



Internship Report On

**Analysis On Loan Processing And Credit Appraisal System Of Habib Bank
Limited, Bangladesh**

Submitted To:

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September 19, 2011

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Subject: **Submission of Internship Report.**

Dear Sir,

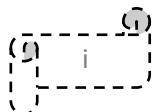
I have the pleasure to submit my internship report on Habib Bank Ltd.

The report paper based on “Loan Processing and Credit Appraisal System of Habib Bank Limited (HBL)” has helped me to increase my understandability on the loan process and the credit appraisal system of HBL and all of its related aspects. During preparing this report paper I have enforced my best effort. Surely it enriches my knowledge and promotes my study. I have also learned much about the dynamic business world.

I have thoroughly enjoyed preparing this Report. If you need any clarification I will be obliged to provide you with further information.

Yours Faithfully,

.....
Hamida Amir Ali
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ACKNOWLEDGEMENT

First and foremost I would like to thank the Almighty Allah for all the blessings He has bestowed on me. The next person I would like to thank is my office supervisor Mr. Shaheen Md. Qumrul Hassan Vice President & Branch Manager, Habib Bank, for giving me the topic and also giving me all the resources and full support in whichever area I preferred to work. I would also further thank my report supervisor Probal Dutta, Assistant Professor, BBA, BRAC University, for all the understanding he showed towards me and helped me with his guidance throughout this preparation of the report.

There is also another long list of people who have helped me in whichever small way it was possible for them and those who gave me a deeper knowledge into their personalities. Here I would like to start off by referring to Mr. Tofazzal Hassan, Relationship Manager, for enhancing my knowledge with his knowledge regarding the loan processing system and credit appraisal system of Habib Bank. Next I would like to thank Mr. A. N. Baset Osmany, Country Manager (Officiating), who was also very much involved with me in my report and without whose knowledge my report would have remained incomplete. I would also give my sincere thanks to both of them for giving me a giving me a bit of understanding about them.

As I mentioned before the list is endless so I would like to mention them all and the ways in which they have helped me. First I would show my deep gratitude to Mr. Ashraf M Wathra, Regional General Manager (South Asia) for giving me his time and letting me know about himself. Then I would like to thank Mr. Md. Rafiqul Islam Assistant Vice President & Manager HR & Admin for giving me the opportunity to work in this esteemed organization. Next I would like to mention about Mr. Mohammad Saiful Hoque, Manager (Operations) for providing me with the description of the products and also his experience while working in this organization. I would also like to thank Mr. Md. Masudujjaman Bhuiyan for sharing with me, his immense experience while working in this organization. Moving on I would also like to thank Mr. Md. Mamunur Rahman Chowdhury, Officer (Sales and Customer Services) for allowing me to use his computer to write my report and also giving me time to get a deeper understanding of him. Lastly I would like to thank Mr. Muhammad Quasim for giving me the Annual Report for me to complete my report.

I would also like to show my deep gratitude towards my friends and family for their support and help for me to achieve all my endeavors.

EXECUTIVE SUMMARY

Habib Bank Limited is a Pakistani international bank operating in Bangladesh. The bank is recognized as one of the leading financial institutions in South Asia, and a dynamic international bank in the emerging markets, providing customers with a premium set of innovative products and services. The bank has been in Bangladesh since 1976 and has five branches in Dhaka (Gulshan, Motijheel & Uttara), Sylhet and Chittagong.

Habib Bank has been taking deposits and giving out loan for approximately three and a half decades and has been successful in capturing the attention of the market in which it is serving. This bank was looked upon as a Pakistani bank and clients preferred not to get involved with the bank. However with immense coaxing and explanations the bank now has sufficient clientele but they don't have enough deposits which are their liabilities to increase the loans which are their assets.

As we know that a bank is dependent mainly on the deposits and loans because the loans are assets and the deposits are the liabilities. The liabilities have to match the assets otherwise the bank will have insufficient amount to pay off their liabilities. The difference between the interest on loan and the interest on deposit is the profit for the bank. The more deposits the bank has the more loans it can give off and create a good portfolio which can be managed well.

For having good deposits the bank needs good schemes and product. The features and the distinct products are mentioned in the report and what are the schemes are also mentioned there. Recently the Banking Regulation and Policy Department of Central Bank instructed to all local and foreign commercial banks operating in the country to develop a new deposit product and that to be named as 'Special Notice Deposit' by merging all short term deposit schemes i.e. Special Notice Time Deposit (SNTD), Call Deposit Receipt (CDR), Call Accounts, SND Accounts and Short Term Deposit being currently offered in accordance with the given guideline.

Therefore we know that to have a profit there needs to be deposits and loan. Moreover for a giving loan we need good deposit scheme and for giving loan we also need a good loan processing and credit appraisal system. So when the loan is taken the first process is marketing the product. Where either the bank goes to the customer or the customer comes to the bank. Then

the C/D account is opened and a further investigation is carried out and then a call report is prepared. After the call report is submitted to the respective branch managers it is their duty to check all the documents and understand whether the company is able or not. Then the branch manager asks the respective RMs to prepare a credit presentation structure of the whole loan which is then submitted to be further processed.

Moving along we describe the credit approval system which is how the amount is which has been approved by the RM and Credit Administration Department In-charge which is approved further by the Branch Manager, Risk Manager, and then by Regional General Manager. If the amount is within the credit limit which has been approved by the Head Office of Karachi for all the respective branches, then the loan is approved by the branches' Regional General Manager after the credit appraisal is done. However if the credit limit increases then the loan needs to be approved by first the branches' Regional General Manager and then it is further send to the Head Office Karachi to be further approved.

Then the Documentation and Disbursement process is described. This process is basically carried out by the Credit Administration Department, where the checking whether the documents which have been provided are valid or not is done. Once the documents are verified the facility advice letter is given and then the security documentation is completed and later the disbursement process is carried out where the loan amount is handed over to the respective party and the respective party withdraws the amount as and when they require. After the disbursement it is up to the credit Administration Department to further keep a track of the loan whether it's being paid off on time or not.

The next process is the credit appraisal where certain documents are prepared on the basis of the process done under marketing and operations. Here the documents that are prepared are credit proposal form which contains credit proposal, sanction advice, description of collateral and basic information report. The descriptions of these documentations are provided in details and also it is mentioned how a part works and importance of that part. Next the credit memorandum comes which describes in detail about the organization which is to be given loan and also contains the detail of the credit proposal, sanction advice, description of collateral, basic information report, financial spreads, risks, industry's description, third party information, etc. Then the financial spreads are there which gives a description of the financial statements which are prepared in the

excel sheet of Microsoft. Even though it is basically a comparison of two years in the description the third year is also considered at times when financial spreads are described in the credit memorandum part. Even if the third most previous year is not described the data are still presented in the excel sheet for the RM to consider it and refer to it for any clarification. Furthermore it is utilized in reconciliation of the net worth which is also an important factor in the financial statements. The next part which also comes in the credit appraisal is another essential component which is the risk rating scorecard. This scorecard basically describes and evaluates the how risky the organization's business and whether the bank will be falling into a risky business or not. The risk rating scorecard is structured in such a way that it is based on industry volatility, quantitative factors and qualitative factors.

Finally a brief conclusion is stated where the descriptions of the loan process system and the descriptions of the credit appraisal system is described in brief. Also mentioned along with it is the understanding by preparing the report and also some recommendations provided in general. Further the description of the experiences gained during the three month internship is also mentioned in the end followed by annexure and bibliography.

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CHAPTER 1- INTRODUCTION

REPORT ORIGIN

As a mandatory requirement of the Bachelors in Business Administration (BBA) program under BRAC University, this report entitled – “Loan Processing and Credit Appraisal System of Habib Bank Limited” - is a connived depiction of the three months long internship program) in The Habib Bank Ltd.

The organization attachment started on May 15, 2011 and finished on August 15, 2011. My organization supervisor Mr. Shaheen Md. Qumrul Hasan, Vice President & Branch Manager, Gulshan Branch, Habib Bank limited assigned me the topic of the term paper & my institution supervisor at BRAC University Mr. Probal Dutta, Assistant Professor of BRAC University approved it.

PURPOSE

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

The prime objective of organization part is:

- To present an overview and brief introduction of Habib Bank Ltd.

The prime objectives of project part are:

- To describe Habib Bank Limited
- To provide a sketch of HBL products
- To give a complete picture of its operations in Bangladesh.
- To examine the loan processing system of Habib Bank Limited in Bangladesh
- To examine HBL’s Credit Appraisal System

- To give a brief description of loan processing system of Habib Bank Limited.
- To gather and provide a detail description of the Credit Appraisal System of Habib Bank Limited.
- To provide a conclusion based on the information provided by all the information collected.

METHODOLOGY

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

Primary Sources:

Interviews and discussion with the Relationship Managers and the approval officers

Secondary Sources:

Internal Sources

- HBL Credit Policy Manual
- HBL's Annual Report

External Sources

- Website information

Data collecting instruments:

In-depth interview

This project work has been done within the bank with Credit Policy Manual. The report findings have been totally dependent upon primary data collected from Credit Policy Manual and also secondary data. I also had to conduct interviews with various personnel of HBL.

SCOPE

This report deals with the Loan Processing and Credit Appraisal System for Habib Bank Limited, Dhaka. Thus, all findings are done from sources within the Dhaka office and other sources of information in Dhaka. However some of the information is based with the Habib Bank Pakistan's policy which is assuredly followed all over wherever there is a branch that is giving loan.

LIMITATION

- As per Bank's compliance, as an intern I was unable to obtain indispensable experiences of different departments.
- Details of many aspects of the services of HBL Bangladesh Limited have been skipped in this report due to various constraints, including time and space, security reason.
- Most information is in regards with the Habib Bank Pakistan's policy. However it's assured that all the branches all over follow the same manual and system.

CHAPTER 2- HISTORY OF HABIB BANK

Habib Bank Limited is a Pakistani international bank operating in Bangladesh. The bank is recognized as one of the leading financial institutions in South Asia, and a dynamic international bank in the emerging markets, providing customers with a premium set of innovative products and services. Habib Bank Limited inaugurated its operations with the bank's first branch in Bombay in 1941. It then opened its first commercial bank of the newly formed Islamic Republic of Pakistan at Habib Bank Plaza in Karachi in 1947, where the bank shifted its head office. Throughout the decades, HBL has held the mantle of a dynamic leader, by increasing its presence with more products and services for its customers and expanding its branches both home and abroad.

It was HBL that introduced products such as Credit Cards, ATMs, Travelers Cheques, etc., to the Pakistani market. Today, HBL has more than 1550 branches all over Pakistan and presence in 26 countries across five continents. With a revamped customer oriented philosophy, it is pursuing new avenues of leadership through innovation, as it gears up to face the challenges of the new millennium.

The bank has been in Bangladesh since 1976 and has five branches in Dhaka (Gulshan, Motijheel and Uttara), Sylhet and Chittagong.

Habib Bank Limited has been providing services of only Commercial and Corporate Investment banking, aiming at serving the business-related part of the financial sector.

ORGANIZATIONAL MISSION & VALUES

MISSION STATEMENT

To be recognized as a leading financial institution of Pakistan and a dynamic international bank in the emerging markets providing our customers with a premium set of innovative products and services and granting superior value to our stakeholders – shareholders, customers and employees.

SECONDARY VALUES

HBL is firmly grounded with a corporate philosophy that incorporates seven solid values which each individual associated with the bank abides by.

HUMILITY

To encourage a culture of mutual respect and treat both team members and customers with humility and care.

INTEGRITY

For HBL, integrity means a synergic approach towards abiding core values. United with the force of shared values and integrity, it forms form a network of a well-integrated team.

EXCELLENCE

This is at the core of everything we do. The markets in which we operate are becoming increasingly competitive, giving our customers an abundance of choice. Only through being the very best - in terms of the service we offer, our products and premises - can we hope to be successful and grow.

MERITOCRACY

At every level, from selection to advancement, they have designed a consistent system of human resource practices, based on objective criteria throughout all the layers of the organization. They are, therefore, able to achieve a specific level of performance at every layer of the organization.

PROGRESSIVENESS

Believe in the advancement of society through the adoption of enlightened working practices, innovative new products and processes, and a spirit of enterprise

TEAM WORK

The team strives to become a cohesive and unified force, to offer the customer a level of service beyond your expectations. This force is derived from participative and collective endeavors, a common set of goals and a spirit to share the glory and the strength to face failures together.

CULTURE OF INNOVATION

The aim is to be proactively responsive to new ideas, and to respect and reward the agents, leaders and creators of change.

SOCIAL COMMITMENT

The Public Relation Division of HBL maintains effective rapport with the general public by communicating the policies and schemes of the bank through press and electronic media. Besides maintaining close relationship with journalists & advertising agencies, the Division also receives the visiting dignitaries and delegations from abroad.

HBL believes in serving their nation, Pakistan and building the country strong. HBL is always at the forefront to support noble causes and promote the social & cultural activities in the country. The Public Relation Division of HBL sponsors various social, cultural and sports events to generate healthy activities in the society. The Division represents the bank at important forums to exchange views on national & international issues with various organizations to boost the intellectual activities.

BUSINESS GROUPS

There are two broad business groups of HBL that are displayed as below:



COMMERCIAL BANKING

Commercial Banking was created to focus on the business needs of the middle market customers. In 2000 Commercial Banking came into being. At the time of inception twenty-one HBL branches were converted into Commercial Centers and Sub-Centers.

The product line of Commercial banking includes:

FINANCE FOR WORKING CAPITAL:

- Running Finance: for Working Capital requirements.(RF)
- Cash Finance: for Inventory financing.(CF)

TRADE FINANCE FACILITIES:

EXPORT FINANCE:

- Finance against Packing Credit: for pre-shipment requirements
- Finance against Foreign Bills: for post-shipment requirements
- Foreign Currency Export Finance: Dollar financing for pre & post shipment requirements
- Foreign Bills Purchase: for financing of export bills (FBP)

IMPORT FINANCE:

- Finance against Trust Receipt: for financing imported goods (FATR)
- Finance against Imported Merchandise: for financing imported goods (FIM)
- Foreign Currency Import Finance: Dollar financing for import requirements (FCIF)
- Letter of Credit: for importing inventory & capital goods (LC)

FINANCE FOR CAPITAL INVESTMENT:

- Demand Finance: medium term loans for capital expenditure (DF)
- Leasing: for financing capital expenditure.

GENERAL PRODUCTS:

- Letter of Guarantee (LG)
- Bid & Performance Bonds
- Mobilization Advance Guarantees

OTHER PRODUCTS AND SERVICES:

Commercial Day to day banking: There are a wide range of accounts and services to help customers manage their money. The relevant products are:

- Current Accounts: Non-interest bearing account for daily banking needs.
- Cash Management Services: Providing convenience of cash handling.



- Habib Bank Easy Access: Real time “online banking” at commercial centers for customers’ online transfer/deposit of payments.
- HBL E-Banking: “HBL e-bank” allows 24-hour access to accounts through internet banking, and PC banking.
- ATM: Adding more convenience, the customers can now use the ATMs of other partner banks.

CORPORATE

Corporate Investment Banking Group (CIBG) serves large institutional and corporate customers in Pakistan through 12 dedicated corporate banking centers in all major cities. The CIBG portfolio consists of most of the largest names in the market and represents all major industry groups, including textiles, large scale manufacturing, telecommunications, petrochemicals, fertilizer, airlines, transportation and services. It offers its clients a comprehensive range of banking services via a one-window interface through designated relationship managers.

Corporate Banking offers tailor made products / solutions as required by corporate customers which includes:

- Funded facilities, ranging from short to medium and long term lending.
- Working Capital Finance
- Demand Finance
- Fixed Asset Financing
- Trade related financing including:
 - Documentary Letters of Credit
 - Standby Letters of Credit & Guarantee
 - Documentary Collection
 - Import Financing
 - Pre & Post Shipment Export Finance
 - LMM Funding

- Foreign currency financing.
- All sorts of non-funded facilities / services which include Cash receipts / payments, Remittances, Collections, guarantees, letter of credit etc.
- Customized products / solutions.

INTERNATIONAL



Figure 1: HBL’s Presence Internationally

HBL’s international network is amongst the most extensive of emerging market banks with a presence in 25 countries through 120 offices of the Group and its affiliates. The network spans the principal financial centers of USA and Europe, and the developed and emerging markets in Asia, the Middle East and Africa. The Bank’s 50-year history in the international market provides it a well-established network of both commercial customers and correspondent banking relationships.

International & Overseas Banking Group’s (IOBG) principal line of business is trade finance. HBL’s strong presence in all areas of the domestic market combined with the extensive international network has provided the Bank a unique ability to capture a large volume of trade flows relating to Pakistan. In its international units they are also active in financing local third country trade in niche segments, particularly by leveraging their network. IOBG units have a well-established customer franchise in the South Asian origin communities. Activity with other

customer segments has also been growing particularly in emerging markets and now forms an important part of its business.

An additional strength of IOBG is that all international units are entirely self funded through stable well diversified local customer deposits or capital which enables it to develop local commercial and, in specific markets, consumer businesses while minimizing the inherent cross border exposures.

African operations remained buoyant largely due to HBL's established franchise, utilization of extensive branch network of Habib Bank Limited and Habib Nigeria Bank (HNB), which is one of the most successful banks in Nigeria with a country wide retail network of 55 branches and a growing presence in the corporate sector. HBL has a sizable market share in the region, which has resulted from focused marketing efforts.

Gulf region generated improved earnings, due to participation in large syndications, enabling utilization of liquidity in viable business transactions. The turnaround efforts in the past few years have now been completed with balance sheet clean up and cost structure rationalization.

IOBG continues to grow by focusing on its core strengths and further developing synergies with its domestic businesses and within the international network.

RETAIL

The Retail Banking network, with 1550 branches, is the core strength of Habib Bank. Its extensive reach in all geographic locations – urban and rural – throughout the country provides access to over 5 Million customers across all sectors of the economy. The network provides HBL with the largest diversified low cost deposit base of any bank in Pakistan, and forms the basis for many of our other business lines: corporate and investment banking and treasury activities.

Retail Banking Group (RBG) has two principal areas of activity; the retail network for deposit mobilization and the consumer-banking group. Deposits mobilization, the traditional strength, continued to perform strongly in 2002 with deposits growing by 12%.

SUPPORT GROUP

The support group consists of the support functions and helps the departments within the Business Group carry out its operations. The departments within the support group are as follows–



ASSET REMEDIAL MANAGEMENT GROUP

This unit of the bank looks after the classified portfolio. The ARM team monitor the classified accounts in terms of routine reporting, correspondence and persuasion, updates maintenance from overseas branches, write-off management etc.

AUDIT, BRR & INVESTIGATION GROUP

The Internal Audit wing is the watchdog of the bank, monitoring and trying to prevent discrepancies and ensuring adherence to the credit policy guidelines.

CREDIT POLICY GROUP

Credit Policy Group prepares / develops policy guidelines for the bank. These include: portfolio management and exposure, documentation requirements, approval procedures, approval levels, segregation of duties to ensure interest of bank is upheld first and foremost etc.

FINANCIAL CONTROL, GLOBAL OPERATIONS & IT GROUP

This group is a combination of financial control unit that deals with preparation and maintenance of the financial statements of the bank; other activities involved in this unit are preparation of periodic reports on the bank's position, expenditure management of the branches in home and abroad.

Other than financial control unit, maintenance of global operation of the branches and IT fall under this group. The department mostly functions like the administrative department.

HUMAN RESOURCES GROUP

Human Resource Group (HRG) encourages and motivates the employees to excel in the responsibility that they have in the organization. The organization tries to provide opportunities for staffs to have a challenging and rewarding long-term career.

HABIB BANK LIMITED, BANGLADESH

Habib Bank Limited (HBL) started operation in Bangladesh as early as the 1960s. At that time, the bank was a nationalized bank under the Government of Pakistan. After liberation of the country, in 1971, the bank was taken over by the Government of Bangladesh and Agrani Bank was formed. HBL reentered this financial market in 1976. It has five branches in Bangladesh. There are three branches in Dhaka (Gulshan, Motijheel and Uttara) and one branch in Sylhet and one in Chittagong

The bank maintains a low profile in the Bangladesh market. It has a market share of only 1% of foreign banks here, and 0.2% in Bangladesh. This may be because the bank provides the services of only Commercial and Corporate Investment banking, aiming at serving the business-related part of the financial sector.

CHAPTER 3- OVERVIEW OF THE PRODUCTS:

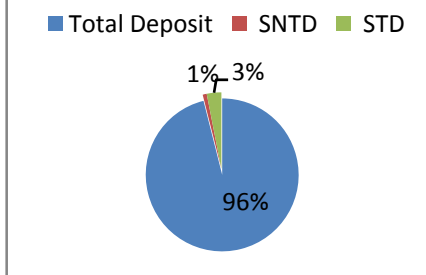
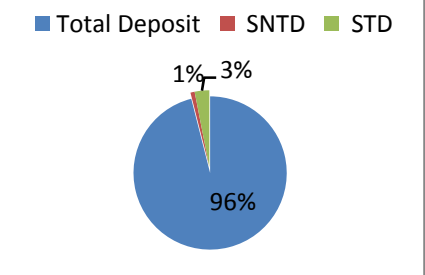
In Bangladesh all commercial banks including local and foreign banks have time to time introduced different type of deposit schemes and liability products to cater their customer's day to day need and to secure maximum liquidity from the market to build their balance sheet.

Accordingly HBL Bangladesh since its inception in this market has also introduced certain depository products for its customers that include demand deposit and time deposit using different nomenclatures like term deposit, (short term and long term) call deposit, interest bearing and non interest bearing deposit accounts as per following details:

- Current Deposit Account (LCY/FCY)
- Saving Bank Account
- Value Account
- Daily Progressive account
- Business Value Account
- Special Notice Time Deposit (7 days & 30 days)
- Fixed / Term Deposit (1 month to 60 months in both LCY/FCY)
- Call Deposit Receipt
- Security Deposit Receipt
- Short Term Deposit Account
- Bhabnahin Term Deposit Account
- Convertible Account (linked with FCY Account for encashment)

As per Bangladesh Bank the “regulator” all local banks as well as foreign banks are obliged to upload pricing offered on such deposit scheme on bank's website as well as reporting on monthly basis inclusive intermediately change if any to Bangladesh Bank.

Among the deposit mixture of our bank, the above underlined three products are going to be amalgamated under single product to be named as ‘SND’. The comparative analysis of these products of us is presented as under for your better understanding.

Date	Total Deposit	SNTD	STD	Total SNTD & STD	Percentage of total deposit
					(BDT In Million)
30/11/2010	3201.360	29.500	102.139	131.639	4.112%
31/12/2009	3623.900	31.925	103.306	135.231	3.732%
	<p>Deposit Profile as on 30/11/2010</p> 		<p>Deposit Profile as on 30/11/2010</p> 		

PRODUCT DESCRIPTION:

SND is an interest bearing account designed for the customers who need to transact frequently & at the same time want to earn some interest at progressive rate according to volume of their daily balances.

Recently the Banking Regulation and Policy Department of Central Bank vide their BRPD Circular No: 20 dated May 16, 2010 has instructed to all local and foreign commercial banks operating in the country to develop a new deposit product and that to be named as 'Special Notice Deposit' by merging all short term deposit schemes i.e. Special Notice Time Deposit (SNTD), Call Deposit (CDR), Call Accounts, SND Accounts and Short Term Deposit being currently offered in accordance with the given guideline.

The proposed product i.e. Special Notice Deposit 'SND' falls within the category of Saving Account with certain features and conditions applicable as follow

- 7 days notice requires from the customer for any withdrawal
- Failing to serve 7 days notice the customer has to lose interest for the month against available balance in his account

- Interest rates shall vary on the basis of deposit and not on the basis of customer type with well defined interest calculation criteria.
- Schedule of interest rates is to be declared within 5 slabs of deposit amount and may be reset periodically upon review by the local Asset Liability Committee (ALCO) and will be subject to change as per deposit rate sheet. Should not exceed Saving Bank rate. It
- has to be uploaded on bank's website and local Fincon will be responsible to report interest rates to Central Bank on monthly basis.
- Interest has to be calculated on 'Day End Balance'.
- Interest will be credited to respective accounts on six monthly basis or on close of Account whichever is earlier.
- Cheque book has to be issued for withdrawal of funds.
- No credit facility is allowed in SND account. A customer has to open separate Current Deposit account to apply any credit facility.
- Minimum balance fee, Incidental charges and service charge cannot apply while half yearly account maintenance fee and account closing charge can be realized but must not exceed BDTK 500 and BDTK 300 respectively subject to availability of required balance in the account.
- A customer already holds an account with the bank has to fill additional account opening form to open a SND account instead completing the whole formalities required for a new customer.

TARGET MARKET:

HBL Special Notice Deposit (SND) is available to all its existing customers both individual and company/firms. A part from that new individuals and institutions which may include small, medium and large enterprises, Private and Public sector enterprises, Local and Multinational companies, High Net worth Sole Proprietor and Partnership companies, Limited companies, Autonomous / Semi Autonomous bodies, Federal / Provincial Government Institutions, Corporations, Charitable Institutions, Trust, Club, Associations, Educational Institutions and Local Bodies.

SALIENT FEATURES:

Account Type: Special Notice Deposit (SND) Account' falls under the category of saving bank account

Initial Deposit: Minimum opening balance BDTK 25, 000/- No need to maintain at all times

Transaction: No restriction on number of transaction

Mode of Transaction: Cheque book and debit instructions

Temporary Overdraft: No Temporary Overdraft (TOD) is allowed in SND account

ATM Card: No ATM card is allowed in SND account

Interest Payment: Progressive rates according to volume of deposit. Higher the value bigger will be the return. Interest will be calculated on day end balance of the account and will be credited on six monthly basis or accrued interest if any will be credited at the time of closing the account. Early payment of interest is not allowed.

Availability: All HBL branches in Bangladesh

Condition: 7 days notice has to be served for any withdrawal from SND account and failing to serve 7 days notice the customer has to lose interest for the month against available balance in his account.

Bank Charges: Account maintenance fee @ BDT 400/- on half yearly basis.

Account closing charges @ BDT 300/-

Cheque Book issue charges would be as per Schedule of Bank Charges.

Govt: Charges: All interest payment and other related charges will be subject to tax/vat/excise duty etc, applicable as per existing rules

Closing Process: Where balance remains NIL in SND account for a continuous period of six months, system will generate a report showing zero balance. Branch will close such accounts under intimation to the account holder. Meanwhile if the customer approaches to the branch and shows strong desire to continue his account; the branch may allow continuing such account subject to providing an undertaking that he/she will maintain sufficient balance in his/her account with the bank.

REGULATORY ENVIRONMENT:

Bangladesh Bank (BB) (the Central Bank of Bangladesh) has taken vital initiatives to protect depositor’s interest as a step towards streamlining and standardizing Banking Procedures. These initiatives encompass critical areas such as Banking Ethics, Code of Conducts, etc. Initiatives have been underway since 1993 with constant revision to guidelines set they have had a significant impact on the Depositor’s interest as all internal banking procedures, processes and operations would need to be brought in line with the proposed initiatives of BB.

BANKING CODE OF ETHICS:

Bangladesh Bank has introduced measures with a view to protect depositor’s interest while emphasizing banks to streamline their operations, improve their product offerings and customer communication and be more conscientious in handling and resolving customer grievances etc. The last circular No: BRPD-20 dated 16/05/2010.

PROPOSED RATE CHART:

The proposed rate of interest for SND accounts has been fixed as follows according to the slabs recommended by the Central Bank vide their BRPD Circular No: 20 (Clause 4 & 7) dated 16th May, 2010 that interest rate has to be declared on the basis of average balance as per below categories and to be calculated on “Day End Balance” and should be paid periodically or at the time of closing the account whichever falls earlier.

Up to BDT 10 (M)	3.50%
BDT 10,000,001/= but less than BDT 250(M)	3.75%
BDT 250 (M) but less than BDT 500 (M)	4.00%
BDT 500 (M) but less than BDT 1000(M)	4.10%
BDT 1000(M) and above	4.25%

MERGER OF EXISTING ACCOUNTS:

In order to bring transparency and uniformity the Bangladesh Bank has instructed to develop SND a new product to avoid offering different rates on the basis of customer and tenure. Further only published and declared rates can be applied and any intermediately change in interest regime will have to be informed immediately to Banking Regulation and Policy Department, Bangladesh Bank. In no case rates should be higher than the Saving Bank Deposit rate.

Upon approval of the proposed product i.e. “SND” and once the system is updated bank will cease to accept deposit in the existing products (SNTD, CDR, Call Accounts, STD) and fresh deposit shall be booked in the new product (regulatory) from January 2011 onward. However the current placements in any of the existing product will stand mature / encash voluntarily and there will be no need for any force merger of any such existing account into new (regulatory). Presently there are 126 STD and 1 SNTD running accounts at entire network which will mature / close before launching new product “SND” and all future booking will execute in SND (starting 01 January 2011).

Since the current portfolio booked in the existing schemes will no more outstand and/or will stand en cash before launching the proposed product, hence no migration plan of such booking is required. All the existing booking into existing products which are to be deleted on the availability of the new SND product in the system and shall be rebook afresh into this new SND product starting January 01, 2011.

Although the proposed product is similar to Saving Bank Account, interest will be calculated on day end balance and credited on six monthly basis. However, i) Business Value Account (BVA) ii) Value Account (VA) iii) Daily Progressive Account (DPA) will continue till further decision.

RISK MANAGEMENT

Special Notice Deposit (SND) target markets are identified as HBL existing account holders and New to Bank Account holders that meet the eligibility criteria for opening SND account with HBL. The necessary documentation for opening SND account is possession of valid National ID Card/Passport/Driving License etc. to mitigate the risk. The risk is not as high as on holding such identification and opening of account the customer is by virtue an established account holder ensuring compliance with AML/KYC policies. Therefore this transparency is a check and balance in itself. Account opening forms and provided identifications are pre-screened on a

branch level and scrutinized by designated Customer Service Officer, Operation Manager and Branch Manager prior to decision for allotting account number by the system. Upon opening the account and verification confirms the identity while personally speaking / interviewing in order to satisfy formal queries acting as further verification to authenticate the customer.

OPERATION PROCESS:

ACCOUNT OPENING:

SND is an interest bearing account designed for the customers (individual / institutions) who need to transact frequently and also want some return at progressive rate against balances available in their accounts at end of the day.

Any customer can open this account with an initial deposit of BDT 25, 000/- (Taka Twenty Five Thousand only) and there is no requirement to maintain same balance at all times. For an individual customer, he/she has to fill bank's normal account opening form and provide following documents for bank record and to complete the process.

- Photo Copy of National ID Card/Passport/Driving License/ Certificate (along with
- Attested photograph) from Commissioner /Certificate from Employer etc.
- 2 Copies of recent Passport size photographs duly attested by the introducer
- 1 Photograph of Nominee duly attested by the Account Holder
- For a firm (proprietorship/partnership) has to fill respective account opening form used for companies and submit following documents for bank record.
- Copy of valid Trade License (original must be produced for verification)
- Attested copy of partnership deed duly signed by all partners
- Attested copy of registration certificate, if registered
- 2 recent passport size photographs for proprietor/all partners duly attested by the introducer
- Photo Copy of ID Card/Passport/Voter's ID/National ID/Driving License Certificate from Ward Commissioner/Certificate from local Chairman etc
- Photo copies of TIN/BIN/VAT registration
- Partners resolution for opening and operating the account
- Authority letter in original in favor of the person(s) authorized to operate the account

For a company (public/private/joint stock) account has to fill respective account opening form used for companies and submit following documents for bank record.

- Copy of Board Resolution for opening and operating the account
- 2 recent passport size photographs for all directors duly attested by the introducer
- Photo Copy of ID Card/Passport/Voter's ID/National ID/Driving License Certificate from
- Ward Commissioner/Certificate from local Chairman etc
- Copy of valid trade license (original must produce for verification)
- List of directors (updated form XII issued by RJSC)
- Copy of Certificate of Incorporation
- Copy of Certificate of Commencement of Business
- Copy of Memorandum & Article of Association
- Photo copies of TIN/BIN/VAT registration
- A new customer has to complete Anti Money Laundering (AML) and Know Your Customer (KYC) formalities in line with Bangladesh Bank regulations.
- In accordance with standard operating procedures, account opened for “Politically Exposed Person” requires necessary approval by the Branch Business Head and/or Country Operations Manager.
- 7 days prior notice is required for any withdrawal from SND Account. Customer will submit such notice to the home branch where he/she is maintaining his / her account.

For an existing account holder he/she and/or company/firm has to fill an additional account opening form for opening of a new SND account. The additional account opening form will serve the purpose for opening SND account instead completing the whole process and demanding all requisites need for opening a new account.

CREATING CUSTOMER RECORD

After completing AOF and obtaining all required documents due diligence needs to scrutinize the submitted documents with AOF and putting regulatory codes therein by the Customer Service Officer and after seeking approval from Operation Manager or Branch Manager.

Before creating a new customer record, the CSO concern should ensure that the respective customer does not have any customer number with any branch of HBL. Upon complete satisfaction the CSO may proceed to create customer record in the system and open SND account.

The customer account is opened through the Open Customer Account (OCA) option in EQ. While opening the account, CSO needs to be careful regarding

- The name of branch in which the account is to be opened
- The currency of the account
- The type of the account

The CSO selects the type of account from the menu by pressing [F4]. The system generates an appropriate account number, which consists of two sections:

- Branch code 4 digits
- Account no: 9 digits

e.g. the exact account number will be like 26254027000360

Once the process of verifying signature of the introducer and admission of account holder signature on Specimen Signature Cards, back of the nominee photograph and other relevant papers is completed the new account number is noted on the AOF, specimen signature cards, cheque book requisition slip (Form-A) and paying in slip so as to deposit initial amount. Special instructions noted on Specimen Signature Card should match with that written on AOF by the account holder.

The SS cards are kept in serial order. CSO will hand over SS Card to the Manager Cash & Remittance for scanning who will put scanned stamp on the SS Cards after completing the scanning process duly signed in token of having executed the job. He will then check signature of the account holder in EBA and upon satisfactory performance SS cards will be placed safely in the strong room for back up use.

The AOF is pasted in the relevant account opening file in account order. These files are kept under dual control in a steel safe in the strong room.

LETTER OF THANKS

Letter of thank to the new account holder as well as introducer is sent immediately after opening the account. The office copy of these letters attached with AOF. In case any of these letters

returned undelivered due to wrong address recorded in AOF, special care is exercised by marking on AOF, SS Card and putting flag in the system to rectify the discrepancy.

SYSTEM:

CUSTOMER INFORMATION AND ADDRESSES IN THE EQUATION:

Customer addresses, additional information and codes for regulatory reports have to be updated in the system after opening the account. In Equation customer's address is saved by using CAA option, customer additional information is saved by using CIM option and Regulatory Report codes are saved by using MAO option.

SC141 ZERO BALANCE ACCOUNT

The system will generate a daily report for accounts having zero balance and this will facilitate closing process.

SC106 DEBIT BALANCE

Debit balance is not allowed.

SC012 ADVICE ALL DEBIT (SUPERVISORY OVERRIDE)

This would be required for monitoring of the 7 days notice period requirement for SND accounts for any withdrawal. When this condition is active in customer account the following message will display while posting a debit transaction through cheque or written instruction "Debit Made to this Account will be advised". A senior supervisor will review the customer's file (if the cheque is presented at home branch) and if 7 days notice is not served, the supervisor will utilize system option of Interest Maintenance to nullify the interest rate which will forfeit the interest payment for the month. The supervisor will then re-apply the rate to be applicable from the following month. In case the cheque is presented in some other branch (other than the home branch) the concern supervisor will contact with the home branch to confirm the availability of 7 days notice. If the withdrawal notice is not in place then home branch supervisor will be advised to take appropriate measures to nullify the interest.

INITIAL DEPOSIT REQUIREMENT

Initial deposit requirement will have to be managed manually.



LEGAL AND REGULATORY APPROVAL:

- Special Notice Deposit (SND) is bound by Bangladesh Bank Prudential Regulations in general and specific to this new deposit product.
- Published/proposed interest rate against SND of every month has to be reported to Banking Regulation and Policy Department, Bangladesh Bank as per their format within 7 days of the publication and uploaded in respective website (if any) of the bank.

PRODUCT EXCEPTION:

Any Operational exception should be addressed and approved by the Country Operations Manager.



CHAPTER 4- MY EXPERIENCE IN HABIB BANK LIMITED, DHAKA

Whoever has done work anywhere has not left that place without gaining some or more experience. In our internship it gives us an arena where we can not only learn about the practical world but also judge on our own how much they are similar or dissimilar to the theoretical base that we have learnt during our undergraduate studies. Like all university all the students of BBA who are graduating in any field have the opportunity to work in an organization of their own choice and so BRAC University is not behind when giving the students this opportunity. So here I am after a 12 week internship, I have gained some knowledge about how the practical world tastes like. It has both bitter-sweet memories and experiences. Here at Habib Bank I was placed in Credit & Marketing department who are the main pillar that supports the loan processing system of Habib Bank. In this department I got a hands-on training in preparing the Credit Proposal which I will not forget as it is an extremely hard work. My senior under whom I was Mr. Shaheen had placed me under another person Mr. Tofazzal who gave me huge amount of knowledge of the credit proposal making of the company. I explained to him that I have no experience and understanding of the work he does but he was kind enough to allow me to do some proposal as a proxy to see my understanding. This opportunity was given to me when I was approximately 1 month into the job and had also been given some sort of 'tuitions' on the different types of loan and the process of the organization. In my whole 12 week it was both thrilling and exhilarating moment to learn something new each day and each minute. When I had first joined this organization I had felt like a school child entering in to school for the first time. However when I had left I had the same tears of sadness when I had the day I graduated from my school where I learned a lot. It is true what people say about experience "Winning is important to me, but what brings me real joy is the experience of being fully engaged in whatever I'm doing." --Phil Jackson. Of course no experience is complete without meeting people of extraordinary caliber who have both inspired and awed me in one way or the other with their experiences and enthusiasm for the work they do. So in this part I would like to introduce briefly the background and success of some of the people I had the opportunity to meet. I would also show my deep and heartfelt thanks to all of them for giving me their time and enhancing my knowledge with their experience.



Firstly I would like to talk about the senior person under whom I had been placed my on-site supervisor, Mr. Shaheen Md. Qumrul Hassan who is the Vice President & Branch Manager of Habib Bank, Dhaka. When I talked to him I came to know that previously he worked in Shahjalal Islami Bank where he was for four years as a Foreign Trade In-charge. However he has been in Habib Bank, Dhaka for past five years with huge amount of experience where he feels that his job itself is challenging as it depends on some factors such as liquidity crisis, recession, macro-economic factors, etc. Moreover he has also faced numerous difficulties which he feels are part and parcel of the job and the post he is holding. One thing he feels about the differences between his previous bank and Habib Bank is that his previous organization was based mainly on Shariyah Banking and Habib Bank is based on traditional banking. Even though he faces many challenges and problems daily he faces them enthusiastically and also enjoys the work he is doing which makes him do his work passionately. About Habib Bank he feels its Top Management is excellent and also better than any other local private banks. Further he feels that the Policy Framework/Guideline is also much better than the local private bank.

Next I would like to talk about another truly marvelous person Mr. A. N. Baset Osmany, who is so jolly and nice that he never takes any tension in his life. Getting to know him I came to know that previously he was employed in United Leasing where he worked for 9 years and he had resigned as Head of Operations. Currently he is employed in Habib Bank for the past 1 year as Country Operations Manager (Officiating). If someone wants to learn how to lead a great life I think Mr. Osmany is the best teacher. I truly enjoyed getting to know him and his philosophy where he feels that everyday is a challenge. He faces these challenges fearlessly, using reasoning, finding out the consequences and also finding the ways out. Not only that he also speaks with his peer group and seniors and after a good discussion he comes up with a solution and till date he has no failures to talk about. The differences he found between Habib Bank and United Leasing is that one is bank and the other is a financial institution. Moreover he feels that the peer group interaction was informal in his previous organization while it's formal in his present organization. Next he feels that the age differences was less in his previous organization than his present one and also that United Leasing was quite a large organization while Habib Bank is quite a small one. Working in Habib Bank he feels that it has huge scope of improvement and that it is resistance to change as the management is comfortable with the existing environment which is for good cause if there are any changes it might create

dissatisfaction with the present employees. As far as his job is concerned he believes that as long as he is satisfied he stays and the day he gets dissatisfied he leaves.

Thirdly I would like to talk about Mr. Mohammad Tofazzal Hossain who is Relationship Manager in Credit and Marketing, or as I refer to him as my ‘tuition teacher’. Working with him and under his guidance is truly a very satisfying experience. With his immense knowledge and understanding about the work he does he gave me huge support and explanations regarding the process. Under his guidance I came to understand not only the process but I also got a chance to have a hands-on training regarding the jobs of a Relationship Manager. Previously he was employed at One Bank under the same title and he worked there for approximately 4 years. Presently he has been with Habib Bank for 1 year and 10 days where he feels that on every step there is a challenge and in banking he has to be reactive. He feels that in banking as a whole has liquidity problem so they are unable to give loan which in turn is decreasing their assets. He feels that if banks can come up with new schemes then the problem can be solved. One thing he found in contrast of One Bank to that of Habib Bank is that Habib Bank is unstructured while One Bank is structured. What he feels about Habib Bank is that it is a strong Capital Base and it is following the loan/deposit policy as directed by the Central Bank. He also feels that there are many educated and well-qualified people in this organization which is one of the greatest strength of the bank.

Next person I came to know about was Mr. Masudujjaman Bhuiyan who is a Manager of Remittance. Some of the challenges he faces are when the customer complaints and he/she is dissatisfied it’s a drawback because he may not be able to help them out. He overcomes this challenge by communicating where the problem is and then he tries his best to solve it. He also feels that working with the regulatory body is extremely difficult and that there is no consideration when reporting needs to be submitted timely. Previously he worked as Senior Officer of Remittance in Citi Bank, NA for 3 years. Currently he is with Habib Bank for the past 3 and half years. Some differences he found in the organization culture are that he feels that Habib Bank is unstructured comparatively. Moreover he also feels that Citi Bank, NA relatively was more organized and disciplined. He enjoys his work with some aspects such as peer group, colleagues and work environment. While he enjoys these aspects he dislikes that the monetary



and financial benefit is not so good. About Habib Bank he feels that it is a big platform globally and has network all over the world which they can use to expand and grow in Bangladesh.

Next I would like to talk about another person about whom what I came to know about him is that he is a born leader. The person I am talking about is Mr. Mohammad Saiful Hoque who is a Manager of Operations in Habib Bank. When I got to know him it was very enriching for me to know about him as he has worked with Habib Bank for the past 5 and half years. Over the years he has literally seen the changes that have taken place. The first challenge he had faced was that approximately 5 years ago Habib Bank had started on the path of modernization related to technology. In the beginning Habib Bank was technologically challenged as it did not have enough experienced human resource with the technological know-how. However he has overcome that difficulty as he always worked passionately and enthusiastically. He has always been a vital part of the changes whether they are technological or working environmental. He has also faced the changes by coming forward and taking initiative as a leader and also taking full responsibility. In the past he had been working with a very renowned multinational company Nestle Bangladesh Limited for approximately 5 years as a Senior Finance Officer in the Finance Department. His believe is that its up to every individual to make his/her working environment as good so that he can work and be able to make others work along with him for the betterment of the future of the company. With this attitude of working freely, frankly and friendly he has developed Habib Bank as well as Nestle is. This attitude he gained from Nestle and now he is applying it here and is continuously developing it over the time in a positive direction. About Habib Bank he feels that it's a multinational bank and has amplified opportunity to expand with its huge network in all over the world. He also feels that over the time its working environmental structure has improved and also there has been augmented technological advancement which has made it in the 4th or 5th position. It has started to grow and will show heavy portfolio. It has huge opportunity to develop inter-personal relations and to minimize the difference between the top management and lower level employees. Lastly he feels that the pressure he has is low and so it helps him to perform well and for which he is satisfied with his work otherwise he would leave it.

Now I would like to talk about another great person who has always been frank and forward and says whatever comes to his mind. The person about whom I am talking is Mr. Md. Mamunur

Rahman Chowdhury about whom I got to know and who has also helped me in using his computer for which I feel my report would have not finished so early. He with his frank attitude has gained very good and many friends. In the past he was in BRAC Bank for 4 years as a Sales Team Leader while at present he has been with Habib Bank for the past 4 years and 7 months. Within his working here he has faced come challenges out of which the biggest he felt was getting to meet the deposit target as this is a Pakistani Bank and the people in Bangladesh do not support to deposit here. Compared to the previous organization he feels that here the staff is very less. In addition to that he feels that this is not that hue a bank and also that the rules are dissimilar here than it had been in BRAC Bank. He overcame that challenge by communicating with the customers that it is under the regulations of the Bangladesh Bank and follows all the rules and regulations like any other private bank. He feels that Habib Bank has given and is still giving best quality services to the customers than any other bank all over Bangladesh. He unfortunately feels dissatisfied in this job and is planning to leave very soon.

Lastly I would like to talk about a dynamic and humble personality and without knowing about him I feel that my experience would have been incomplete. It was an extremely exciting and a great experience for me to meet Mr. Ashraf M Wathra who is such a dignified person and it was like an icing on the cake when I had this opportunity to get to know him. Getting to know him I came to know that he was a born 'Banker' in the sense that he has always been in the banking sector since ages. With his amplified experience and understanding he is at present the Regional General Manager of South Asia of Habib Bank. He has joined Habib Bank when he came in the Restructuring team and has stayed since then for the past 12 years which is more than a decade of his service for this bank. Previously he had been employed at Faysal Bank an Arab Bank which belonged to the Late King Faysal of Pakistan for past 5 years as a Regional Manager for Sindh and Blotistan. At present in Habib Bank he has faced countless challenges of which the major challenges he has faced are loan restructuring, regulator challenges and staff retrenchment. He has overcome these challenges by not loosing his sense of being fair to both the people who are being sent away and as well as with the organization. His skill and focus on the objective makes him not only a strong but also a loyal personality towards the organization as he believes in keeping and saving the value of the bank. He has faced a distinct cultural change between his previous organization and the present one and his belief is that 'a person has to learn each culture to become a factor'. About Habib Bank he feels that previously it was a state-owned organization



and later after 2004 it was privatized. He had come as a part of the Restructuring team and the main motive was to turn this organization towards privatization. So when he was working he faced lots of negativity in terms of non-performing loan and people's skill set but as it got privatized it changed. He feels that globally an immense amount of positive changes have taken place over the years he has joined this organization. Lastly he feels that he is extremely satisfied with the job he does and even I believe that with his personality and mind set he has reached such a top position and has stayed there for so long.

On conclusion I would like to say that from each person I found out a different view about the job they are doing and how they are coping. Also I came to know about their views of the organization they are working in. Some of their views although are different but they are pretty much on the same wavelength when it comes to the work they do, because they do it with passion, friendliness, frank attitude and honest way by feeling a sense of patriotism towards the organization. They have only one goal in their mind that they want to make their organization counted in the top most rated organization in the whole world.

CHAPTER 5- LOAN PROCESSING SYSTEM OF HABIB BANK LIMITED BANGLADESH

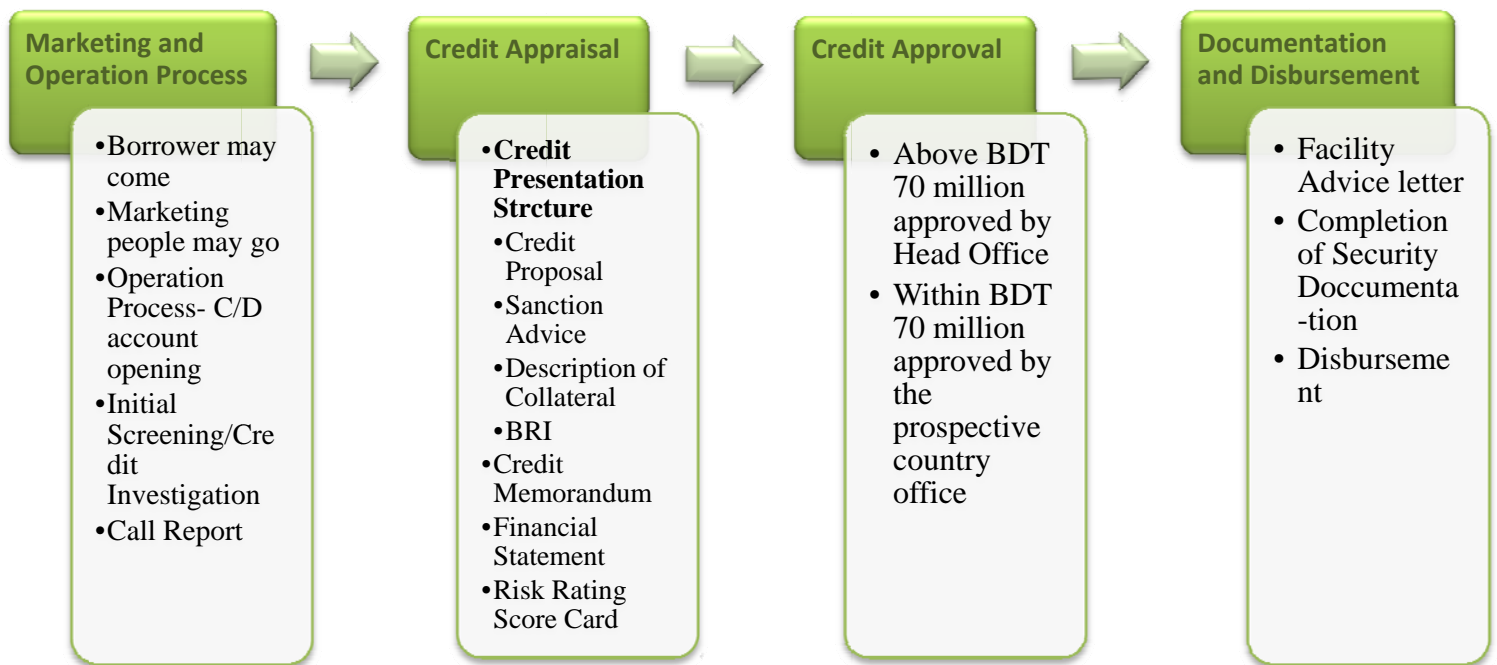


Figure 1: Loan Processing System of Habib Bank Limited Bangladesh

MARKETING AND OPERATION PROCESS:

The basic process in Habib Bank is that the client may either come to the bank to apply for loan or the marketing people of Habib Bank may go to different banks, financial institution or individuals to attract the people in order for them to take loan from Habib Bank which might be beneficial for the client. The marketing people give leaflets, pamphlets, and other means which encourages the client to be attracted towards taking loan. When the client requests for a loan the bank requests the client to open a C/D account as an operation process with a nominal amount. Then the bank makes an initial screening/credit investigation, which is also in another operation process, in order for the bank to assess the client on a very solid ground that whether the client is of good background or not and also whether there are any previous loans or such has been taken and whether the client has been in default with any other bank or as such financial institution.

When the initial screening/credit investigation is done, a last operation process is carried out which is that, the credit and marketing manager with availability of the client does a visit to the company or factory and then prepares a report which is a Call Report (Annexure 1). As the Regional General Manager (RGM) does not know anything regarding the client's condition of the company or the factory, the credit and marketing manager gives a small gist in the form of call report about what the company and/or factory is all about. When the RGM thinks that the position of the company and the client is strong it approves for the credit appraisal to go ahead with making the necessary credit proposal.

CREDIT APPRAISAL:

CREDIT PRESENTATION STRUCTURE:

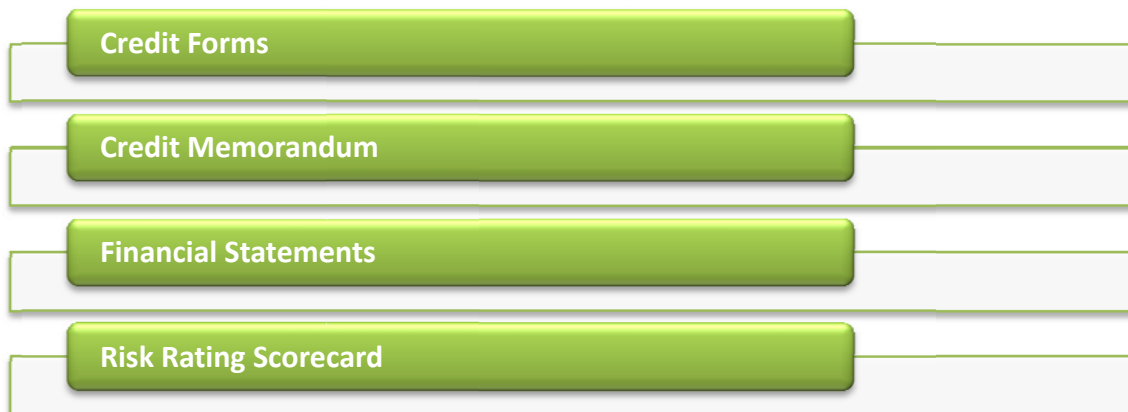


Figure 2: Credit presentation forms

Credit Presentation Structure as a whole contains:

- Credit Forms
 - Credit Proposal
 - Sanction Advice
 - Description of Collateral Form
 - Basic Information Report (BRI)
- Credit Memorandum
- Financial Statement
- Risk Rating Scorecard

These four categories have been discussed further in Chapter 5 in details and the annexure have been also provided on this credit approval. However these will be only discussed very briefly in this chapter.

CREDIT FORMS

CREDIT PROPOSAL

This part gives senior management a summary of the aggregate risk exposure/reward regarding the group/borrower. The Credit Proposal Form:

- States the purpose of the credit presentation
- Lists the important reference data necessary for maintaining a database of borrowing customers of the bank for management information purposes
- Gives a snapshot (where applicable) of group exposures and earnings
- Records the approval process

SANCTION ADVICE

This part states specific but complete details of the individual facilities per borrower. The GRM/RM is to ensure that

- All details of facilities are correctly and specifically stated
- The current exchange rate is used for all currency conversions (and is stated within the brackets in the column stating 'Nature')
- An annexure (to the Credit Memorandum) is used, if required to state the repayment schedule.

It should be noted however that the approving authority may give a conditional approval, amending certain terms of the facility. It is these terms which will be recorded on the Sanction Advice (that would be sent to the respective Control Unit), that together with the Description of Collateral Form- as amended by the approving authority- constitute the Credit Approval or Sanction.

Individual credit facilities should, to the extent possible/practical be segregated by (i) type and (ii) term. For e.g., if a facility for establishing letters of credit is proposed it should indicate

whether the facility is for local or foreign import L/Cs, sight or usance and further in the case of usance L/Cs, the usance tenor must be specified. Similarly in case of letters of guarantee the purpose should be clearly, i.e., whether it is being proposed for issuance of bid bonds, performance bonds, customs guarantees, shipping guarantees, etc. While further details/rational are of course to be provided in the Credit Memorandum.

DESCRIPTION OF COLLATERAL

- States all security related details
- Contains procedural information to reflect any conditions regarding clean-up requirements, frequency of site visits, etc.
- In case of a mortgage as an existing security, date of last valuation, valuator's name along with market and forced sale values, total charge amount, HBL sharing and ranking is to be provided.
- In case of charge on stocks as an existing security, number of inspections conducted in the last 12 months, total charge amount, HBL sharing and ranking is to be addressed.
- Contains a statement by the documentation officer confirming that the complete and updated documentation is being maintained for existing facilities.

As a matter of policy, complete loan and security documentation (as per the terms of the approval and standard bank policy) must be obtained by the RGM, examined and found to be legally perfect, before any facilities are made available to the client. It should be noted that responsibility for maintenance of complete and legally valid current documentation rests with the RGM. Credit Administration acts as a custodian of the documentation and serves to double check completeness and accuracy before releasing the credit facilities.

BASIC INFORMATION REPORT (BIR)

This part basically is a fact sheet of the borrower, which serves as a useful reference for senior management and risk review personnel to gain basic information regarding the borrower. The BIR:

- Lists descriptive, borrower specific facts regarding date of incorporation, form of organization, name of directors, and key management personnel, in addition to listing the

borrower's facilities with other banks, its product and some production and trade related information.

- Gives the borrower's history and an account of the relationship with the borrower.
- Contains the compliance check-lists and account profitability summary.

When the proposal is being made for the group, the only difference is that there is an individual description of the facilities of the groups associated. Furthermore the credit proposal shows more than one name of the borrower.

CREDIT MEMORANDUM:

A written presentation and analysis will form the basis of evaluation of all proposals involving credit risk. The memorandum serves to communicate to the credit officers the information needed for arriving at a decision. The nature (complexity or simplicity) of a transaction, the borrower's financial situation and the amount and degree of risk involved will determine the length and extent of analysis required in a credit presentation. The presentation should be concise and precise and should include all essential elements and will usually contain the following minimum information:

- A summary of the group's business lines, strategy, financial resources, and the bank's strategy regarding the group
- Specific Purpose of Credit Policy
- A summary of transaction structure and repayment terms
- Analysis of collateral
- A summary of key covenants and repayments terms of other debt which might have a material effect on the bank's position towards the borrower and other lenders
- Analysis of repayment sources for all loans with tenors exceeding one year
- Confirmation of adherence to target market definitions and/or risk asset acceptance criteria or justification of exception(s).
- Industry analysis, company background and future strategy
- Assessment of management, with a focus on its strengths and weaknesses
- Financial statement analysis and cash flow projections versus debt service, if appropriate

- Assessment of major risks (including impact of forecasted macro economic trends and competitive environment, if applicable) and key mitigants
- Third party, i.e. trade, bank or credit bureaus checking
- Account strategy, including historical and forecasted account profitability
- Conclusion/recommendations
- Signature/initial of Credit Officers, approving the transaction (names to be typed/stamped ensure legibility)

FINANCIAL SPREADS

For short term facilities, financial spreads (Annexure 3) of the borrower's (and where appropriate the guarantor's) financials for the preceding three accounting periods, and projections for the subsequent period in the standard spread format. For longer term facilities, projections should be made for the term facility.

RISK RATING SCORECARD

Effective risk management requires an accurate and forward looking estimation of the probability of default over the next 12 months. This can be effectively achieved through allocation of an appropriate Risk Rating to all borrowers updated on a regular basis when new information is received. The Risk Rating Scorecards (Annexure 4) have been developed for different types of borrowers in the portfolio that is updated if needed. Its basic structure is that only the items highlighted in 'yellow' are to be filled by the Relationship Managers and the respective scores with a Baseline rating will be automatically generated. The Risk Rating Scorecard is based on an assessment of both quantitative and qualitative factors. The scores in the quantitative section are governed by the industry volatility factor, which is the driver in determining the Risk Rating of the individual borrower

CREDIT APPROVAL

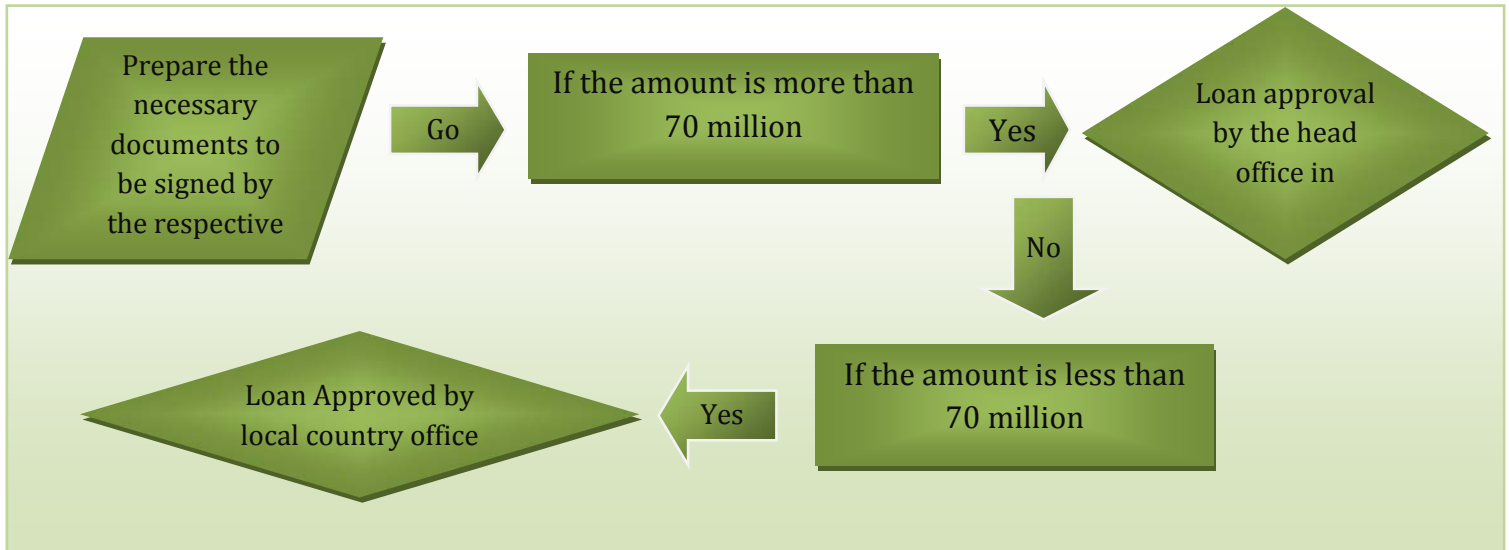


Figure 3: Credit Approval

IF THE CREDIT IS ABOVE BDT (OR RESPECTED CURRENCY) 70 MILLION:

According to the rules and principles of Habib Bank it is one such mandate that needs to be followed and that is that the loan amount that is above BDT (or respected currency) 70 million in any branch in any respected countries the approval is sent to Head Office of Habib Bank in Pakistan. None of the country office RGM can approve the loan amount. However the proposal is made by the Relationship Manager in respective branches which is then sent from the respective country offices and the requirement as and what the Head Office of Pakistan wants sends it back with the query and the Relationship Managers of the respective countries and/or branches follow suit.

IF THE CREDIT IS WITHIN BDT (OR RESPECTED CURRENCY) 70 MILLION:

When and wherever the loan amount is within the limit of BDT (or respected currency) 70 million the rules and principles also state the mandate that the respected country offices in other 26 countries around the world having 1550 branches all over can approve the loan upon the approval from the respected RGM. Even in this case the Relationship Managers of the respective branches send the proposal to their respective country offices and the RGM approves after the branch manager, credit administration department in-charge, risk manager approves the proposal. Also after that the RGM if and when needs whatever query he or she has contacts the risk manager and that is then respectively solved and handed over to the RGM to do a further proceeding.

DOCUMENTATION AND DISBURSEMENT:

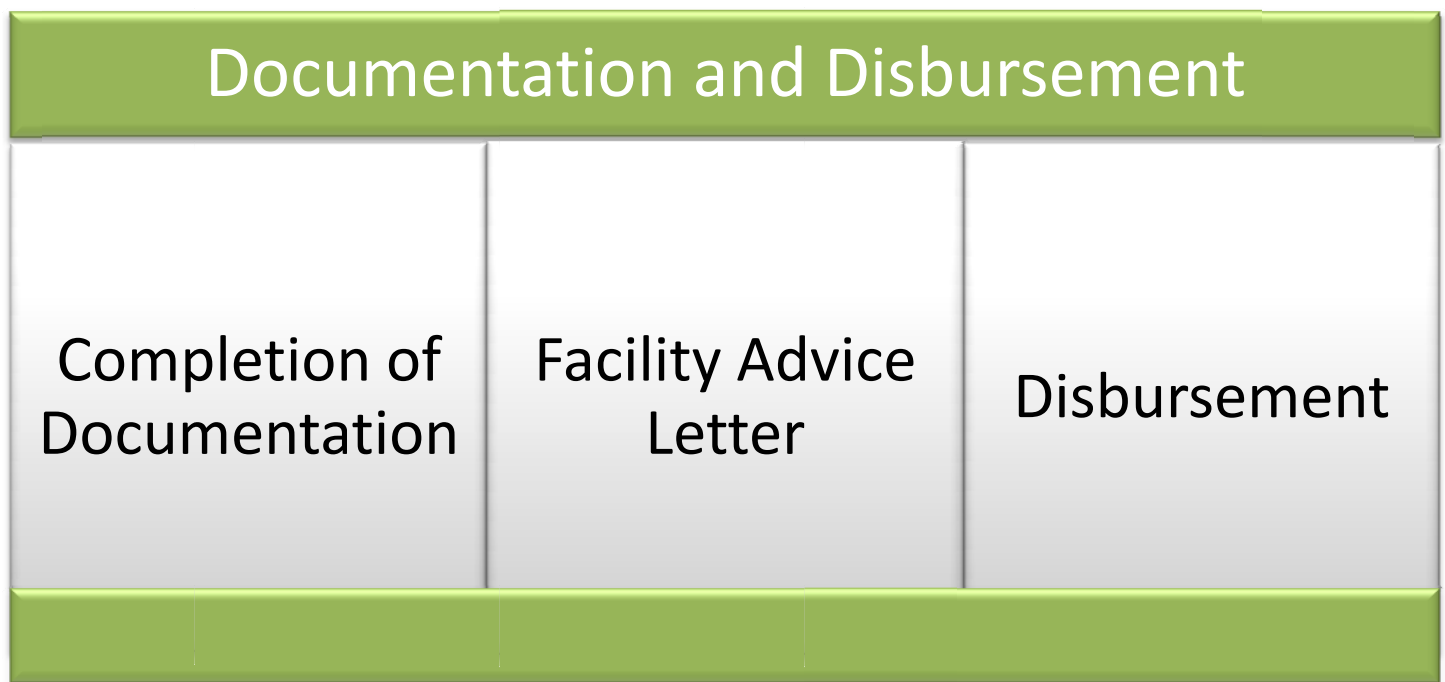


Figure 4: Documentation and Disbursement

COMPLETION OF SECURITY DOCUMENTATION

It is bank's policy to obtain complete legally executed documentation from customers prior to allow credit facility. The responsibility for obtaining complete documentation from customers lies with the respective GRM/RM, while it is CAD's responsibility to provide them with the requisite documents/formats for execution by customers. When accepting documentation from customers, Group Risk Manager (GRM)/Relationship Manager (RM) must ensure that the documents are prepared as per the bank's (approved) standard forms and check for completeness and enforceability. Where documentation is incomplete or any inconsistencies exist the Relationship Manager (RM) is responsible to seek rectification prior to disbursal. The basic documents required by the bank are those documents that are mentioned in the proposal. Credit Administration Department (CAD) is mainly responsible to ensure that the original documents are kept in safe and that only photocopies are distributed amongst respective related officers.

FACILITY ADVICE LETTER:

Facility Advice Letter (Annexure 5) is a private and confidential document that is sent to the respective borrowers which states the conditions to be expected to follow and also agreed upon by both the borrower and the branch manager of the bank. Along with all this there is a description of securities that is if there are any apartments or stock there needs to be a mention that rightful owner has mortgaged the apartment or the stock. Furthermore included in it is the detail of the facility and then it includes the signatures of the borrower and that of the branch's manager's signature. Moreover incorporated with all this states the procedural requirements such as completion of charge documents and other documentation, execution of general power of attorney to the bank for selling off goods that are hypothecated and also for any mortgaged property, providing insurance for covering fire, RSD, theft & burglary, flood, cyclone, malicious damage, atmospheric disturbance, earthquake, fire & shock, terrorism, explosion, impact damage, electrical fire, spontaneous combustion and war. Lastly there should be a clear mention of submitting stock report to the bank on regular basis and also bank will inspect the stock report on timely basis. This is also to be mentioned that the bank specifically states that the company is expected to bare the service charge and legal expenses.

DISBURSEMENT

When all the documents are in proper and approved formats then the disbursement of loan is given. Firstly the CAD checks all the required documents sent by the company and that the completion is done. Then CAD opens a loan account in the system software where the loan amount is input. That amount is transferred to the C/D account that had been initially created. From there the company which has taken loan withdraws their respected amount as and when they need and the accounts department keeps a record of the transaction summary. When the company pays back the installment an the principal the loan account created in the system software is inputted with the amount given in and CAD keeps a record of all the transactions made plus that of the outstanding if any and also of the overdue if and when they occur. If and when the overdue occurs the CAD informs the Head of the department and further actions is taken as appropriate.

CHAPTER 6- CREDIT APPRAISAL SYSTEM

INTRODUCTION

The procedures given below are to be adhered to by Global Relationship Managers (GRM)/ Relationship Managers (RM), to obtain approval for credit risks. The Bank's credit process entails submission of a credit presentation for initiation of credit facilities and evaluation of the proposal by the designated authorities (depending on the amount of global obligor exposure, per the Bank's three signature approval process) leading to a decision, i.e., an approval, a conditional approval, or a decline. Subsequent to approval/conditional approval, the credit facility is released (subject to fulfillment of all requirements) in accordance with the terms of the approval, by the Credit Administration Department. Once a relationship is in place, a credit review is required on an annual basis for renewal of credit facilities.

However, assessment of credit risk is a dynamic process and should not be limited to the annual review exercise. The GRM/RM must maintain contact with the Borrower through personal visits on a regular basis. This should be done to remain abreast of credit risk related developments in the Borrower's business/industry and to prospect for spin-off business and other opportunities. This process is to be documented in call visit reports. The GRM/RM must seek and use information available from all sources, whether internal or market/third party. Conduct of the account, unusual requests, impact of changes (whether global, local, or regulatory/ fiscal) in the environment/ dynamics of the industry, all provide invaluable sources of information. Such information must be responded to, proactively, in order to ensure that timely steps are taken to capitalize on opportunities and to protect the Bank's interests.

The following figure shows the list of the different structures used to show the presentation of credit for a client

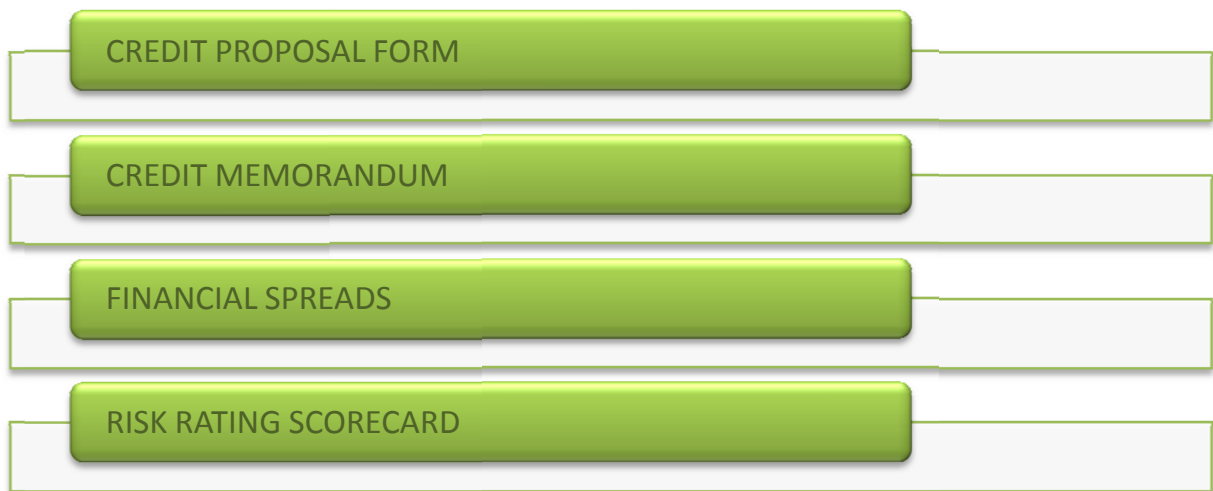


Figure 3: Credit Presentation structure

CREDIT PRESENTATION STRUCTURE

CREDIT FORMS

CREDIT PROPOSAL FORM

These are the following categories in detail for a credit proposal form of which a format in Annexure 2 has been provided.

1. Annual/Initial/Interim:

These three categories are essential in the starting as it gives a central understanding where the credit proposal stands.

- **Initial Credit Proposal:** Required for any new relationship
- **Annual Credit proposal:** Conducted for the purpose of renewing maturing facilities extended to a borrower, approving new facilities (for an existing borrower), or re approving existing lines of credit. All credit facilities extended to each borrower must be re-approved at least annually.

- **Interim Credit Proposal:** Required when new facilities are requested, existing facilities are increased or there is a material change to an existing facility, at any time other than the annual review date.

2. Group/Borrower's Name & Address:

In this category the full legal name and address of the borrower is entered. In case of a Group it is required to mention the name of the group and address of the principal place of business.

3. Line of Business:

Here the primary business activity/activities of the Group/Borrower need to be entered.

4. Group Code:

In the above mentioned category a Group Code is allocated centrally, in order to ensure that all Credit Facilities are aggregated for a Group of Borrowers, solely from the bank's perspective and regardless of whether common legal ownership exists or not.

5. Business Segment:

Here the business segment responsible (i.e. Corporate Banking Group: CBG, Retail Banking Group: RBG, International Banking Group: IBG, Commercial Banking Group: COM, Asset Remedial Management Group: ARM), followed by the category of the Borrower/Group (i.e. Local Corporate Group: LCG, Multinational Corporations: MNC, Public Sector Enterprise: PS, Financial Institution: FI). Some examples are: CBG-LCG, CBG-MNC, IBG-FI, ARM-LCG, etc.

6. Originating unit:

The name of the business unit/branch initiating the Credit Proposal needs to be entered. The Originating Unit may approve the credit facilities secured by cash/Government of Pakistan securities up to the limit specified in the loan processing system. Subsequent consent of the Control Unit must be obtained, however. In all other cases, approval of the Control Unit (which is in turn responsible for securing approval of the appropriate approval authority) is required prior to the extension of credit facilities.

7. Control Unit:

This is the Business Unit with the primary credit responsibility for a Group/Borrower. The Control Unit also coordinates the marketing effort viz. a Group/Borrower, where credit facilities are extended at a multiple locations. It is the Control Unit's responsibility to keep line management, and Originating/Extending Units fully informed, on a timely basis, of any events or information that might impact the Group/Borrower's credit worthiness. The Control Unit is

responsible for approval of credit facilities and/or securing credit approval from the appropriate approving authority, where the aggregate Group facilities exceed its delegated authority.

8. Approval Level:

The final approving authority's (under the bank's three initial delegated approval authority) name and functional title/designation (for e.g. SEVP, Group Executive-CBG, RBG, or Chief Risk Officer, RCBH, President, etc.) shall be entered in this category.

9. Group Risk Rating:

Existing & proposed (if different from Existing) the Obligor Risk Rating ORR of the group is to be mentioned in this part. If the Group is externally rated, rating needs to be mentioned along with the name of the rating agency.

10. Proposal No.:

A serial number is assigned by the Credit Administration, of the respective Originating Unit, for each Credit Proposal. The first four numbers will denote the year, followed by a four digit serial number. For e.g. the first Credit Proposal being send out for 2007, from an Originating/Control Unit would be XXXX20070001.

11. Date:

The date (DD/MM/YYYY) when the Credit Proposal should be completed (at the Relationship Manager level) is inserted in this area.

12. Final Approval Date:

This date is entered after the approval from the final (signer) approving authority is obtained.

13. Proposal Expiration Date:

In this section the next Annual Review Date (occurring on a common anniversary date each year). A common date should apply to all members of a related group, unless otherwise approved as an exception. The standard structure to be followed is: DD/MM/YYYY.

14. Previous Approval Date:

This section is for the date on which the last Credit Proposal Final Approval. Unless, an extension has been approved, this date should be less than twelve months before the (current) Credit Proposal Date.

15. Existing Group Facilities:

For each individual Borrower, the following information id entered:

- Legal Name of the Borrower



- A break-up of existing facilities (by nature of facilities i.e. Fund Based and/or Non-Fund Based), and the aggregate amount; total outstandings (this figure should include the amount of classified exposure, as well) and the amount of Classified Exposure (if any), as of the Credit Proposal Date.
- Amount in respective local currency for each borrower along with aggregate in equivalent USD in millions on the Credit Presentations submitted by the International Banking Group.

16. Group/Borrower Tenor Profile:

Entered here is the distribution of credit facilities by (respective expiration or maturity dates). It indicates the maximum potential risk value within each tenor category. For e.g. if a Group/Borrower enjoys the following facilities:

- Cash Finance: PKR 50 million (maximum tenor of one year)
- Running Finance: PKR 100 million (maximum tenor of one year)
- Finance Against Fixed Assets: PKR 150 million (maximum tenor of 6 years, with a bullet, i.e. one lump-sum repayment at maturity)
- Local Manufacturing Machinery Loan: PKR 150 million (with no grace period, and three annual principal repayments of PKR 50 million)

The tenor profile would be as follows:

PKR in Million

Up to 1 Yr	1-3 Yrs	3-5 Yrs	Over 5 Yrs	Total
450	250	150	150	450

17. Purpose/Exceptions:

A brief description of the purpose of the Credit Proposal (if considered significant enough is mentioned here), and exceptions (with justification(s) is provided in the text of the Credit Presentation) to some policy of limit, are mentioned in this block. Some sample Purpose statements are provided below for illustration:

- Annual review and proposed increase (of PKR 120 million) in the long term exposure
- Approval of (significant) changes in facility structure
- Approval of material change in collateral requirements
- Some examples of Exceptions are given below:
- Any breach in Prudential regulations

- Target market (TM)/ Risk Acceptance Criteria (RACs)
- Inferior position viz. other lenders (in terms of ranking of registered charge)
- Change of lending margin/top-up and close-out triggers
- Tenor exceptions

18. Over dues/Defaults:

If there do any over dues/defaults exist during the time of submission of the Credit Proposal is mentioned here.

19. Group Facility Summary:

The aggregate amount of existing and proposed credit facilities extended to the Group classified by nature (FB/NFB) of facilities and the net change (decreases should be identified by placing the amount within brackets), is entered here.

20. Group Classified Exposure:

The (adversely classified) amounts outstanding, as of the date of the Credit Proposal are entered here in the appropriate box (es). A credit facility classification indicates different degrees of risk or credit worthiness for any credit facility. These classifications serve as one method to evaluate overall portfolio quality, and to ensure that the remedial actions are prompt and sufficiently rigorous to protect the bank’s interests. The five distinct categories are outlined below:

Current: no evidence of weakness (since this is not an adverse classification, the amount need not be mentioned on the Credit Proposal form, and as such no space has been provided for this)

Classified IA: the condition of the Group/Borrower does not warrant adverse classification as per regulatory (i.e. central bank) requirements, but is, nonetheless, deemed to require special attention/close monitoring and where necessary preemptive action, to protect the bank’s interest.

For the following classifications, SBP (State Bank of Pakistan) (and no other countries respective local central bank) definitions to apply:

Standard: timely repayment and/or settlement is at risk

Doubtful: full repayment and/or settlement is at improbable

Loss: uncollectible

21. Group Classification History:

The space allows for details of three classifications revisions. If the entire group was classified in the same category, each column can be utilized for entering the date of each respective classification revision, the classification category and the amount of total classified exposure (on a group basis) for the three most recent revisions. For example, if the entire exposure on X Group (which prior to this was classified current) is classified IA then subsequently downgraded to substandard and thereafter reclassified IA. The three columns would state the date and total classified exposure for each of these revisions. If different entities in the group had different classifications at the time of review, then each column can be utilized to state most recent details for up to three different classification categories. Take example of Y group comprising of six entities. Company MNP (belonging to Y) was classified IA and subsequently reclassified Substandard, whereas, company STU was classified IA six months ago. The balance exposure on the Group is classified 'Current'. In this hypothetical scenario, at the time of review two entities of the Group have an adverse classification. Therefore, two columns can be utilized to give the details for the classifications existing on review date, i.e. Substandard for MNP (date of classification and amount of exposure classified Substandard) and IA for STU (with date of classification and exposure classified IA), while the third column ought to be left blank.

22. Group Revenues Grid:

The aggregate amount of revenues (from various products/services) earned from the Group/Borrower in the twelve-month period preceding the Credit Proposal Date, is entered here. The purpose is to obtain an overall earnings figure for the bank's credit exposure on the Group relationship.

Yield

Yield on Fund Based facilities is calculated as follows:

(Total earnings during the twelve month period x100)

(Average outstandings of the Fund Based facilities during the 12 month period)

23. Originating/Control Unit:

Originating Unit- Approval Requirements:

The amount of aggregate facilities (for the Group/Borrower) approved/recommended and depending on the approval requirements, the names, designations, initials of the credit officers from the Originating Unit who are involved in the approval.

- ***Approval/Seek Consent:***

When the credit facility is secured by cash collateral/Government of Pakistan securities and the Borrower is part of a Group for which it is not the Control Unit, the Originating Unit may approve the facility provided that the facility amount does not exceed the limit prescribed by Credit Policy Committee/Credit Risk Officer. However an approval would still require greater than the aggregate amount of facilities (at the Originating Unit). In such cases, subsequent consent of the Control Unit must be obtained.

- ***Requests Approval/Recommends:***

In all other cases the Originating Unit must seek approval of the Control Unit prior to extending any new facilities or agreeing to any material changes in existing facilities.

Control Unit-Approval Requirements:

The amount of the aggregate facilities (for the Group/Borrower) approved, etc. and depending on the approval requirements, the names, designations, initials of the credit officers from the Control Unit who are involved in the approval.

- ***Approves:***

An approval requires the signatures of at least three credit officers, one of whom must have a credit limit equal to or greater than the amount of aggregate facilities extended to a Group/Borrower.

- ***Recommends:***

If not within the Credit Authority of the Credit Officer at the Control Unit, Proposal should be elevated to the next/higher authority for approval.

24. Approval:

The designated Credit Officer/Senior Credit Officer/Group Risk Manager/Group Executive/Chief Risk Officer should sign in the assigned space along with affixing the name & the designation.

Sanction Advice:

1. Group:

Here only the name of the Group is entered.

2. Group Code:

In the above mentioned category a Group Code is allocated centrally, in order to ensure that all Credit Facilities are aggregated for a Group of Borrowers, solely from the bank's perspective and regardless of whether common legal ownership exists or not.

3. Control Unit:

This is the Business Unit with the primary credit responsibility for a Group/Borrower. The Control Unit also coordinates the marketing effort viz. a Group/Borrower, where credit facilities are extended at a multiple locations. It is the Control Unit's responsibility to keep line management, and Originating/Extending Units fully informed, on a timely basis, of any events or information that might impact the Group/Borrower's credit worthiness. The Control Unit is responsible for approval of credit facilities and/or securing credit approval from the appropriate approving authority, where the aggregate Group facilities exceed its delegated authority.

4. Proposal No.:

A serial number is assigned by the Credit Administration, of the respective Originating Unit, for each Credit Proposal. The first four numbers will denote the year, followed by a four digit serial number. For e.g. the first Credit Proposal being send out for 2007, from an Originating/Control Unit would be XXXX20070001.

5. Date:

The date (DD/MM/YYYY) when the Credit Proposal should be completed (at the Relationship Manager level) is inserted in this area.

6. Borrower:

The name of the borrower is entered here.

7. Borrower Code:

A code is allocated centrally for each borrower is entered here.

8. ORR:

Existing & proposed (if different from existing) Obligor Risk Rating ORR (refer to section 5.1.1.4 on Risk Rating Scorecard) of the borrower is mentioned here.

9. Originating Unit

The name of the business unit/branch initiating the Credit Proposal needs to be entered. The Originating Unit may approve the credit facilities secured by cash/Government of Pakistan securities up to the limit specified in the loan processing system. Subsequent consent of the

Control Unit must be obtained, however. In all other cases, approval of the Control Unit (which is in turn responsible for securing approval of the appropriate approval authority) is required prior to the extension of credit facilities.

10. Total Proposed Facilities:

Total amount of facilities (both Fund based and Non-Fund based) is entered here.

11. Industry:

Refer to Annexure 6 for the list of Industries and Codes.

12. Industry Code

Refer to Annexure 6 for the list of Industries and Codes.

13. External Rating

If the borrower is rated by a rating agency, the rating is mentioned here.

14. National Tax Number

Here the National Tax Number of the borrower is entered.

15. Facility No.

Facility numbers (beginning with 1) are to be filled in one continuous series for all Borrowers belonging to a group. For e.g. if there are two Borrowers in a Group and the facilities numbered 1 to 5 are proposed for Borrower 'A', the facility numbers for Borrower 'B' will begin with the number 6.

16. Branch/Centre:

The name of the Originating Unit is entered here.

17. Nature:

A brief description (as per standard bank definitions) of the nature of the facility, stating any limitations on the usage or availability of the facility is mentioned here.

18. Existing:

The previously approved amount of facilities being renewed, amended, enhanced, etc. is mentioned here.

19. Proposed Fund Based:

Proposed (whether new, being renewed and/or amended) Fund Based facilities is entered here first. Then the amount of (proposed) Fund Based Facility is entered in this column (leaving the Proposed Non-Fund Based Facilities blank).

20. Proposed Non-Fund Based:

The amount of (proposed) Non-Fund Based Facility is entered in this column (leaving the Proposed Fund Based Facilities blank).

21. Net Change:

The proposed net change (increase/decrease) in facility amount is entered here. For a new facility, the proposed amount would also be the net increase. In case of a facility being cancelled, the net decrease would be the amount of the facility being cancelled.

22. Tenor/Repayment Schedule:

- For short-term, continuous facilities with a clean-up requirement, the required consecutive number of days is to be stated.
- For seasonal facilities, the specific maturity/expiry date is to be stated.
- For term/other amortizing facilities the amortization schedule should be specified (including details like grace period, balloon payments, early repayment options, etc.)
- For usance L/C, FAFB, etc. through individual drawings/transactions will have a maximum tenor (as approved) the facility itself will remain available for fresh drawings/transactions until the expiry date of the facility, however this excludes revolvers, etc. unless specifically approved by original approving authority or as specified in approval procedure.

23. Expiry:

For facilities with a fixed maturing date, final maturity/expiry date (DD/MM/YYYY) is mentioned. In all other cases the annual review date would be the expiring date.

24. Pricing:

The pricing in percentage per annum (or as otherwise negotiated) is entered here. All fees and basis of fee calculation (flat, per annum, per quarter, etc.) is specified here. All mark-up/fees is recovered quarterly, unless otherwise specified/approved.

25. Current Outstanding:

The amount of total outstanding against the respective facility as of the proposal date is entered here.

26. Overdue Outstanding/Facility Classification:

The total overdue/default amount outstanding against the respective facility (inclusive of accrued mark-up), as of the proposal date and the proposed classification for the respective facility separated by '/' sign.

27. Comments/Procedural Requirements:

Any additional condition that may be required by the approving authority, as a condition of the approval is stated here.

28. Authorized Signatures:

The sanction advice is signed by the approving authority or by an officer delegated with the authority to do so. Moreover this section does not require signatures of all the approving authorities. However if any approving authority makes an amendment or adds any covenant in the sanction advice he/she is required to put his/her initial to authenticate the amendment.

Description of Collateral

1. Group:

Here only the name of the Group is entered.

2. Group Code:

In the above mentioned category a Group Code is allocated centrally, in order to ensure that all Credit Facilities are aggregated for a Group of Borrowers, solely from the bank's perspective and regardless of whether common legal ownership exists or not.

3. Originating Unit:

The name of the business unit/branch initiating the Credit Proposal needs to be entered. The Originating Unit may approve the credit facilities secured by cash/Government of Pakistan securities up to the limit specified in the loan processing system. Subsequent consent of the Control Unit must be obtained, however. In all other cases, approval of the Control Unit (which is in turn responsible for securing approval of the appropriate approval authority) is required prior to the extension of credit facilities.

4. Proposal No.:

A serial number is assigned by the Credit Administration, of the respective Originating Unit, for each Credit Proposal. The first four numbers will denote the year, followed by a four digit serial number. For e.g. the first Credit Proposal being send out for 2007, from an Originating/Control Unit would be XXXX20070001.

5. Date:

The date (DD/MM/YYYY) when the Credit Proposal should be completed (at the Relationship Manager level) is inserted in this area.

6. Borrower:

The name of the borrower is entered here.

7. Borrower Code:

A code is allocated centrally for each borrower is entered here.

8. Facility No:

The facility numbers must be the same (for the respective facilities) as in sanction advice.

9. Facility Amount:

The amount against existing and proposed is entered here.

10. Description of Collateral (Existing & Proposed):

A brief but complete and precise description of the collateral with the specific assets securing the credit facility (and/or third party pledges) in case of default by, or bankruptcy of the borrower. The nature of these rights/claims (e.g. mortgage, pledge, lien, fixed or floating charge, etc.) and the assets secured (e.g. property, plant & machinery, shares, cash, etc.) should be clearly indicated, as well as the actual value of the security (and the basis of valuation).

For e.g. in the case of pledge/hypothecation:

- Amount of charge/pledge (covering principle with prescribed margin and mark-up for one/two quarters)
- A brief description of charged assets
- Seniority of the bank's charge (after a registrar checking has been undertaken and completed and NOCs obtained from other financial institutions scrutinized for adequacy of text, amount, authorized signatures, etc.)
- Whether pledged assets have been carved out of assets charged to other financial institutions (making the bank sole legal claimant)
- Value of (in the case of fixed/capital assets) assets charged, basis of valuation, date of valuation report (by the bank's approved valuation experts)
- Value of insurance policy and confirmation that the bank's interest is noted on the policy and premium has been paid by the borrower.

A sample description is given below:

“First pari-passu hypothecation charge for PKR 150,000,000 over all present and future movable assets of the Company including but not limited to book debts, receivables, stocks, stores and spares, etc. wherever they may be located. Assets to be duly insured, insurance assigned to HBL and the original premium has been paid.”

For existing facilities, where an amendment in collateral is proposed, the existing collateral is stated first and then the proposed collateral. For reviews/renewals/amendments, etc. where no change in collateral is proposed, and for new facilities, only the proposed collateral is stated.

11. Charge Amount & Ranking:

The amount of charge being registered in the bank’s favor is mentioned here. Registrar checking is undertaken to ascertain the ranking of the bank’s charge which is indicated in this box. The result of registrar checking/search report is seen by the Credit Administration Department (CAD) together with the No Objection Certificates (NOCs) received from the prior charge holders to ascertain whether the priority/ranking of the bank’s charge is as per the credit approval. It should be ensured that the NOCs are properly worded, are issued for the correct amount, proper category of assets and bear the authorized signatures of the issuing organization. The seniority of the bank’s charge should be indicated in this box, after obtaining a registrar checking and scrutinizing the NOCs obtained from the Banks or Financial Institutions (for adequacy of text, amount, authorized signatures, etc.).

12. Margin

The existing & proposed margin on the facility amount is entered here. Margin requirements, as per the bank’s policy or State Bank of Pakistan or local Central Bank of foreign branches (only in case of International Banking Group) should also be highlighted. Any deviations from the bank’s policy id to be highlighted in the Purpose/Exception as mentioned in the Credit Proposal and the justification to be provided in the appropriate section of the Credit Memorandum.

13. Collateral Value:

Date of Valuation:	the date of the last valuation report is entered
Market Value (MV):	the market value of the security/collateral is stated here in details covering the value of Land, Building and Machinery separately in case of charge over fixed assets.
Forced Sale Value (FSV):	the forced sale value of the security is stated.

14. Date of Last Stock Inspection:

Where security/collateral is subject to periodic inspection (e.g. hypothecation or pledge of stock), date of last stock inspection done is mentioned here.

15. Remarks/Observation:

Person who has done the inspection e.g. RM, CAD, any external agency (name is mentioned). Any observation is also mentioned here.

16. Last Legal Review:

The date of the last legal review of documentation by an external counsel is stated here.

17. Remarks/Observation:

The name of external counsel is mentioned here. Any observation is also mentioned here.

18. Documentation Sign-off

- Documentation is completed prior to draw down by the Borrower, unless approval (for a limited period of time) from the appropriate level has been obtained.
- If the deficiency is not removed and the approval lapses, facility is restricted/recalled, unless prior approval for the extension of temporary waiver is obtained.
- However each time a Credit Proposal is prepared for submission a review of loan and security documentation is undertaken by an officer of Credit Administration Department (CAD) and the 'Description of Collateral' form signed.

If the documentation is found to be deficient in any respect, the facility is restricted/recalled, immediately and shall remain as such until such time that the deficiency is removed or a waiver for a limited period of time is approved. Such waiver(s) (for a specified period of time) may be requested for in the text of the Credit Memorandum and must be mentioned on the Credit Proposal form (in the block for 'Purpose/Exceptions')

Basic Information Report:

1. National Tax number:

Here the National Tax Number of the borrower is entered.

2. Reporting Date:

The date of completion of the Basic Information Report (BIR) is entered here.

3. Originating Unit/Branch:

The name of the business unit/branch initiating the Credit Proposal needs to be entered. The Originating Unit may approve the credit facilities secured by cash/Government of Pakistan securities up to the limit specified in the loan processing system. Subsequent consent of the Control Unit must be obtained, however. In all other cases, approval of the Control Unit (which is in turn responsible for securing approval of the appropriate approval authority) is required prior to the extension of credit facilities.

4. Date A/c Opened:

The date of commencement of banking relationship with the borrower is entered here.

5. Date of Establishment:

The date of establishment of the business is entered here:

- For corporate entities, the date of Certificate of Commencement of Business would suffice
- For public sector entities date of formation (or date of the specific piece of the legislation under which the body may have been formed)
- For sole-proprietorships/partnership firms approximate date of formal commencement of business activities

6. Group/Borrower's Name & Address:

In this category the full legal name and address of the borrower is entered. In case of a Group it is required to mention the name of the group and address of the principal place of business.

7. Line of Business:

Here the primary business activity/activities of the Group/Borrower need to be entered.

8. Ownership:

The form of organization/legal status and interests of significant stakeholders is stated here.

9. Directors:

The names of the directors (stating functional responsibilities, if applicable) are listed here.

10. Key Management:

The names of the key officers of the borrower, along with their respective designation are listed here.

11. Facilities with Other Banks:

The type and amount of facilities with other banks are listed here. Where possible outstanding and collateral extended to other banks are also mentioned here.

12. Group/Associated Companies:

The names of the Group/Associated companies (regardless of whether common legal ownership exist or not or whether they belong with HBL or not) are listed here.

13. Compliance with Central Bank Regulations:

In the case credits originating in the domestic operations the SBP prudential check-list (self-explanatory in nature) is used. In case of finance against shares the SBP mandated margins is considered for each class of securities. Any exceptions is noted on the Credit Proposal form (in the block for ‘Purpose/Exceptions’) and discussed in the text of the Credit Memorandum. Branches in the International banking Group list and comply with their respective Central_Bank regulations/requirements (if any).

14. Credit Bureau Report:

A fresh credit checking from an approved (by credit policy) credit bureau/agency (SBP CIB report for credits in Pakistan) is obtained prior to submission of the Credit Proposal and the appropriate box(es) filled. If the report is clean ‘Yes’ is entered in the appropriate box, otherwise the amounts that are overdue and/or have been defaulted upon are stated.

15. Borrower (Gross) Revenues Grid:

The aggregate amount of revenues (from various products/services) earned from the Group/Borrower in the twelve-month period preceding the Credit Proposal Date, is entered here. The purpose is to obtain an overall earnings figure for the bank’s credit exposure on the Group relationship. The data however which is filled here should pertain to individual borrower (as opposed to the Group).

16. History:

- A brief history of the borrower, listing significant events (new product lines, capacity expansions, forward/backward integrations, etc.) in chronological order followed by a brief account of the borrower’s relationship with the bank
- Its main business activities/key products
- Plant & machinery (production process, installed capacity, utilization levels, etc.)
- Main suppliers, purchasing terms, trade requirements
- Main buyers and selling terms

CREDIT MEMORANDUM

Group Overview

The Group Overview provides a summary of the business activities and financial health of the Group, stating company-wise (regardless of whether the individual companies have a relationship with the Bank, or not):

- Lines of business
- Competitive position in respective industries
- A (tabular) summary of key financials and ratios
- Inter-company transactions
- An organizational chart (attached as an Appendix) giving shareholdings, cross shareholdings, formal/informal bases of association, etc.
- Group profitability report, i.e., earnings from the Group in the preceding twelve months
- Bank's strategy viz. the Group

1. Purpose

The objective of the presentation, e.g., initial, annual, or interim review to is highlighted:

- Renewal, increase, or reduction in facilities propose or recommend is mentioned, clearly stating aggregate amount of existing and proposed facilities; the transaction currency and PKR equivalent is also included
- Review or propose changes in the Bank's strategy and action plan viz. the Group / Borrower
- Financial projections (Bank's or Borrower's) previously submitted, to the actual performance is compared.
- Change(s) are recommended in the Bank's security support, tenor, or structuring of facilities

2. Facilities/Transaction Structure

- Existing facilities are stated
- What is being requested is clearly stated, i.e., the nature, amount and purpose of the facility (and the transaction structure along with cash flows of the transaction, if appropriate)
- The transaction rationale for each facility is stated; use of generic statements like "general corporate purposes" or "working capital purposes" is avoided

- In case of syndicated facilities, the bank's percentage of total commitment, number of participants and rights (i.e., pro-rata, pari passu) is briefly described
- Details concerning terms are stated
- If an increase, decrease or amendment to existing facilities is proposed, the need for the change and any impact the change has/may have on the bank's position (outstandings, pricing, position viz. a viz. the Borrower and/or other lender banks) is explained; also whether the change was requested for by the Borrower or is proposed by the GRM/RM in view of past experience/utilization trends/competitive pressure is specified.

➤ **Security / Covenants**

- A conclusive analysis of the quality, valuation and monitoring of the collateral, advance ratios, top-up and close out ratios, triggers, covenants (if any), commitments and related ratios are provided.
- A fresh registrar checking and NOCs from other lenders (having a prior charge) to ascertain whether the Bank's charge on assets is as per approval is conducted and scrutinized. A statement is made to this effect. If the charge is not as per approval, (if facility has been disbursed) reasons for continuation of facility pending perfection of charge, whether approval has been obtained from the proper approving authority, and target date for rectification all this is stated
- For term loans, whether the client is in compliance with all covenants is stated and a brief summary of the financial ratio covenant compliance is also given, stating ratios/amounts and actual numbers and the strength of the covenants to monitor risk; detailed covenant definitions and compliance certificates is also included as an appendix
- Wherever personal guarantees of owners are proposed as support for the credit risk assumed by the Bank, the personal guarantee(s) is supported by a current personal net worth statement (PNWS) in the approved format and the Personal Net-Worth Statement (PNWS) is submitted with the Credit Presentation. However, the individual's investment in the Borrower (and other Borrowers from the Bank) is excluded from the PNWS

➤ **Ways-Out Analysis**

- The source of repayment (e.g., cash flow) for each facility, and any secondary, and tertiary ways out (for e.g., for a facility financing inventory, a charge for PKR XX mln over

receivables of PKR XX mln, guarantees of third parties, additional capital injection by owners, government support) is evaluated.

- Valuation of each way-out si based on both current market value, and fire-sale value

3. Exceptions

Any exceptions to policy/regulatory requirements (that have been stated on the Credit Proposal form, as well) is clearly stated here. Reasons are given why the Bank should proceed despite these, and/or the measures undertaken/proposed to be undertaken to protect the Bank’s interest in the face of these exceptions, and details of any regulatory waivers obtained.

4. Industry

- What is the structure of the industry (for e.g., concentrated, fragmented)?
- What are the supplier dynamics? Who has the leverage? Does leverage shift frequently?
- What are the buyer dynamics? Who has the leverage? Does leverage shift frequently?
- Comments are given on elasticity of demand; price volatility of input and output prices;
- Who are the main competitors? The respective market shares are stated;
- Comments are also stated on resource and capacity utilization, and technological developments (if appropriate);
- What are the critical success factors within the industry? What are the Borrower’s strengths?
- What are the risks? How does the Borrower mitigate them? What are its weaknesses?
- What are the opportunities for the Borrower (viz. growth and profit potential);
- What are the threats faced by the industry/Borrower?
- Entry/exit barriers are listed;
- How significant is the role of government? Comments are given on the fiscal/regulatory and macroeconomic environments?

The industry analysis section is concise, highlighting key issues/features, in case a current industry study exists. Otherwise, more detail is required.

➤ **Business Update / Company Strategy**

Significant developments that have occurred during the period under review are analyzed, especially any developments since the last available financial statements are also analyzed:

Examples of significant developments include major acquisitions, asset purchases or sales, changes in capital structure, changes in capacity, introduction of new product lines, new or changing government regulations, recent litigation, changes in key management positions:

- What was the significant financial change, event or expectation?
- How much did/will it cost?
- How was it financed?
- What impact has/will the development have over the client's risks or future potential?
- Comments are given on the Company's future strategy:
- Any significant developments expected in the future that would have an impact on the Borrower is listed;
- What is the Borrower's operational strategy to manage industry risk and capitalize on opportunities?
- What is the borrower's financial strategy viz., capital structure, foreign exchange risks, etc.?
- A conclusive analysis of the assumptions underlying future strategy is also given.

5. Management Assessment

Strengths and weaknesses of the management by focusing on management's are also listed:

- Integrity
- Length and type of experience
- Financial sophistication
- Ability to manage people
- Delegation of decision making, and key influencers (i.e., family, government), etc.
- Awareness of and attitude towards key risks
- In case of owner managed businesses, succession plan is addressed in terms of:
- Transfer of management, and,
- Estate planning (who owns the company after a death?)

6. Financials

Whether financials are audited is stated, and if so, whether the auditors gave a clean opinion. In case the financial statements were qualified, reasons for qualification and possible impact are also stated. Even where the financials are audited and are in accordance with GAAP and FASB,

they may still not reveal the true picture. It is the GRM/RM's responsibility as a financial analyst to make necessary adjustments to arrive at a more correct representation of the financial situation of the Borrower. Any adjustments/corrections made while spreading the audited financials and/or in the treatment of certain components thereof, is clearly highlighted.

Insight into the borrower's financial position is provided by commenting on the development of and major changes in:

- Operating performance;
- Financial condition;
- Capitalization or cash generation;

Numbers from the spreads are used, not from the audited financial statements.

Comments in this section are used to add value to the financial information as shown in the financial spreadsheets attached to the presentation.

The focus is on identifying and explaining significant changes and key trends in performance, capital and cash flow. The underlying causes for both favorable and unfavorable trends are analyzed and any change in the capability of the client to meet obligations and sustain a long term relationship is assessed. Reasons, not just symptoms are listed.

➤ **Income Statement**

Analysis with a financial analyst's perspective (and not a financial reporter's) is conducted and special attention is given to accounting and tax issues, and policy changes by management, which may lead to distortion in the reported earnings. Significant changes or trends in the business risks and profit drivers are evaluated, which is focused on cause rather than effect. The effect of one-time events, temporary conditions and fundamental changes in the company's performance is separated. Details of inter-company transactions given, and where relevant, compare performance levels to the industry competitors

- Evaluation is done of Net Sales performance by examining year to year trends, in both percentage and absolute terms. Significant trends in unit volume, sales composition, product mix, product pricing is explained
- Cost of Goods Sold is examined as a percentage of sales on a year to year basis. Substantial changes in terms of prices, product mix, overhead, comparison to competition/industry and customers is explained

- Trends in Operating Profit is examined: non-cash (depreciation, amortization of goodwill, etc.) and non-production related expenses (selling/marketing, general and administrative expenses) are evaluated for trends and as a percentage of net sales
- Other Non Operating Income / Expense which includes non-core business income and expenses, investment income that require analysis in terms of its source, trend, cash content and sustainability as an income source in the future. These are identified if the amounts are material
- While considering Interest Expense, focus is on meaningful trends or rupee impact related to either changes in average borrowings or changes in interest rates. Interest Expense net of interest earned from lending to associated concerns is stated, so as to avoid understatement of Debt Service Coverage Ratio. Amount of interest earned from associated companies is given, separately
- Income Tax Expense is only discussed if changes in the effective tax rate, level of deferred taxes, or legislated statutory tax rates substantially impacts net income or cash flow.
- Extraordinary Income/Expense is identified, analyzed and evaluated if sizable.
- Net Income if necessary is stated within a conclusion on operating performance.

➤ **Balance Sheet**

Assessment of the Balance Sheet is summarized with a particular emphasis on liquidity, working capital needs, capital structure, and quality of assets. Conclusively it is stated whether these are appropriate given the nature of business/industry and how they compare with the competition.

- An assessment is conducted of working capital requirement, and comment on whether available lines of credit adequately meet this requirement is given.
- Focus is primarily on analyzing meaningful levels or changes in the client's liquidity, the composition of the working capital and assets, changes in the asset conversion cycle, and the strength of the debt/equity structure
- Trends are examined with regard to working capital adequacy and/or capital structure. Whether these movements represent temporary or fundamental changes are considered
- Both seasonal working capital patterns and the company's historical management of permanent working capital growth is discussed. Relevant issues are specified such as:
 - strength of company's credit polices and monitoring of accounts receivable
 - significant changes in valuation methods or composition of inventory

- availability and usage of external financing (short term, long term debt, equity)
- Comments on quality of assets are given. Material capital expenditures are examined and stated whether they are financed with debt, equity or internally generated funds. Given available details, disclose whether the company's investment in capital expenditures achieves at least a minimal maintenance of plant and equipment or if other non-discretionary commitments exist
- Whether the capital structure is appropriate given the risks, volatility of earnings, and available cash flow is examined
- In terms of historical reinvestment and cash sources, non-operating means are highlighted such as:
 - bank debt, long term funded debt including leasing
 - inter-company balances
 - subordinated debt (from directors)
 - additional debt capacity

➤ **Contingent Liabilities (or Commitments)**

Significant off-balance sheet liabilities as these have a potential financial impact on the company are evaluated. Of more consequence, comments are given on the probability of an actual draw down against any contingent liability. Included are such items as:

- guarantees of a loan (on behalf of an associate) or contract;
- uncancelable commitment for capital goods or investments;
- operating leases
- lawsuits, pending litigation, liens or tax disputes
- outstanding letters of credit (standby or trade)

➤ **Cash flow**

- The major reasons affecting cash generation during the period under review are summarized
- What are historical and expected trends
- Why NOCG was or was not sufficient to meet debt service (financing charges) is analyzed
- The sustainability of cash flow with respect to one-time, temporary or fundamental changes are evaluated

- emphasize is given on risks to future cash generation

It is cash flow that demonstrates the fundamental health of the client. While avoiding repetition, explain the cause for any lack of adequate cash flow from continuing operations, clarify the financing of capital expenditures and examine the availability of other non-operating cash sources to support the client's cash needs.

For industries where net operating cash generated is inappropriate, define how cash flow is determined, any historical trend and analyze the strength and sustainability of cash flow.

➤ **Interim Financial Statements**

- Significant changes or trends which impact the risks of the client either positively or negatively are noted
- Whether the results were expected or have deviated from normal are considered
- The effect of seasonal trends are highlighted
- The underlying causes for the interim financial performance are highlighted:
 - the income statement to the prior interim period is compared
 - balance sheet changes from the past fiscal year end is the focus of discussion
 - current interims with interims 12 months prior, to account for seasonality or changes in industry or business patterns are compared

➤ **Projections (& Sensitivity)**

Projections are included in all Credit Presentations (one year for short-term working capital facilities, and matching the tenor of the transaction/facility in case of longer term facilities).

Projections are used to provide qualitative and quantitative conclusions on profits, cash flow and debt service capacity. Included are both a management/base case forecast and a sensitized break-even forecast (as appendices). Break-even given represents minimum level financial performance to barely meet debt service (1:1). Assumptions are placed for both scenarios in an annexure.

Also relevant facts and conclusions are included on the following items:

- Reasonableness of assumptions used for sales, margins, cash flow and debt servicing forecasts;
- Cushion between management/base case and break-even projections;
- Planned investments/capital expenditure and financing thereof;
- Introduction of new products and the impact on profitability.

Comments are given on significant variances (if any) between projections previously submitted and the actual financials for the corresponding period.

7. Critical Success Factors

The critical success factors concerning growth potential and survival of the Borrower within the industry are listed. The characteristics and objectives that will give the client a sustainable competitive advantage over the long-term and result in continuing profitable operations are identified.

➤ Risks and Mitigants

- A concise and conclusive evaluation of the primary is provide:
 - Business
 - Financial
 - Structural
- Risks inherent in the credit, and the mitigants are stated
- Generic statements are avoided
- How well has the Borrower has historically managed or mitigated those risks is stated
- What the borrower's strategic plan to manage industry risk in the future is, is also stated

The transactions specific risks are already mentioned under ‘Transaction Rationale’, and industry/Borrower specific risks addressed in the ‘Industry’ section. Therefore, this section serves to present a consolidated summary of the risks and mitigants. A bullet point format is used for risks detailed in preceding sections.

The Borrower’s overall strengths and weaknesses covering factors such as sponsors/ownership, reputation, management, financial condition, product portfolio, track record, cash flow, etc are highlighted.

8. Third Party Information

This section includes a summary of current market and bank checking, and information from other third party sources (for e.g., broker’s reports, credit bureaus checking).

9. Account / Relationship Strategy

Discuss any major shift in the strategy viz. the Borrower (for e.g., change in exposure level or security requirements)

- Profitability of relationship, information on usage of facilities, and other (non-lending) income (for preceding twelve month period and forecast for subsequent twelve months) is stated
- Cross-selling opportunities are listed
- Comments on competition from other banks are given
- Classification triggers, target dates are proposed
- Work-out plan is proposed

10. Conclusion/Recommendation

A brief and precise conclusion statement summarizing the purpose, rationale, and justification of the credit is given.

➤ List of Appendices

Appendices are started on a new page and they should be clearly identified by title. When referring to an appendix within the credit presentation, briefly state what the reader will find in the appendix.

FINANCIAL SPREADS

When the RMs are asked to prepare Credit Proposal the part that discusses and shows a picturesque view of the business's financial whereabouts is the financial documents or statements. These statements are prepared on basing some rules and formulae which are followed by Head Office, Karachi. All the branches in 26 countries follow a universal format and are supposed to keep track about the changes if any made in the statements. These statements are prepared on Excel sheet Head Office, Karachi and the formulae are entered according to the rules governing the Habib Bank Policy. The Financial Statements basically describe and highlight the financial position of the company on the basis of the audited report submitted by the respective organizational Group/Borrowers who are taking the loan. The audited report submitted by the borrowers are of three preceding years basing on which the financial statements are prepared.

These are also a numerical presentation of the financial data of the organization. The first part shows the financial summary which is a basic gist of the company's main information such as key figures. Then the annual growth in percentage format is shown. The annual growth is shown for 2 yrs. Further ahead we see the cash flow summary which states the cash conditions of the

organization. Then it shows the key ratios which describe the conditions of the profitability condition of the business using accounting ratios. It also shows the turnover ratios that explain how long it takes the cash cycle to complete. Then shows the liquidity ratios which show how much sufficient cash the company has to pay off their liability. After that it shows the leverage ratios which show whether the company has more or less debt to equity ratio.

➤ **Balance Sheet**

In the second part the balance sheet is being shown which gives full information of the company's fixed assets, current assets, long-term liabilities, current liabilities and equity.

➤ **Income Statement**

In the third part the income statement shows the operating revenue, operating expenses, net income and net worth reconciliation which shows the ending net worth.

➤ **Supplementary/Information and fixed assets reconciliation**

In the fourth part it contains a spreadsheet that shows the reconciliation of net fixed assets showing the ending balance which is supposed to match with that of the amount in the balance sheet. Also it contains the amount and rate of the principal repayment during the period and the effective tax rate which help in calculating of the debt service coverage ratio.

➤ **Cash Generation Statement**

In this part the operating cash is given, then all the additions and subtraction that help in calculating of gross operating funds generated which later is used to calculate total operating sources which in turn help in calculating non-operating sources and then finally the net increase or decrease is shown.

After each statement there is a part which checks and shows the differences and then the RMs checks which areas need considering and all the related procedures are done match with the actual amount. These financial statements are basically used so that the RM has a clear and concise view of the company's financial strengths and weaknesses which he/she further discusses in detail in the Credit Memorandum.

RISK RATING SCORE CARDS

Introduction

Effective risk management requires an accurate and forward looking estimation of the probability of default over the next 12 months. This can be effectively achieved through allocation of an appropriate Risk Rating to all borrowers updated on a regular basis when new information is received.

Risk Rating Scorecards have been developed for different types of borrowers in the bank's portfolio that will be updated if needed. At present the following Risk Rating Scorecards are being launched:

- Corporate Banking Group (CBG) Scorecard is to be used for borrowers with sales of Rs 300 million and above.
- Commercial Banking Group (CBD) Scorecard is to be used for borrowers with sales between Rs 25 million and Rs 299 million.
- International Banking Group (IBG) will use the above two scorecards i.e. For borrowers with sales in excess of USD 5 million – CBG Scorecard and for borrowers with sales between USD 0.5 million to USD 5 million – CBD Scorecard.
- Group Risk Rating Scorecard is to be used for all borrowers risk rated by CBG, IBG and CBD.

International Banking Group is to use these scorecards for customers where financials are disclosed.

This policy document sets out the key principles of Risk Rating appropriate to all scorecards when determining the most appropriate rating for both performing and non-performing relationships.

Benefits

The risk rating system provides a framework for:

- Recognizing early warning signals and effective problem loan management;
- Risk-based loan pricing;
- Development of marketing strategies aimed at attractive risk segments;
- Portfolio performance management;
- Portfolio re-balancing decisions; and,

- Determination of loan loss expectations.

Borrower Risk Rating Principles

- A Risk Rating reflects the probability of a borrower defaulting on its financial arrangements in the 12 months after the date of rating such that the better the rating the lower the probability of default.
- The Risk Rating is determined at a point in time using all the information available at that time.
- Scorecards are tools to determine a borrower's Aggregate Score based on assessment of quantitative and qualitative factors. However, security will not form part of the rating decision as this influences actual loss not the probability of default. Security Indicators to reflect the likely value of security/collateral taken in support of the borrowers' debt shall be launched at a later date when the concept of Facility Risk Rating is introduced.
- Scorecards shall record the Assigned Rating determined through a combination of the Aggregate Score as well as exercise of judgment. Judgment plays an important role in the scoring of qualitative factors as well as recommendations made to change the risk rating in cases of disagreement.
- Industry Volatility is a key driver in the Risk Rating as it has been proven that the probability of default is higher in industries with higher volatility. Each industry has been assigned a volatility factor based on trends observed in the past.
- Risk Rating is a continuous process; not an annual event.

Structure

A PC-based scorecard prepared in MS Excel has been introduced in both CBG and CBD and now being introduced in International Banking Group that all Relationship Managers will use to Risk Rate the borrowers within their respective portfolios. Only the items highlighted in 'yellow' are to be filled by the Relationship Managers and the respective scores with Baseline rating will be automatically generated.

The Risk Rating scorecard is based on an assessment of both quantitative and qualitative factors. The scores in the quantitative section are governed by the industry volatility factor, which is a key driver in determining the Risk Rating of the individual borrower.

➤ **Industry Volatility**

Industry volatility has been introduced as a key factor as it has been proven that the probability of default is higher in highly volatile industries while industries with a low volatility will have a greater degree of comfort. Based on past trends in respective industries, volatility factors of Low, Medium or High have been assigned to each industry and are enclosed herein as Annexure 7.

The total points allocated to each factor in the quantitative section vary based on the degree of volatility; the rationale being that companies with lower volatility will score more points than those with higher volatility.

Changes in volatility factors, if needed, will be advised from time to time by Risk Management Group.

➤ **Quantitative Factors**

- This section comprises current ratio (as per accounting standards), net profit margin, interest coverage, debt service coverage, and financial trend, adjusted net worth and adjusted leverage. Adjusted net worth is defined as paid up capital + retained earnings + reserves + subordinated directors' loans + 50% of revaluation surplus. Adjusted leverage is defined as total liabilities - subordinated directors' loans divided by adjusted net worth.
- The financial trend measures the last three year's performance in three parameters, namely sales, net income and net operating cash generated. Points are awarded according to the progression of the variables covered. Four years' data from the audited financials is required; however, management accounts may be used for Year 0 only in case audited financials are not available.
- The most reliable basis for determining the quantitative section of the scorecard is the most current audited financials but it must be recognized that the value of such information will deteriorate as the time period from the reporting date increases. Hence, management accounts may be used to complete the quantitative section but will require a greater degree of judgment as such accounts are often unreliable and may contain insufficient information.

➤ **Qualitative Factors**

- This section comprises quality of financial reporting, customer & supplier relations, account behavior, peer rating/ industry tiering, and management quality.

- Completion of the qualitative section is subjective and requires collation of information derived from personal knowledge of the borrower. The basis for allocation, however, should follow the guidelines as detailed below.
- **Quality of Financial Reporting:**
 - (a) **Auditing Firm:** The inherent risk of relying upon audited financials is substantially reduced the better the reputation of the auditor. The best audited financials are likely to come from auditors affiliated with auditing firms of international repute. If only company prepared accounts are available then the increased risk is reflected as a negative score whereas audited accounts qualified by the auditor should be categorized accordingly.
 - (b) **Age of Financials:** Ageing is measured from the date of financial statements to the date the relationship is risk rated. Stale accounts will hence be adversely reflected in the risk rating.
- **Customer and Supplier Relationship:** The Relationship Manager should consider the market standing of the borrower i.e. relationship with its buyers and sellers, any previous history of defaults to suppliers, breach of contracts etc., while allocating scores to this factor.
- **Account Behavior:** Poor account performance is often the first sign of cash flow problems, and nothing less than faultless behavior is expected from our borrowers. A positive score is given to borrowers who have been with us for more than two years to distinguish them from new borrowers without a track record or borrowers who have been with us for less than two years. Borrowers with an occasional negative feature in their account performance but not classified 1A (watch list) will have a small negative score. Borrowers classified 1A pose special risks and scores vary for companies based on the period of classification.
- **Peer Rating/ Industry Tiering:** The relative strength of a borrower vis-à-vis its competitors is an important risk factor; till such time the industry studies are complete, relationship managers would need thought and justification to score on this section. As a first step the borrower's peer group with a minimum of three competitors should be identified; thereafter the borrower should be assigned a quartile based on its position relative to its competitors on one or more criteria i.e. financials, product quality, distribution capability, brand recognition, etc.

- **Management Quality:** When assessing management quality it is important that scores be based on their professionalism while considering their track record in the business, educational qualifications, labor relations and succession planning.

➤ **Aggregate Score and Base Line Rating**

Once all the scorecard factors have been input the Aggregate Score will be automatically generated and Base Line Rating noted on the Risk Rating Summary.

➤ **Classified Account**

If a borrower is classified 1A or worse then its classification needs to be filled in the Risk Rating Summary section that would automatically generate its respective Derived Rating irrespective of its baseline rating.

➤ **Assigned Rating**

Because no scorecard is totally comprehensive and cannot cope with all factors influencing the risk of default, a recommendation may be made to change the derived rating, if needed provided the same is not rated 10 or worse. To change the rating, a rationale must be provided in the box marked “Justification for Assigned Rating”.

It should, however, be noted that particular care is needed in such circumstances as a higher degree of judgment is required and such recommendations should be extremely selective in case of an upgrade. An upgrade or downgrade by one or two levels would need to be approved by a Designated Risk Manager or Credit Policy, respectively.

In most instances, however, the derived rating would be the assigned rating, which should be marked accordingly on the face sheet of Risk Rating Scorecard which should be completed by the Designated Risk Manager or Credit Policy.

The approved assigned risk rating for borrowers must be shown under ‘Borrower Risk Rating (BRR)’ section on the front page of the Credit Proposal, Sanction Advice, Short Form and Classified Loan Management Report (CLMR).

➤ **Borrower Rating Scale**

(a) **CBG Scorecard**

- Companies with sales of Rs. 300 million and above will be rated on the CBG Borrower Risk Rating Scorecard.

- Ratings assigned on the CBG form will be from 3 to 9, while classified accounts will be rated from 10 to 14. In addition to the score requirements, minimum net worth covenants have to be met to qualify for the respective risk ratings detailed below:
 - For Risk Rating 3 Rs. 1,000 M
 - For Risk Rating 4 Rs. 750 M
 - For Risk Rating 5 Rs. 500 M
 - For Risk Rating 6 Rs. 250 M
 - For Risk Rating 7 Rs. 100 M
- CBG Scorecards are attached as based on the industry volatility rating of low, medium and high respectively.

(b) CBD Scorecard

- Companies with sales between Rs. 25 million and Rs. 299 million will be rated on the Borrower CBD Risk Rating Scorecard.
- Ratings assigned on the CBD form will be from 7 to 9, while classified accounts will be rated from 10 to 14. In addition to the score requirements, a company must have a minimum net worth of Rs. 100 M to qualify for a Risk Rating 7.
- CBD Scorecards are attached as Annexure 4 based on the industry volatility rating of low, medium and high respectively.

(c) IBG Scorecard

- IBG will use the CBG scorecard for companies with sales of USD 5 million and above.
- For companies with sales of USD 0.5 million up to USD 5 million, International branches will use the CBD scorecard.

Risk Rating Grid

The Risk Rating Definitions detailed in Annexure 8 are intended to provide a broad guideline for assessment of credit risks. Differences of opinion may exist in cases where there are border line calls, however, significant differences beyond one rating are not expected and these definitions are to be used for guidance purposes only.

➤ **Investment Grade Ratings**

Risk Ratings 1 to 2 are assigned to Investment Grade companies that include entities with parents rated investment grade by Moody’s or Standard & Poor’s. These risk ratings are not

included in the Rating Scale in the CBG scorecard as the policy for calculating these ratings will be advised at a later date. Risk ratings 3 and 4 are assigned to local investment grade companies.

➤ **Regular Ratings**

This will be defined as those companies with ratings falling between 5 and 9. Start-up ventures shall be assigned a risk rating of 8 or worse.

➤ **Classified Ratings**

Borrowers with a score of 10 to 14 will constitute a classified rating. All borrowers presently classified 1A or worse should be risk rated on the scorecard, however, in circumstances where this is not possible due to litigation or non availability of financial information, the rating should be appropriately mapped on the Credit Proposal or CLMR by referring to the Risk Rating Grid e.g. a 'Doubtful' relationship would be mapped with a Risk Rating of 13 on the Credit Proposal or CLMR.

Responsibility

(a) Branch Responsibility

- Branch Heads are responsible for ensuring that the Bank's Risk Rating system is understood and properly applied.
- Submit latest Scorecards and Risk Ratings duly countersigned by the relationship manager with all future credit reviews. Latest Assigned Ratings must be shown on all credit proposal, short forms and CLMRs.
- All Risk Ratings are to be reviewed once a year with annual review or upon receipt of financial information, whichever is earlier. Should there be a material change in the industry or borrower's business that can substantially alter the borrower's creditworthiness, a rating review exercise should be carried out. This reassessment must be documented whether or not it results in a change in rating.
- While management accounts may be used to downgrade the risk rating, any upgrades should be based on audited accounts only.
- Half yearly reporting of fund and non-fund based limits and outstanding of each borrower with aggregate score, derived rating and approved assigned rating.

- Any borrower with a derived rating of 10 or worse should be classified 1A if not already classified and CLMR with Risk Rating Scorecard is to be submitted to Credit Policy for approval.
- Inform the CRO immediately if Risk Rating is upgraded or downgraded by 1 or more levels.

(b) Designated Risk Manager's Responsibility

- Consistent application of risk rating system.
- Accuracy of risk measurement.
- Timeliness of risk reporting.
- Recommend appropriate action on the downgrade of Risk Rating.
- May exercise option of upgrading or downgrading branch recommended rating by one level provided derived risk rating is not 10 or worse in which case approval shall be given by the CRO. An upgrade or downgrade by two levels regardless of its derived rating shall be approved by Credit Policy.

(c) Audit & BRR Responsibility

- To review implementation of the Risk Rating policy and procedures when undertaking audits or portfolio reviews at business unit levels and reporting on the same.

Management of Downgraded Accounts

- A downward movement in a risk rating implies that the probability of default has increased and appropriate action must be taken.
- A double downgrade in Risk Rating must be reported to the CRO.
- A Risk Rating downgrade to 10 or worse should be classified 1A if not already classified and CLMR with Risk Rating Scorecard must be submitted to CRO for approval.

Approval Levels

- While credit reviews (credit proposals and short forms) will continue to be approved by the original approving authority, assigned Risk Ratings for all borrowers in CBG, IBG and CBD shall be approved by the SCO or the CRO.
- Borrowers with a derived rating of 10 or worse shall be approved by the CRO.

- Upgrade or downgrade by one level will be approved by the SCO, provided it falls within their respective Credit Authority.
- Upgrade or downgrade by two levels will be approved by the CRO.

Group Risk Rating

A Group Risk Rating (GRR) Scorecard has been launched to enable the management to gauge the risk profile of various companies in a group by assigning a consolidated risk rating. The derived GRR is based on Risk Ratings of individual borrowers in relation to their weighted average exposures within the group.

The Group Risk Rating Scorecards for all groups in CBG, IBG and CBD will be submitted annually to the SCO for approval. Where group exposure exceeds the discretionary authority of the SCO, approval should be sought from the CRO.

While risk ratings for individual borrowers within a group would be reflected under the column “BRR”, the Group Risk Rating should be shown on all Credit Proposals, short forms and CLMRs under the head ‘GRR’.

Half yearly reports of total limits and approved assigned Group Risk Ratings for all the groups must be submitted to the SCO.

A Group Risk Rating Scorecard is attached as Annexure 9.

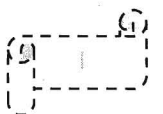
CHAPTER 7- CONCLUSION

The report is based on the information collected from the Habib Bank Limited's Credit Policy Manual. Not only that the respective interviews and discussion done with the respective authority mainly the Relationship Managers in the Credit and Marketing Department. The information collected has been used in this project to give a view of the Loan Processing System and Credit Appraisal System of the Habib Bank Limited.

Loan Processing System: This system is a bit complex as the Relationship Managers, Credit Administration Department In-charge, Branch Managers, Risk Managers and Regional General Manager have to keep a track of the organizations that are getting loans whether they are complying with the obligatory rules and regulations as compiled in the Credit Policy Manual as presented under the Habib Bank Pakistan which is the Head Office in Karachi. This manual is prepared by keeping in mind the best interest of the bank and that of the customers. It is a very strong process and gives the organization great increase in the assets as their main business is to get deposits which are their liabilities and give loans which are their deposits. As their target is likewise of any other bank to gain deposits they do have pretty attractive and descent products and as they are unable to give out that many loans what I would recommend them to do is that they open more branches so they get more clientele in Bangladesh and thus cover a huge market. In this manner they will be able to fulfill their desire to become a top most bank and expand their clientele with the huge network they have.

Credit Appraisal System: In this system the respective Relationship Manager (RM) has to very carefully and with precision prepare and produce relevant documents which will help the other respective officials to judge the authenticity of the organization's or an individual's. The documents prepared are Credit Proposal forms containing; credit proposal, sanction advice and basic information report. Other documents the RM has to prepare are: credit memorandum, financial spreads and risk rating scorecard. Each document unfolds the information regarding the client, the business and the organization, and helps the respective authorized officials to review and decide whether the loan needs to be further processed or not. If they have any query they request the respective RM to provide them with certain documents if needed to clear the doubts that are present.

ANNEXURE 1



CALL MEMORANDUM / VISIT REPORT

Date

Company :	
-----------	--

Business Activity :	
---------------------	--

Calling Officer(s) :	
----------------------	--

Called Upon <i>Designation</i>	
-----------------------------------	--

Purpose :	
-----------	--

Synopsis Of Discussion	
------------------------	--

Conclusion:	
-------------	--

Action Plan/Strategy (with strategy & Follow Up Dates)	
---	--

Signatures

ANNEXURE 2

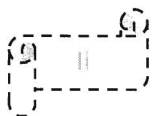


Figure 5a

HABIB BANK LTD Credit Proposal		Please note, amounts are PKR millions unless otherwise specified. International Banking Group is to state amounts in respective LCY (millions), also stating aggregate amounts in USD (millions) equivalent.					Initial			
							Annual			
							Interim			
Group / Borrower's Name & Address			Originating Unit			Proposal No.				
Line of Business			Control Unit			Date				
Group Code			Approval Level			Final Approval Date				
						Proposal Expiration Date				
Business Segment			Group Risk Rating		Existing	Proposed	Previous Approval Date			
			Internal							
			External(Agency)							
Borrower Name	Existing Facilities			Outstandings		Tenor Profile				
	FB	NFB	Total	Total	Classified	Up to 1 Yr	1 - 3 Yrs	3 - 5 Yrs	Over 5 Yrs	Total
GROUP										
Purpose / Exceptions:						Group Facility Summary		Existing	Proposed	Net Inc / (Dec)
						Fund Based				
Overdues / Defaults (if any):						Non Fund Based				
						Others				
						Total				
						Group Classified Exposure Amount(s)				
						IA	Substand.	Doubtful	Loss	
Group Classification History				Group Revenues			200_ (A)	200_ (A)	200_ (P)	
Classification Date				Net Interest Income						
Classific'n Category				Commission Income						
Classif'd Exposure Amt				Exchange earnings						
Restructuring History	Past 12 mos.	Past 60 mos.	To Date	Income on credit balances						
Amount restructured				Others						
Mark-up waived				Total						
Mark-up written-off				Yield (%)						
Principal written-off										
Originating / Control Unit										
Initials with Name & Designation stamp										
Approval										
Initials with Name & Designation stamp										

Figure 5b

HABIB BANK LTD											
Sanction Advice - Group											
Group			Group Code			Control Unit			Proposal No		Date
Borrower		Borr. Code	ORR		Orig. Unit	Total Prop. Facility	Industry	Industry Code	External Rating	National Tax Number	
			Existing	Proposed							
Fac No	Branch/ Centre	Nature	Existing	Prop. FB	Prop. NFB	Net Change	Tenor	Expiry	Pricing	Current	Ov'dues/Classif'n
FACILITY											
OUTSTANDINGS											
sub-total						sub-total					
Borrower		Borr. Code	ORR		Orig. Unit	Total Prop. Facility	Industry	Industry Code	External Rating	National Tax Number	
			Existing	Proposed							
Fac No	Branch/ Centre	Nature	Existing	Prop. FB	Prop. NFB	Net Change	Tenor	Expiry	Pricing	Current	Ov'due/Class
FACILITY											
OUTSTANDINGS											
sub-total						sub-total					
Borrower		Borr. Code	ORR		Orig. Unit	Total Prop. Facility	Industry	Industry Code	External Rating	National Tax Number	
			Existing	Proposed							
Fac No	Branch/ Centre	Nature	Existing	Prop. FB	Prop. NFB	Net Change	Tenor	Expiry	Pricing	Current	Ov'due/Class
FACILITY											
OUTSTANDINGS											
sub-total						sub-total					
Grand Total						Grand Total					
Comments / Procedural Requirements											
Authorised Signatures											

Last
Last
Comm

Doc
to b

Author

Figure 5c

HABIB BANK LTD Sanction Advice - Non-Group							Control Unit		Proposal No		Date	
Borrower			Borr. Code		ORR		Orig. Unit	Total Prop. Facility	Industry	Industry Code	External Rating	National Tax Number
					Existing	Proposed						
No	Centre	Nature	Existing	Prop. FB	Prop. NFB	Net Change	Tenor	Expiry	Pricing	Current	Ov'dues/Classif'n	
Total						Total						
Description of Collateral												
Fac No	Facility Amount	Description of Collateral	Charge Amount & Ranking	Margin (%)		Collateral Value						
				Existing	Proposed							
		Existing:				Date of Valuation:						
		Proposed:				MV: (Land/Building/Machinery)						
						FSV:						
		Existing:				Date of Valuation:						
		Proposed:				MV: (Land/Building/Machinery)						
						FSV:						
		Existing:				Date of Valuation:						
		Proposed:				MV:						
						FSV:						
		Existing:				Date of Valuation:						
		Proposed:				MV:						
						FSV:						
Last Stock Inspection			Date	Remarks/ Observations								
Last Legal Review												
Comments / Procedural Requirements												
Documentation has been physically reviewed and to be in order/deficient (Delete as appropriate)												
											Documentation Officer	
Authorised Signatures												

Figure5d

HABIB BANK LTD						
Description of Collateral - Group						
Group		Group Code		Originating Unit		Proposal No/Date
Borrower			Borrower Code			
Fac No	Facility Amount	Description of Collateral	Charge Amount & Ranking	Margin (%)		Collateral Value
				Existing	Proposed	
		Existing:				Date of Valuation:
		Proposed:				MV: (Land/Bldg./Machinery)
						FSV:
		Existing:				Date of Valuation:
		Proposed:				MV:
						FSV:
		Existing:				Date of Valuation:
		Proposed:				MV:
						FSV:
		Date	Remarks/ Observations			
Last Stock Inspection						
Last Legal Review						
Borrower			Borrower Code			
Fac No	Facility Amount	Description of Collateral	Charge Amount & Ranking	Margin (%)		Collateral Value
				Existing	Proposed	
		Existing:				Date of Valuation:
		Proposed:				MV: (Land/Bldg./Machinery)
						FSV:
		Existing:				Date of Valuation:
		Proposed:				MV:
						FSV:
		Existing:				Date of Valuation:
		Proposed:				MV:
						FSV:
		Date	Remarks/ Observations			
Last Stock Inspection						
Last Legal Review						
Documentation has been physically reviewed and to be in order/deficient (Delete as appropriate)						
						Documentation Officer _____
Authorised Signatures						

Figure 5f

HABIB BANK LTD
Basic Information Report (c

HABIB BANK LTD Basic Information Report		National Tax Number		Reporting Date						
Originating Unit / Branch		Date A/c Opened		Date of Establishment						
Group / Borrower Name & Address		Ownership								
Line of Business		Key Management								
Directors										
Facilities with Other Banks		Group / Associated Companies								
Bank As at ()	Facility Amount			%age						
	FB	NFB	Total							
Compliance with Central Bank Requirements		Actual	Required	Revenues	200_ (A)	200_ (A)	200_ (P)			
Per Party Limit				Net Int. Income						
Total FB Fac < 4X Capital				Comm. Income						
Total FB Fac < 10X Capital				Exchange						
Current ratio			1:1	Credit balances						
Margin Against Shares Maintained			Various	Others						
Credit Report / Checking				Total						
Clean				Yield (%)						
Overdue										
Default										

History

History:

Physical Facilities / Production Process / Capacity:

Main Business Activities / Products:

Key Suppliers / Buying Terms / Trade Reputation:

Key Buyers / Selling Terms:

HABIB BANK LTD

Basic Information Report (contd.)

National Tax Number

Reporting Date

Basic Information Report (contd.)		National Tax Number	Reporting Date

ANNEXURE 3



Financial Summary		Historical Cost			
Company:					
Auditor:					
Location:		DHAKA		Currency: BDT Amount in '000s	
Audited/Unaudited	Audited	Audited	Audited	Draft Audited	
Unqualified					
Accounting Changes-Major/Minor					
Consolidated/Unconsolidated					
Date	31-Dec-08	31-Dec-09	31-Dec-10		
KEY FIGURES					
SALES	xxx	xxx	xxx		
Operating Profit	#VALUE!	#VALUE!	#VALUE!		
Profit Pre Extraordinary Items	#VALUE!	#VALUE!	#VALUE!		
Net Income	#VALUE!	#VALUE!	#VALUE!		
Net Worth*					
Working Capital					
ANNUAL GROWTH %					
Sales		#VALUE!	#VALUE!		
Operating Profit		#VALUE!	#VALUE!		
Net Income		#VALUE!	#VALUE!		
Net Worth		#DIV/0!	#DIV/0!		
Total Assets		#DIV/0!	#DIV/0!		
CASH FLOW					
Net Operating Cash Generated	#VALUE!	#VALUE!	#VALUE!		
Gross Operating Funds Generated	#VALUE!	#VALUE!	#VALUE!		
CAPEX	xxx	xxx	xxx		
New Borrowings (NET/GROSS)		#VALUE!	#VALUE!		
New Equity					
KEY RATIOS					
PROFITABILITY (%)					
Net Income/Sales	#VALUE!	#VALUE!	#VALUE!		
Net Income/Net Worth	#VALUE!	#VALUE!	#VALUE!		
Operating Profit/Sales	#VALUE!	#VALUE!	#VALUE!		
Taxes/Profit Before Tax	#VALUE!	#VALUE!	#VALUE!		
TURNOVER EFFICIENCY					
Days Receivable	#VALUE!	#VALUE!	#VALUE!		
Days Inventory (CGS)	#DIV/0!	#DIV/0!	#DIV/0!		
Days Payable (CGS)	#DIV/0!	#DIV/0!	#DIV/0!		
LIQUIDITY					
Current Ratio	#DIV/0!	#DIV/0!	#DIV/0!		
Quick Ratio	#DIV/0!	#DIV/0!	#DIV/0!		
LEVERAGE					
Total Liabilities/Net Worth*	#VALUE!	#VALUE!	#VALUE!		
Long Term Liab./Net Worth*	#VALUE!	#VALUE!	#VALUE!		
Debt Service Coverage Ratio*	#VALUE!	#VALUE!	#VALUE!		
Interest Coverage	#VALUE!	#VALUE!	#VALUE!		
Total Liabilities/Total Assets	#VALUE!	#VALUE!	#VALUE!		
Total LT Liabilities/Total Assets	#VALUE!	#VALUE!	#VALUE!		
INVESTMENT INDICATORS					
Net Income/Net Worth	#VALUE!	#VALUE!	#VALUE!		
Dividends/Net Income	#VALUE!	#VALUE!	#VALUE!		
*Net Worth Defined As: Capital Plus Retained Earnings Less Goodwill & Intangibles.					
*Debt Service Coverage Ratio Defined As: Operating Profit Plus Depreciation Expense Divided By The Sum Of Interest Expense, Principal Repayments (grossed up for tax) , Prior-year Tax Payment (grossed up for tax), and Operating Lease Payments					

BALANCE SHEET		Historical Cost					
Company:							
Auditor:		Syful Shamsul Alam & Co		Rahman Mostafa Alam & Co.		Rahman Mostafa Alam & Co.	
Location:		DHAKA		Currency:		BDT Amount in '000s	
Date	Audited		Audited		Draft Audited		
	31-Dec-08		31-Dec-09		31-Dec-10		
Cash & Marketable Securities	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Short Term Investment	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Receivables		#DIV/0!		#DIV/0!		#DIV/0!	
Inventory		#DIV/0!		#DIV/0!		#DIV/0!	
Stores & Spares		#DIV/0!		#DIV/0!		#DIV/0!	
Short Term Loans & Advances	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Prepaid Expenses, Advances & Deposits	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Disputed Tax/CED Payments		#DIV/0!		#DIV/0!		#DIV/0!	
Other Current Assets	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
TOTAL CURRENT ASSETS		#DIV/0!		#DIV/0!		#DIV/0!	
		#DIV/0!		#DIV/0!		#DIV/0!	
Net Fixed Assets	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Long term deposits		#DIV/0!		#DIV/0!		#DIV/0!	
Deferred Costs		#DIV/0!		#DIV/0!		#DIV/0!	
Long-term investment	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Long-term loans & advances	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Other Long Term Assets		#DIV/0!		#DIV/0!		#DIV/0!	
TOTAL LONG TERM ASSETS		#DIV/0!		#DIV/0!		#DIV/0!	
		#DIV/0!		#DIV/0!		#DIV/0!	
TOTAL ASSETS		#DIV/0!		#DIV/0!		#DIV/0!	
		#DIV/0!		#DIV/0!		#DIV/0!	
Short Term Debt	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Accounts Payable		#DIV/0!		#DIV/0!		#DIV/0!	
Short Term Deposit	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Accrued Expenses	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Taxes Payable	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
WPPF		#DIV/0!		#DIV/0!		#DIV/0!	
Advances from Associated Undertakings		#DIV/0!		#DIV/0!		#DIV/0!	
Other Current Liabilities	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Long Term Debt - Current Portion		#DIV/0!		#DIV/0!		#DIV/0!	
TOTAL CURRENT LIABILITIES		#DIV/0!		#DIV/0!		#DIV/0!	
		#DIV/0!		#DIV/0!		#DIV/0!	
Long Term Senior Debt	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Finance Lease Obligations		#DIV/0!		#DIV/0!		#DIV/0!	
Redeemable Capital		#DIV/0!		#DIV/0!		#DIV/0!	
Director's Loan		#DIV/0!		#DIV/0!		#DIV/0!	
TOTAL LONG TERM DEBT		#DIV/0!		#DIV/0!		#DIV/0!	
		#DIV/0!		#DIV/0!		#DIV/0!	
Long-term Deposits	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Other Long Term Liabilities		#DIV/0!		#DIV/0!		#DIV/0!	
TOTAL LONG TERM LIABILITIES		#DIV/0!		#DIV/0!		#DIV/0!	
		#DIV/0!		#DIV/0!		#DIV/0!	
Labour & Pension Provisions		#DIV/0!		#DIV/0!		#DIV/0!	
Other Deferred / Provisions / Reserves	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
TOTAL DEFERRED LIABILITIES		#VALUE!		#VALUE!		#VALUE!	
TOTAL LIABILITIES		#VALUE!		#VALUE!		#VALUE!	
		#DIV/0!		#DIV/0!		#DIV/0!	
Minority Interests/ Quasi Equity		#DIV/0!		#DIV/0!		#DIV/0!	
Deferred tax	xxx	#VALUE!	xxx	#VALUE!		#DIV/0!	
TOTAL NEAR EQUITY		#VALUE!		#VALUE!		#DIV/0!	
		#DIV/0!		#DIV/0!		#DIV/0!	
Surplus on Revaluation of Fixed Assets		#DIV/0!		#DIV/0!		#DIV/0!	
Paid-up Capital	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Reserves / Provisions	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
Retained Earnings	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!	
TOTAL NET WORTH		#DIV/0!		#DIV/0!		#DIV/0!	
NET WORTH AND NEAR EQUITY		#VALUE!		#VALUE!		#DIV/0!	
TOTAL LIABILITIES & EQUITY		#VALUE!		#VALUE!		#VALUE!	
		#DIV/0!		#DIV/0!		#DIV/0!	
Balance Sheet Check		#VALUE!		#VALUE!		#VALUE!	

Note: Both Loans and Deposits have categorized between Short Term and Long Term based on the residual maturity of Loans and Deposits.

INCOME STATEMENT		Historical Cost				
Company:						
Auditor:		Syful Shamsul Alam & CoRahman Mostafa Alam & Co.		Rahman Mostafa Alam & Co.		
Location:		DHAKA		Currency:		BDT Amount in '000s
Date	Audited		Audited		Draft Audited	
MONTHS	31-Dec-08		31-Dec-09		31-Dec-10	
	12		12		12	
		%		%		%
Operating Revenue	xxx	100.0	xxx	100.0	xxx	100.0
Cost Of Goods Sold		#VALUE!		#VALUE!		#VALUE!
Administration, Selling & General Expense	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!
Depreciation	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!
Other Non Cash Expenses						
OPERATING PROFIT	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Gain on Sale of Fixed Assets		#VALUE!		#VALUE!		#VALUE!
Other Non-Operating Income		#VALUE!		#VALUE!		#VALUE!
Other Expenses	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!
Interest Income						
PROFIT BEFORE INTEREST & TAXES	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Interest Expense	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!
Provisions for Investments	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!
PROFIT BEFORE TAX	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Tax Current Payable	xxx	#VALUE!	xxx	#VALUE!	xxx	#VALUE!
Deferred Tax		#VALUE!		#VALUE!		#VALUE!
Prior-Year		#VALUE!		#VALUE!		#VALUE!
PROFIT PRE EXTRAORDINARY ITEMS	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Extraordinary Income		#VALUE!		#VALUE!		#VALUE!
Extraordinary Taxation		#VALUE!		#VALUE!		#VALUE!
Prior Year Adjustment		#VALUE!		#VALUE!		#VALUE!
NET INCOME	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
NET WORTH RECONCILIATION						
OPENING NET WORTH	689,057		#VALUE!		#VALUE!	
PLUS: Net income	#VALUE!		#VALUE!		#VALUE!	
Bonus Shares Issued			xxx		xxx	
Sale Of Equity						
Asset Revaluation, Injection of capital / reserve					xxx	
FX Translation Gain/(Loss)/ Interim Dividend						
Share Premium						
TOTAL ADDITIONS	#VALUE!		#VALUE!		#VALUE!	
LESS: Dividends			xxx		xxx	
Bonus Shares Issued						
ENDING NET WORTH	#VALUE!		#VALUE!		#VALUE!	
Check	#VALUE!		#VALUE!		#VALUE!	

Note: Interest Expense is basically the COGS of the company since it is a NBFIL.

SUPPLEMENTARY/INFORMATION
FIXED ASSET RECONCILIATION

Historical Cost

Company:

Auditor:

Rahman Mostafa Alam & Rahman Mostafa Alam & Co.

Location:

DHAKA

Currency:

BDT Amount in '000s

Date	Audited 31-Dec-08	Audited 31-Dec-09	Draft Audited 31-Dec-10
OPENING NET FIXED ASSETS	xxx	#VALUE!	#VALUE!
PLUS: Fixed Assets Aquired	xxx	xxx	xxx
Revaluation & FX Adjustments			
TOTAL ADDITIONS			xxx
LESS: Depreciation For The Period	xxx	xxx	xxx
Cash from sale of assets			
Gain on Sale of Fixed Assets			
Adjustments			
TOTAL DEDUCTIONS	xxx		xxx
ENDING NET FIXED ASSETS	#VALUE!	#VALUE!	#VALUE!
Check	#VALUE!	#VALUE!	#VALUE!
Land (leasehold)			
Buildings			
Machinery			
Office Equipment & Furniture			
Airconditioner & Generator			
Vehicles			
Other Equipment			
Capital Work-in-Process			
LESS: Accumulated Depreciation			
NET FIXED ASSETS			
Debt Service Coverage Ratio - Inputs:			
Principal Repayments During The Period			
Effective Tax Rate	#VALUE!	#VALUE!	#VALUE!

ACCOUNTING POLICIES

Comments on Key Policies
(Inflation, Consolidation, FX, Assets, Changes, Audit, Etc.)

CASH GENERATION STATEMENT		Historical Cost		
Company:				
Auditor: Rahman Mostafa Alam & Co. Rahman Mostafa Alam & Co.				
Location: DHAKA		Currency: BDT		Amount in 000s
Date	31-Dec-08	Audited		Draft Audited
No of Months	12	31-Dec-09		31-Dec-10
		12		12
Operating Profit	#VALUE!	#VALUE!		#VALUE!
ADD:				
Depreciation	xxx	xxx		xxx
Interest Income				
Other income				
Other Non Cash Expenses				
Sub-Total	#VALUE!	#VALUE!		#VALUE!
LESS:				
Tax Payment		#VALUE!		#VALUE!
Interest Payment		#VALUE!		#VALUE!
Dividend Payment		xxx		xxx
Other Expenses Paid		#VALUE!		#VALUE!
Provision for Investment		xxx		xxx
Prior Year Adjustments				
GROSS OPERATING FUNDS GENERATED	#VALUE!	#VALUE!		#VALUE!
LESS: Increase (Decrease)				
Receivables				
Inventory				
Stores & Spares				
Prepaid Expenses		#VALUE!		#VALUE!
Disputed Tax / CED Payments				
Other Current Assets		#VALUE!		#VALUE!
Short Term Loans & Advances		#VALUE!		#VALUE!
TOTAL OPERATING NEEDS		#VALUE!		#VALUE!
PLUS: Increase (Decrease)				
Accounts Payable				
Advances from Associated Undertakings				
Other Current Liabilities		#VALUE!		#VALUE!
Accrued Expenses		#VALUE!		#VALUE!
TOTAL OPERATING SOURCES		#VALUE!		#VALUE!
CHANGE IN WORKING CAPITAL		#VALUE!		#VALUE!
Net Operating Cash Generated	#VALUE!	#VALUE!		#VALUE!
LESS:				
Capital Expenditures		xxx		xxx
Long term loans & advances		#VALUE!		#VALUE!
Reduction In Short Term Debt		#VALUE!		#VALUE!
Reduction In Long Term Debt				
Long-term Deposits		#VALUE!		#VALUE!
Other Long Term Liabilities				
Long-term investment		#VALUE!		#VALUE!
Other Long Term Assets				
Tax paid for issue of Bonus Shares				
TOTAL NON-OPERATING NEEDS		#VALUE!		#VALUE!
PLUS:				
Sale of Equity				
Increase In Long Term Debt				
Increase In Short Term Debt		#VALUE!		#VALUE!
Deferred Liabilities		#VALUE!		#VALUE!
Cash from Sales of Assets				
TOTAL NON-OPERATING SOURCES		#VALUE!		#VALUE!
Net Equity Change		#VALUE!		#VALUE!
NET INCREASE/(DECREASE) IN CASH	#VALUE!	#VALUE!		#VALUE!
OTHER LIQUID ASSETS				
Check		#VALUE!		#VALUE!
Difference		#VALUE!		#VALUE!

ANNEXURE 4

Appendix 6.1 (a)

HABIB BANK LTD

Page 1 of 2

Obligor Risk Rating Scorecard - Corporate Borrowers
To be used for companies with sales of Rs. 300 M and above.

Date	Completed by

Only the boxes highlighted in yellow need to be filled in.
(It is mandatory to fill in Industry Volatility.)

Scores on this sheet are based on Quantitative Evaluation.
The RM needs to fill in financial values from the spreadsheet

Borrower Name		Borrower Code	Group Code	Group Name
Industry Volatility (Insert "High", "Medium" or "Low" - Refer to Industry Volatility Sheet)		Business Segment	Industry Code	Date of Latest Financials
Low				
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<p>1. Adjusted Net Worth (Rs. Million)</p> <table border="1"> <tr><td>Total Net Worth (Incl. Reval)</td><td> </td></tr> <tr><td>Revaluation Surplus</td><td> </td></tr> <tr><td>Subordinated Directors' Loan</td><td> </td></tr> <tr><td>Adjusted Net Worth</td><td> </td></tr> </table> <table border="1"> <thead> <tr><th>Value</th><th>Points</th></tr> </thead> <tbody> <tr><td>Below PKR 75 M</td><td>4</td></tr> <tr><td>From PKR 75 M to 200 M</td><td>10</td></tr> <tr><td>From PKR 200 M to 500 M</td><td>18</td></tr> <tr><td>From PKR 500 M to 1 B</td><td>28</td></tr> <tr><td>From PKR 1 B to 2.5 B</td><td>38</td></tr> <tr><td>From PKR 2.5 B to 5 B</td><td>48</td></tr> <tr><td>PKR 5 B & above</td><td>58</td></tr> </tbody> </table> <p>Points: <input type="text"/></p>	Total Net Worth (Incl. Reval)		Revaluation Surplus		Subordinated Directors' Loan		Adjusted Net Worth		Value	Points	Below PKR 75 M	4	From PKR 75 M to 200 M	10	From PKR 200 M to 500 M	18	From PKR 500 M to 1 B	28	From PKR 1 B to 2.5 B	38	From PKR 2.5 B to 5 B	48	PKR 5 B & above	58	<p>2. Current Ratio</p> <p>Insert Current Ratio * <input type="text"/></p> <p>* as per spreads</p> <table border="1"> <thead> <tr><th>Ratio</th><th>Points</th></tr> </thead> <tbody> <tr><td>Below 0.8</td><td>0</td></tr> <tr><td>From 0.8 to 1.0</td><td>5</td></tr> <tr><td>From 1.0 to 1.4</td><td>10</td></tr> <tr><td>From 1.4 to 1.8</td><td>15</td></tr> <tr><td>From 1.8 to 2.2</td><td>20</td></tr> <tr><td>2.2 & above</td><td>30</td></tr> </tbody> </table> <p>Points: <input type="text"/></p>	Ratio	Points	Below 0.8	0	From 0.8 to 1.0	5	From 1.0 to 1.4	10	From 1.4 to 1.8	15	From 1.8 to 2.2	20	2.2 & above	30	<p>3. Net Profit Margin</p> <p>Insert Net Margin <input type="text"/></p> <table border="1"> <thead> <tr><th>Ratio</th><th>Points</th></tr> </thead> <tbody> <tr><td>Below 2%</td><td>4</td></tr> <tr><td>From 2% to 5%</td><td>10</td></tr> <tr><td>From 5% to 9%</td><td>15</td></tr> <tr><td>From 9% to 17%</td><td>20</td></tr> <tr><td>17% & above</td><td>25</td></tr> </tbody> </table> <p>Points: <input type="text"/></p>	Ratio	Points	Below 2%	4	From 2% to 5%	10	From 5% to 9%	15	From 9% to 17%	20	17% & above	25	<p>4. Adjusted Leverage</p> <p>Adjusted Leverage <input type="text"/> 0.00</p> <p>Total Liabilities * <input type="text"/> 0</p> <p>* as per spreads</p> <table border="1"> <thead> <tr><th>Ratio</th><th>Points</th></tr> </thead> <tbody> <tr><td>3.0 & above</td><td>14</td></tr> <tr><td>From 2.5 to 3.0</td><td>26</td></tr> <tr><td>From 2.0 to 2.5</td><td>39</td></tr> <tr><td>From 1.5 to 2.0</td><td>51</td></tr> <tr><td>From 1.0 to 1.5</td><td>64</td></tr> <tr><td>From 0.5 to 1.0</td><td>76</td></tr> <tr><td>Below 0.5</td><td>89</td></tr> <tr><td>Negative</td><td>0</td></tr> </tbody> </table> <p>Points: <input type="text"/></p>	Ratio	Points	3.0 & above	14	From 2.5 to 3.0	26	From 2.0 to 2.5	39	From 1.5 to 2.0	51	From 1.0 to 1.5	64	From 0.5 to 1.0	76	Below 0.5	89	Negative	0
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Appendix 6.1 (a)

HABIB BANK LTD

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Obligor Risk Rating Scorecard - Corporate Borrowers

Scores on this sheet, except point 7, are based on Qualitative Evaluation. The RM needs to fill in scores on the basis of subjective opinion.

<p>7. Debt Service Coverage</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td colspan="2">Insert Debt Service Ratio</td> </tr> <tr> <td>Value</td> <td>Points</td> </tr> <tr> <td>10 x & above</td> <td>30</td> </tr> <tr> <td>From 7x to 10x</td> <td>22</td> </tr> <tr> <td>From 4x to 7x</td> <td>14</td> </tr> <tr> <td>From 2x to 4x</td> <td>8</td> </tr> <tr> <td>From 1x to 2x</td> <td>4</td> </tr> <tr> <td>From 0.5x to 1x</td> <td>0</td> </tr> <tr> <td>Below 0.5x</td> <td>-10</td> </tr> </table> <p>Points</p>	Insert Debt Service Ratio		Value	Points	10 x & above	30	From 7x to 10x	22	From 4x to 7x	14	From 2x to 4x	8	From 1x to 2x	4	From 0.5x to 1x	0	Below 0.5x	-10	<p>8. Quality of Financial Reporting</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td>Auditing Firm</td> <td>Points</td> </tr> <tr> <td>World Major or Affiliate</td> <td>6</td> </tr> <tr> <td>Other Auditing Firm</td> <td>0</td> </tr> <tr> <td>Company Accounts</td> <td>-3</td> </tr> <tr> <td>Qualified Accounts</td> <td>-9</td> </tr> </table> <p>Points</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td>Financials Age at credit rating date</td> <td>Points</td> </tr> <tr> <td>0-9 months</td> <td>0</td> </tr> <tr> <td>9-12 months</td> <td>-7</td> </tr> <tr> <td>12 to 15 months</td> <td>-10</td> </tr> <tr> <td>Over 15 months</td> <td>-20</td> </tr> </table> <p>Points</p> <p>Age of financials: 0 Months</p>	Auditing Firm	Points	World Major or Affiliate	6	Other Auditing Firm	0	Company Accounts	-3	Qualified Accounts	-9	Financials Age at credit rating date	Points	0-9 months	0	9-12 months	-7	12 to 15 months	-10	Over 15 months	-20	<p>9. Customer & Supplier Relations</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td></td> <td>Points</td> </tr> <tr> <td>Excellent reputation & relations with both</td> <td>3</td> </tr> <tr> <td>Sound relations with both</td> <td>0</td> </tr> <tr> <td>Sound relations with one</td> <td>-3</td> </tr> <tr> <td>Negative market checking</td> <td>-6</td> </tr> </table> <p>Points</p>		Points	Excellent reputation & relations with both	3	Sound relations with both	0	Sound relations with one	-3	Negative market checking	-6	<p>10. Account Behaviour</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td></td> <td>Points</td> </tr> <tr> <td>Faultless in last 2 years</td> <td>3</td> </tr> <tr> <td>Recent account but faultless *</td> <td>0</td> </tr> <tr> <td>Occasionally late, not 1A (watchlist)</td> <td>-3</td> </tr> <tr> <td>1A (on watchlist) for last 6 months</td> <td>-6</td> </tr> <tr> <td>1A (on watchlist) for more than 6 months</td> <td>-12</td> </tr> </table> <p>Points</p> <p>* Less than 2 years</p>		Points	Faultless in last 2 years	3	Recent account but faultless *	0	Occasionally late, not 1A (watchlist)	-3	1A (on watchlist) for last 6 months	-6	1A (on watchlist) for more than 6 months	-12
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Rating Scale

Minimum Adjusted Net Worth of Rs. 1,000 M is required in order to qualify for a Rating 3
 Minimum Adjusted Net Worth of Rs. 750 M is required in order to qualify for a Rating 4
 Minimum Adjusted Net Worth of Rs. 500 M is required in order to qualify for a Rating 5
 Minimum Adjusted Net Worth of Rs. 250 M is required in order to qualify for a Rating 6
 Minimum Adjusted Net Worth of Rs. 100 M is required in order to qualify for a Rating 7

Designated risk manager can upgrade or downgrade the derived rating by 1 level. Credit Policy may upgrade or downgrade by 2 levels.

Aggregate Score	Rating
190 and above	3
160 - 189	4
130 - 159	5
100 - 129	6
70 - 99	7
40 - 69	8
0 - 39	9
Less than 0 or 1A	10
OAEM	11
Substandard	12
Doubtful	13
Loss	14

Justification for Assigned Rating

Assigned Rating Approved by

Appendix 6.1 (b)

HABIB BANK LTD

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To be used for companies with sales of Rs. 300 M and above.

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Only the boxes highlighted in yellow need to be filled in.
(It is mandatory to fill in Industry Volatility.)

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Appendix 6.1 (b)

HABIB BANK LTD

Obligor Risk Rating Scorecard - Corporate Borrowers

Scores on this sheet, except point 7, are based on Qualitative Evaluation. The RM needs to fill in scores on the basis of subjective opinion.

<p>7. Debt Service Coverage</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td colspan="2">Insert Debt Service Ratio</td> </tr> <tr> <td style="text-align: center;">Value</td> <td style="text-align: center;">Points</td> </tr> <tr> <td>10 x & above</td> <td style="text-align: center;">30</td> </tr> <tr> <td>From 7x to 10x</td> <td style="text-align: center;">22</td> </tr> <tr> <td>From 4x to 7x</td> <td style="text-align: center;">14</td> </tr> <tr> <td>From 2x to 4x</td> <td style="text-align: center;">8</td> </tr> <tr> <td>From 1x to 2x</td> <td style="text-align: center;">4</td> </tr> <tr> <td>From 0.5x to 1x</td> <td style="text-align: center;">0</td> </tr> <tr> <td>Below 0.5x</td> <td style="text-align: center;">-10</td> </tr> <tr> <td colspan="2">Points</td> </tr> </table>	Insert Debt Service Ratio		Value	Points	10 x & above	30	From 7x to 10x	22	From 4x to 7x	14	From 2x to 4x	8	From 1x to 2x	4	From 0.5x to 1x	0	Below 0.5x	-10	Points		<p>8. Quality of Financial Reporting</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Auditing Firm</td> <td style="text-align: center;">Points</td> </tr> <tr> <td>World Major or Affiliate</td> <td style="text-align: center;">6</td> </tr> <tr> <td>Other Auditing Firm</td> <td style="text-align: center;">0</td> </tr> <tr> <td>Company Accounts</td> <td style="text-align: center;">-3</td> </tr> <tr> <td>Qualified Accounts</td> <td style="text-align: center;">-9</td> </tr> <tr> <td colspan="2">Points</td> </tr> <tr> <td colspan="2">Financials Age at credit rating date</td> </tr> <tr> <td style="text-align: center;">Points</td> <td style="text-align: center;">Points</td> </tr> <tr> <td>0-9 months</td> <td style="text-align: center;">0</td> </tr> <tr> <td>9-12 months</td> <td style="text-align: center;">-7</td> </tr> <tr> <td>12 to 15 months</td> <td style="text-align: center;">-10</td> </tr> <tr> <td>Over 15 months</td> <td style="text-align: center;">-20</td> </tr> <tr> <td colspan="2">Points</td> </tr> <tr> <td>Age of financials</td> <td style="text-align: center;">0 Months</td> </tr> </table>	Auditing Firm	Points	World Major or Affiliate	6	Other Auditing Firm	0	Company Accounts	-3	Qualified Accounts	-9	Points		Financials Age at credit rating date		Points	Points	0-9 months	0	9-12 months	-7	12 to 15 months	-10	Over 15 months	-20	Points		Age of financials	0 Months	<p>9. Customer & Supplier Relations</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Points</td> <td style="text-align: center;">Points</td> </tr> <tr> <td>Excellent reputation & relations with both</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Sound relations with both</td> <td style="text-align: center;">0</td> </tr> <tr> <td>Sound relations with one</td> <td style="text-align: center;">-3</td> </tr> <tr> <td>Negative market checking</td> <td style="text-align: center;">-6</td> </tr> <tr> <td colspan="2">Points</td> </tr> </table>	Points	Points	Excellent reputation & relations with both	3	Sound relations with both	0	Sound relations with one	-3	Negative market checking	-6	Points		<p>10. Account Behaviour</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Points</td> <td style="text-align: center;">Points</td> </tr> <tr> <td>Faultless in last 2 years</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Recent account but faultless *</td> <td style="text-align: center;">0</td> </tr> <tr> <td>Occasionally late, not 1A (watchlist)</td> <td style="text-align: center;">-3</td> </tr> <tr> <td>1A (on watchlist) for last 6 months</td> <td style="text-align: center;">-6</td> </tr> <tr> <td>1A (on watchlist) for more than 6 months</td> <td style="text-align: center;">-12</td> </tr> <tr> <td colspan="2">Points</td> </tr> <tr> <td colspan="2">* Less than 2 years</td> </tr> </table>	Points	Points	Faultless in last 2 years	3	Recent account but faultless *	0	Occasionally late, not 1A (watchlist)	-3	1A (on watchlist) for last 6 months	-6	1A (on watchlist) for more than 6 months	-12	Points		* Less than 2 years	
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Rating Scale:

Minimum Adjusted Net Worth of Rs. 1,000 M is required in order to qualify for a Rating 3
 Minimum Adjusted Net Worth of Rs. 750 M is required in order to qualify for a Rating 4
 Minimum Adjusted Net Worth of Rs. 500 M is required in order to qualify for a Rating 5
 Minimum Adjusted Net Worth of Rs. 250 M is required in order to qualify for a Rating 6
 Minimum Adjusted Net Worth of Rs. 100 M is required in order to qualify for a Rating 7

Designated risk manager can upgrade or downgrade the derived rating by 1 level.
 Credit Policy may upgrade or downgrade by 2 levels.

Aggregate Score	Rating
190 and above	3
160 - 189	4
130 - 159	5
100 - 129	6
70 - 99	7
40 - 69	8
0 - 39	9
Less than 0 or 1A	10
OAEM	11
Substandard	12
Doubtful	13
Loss	14

Justification for Assigned Rating

Assigned Rating Approved by

Appendix 6.1 (c)

HABIB BANK LTD

Page 1 of 2

Date	Completed by

Obligor Risk Rating Scorecard - Corporate Borrowers
To be used for companies with sales of Rs. 300 M and above.

Only the boxes highlighted in yellow need to be filled in.
(It is mandatory to fill in Industry Volatility.)

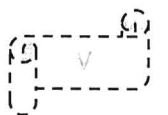
Scores on this sheet are based on Quantitative Evaluation.
The RM needs to fill in financial values from the spreadsheet

Borrower Name		Borrower Code	Group Code	Group Name
Industry Volatility (Insert "High", "Medium" or "Low" - Refer to Industry Volatility Sheet)		Business Segment	Industry Code	Date of Latest Financials
High				
Originating Unit	Control Unit	Last Year's Assigned Rating	Assigned Rating	Name of Auditors

<p>1. Adjusted Net Worth (Rs. Million)</p> <table border="1"> <tr><td>Total Net Worth (Incl. Reval)</td><td> </td></tr> <tr><td>Revaluation Surplus</td><td> </td></tr> <tr><td>Subordinated Directors' Loan</td><td> </td></tr> <tr><td>Adjusted Net Worth</td><td> </td></tr> </table> <table border="1"> <thead> <tr><th>Value</th><th>Points</th></tr> </thead> <tbody> <tr><td>Below PKR 75 M</td><td>-4</td></tr> <tr><td>From PKR 75 M to 200 M</td><td>2</td></tr> <tr><td>From PKR 200 M to 500 M</td><td>10</td></tr> <tr><td>From PKR 500 M to 1 B</td><td>20</td></tr> <tr><td>From PKR 1 B to 2.5 B</td><td>30</td></tr> <tr><td>From PKR 2.5 B to 5 B</td><td>40</td></tr> <tr><td>PKR 5 B & above</td><td>50</td></tr> </tbody> </table> <p>Points</p>	Total Net Worth (Incl. Reval)		Revaluation Surplus		Subordinated Directors' Loan		Adjusted Net Worth		Value	Points	Below PKR 75 M	-4	From PKR 75 M to 200 M	2	From PKR 200 M to 500 M	10	From PKR 500 M to 1 B	20	From PKR 1 B to 2.5 B	30	From PKR 2.5 B to 5 B	40	PKR 5 B & above	50	<p>2. Current Ratio</p> <p>Insert Current Ratio *</p> <p>* as per spreads</p> <table border="1"> <thead> <tr><th>Ratio</th><th>Points</th></tr> </thead> <tbody> <tr><td>Below 0.8</td><td>-5</td></tr> <tr><td>From 0.8 to 1.0</td><td>0</td></tr> <tr><td>From 1.0 to 1.4</td><td>5</td></tr> <tr><td>From 1.4 to 1.8</td><td>10</td></tr> <tr><td>From 1.8 to 2.2</td><td>15</td></tr> <tr><td>2.2 & above</td><td>20</td></tr> </tbody> </table> <p>Points</p>	Ratio	Points	Below 0.8	-5	From 0.8 to 1.0	0	From 1.0 to 1.4	5	From 1.4 to 1.8	10	From 1.8 to 2.2	15	2.2 & above	20	<p>3. Net Profit Margin</p> <p>Insert Net Margin</p> <table border="1"> <thead> <tr><th>Ratio</th><th>Points</th></tr> </thead> <tbody> <tr><td>Below 2%</td><td>-4</td></tr> <tr><td>From 2% to 5%</td><td>2</td></tr> <tr><td>From 5% to 9%</td><td>7</td></tr> <tr><td>From 9% to 17%</td><td>12</td></tr> <tr><td>17% & above</td><td>17</td></tr> </tbody> </table> <p>Points</p>	Ratio	Points	Below 2%	-4	From 2% to 5%	2	From 5% to 9%	7	From 9% to 17%	12	17% & above	17	<p>4. Adjusted Leverage</p> <p>Adjusted Leverage 0.00</p> <p>Total Liabilities *</p> <p>* as per spreads</p> <table border="1"> <thead> <tr><th>Ratio</th><th>Points</th></tr> </thead> <tbody> <tr><td>3.0 & above</td><td>-14</td></tr> <tr><td>From 2.5 to 3.0</td><td>-2</td></tr> <tr><td>From 2.0 to 2.5</td><td>11</td></tr> <tr><td>From 1.5 to 2.0</td><td>23</td></tr> <tr><td>From 1.0 to 1.5</td><td>36</td></tr> <tr><td>From 0.5 to 1.0</td><td>48</td></tr> <tr><td>Below 0.5</td><td>81</td></tr> <tr><td>Negative</td><td>-14</td></tr> </tbody> </table> <p>Points</p>	Ratio	Points	3.0 & above	-14	From 2.5 to 3.0	-2	From 2.0 to 2.5	11	From 1.5 to 2.0	23	From 1.0 to 1.5	36	From 0.5 to 1.0	48	Below 0.5	81	Negative	-14
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<p>5. Interest Coverage</p> <p>Insert Interest Coverage</p> <table border="1"> <thead> <tr><th>Value</th><th>Points</th></tr> </thead> <tbody> <tr><td>10 x & above</td><td>30</td></tr> <tr><td>From 8x to 10x</td><td>25</td></tr> <tr><td>From 5x to 8x</td><td>20</td></tr> <tr><td>From 4x to 5x</td><td>15</td></tr> <tr><td>From 3x to 4x</td><td>10</td></tr> <tr><td>From 2x to 3x</td><td>5</td></tr> <tr><td>From 1x to 2x</td><td>0</td></tr> <tr><td>Below 1x</td><td>-10</td></tr> </tbody> </table> <p>Points</p>	Value	Points	10 x & above	30	From 8x to 10x	25	From 5x to 8x	20	From 4x to 5x	15	From 3x to 4x	10	From 2x to 3x	5	From 1x to 2x	0	Below 1x	-10	<p>6. Financial Trend</p> <p>Insert Financial Trend Details - Amounts in Rs Million</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">YEAR</th> <th rowspan="2">Marks</th> </tr> <tr> <th>Year -3 (Audited)</th> <th>Year -2 (Audited)</th> <th>Year -1 (Audited)</th> <th>(Audited / In-House) Latest Financial Year</th> </tr> </thead> <tbody> <tr><td>Sales</td><td> </td><td> </td><td> </td><td> </td><td>0</td></tr> <tr><td>Net Income</td><td> </td><td> </td><td> </td><td> </td><td>0</td></tr> <tr><td>NOCG</td><td> </td><td> </td><td> </td><td> </td><td>0</td></tr> <tr><td colspan="5">Please insert NA if data for any period is unavailable</td><td>Total Marks 0</td></tr> </tbody> </table> <table border="1"> <thead> <tr><th>Total Marks</th><th>Points</th></tr> </thead> <tbody> <tr><td>16 - 18</td><td>10</td></tr> <tr><td>12 - 15</td><td>5</td></tr> <tr><td>8 - 11</td><td>0</td></tr> <tr><td>4 - 7</td><td>-5</td></tr> <tr><td>0 - 3</td><td>-10</td></tr> </tbody> </table> <p>Points</p> <p>For each item, marks are allotted out of 6: If year 0 is better than year -1, score 3, otherwise 0 If year -1 is better than year -2, score 2, otherwise 0 If year -2 is better than year -3, score 1, otherwise 0</p> <p>Points</p>		YEAR				Marks	Year -3 (Audited)	Year -2 (Audited)	Year -1 (Audited)	(Audited / In-House) Latest Financial Year	Sales					0	Net Income					0	NOCG					0	Please insert NA if data for any period is unavailable					Total Marks 0	Total Marks	Points	16 - 18	10	12 - 15	5	8 - 11	0	4 - 7	-5	0 - 3	-10
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0 - 3	-10																																																																

ANNEXURE 5



PRIVATE & CONFIDENTIAL

Bank's Copy

Ref: HBL/GUL/SAN/

Date:

Name-
Company name-
Address

Dear Sir,

A. FACILITY :

Nature :
Amount :
Purpose :
Tenor :
Pricing :
Mode of Adjustment :
Limit Expiry :

B. SECURITIES:

For and on behalf of the Borrower

For and on behalf of the Bank

Particulars of Apartments:

- a. Personal Guarantees of the following persons with Personal Networth statement
- b. A Cheque covering the entire facility amount with Letter of Authority.

C. PROCEDURAL REQUIREMENTS:

Service Charge:

Legal Expense:

For and on behalf of the Borrower

For and on behalf of the Bank

Confidentiality:

Indemnity:

Disbursement and continued availability of the facilities outlined above is conditional upon:

For and on behalf of the Borrower

For and on behalf of the Bank

Here the client is told what actions can be taken by the bank if the conditions are not fulfilled and if the filled up letter is not sent with signatures in due date.

Sincerely Yours,

CAD- Gulshan

VP & Branch Manager

Authorized Signatory & Seal:

.....
COMPANY NAME

ANNEXURE 6

INDUSTRY CLASSIFICATION & CODES

HBL INDUSTRY CLASSIFICATION	HBL CODE	SBP CLASSIFICATION	SBP CODE
01 AGRICULTURE & FOOD PRODUCTS	010000		
01 Agriculture Production-Crops			
01 Corn	010101	Food, Beverages & Tobacco	01
02 Cotton	010102	Textile	03
03 Fruit Orchards	010103	Food, Beverages & Tobacco	01
04 Grams/Pulses	010104	Food, Beverages & Tobacco	01
05 Rice	010105	Food, Beverages & Tobacco	01
06 Sugar Cane	010106	Food, Beverages & Tobacco	01
07 Tobacco	010107	Food, Beverages & Tobacco	01
08 Vegetables	010108	Food, Beverages & Tobacco	01
09 Wheat	010109	Food, Beverages & Tobacco	01
10 Misc. Agriculture Prodn.-Crops	010110	Food, Beverages & Tobacco	01
02 Livestock & Fisheries			
01 Dairy Farms	010201	Food, Beverages & Tobacco	01
02 Fisheries	010202	Food, Beverages & Tobacco	01
03 General Livestock	010203	Food, Beverages & Tobacco	01
04 Poultry Farms	010204	Food, Beverages & Tobacco	01
05 Prepared Feeds For Animals/Poultry	010205	Misc. Industries	18
06 Misc. Livestock & Fisheries	010206	Food, Beverages & Tobacco	01
03 Agricultural Services			
01 Cotton Ginning	010301	Textile	03
02 Flour Mills	010302	Food, Beverages & Tobacco	01
03 Guar (Extraction)	010303	Misc. Industries	18
04 Jute Mills	010304	Misc. Industries	18
05 Others (Rice husking, Corn milling)	010305	Food, Beverages & Tobacco	01
04 Sugar			
01 Cane Sugar Refined	010401	Food, Beverages & Tobacco	01
02 Beet Sugar Refined	010402	Food, Beverages & Tobacco	01
05 Edible Oil			
01 Edible Fats and Oils	010501	Food, Beverages & Tobacco	01
02 Oil Extraction	010502	Food, Beverages & Tobacco	01
03 Vegetable Oil and Ghee Mills	010503	Food, Beverages & Tobacco	01
04 Misc. Edible Oil Related	010504	Food, Beverages & Tobacco	01
06 Food / Beverages			
01 Bakery Products	010601	Food, Beverages & Tobacco	01
02 Bottled & Canned Drinks	010602	Food, Beverages & Tobacco	01
03 Canned Fruits, Vegetables, Jams, Jellies	010603	Food, Beverages & Tobacco	01
04 Cereal Breakfast Foods, Candies, Confectionery Products	010604	Food, Beverages & Tobacco	01
05 Dairy Products (Milk, Butter, Cheese, Cream)	010605	Food, Beverages & Tobacco	01
06 Ice Cream & Frozen Desserts	010606	Food, Beverages & Tobacco	01
07 Restaurants / Franchises	010607	Food, Beverages & Tobacco	01
08 Tea Blending & Packaging	010608	Food, Beverages & Tobacco	01
09 Miscellaneous Food Products	010609	Food, Beverages & Tobacco	01
07 Tobacco Products			
01 Cigarette Manufacturing	010701	Food, Beverages & Tobacco	01

08	Government Commodity / Bulk Import, Export Operations <i>(including TCP, PASSCO, GCP, FID, etc.)</i>		
01	Rice	010801	Food, Beverages & Tobacco
02	Colton	010802	Textile
03	Fertilizer	010803	Fertilizers
04	Palm-oil	010804	Food, Beverages & Tobacco
05	Vegetable-oil	010805	Food, Beverages & Tobacco
06	Wheat	010806	Food, Beverages & Tobacco
02	<u>FOREST PAPER PRODUCTS</u>	020000	
01	Wood, Paper, Board, Allied Products		
01	Packaging, Paperboard Containers	020101	Paper & Pulp
02	Pulp Mills/Paper Mills	020102	Paper & Pulp
03	Safety Matches	020103	Wood Products
04	Veneer, Plywood	020104	Wood Products
05	Wood Products	020105	Wood Products
06	Misc. Wood, Paper Products	020106	Wood Products
03	<u>CONSTRUCTION & CONSTRUCTION PRODUCTS</u>	030000	
01 01	Cement	030101	Non-Metallic Mineral Products
02	Construction & Construction Products	030200	
01	Building Construction-Gen. Contractors/Developers	030201	Non-Industries
02	Ceramics (Tiles, Sanitary-ware)	030202	Misc. Industries
03	Heavy Construction/Erection (Civil, Mechanical)	030203	Non-Industries
04	Sheet Glass	030204	Misc. Industries
05	Misc. Construction Products (other than Cement)	030205	Misc. Industries
04	<u>PETROLEUM AND GAS</u>	040000	
01	Distribution/Marketing		
01	Petrol & Petroleum Products	040101	Petro-chemicals
02	Compressed Natural Gas / Liquefied Petroleum Gas	040102	Petro-chemicals
02 01	Exploration	040201	Petro-chemicals
03	Pipelines		
01	Crude Oil / White Oil	040301	Petro-chemicals
02	Natural Gas	040302	Petro-chemicals
04 01	Crude Oil Refining	040401	Petro-chemicals
05 01	Utilities (Gas)	040501	Petro-chemicals
06 01	Misc. Petroleum, Other Related	040601	Petro-chemicals
05	<u>LEATHER / LEATHER PRODUCTS</u>	050000	
01	Leather / Leather Products		
01	Leather Footwear	050101	Leather Products
02	Leather Garments	050102	Leather Products
03	Leather Tanning & Finishing	050103	Leather Products
04	Misc. Leather Products	050104	Leather Products
06	<u>CARPETS & RUGS</u>	060000	
01 01	Woolen Hand Knotted	060101	Misc. Industries
02	Synthetic Machine-made	060102	Misc. Industries

07	<u>TEXTILE PRODUCTS</u>	070000		
01 01	Dyeing/Printing/Finishing	070101	Textile	03
02	Textile Composite	070102	Textile	03
03	Textile Spinning	070103	Textile	03
04	Textile Weaving	070104	Textile	03
02 01	Woven Garments Mfg.	070201	Textile	03
03 01	Knit Outerwear Mills	070301	Textile	03
02	Knit Undergarments/Hosiery Mills	070302	Textile	03
03	Knitting, Dyeing Mills	070303	Textile	03
04 01	Canvas/Tarpaulin	070401	Textile	03
02	Silk (Man Made) Mills	070402	Textile	03
03	Towels	070403	Textile	03
04	Woolen Textiles	070404	Textile	03
05	Misc. Textiles	070405	Textile	03
08	<u>ELECTRIC POWER & ALLIED</u>	080000		
01 01	Distribution	080101	Non-Industries	19
02	Generation	080102	Misc. Industries	18
03	Transmission	080103	Non-Industries	19
04	Utilities (Electric)	080104	Misc. Industries	18
05	Misc. Electric Power & Allied	080105	Misc. Industries	18
09	<u>LIGHT ENGINEERING, ELECTRIC / ELECTRONIC EQUIPMENT</u>	090000		
01	<i>Electric / Electronic Equipment</i>			
01	Cables & Conductors	090101	Metal Products	13
02	Consumer Durables (Refrigerator, Freezer, Air-conditioner, Washing Machine)	090102	Electrical Machinery	15
03	Consumer Electronics (TV, VCR, Microwave, Stereo)	090103	Electronics	16
04	Electric Appliances (Fans, Kitchen Appliances)	090104	Electrical Machinery	15
05	Heavy Electric Equipment Mfg. (Switch-gear, Transformers, etc.)	090105	Electrical Machinery	15
06	Telephone / Communication Equipment	090106	Electronics	16
02	<i>Light Engineering Equipment</i>			
01	Textile Machinery	090201	Machinery Other Than Electrical	14
02	Ball & Roller Bearings	090202	Machinery Other Than Electrical	14
03	Pumps	090203	Machinery Other Than Electrical	14
04	Other Mechanical	090204	Machinery Other Than Electrical	14
10	<u>MEDIA, PUBLISHING, PRINTING</u>	100000		
01 01	Newspapers: Printing & Publishing	100101	Non-Industries	19
02	Books & Periodicals: Printing & Publishing	100102	Non-Industries	19
03	Commercial Printing	100103	Non-Industries	19
04	Misc. Media, Publishing (TV)	100104	Non-Industries	19
11	<u>CHEMICALS & ALLIED PRODUCTS</u>	110000		
01	<i>Chemicals</i>			
	Adhesives & Sealants	110101	Chemicals	08
	Alkalis & Chlorine	110102	Chemicals	08
	Carbon Black	110103	Chemicals	08
	Chemical Dyes	110104	Chemicals	08
	Explosives	110105	Chemicals	08
	Industrial Gases	110106	Chemicals	08
	Industrial Inorganic Chemicals	110107	Chemicals	08
	Industrial Organic Chemicals	110108	Chemicals	08
	Paints, Varnishes, Lacquers & Polishes	110109	Chemicals	08
	Pesticides	110110	Chemicals	08
	Plastic Materials, Resins, Synthetic Materials	110111	Chemicals	08
	Misc. Chemical Products	110112	Chemicals	08

02 01	PTA	110201	Chemicals	08
03 01	Polyester Staple Fiber & Acrylic	110301	Chemicals	08
04	Synthetic Rubber and Plastic Products			
01	Fabricated, Molded, Extruded Rubber Products	110401	Rubber Products	07
02	Foam Products	110402	Misc. Industries	18
03	Synthetic Rubber	110403	Chemicals	08
04	Misc. Plastic Products	110404	Misc. Industries	18
12	PHARMACEUTICALS	120000		
01 01	Basic Pharmaceuticals Manufacture	120101	Chemicals	08
02	Pharmaceuticals (Formulation)	120102	Chemicals	08
13	FERTILIZERS	130000		
01 01	Phosphatic	130101	Fertilizers	09
02	Urea	130102	Fertilizers	09
14	AUTO & ALLIED	140000		
01 01	Agricultural Equipment (Tractors, etc.)	140101	Machinery Other Than Electrical	14
02	Automobile Assembly	140102	Transport Equipment	17
03	Automotive Batteries	140103	Misc. Industries	18
04	Automotive Parts	140104	Machinery Other Than Electrical	14
05	Heavy Transportation Equipment (Trucks, etc.)	140105	Transport Equipment	17
06	Motorcycle Assembly	140106	Transport Equipment	17
07	Tires & Tubes	140107	Rubber Products	07
15	TRANSPORTATION	150000		
01 01	Airlines	150101	Non-Industries	19
02	Railways	150102	Non-Industries	19
03	Shipping Companies	150103	Non-Industries	19
04	Misc. Transportation	150104	Non-Industries	19
16	COMMUNICATIONS	160000		
01 01	Pakistan Telecommunication Corporation Ltd.	160101	Non-Industries	19
02 01	Cellular Phone Operators	160201	Non-Industries	19
17	COMMERCE	170000		
01	Commodities / Raw Materials			
01	Commodities / Raw Materials General Trading	170101	Non-Industries	19
02	Commodities / Raw Materials Trading: Export	170102	Non-Industries	19
03	Commodities / Raw Materials Trading: Import	170103	Non-Industries	19
02	Manufactured Products			
	Heavy Electrical Machinery Importers	170201	Electrical Machinery	15
	Heavy Mechanical Machinery Importers	170202	Machinery Other Than Electrical	14
	Automobiles / Spares Importers	170203	Transport Equipment	17
	Consumer Products Importers	170204	Non-Industries	19
18	NON-METALLIC MINERALS: MINING / QUARRYING	180000		
01 01	Coal Mining	180101	Non-Metallic Mineral Products	11
02	Crushed & Broken Stone	180102	Non-Metallic Mineral Products	11
03	Marble	180103	Non-Metallic Mineral Products	11
04	Sand & Gravel	180104	Non-Metallic Mineral Products	11
05	Miscellaneous Non-metal Minerals Except Fuel	180105	Non-Metallic Mineral Products	11

19	<u>METAL MINING</u>		190000		
01 01	Copper Ores		190101	Basic Metals	12
02	Miscellaneous Metal Ores		190102	Basic Metals	12
20	<u>METAL PRODUCTS</u>		200000		
01	<i>Primary Metal Industries</i>				
01	Ship Breaking		200101	Metal Products	13
02	Steel Foundries		200102	Metal Products	13
03	Steel Mills (Blast Furnace)		200103	Metal Products	13
04	Steel Pipes & Tubes		200104	Metal Products	13
05	Steel Re-rolling Mills		200105	Metal Products	13
06	Steel Wire & Related Industries		200106	Metal Products	13
07	Misc. Primary Metal Industries		200107	Metal Products	13
	<i>Fabricated Metal, Except Machinery, Transport Equipment</i>				
02 01	Cutlery, Hand-tools, General Hardware Products		200201	Metal Products	13
02	Metal Cans		200202	Metal Products	13
03	Metal Drums		200203	Metal Products	13
04	Misc. Fabricated Metal Products		200204	Metal Products	13
21	<u>FINANCIAL INSTITUTIONS</u>		210000		
01 01	Commercial Banks		210101	Non-Industries	19
02	Development Finance Institutions		210102	Non-Industries	19
03	General Insurance		210103	Non-Industries	19
04	Investment Banks		210104	Non-Industries	19
05	Leasing Companies		210105	Non-Industries	19
06	Life Insurance		210106	Non-Industries	19
07	Modarabas		210107	Non-Industries	19
08	Stock Brokers		210108	Non-Industries	19
22	<u>GOVERNMENT</u>		220000		
01 01	Civic Bodies		220101	Non-Industries	19
02	Federal Government		220102	Non-Industries	19
03	Federal Government Autonomous Bodies		220103	Non-Industries	19
04	Local Bodies		220104	Non-Industries	19
05	Provincial Government Autonomous Bodies		220105	Non-Industries	19
06	Provincial Governments		220106	Non-Industries	19
23	<u>CREDIT PROGRAMS</u>		230000		
01	<i>Prime Minister's Schemes</i>				
02	PM's National Self-Employment Scheme (Max. PKR 1.0 mln)		230101	Non-Industries	19
03	PM's National Self-Employment Scheme (Max. PKR 0.3 mln)		230102	Non-Industries	19
04	PM's Transportation Scheme		230103	Non-Industries	19
05	Self-Employment Scheme (PKR 10,000 to PKR 300,000)		230104	Non-Industries	19
06	Small Business Loans (PKR 0.3 mln to PKR 5.0 mln)		230105	Non-Industries	19
02	<i>Other Credit Programs</i> (Individual programs will be allocated codes by Credit Policy, upon approval)		230200	Non-Industries	19

24	<u>SERVICES</u>	240000		
01	<i>Tourism</i>			
01	Hotels	240101	Non-Industries	19
02	Travel Agents	240102	Non-Industries	19
02 01	<i>Courier Companies</i>	240201	Non-Industries	19
03	<i>Health-care</i>			
01	Hospitals	240301	Non-Industries	19
02	Medical Laboratories & Other Health Services	240302	Non-Industries	19
04	<i>Misc. Service</i>			
01	Clearing Agents	240401	Non-Industries	19
02	Cold Storages	240402	Non-Industries	19
03	Educational institutions	240403	Non-Industries	19
04	Professionals (Doctors, Engineers, Lawyers, etc.)	240404	Non-Industries	19
05	Service Stations (Petrol Pumps)	240405	Non-Industries	19
25	<u>MISCELLANEOUS</u>	250000		
01	<i>Consumer / Personal Care Products</i>			
01	Cosmetics	250101	Misc. Industries	18
02	Detergents	250102	Chemicals	08
03	Soaps	250103	Chemicals	08
04	Toiletries	250104	Misc. Industries	18
05	Misc. Consumer / Personal Care Products	250105	Misc. Industries	18
02	<i>Miscellaneous Manufacturing</i>			
01	China-ware (Crockery, etc.)	250201	Misc. Industries	18
02	Glass-ware	250202	Misc. Industries	18
03	Handicrafts	250203	Misc. Industries	18
04	Heavy Machinery Manufacturing	250204	Machinery Other Than Electrical	14
05	Industrial Abrasives	250205	Misc. Industries	18
06	Sporting Goods	250206	Misc. Industries	18
07	Surgical Instruments	250207	Misc. Industries	18
08	Others	250208	Misc. Industries	18
26	<u>Employee Loans</u>	260000		
01 01	<i>Employee Loans</i>	260101	Non-Industries	19

ANNEXURE 7

Appendix 6.4

Final Industry Volatility

HBL Industry Classification

HBL Code Volatility

HBL Code	Industry Classification	HBL Code	Volatility
01	AGRICULTURE & FOOD PRODUCTS	010000	
01	<i>Agriculture Production-Crops</i>		
01	Corn	010101	Medium
02	Cotton	010102	Medium
03	Fruit Orchards	010103	Medium
04	Grains/Pulses	010104	Medium
05	Rice	010105	High
06	Sugar Cane	010106	High
07	Tobacco	010107	Medium
08	Vegetables	010108	Medium
09	Wheat	010109	High
10	Misc. Agriculture Prodn.-Crops	010110	Medium
02	<i>Livestock & Fisheries</i>		
01	Dairy Farms	010201	Medium
02	Fisheries	010202	High
03	General Livestock	010203	Medium
04	Poultry Farms	010204	High
05	Prepared Feeds For Animals/Poultry	010205	Medium
06	Misc. Livestock & Fisheries	010206	Medium
03	<i>Agricultural Services</i>		
01	Cotton Ginning	010301	Medium
02	Flour Mills	010302	Medium
03	Guar (Extraction)	010303	Medium
04	Jute Mills	010304	High
05	Others (Rice husking, Corn milling)	010305	High
04	<i>Sugar</i>		
01	Cane Sugar Refined	010401	High
02	Beet Sugar Refined	010402	High
05	<i>Edible Oil</i>		
01	Edible Fats and Oils	010501	High
02	Oil Extraction	010502	High
03	Vegetable Oil and Ghee Mills	010503	High
04	Misc. Edible Oil Related	010504	High
06	<i>Food / Beverages</i>		
01	Bakery Products	010601	Medium
02	Bottled & Canned Drinks	010602	Medium
03	Canned Fruits, Vegetables, Jams, Jellies	010603	Medium
04	Cereal Breakfast Foods, Candies, Confectionery Products	010604	Medium
05	Dairy Products (Milk, Butter, Cheese, Cream)	010605	Medium
06	Ice Cream & Frozen Desserts	010606	Medium
07	Restaurants / Franchises	010607	Medium
08	Tea Blending & Packaging	010608	Low
09	Miscellaneous Food Products	010699	Medium
07	<i>Tobacco Products</i>		
01	Cigarette Manufacturing	010701	Low
08	<i>Government Commodity / Bulk Import, Export Operations (including TCP, PASSCO, GCP, FID, etc.)</i>		
01	Rice	010801	High
02	Cotton	010802	Medium
03	Fertilizer	010803	Medium
04	Palm-oil	010804	High
05	Vegetable-oil	010805	High
06	Wheat	010806	High

02	<u>FOREST PAPER PRODUCTS</u>		020000	
01	<i>Wood, Paper, Board, Allied Products</i>			
	01	Packaging, Paperboard Containers	020101	Medium
	02	Pulp Mills/Paper Mills	020102	Medium
	03	Safety Matches	020103	Medium
	04	Veneer, Plywood	020104	Medium
	05	Wood Products	020105	Medium
	06	Misc. Wood, Paper Products	020106	Medium
03	<u>CONSTRUCTION & CONSTRUCTION PRODUCTS</u>		030000	
01	01	<i>Cement</i>	030101	Medium
02	<i>Construction & Construction Products</i>		030200	
	01	Building Construction-Gen. Contractors/Developers	030201	Medium
	02	Ceramics (Tiles, Sanitary-ware)	030202	Medium
	03	Heavy Construction/Erection (Civil, Mechanical)	030203	Medium
	04	Sheet Glass	030204	Medium
	05	Misc. Construction Products (other than Cement)	030205	Medium
04	<u>PETROLEUM AND GAS</u>		040000	
01	<i>Distribution/Marketing</i>			
	01	Petrol & Petroleum Products	040101	Low
	02	Compressed Natural Gas / Liquefied Petroleum Gas	040102	Low
02	01	<i>Exploration</i>	040201	Medium
03	<i>Pipelines</i>			
	01	Crude Oil / White Oil	040301	Low
	02	Natural Gas	040302	Low
04	01	<i>Crude Oil Refining</i>	040401	Low
05	01	<i>Utilities (Gas)</i>	040501	Low
06	01	<i>Misc. Petroleum, Other Related</i>	040601	Low
05	<u>LEATHER / LEATHER PRODUCTS</u>		050000	
01	<i>Leather / Leather Products</i>			
	01	Leather Footwear	050101	High
	02	Leather Garments	050102	High
	03	Leather Tanning & Finishing	050103	High
	04	Misc. Leather Products	050104	High
06	<u>CARPETS & RUGS</u>		060000	
01	01	Woolen Hand Knotted	060101	Medium
	02	Synthetic Machine-made	060102	Medium
07	<u>TEXTILE PRODUCTS</u>		070000	
01	01	Dyeing/Printing/Finishing	070101	Medium
	02	Textile Composite	070102	Medium
	03	Textile Spinning	070103	Medium
	04	Textile Weaving	070104	Medium
02	01	Woven Garments Mfg.	070201	Medium
03	01	Knit Outerwear Mills	070301	High
	02	Knit Undergarments/Hosiery Mills	070302	High
	03	Knitting, Dyeing Mills	070303	High
04	01	Canvas/Tarpaulin	070401	Medium
	02	Silk (Man Made) Mills	070402	Medium
	03	Towels	070403	Medium
	04	Woolen Textiles	070404	Medium
	05	Misc. Textiles	070405	Medium

08	<u>ELECTRIC POWER & ALLIED</u>		080000	
01	01	Distribution	080101	Low
	02	Generaton	080102	Low
	03	Transmission	080103	Low
	04	Utilities (Electric)	080104	Low
	05	Misc. Electric Power & Allied	080105	Low
09	<u>LIGHT ENGINEERING, ELECTRIC / ELECTRONIC EQUIPMENT</u>		090000	
01	<i>Electric / Electronic Equipment</i>			
	01	Cables & Conductors	090101	Medium
	02	Consumer Durables (Refrigerator, Freezer, Air-conditioner, Washing Machine)	090102	Medium
	03	Consumer Electronics (TV, VCR, Microwave, Stereo)	090103	Medium
	04	Electric Appliances (Fans, Kitchen Appliances)	090104	Medium
	05	Heavy Electric Equipment Mfg. (Switch-gear, Transformers, etc.)	090105	Medium
	06	Telephone / Communication Equipment	090106	Medium
02	<i>Light Engineering Equipment</i>			
	01	Textile Machinery	090201	Medium
	02	Ball & Roller Bearings	090202	Medium
	03	Pumps	090203	Medium
	04	Other Mechanical	090204	Medium
10	<u>MEDIA, PUBLISHING, PRINTING</u>		100000	
01	01	Newspapers: Printing & Publishing	100101	Medium
	02	Books & Periodicals: Printing & Publishing	100102	Medium
	03	Commercial Printing	100103	Medium
	04	Misc. Media, Publishing (TV)	100104	Medium
11	<u>CHEMICALS & ALLIED PRODUCTS</u>		110000	
01	<i>Chemicals</i>			
		Adhesives & Sealants	110101	Medium
		Alkalis & Chlorine	110102	Medium
		Carbon Black	110103	Medium
		Chemical Dyes	110104	Medium
		Explosives	110105	Medium
		Industrial Gases	110106	Medium
		Industrial Inorganic Chemicals	110107	Medium
		Industrial Organic Chemicals	110108	Medium
		Paints, Varnishes, Lacquers & Polishes	110109	Medium
		Pesticides	110110	Medium
		Plastic Materials, Resins, Synthetic Materials	110111	Medium
		Misc. Chemical Products	110112	Medium
02	01	PTA	110201	High
03	01	Polyester Staple Fiber & Acrylic	110301	Medium
04	<i>Synthetic Rubber and Plastic Products</i>			
	01	Fabricated, Molded, Extruded Rubber Products	110401	Medium
	02	Foam Products	110402	Medium
	03	Synthetic Rubber	110403	Medium
	04	Misc. Plastic Products	110404	Medium
12	<u>PHARMACEUTICALS</u>		120000	
01	01	Basic Pharmaceuticals Manufacture	120101	Low
	02	Pharmaceuticals (Formulation)	120102	Low
13	<u>FERTILIZERS</u>		130000	
01	01	Phosphatic	130101	Low
	02	Urea	130102	Low
14	<u>AUTO & ALLIED</u>		140000	
01	01	Agricultural Equipment (Tractors, etc.)	140101	Low
	02	Automobile Assembly	140102	Low
	03	Automotive Batteries	140103	Medium

15	<u>TRANSPORTATION</u>		150000
01	01	Airlines	150101 Medium
	02	Railways	150102 Medium
	03	Shipping Companies	150103 Medium
	04	Misc. Transportation	150104 Medium
16	<u>COMMUNICATIONS</u>		160000
01	01	<i>Pakistan Telecommunication Corporation Ltd.</i>	160101 Low
02	01	<i>Cellular Phone Operators</i>	160201 Low
17	<u>COMMERCE</u>		170000
01	<i>Commodities / Raw Materials</i>		
	01	Commodities / Raw Materials General Trading	170101 High
	02	Commodities / Raw Materials Trading: Export	170102 High
	03	Commodities / Raw Materials Trading: Import	170103 High
02	<i>Manufactured Products</i>		
		Heavy Electrical Machinery Importers	170201 High
		Heavy Mechanical Machinery Importers	170202 High
		Automobiles / Spares Importers	170203 Medium
		Consumer Products Importers	170204 Medium
18	<u>NON-METALLIC MINERALS: MINING / QUARRYING</u>		180000
01	01	Coal Mining	180101 High
	02	Crushed & Broken Stone	180102 High
	03	Marble	180103 High
	04	Sand & Gravel	180104 High
	05	Miscellaneous Non-metal Minerals Except Fuel	180105 High
19	<u>METAL MINING</u>		190000
01	01	Copper Ores	190101 High
	02	Miscellaneous Metal Ores	190102 High
20	<u>METAL PRODUCTS</u>		200000
01	<i>Primary Metal Industries</i>		
	01	Ship Breaking	200101 High
	02	Steel Foundries	200102 High
	03	Steel Mills (Blast Furnace)	200103 High
	04	Steel Pipes & Tubes	200104 High
	05	Steel Re-rolling Mills	200105 High
	06	Steel Wire & Related Industries	200106 High
	07	Misc. Primary Metal Industries	200107 High
	<i>Fabricated Metal, Except Machinery, Transport Equipment</i>		
02	01	Cutlery, Hand-tools, General Hardware Products	200201 Medium
	02	Metal Cans	200202 Medium
	03	Metal Drums	200203 Medium
	04	Misc. Fabricated Metal Products	200204 Medium
21	<u>FINANCIAL INSTITUTIONS</u>		210000
01	01	Commercial Banks	210101 Low
	02	Development Finance Institutions	210102 Medium
	03	General Insurance	210103 Medium
	04	Investment Banks	210104 Medium
	05	Leasing Companies	210105 Medium
	06	Life Insurance	210106 Medium
	07	Modarabas	210107 High
	08	Stock Brokers	210108 High
22	<u>GOVERNMENT</u>		220000
01	01	Civic Bodies	220101 High
	02	Federal Government	220102 Low
	03	Federal Government Autonomous Bodies	220103 Medium
	04	Local Bodies	220104 High
	05	Provincial Government Autonomous Bodies	220105 Medium

23	CREDIT PROGRAMS		230000	
01	Prime Minister's Schemes			
02	PM's National Self-Employment Scheme (Max. PKR 1.0 mln)	230101	High	
03	PM's National Self-Employment Scheme (Max. PKR 0.3 mln)	230102	High	
04	PM's Transportation Scheme	230103	High	
05	Self-Employment Scheme (PKR 10,000 to PKR 300,000)	230104	High	
06	Small Business Loans (PKR 0.3 mln to PKR 5.0 mln)	230105	High	
02	Other Credit Programs		230200	
	(Individual programs will be allocated codes by Credit Policy, upon approval)			
24	SERVICES		240000	
01	Tourism			
01	Hotels	240101	Medium	
02	Travel Agents	240102	High	
02	01 Courier Companies		240201	
03	Health-care			
01	Hospitals	240301	Medium	
02	Medical Laboratories & Other Health Services	240302	Medium	
04	Misc. Service			
01	Clearing Agents	240401	Medium	
02	Cold Storages	240402	Medium	
03	Educational Institutions	240403	Medium	
04	Professionals (Doctors, Engineers, Lawyers, etc.)	240404	Medium	
05	Service Stations (Petrol Pumps)	240405	Medium	
25	MISCELLANEOUS		250000	
01	Consumer / Personal Care Products			
01	Cosmetics	250101	Low	
02	Detergents	250102	Low	
03	Soaps	250103	Low	
04	Toiletries	250104	Low	
05	Misc. Consumer / Personal Care Products	250105	Low	
02	Miscellaneous Manufacturing			
01	China-ware (Crockery, etc.)	250201	Medium	
02	Glass-ware	250202	Medium	
03	Handicrafts	250203	Medium	
04	Heavy Machinery Manufacturing	250204	Medium	
05	Industrial Abrasives	250205	Medium	
06	Sporting Goods	250206	Medium	
07	Surgical Instruments	250207	Medium	
08	Others	250208	Medium	
26	Employee Loans		260000	
01	01 Employee Loans		260101	Medium

ANNEXURE 8

Habib Bank Limited Risk Rating Grid

1	Exceptional	Strong fundamental financial position, exceptional degree of stability, substance and diversity;
		<i>Unquestioned access to financial markets with ability to absorb severe market disturbances.</i>
2	Excellent	Strong financial position which may fluctuate with the business cycle, high degree of stability, substance and diversity.
		<i>Ready access to financial markets with ability to absorb severe market disturbances</i>
3	Superior	Strong financial position which may fluctuate with the business cycle, high degree of stability, substance and diversity.
		<i>Ready access to financial markets with ability to weather MAJOR market disturbances.</i>
4	Very Good	Stability, substance and diversity; adverse economic and industry change can affect performance.
		<i>Has access to financial markets under normal market conditions with ability to weather occasional MAJOR market disturbances.</i>
5	Good	Stability, substance and diversity; adverse economic and industry change can affect performance.
		<i>Has access to financial markets under normal market conditions with ability to weather SHORT TERM market disturbances.</i>
6	Satisfactory	Very sound balance sheet and cash flow, but may be susceptible to cyclical changes. Concentration of business risk - by product or by market may be present
		<i>May not have access to financial markets in all circumstances. Has ability to weather SHORT TERM market disturbances.</i>
7	Acceptable	Reasonably sound balance sheet and cash flow.
		<i>Risk elements exists but near term performance of no concern. Has ability to weather SHORT TERM market disturbances.</i>
8	Adequate	Reasonably sound balance sheet and cash flow. Overall financial strength and stability.
		<i>Risk elements exists but near term performance of no concern. May have DIFFICULTY ABSORBING SHORT-TERM market disturbances or financial volatility.</i>
9	Marginal	Overall weak financial performance. Acceptable asset protection and cash flow provide reasonable prospect of orderly payout
		<i>Performance subject to economic or market uncertainties. May have DIFFICULTY ABSORBING SHORT-TERM market disturbances or financial volatility.</i>
10	1 A	Has all characteristics of acceptable credit risk, but warrants more than normal level of supervision and frequency of formal reporting to management.
		<i>Creditworthy, but may have DIFFICULTY ABSORBING SHORT-TERM market disturbances or financial volatility.</i>
12	Substandard	Substandard
13	Doubtful	Doubtful
14	Loss	Loss

ANNEXURE 9

Appendix 6.5

HABIB BANK LTD

Group Risk Rating Scorecard - CBG & CBD

Date	Completed By

Group Name	
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Group Code	
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Control Unit	
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Previous GRR	Current GRR

Note: Insert amounts in Rs. Millions

No.	Name of Borrower	Industry Code	Business Segment	Originating Unit	Total Limits (FB + NFB)	Borrower Assigned RR
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
Group Total						

Comments

Prepared By	Recommended By	Approved By

BIBLIOGRAPHY

Sources of Information

I took information for this assignment from the following online sources.

- www.hbl.com

I also took information for this assignment from the following sources.

- Report- HBL Annual Report 2010