As debate on the renewal of the Bank of the United States charter continued into 1811, some New York merchants who were aligned with U.S. President James Madison applied to set up a new bank. Noting that it was easier to do banking in Philadelphia, Boston, and Baltimore than in New York, they petitioned the state assembly on February 11, "praying to be incorporated as a banking company." They had to wait over a year to see their wishes fulfilled. The first setback came on March 22. Vice President George Clinton's faction in the state assembly defeated the petition. When it reconvened in 1812, the assembly then faced petitions for the establishment of two more banks from merchants aligned with Clinton and associates of the former Bank of the United States. Enter one Samuel Osgood, elder statesman. He had a plan. The state lawmakers would support the original petition from 1811. He himself would be appointed president of the new bank. The original merchants aligned with Madison would secure half the remaining seats on the board, while the rest would go to the new group of merchants who supported Clinton. Now with broader backing, the charter sailed through the state assembly and, on June 16, 1812, City Bank of New York came into existence. Though Clinton had died of a heart attack three months earlier, his supporters now controlled almost half of the board of the new bank in his home state. With the passing of the charter, the 200-year story of Citibank began. In 2012, Citi celebrated our 200th anniversary. Our principles - common purpose, responsible finance, ingenuity and leadership - are the bridge that connects our 200-year history with the future we want to create. When these principles guide our actions, we endure and thrive. Our anniversary provided us with an opportunity to reflect on our history and prepare for the future." (Citi, n.d.).

2.3 Functional Departments

Citi in Bangladesh is established around the four basic product divisions including Corporate and Investment Banking, Financial Institutions, Cash Management and Treasury. There also four other departments including Trade solutions, CRMS, Financial Control Unit and Human Resource.

2.3.1 Corporate and Investment Banking

Corporate and Investment Banking is mainly divided into two parts which are as follows:

Global Subsidiaries Group: In this segment, the relationship managers deal with multinational companies in Bangladesh which already have global relationship with Citi in other countries. In the origination country of these companies, there is a Parent Account Manager (PAM) who is responsible to advance credit limits to that company worldwide. As such, any credit extended to these companies must be approved by PAM.

Top Tier Local Corporates: In this segment, Citi deals with the local companies which are the top performers in specified industries.

Citi provides both deposit and credit products to its clients. Along with vast array of credit products, Citi also offers structured finance products. In this segment of business, RM;s communicate with clients and attempts to establish communications with the key persons of the potential clients along with getting ideas about their capabilities. If the customers are interested, RM's collect detailed information and prepare a detailed need analysis of the customer which the bank can meet. After getting proper approvals from the credit approving management, agreement is signed and credit limit is extended to the customer. After this, RM's continuously monitor the financial performance of the clients and look for any deterioration in performance of them.

2.3.2 Financial Institutions

The Financial Institutions department accommodates the need of various financial institutions including banks, non-bank financial institutions, NGO, nonprofit organizations, diplomatic foreign missions. The main product is the corresponding banking activities along with different online banking services which allows the clients to conduct local and international transactions safely and efficiently. This department caters the need for LC advising, confirming, transferring, guarantying negotiating, reimbursing for the local banks. Hence, Citi has extended credit facilities including ordinary short term banking transaction, local bill discounting and other credit facilities. Also, credit products including pre-settlement and settlement exposure are advanced to local banks to facilitate their Treasury functions. The acquisition and monitoring the clients remains similar to Corporate and Investment Banking RM's.

2.3.3 Cash Management

This department deals with the deposit collection which builds the liability side for Citi. This department closely works with Corporate & Investment Banking and financial Institutions department to bring deposits and to open accounts with Citi. The below products and services are offered by this department:

i. Online fund transfer facility
ii. Effective and efficient collection facilities for various companies
iii. Viable and pioneering deposit products
iv. Web based electronic banking services
v. Accommodating the inward remittance activities
vi. Mobile banking option through CITIDIRECT apps.

Citi, with the help of its state of the art technology can support the higher volumes of transactions related to trade and collections along with payments in more than forty currencies through foreign demand drafts or wire transfers seamlessly. Additionally, the close corresponding relationship with the local banks helps Citi to reach all the corners of Bangladesh to provide financial services to its clients.

2.3.4 Treasury

The Treasury department of Citi works relentlessly to cater the foreign currency related needs and wants of the clients. The reputation of Citi Treasury is worldwide along with in Bangladesh since its inception here from 1995. Currently, through CitiPulse, an apps exclusively developed for automated foreign currency conversions for small amounts can be done by the customers from their mobile also. For the larger volume transactions, Citi Treasury provides the most competitive rate along with better services. Their global presence helps them to acquire fund from the sister concerns overseas at a lower cost and offer most competitive spot and forward rates to the clients. Along with this service, Citi treasury also accommodates ready & spot deals, forward deals, and local and cross currency swaps, deposits for maturities, export bill discounting, interbank term deposits under foreign exchange market and in the money market it offers overnight placement, overnight deposit, term deposits, term placements and security discounting. Citi is also very active player in the foreign currency market and they work very closely with the regulators to extend their global expertise to develop new products best suited for the Bangladeshi markets.

2.3.5 Other Departments

2.3.5.1 Financial Control Unit

This department manages the financial books of the bank, ensures if the entries are as per accounting standards, regulatory reporting, security revaluation, revenue assumption and calculations, benchmarking the internal pricing etc.

2.3.5.2 Credit Risk Management Services

CRMS deals with the credit risk of the credits extended to the clients. It also monitors the credit facilities, analyzes the credit proposals created by RM’s, monitoring and reporting the activities of RM’s relevant to calls and visits, preparation and submission of various regulatory reports, keeping provisions for loan losses etc.

2.3.5.3 Operations, Technology & ICU (Internal Control Unit)

This department deals with starting from account opening, deposits, processing loans, opening LC’s, repayment of loans, etc. The operations and technology team is involved in smooth processing of the transactions in accordance with the local and global requirements. The internal Control Unit reconciles the NOSTRO Accounts and ensures that the balances of the suspense accounts are zero.

2.3.5.4 Human Resource

This department is involved in recruitment, performance appraisals, selection, termination etc. As a multinational bank, Citi has to abide the local regulations, BB policies and certain US laws applicable for human resource management.

2.3.5.5 Independent Compliance Risk Management (ICRM)

As a multinational bank, Citi is very proactive to prohibit money laundering and terrorist financing. In order to do so, sanction screening of each and every transactions are conducted and for any potential matches it is highlighted to ICRM for further disposition. Additionally, this department looks after the regulatory changes and their impacts along with facing the regulatory audits to ensure that Citi always gets a clean result regulatory audit results.

2.3.5.6 Corporate Affairs

As a bank, Citi does not have any specific marketing department. Moreover, the competitive product and service offerings are directly communicated to the clients by the relationship managers especially customized for them. However, to maintain an overall broad positive image in the media and to circulate the positive vibe, the Corporate Affairs works relentlessly.

This department deals with the media publications, arranges programs for customer acknowledgements, and communicates the achievements of Citi.

2.4 Organogram of Citi Bangladesh

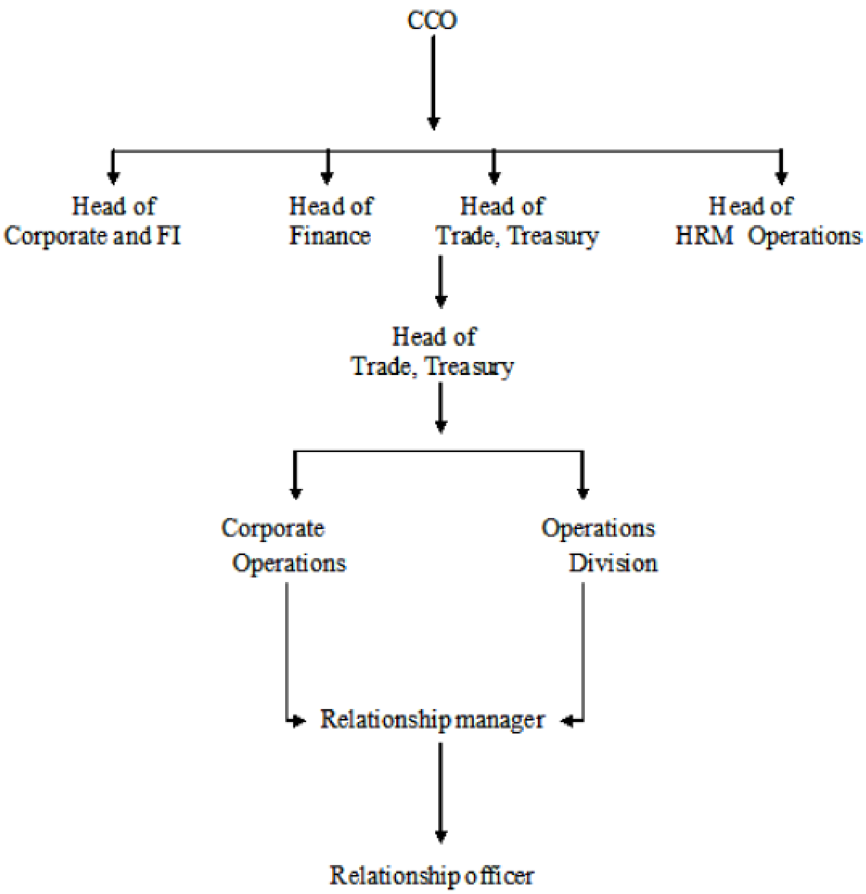

Figure 1: Organogram of Citi Bangladesh

As per the above organogram the top management can be divided into two parts, one is the higher top level which includes only Citi Country Officer (CCO) and the lower top level including the department heads. However, all the sensitive and top level decisions regarding Citi Bangladesh is approved and implemented by Management Committee which includes the CCO and the heads of the departments as well.

2.5 Financial Performance

As per the requirement of BB, Citi has to publish its financial statements within the March of the next year publicly. After looking into the financial performance of Citi Bangladesh from 2015 to 2019, it was found that, Citi Bangladesh has gradually improved its financial performances over the last five years horizon (Citibank, N.A., 2020a). The summary of the key financial indicators are outlined in the following table with all amount in BDT:

Items	2015	2016	2017	2018	2019
Revenue	2,450,567,804.00	1,868,119,945.00	2,105,142,736.00	2,947,826,617.00	2,854,647,980.00
Net Profit	774,260,760.00	444,278,170.00	510,866,038.00	1,046,409,698.00	1,036,819,552.00
Asset	38,628,882,125.00	39,744,970,809.00	37,911,694,081.00	52,412,826,583.00	58,112,924,563.00
Equity	9,579,606,588.00	9,190,789,634.00	9,920,554,977.00	11,394,962,931.00	12,549,818,496.00
Important Ratios	**2015**	**2016**	**2017**	**2018**	**2019**
ROA	2.00%	1.12%	1.35%	2.00%	1.78%
ROE	8.08%	4.83%	5.15%	9.18%	8.26%
NPL Ratio	2.66%	2.46%	1.35%	0.97%	1.19%
Profit Margin	31.60%	23.78%	24.27%	35.50%	36.32%

Table 1: Key Financial Performance Indicators

In terms of revenue, net profit, we see a decrease in 2016 from 2015 and then a sudden increase in 2018 and then stabilizing after that. For Total Asset and equity, we observe a decrease in 2016 from 2015 and then sudden rise in 2018 and stabilizing after that. The graphical representation is as follows:

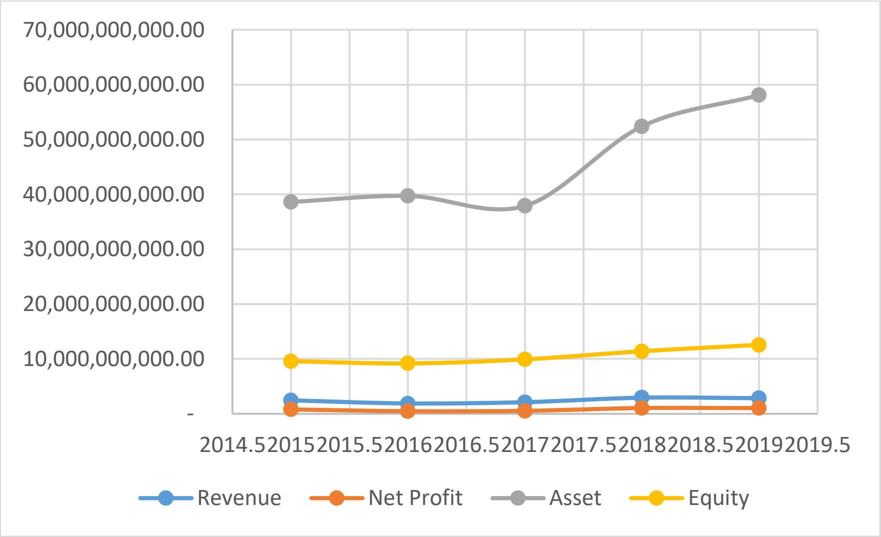

Figure 2: Financial Statement Items in BDT

In terms of important ratios, we see the profit margin and Return on Assets (ROA) to slow down from 2015 to 2017 and then an increase in 2018 and afterwards. However, there was a slowdown in Return on Equity (ROE) from 2015 to 2016 and a stabilized increase from 2017 and afterwards. Additionally, the NPL ratio indicates a strong credit monitoring resulting in a steady reduction and a slight surge in 2019. The graphical representation is as follows:

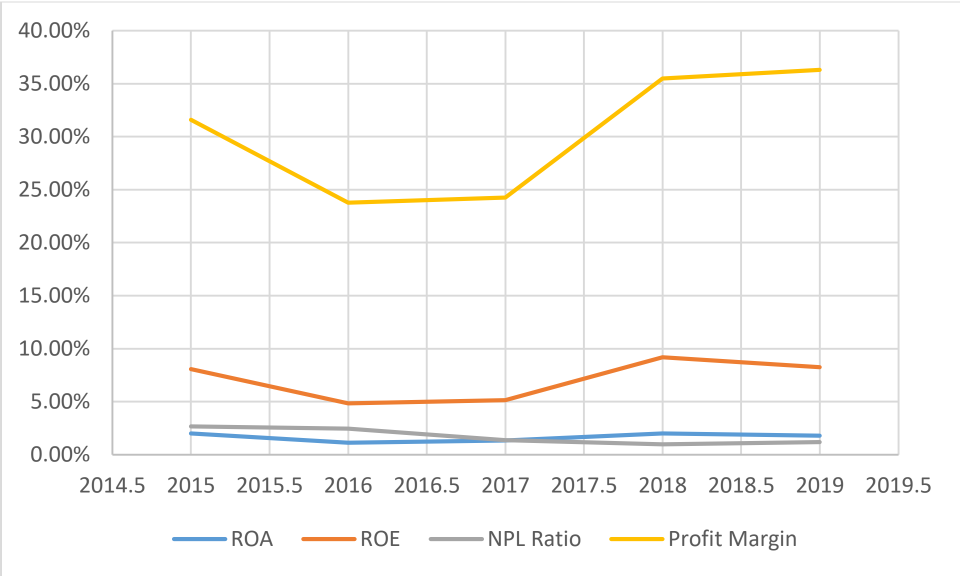

Figure 3: Key Financial Ratios

2.6 Industry and Competitive Analysis

Currently the banking industry is highly saturated and very competitive. Many internal, external and macroeconomic factors are impacting the performances of the banks.

2.6.1 Banking Industry Overview and Dynamics

With the GDP growth rate of nearly 8%, Bangladesh is one of the fastest growing countries in Asia. Bangladesh is meeting its expectation to become a middle income country very soon and also accelerating in terms of social, economic and technological development. In order to support this tremendous growth rate, there should be higher private sector growth rate, increased investment, efficient capital market and dynamic financial sector. But, the financial sector is observing a downward trend since 2018. Additionally, the lack of governance in the banking sector has gave a rise in the NPL reducing the momentum of banking sector. The financial system can be divided into three parts as follows:

i. Formal sector: Includes the regulated financial institutions
ii. Semi-formal sector: Includes the institutions which are regulated by different authorities but not by BB
iii. Informal sector: Includes the private intermediaries which are not regulated at all.

Commercial banks earn from the spread between interest rates of deposit and interest rates of loans and government has fixed them at 6% and 9% respectively. This decision has reduced the profit potential for the banks and has put additional pressure to gain more market share increasing the competition in the industry. However, the main reasons for the deterioration of the credit portfolio of the banks are outlined as follows:

a. NPL: For investment, private sector in Bangladesh is heavily dependent on banking system as the capital market is not efficient. However, we have observed an increasing trend in the NPL ratio since 2015 which indicates the poor recovery efforts by the banks along with reduced money supply and mainly caused by inadequate corporate governance in the banks (Prottasha, 2019).
b. Asset structure: As per the guidelines of Bangladesh Bank on Risk based Capital adequacy, any bank must maintain a minimum total capital ratio along with capital conversion buffer as specified by BASEL III. The poor corporate governance along with the increasing NPL trend has raised the barriers to collect the NPL leading to deteriorating asset quality of the banks. As stated by Prottasha (2019), most of the state owned banks have miserably failed to maintain the minimum capital adequacy ratio from 2013 till now and the development finance institutions (DFI) are also under capitalized.

c. Reduction in CRR and SLR requirements: In order to tackle the liquidity crisis, Bangladesh Bank has gradually reduced the Cash Reserve Ratio (CRR) and Statutory Reserve Ratio (SLR) which are the tools to manage the inflation and control the money supply. However, this steps has led to an increase in Advance to Deposit ratio (ADR) allowing the banks to lend more aggressively leading to increased NPL and poor asset quality (Prottasha, 2019).
d. Spread compression: As per the latest instruction by government, the deposit rate has to be kept 6% and the lending rate to be 9% fixed, which compresses the overall spread for the banks leading to the banks having less funds in their reserve with a negative impact on ADR.
e. Crowding-out effect: Due to crowding-out effects caused by increased government borrowing to finance the development projects including power plants, constructions of bridges, ports etc. has caused fund shortage in the reserves for the state owned banks leading to weak capital structure and increased vulnerability (Prottasha, 2019).

Alternative sources of financing for both government and private sectors are very limited or to some extent non-existent as our capital market is very inefficient, very few private equity firms, very few venture capitalists and no angel investors which led the country to be heavily dependent on the banking sector for funding. In order to remediate the current problems with the banking industry, both the government and private sector should recognize these as problems. Some probable steps to progress from the current situation are as follows:

a. According to the size of the economy of Bangladesh, the numbers of banks are comparatively high making the banking industry very saturated and highly competitive. However, the central bank keeps giving license to new banks and encourage the sick competition leading to pursue low quality credit by the banks and increasing the NPL and weakened capital structure.

b. The tendency of bailing out the banks, especially the state owned banks, by the people's tax money should be stopped immediately.
c. Credit and corporate governance should be enhanced in the banks, so that no credit is advanced without proper credit risk assessment and not on the basis of personal relationships leading to increased loan losses.
d. Loan classification and provisioning process should be redesigned with enhanced features to flag the weak credits along with defaulters.
e. Agent banking and mobile financial services should be encouraged at a low cost to increase the financial net allowing the rural people to take advantages of financial inclusion.

2.6.2 Competitiveness determination of Citi by SWOT Analysis

Strengths:

i. As there are currently three branches in Bangladesh, Citi can exert greater control over the process and services over the branches
ii. The operational expenses are low due to lower number of branches
iii. Citi's management is open for communication and encourages for openness in communication
iv. Additional time can be provided for product and service development to the corporate clients as there is no retail business in Bangladesh
v. The recruitment and selection process is very critical and successful to identify the highly efficient personnel
vi. Due to the global presence, to manage any issues, experts from overseas can be brought or their expertise can be shared over digital platform

vii. Citi is very critical in terms of expanding the client base and thus the NPL ratio is the lowest in the industry.

Weaknesses:

i. Citi is under strict control on Indian Regional heads which sometimes makes it difficult to take decisions best suited for Bangladesh
ii. Same security and IT protocols are followed everywhere. In which some of them are not suitable for such a small operation and creates problem and reduces the efficiency.
iii. The banking operation is understaffed due to lengthy recruitment process and latent approvals from region which puts extra pressure on the existing employees.
iv. Due to the absence of retail banking, the brand image is poor in Bangladesh
v. Due to the small client base, full range of products are not offered here reducing the profit potential in Bangladesh

Opportunities:

i. There is a scope for economic scale in managing the corporate accounts as there is no retail business
ii. Due to the brand image, customers worldwide are eager to do banking with Citi
iii. By introducing investment and merchant banking, the profit potential can be increased

Threats:

i. The operation is very tiny compared to the other multinational banks and increases the threat for hostile takeover of Bangladesh Operation
ii. The COVID 19 has imposed a greater threat as the profit of the clients has reduced making them more vulnerable to credit default leading to risk of increased NPL ratio for Citi

2.7 Achievements of Citi in Bangladesh

As per the website of Citibank, N.A. (2020a), below are the landmark achievements in Bangladesh:

- “Citi was selected as the Sole Independent Advisor to the Government of Bangladesh for sovereign ratings advisory.
- Citi led the first-ever global bond for Banglalink Digital Communications Ltd.
- Citi led an international syndicated loan for Bangladesh Petroleum Corporation, a petroleum corporation owned by Bangladesh's Ministry of Energy
- Citi Bangladesh arranged the world's first Triple-A-rated micro-credit securitization transaction for US$180 million for BRAC, the largest NGO in the world.
- Citi successfully arranged the country's largest-ever local currency amortizing senior secured bond offering of BDT 7.07 billion (US$102 million).
- Citi arranged the largest IPO in Bangladesh for US$141 million for Grameenphone Ltd.
- Citi arranged the country's first-ever syndicated agricultural term financing facility of BDT 1.5 billion (US$21.7 million).
- Citi was the sole placement agent for the country's first unsecured, non-convertible, subordinated Tier-II Bond issue of BDT 2.5 billion by Prime Bank Ltd.
- Citi Bangladesh is the leader in cash management innovation in the country.
- First bank to launch online transaction banking solution in the country in 2003—CitiDirect
- First bank to launch Direct Debit Program in 2012
- First bank to organize Electronic Payment Roadshows across the country in 2014 in collaboration with Central Bank
- Citi Bangladesh is the only bank with E-Collect/Virtual Account solutions

- Only bank capable of providing real time MIS against incoming Electronic Fund Transfers" (Citibank, N.A., 2020a)

2.8 Summary and Conclusion

To summarize, it can be said that the operation in Bangladesh is very small but the profit is comparatively higher to the size. As such, we also can say that, Citi Bangladesh is employing its assets, employees, policies and guidelines in a very effective manner. The careful selection of clients has led to the lowest NPL ratio in the industry. Additionally, the critical selection of employees has helped the bank to maximize its revenue potential. Lastly, the advantage of grabbing technology in terms of software from abroad has provided an edge to facilitate the transactions in a comparatively smaller time.

2.9 Recommendations

After reviewing the overall strategy and processes of Citi, the following recommendations are suggested:

i. The selection and recruitment process should be accelerated to reduce the pressure on the existing employees.

ii. More flexibility in the processes can be introduced by being within the regulatory framework

iii. As per the requirements of the local client base, wide variety of products should be introduced as appropriate

iv. The local management should be empowered to take some extent of critical decisions on ground.

Chapter 3

Project: Credit Risk Management Practices at Citi

3.1 Introduction

This chapter will deal with the credit risk management of Citi Bangladesh in a more detailed manner. As mentioned earlier, I worked in the CRMS department and hence, selected the topic of "Credit Risk Management Practices in Citibank, N.A." as part of the fulfilment of internship requirement. The most important challenge for the banks currently is to extend credits to the solvent clients and monitor them continuously. As the loan portfolio is the asset for any bank and the major income is generated from the subsequent interest incurred by the clients, it is a must to manage this credit portfolio in an effective and efficient manner in order ot ensure the sustainability of the bank.

One of most significant challenges for a bank is to strongly manage its credits. Since the largest slice of income generated by a bank and a major percentage of its assets is subject to this credit, it is obvious that sensible management of this credit is fundamental to the sustainability of a bank.

3.1.1 Background

The submission of internship report marks the fulfillment of the internship requirement of MBA program and to fulfil this I have worked and shared the experience of myself of the CRMS department of Citibank, N.A. My topic "Credit Risk Management Practices in Citibank, N.A." was approved both by my academic and organizational supervisors. In this report I have attempted to make an overall analysis of the credit portfolio of Citi Bangladesh to determine the actual financial position of the bank. At the end, a list of recommendation has been prepared, which is believed to be useful if implemented as appropriate.

3.1.2 Objectives

- To have great knowledge of credit risk management process and procedure followed by Citi
- To gain understanding of credit related operations
- To scrutinize the CRM process and to make any recommendation, if needed.
- To attain understanding about the efficacy of credit and credit approval process to evaluate the risk
- To gain an overall idea about the credit related performance of Citi.

3.1.3 Significance

The significance of this chapter is to attain some in-depth knowledge regarding the credit management procedure of Citi Bangladesh. The report will highlight the practices by the bank management for acquiring new clients, advancement of credit line to them, maintenance of the credit line, monitoring and the recovery process.

3.2 Literature Review

One of the major business risk is credit risk, which is generally accepted by all the financial institutions. The target of credit risk management is to eradicate the NPL from their credit portfolio which arises from the default of the customers. The banks and their affiliates accommodate the flow of financial resources within the regulatory framework. Nevertheless, there might be some unprecedented incidents including various macroeconomic uncertainties, reservations in international financial markets and financial restraints, which might disrupt the flow of financial resources. Inability of the banks to properly identify the appropriate customers, knowing them in details, advancing the right amount of credit to them along with the momentum to forcefully recover the loans are the main causes of financial restrains in terms of credit management of any bank. The NPL causes the financial resources to be stagnant for a longer period of time and increases the potential loss for the banks as the reinvestment opportunity is missed. To manage the credit risk efficiently, before providing the loans, banks should determine the repayment and debt servicing capacity of the borrowers.

Banking industry is a highly regulated industry, however the efficacy of such regulations should be reviewed on a regular frequency and the lenders should also implement other controlling mechanism to mitigate the risk apart from the regulatory framework as well. Along with the financial performance indicators, the internal processes and the actions of the relevant people largely contributes for any organization to become a market disappointment. The interest and income theory is incorporated vastly in the economic principles of banking in which the cash flow approach is the basis of bank lending (Akperan, 2005). Credit risk management is a sensitive, critical and should be a dynamic process which will help the banks to proactively manage the credit portfolio to eradicate the loan losses and generate a better than average return to maximize the wealth of the shareholders. The significance of credit risk management is accepted by the banks as they devise standards of process, ensure segregation of duties and responsibilities and reflect hem in the policies and procedures (Focus Group, 2007). As the existence of uncertainties create disruptions in the financial system, credit risk arises in the banks as well as in the non-bank financial institutions posing a major threat to the economy of a country. Despite of such uncertainties, banks are heavily investing on research and closely monitoring the macroeconomic variables, the industry specific factors along with the company specific indicators to minimize the credit risk. Data accumulating institutions and treasury people believe that research and monitoring is the key technique to predict the uncertainties (Uchendu, 2009). The structure of the banking industry along with the effectiveness of regulatory framework is significant as these influence the competitiveness and the capabilities of the firms to access finding or credit lines. On the other hand, the economy should be developed along with a steady growth rate is required for an effective structure and clean competitive environment in the banking industry. The experiences and knowledge gathered in assessing the risk across the industries and countries along with effective managerial approach are recognized as part of the development process. Furthermore, due to be a highly regulated industry, the assessment of impact of the credit risk management upon the banks and on the other firms became very convenient.

3.3 Methodology

In order to efficiently complete this report, several interviews were conducted on the employees and the clients as primary source along with the other secondary sources as well. The interviewees attempted to describe the following topics in their interview sessions:

i. Concept of credit
ii. Concept of risk management
iii. Policies regarding CRMS from BB
iv. Fundamental activities of Citi Bangladesh
v. Rules and regulation followed by Citi Bangladesh
vi. Sources for the credit risk investigation
vii. Process of risk assessment
viii. Documentation process of risk assessment
ix. Actions regarding NPL
x. Determination of benchmarks and criteria before lending
xi. Priority sector lending for Bangladesh
xii. Types of credit facilities
xiii. Basis of loan classification and provisioning

3.4 Data Sources

In order to perform a fruitful study, the data sources need to be identified, collected, classified, analyzed, interpreted and presented in an orderly manner to grasp the underlying trends. Two types of data sources including primary and secondary data sources were used in this study.

3.4.1 Primary Data Sources

i. Interviews of clients and employees
ii. Practical engagement with the activities
iii. Face to face communication with employees
iv. Relevant credit files as provided by the employees

3.4.2 Secondary Sources

Below are the secondary data sources which were used to produce this report and the details are provided in the Appendix section:

i. Annual financial statements of Citibank, N.A. as of 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019.
ii. Disclosure on risk based capital (BASEL III) of Citibank, N.A. from 2015 to 2019
iii. Guidelines on Risk Based Capital Adequacy
iv. Risk Management Guidelines for Banks by Bangladesh Bank
v. Credit Risk Grading Manual for banks by Bangladesh Bank

3.5 Findings and Analysis

3.5.1 Credit Risk Management

Credit risk refers to the situation where one party to a financial institution will fail to honor an obligation leading to financial loss to the other party involved. Credit risk becomes concentrated if the client base is not well diversified and if the clients belong to same industry, or operating in the same geographical locations, or vulnerability to the change in the same macroeconomic, political or social factors. In order to mitigate credit risk, banks advances the credit limits according to the clients' debt servicing and repayment capacities along with taking enough collaterals. Credit risk at Citi is observed, reviewed and scrutinized by Credit Risk Manage Services (CRMS). CRMS identifies the quality of the credit clients and attempts to minimize the potential loan losses. In order to do so, CRMS implements the appropriate policies and procedures to build and maintain quality credits and ensuring efficient credit monitoring process. ALCO committee sits for meeting on a monthly basis and identifies the maximum risk exposure along with assessment and suggesting control mechanism for cross border and country risks. For the management of NPL, Citi has an integrated remedial management policy which includes a strict framework along with the procedure to determine the weak credits and strict monitoring of those accounts.

3.5.2 Implementation of BASEL-III

In order to develop the banks to absorb more shocks and stresses along with compliance with international best practices and to make the capital of the banks to be more responsive, Bangladesh Bank has provided the updated regulatory capital framework for banks "Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)" which is effective from 1st January 2015. According to the **BRPD circular no: 18**, dated 21st December, 2014, the following specific approaches are instructed for implementing BASEL III framework by Bangladesh Bank (Bangladesh Bank, 2014):

i. To introduce standardized process to calculate Risk Weighted Assets (RWA) for credit risk

ii. To introduce standardized process to calculate Risk Weighted Assets (RWA) for market risk

iii. To introduce standardized process to calculate Risk Weighted Assets (RWA) for operational risk

Under the uniform approach of the BASEL III for risk based capital adequacy framework, the credit rating would be calculated on the basis of riskiness examined by the External Credit Assessment Institutions (ECAIs) who are approved by Bangladesh Bank. Bangladesh Bank also have instructed to report on quarterly basis on the capital adequacy as per the reporting formats prescribed by Bangladesh Bank. Citibank, N.A. has fully complied with the requirements of BASEL III and is continuing to furnish the quarterly reports without any issues.

3.5.3 Sources of Credit Investigation

Below is the list of probable sources of credit information:

- Credit application
- Annual Financial statements including income statement, balance sheet, cash flow statement
- Brand image and market reputation
- Scrutinizing the accounts
- Credit risk grading as per the format prescribed by BB
- Credit report from Credit Information Bureau (CIB) of BB
- Personal visit and interview
- Income tax documents
- Trade license
- Any media coverage

- Form XII, Schedule X along with revenue & municipal rent acknowledgment slip from register for joint stock company
- VAT return
- Confidential reports from other banks

Along with the above, for determination of the repayment and debt servicing capacity, the following items also need to be clarified:

- Details of the borrower
- Nature of business
- Factory location or address of the business
- Standard of living of the borrower
- Duration of the business
- Investment in the business
- Purpose for borrowing
- Tenure of loan
- Source of repayment and debt servicing
- Available collateral
- Physical verification of the collateral
- Profitability from the lending
- Credit history
- Transaction history with bank
- Market reputation or any positive/ negative news regarding the borrower

3.5.4 Credit Risk Assessment

A critical and thorough credit risk assessment need to be conducted before approving the credit facilities to any client. Banks have to follow the Know Your Customer (KYC) guidelines and also stick to anti money laundering regulations as well. The below mentioned risk areas must be addressed and evaluated before submitting the credit proposal for approval:

i. Analysis of the borrower: Shareholding, status, education, experience, net worth, age, etc.
ii. Analysis of the industry: Prospect of the industry, associated risk factors, borrowers position in the industry, strengths, weaknesses, opportunities, threats of the borrower in contrast to the competitors
iii. Analysis of supplier/buyer risk: dependency on sole supplier or buyer
iv. Demand and supply factors
v. Infrastructure capacity
vi. Competency of the management team
vii. Cyclicality or seasonality in demand pattern
viii. Debt to equity ratio
ix. Time series analysis of historical financial performances: at least three years financial statements, income streams and sustainability, cash flow, degree of leverage, profitability, authenticity of the financial statements
x. Projected financial statements: enough cash flow to service the debts, debt service coverage ratio
xi. Inspection of the trade
xii. Evaluation of account history: for existing clients the payment history, loan turnover, scrutiny of the account statements for patterns; and if the client is proposed to be taken over from other banks then account statement from current bank will be required
xiii. Collateral:
    a. An up-to-date valuation report by professional recognized surveyor should be obtained with photographs. Distant location collaterals from the branch area is discouraged.

b. Credit should not only be based on collateral
c. Insurance of the collateral is very critical as this is backing up the loan for the bank. Hence, the appropriateness and degree of coverage to be assessed, policy to be issued by renowned insurance companies, premium should be paid through banking channels, the money receipts for premium payments to be preserved, original policy to be held by the bank, policy is renewed on time

xiv. Issues regarding succession: Mark ups, volatility, higher leverage, piled up inventory, large number of receivables with longer ageing, quick expansion, introducing new business or product lines, change in management

xv. Alignment to credit guidelines: customer must agree to comply with the conditions and clauses of credit guidelines

xvi. Mitigating risk factors: along with the identification of risk factors, the respective mitigating factors should be addressed

xvii. Environmental factors

xviii. Identification of the contribution to national economy along with employment generation

3.5.5 Preparation of credit proposal

After concluding the investigation with satisfactory remarks, the relationship managers will prepare a credit proposal as per the pre-specified format of the credit department and will submit for approval. After preparation of the credit proposal, banks request for loan documentation.

3.6 Analysis

Analysis on the credit risk management practices of Citi was conducted based on the following aspects, which are core to credit risk management:

- Procedures and practices of credit risk management in Citibank, N.A.
- Credit risks associated with Citi
- Ways to mitigate the credit risks

3.6.1 Procedures and practices of credit risk management

- Credit risk is managed by CRMS in Citi with the view to minimize potential loan losses along with continuous monitoring and reviewing the portfolio to identify any weak credit.
- Identification of types of risk and regularly disclosing in the BASEL III disclosures
- Enough provision is kept to cover the NPL and other standard loans
- Citi has its own credit risk policy which is used as a more defensive technique on top of the policies of Bangladesh Bank.
- Based on the risk appetite, Citi chooses the amount of risk to be taken following the regulatory and global guidelines
- Citi has its own NPL remediation policy which is applied along with the regulatory guidelines to take actions against the credit defaulters

3.6.2 Credit risks associated with Citi

The non-performing loans existent in the balance sheet of Citi Bangladesh are legacy loans and litigation is going on against them. The rate of NPL is the lowest in the industry which is below 2%. Careful selection of the clients, strong relationship with them, continuous monitoring of their financial portfolio, and adherence to the internal and regulatory guidelines are the main reasons of such low NPL ratio. However, COVID 19 has reduced the business activities in and outside of Bangladesh to a great extent which as impacted the clients of Citi and subsequently negatively affecting the bank. In this critical moments, Citi has come forward to help its clients to recover and regain the momentum for a better partnership in the future.

3.6.3 Ways to mitigate the credit risks

a. Strict adherence to the global and regulatory policies to mitigate credit risk
b. Proper authentication and valuation of collaterals to hedge the risk along with appropriate credit evaluation process before advancing credit is critical
c. Continuous monitoring of the credit portfolio and assignment of internal risk rating in accordance to the risk rating of Bangladesh Bank for early warning
d. The overall risk management functions are reviewed periodically
e. Credits are extended to various sectors to diversify the risk

3.7 Outcomes of analysis

i. The credit risk management process in Citibank, N.A. is strict, appreciable, and systematic as the credit portfolio is under continuous monitoring without any long pending document deficiencies.
ii. The close partnership with the clients has increased the customer satisfaction and they are quite comfortable with this process
iii. Abiding the instructions for regulatory lending including Agriculture, rural, CMSME disbursement results in low return with excess risk due to no collateral
iv. No scam or fraudulent activities or news observed implying the strict stance of the management over integrity issues
v. The associated credit documents along with all other relevant documents are kept both in hardcopy and softcopy which allows to readily locate the document
vi. The credit approval process and the list of document requirement is quite lengthy which delays the loan disbursement process

3.8 Recommendation

i. The turnaround time regarding the credit approval process should be minimized in order to be competitive in today's world without any compromise with regulatory requirements

ii. The decision making process to a certain credit limit could be made decentralized

iii. Citi should focus to continue to keep the NPL at the lowest

iv. Frequent visit to borrowers along with their current financial position should be continuously monitored

v. Citi should keep its strict stance on integrity issues to demotivate the employees to take any dishonest means

vi. Lending to politically involved persons or projects should be avoided

3.9 Conclusion

To summarize, we can say that, the credit portfolio of Citibank, N.A. bears minimum risk and is highly profitable but the profit can be increased by introducing new products and services. As a whole, Citi Bangladesh is performing very well in the banking sector for the reluctance to accept greater risk along with wide array of services. The investment on the employees by Citi to increase their efficiencies through effective recruitment, selection and training programs have led to reduced cost and increased profit. Lastly, Citi should adhere to the current process and policies to remediate any challenges regarding credit risk and upgrade itself with the changing demands of the clients proactively.

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Appendix A. Financial Statements of Citibank, N.A. (2016-2019)

Profit and Loss Account for the year ended 31 December 2016

	Notes	2016 Taka	2015 Taka
Interest income	20	718,068,572	1,096,071,381
Interest paid on deposits and borrowings	21	(52,637,686)	(197,904,503)
Net interest income		665,430,886	898,166,878
Income from investments	22	472,457,144	728,458,655
Commission, exchange and brokerage	23	729,871,806	795,856,365
Other operating income	24	360,109	28,085,907
Total operating income		1,868,119,945	2,450,567,804
Salaries and allowances	25	449,745,209	423,651,991
Rent, taxes, insurance, electricity, etc.		166,231,727	152,739,325
Legal expenses		676,942	4,089,478
Postage, stamps, telecommunication, etc.		21,469,769	42,400,721
Stationery, printing, advertisement, etc.		27,992,536	25,153,721
Citi Country Officer's salary and allowances		47,460,549	44,561,479
Auditors' fees		750,000	750,000
Depreciation and repairs of bank's assets	26	80,289,412	80,321,345
Other expenses	27	164,732,181	184,628,308
Total operating expenses		959,348,325	958,296,368
Profit before provisions		908,771,620	1,492,271,437
Provision for loans and advances:			
Specific provision for classified loans and dvances	14.1	(43,500)	(1,699,324)
General provision for unclassified loans and advances	14.1	(13,874,107)	41,602,335
Provision for off balance sheet exposures	14.2	(12,377,077)	(9,339,955)
Provision for diminution in value of investments		-	-
Provision for nostro accounts		40,035	(40,035)
Total provisions		(26,254,649)	30,523,021
Total profit before income tax		882,516,971	1,522,794,457
Provision for income tax:			
Current tax	28	(481,644,399)	(699,358,777)
Deferred tax	28	43,405,598	(49,174,920)
		(438,238,801)	(748,533,697)
Net profit after tax		444,278,170	774,260,760
Appropriations			
Profit remitted to Head Office		-	774,260,760

The annexed notes 1 to 37 and annexures A to J form an integral part of these financial statements.

Khondoker Rashed Maqsood
Managing Director and
Citi Country Officer, Bangladesh

S. H. Aslam Habib
Chief Financial Officer, Bangladesh

As per our report of same date.

Balance Sheet as at 31 December 2016

	Notes	2016 Taka	2015 Taka
Property and assets			
Cash (including foreign currencies)	4		
Cash in hand		192,197,277	122,941,999
Balances with Bangladesh Bank and its agent bank(s)		9,156,354,787	10,494,455,681
		9,348,552,064	10,617,397,680
Balance with other banks and financial institutions	5		
Inside Bangladesh		809,798,507	812,731,948
Outside Bangladesh		8,750,654,253	7,381,599,573
		9,560,452,760	8,194,331,521
Money at call and short notice	6	1,520,000,000	1,390,000,000
Investments	7		
Government securities		8,839,605,995	8,585,798,207
Reverse Repo with Bangladesh Bank		-	-
Other		6,000,000	6,000,000
		8,845,605,995	8,591,798,207
Loans and advances	8		
Loans, cash credits, overdrafts		8,804,163,236	8,271,759,284
Bills purchased and discounted		150,689,014	7,469,496
		8,954,852,250	8,279,228,779
Fixed assets including premises,furniture and fixtures	9	218,135,362	260,389,459
Other assets	10	1,297,372,378	1,295,736,479
Non banking assets	11	-	-
Total assets		39,744,970,809	38,628,882,125
Liabilities and capital			
Liabilities			
Borrowings from other banks, financial institutions and agents	12	452,122,084	728,764,894
Deposits and other accounts	13		
Current account and other accounts, etc.		25,550,565,148	21,230,175,777
Bills payable		1,870,116,007	1,923,538,320
Savings deposits		289,677,290	244,397,100
Fixed deposits		255,660,346	3,055,949,682
Bearer certificates of deposits		-	-
Other deposits		-	-
		27,966,018,791	26,454,060,880
Other liabilities	14	2,136,040,300	1,866,439,764
Total liabilities		30,554,381,175	29,049,265,537
Equity			
Fund deposited with Bangladesh Bank as capital	15.2	4,540,836,059	4,529,873,431
Other reserve	16	(99,519,009)	(29,712,017)
Profit and loss account	17	4,749,472,584	5,079,455,174
Total equity		9,190,789,634	9,579,616,588
Total liabilities and equity		39,744,970,809	38,628,882,125

Profit and Loss Account for the year ended 31 December 2017

	Notes	2017 Taka	2016 Taka
Interest income	20	783,469,352	718,068,572
Interest paid on deposits and borrowings	21	(92,161,126)	(52,637,686)
Net interest income		691,308,226	665,430,886
Income from investments	22	419,561,437	472,457,144
Commission, exchange and brokerage	23	990,502,409	729,871,806
Other operating income	24	3,770,664	360,109
Total operating income		2,105,142,736	1,868,119,945
Salaries and allowances	25	472,036,462	449,745,209
Rent, taxes, insurance, electricity, etc.		172,065,562	166,231,727
Legal expenses		3,409,058	676,942
Postage, stamps, telecommunication, etc.		28,282,938	21,469,769
Stationery, printing, advertisement, etc.		23,034,782	27,992,536
Citi Country Officer's salary and allowances		53,822,532	47,460,549
Auditors' fees		750,000	750,000
Depreciation and repairs of bank's assets	26	70,838,816	80,289,412
Other expenses	27	167,591,683	164,732,181
Total operating expenses		991,831,833	959,348,325
Profit before provisions		1,113,310,902	908,771,620
Provision for loans and advances:			
Specific provision for classified loans and advances	14.1	(52,500)	(43,500)
General provision for unclassified loans and advances	14.1	(61,032,648)	(13,874,107)
Provision for off balance sheet exposures	14.2	8,406,673	(12,377,077)
Provision for diminution in value of investments		-	-
Provision for nostro accounts		-	40,035
Total provisions		(52,678,475)	(26,254,649)
Total profit before income tax		1,060,632,427	882,516,971
Provision for income tax:			
Current tax	28	(592,077,363)	(481,644,399)
Deferred tax	28	42,310,974	43,405,598
		(549,766,389)	(438,238,801)
Net profit after tax		510,866,038	444,278,170
Appropriations			
Profit remitted to Head Office		-	-

Balance Sheet as at 31 December 2017

	Notes	2017 Taka		2016 Taka	
Property and assets					
Cash (including foreign currencies)	4				
Cash in hand		108,100,289		192,197,277	
Balances with Bangladesh Bank and its agent bank(s)		7,004,582,870		9,156,354,787	
			7,112,683,159		9,348,552,064
Balance with other banks and financial institutions	5				
Inside Bangladesh		741,694,945		809,798,507	
Outside Bangladesh		3,447,018,449		8,750,654,253	
			4,188,713,394		9,560,452,760
Money at call and short notice	6		-		1,520,000,000
Investments	7				
Government securities		8,365,494,964		8,839,605,995	
Reverse Repo with Bangladesh Bank		-		-	
Other		6,000,000		6,000,000	
			8,371,494,964		8,845,605,995
Loans and advances	8				
Loans, cash credits, overdrafts		16,252,001,403		8,804,163,236	
Bills purchased and discounted		89,519,875		150,689,014	
			16,341,521,278		8,954,852,250
Fixed assets including premises,furniture and fixtures	9		178,282,772		218,135,362
Other assets	10		1,718,998,514		1,297,372,378
Non banking assets	11		-		-
Total assets			37,911,694,081		39,744,970,809
Liabilities and capital					
Liabilities					
Borrowings from other banks, financial institutions and agents	12		64,580,456		452,122,084
Deposits and other accounts	13				
Current account and other accounts, etc.		19,841,252,892		25,550,565,148	
Bills payable		1,482,787,324		1,870,116,007	
Savings deposits		438,420,098		289,677,290	
Fixed deposits		3,877,728,096		255,660,346	
Bearer certificates of deposits		-		-	
Other deposits		-		-	
			25,640,188,410		27,966,018,791
Other liabilities	14		2,286,370,238		2,136,040,300
Total liabilities			27,991,139,104		30,554,181,175
Equity					
Fund deposited with Bangladesh Bank as capital	15.2		4,771,628,235		4,540,836,059
Other reserve	16		(111,411,880)		(99,519,009)
Profit and loss account	17		5,260,338,622		4,749,472,584
Total equity			9,920,554,977		9,190,789,634
Total liabilities and equity			37,911,694,081		39,744,970,809

Profit and Loss Account for the year ended 31 December 2018

	Notes	2018 Taka	2017 Taka
Interest income	18	1,328,172,080	783,469,352
Interest paid on deposits and borrowings	19	(193,004,156)	(92,161,126)
Net interest income		1,135,167,924	691,308,226
Income from investments	20	399,270,618	419,561,437
Commission, exchange and brokerage	21	1,193,218,479	990,502,409
Other operating income	22	17,062,042	3,770,664
Total operating income		2,744,719,063	2,105,142,736
Salaries and allowances	23	(497,186,042)	472,036,462
Rent, taxes, insurance, electricity, etc.		(170,836,132)	172,065,562
Legal expenses		(632,967)	3,409,058
Postage, stamps, telecommunication, etc.		(25,367,626)	28,282,938
Stationery, printing, advertisement, etc.		(29,027,645)	23,034,782
Citi Country Officer's salary and allowances		(23,836,116)	53,822,532
Auditors' fees		(900,000)	750,000
Depreciation and repairs of bank's assets	24	(75,246,489)	70,838,816
Other expenses	25	(196,200,361)	167,591,683
Total operating expenses		(1,019,233,378)	991,831,833
Profit before provisions		1,725,485,685	1,113,310,902
Provision for loans and advances:			
Specific provision for classified loans and advances	12.1	(89,500)	(52,500)
General provision for unclassified loans and advances	12.1	3,000,000	(61,032,648)
Provision for off balance sheet exposures	12.2	(53,000,000)	8,406,673
Provision for diminution in value of investments		-	-
Provision for nostro accounts		-	-
Total provisions		(50,089,500)	(52,678,475)
Total profit before income tax		1,675,396,185	1,060,632,428
Provision for income tax:			
Current tax	26	(703,276,945)	(592,077,363)
Deferred tax	26	(11,918,523)	42,310,974
		(715,195,468)	(549,766,389)
Net profit after tax		960,200,717	510,866,039
Appropriations			
Profit remitted to Head Office		-	-

The annexed notes 1 to 35 and annexures A to J form an integral part of these financial statements.

N. Rajashekaran
Managing Director and
Citi Country Officer, Bangladesh

S. H. Aslam Habib
Chief Financial Officer, Bangladesh

As per our report of same date.

Citibank, N.A. Bangladesh Branches Balance Sheet

In BDT	Notes	31 December 2018 Taka	31 December 2017 Taka
Property and assets			
Cash (including foreign currencies)	4		
Cash in hand		137,927,760	108,100,289
Balances with Bangladesh Bank and its agent bank(s)		9,480,760,009	7,004,582,870
		9,618,687,769	7,112,683,15 9
Balance with other banks and financial institutions	5		
Inside Bangladesh		707,005,365	741,694,945
Outside Bangladesh		8,212,860,235	3,447,018,449
		8,919,865,600	4,188,713,394
Money at call and short notice		-	-
Investments	6		
Government securities		8,281,925,575	8,365,494,964
Reverse Repo with Bangladesh Bank		-	-
Other		6,000,000	6,000,000
		8,287,925,575	8,371,494,964
Loans and advances	7		
Loans, cash credits, overdrafts		1,718,3932,161	16,252,001,403
Bills purchased and discounted		128,000,617	89,519,875
		17,311,932,778	16,341,521,278
Fixed assets including premises,furniture and fixtures	8	149,287,620	178,282,772
Other assets	9	1,563,979,068	1,718,998,514
Non banking assets		-	-
Total assets		45,851,678,410	37,911,694,081
Liabilities and capital			
Liabilities			
Borrowings from other banks, financial institutions and agents	10	908,180,621	64,580,456
Deposits and other accounts	11		
Current account and other accounts, etc.		26,305,437,738	19,841,252,892
Bills payable		1,627,534,148	1,482,787,324
Savings deposits		207,530,935	438,420,098
Fixed deposits		3,120,373,829	3,877,728,096
Bearer certificates of deposits		-	-
Other deposits		-	-
		31,260,876,650	25,640,188,410
Other liabilities	12	2,744,098,173	2,286,370,237
Total liabilities		34,913,155,444	27,991,139,103
Equity			
Fund deposited with Bangladesh Bank as capital	13.2	4,840,865,887	4,771,628,235
Other reserve	14	(122,882,261)	(111,411,880)
Profit and loss account	15	6,220,539,341	5,260,338,623
Total equity		10,938,522,967	9,920,554,978
Total liabilities and equity		45,851,678,410	37,911,694,081

Profit and Loss Account for the year ended 31 December

	Notes	2019 Taka	2018 Taka
Interest income	18	1,774,640,492	1,583,552,438
Interest paid on deposits and borrowings	19	(299,581,894)	(302,546,765)
Net interest income		1,475,058,598	1,281,005,673
Income from investments	20	452,763,687	399,270,618
Commission, exchange and brokerage	21	936,606,086	1,250,488,284
Other operating income	22	(9,780,391)	17,062,042
Total operating income		2,854,647,980	2,947,826,617
Salaries and allowances	23	(526,616,221)	(507,439,377)
Rent, taxes, insurance, electricity, etc.		(226,245,529)	(173,098,496)
Legal expenses		(2,352,828)	(652,180)
Postage, stamps, telecommunication, etc.		(26,804,673)	(25,386,504)
Stationery, printing, advertisement, etc.		(15,254,879)	(29,147,035)
Citi Country Officer's salary and allowances		(24,715,590)	(23,836,116)
Auditors' fees		(900,000)	(900,000)
Depreciation and repairs of bank's assets	24	(81,740,533)	(78,186,429)
Other expenses	25	(169,897,620)	(198,560,835)
Total operating expenses		(1,074,527,873)	(1,037,206,972)
Profit before provisions		1,780,120,107	1,910,619,645
Provision for loans and advances:			
Specific provision for classified loans and advances	12.1	(70,500)	(89,500)
General provision for unclassified loans and advances	12.1	9,785,060	(2,05,83,870)
Provision for off balance sheet exposures	12.2	(41,403,569)	(5,75,68,356)
Provision for diminution in value of investments		-	-
Provision for nostro accounts		-	-
Total provisions		51,118,129	(78,241,726)
Total profit before income tax		1,831,238,236	1,832,377,919
Provision for income tax:			
Current tax	26	(743,233,724)	(774,451,580)
Deferred tax	26	(51,184,960)	(11,516,641)
		(794,418,684)	(785,968,221)
Net profit after tax		1,036,819,552	1,046,409,698

Citibank, N.A. Bangladesh Branches Balance Sheet

In BDT	Notes	31 December 2019 Taka	31 December 2018 Taka
Property and assets			
Cash (including foreign currencies)	4		
Cash in hand		187,451,538	137,927,760
Balances with Bangladesh Bank and its agent bank(s)		10,078,802,356	9,480,760,009
		10,266,253,894	9,618,687,769
Balance with other banks and financial institutions	5		
Inside Bangladesh		290,239,156	707,005,365
Outside Bangladesh		15,803,876,163	9,464,371,953
		16,094,115,319	10,171,377,318
Money at call and short notice		-	-
Investments	6		
Government securities		11,214,345,971	8,281,925,575
Reverse Repo with Bangladesh Bank		-	-
Other		6,000,000	6,000,000
		11,220,345,971	8,287,925,575
Loans and advances	7		
Loans, cash credits, overdrafts		15,004,423,531	18,520,243,035
Bills purchased and discounted		3,467,718,951	4,096,052,879
		18,472,142,482	22,616,295,914
Fixed assets including premises,furniture and fixtures	8	120,953,357	151,668,199
Other assets	9	1,939,113,540	1,566,871,808
Non banking assets		-	-
Total assets		58,112,924,563	52,412,826,583
Liabilities and capital			
Liabilities			
Borrowings from other banks, financial institutions and agents	10	3,296,355,814	6,531,578,960
Deposits and other accounts	11		
Current account and other accounts, etc.		34,129,044,529	26,603,125,448
Bills payable		1,261,919,524	1,627,534,148
Savings deposits		358,561,859	207,530,935
Fixed deposits		2,907,170,771	3,120,373,829
Bearer certificates of deposits		-	-
Other deposits		-	-
		38,656,696,683	31,558,564,360
Other liabilities	12	3,610,053,570	2,927,720,332
Total liabilities		45,563,106,067	41,017,863,652
Equity			
Fund deposited with Bangladesh Bank as capital	13.2	4,898,563,931	4,840,865,887
Other reserve	14	(67,984,579)	(122,882,261)
Profit and loss account	15	7,719,239,144	6,676,979,305
Total equity		12,549,818,496	11,394,962,931
Total liabilities and equity		58,112,924,563	52,412,826,583

Appendix B. Capital Structure and RWA under BASEL III

(b) The details of capital structure are provided as under:

	2016 BDT	2015 BDT
Tier-1 (going-concern capital)		
Common Equity Tier 1 (CET 1 Capital)		
Fund Deposited with BB	4,540,836,059	4,529,873,431
Retained Earnings	4,749,472,584	5,079,455,174
Actuarial gain/(loss)	(112,722,984)	(56,694,046)
Total CET 1 Capital	**9,177,585,659**	**9,552,634,559**
Additional Tier 1	-	-
Total Tier 1 Capital	**9,177,585,659**	**9,552,634,559**
Tier 2 Capital (gone-concern capital)		
General Provision (1.25 percentage points of credit risk-weighted assets calculated under the standiardised approach for 2015)	347,700,641	240,139,866
Revaluation Reserve for HFT Securities up to 50% of the 2014 balance	12,354,072	12,354,072
Sub-total	**360,054,713**	**252,493,938**
Total	**9,537,640,372**	**9,805,128,497**
© Regulatory Adjustments/Deductions from capital		
Deferred tax assets on specific provision (from CET 1 Capital)	65,432,199	65,414,636
Revaluation Reserve for HFT Securities (20% for 2015)	4,941,629	2,470,814
Total	70,373,828	**67,885,450**
(d) Total eligible capital (b-c)	**9,467,266,544**	**9,737,243,047**

Quantitative Disclosures:

Details of Risk Weighted Assets are as below:

Risk Weighted Assets as Risk Category:	2016 BDT	2015 BDT
Credit Risk		
On Balance Sheet Exposures	10,811,484,172	13,057,732,241
Off Balance Sheet Exposures	6,083,095,143	6,153,457,073
Total Credit Risk	16,894,579,315	19,211,189,315
Market Risk	1,240,599,901	769,581,260
Operational Risk	3,843,029,398	4,116,797,572
Total Risk Weighted Assets	**21,978,208,615**	**24,097,568,146**
Capital Requirement		
Capital requirement for Credit Risk	1,689,457,932	1,921,118,931
Capital requirement for Market Risk	124,059,990	76,958,126
Capital requirement for Operational Risk	384,302,940	411,679,757
Total	**2,197,820,861**	**2,409,756,815**
Ratios (stand alone basis)		
Capital to Risk Weighted Assets Ratio (CRAR)	43.08%	40.41%
Common Equity Tier-1 to RWA	41.46%	39.37%
Tier-1 Capital to RWA	41.46%	39.63%
Tier-2 Capital to RWA	1.62%	1.04%
Capital Conservaton Buffer	5,177,585,659	5,552,634,559
Available Capital under Pillar 2 Requirement	**5,467,266,544**	**5,737,243,047**

(b) The details of capital structure are provided as under:

	2017 BDT	2016 BDT
Tier-1 (going-concern capital)		
Common Equity Tier 1 (CET 1 Capital)		
Fund Deposited with BB	4,771,628,235	4,540,836,059
Retained Earnings	5,260,338,620	4,749,472,584
Actuarial gain/(loss)	(112,143,880)	(112,722,984)
Total CET 1 Capital	9,919,822,977	9,177,585,659
Additional Tier 1	-	-
Total Tier 1 Capital	9,913,854,469	9,177,585,659
Tier 2 Capital (gone-concern capital)		
General Provision	400,326,617	347,700,641
Revaluation Reserve for HFT Securities up to 50% of the 2014 balance	12,354,072	12,354,072
	412,680,689	360,054,713
	10,326,535,158	9,537,640,372
© Regulatory Adjustments/Deductions from capital		
Deferred tax assets on specific provision (from CET 1 Capital)	65,453,395	65,432,199
Revaluation Reserve for HFT Securities (20% for 2015)	7,412,443	4,941,629
Total	72,865,838	70,373,828
(d) Total eligible capital (b-c)	10,259,637,828	9,467,266,544

Quantitative Disclosures:

Details of Risk Weighted Assets are as below:

Risk Weighted Assets as Risk Category:	2017 BDT	2016 BDT
Credit Risk		
On Balance Sheet Exposures	15,696,652,280	10,811,484,172
Off Balance Sheet Exposures	6,115,832,668	6,083,095,143
Total Credit Risk	21,812,484,948	16,894,579,315
Market Risk	740,944,485	1,240,599,901
Operational Risk	3,541,168,224	3,843,029,398
Total Risk Weighted Assets	26,094,597,658	**21,978,208,615**
Capital Requirement		
(b) Capital requirement for Credit Risk	2,181,248,495	1,689,457,932
(c) Capital requirement for Market Risk	74,094,449	124,059,990
(d) Capital requirement for Operational Risk	354,116,822	384,302,940
Total	2,609,459,766	**2,197,820,861**
(e) Ratios (stand alone basis)		
Capital to Risk Weighted Assets Ratio (CRAR)	**39.32%**	**43.08%**
Common Equity Tier-1 to RWA	**37.76%**	**41.46%**
Tier-1 Capital to RWA	**37.76%**	**41.46%**
Tier-2 Capital to RWA	**1.55%**	**1.62%**
(f) Capital Conservaton Buffer	**5,919,822,977**	**5,177,585,659**
(g) Available Capital under Pillar 2 Requirement	**6,259,637,828**	**5,467,266,544**

Quantitative Disclosures:

(b) The details of capital structure are provided as under:

	2018 BDT	2017 BDT
Tier-1 (going-concern capital)		
Common Equity Tier 1 (CET 1 Capital)		
Fund Deposited with BB	4,840,865,887	4,771,628,235
Retained Earnings	6,220,539,341	5,260,338,622
Actuarial gain/(loss)	(135,528,345)	(112,143,880)
Total CET 1 Capital	10,925,876,883	9,919,822,977
Additional Tier 1	-	-
Total Tier 1 Capital	10,925,876,883	9,919,822,977
Tier 2 Capital (gone-concern capital)		
General Provision	450,326,617	400,326,617
Revaluation Reserve for HFT Securities up to 50% of the 2014 balance	12,354,072	12,354,072
	462,680,689	412,680,689
	11,388,557,573	10,332,503,666
(c) Regulatory Adjustments/Deductions from capital		
Deferred tax assets on specific provision (from CET 1 Capital)	61,637,206	65,453,395
Revaluation Reserve for HFT Securities (80% for 2018 & 60% for 2017)	9,883,258	7,412,443
Total	71,520,464	72,865,838
(d) Total eligible capital (b-c)	11,317,037,109	10,259,637,828

Quantitative Disclosures:

Details of Risk Weighted Assets are as below:

	2018 BDT	2017 BDT
Risk Weighted Assets as Risk Category:		
Credit Risk		
On Balance Sheet Exposures	17,928,341,080	15,696,652,280
Off Balance Sheet Exposures	6,115,518,079	6,115,832,668
Total Credit Risk	24,043,859,159	21,812,484,948
Market Risk	836,065,175	740,944,485
Operational Risk	3,299,590,194	3,541,168,224
Total Risk Weighted Assets	**28,179,514,528**	**26,094,597,658**
Capital Requirement		
(b) Capital requirement for Credit Risk	2,404,385,916	2,181,248,495
(c) Capital requirement for Market Risk	83,606,517	74,094,449
(d) Capital requirement for Operational Risk	329,959,019	354,116,822
Total	**2,817,951,453**	**2,609,459,766**
(e) Ratios (stand alone basis)		
Capital to Risk Weighted Assets Ratio (CRAR)	**40.16%**	**39.32%**
Common Equity Tier-1 to RWA	**38.55%**	**37.76%**
Tier-1 Capital to RWA	**38.55%**	**37.99%**
Tier-2 Capital to RWA	**1.61%**	**1.55%**
(f) Capital Conservaton Buffer	**6,925,876,883**	**5,919,822,977**
(g) Available Capital under Pillar 2 Requirement	**7,317,037,109**	**6,259,637,828**

Quantitative Disclosures:

(b) The details of capital structure are provided as under:

Tier-1 (going-concern capital)	**2019 BDT**	**2018 BDT**
Common Equity Tier 1 (CET 1 Capital)		
Fund Deposited with BB	4,898,563,931	4,840,865,887
Retained Earnings	7,719,239,144	6,220,539,341
Actuarial gain/(loss)	(69,455,065)	(135,528,345)
Total CET 1 Capital	**12,548,348,010**	**10,925,876,883**
Additional Tier 1	-	-
Total Tier 1 Capital	**12,548,348,010**	**10,925,876,883**
Tier 2 Capital (gone-concern capital)		
General Provision	478,276,228	450,326,617
Revaluation Reserve for HFT Securities up to 50% of the 2014 balance	12,354,072	12,354,072
Total Tier 2 capital	**490,630,300**	**462,680,689**
Total capital	**13,038,978,310**	**11,388,557,573**

(c) Regulatory Adjustments/Deductions from capital

Deferred tax assets on specific provision (from CET 1 Capital)	61,663,996	61,637,206
Revaluation Reserve for HFT Securities (100% for 2019 & 80% for 2018)	12,354,072	9,883,258
Total	**74,018,068**	**71,520,464**
(d) Total eligible capital (b-c)	**12,964,960,242**	**11,317,037,109**

Quantitative Disclosures:

Details of Risk Weighted Assets are as below:

Risk Weighted Assets as Risk Category:	2019 BDT	2018 BDT
Credit Risk		
On Balance Sheet Exposures	23,384,990,223	17,928,341,080
Off Balance Sheet Exposures	7,338,901,548	6,115,518,079
Total Credit Risk	30,723,891,771	24,043,859,159
Market Risk	1,394,059,723	836,065,175
Operational Risk	3,711,930,261	3,299,590,194
Total Risk Weighted Assets	**35,829,881,755**	**28,179,514,528**
Capital Requirement		
(b) Capital requirement for Credit Risk	3,072,389,177	2,404,385,916
(c) Capital requirement for Market Risk	139,405,972	83,606,517
(d) Capital requirement for Operational Risk	371,193,026	329,959,019
Total	**3,582,988,176**	**2,817,951,453**
(e) Ratios (stand alone basis)		
Capital to Risk Weighted Assets Ratio (CRAR)	36.18%	40.16%
Common Equity Tier-1 to RWA	34.85%	38.55%
Tier-1 Capital to RWA	34.85%	38.74%
Tier-2 Capital to RWA	1.33%	1.61%
Capital Conservation Buffer to RWA	23.86%	24.58%
(f) Capital Conservation Buffer	8,548,348,010	6,925,876,883
(g) Available Capital under Pillar 2 Requirement	**8,964,960,242**	**7,317,037,109**

Appendix C. Risk Management Guidelines for Banks

Website: www.bb.org.bd

Department of Off-Site Supervision
Bangladesh Bank
Head Office
Dhaka

DOS Circular No. 04

Date: 8 October, 2018
23 Ashwin , 1425

Chief Executives
All Scheduled Banks in Bangladesh

Dear Sir,

Risk Management Guidelines for banks

Please refer to DOS circular no.02 dated February 15, 2012 and DOS circular letter no.13 dated September 9, 2015 on the captioned subject.

Bangladesh Bank (BB) has continued its effort for upgrading the initiatives taken to manage various risks of banks in a prudent manner. Meanwhile, core risk management guidelines and other risk related guidelines have been revised. Moreover, modification of the prudential regulations is done on regular basis. As part of this endeavor, the previous guideline has been revised for ensuring sound risk management culture effectively in the banks and all scheduled banks are hereby instructed to follow the attached 'Risk Management Guidelines for Banks'. Each bank shall prepare a comprehensive risk management guideline following this latest one and considering its nature, size and complexities of business activities, get it approved by the board and shall submit a copy to the Department of Off-site Supervision (DOS) for information. The bank shall review the guideline at least once a year for adapting with the changing environment. Besides, banks shall reconstruct its risk management organogram and appoint Chief Risk Officer (CRO) as the head of Risk Management Department (RMD) following the instructions of the revised risk management guidelines issued by BB. For ensuring proper identification, measurement, timely treatment of risks and implementation of the said guideline, the banks are also instructed to submit the following reports to DOS of BB within the stipulated time frame :-

1. Soft copies of risk management reports (CRMR prepared for June & December and MRMR for all other months) for successive months of each quarter along with the minutes of monthly Executive Risk Management Committee (ERMC) meeting within the next month of the reporting quarter;
2. Board Risk Management Committee(BRMC) meeting minutes within 7 days of the meeting held;
3. Board approved Risk Appetite Statement (RAS) on yearly basis within first two months of the year;
4. A soft copy of Stress Test report on half yearly basis along with CRMR;
5. A review report of Risk Management Policies and effectiveness of risk management functions with the approval of the board of directors by the end of 2nd month following the end of each year.

Risk Management Guidelines for Banks

October 2018

Department of Off-site Supervision
Bangladesh Bank

Chapter 2

Risk Management System

A bank's risk management system shall include policies, procedures, limits, and controls in its foundation. This foundation provides adequate, timely, and continuous identification, assessment, measurement, monitoring, mitigation, and reporting of risks posed by its activities at the business line and institution-wide levels.

The success of risk management in banks will depend on the effectiveness of the risk management system providing the foundation and arrangements that are put in place throughout the organization at all levels. The system should be comprehensive enough to capture all the material risks to which the institution is exposed. It should facilitate processes for assessment and necessary treatment of these risks. The minimum standards of a sound risk management system include the following elements.

2.1 Elements of a Sound Risk Management System

The key elements of a sound risk management system for effective business operations should encompass the followings:

a) Active involvement of board and senior management;
b) Adequate organization, policies and procedures;
c) Appropriate management information systems; and
d) Comprehensive internal controls and limits.

It should not be understood that risk management functions are only limited to the Risk Management Division/Department (RMD). Business lines are primarily responsible for the risks they are taking. Because the line personnel can understand the risks of their activities; any lack of accountability on their part may hinder sound and effective risk management.

2.2 Essential Criteria for Ensuring Sound Risk Management

For ensuring successful risk management across the organization, the following features should, at least, be present in the bank:

a) Submission of consolidated report to the board and senior management team incorporating different types of risks, risk mitigation measures, comparison of risk levels with limits, the level of capital required for absorbing large losses, and

Credit Risk related desk

- Assisting in formulation and review of credit risk management policies, guidelines, manual, setting up of credit risk appetite, limit, tolerance, MAT etc. with due consideration for sector, industry, geographical location, regulatory limits, best practices, current business and economic conditions;
- Monitoring loan portfolio to ensure good quality asset growth;
- Monitoring credit concentration and ensuring compliance of internal limit;
- Closely monitoring the stressed loans to avoid adverse classification;
- Monitoring and following up overdue loans, SMA loans, NPL, law suit cases, written off loans, regular accounts with unsatisfactory repayment, loans having excess over limit, overdue accepted bills, off-balance sheet exposures, forced loans, movement of adverse classification, collateral against loans, credit rating of borrowers, taken over loans etc.;
- Using different models for identifying related risks;
- Maintaining liaison with independent internal loan review desk as per revised CRM guidelines and ensuring its proper functioning.
- Conducting Stress Testing activity to understand shock resilience capacity of the bank;
- Analyzing Stress Testing report, finding out the vulnerable areas that are needed to be addressed and accordingly advising the same to senior management and board to ensure maintenance of adequate capital for absorbing any unforeseen losses.

2.8.1 Definition of Risk Appetite

Risk appetite is the level and type of risk a bank is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders (depositors, creditors, shareholders, borrowers, regulators). Risk appetite is generally expressed through both quantitative and qualitative means and should consider extreme conditions, events, and outcomes. It should be stated in terms of the potential impact on profitability, capital and liquidity.

2.8.2 Risk Appetite Objectives

In support of the bank's mission, the risk appetite focuses mainly on the following five overarching risk management objectives:

- Upholding the highest ethical standards of conduct;
- Preserving the long-term financial resilience of the bank;
- Avoiding losses when investing public money;
- Ensuring compliance with legal and regulatory obligations;
- Maintaining a robust internal control environment and safeguarding operational continuity.

2.8.3 Risk Appetite Framework

The science of developing and adopting a risk appetite framework (RAF) is still evolving at banks all over the world. Some banks have adopted a high-level, brief, and qualitative statement of RAF, while others have made it complex, lengthy, and quantitative. Risk appetite is the cornerstone of a successful risk management framework.

2.8.5 Areas of Risk Appetite

Banks shall prepare risk appetite statement covering all regulatory requirements related to risks, components of pillar II under Basel III, strategic planning and all other probable risks exist in the bank. For example, in setting appetite for liquidity risks they should look into the ratios laid down in the ALM guidelines and related circulars issued by BB. In addition, the banks shall also consider the CRMR report in setting the above limits. Apart from the regulatory requirements, the banks should set risk appetite, tolerance and limit for all the probable areas of risks. Possible areas for setting risk appetite are as follows:

- Overall growth of total loans and advances including off-balance sheet item
- Credit concentration (borrower/sector/geographical area wise)
- Gross and net NPL to total loans
- Cash recovery against classified loans/written off loans
- Amount of loan outstanding with acceptable rated customers (ECA score up to 3) to the amount lies with total rated customers
- Unsecured exposure* to total exposure (funded)
- Rescheduled loans to total classified loans
- Written off loans to total classified loans
- Interest waiver as % of NPL
- Impact on Net Interest Income (NII) due to adverse change in interest rate
- Bucket-wise gap under simple sensitivity analysis for interest rate change
- Exchange rate shock to operating income
- Value at Risk (VAR) for securities and FX
- Overdue accepted bills (payable and receivable) to total loans
- Net Open Position limit
- Exchange rate shock to operating income
- Liability concentration (Top-10 deposit suppliers to total deposit)
- Bucket-wise gap under structural Liquidity Profile (SLP)
- Liquidity ratios (at least for regulatory requirements) including Commitment Limit and Wholesale Borrowing Guideline (WBG) Limit
- Loss due to overall operational risk
- Loss due to internal and external fraud
- Operational loss due to employment practice and workplace safety, clients, products, and business practice, damage to physical assets, business disruption and system failure, execution, delivery and process management

Appendix D. Guidelines on Risk Based Capital Adequacy

Guidelines on Risk Based Capital Adequacy

(Revised Regulatory Capital Framework for banks in line with Basel III)

Bangladesh Bank

December 2014

1. An Overview of Basel III

To strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector, the Basel Committee on Banking Supervision (BCBS) issued "*Basel III: A global regulatory framework for more resilient banks and banking systems*" in December 2010. The objective of the reforms was to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. Through its reform package, BCBS also aims to improve risk management and governance as well as strengthen banks' transparency and disclosures. Basel Committee's comprehensive reform package also addressed the lessons of the financial crisis.

One of the main reasons the economic and financial crisis, which began in 2007, became so severe was that the banking sectors of many countries had built up excessive on and off-balance sheet leverage. This was accompanied by a gradual erosion of the level and quality of the capital base. At the same time, many banks were holding insufficient liquidity buffers. The banking system therefore was not able to absorb the resulting systemic trading and credit losses nor could it cope with the reintermediation of large off-balance sheet exposures that had built up in the shadow banking system. The crisis was further amplified by a procyclical deleveraging process and by the interconnectedness of systemic institutions through an array of complex transactions. During the most severe episode of the crisis, the market lost confidence in the solvency and liquidity of many banking institutions. The weaknesses in the banking sector were rapidly transmitted to the rest of the financial system and the real economy, resulting in a massive contraction of liquidity and credit availability. Ultimately the public sector had to step in with unprecedented injections of liquidity, capital support and guarantees, exposing taxpayers to large losses.

To address the market failures revealed by the crisis, the Committee[1] introduced a number of fundamental reforms to the international regulatory framework. The reforms strengthen bank level, or microprudential, regulation, which will help raise the resilience of individual banking institutions to periods of stress. The reforms also have a macroprudential focus, addressing system-wide risks that can build up across the banking sector as well as the procyclical amplification of these risks over time. Clearly these micro and macroprudential approaches to supervision are interrelated, as greater resilience at the individual bank level reduces the risk of system-wide shocks.

1.1 Strengthening the capital framework

The Basel Committee raised the resilience of the banking sector by strengthening the regulatory capital framework, building on the three pillars of the Basel II framework. The reforms raise both the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. To this end, the predominant form of Tier 1 capital must be common shares and retained earnings. This standard is reinforced through a set of principles that also can be tailored to the context of non-joint stock companies to ensure they hold comparable levels of high quality Tier 1 capital. Deductions from capital and prudential filters have been harmonised and generally applied at the level of common equity or its equivalent in the case of non-joint stock companies. The remainders of the Tier 1 capital base must be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. In addition, Tier 2 capital

Ratio (NSFR) has a time horizon of one year and has been developed to provide a sustainable maturity structure of assets and liabilities.

At present, supervisors use a wide range of quantitative measures to monitor the liquidity risk profiles of banking organisations as well as across the financial sector, for a macroprudential approach to supervision. To introduce more consistency internationally, the Committee has developed a set of common metrics that should be considered as the minimum types of information which supervisors should use. In addition, supervisors may use additional metrics in order to capture specific risks in their jurisdictions.

1.7 Transitional arrangements

The Committee introduced transitional arrangements to implement the new standards that help ensure that the banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy. In line with the Basel framework, Bangladesh Bank issued transitional arrangements for Basel III implementation in Bangladesh. The phase-in arrangements for Basel III implementation in Bangladesh will be as follows:

Table 1: Phase-in arrangements for Basel III implementation in Bangladesh

	2015	2016	2017	2018	2019
Minimum Common Equity Tier 1 (CET1) Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	-	0.625%	1.25%	1.875%	2.50%
Minimum CET1 plus Capital Conservation Buffer	4. 50%	5.125%	5.75%	6.375%	7.00%
Minimum T-1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00%	10.625%	11.25%	11.875%	12.50%
Phase-in of deductions from CET1					
Excess Investment over 10% of a bank's equity in the equity of banking, financial and insurance entities[2]	20%	40%	60%	80%	100%
Phase-in of deductions from Tier 2 Revaluation Reserves (RR)[3]					
RR for Fixed Assets, Securities and Equity Securities	20%	40%	60%	80%	100%
Leverage Ratio	3%	3%	3% Readjustment	Migration to Pillar 1	
Liquidity Coverage Ratio	≥100% (From Sep.)	≥100%	≥100%	≥100%	≥100%
Net Stable Funding Ratio	> 100% (From Sep.)	>100%	>100%	>100%	>100%

2. General Instructions on Capital Adequacy Framework

2.1 Capital to Risk-weighted Asset Ratio

The Capital to Risk-weighted Asset Ratio (CRAR) is calculated by taking eligible regulatory capital as numerator and total RWA as denominator.

$$\text{CRAR} = \frac{\text{Total Eligible Capital}}{\text{Credit RWA} + \text{Market RWA} + \text{Operational RWA}}$$

2.2 Measurement of Risk-weighted Asset

In order to calculate Capital to Risk-weighted Asset Ratio (CRAR), banks are required to calculate their Risk Weighted Assets (RWA) on the basis of credit, market, and operational risks. Total RWA will be determined by multiplying the amount of capital charge for market risk and operational risk by the reciprocal of the minimum CRAR and adding the resulting figures to the sum of risk weighted assets for credit risk. The methodologies to calculate RWA for each of these risk categories are described in detail in relevant chapters.

2.3 Scope of Application

These guidelines apply to all scheduled banks on 'Solo' basis as well as on 'Consolidated' basis where-

'**Solo Basis**' refers to all position of the bank and its local and overseas branches/offices; and

'**Consolidated Basis**' refers to all position of the bank (including its local and overseas branches/offices) and its subsidiary company/companies engaged in financial (excluding insurance) activities like merchant banks, brokerage firms, discount houses, etc (if any).

2.4 Reporting Requirement

CRAR Reporting: All banks are required to submit the CRAR report quarterly (according to the prescribed formats of Department of Off-site Supervision (DOS) under EDW) on consolidated as well as on solo basis by the end of the month following the end of each quarter to DOS of BB.

ICAAP Reporting: Each bank must submit its ICAAP report to Banking Regulation and Policy Department (BRPD) of BB in both hard and soft format within May 31 of every year based on the latest audited financial report[4]. The ICAAP reporting must be approved by the Board of Directors of the banks before submitting to BB.

3. Constituents of Capital and Minimum Requirement

3.1 Components of Capital

For the purpose of calculating capital under capital adequacy framework, the capital of banks shall be classified into two tiers. The total regulatory capital will consist of sum of the following categories:

1) Tier 1 Capital (going-concern capital[5])
    a) Common Equity Tier 1
    b) Additional Tier 1
2) Tier 2 Capital (gone-concern capital[6])

3.1.1 Common Equity Tier 1 Capital

For the local banks, Common Equity Tier 1 (CET1) capital shall consist of sum of the following items:

a) Paid up capital
b) Non-repayable share premium account
c) Statutory reserve
d) General reserve
e) Retained earnings
f) Dividend equalization reserve
g) Minority interest in subsidiaries[7]

Less: Regulatory adjustments applicable on CET1 as mentioned in paragraph 3.4.

For the foreign banks operating in Bangladesh, Common Equity Tier 1 (CET1) capital shall consist of sum of the following items:

i. Funds from Head Office for the purpose of meeting the capital adequacy
ii. Statutory reserves kept in books in Bangladesh
iii. Retained earnings
iv. Actuarial gain/loss kept in books in Bangladesh
v. Non-repatriable interest-free funds from Head Office for the purpose of acquisition of property and held in a separate account and have the ability to absorb losses regardless of their source

Less: Regulatory adjustments applicable on CET1 as mentioned in paragraph 3.4

Eligibility criteria for the inclusion in CET1 capital for local and foreign banks have been specified in Annex 1.

3.1.2 Additional Tier 1 Capital

For the local banks, Additional Tier 1 (AT1) capital shall consist of the following items:

a) Instruments issued by the banks that meet the qualifying criteria for AT1 as specified at **Annex 4**

b) Minority Interest i.e. AT1 issued by consolidated subsidiaries to third parties (for consolidated reporting only); Refer to **Annex 2** for further details

Less: Regulatory adjustments applicable on AT1 Capital as mentioned in paragraph 3.4.

For the foreign banks operating in Bangladesh, Additional Tier 1 (AT1) capital shall consist of the following items:

i. Head Office borrowings in foreign currency by foreign banks operating in Bangladesh for inclusion in Additional Tier 1 capital which comply with the regulatory requirements as specified in **Annex 4**

ii. Any other item specifically allowed by BB from time to time for inclusion in Additional Tier 1 capital

Less: Regulatory adjustments regulatory adjustments applicable on AT1 Capital as mentioned in paragraph 3.4.

3.1.3 Tier 2 Capital

Tier 2 capital, also called 'gone-concern capital', represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank. For the local banks, Tier 2 capital shall consist of the following items:

a) General Provisions [8]

b) Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital as specified at **Annex 4**

c) Minority Interest i.e. Tier 2 issued by consolidated subsidiaries to third parties as specified at **Annex 2**

Less: Regulatory adjustments applicable on Tier 2 capital as mentioned at paragraph 3.4

For the foreign banks operating in Bangladesh, Tier 2 capital shall consist of the following items:

i. General Provisions

ii. Head Office (HO) borrowings in foreign currency received that meet the criteria of Tier 2 debt capital

Less: Regulatory adjustments applicable on Tier 2 capital as mentioned at paragraph 3.4

3.2 Limits (Minima and Maxima)

These instructions will be adopted in a phased manner starting from the January 2015, with full implementation of capital ratios from the beginning of 2019, as per Table 2 below. All banks will be required to maintain the following ratios on an ongoing basis:

i. Common Equity Tier 1 of at least 4.5% of the total RWA

ii. Tier 1 capital will be at least 6.0% of the total RWA

iii. Minimum CRAR of 10% of the total RWA

iv. Additional Tier 1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher[9]

v. Tier 2 capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher

vi. In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.5% of the total RWA is being introduced which will be maintained in the form of CET1

Following is the phase-in arrangement for the implementation of minimum capital requirements:

Table 2: Phase-in arrangement of minimum capital requirements

	2015	2016	2017	2018	2019
Minimum Common Equity Tier 1 Capital Ratio	4.5%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	-	0.625%	1.25%	1.875%	2.50%
Minimum CET1 plus Capital Conservation Buffer	4. 5%	5.125%	5.75%	6.375%	7.00%
Minimum Tier 1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00%	10.625%	11.25%	11.875%	12.50%

3.3 Capital Conservation Buffer

Banks are required to maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 capital, above the regulatory minimum capital requirement of 10%. Banks should not distribute capital (i.e. pay dividends or bonuses in any form) in case capital level falls within this range. However, they will be able to conduct business as normal when their capital levels fall into the conservation range as they experience losses. Therefore, the constraints imposed are related to the distributions only and are not related to the operations of banks. The distribution constraints imposed on banks when their capital levels fall into the range increase as the banks' capital levels approach the minimum requirements. The Table below shows the minimum capital conservation ratios a bank must meet at various levels of the Common Equity Tier 1 capital ratios.

Table 3: Individual bank's minimum capital conservation standards

CET1 Ratio	Minimum Capital Conservation Ratio (expressed as percentage of earnings)
4.5% - 5.125%	100%
>5.125% - 5.75%	80%
>5.75% - 6.375%	60%
>6.375% - 7.0%	40%
>7.0%	0%

For example, a bank with a Common Equity Tier 1 capital ratio in the range of 5.125% to 5.75% is required to conserve 80% of its earnings in the subsequent financial year (i.e. payout no more than 20% in terms of dividends, share buybacks and discretionary bonus payments is allowed).

The following represents other key aspects of the capital conservation buffer requirements:

The Common Equity Tier 1 ratio includes amounts used to meet the minimum Common Equity Tier 1 capital requirement of 4.5%, but excludes any additional Common Equity Tier 1 needed to meet the 7% Tier 1 and 10% Total Capital requirements. For example, a bank maintains Common Equity Tier 1 capital of 8%, Additional Tier 1 of 1% and Tier 2 capital of 1%. Therefore, the bank would meet all minimum capital requirements, but would have a zero conservation buffer and therefore, the bank would be subjected to 100% constraint on distributions of capital by way of dividends, share-buybacks and discretionary bonuses[10].

If a bank does not have positive earnings and has a Common Equity Tier 1 ratio less than 7%, it should not make positive net distributions.

Capital conservation buffer is applicable both at the solo level as well as at the consolidated level, i.e. restrictions would be imposed on distributions at the level of both the solo bank and the consolidated group. In all cases where the bank is the parent of the group, it would mean that distributions by the bank can be made only in accordance with the lower of its Common Equity Tier 1 Ratio at solo level or consolidated level. For example, if a bank's Common Equity Tier 1 ratio at solo level is 5.8% and that at consolidated level is 6.4%. It will be subject to a capital conservation requirement of 60% consistent with the Common Equity Tier 1 range of >5.75% - 6.375% as per Table 3 above. Suppose, a bank's Common Equity Tier 1 ratio at solo level is 5.6% and that at consolidated level is 5%. It will be subject to a capital

Appendix E. Credit Risk Grading Manual

GUIDELINES ON
INTERNAL CREDIT RISK RATING SYSTEM
FOR BANKS

BANGLADESH BANK
Version 2.0

1.1 Introduction

The aim of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable levels. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual borrower transaction. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

Since exposure to credit risk continues to be the leading source of problems in banks, banks should have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and they are adequately compensated for risks incurred. The Internal Credit Risk Rating System describes the creditworthiness of the borrower of a particular sector based on the assessment criteria set for that sector. Since the leverage, liquidity, profitability, as well as other quantitative and qualitative indicators vary significantly from sector to sector, the ICRRS is developed to calibrate such diversities into the rating system. Moreover, the relevant and appropriate numbers of financial ratios are used in Internal Credit Risk Rating System for assessing the financial and credit strength of the borrowers. The set of the qualitative questionnaires used in the process is also more robust. This will effectively ensure that the borrowers from different sectors and industries are assessed based on the unique characteristics of those sectors.

1.2 Definition of Internal Credit Risk Rating System and Internal Credit Risk Rating

1.2.1 Internal Credit Risk Rating System refers to the system to analyze a borrower's repayment ability based on information about a customer's financial condition including its liquidity, cash flow, profitability, debt profile, market indicators, industry and operational background, management capabilities, and other indicators.

1.2.2 The summary indicator derived from the system will be called Internal Credit Risk Rating (ICRR) - a key reference for credit risk assessment and decision making.

1.3 Use of Internal Credit Risk Rating System (ICRRS)

Internal Credit Risk Rating System will be an integral part of credit risk management for the banks. The key uses of this guideline are as follows:

a) To provide a granular, objective, transparent, consistent framework for the measurement and assessment of borrowers' credit risk.

1.4 Functions of Internal Credit Risk Rating System

a) Internal Credit Risk Rating System is a fully automated credit risk scoring system that calibrates the characteristics of different sectors and industries in one single model;

b) To get the appropriate rating and score, the analyst shall select the appropriate sector or industry from the drop down list given in the top page of the template. If the right sector or industry is not selected, the rating will not reflect the unique characteristics of the particular sector or industry.

c) If the borrower is in multiple lines of business, the sector should be used assessing the lines of business generating the highest portion of the revenue &/or profit. If no particular line of business can be singled out, the ICRRS should be conducted using "other industry" - if manufacturing, or "other service" - if service.

1.5 General Instructions

a) Banks shall strictly follow this guidelines and rating system issued by Bangladesh Bank without making any change, extension, modification or deletion.

b) The ICRRS shall be applicable for all exposures (irrespective of amount) except consumer loans, small enterprises having total loans exposures less than BDT 50 (fifty) lac and small enterprises in manufacturing having total loans exposures less than BDT 1 (one) crore, short-term agri loans, micro-credit and lending to bank, NBFI and Insurance.

c) The quantitative part of the ICRRS exercise shall be conducted by a credit officer/an analyst. The Relationship Manager/Branch Manager shall complete the qualitative assessment part to generate the total scores.

d) ICRRS shall be an integral part of the credit approval process.

e) The credit risk function of the bank is responsible for the accuracy and integrity of the rating as the second line of defense.

f) The executive summary report of the ICRR score of the borrower shall be approved and signed by the Chief Risk Officer (CRO) and for those loans that are approved below the CRO level e.g. zonal office or branch office, the executive summary report of the ICRR score shall be approved and signed by the final approval authority at that level.

g) Banks shall use the latest audited financial statements of the borrower for generating

1.8 Internal Credit Risk Rating Scores

The ICRR consists of 4-notched rating system covering the Quantitative and Qualitative parameters. The ratings and scores are mentioned below:

Rating	Scores Aggregate
Excellent	≥80%
Good	≥70% to <80%
Marginal	≥60% to <70%
Unacceptable	<60%

1.9 Definitions of Credit Risk Rating

The features of the different categories of Credit Risk Ratings are given below:

a) **Excellent**

- Aggregate score of 80 or greater in ICRR.
- Strong repayment capacity of the borrower evident by the high liquidity, low leverage, strong earnings, and adequate cash flow.
- Borrower has well established strong market share.
- Very good management skill & expertise.

b) **Good**

- Aggregate score of 70 or greater but less than 80.
- These borrowers are not as strong as "Excellent" borrowers, but still demonstrate consistent earnings, adequate cash flow and have a good track record.
- Borrower is well established and has strong market share.
- Very good management skill & expertise.

c) **Marginal**

- Aggregate score of 60 or greater but less than 70 and the quantitative score of at least 30.
- 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.

2.1 Components of Credit Risk Rating

In the previous version of Credit Risk Grading Manual, 50 percent weights were assigned for quantitative indicators (financial risk) while 50 percent weights were for subjective judgment. In the ICRR, these weights have been revised; 60 percent weights are assigned for quantitative indicators while 40 percent are assigned for qualitative indicators.

2.2 Quantitative indicators and associated weights

Quantitative indicators in ICRR fall into six broad categories: leverage, liquidity, profitability, coverage, operational efficiency, and earning quality. Details indicators under these categories and associated weights are furnished below:

Quantitative Indicators		Weight	Definition
1. Leverage (10%)	a) Debt to Tangible Net Worth (DTN)	7	Total Interest Bearing Liabilities or Financial Debt/Total Tangible Net Worth
	b) Debt to Total Assets (DTA)	3	Total Interest-Bearing Liabilities or Financial Debt/Total Assets
2. Liquidity (10%)	a) Current Ratio (CR)	7	Current Assets/Current Liabilities
	b) Cash Ratio (Cash)	3	Cash and Easily Marketable Securities/Current Liabilities
3. Profitability (10%)	a) Net Profit Margin (NPM)	5	Net Profit after Tax/Net Sales
	b) Return on Assets (ROA)	3	Net Profit after Tax/Total Assets
	c) Operating Profit to Operating Assets (OPOA)	2	Operating Profit/Average Operating Assets
4. Coverage (15%)	a) Interest Coverage (IC)	3	Earnings Before Interest and Tax/Interest Expense
	b) Debt Service Coverage Ratio (DSCR)	5	Earnings Before Interest Tax Depreciation Amortization/Debts to be Serviced
	c) Operating Cash Flow to Financial Debt Ratio (OCDR)	4	Operating Cash Flow/Financial Debt
	d) Cash Flow Coverage Ratio (CCR)	3	Cash Flow from Operation/Debts to be Serviced
5. Operational Efficiency (10%)	a) Stock Turnover Days (STD)	4	(Total Inventory/Cost of Goods Sold)*360
	b) Trade Debtor Collection Days (TDCD)	3	(Total Accounts Receivable/Sales)*360

2.3 Qualitative indicators and associated weights

Qualitative indicators cover six broad aspects of the firms/institutions to be rated, namely business/industry risk, credit quality enhancement, performance behavior, management risk, relationship risk, and compliance risk. Noteworthy that aggregate weights against the qualitative indicators stands at 40 percent. Detail indicators and associated weights are appended below in details:

Indicators	*Weights*
1. Performance Behavior	**10**
Performance Behavior with Banks Borrowings	
Regarding Classification	5
Regarding Rescheduling/Restructuring	4
Performance Behavior with Suppliers/Creditors	1
2. Business and Industry Risk	**7**
Sales Growth	2
Age of Business	2
Industry Prospects	1
Long-Term External Credit Rating of the Borrower	2
3. Management Risk	**7**
Experience of the Management	2
Existence of Succession Plan	2
Auditing Firms	2
Change of Auditors in Last 4 Years	1
4. Security Risk	**11**
Primary Security	2
Collateral	2
Eligible Collateral Coverage	5
Type of Guarantee	2
5. Relationship Risk	**3**
Account Conduct	3
6. Compliance Risk	**2**
Compliance with Environmental Rules, Regulations and Covenants	1
Corporate Governance	1
Total	40

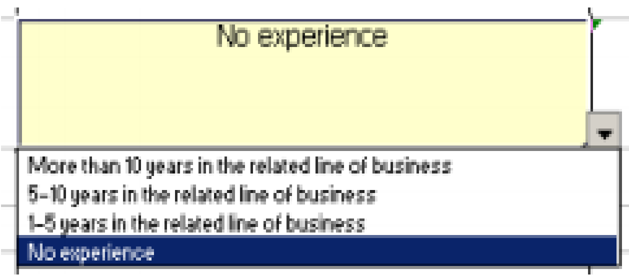
After the risk identification & weight assignment process (as mentioned in chapter 2), the next step will be to give input of actual parameters in the score sheet to arrive at the scores corresponding to the actual parameters.

These guidelines also provide a well programmed MS Excel-based credit risk scoring system to arrive at a total score on each borrower. The excel program requires data accurately in particular cells for input and will automatically calculate the risk grade for a particular borrower based on the total score obtained. The following steps are to be followed while using the MS Excel program.

a) Open the MS XL file named, **ICRRS**

b) The entire XL model named, **ICRRS** is protected except the particular cells to input data.

c) Some input cells contain **DROP DOWN LIST** for some criteria corresponding to the Key Parameters. Click to the input cell and select the appropriate parameters from the **DROP DOWN LIST** as shown below:



e) All the cells provided for input must be filled in order to arrive at accurate risk rating.

The following step-wise activities outline the detail process for arriving at Credit Risk Rating.

3.1 Input primary information of borrower and select sector/industry of the borrower:

Bank's Name	:	ABC Bank Limited
Branch's Name	:	Gulshan
File/Reference No	:	10000/100/10/1
Borrower's Name	:	XYZ Limited
Group's Name, if any	:	PQR
Type of Industry/ Sector	:	1. RMG
Industry Code	:	101
Ownership Type	:	Sole Proprietorship
Registration No/Trade License No	:	123

3.3 Qualitative Analysis

After providing input to the balance sheet, profit and loss statement and cash flow statement, the rigorous qualitative analysis shall be conducted. The qualitative analysis shall be conducted by the relationship manager. The details of qualitative analysis are as follows:

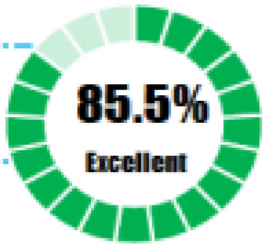
G	***Performance Behavior***		10
G.1	**Performance Behavior with Lending Banks**		
G.1.1	How many times the borrower was adversely classified in last 3 years		
	[Adversely classified means the borrower's loans classified as per BB loan classifications policy i.e. SS, DF, BL]	0 time	5
		1 time	4
		2 times	3
		3 times	1
		>3 times	0
G1.2	How many times the borrower's loans was rescheduled/restructured in last 3 years		
		0 time	4
		1 time	3
		2 times	2
		3 times	1
		>3 times	0
G.2	**Performance Behavior with Suppliers/Creditors**		
	Did The Borrower Pay Its Suppliers/ Creditors Regularly in Last 1 Year	Yes	1
		No	0
H	**Business and Industry Risk**		**7**
H.1	**Sales Growth**		
	Sales growth means annual sales growth. The formula for calculating sales growth is [(current year sales - previous year sales)/ previous year sales]*100.	>10%	2
		5%-10%	1
		Less than 5%	0

H.2	**Age of Business**		
	The number of years the borrower engaged in this line of business (The lower limit in the interval is excluded)	**>10 years**	2
		7 to 10 years	1.5
		5 to 7 years	1
		4 to 5 years	0.5
		<4 years	0
H.3	**Industry Prospects**		
	Critical assessment of 5 (five) years prospect of industry and borrower's sales volatility. Volatility denotes sales volatility	Growing and Low Volatility	1
		Stable	0.75
		Growing but High Volatility	0.5
		Declining	0
H.4	**Long-Term External Credit Rating of the Borrower**		
	Rating Grade should be assigned in line with BB Rating Mapping as per BRPD circular 18/2014 on Risk-Based Capital Adequacy in line with Basel III (see annex 2)	1	2
		2&3	1.5
		>3	0.5
		Unrated	0
I	**Management Risk**		**7**
I.1	**Experience of the Management**		
	Quality of the management based on total number of years of experience of the senior management in the Industry. Senior Management means MD and next two tiers	More than 10 years in the related line of business	2
		5–10 years in the related line of business	1
		Less than 5 years	0
I.2	**Existence of Succession Plan**		
		Yes, with good capability of successor	2
		Yes, but questionable capacity of successor	1
		No successor	0
I.3	**Auditing Firms**		
	BSEC listed auditors are considered as recognized	Recognized Auditors	2
		Other Auditors	1
		Un audited	0
I.4	**Change of External Auditors in Last 3 Years**		
		Yes	1
		No	0

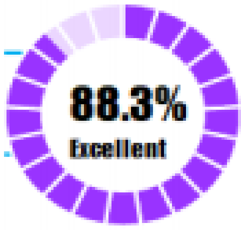
		Registered Hypothecation (1st Charge/1st Pari Passu Charge)/ Assignment of Bill under Work Order	1.5
		2nd Charge/Inferior Charge	1
		No Security	0
J.2	**Collateral**		
		Registered Mortgage On Municipal Corporation/Prime Area Property	2
		Registered Mortgage On Pourashava/Semi-Urban/ Union Parishad Area Property	1.5
		Equitable Mortgage Or No Property But Plant And Machinery As Collateral	1
		No Collateral	0
J.3	**Eligible Collateral Coverage**		
	The formula of eligible collateral coverage is [eligible collateral/total loans]. * Forced sale value should be determined as per BRPD circular no 14 issued on September 23, 2012 (Para 07: Eligible Collateral) (Annex 3) (The lower limit in the interval is excluded)	>100%	5
		80% to 100%	4
		70% to 80%	3
		50% to 70%	2
		<50%	0
J.4	**Type of Guarantee**		
	Strong Corporate Guarantee means the credit rating of the guarantor should be at least 1 or 2 as per BB rating mapping mentioned in BRPD circular 18/2014 on Risk Based Capital Adequacy in line with Basel III. (see annex 2)	Government Guarantee and/or Bank Guarantee	2
		Strong Corporate Guarantee	1.5
		Personal Guarantees or Corporate Guarantee without Strong Financial Strength	1
		No support/guarantee	0
K	**Relationship Risk**		**3**
K.1	Account Conduct	More than 3 years Accounts having faultless record	3
		Less than 3 years Accounts having faultless record	2
		Accounts having satisfactory dealings with some late payments.	1
		Frequent past dues & irregular dealings in Account	0
L	**Compliance Risk**		**2**

File / Reference No:	10000/100/10/1
Borrower's Name	XYZ Limited
Group Name (if any)	PQR
Industry's Name	1. RMG
Latest CIB Status	Standard
Audit Status	Audited
Auditor's Name	MNO
Analyst's Name, Designations	nbv
Verifier's Name, Designation	hjt
Date of Analysis	1/4/2018
Date of Financials	1/4/2018

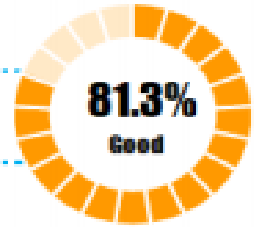
Total Score



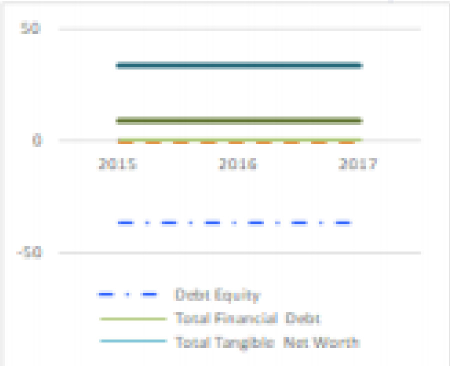
Quantitative Score



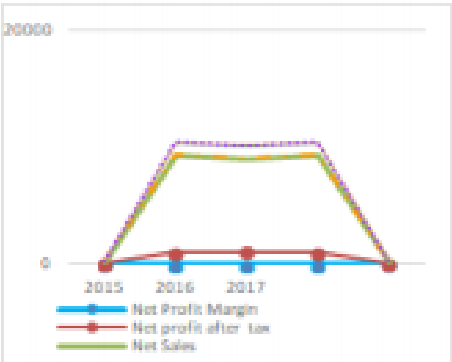
Qualitative Score



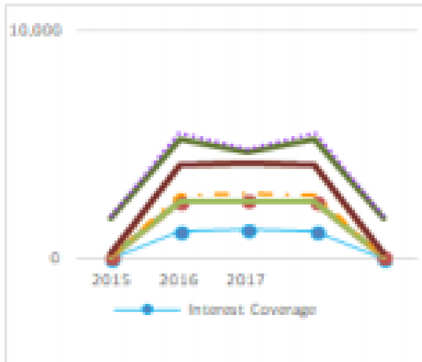
Assessment Criteria: *Greater than or equal to 80%= Excellent; 70%-80% = Good; 60% to 70% = Marginal; Less than 60% = Unacceptable*



LEVERAGE & LIQUIDITY



PROFITABILITY



COVERAGE

		Score Obtained	Scale	Percentage	ICRR
	Quantitative Assessments	***53***	***60***	***88.3%***	Excellent
A	Leverage	10	10	100.0%	Excellent
B	Liquidity	3	10	30.0%	Unacceptable
C	Profitability	10	10	100.0%	Excellent
D	Coverage	15	15	100.0%	Excellent
E	Operational Efficiency	10	10	100.0%	Excellent
F	Earning Quality	5	5	100.0%	Excellent
	Qualitative Assessments	***32.5***	***40***	***81.3%***	Good
G	Performance behavior	6	10	60.0%	Marginal
H	Business and Industry Risk	6.5	7	92.9%	Excellent
I	Management Risk	7	7	100.0%	Excellent
J	Security Risk	10	11	90.9%	Excellent

Annex 1.

1. Detail Management Report

File / Reference No:	10000/100/10/1
Borrower Name	XYZ Limited
Group Name (if any)	PQR
Industry's Name	1. RMG
Latest CIB Status	Standard
Audit Status	Audited
Auditor's Name	MNO
Analyst's Name, Designations	nbv
Verifier's Name, Designation	hjt
Date of Analysis	1/4/2018
Date of Financials	1/4/2018

Assessment Criteria:
Greater than or equal to 80%= Excellent; 70% to<80% = Good; 60% to <70% = Marginal; Less than 60% > Unacceptable

Indicators	Score Obtained	Risk Rating
Quantitative	56	Excellent
	93.3%	
Qualitative	31.5	Good
	78.8%	
Aggregate	87.5	Excellent
	87.5%	

		Outcome	Score Obtained	Scale	Percentage	Risk Rating
Quantitative Assessments			**56**	**60**	**93.3%**	Excellent
A	***Leverage***		**10.00**	**10.00**	100.0%	Excellent
A.1	1. Financial Debt to Tangible Net Worth (DTN)	0.58	7.00	7	100.0%	Excellent
B.2	2. Financial Debt to Total Assets (DTA)	0.31	3.00	3	100.0%	Excellent
B	***Liquidity***		***8***	***10***	**80.0%**	Good
B.1	1. Current Ratio (CR)	5.43	7.00	7	100.0%	Excellent
B.2	2. Cash Ratio (Cash)	0.10	1.00	3	33.3%	Unacceptable
C	***Profitability***		***10***	***10***	**100.0%**	Excellent
C.1	1. Net Profit Margin (NPM)	0.70	5.00	5	100.0%	Excellent
C.2	2. Return on Assets (ROA)	0.52	3.00	3	100.0%	Excellent
C.3	3. Operating Profit to Operating Assets (OPOA)	0.62	2.00	2	100.0%	Excellent
D	***Coverage***		***15***	***15***	**100.0%**	Excellent
D.1	1. Interest Coverage	[illegible]	3.00	3	100.0%	Excellent

D.2	2. Debt Service Coverage Ratio (DSCR)	6.15	5.00	5	100.0%	Excellent
D.3	3. Operating Cashflow to Debt Ratio (OCDR)	176.33	4.00	4	100.0%	Excellent
D.4	4. Cashflow Coverage Ratio (CCR)	122.08	3.00	3	100.0%	Excellent
E	***Operational Efficiency***		***8***	***10***	**80.0%**	Good
E.1	1. Stock Turnover Days (STD)	18.00	4.00	4	100.0%	Excellent
E.2	2. Trade Debtor Collection Days (TDCD)	3.64	3.00	3	100.0%	Excellent
E.3	3. Asset Turnover (AT)	0.74	1.00	3	33.3%	Unacceptable
F	***Earning Quality***		***5.00***	***5***	**100.0%**	Excellent
F.1	1. Operating Cash Flow to Sales (CFS)	16.03	3.00	3	100.0%	Excellent
F.2	2. Cash Flow based accrual ratio (CFAR)	-0.28	2.00	2	100.0%	Excellent
Qualitative Assessments			**31.5**	**40**	**78.8%**	Good
G	***Performance Behavior***		**6**	**10**	**60.0%**	Marginal
G.1.1	How many times the borrower got adversely classified in last 3 years	0 time	5.00	5	100.0%	Excellent
G.1.2	How many times the borrower's loans got rescheduled/ restructured in last 3 years	>3 times	0.00	4	0.0%	Unacceptable
G.2	Did the borrower pay its Suppliers/ Creditors regularly in last 1 year	Yes	1.00	1	100.0%	Excellent
H	*Business and Industry Risk*		***6.5***	***7***	**92.9%**	Excellent
H.1	Sales Growth	>10%	2.00	2	100.0%	Excellent
H.2	Age of Business	>10 years	2.00	2	100.0%	Excellent
H.3	Industry Prospects	Growing but High Volatility	0.50	1	50.0%	Unacceptable
H.4	Long Term External Credit Rating of the Borrower	1.00	2.00	2	100.0%	Excellent
I	*Management Risk*		***7***	***7***	**100.0%**	Excellent

I.2	Existence of Succession Plan	Yes, with good capability of successor	2.00	2	100.0%	Excellent
I.3	Auditing Firms	Recognized Auditors	2.00	2	100.0%	Excellent
I.4	Change in Auditors in last 3 years	Yes	1.00	1	100.0%	Excellent
J	*Security Risk*		***9***	***11***	**81.8%**	Good
J.1	Primary Security	Fully Pledged facilities	2.00	2	100.0%	Excellent
J.2	Collateral	Registered Mortgage on Municipal Corporation/Prime Area property	2.00	2	100.0%	Excellent
J.3	Collateral Coverage	>100%	5.00	5	100.0%	Excellent
J.4	Guarantee	Personal Guarantees or Corporate Guarantee without Strong Financial Strength	FALSE	2	0.0%	Unacceptable
K	*Relationship Risk*		***1.00***	***3***	**33.3%**	Unacceptable
K.1	Account Conduct	Accounts having satisfactory dealings with some late payments.	1.00	*3*	33.3%	Unacceptable
L	*Compliance Risk*		***2.00***	***2***	**100.0%**	Excellent
L.1	Compliance with environmental rules, regulations and covenants	Yes	1.00	1	100.0%	Excellent
L.2	Corporate Governance and CSR activities	Good Corporate Governance	1.00	1	100.0%	Excellent

Annex 2: ECAI's Credit Rating Categories Mapped with BB's Rating Grade

BB Rating Grade	Equivalent Rating of S&P and Fitch	Equivalent Rating of Moody	Equivalent Rating of CRISL	Equivalent Rating of CRAB	Equivalent Rating of NCRL	Equivalent Rating of ECRL	Equivalent Rating of ACRSL	Equivalent Rating of ACRL	Equivalent Rating of WASO
1	AAA to AA	Aaa to Aa	AAA, AA+, AA, AA-	AAA, AA1, AA2, AA3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	AAA AA1, AA2, AA3
2	A	A	A+, A, A-	A1, A2, A3	A+, A, A-	A+, A, A-	A+, A, A-	A+, A, A-	A1, A2, A3
3	BBB	Baa	BBB+, BBB, BBB-	BBB1, BBB2, BBB3	BBB+, BBB, BBB-	BBB+, BBB, BBB-	BBB+, BBB, BBB-	BBB+, BBB, BBB-	BBB1, BBB2, BBB3
4	BB to B	Ba to B	BB+, BB, BB-	BB1, BB2, BB3	BB+, BB, BB-	BB+, BB, BB-	BB+, BB, BB-	BB+, BB, BB-	BB1, BB2, BB3
5	Below B	Below B	B+, B, B-, CCC+, CCC, CCC-, CC+, CC, CC-	B1, B2, B3, CCC1, CCC2, CCC3, CC	B+, B, B-	B+, B, B-	B+, B, B-, CC+,CC,CC-	B+, B, B-, CCC	B1, B2, B3, CCC
6			C+, C, C-, D	C, D	C+, C, C-, D	D	C+, C, C-, D	CC+,CC,CC-, C+, C, C-, D	CC1, CC2, CC3, C+, C, C-, D
Short-Term Rating Category Mapping									
S1	F1+	P1	ST-1	ST-1	N1	ECRL-1	ST-1	AR-1	P-1
S2	F1	P2	ST-2	ST-2	N2	ECRL-2	ST-2	AR-2	P-2
S3	F2	P3	ST-3	ST-3	N3	ECRL-3	ST-3	AR-3	P-3
S4	F3		ST-4	ST-4	N4	ECRL-4	ST-4	AR-4	P-4
S5,S6	B,C, D	NP	ST-5, ST-6	ST-5, ST-6	N5	D	ST-5, ST-6	AR-5, AR-6	P-5, P-6

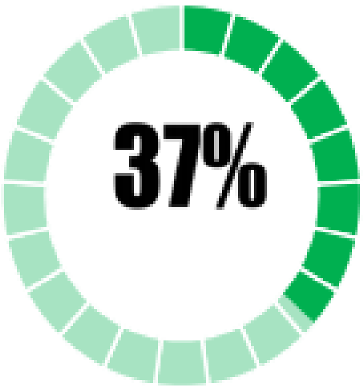
Annex 3: List of Eligible Collateral (as per BRPD circular no 14/2012 on Loan Classification and Provisioning):

- 100% of deposit under lien against the loan.
- 100% of the value of government bond/savings certificate under lien.
- 100% of the value of guarantee given by Government or Bangladesh Bank
- 100% of the market value of gold or gold ornaments pledged with the bank.
- 50% of the market value of easily marketable commodities kept under control of the bank.
- Maximum 50% of the market value of land and building mortgaged with the bank.
- 50% of the average market value for last 06 months or 50% of the face value, whichever is less, of the shares traded in stock exchange.

Annex 4: Detail Quantitative Analysis

Quantitative Analysis

File / Reference No:	10000/100/10/1
Borrower Name	xyx
Group Name (if any)	ABC
Industry Name	14. Other Industries
Latest CIB Status	Standard
Audit Status	Audited
Auditor Name	EFG
Analyst Name, Designations	NBV
Verifier Name, Designation	HJT
Date of Analysis	01/04/2018
Date of Financials	01/04/2018



Quantitative Indicators (60)

Criteria	Parameter	Scale	Actual Parameter	Score Obtained
A. Leverage		**10**		**4.00**
1. Financial Debt to Tangible Net Worth (DTN)		7	3.14	2.00
2. Financial Debt to Total Assets (DTA)		3	0.64	2.00
B. Liquidity		**10**		**6**
1. Current Ratio (CR)		7	1.08	6.00
2. Cash Ratio (Cash)		3	0.01	0.00
C. Profitability		**10**		**1**
1. Net Profit Margin (NPM)		5	0.46%	0.00
2. Return on Assets (ROA)		3	0.41%	0.00
3. Operating Profit to Operating Assets (OPOA)		2	5.59%	1.00
D. Coverage		**15**		**5**
1. Interest Coverage (IC)		3	1.26	1.00