

city bank
making sense of money

Internship Report: Credit Risk Analysis

The City bank limited

Submitted to:

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To

Sunto Kumar Ghosh (Supervisor)

Senior Lecturer

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Subject: Submission of Internship Report

Dear Sir,

This is my great pleasure to submit the Internship report of my 2 months long Internship program in the City Bank Limited in the Credit Risk Management (CRM). The title of the report is "*Credit Risk Analysis*". This report has been prepared to fulfill the requirement of my internship program at my assigned organization in the City Bank Limited.

I have put my best effort to make this report a successful one. It has been joyful & enlightening experience for me to work in the organization & prepare this report. However this has been obviously a great source of learning for me to conduct similar types of studies in the future.

I would like to express my sincere gratitude to you for your kind guidance & suggestions in preparing the report. It would my immense pleasure if you find this report useful & informative to have an apparent perspective on the issue. I shall be happy to provide any further explanation regarding this report if required & please do not hesitate to call me if you have any query on this report or any other relevant matters.

Sincerely Yours,

Asif Ul Haque

ID: 06304037

Acknowledgement

To prepare this internship report considerable thinking & information input from various sources were involved. But at the beginning I would like to convey my sincere appreciation to the almighty Allah for giving me the strength & the ability to finish the task within the planned time. Then I like to express my sincere gratitude to everyone who contributed towards preparing & making this study successfully. Major contribution was received from the officers of the City Bank limited as from the Credit Risk Management (CRM).

First of all I would like to express my Sincere & immense gratitude to my internship supervisor Mr. Sunto Kumer Ghosh, Senior Lecturer of BRAC Business School, BRAC University. I am deeply indebted to his whole hearted supervision to me during the Internship Period. His valuable suggestion & guideline helped me a lot to prepare the report in a well organized manner.

I would like to give specially thanks to Ehsan Khasru, Deputy Managing Director & Chief Risk Officer (CRO) of the City bank Limited, Head Office & also my supervisor, Mohammad Kamrul Ahsan, Risk Manager & the Senior Executive Officer of the City Bank Limited, Head Office for their close supervision.

I would also like to thank the authority of The City bank Limited for giving me the opportunity to do my internship in their well renowned bank. The experience & knowledge gained in The City Bank Limited helped me to understand different elements related to my study.

I am also grateful to the other officials & my friends who helped me while preparing the study by giving their suggestions, assistance & supply of information, which were valuable to me. Their helping hand supported me to complete my report successfully. Finally, I want to keep my thanks to my parent who gave special attention to me from the very beginning and during the preparation of report & the internship program.

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Executive Summary

Credit risk is an essential factor that needs to be managed. Credit Risk Management needs to be a robust process that enables banks to proactively manage credit portfolios in order to minimize losses and earn an acceptable level of return for shareholders. *'Credit Risk Management'* has become an important topic in banking and financial sectors. Risk is inherent in all aspects of a commercial operation; however, for Banks and financial institutions, credit risk is an essential factor that needs to be properly managed.

In formulating a credit judgment and making quality Credit Decisions, the lending officer must be equipped with all information needed to evaluate a borrower's character, management competence, capacity, ability to provide collaterals and external conditions which may affect his ability in meeting financial obligations.

In this report I tried to review the existing credit risk management systems, credit risk grading and assessment methods etc. for the banks. Researcher has also made an effort to identify the problems and limitations of credit risk management systems as well as find out the causes of loan defalcation tendency of Bangladesh. Eventually, researcher chalks out a sort of findings and recommendation for improvement of credit risk management systems so that bank's may attain common standards for credit risk management that's why loan defalcation in banking sector may diminish.

1.1 Introduction

Banking is known as the backbone of the national economy. Banks play an important role in the business sector & promoting industrialization & economic development of the country. Banks provide necessary funds for the executing various program underway in the process of economic development. All sorts of economy & financial activities revolve around the bank. As the industry produces goods & commodities, bank creates & controls money market & promotes formation of capital.

Bank is a powerful medium to bring socio-economic changes in a developing country like Bangladesh. The three important sectors in Bangladesh like Agriculture, Commerce & Industry provide the bulk of the country's wealth. So the nourishment of these sectors is only possible through satisfactory banking facility. Development of banking system can provide the necessary boost for the rapid economy growth of a country.

Basically, Bank collects deposit from the customers at a lower rate of interest & lends it to the borrowers at a higher rate of interest considering the cost of fund. The difference amount indicates the operating profit for a bank.

Banks provide different services, credits to the customers. The customer comes from all walks of life, from a small business to a multi-national corporation having its business activities all around the worlds. The bank has to satisfy the requirements of different customers belonging to various social groups. The banking business has therefore become complex & requires specialized skills. It functions as an agent for bringing about economic, industrial growth, & prosperity of the country. As a result different types of bank with various services have come in to existence to suit specific requirements.

1.2 Objective of the report

The objective of this internship report means the purpose of the internship program & the learning & finding through the period. This report has put emphasized to identify the existing and probable risks on Credit Risk Management Systems of the City Bank Limited. Meanwhile, evaluating the risk on lending and making the risks at a tolerable extent is very important. The prime objectives behind this report are pointed bellow:

- ❖ Identify the weakness and limitations of the existing credit risk management systems and tools.
- ❖ Review the existing credit risk management systems, tools & techniques in banks.
- ❖ Review the existing and probable core risk factor for the bank.
- ❖ Identify the existing and future credit risk of the bank.
- ❖ Identify the strength & weakness of existing credit risk management systems.
- ❖ Find out and explore the appropriate tools and techniques for managing the credit risk.
- ❖ Find out the ways and means to minimize the risk on credit.
- ❖ Find out a common standard credit risk management systems for the banks.
- ❖ Examine the influencing factor for deteriorating the loans.
- ❖ Find out ways and means to recover deteriorate loans & advances of the banks.
- ❖ Find out recommendations to prevent new bad loans.
- ❖ Search for the ways and means to overcome the limitations and weakness of credit risk management systems.

1.3 Methodology

The internship report has been written on the basis of information collected from primary as well as secondary sources. The primary information has been collected from the personnel, in this case I have used physical attendance to get positive, negative both sides of the company. I also collect information from managers of the company.

1.3.1 Primary Data Collection:

The main source of the primary data collection of my report was my discussion with senior officers of the Credit Risk Management (CRM) & Credit Administrative Division (CAD) of the City Bank Limited & their opinions & comments. It helped me to collect the essential & vital information to make my internship report. The people of CRM sectors & their face to face information is my primary data.

1.3.2 Secondary Data Collection:

The secondary data collection I have collected from several kinds of sources.

➤ **Sources of Data /information**

Data has also been collected from secondary sources. Necessary data and information has been collected by the following sources:

1. Credit Policy Manual of the City Bank Limited.
2. Credit Instruction Manual of the City Bank Limited.
3. Circulars, letters and memos issued by the Banks and regulatory organization i.e. Bangladesh Bank and Govt.
4. Prudential Guidelines on Credit Risk Management issued by Bangladesh Bank.

5. Annual report of city bank limited
6. Annual report of Bangladesh bank.
7. News papers and journals
8. Internet and websites.

➤ **Methods of Data Collection**

Reviewing the materials i.e. Policy and guidelines regarding Credit Risk Management, visiting to the concern internet website was the methods of data collections. The data and information has been collected fully form secondary information. By-

1. Observation
2. Analysis
3. Examine the tools and the Systems.

➤ **Instrument of Data collection**

Basically the research was of exploratory nature and sampling was non-probabilistic too. Qualitative data are analyzed critically using judgmental technique. Several statistical and analytical methods and tools were used for analyzing the gathered information from the sources.

1. Reviewing of the Credit Policy. Credit Instruction Manual
2. Reviewing of Bangladesh Bank Circulars, City Bank Circulars
3. Annual report of the bank and Bangladesh Bank.
4. Visit to the internet website i.e. Bangladesh Bank, Google. etc.
5. Oral discussion with the Credit Risk Managers.

- The other sources are News Papers, The Web address of **The City Bank Limited** (www.thecitybank.com) the internal & external web address.

1.4 Limitation of the Study

As I did my internship program in The City bank Limited & I worked in The Credit Risk Management division so my report is fully based on the credit risk management of the bank. But to prepare this report I face little difficulties and I also get some limitations which are:

- Sufficient records & publications as well as up to date information are not readily available.
- Many more information could not accumulate for the resources of maintaining confidentiality.
- During my internship period I do not have that much time to visit other branches to collect more data & take interview to the officers & executives of the bank cause they are very much busy with their day to day activities.
- Time duration of my internship period is not sufficient enough to prepare my report the best one but where I tried my best to make it an effective report.
- Another limitation of this report is that the Bank's policy of not to disclose some data & information for obvious reason, which could be much more useful.

In spite of these limitations sincere efforts have been made to fulfill the findings & objectives of this report an effective one.

1.5 Scope of the Study

The report commences with the outline of the organization in focus, presenting the mission and vision, individual department job responsibilities, Credit Risk Management & Credit Risk Analysis related issues are discussed in detail along with their results and possibilities. In this report is all the aspect of credit risk management has been discussed detailed by those the management can take decisions regarding modifying their plans for granting loans and can strengthen the relationship with the business environment as well as with the stakeholders and clients.

2.0 Company Profile

I completed my internship program in The City Bank Limited. The City Bank Limited is one of the eldest private Banks in Bangladesh. The Bank has been operating since 1983 with an authorized capital of **Tk. 1.75 Billion** under the entrepreneurship of twelve prominent & leading businessman of the country. The noble intention behind starting this Bank was to bring about qualitative changes in the sphere of Banking and Financial management. Today The City Bank serves it's customers at home & abroad with 82 branches spread over the country & about three hundred overseas correspondences covering all the major cities and business centers of the world.

2.1 History of the City Bank Limited:

The City Bank Limited was incorporated as a public limited company in Bangladesh under Companies Act, 1913. It commenced its banking business from March 14, 1983 under the license issued by Bangladesh Bank. Presently the bank has 86 branches as at 28 March 2010. Out of the above 86 Branches, 01(one) bank is designated as Islamic Banking Branch complying with the rules of Islamic Shariah, the mode of operation is substantially different from other branches run on conventional basis. The bank is listed with Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited as a publicly traded company for its general class of shares.

The City Bank Limited, a leading 1st generation private commercial Bank in Bangladesh. The bank is committed to provide high quality services to its constituents through different financial products and profitable utilization of fund and contribute to the growth of GDP of the country by financing trade and commerce, helping industrialization, boosting export, creating employment opportunities for the educated youth and encouraging micro-credit leading to poverty alleviation and improving the quality of life of the people and thereby contributing to the overall socio-economic development of the country.

The services encompass wide diversified areas of trade, commerce & industry which tailored to the specific needs of the customers and are distinguished by an exceptional level of prompt and personal attention. Over the years the Bank has expanded the spectrums of Its Services. The extensive and ever growing domestic network provides and carries various products and services to the doorsteps of millions.

The City Bank Limited has already introduced some new Banking products like dual currency Credit Cards, ATM and Online services which has created attraction among the clients. The Bank has also introduced real time Internet, SMS and Phone Banking systems with all modern delivery channels.

For significant performance, The Bank has earned national & international recognition. The City Bank Limited was one of the 12 Banks Of Bangladesh among the 500 Banks in Asia for it's asset, deposit & profit as evaluated by "ASIA WEEK" In The Year 2000. Other than that, The City Bank Limited received the "Top Ten Company" award from the Prime Minister of the People's Republic Of Bangladesh.

The City Bank Limited has a distinguished Board of Directors which consists of thirteen successful and reputed businessmen. Mr. Aziz Al-Kaiser, a top leading businessman, industrialist, pioneer personality & entrepreneur of private sector's Bank in Bangladesh, is the Chairman of the Bank. Mr. Kazi Mahmood Sattar a dynamic, nationally & internationally reputed Banker is the Managing Director and CEO of the Bank.

The new Logo

It's a simple logo. Its beauty is in its simplicity of arrangement which is truly bold. Since it is simple, it connects with people easily.

1. The red and silver shape may mean a chess board. Chessboard stands for wisdom & vision. Since we are 25 years old, we are expert, wise & experienced. Chess is the game of the smart people who knows all the moves. Our game is to deal with your money matters and – as wise & experienced bankers, we are experts in that.

2. The red and silver shape may also mean something dynamic. It may mean the checkered flag of Formula One Racing. Then it signifies speed and agility & fast pace.

3. The red and silver shape may also mean a kite. It's a beautiful colorful kite, nose up, going to reach for the sky. In that case, it means the bank is soaring high into the skies of many possibilities in order to make customers' financial dreams come true

4. The red and silver shape may also mean it's a flying chessboard. It's a chess-board that has taken wings and is flying. In that case it indicates to what extent this bank can go to serve its customers better

The logo has a dynamic shape. Such dynamism stands for modernity, the 21st century. That signifies, this is going to be a techno-savvy bank, a state-of-the-art tech-powered modern bank

The color 'red' stands for emotion, passion, strength, vitality, action, confidence & courage.

The color silver symbolizes riches, just as gold does. Silver is glamorous & distinguished. Silver is the traditional 25th anniversary color or Silver Jubilee color. Another thing is: "Pieces of silver" means money or coin. And our pay-off line is "Making Sense of Money".

Now the pay-off line "Making Sense of Money". No money, no bank. We all know how important money can be for any of us. Money is a need all by itself. It is the most precious thing. Money is the port key to any destination. It is everything between a person and his / her dreams & hopes. So, the money which is almost synonymous to life must make sense. And for your money to make sense, it must be handled by an expert. That is where we come in. We say, we make sense of your money. Because, at City, we are wise men of banking. With 25 years of experience, we know how to make your money more meaningful for you, how to lend you money in times of your needs or how to grow your money safely for you.

2.2 Company's information at a glance:

1) Name	:	The City Bank Limited
2) Legal Status	:	Public Limited Company
3) Date of Incorporation	:	March 14, 1983
4) Formal Inauguration	:	March 27, 1983
5) Purpose	:	To run banking business under the umbrella of Banking Company Act 1994
6) Number of Branches	:	86 on February 28, 2010
7) Total Manpower	:	3000
8) Authorized Capital	:	Tk.1,750.00 million
9) Paid up Capital	:	Tk.1,188.00 million
10) Reserves	:	Tk.1,686.37 million
11) Total Asset	:	Tk.48,755.40 million
12) Credit Deposit Ratio	:	84 : 16 (approximate)
13) Net Profit	:	Tk 1700.00 million on December 31, 2008
14) Growth Rate	:	28%
15) Cost of Fund	:	9.50%
16) Earning Per Share (EPS)	:	39.10
17) Price Earning Ratio	:	12 times
18) Governing Law	:	Laws of Bangladesh

2.3 Vision, Mission & Objective:

Vision:

The main vision of the City Bank Limited is to be the leading bank in the country with best practices and highest social commitment.

Mission:

- To contribute to the socioeconomic development of the country
- To attain highest level of customer satisfaction through extension of services by dedicated and motivated team professionals
- To maintain continuous growth of market share ensuring quality
- To maximize bank's profit ensuring its steady growth
- To maintain the high moral and ethical standards
- To ensure participative management system and empowerment of human resources
- To nurture an enabling environment where innovativeness and performance is rewarded

Objective:

-Strategic Objectives

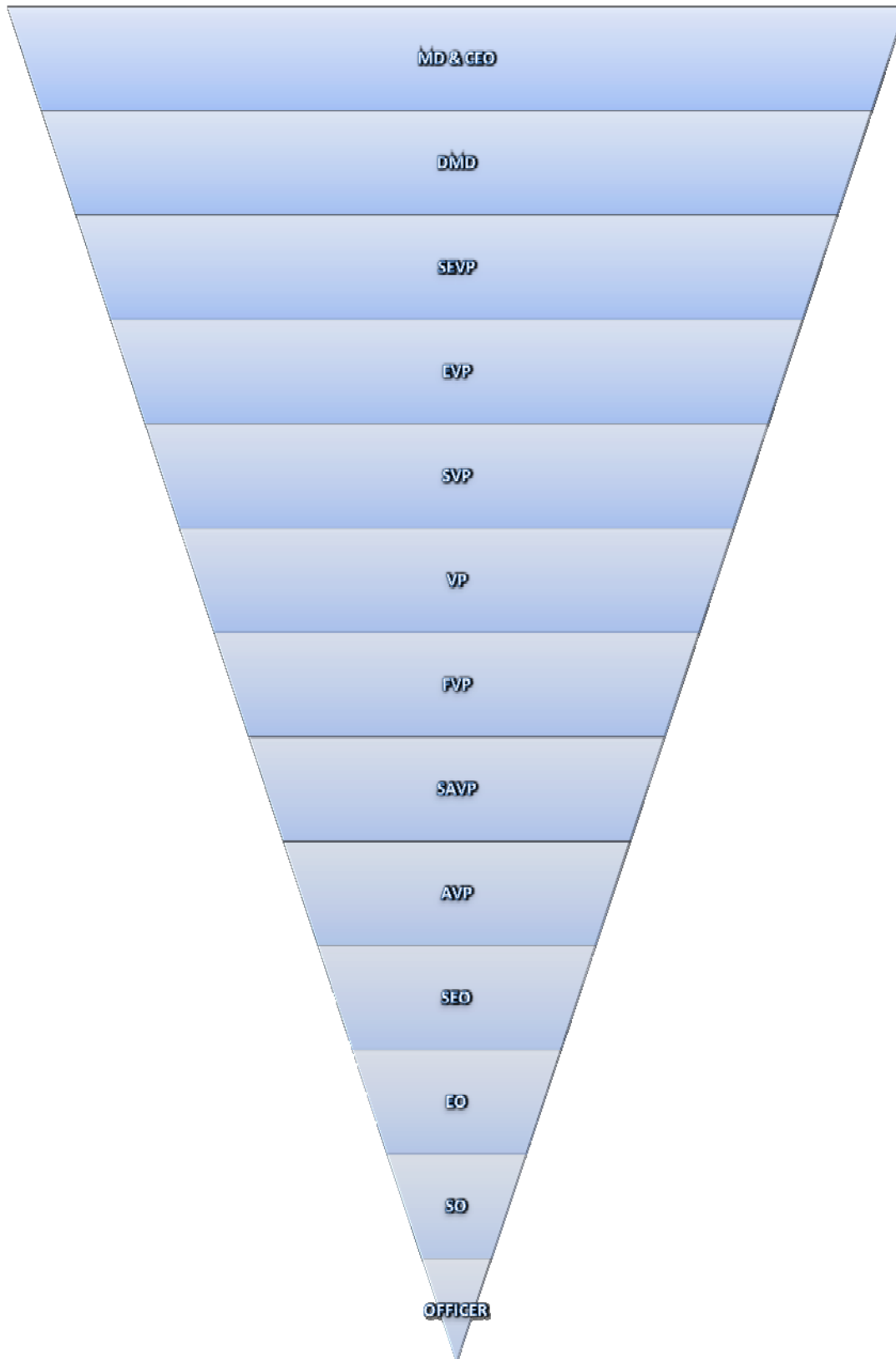
- To achieve positive Economic Value Added (EVA) each year.
- To be market leader in product innovation.
- To be one of the top three Financial Institutions in Bangladesh in terms of cost efficiency.
- To be one of the top five Financial Institutions in Bangladesh in terms of market share in all significant market segments we serve.

-Financial Objectives

- To achieve a return on shareholders' equity of 20% or more on average

2.4 Organogram/Organization Structure:

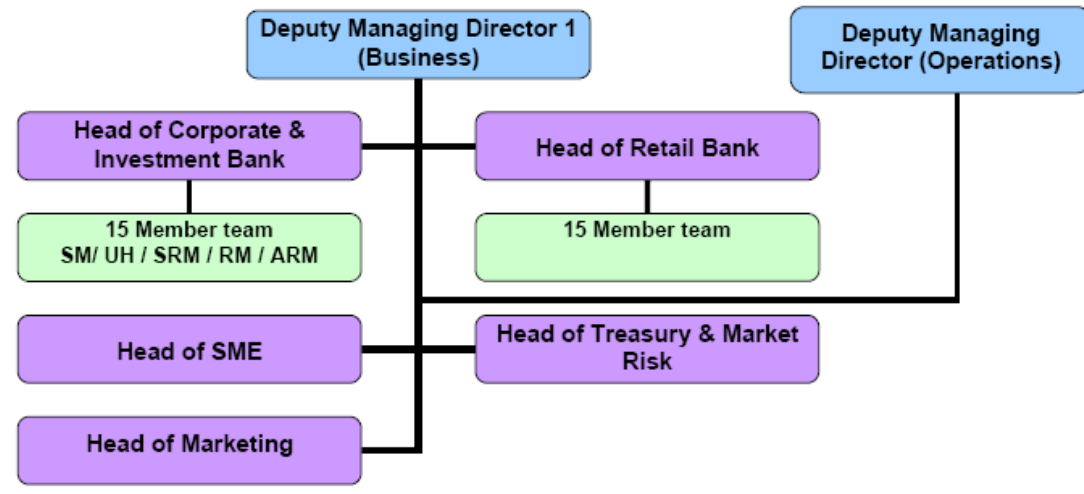
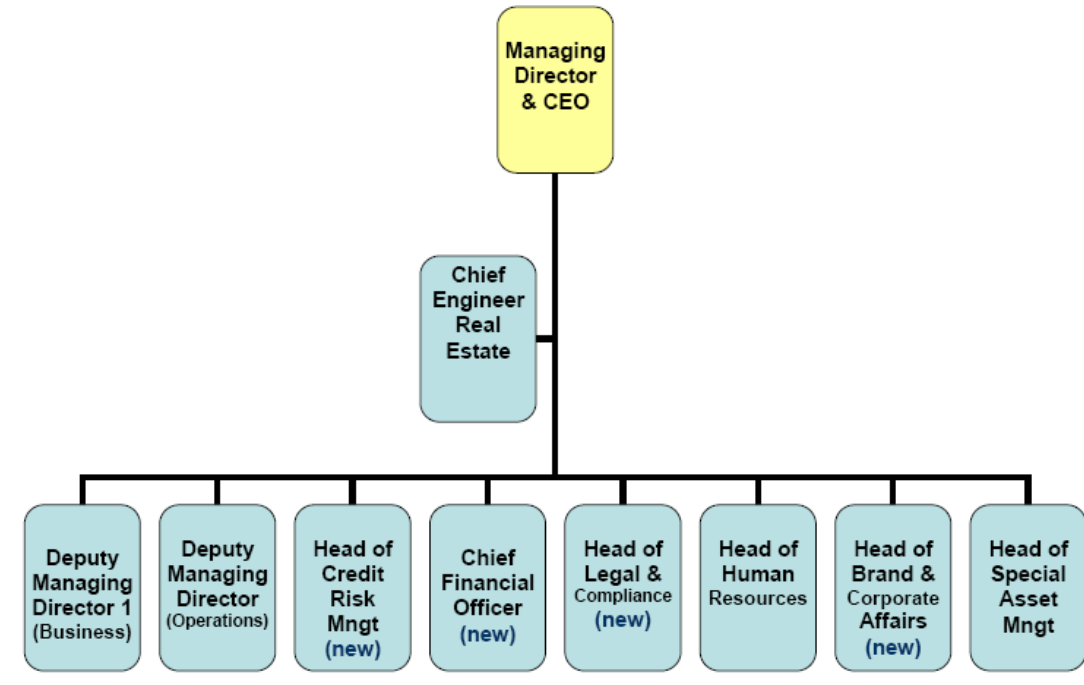
City Bank has introduced a strong organization structure under the guidelines of Core risk Management of Bangladesh Bank. The Board of directors is the source of all power which is delegated by the Managing Director and CEO of the Bank. Every Divisions and Departments has a divisional and departmental heads, under the heads an adequate manpower are working there. Officers has to report to their line manager, Line Mangers has to report to their divisional heads, Divisional heads has to report to Deputy Managing Directors, Deputy Managing Director has to report to Managing Director and CEO. CEO has responsibility to Board of Directors. A flow chart of reporting system is shown on caption 2.3 & 2.4.



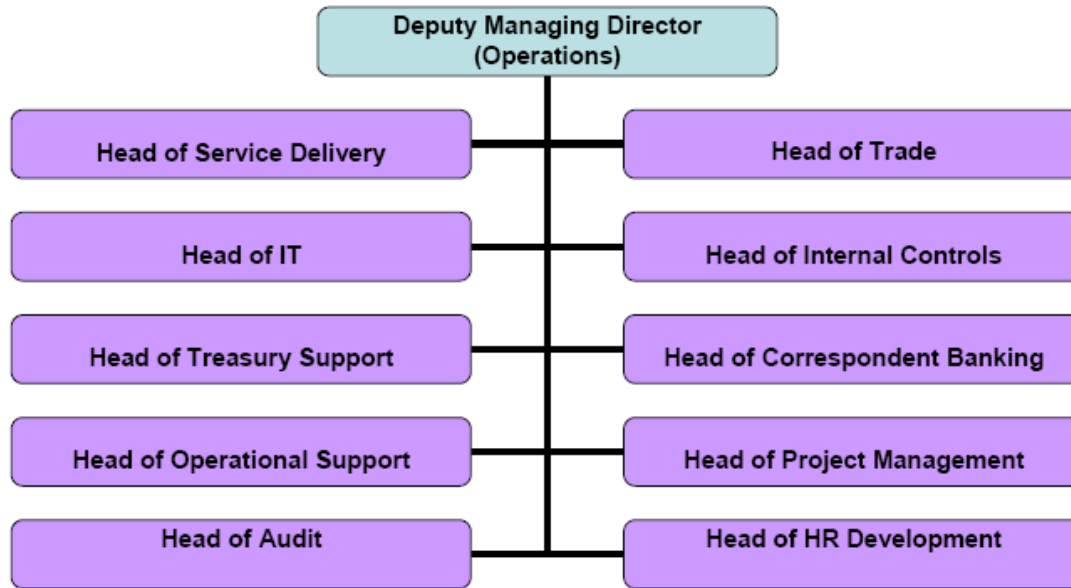
[Caption 1.0]

Organogram of the City Bank

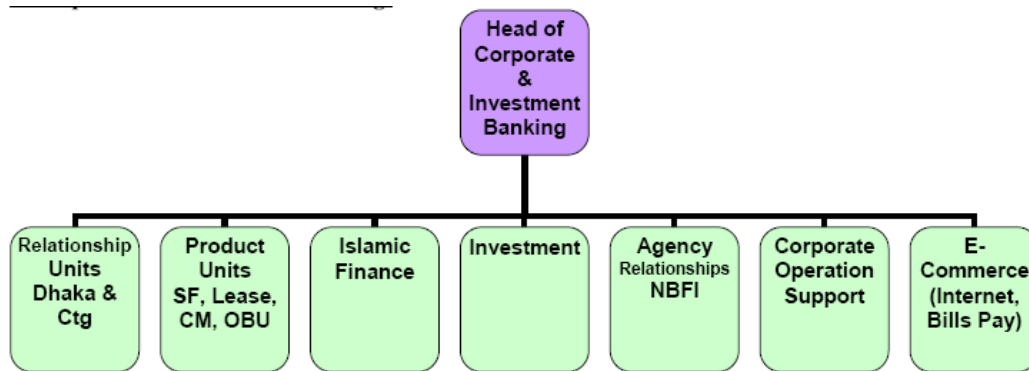
[Caption-1.2]



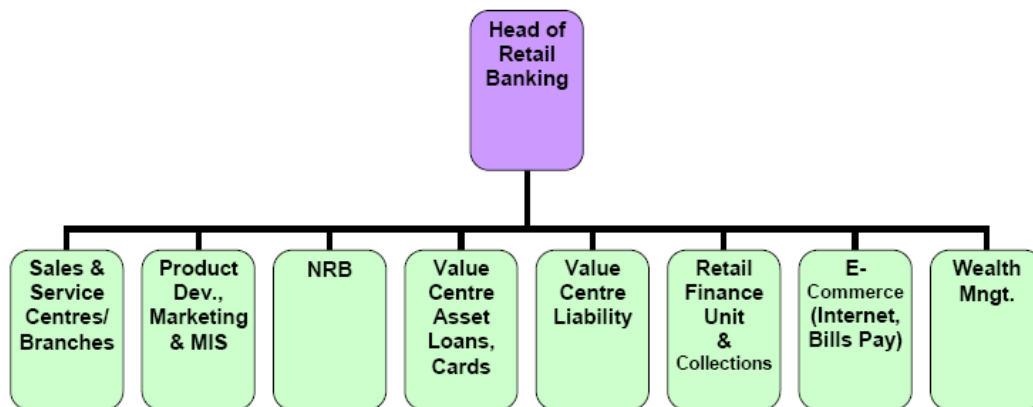
[Caption-1.3]



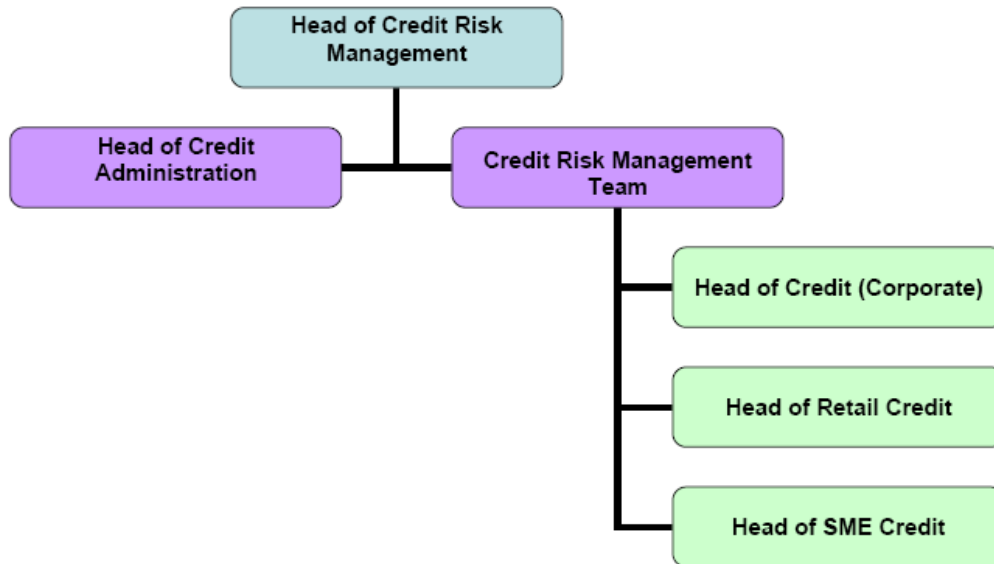
[Caption-1.4]



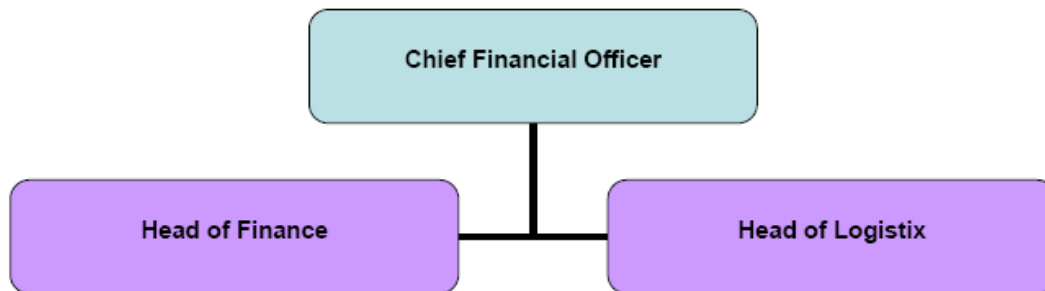
[Caption-1.5]



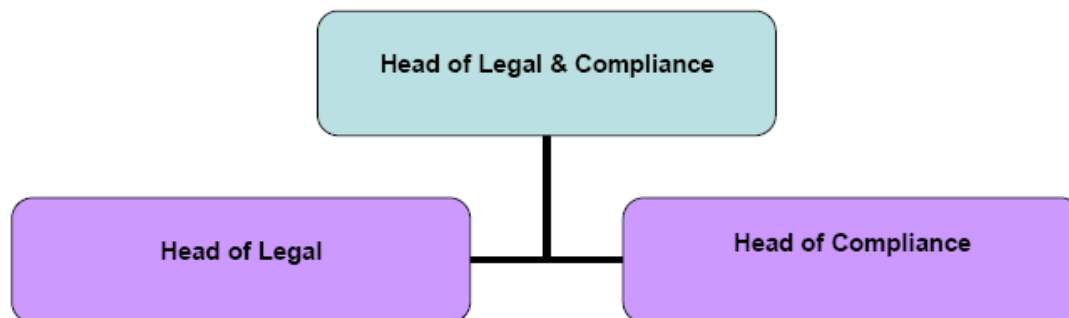
[Caption-1.6]



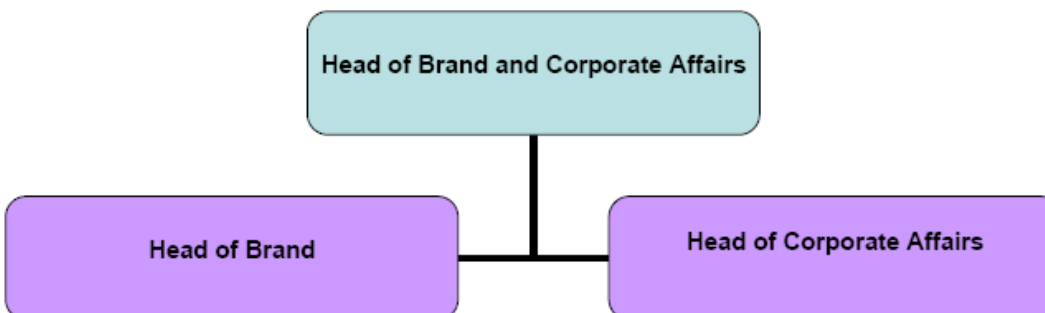
[Caption-1.7]



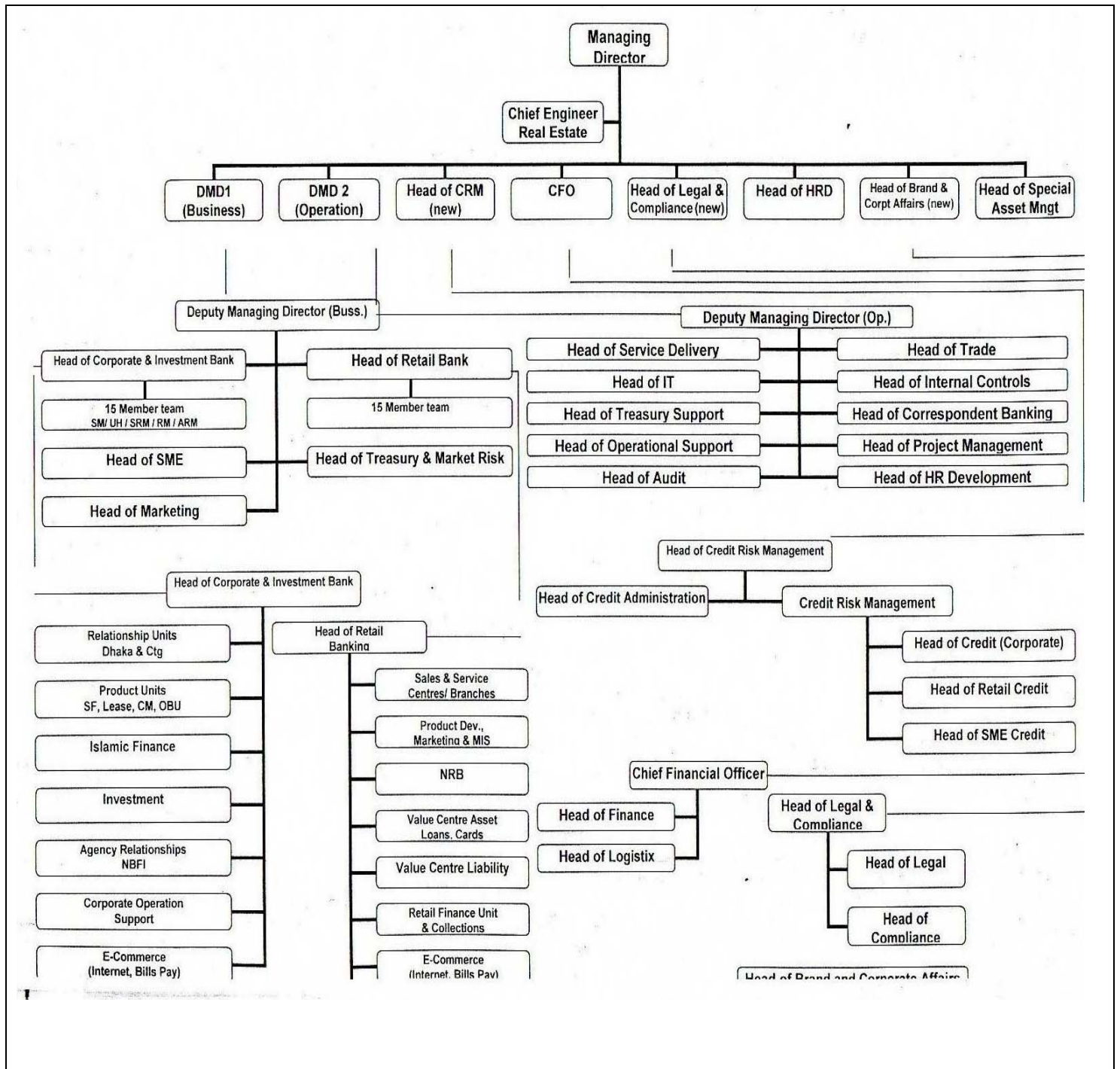
[Caption-1.8]



[Caption-1.9]




[Caption-1.10]



[Caption-1.11]

2.5 Employment Structure:

To attain a diversified and competent workforce is the human resource policy of City Bank. City Bank has a group of efficient Executive & Officers. Skilled personnel have taken into the Bank as a leading Bank in Bangladesh. As on Dec 2008, 2,163 number of capable and knowledgeable workforce has been working in City Bank. The ratio of Male and female workforce are now **73:27**. The ratio of High level, mid level and Lower level are **15%, 35%** and **50%** respectively. A grade wise employment structure and summary of workforce is given Table 2.2.

 Human Resources Division Gradewise Manpower Summary, as on December 31, 2008					
SL NO	Designation	Male	Female	Total	Remarks
1				1	
2	MD	1		1	
3	DMD	3		3	
4	SEVP	2		2	
5	EVP	6		6	
6	SVP	8		8	
7	Head of HR Trainin	1		1	
8	FVP	16	1	17	
9	VP	39		39	
10	SAVP	63	2	65	
11	AVP	137	9	148	
12	SEO	145	6	151	
13	EO	254	15	270	
14	SO	188	27	219	
15	Officer	153	82	252	
16	JO	36	20	56	
17	SECO	5		5	
18	ECO	61		61	
19	SCO	90		91	
20	CO	47		60	
21	JCO	59	37	96	
22	ACO	17	16	33	
23	PA		1	1	
24	Stenographer	1		1	
25	Sr.Com.Op	62		62	
26	Com.Operator	36		36	
27	Tel. Operator	6		6	
28	G. Keeper	13		13	
29	Electrition	2		2	
30	Generator Operator	2		2	
31	Driver	48		48	
32	S. Guard	176		176	
33	Plumber	1		1	
34	Attendant	187		187	
35	G. Chowkider	34		34	
36	Clenar	7		7	
37	Gardener	2		2	
Grand Total		1908	216	2163	

2.6 SWOT Analysis:

Every organization is composed of some internal strengths and weaknesses and also has some external opportunities and threats in its whole life cycle. The following will briefly introduce the customers to the City Bank's internal strengths and weaknesses, and external opportunities and threats as explored in the past few years by different studies and observations:

Strengths:

- **Superior quality:** City Bank Ltd. provides its customers excellent and consistent quality in every service. It is of priority that customer is totally satisfied.
- **Dynamism:** City Bank Ltd. draws its strength from the adaptability and dynamism it possesses. It has quickly adapted to the world class standard in terms of banking services. City Bank Ltd. has also adapted state of the art technology to connect with the world for better communication to integrate facilities.
- **Efficient Management:** All the levels of the management of City Bank Ltd. Limited are solely directed to maintain a culture for the improvement of the quality of the service and development of a corporate brand image in the market through organization wide team approach and open communication system.
- **Effective Strategy:** City Bank takes many effective strategies for the achievement of the organizations goals.
- **Experts:** The key-contributing factor behind the success of City Bank Ltd. is its employees, who are highly trained and most competent in their own field. City Bank Ltd. provides their employees training both in-house and out side job.

Weaknesses:

- Divisions are not properly well organized. Planning and decision making is still the concern of Head Office as it has a centralized management. Branch has a limited opportunity to access the power.
- **Less number of workforces:** City Bank Ltd. has limited human resources compared to its financial activities. There are not many people to perform most of the tasks. As a result many of the employees are burdened with extra workloads and work late hours without any overtime facilities. This might cause high employee turnover that will prove to be too costly to avoid.
- **Lack of coordination:** The divisions of the bank sometimes face difficulty because of lack of coordination among the departments and employees.

Opportunities

- City Bank has a strong Managerial Team. So, they can take any robust initiatives to make well of the organization.
- Government of Bangladesh has rendered its full support to the banking sector for a sound financial status of the country, as it has become one of the vital sources of employment in the country now. Such government concern will facilitate and support the long-term vision of City Bank Ltd.
- Evolution of E-Banking as emergence of e-banking will open more scope for City Bank Ltd. to reach the clients not only in Bangladesh but also in the global banking arena. Although the bank has already entered into the world of e-banking but yet to provide full electronic banking facilities to its customer.
- Banking and information technology might give the bank leverage to its competitors. Nevertheless there are ample opportunities for City Bank Ltd. to go for product innovation in line with the modern day need. The Bank has yet to develop Channel financing, lease financing and merchant banking.

Threats:

- Mergers and Acquisition is the worldwide trend of merging and acquisition in financial institutions is causing concentration. The industry and competitors are increasing in power in their respective areas.
- Inadequate Research and Development works and budget.
- Poor Telecommunication Infrastructure where the world is advancing e-technology very rapidly. Though City Bank Ltd. has taken effort to join the stream of information technology; it is not possible to complete the mission due to the poor technological infrastructure of our country.
- Frequent devaluation of Taka and exchange rate fluctuations and particularly Southeast Asian currency crisis adversely affects the business globally and recent World Financial Crisis also affected the bank operations in some extent.
- Due to high customer demand, more and more financial institutions are being introduced in the country. There are already 52 banks of various types are operating in the country. Many banks are entering the market with new and lucrative products. The market for banking industry is now a buyer-dominated market. Unless City Bank Ltd. can come up with attractive financial products in the market; it will have to face steep competition in the days to come.

2.7. Types of credit facilities

The City Bank Limited is continuously introducing diversified, tailor made and derivatives products along with usual Banking Products. At present CBL offers the following facilities:

Sl. No.	Particulars
1.	Trade Finance
Non Funded	
a	Letter of Credit
b	Acceptance
C	Bank Guarantee
Funded	
a	Loan against Trust Receipt (LTR)
b	Payment against documents (PAD)
c	Inland Bill Purchase (IBP)
d	Foreign Documentary Bill Purchase (FDBP)
e	Inland Documentary Bill Purchase (IDBP)
f	Short Term Loan (STL)
g	Short Term Revolving Loan (STRL)
2.	Project Finance
Non Funded	
a	LC for import of Machinery
b	Acceptance
c	Bank Guarantee

Funded	
a	Short Term Loan (STL)
b	Short Term Revolving Loan (STRL)
c	Term loan
d	Hire Purchase
e	Lease Finance
f	Loan General
g	House Building Loan (Commercial)

3.	Working Capital (For Industrial Finance)
Funded	
a	Overdraft (Hypo),
b	Overdraft (Pledge),
c	Payment against documents (PAD)
d	Loan against Trust Receipt (LTR)
e	Short Term Loan (STL)
f	Short Term Revolving Loan (STRL)
g	Inland Bill Purchase (IBP)
h	SODSE
Non Funded	
a	LC for Import of Raw Materials

b	Acceptance
c	Bank Guarantee
4.	Working Capital (For Work Order)
Funded	
a	SOD (work order)
b	SOD (General)
Non Funded	
a	Letter of Credit (L/C)
b	Bank Guarantee
5.	Commercial Lending
Funded	
a	Overdraft (Hypo)
b	Overdraft (Pledge)
c	SOD
d	OAD
e	LTR
f	STL
g	STRL
h	IBP
Non Funded	
a	Letter of Credit (L/C)

b	Bank Guarantee
6	Export Oriented Business
Funded	
a	Packing Credit
b	Overdraft
c	Hire purchase
d	Lease Finance
e	FDBP
f	IDBP
Non Funded	
a	Back to Back LC
b	Acceptance
c	Bank Guarantee

City Bank Credit Products

A. Retail Asset Products:

Sl. No.	Name of the Credit Products
1.	City Drive
2.	City Solution
3.	City Express Cash
4.	City Express Loan

5.	Consumer Credit
6.	Loan General
7.	Resident House Building
8.	Money Multiplier
9.	SOD

B. SME Asset Products:

Sl. No.	Name of the Credit Products
1.	City Munafa Installment
2.	City Muldhan
3.	City Sheba
4.	City Shulov
5	City Nokshi
6	City Swanirvar
The last three products have the following break up	
a	Revolving
b	Installment
c	Letter of Credit
d	Bank Guarantee
e	Inland Documentary Bill for purchase

C. Corporate Asset Products:

Sl. No	Name of the Credit Products
1.	Advance against cash incentive
2.	Loan against imported merchandise
3.	Loan against trust receipt
4.	Export cash credit /packing credit
5.	Mid term loan
6.	Demand loan
7.	Lease finance
8.	Payment against documents (PAD)
9.	Cash Credit (Pledge)-Over Draft (OD)
10.	Cash Credit (Hypo)-OD
11.	Export development fund
12.	Secured overdraft (SOD) (FO)
13.	Secured overdraft (SOD) (Others)
14.	Inland Bills purchase (IBP)
15.	Foreign Bills purchase (FBP)
16.	Long term industrial loan
17.	Hire purchase (industrial)
18.	Advance against cash incentive

D. Islami Banking Products (Corporate)

Sl. No.	Name of the Credit Products
1.	Murabaha Import Bill (MIB)
2.	Muarabaha post import (MPI)
3.	Musharaka pre shipment
4.	Bai muazzaal (industrial)
5.	Bai muazzaal (others)
6.	Ijara (Lease)
7.	Murasha (commercial)
8.	HPSM -real estate
9.	Bai-salam
10.	Quard against TDR
11.	Bai muazzaal (real estate)
12.	Bai muazzal (Trust receipt)
13.	Bai muazzaal (commercial & Investment)

3.0 Overview of the Topic: Credit Risk Management

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

Credit risk, therefore, arises from the bank's dealings with or lending to corporate, individuals, and other banks or financial institutions. Central to this is a comprehensive IT system, which should have the ability to capture all key customer data, risk management and transaction information including trade & Foreign Exchange. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization, consolidation and disintermediation, it is essential that banks have robust credit risk management policies and procedures that are sensitive and responsive to these changes.

In formulating a credit judgment and making quality Credit Decisions, the lending officer must be equipped with all information needed to evaluate a borrower's character, management competence, capacity, ability to provide collaterals and external conditions which may affect his ability in meeting financial obligations.

3.1 Credit Risk Management in the Organization

All Business Heads, Business Managers, Unit Heads, SRM/RM/ARM, LO's as well as Credit Risk Management Officers will be individually accountable for identifying and managing the risk of their portfolios, since they are closest to their markets or in the case of Credit Risk staff in a position to ascertain through the business units as well as through own means. They must understand the risk/reward dynamics of each product offering and manage these effectively. They will also ensure adherence to the Credit Policy Manual.

Credit Policy Manual (CPM) contains the core principles for identifying, measuring, approving and managing credit risk in the Bank. These policies are established by the Board of Directors (BOD), and are designed to meet the organizational requirements that exist today, and to provide flexibility for the future. These policies represent the minimum standards for credit extension by the bank, and are not a substitute for experience and good judgment. The policy guidelines have been established to shape and define the acceptable risk profile of the City Bank Ltd. (CBL) and to provide guidance in responding to business opportunities as they arise. There will be occasions when exceptional circumstances exist which, in the opinion of senior management, warrants the extension of credit as an exception to this Credit Policy Manual (CPM).

An independent Credit Risk Management functions:

To be performed by the HOCRM. He acts as the counterweight to the sales and marketing function and is a major contributor to the financial health and profitability of the organization. It should be noted that the level of risk appetite (versus return) for the bank will be jointly recommended by the Business & Credit function heads & approved by DMD (Business) and or Managing Director.

Multiple signers:

Every Credit Application must be signed by Relationship Manager, Respective Unit Head and Respective Business Head before submission to CRM:

1. Risk Manager/Officer in CRM shall recommend the credit if placed for HOME, HOSME, HOCRM's approval singly or jointly, as per credit delegations. However copies of all approvals by business units singly must be sent to Credit Admin who will copy same to CRM.
2. Risk Manager/Officer, and HOCRM recommend the credit if placed for MD/DMD approval;
3. Risk Manager/Officer, HOCRM, and MD/DMD shall recommend if placed for approval of the BOD.

Credit Administration Unit will also confirm independently operational details of approval memo (security status, KYC status, CIB & other regulatory status, account opening documentation, trade service outstanding, Regulatory issues).

An independent Audit Function:

The Independent audit function performs a review of each business unit on a regular basis (minimum annually) and provides opinion on the quality of the credit process and portfolio. The Business Head jointly with the HOCRM is responsible for remedial action on every identified shortfall.

Executive Committee & Audit Committee:

The Executive Committee & Audit Committee to be formed by the certain members of BOD and the Managing Director, to dispense the urgent credit approvals. A separate Terms of Reference (TOR) of the Executive Committee to be approved by the BOD

Credit Committee:

Senior Officers of all functional units review the Bank's strategy, portfolio and vulnerabilities on a regular basis (minimum six monthly). They recommend to the MD & CEO or board as appropriate, strategic direction for the Bank's business while ensuring that the bank's risk. And profitability objectives are optimized. HOSME, HORB, HOCRM, CFO, DMD business, DMD OPS shall constitute this committee until an expanded Credit committee with appropriate skill sets are available. Generally HOCRM is the head of Credit Committee.

3.2 Procedure and Execution

3.2.1 Business Plan/Budget by Corporate, SME, Consumer business units

Each Business Unit (Corporate, SME & Consumer) must develop a Business Plan based on opportunities prevailed in its marketplace. The Business Plan will set concentration limits and target markets. It will also specify acceptable terms for risk-taking criteria as well as aggregate portfolio amounts. The CRM will be an integral part of this process. Business Heads, together with HOCRM establishes standards for credit process management and portfolio quality that are appropriate for business.

3.2.2 Credit Process Standards

HOCRM must ensure compliance with the Credit Process Standards. Where a business unit is not within standards, an action plan must be drawn up for bringing the processes in line within a reasonable time frame. In cases where compliance is impossible, DMD (Business) or MD will review and give dispensation, if required.

Credit Process Standards support the functional level credit policies by setting process standards for the whole credit risk cycle from initiation/approval, loan portfolio management to collection/recoveries and scorecard development. Credit Process Standards describe in detail "How to do" and aim to bring all business units up to the prescribed level of excellence. Credit Instruction Manual (CIM) will set the Process Standards.

3.2.3 Credit Instruction Manual (CIM)

CIM represents the execution aspect of the risk management process for a business. It defines practices in terms of process, competency, productivity benchmarking and control for a business to ensure that the standards are met and complied with. HOCRM is responsible for ensuring the CIM is updated and of sufficient detail to cover all approved products for the Business Units.

HOCRM also has to ensure that adequate training is imparted to all the stakeholders in credit process as well as support functions. The objective is to ensure that processes are well understood and fixed in the system.

CIM, at minimum, shall cover the following issues:

Target Market: Methodology for identification of the desirable market segment, and broad criterion of customers to be solicited.

Credit Initiation: Credit approval criteria (including judgmental), methods of calculation of debt burden, account verification processes/guidelines and collateral appraisal policies, etc.

Risk Grading: Borrower Risk Grading, procedures on the use of risk grading, pre-screen criteria, cut-off selection and justification, override rules, data verification procedures and credit line assessment, required MIS, and ongoing monitoring systems.

Credit Investigation: Policies on obtaining credit related information, and use of those information. Also policies on use of credit rating/report from recognized third party credit Rating Agencies, if available.

Approval authority: Delegation of authority and approval limits to different officials in conformance with the policies established by the BOD.

Documentation: Required legal documentation, storage, custody, annual review process, documentation deferral criteria, and approval hierarchy should be documented.

Completion of transaction: Processes for disbursement of funds, authorization of disbursement, line setting, custody and controls where appropriate.

Collateral/Security: Verification and appraisal process including margin maintenance, insurance requirements including annual renewal of insurance and lien confirmation, procedures to ensure lien/ title perfection, and MIS to track exceptions, where necessary.

Maintenance: Review processes and mechanisms for line increases/decreases, installment loan top-ups, renewals, excesses etc.

Customer service: Dispute resolution procedures, statement policy, process to handle address changes, process for handling proceeds from credit insurance collections (if any), repayment and releasing liens/security.

Third party: Use of third parties, policies to manage, compensate, train and review their performance. Criteria for periodic and surprise visits and inspections including on-site audits.

Collections/Remedial Management: Detailed policies and procedures for collection and management of classified accounts; necessary equipment and systems, MIS, follow-ups, collectors' training.

Write-offs: Procedures for specific provisions, write-downs and early write-off criteria in case of fraud, deceased customer and bankruptcies, criteria for handling recoveries including payment hierarchy, where credit or collateral insurance exists, processes to manage claim from insurance companies.

Repossessions/Foreclosure: Triggers for and management of repossessions/foreclosures. Policies and procedures for maintenance/upkeep, custody (in case of repossessed cars), auction and sale of foreclosed assets and criteria for sale of written off portfolios.

Data integrity: Processes to ensure complete accuracy and integrity of data and timeliness of updates between various systems. Issues of data integrity/accuracy must be resolved.

Debt Relief Programs: Criteria and delegation of approval authority for loan restructuring, rescheduling. Accepting partial payments, conversion from revolving line to loans, establishing work- out plans, handling bankruptcies, referring customers to credit counseling services, abandonment decisions.

Other detailed contents suggested for inclusion time to time on agreement of MANCOM and/or Board of the Directors.

3.2.4 Business Policy Document (BPD)

The BPD outlines the credit criteria under which the business units will operate.

3.3 Credit Philosophy

Bank's commitment is to achieve excellence in credit risk management culture by taking informed risk relying on the prudence of individuals having value building leadership ability, creativity, and integrity working with a priority to protect bank's overall interest.

3.4 Credit Values

To achieve the objective of achieving excellence in Credit Risk Management, some Credit Core Values have been drawn up to cultivate and drive our behavior towards highly efficient and quality credit function. Compliance to these Core Values must be an integral part of every officials of the bank.

Honesty:

All officials must observe the highest standards of professional integrity when granting or approving credits. Decision must be based on the merits of the proposal and these must adhere to prevailing Credit Policies. Under no circumstances, credit approvals to be made:

- Solely as an accommodation to customer's request
- Against any offers of personal benefits
- To gain financial favors for family members or friends
- Under any duress or coercion

Any departure from one's personal credibility and the judicious use of approving authority is to be strongly discouraged and failure to observe these rules will result in disciplinary actions.

Trust:

They must trust each other to behave honestly. If an official has a responsible point of view regarding any risk matters, then the official should have raised it to Senior Management. Senior management shall be committed to confront the truth behind these disclosures and support this policy as follows:

Matters raised will be investigated thoroughly

Report will be treated in sensitivity and every effort will be made to preserve confidentiality

Outcome of the investigation will be advised to all parties concerned

- Based on findings, appropriate actions will be taken

Sincerity:

Sincerity relates to intention to convey the truth as best we know it and to avoid communicating in a way likely to mislead or deceive. They must deal with all credit decisions in an open or transparent manner by keeping approving officers fully and promptly informed of any reservations relating to a proposed credit. Approving officers are to consult freely with others who possess special knowledge or expertise to enrich the decision process. If a credit is not structured in the interest of the Bank, the credit officer must evaluate the deal to confine the risk to pre-defined and reasonable limits. If after re-evaluation, the risk is still not acceptable, then the proposal must be rejected.

Equilibrium:

Balanced decision-making uses open and unbiased processes for gathering and evaluating information necessary to make the decision without favoritism or prejudice. In the context of credit risk management, when extending credit, there must be a view to balance the quality of credit risk with the revenue opportunities. In the process, they do not compromise compliance for revenue. Taking short cuts to achieve revenue targets may expose the Bank to risk. The penalty would be severe disciplinary action for anyone doing this. To achieve a balanced approach, they must observe these core credit disciplines:

A searching out process for all credit risks inherent in a credit proposal

Risk Evaluation/Re-evaluation

Risk/Reward Matching that establishes parameters within which the business can contain the credit risk against a price premium.

Control & Monitoring to observe how the performance of customers is monitored.

Diligence:

They must act with care and diligence and display professional skills in the conduct of every aspect of the credit process. Credit policy must be applied in a consistent manner and all credit officers are to make decisions based on information and risks that are fully understood and can be justified. Information should not be analyzed simply for the sake of analysis. It must be challenged, validated and proven.

Credit Instruction Manual supports the functional level of bank's credit policies by setting process standards for the whole credit risk cycle – from Risk Grading Score Card development to initiation/approval, loan portfolio management, and remedial account management. These standards describe 'how to do' and aim to bring all related parties to the prescribed level of excellence.

Business Policy Document outlines the risks associated with products being offered by each business unit, and ensures that due consideration is given to mitigate these risks before exposure to these products. Separate Business Development Documents is to be developed by each Business Units in consideration of their business area.

Product Program Guidelines define the nature of specific products, purpose, disbursement modality, repayment arrangement, operational risks associated in dealing with these products, and general guideline in dealing with the product to related parties.

3.5 Credit Approval

A uniform loan application process for all customers is to be used by Corporate & SME (Medium Enterprise) Banking units.

The purpose of the credit facilities and sources of repayment should be clearly stated in the Limit Applications. Both qualitative and quantitative analyses must be undertaken on the customer. Qualitative analysis covers the nature and industry of the customer's business, market position, product and operating characteristics, management capabilities and adherence to critical success factors relevant to the business. Quantitative analysis addresses the customer's ability to generate funds for repayment based on historical data and future cash flows. The Limit Application should focus on highlighting the key risk issues faced by the company and the mitigating factors should be outlined against each risk that has been identified.

Credit Applications and enclosures are to be stated in the respective BPDs. The type of credit applications is to be used will be dependent on the Obligor Risk Grade, quality of collateral, and facility tenor, and must common within a specific business. Individuals/committees holding delegated authority have to approve Multi-Product Credit Applications.

In the approving side, every extension of credit must be signed by at least 2 officers.

Submissions to Board of Directors

All loan applications requiring Board of the Directors approval must be recommended/supported by HOCRM & Managing Directors.

Issues not covered by Policy

Credit Risk Managers/Officers may evaluate proposals that are fundamentally sound & worthy of consideration, even though they may not conform to the bank's written lending policy i.e. fall outside the parameters documented in BPD.

If there is a strong business rationale supporting its acceptance, such cases must be submitted to the appropriate discretionary lending authority holder for consideration. Such exceptions must be approved as per the delegated authorities.

The reason for the exception should be detailed in writing. Discretionary Loans approved under Level 3 authority are inherently higher risk exposures. Accordingly these credits must be tracked

and analyzed for performance on a regular basis. The HOCRM is responsible for monitoring performance of all credit approved with Level 3 authority on a quarterly basis.

Declined Deals

A declined loan application that is resubmitted for consideration must be routed to an authority level above the original approver for review, unless the re-submission includes new information, in which case it may be re-submitted to the original approver. It must indicate that the case was previously declined and also state reasons for the decision.

3.6 Security/Collateral

Each Business must develop detailed guidelines relating to collateral. These must cover:

- Acceptable collateral types - based on size, age, value, location, manufacturer, etc.
- Loan to Value Ratios
- Down Payment
- Margin requirements
- Collateral verification, appraisal process, re-valuation
- Documentation, Lien registration, insurance requirements
- Ongoing processes for margin maintenance, continuation of insurance etc.

In order to be recognized as security, all items liened/pledged/hypothecated/assigned/mortgaged must have value, and bank must have physical control and/or legal title thereto together with necessary documentation to enable us to realize the asset without the cooperation of the asset owner.

Acceptable collateral for loans are cash or equivalent (i.e., FDs, other deposits, etc.), equity/stock of listed companies traded on major stock exchanges, mutual funds, unit certificates, government bonds, real estate, bank guarantees, and other credit guarantees. In certain circumstances other collateral may be accepted through approval of a specific BPD, e.g., trade receivables, receivables against work orders.

Maximum LTVs

Acceptable collateral including the relevant LTVs and Collateral Recovery Rates must be approved and documented in the respective BPD and Credit Instruction Manual.

Where collateral has been taken, processes to ensure lien, creation of charge, and title perfection are required, and must be documented in the Credit Instruction Manual.

Unless exception is approved in a specific BPD, the maximum permissible LTVs/Collateral Recovery Rates (CRR) is as follows:

- Residential / Shop houses 70%
- Commercial office/building/floor 40%
- Industrial land with structure 40%
- Vacant Land in urban areas 50%
- Vacant Land sub urban areas 40%
- Matched currencies 100%
- Major traded currencies 90%
- Other convertible currencies 80%
- Blue Chip (DSE 20/CSE -30) Shares in listed companies 50%
- Mutual Funds/ICB Unit Certificates 70%

Securing Documents

The Credit Administration Department (CAD) should maintain an audit trail for collateral received from and released to borrowers, which should correspond to the actual collateral being held; and such report is to be submitted to Credit Committee/HoCRM quarterly.

Collateral/documents should be kept under dual control in a fireproof vault. The receiving and releasing of collateral to customers should be handled by individuals other than those who make entries in the collateral register.

Legal documentation such as Offer Letters must either be:

- In standard format, approved for use by Legal & Compliance without material variation.
- Specifically drafted by a panel lawyer acting for the Bank.

All securities must be perfected and conditions precedent satisfied prior to disbursement and this must be evidenced by a Security Satisfaction Certificate (SSC) issued by Credit Administration. An appropriate approval has to be obtained under a multi-product customer relationship for disbursement prior to completion of documentation. The maximum deferral period for completion of documentation is 360 days from loan approval date. Documentation deferrals are not allowable for consumer and SME (Small Enterprise) products unless they are approved in the PPG. Documentation deferrals over the approved guidelines and expired CM extension for SME (M) clients are not allowable for over 90 days.

Account Maintenance

Policies and Instructions for on-going account maintenance and review must include the following:

- Handling of customer contacts including process to update change of address, employment, income, etc., handling of return mail, resolution of customer disputes, and confirmations of balances.
- Instructions for disbursal of funds and completion of transactions.
- Operating Instructions for processing posting of temporary credits, reversals of interest, fees, etc.
- Processing insurance claims (e.g., disability, unemployment, loss of collateral due to fire, flood, etc.)

Particular care is needed for management of excesses, overdue payments, covenant breaches, late submission of financials, key management changes, and adverse market information.

3.7 Credit Risk Grading (CRG) % Functions:

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

Use of Credit Risk Grading

- The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of individual obligor, credit portfolio of a unit, line of business, the branch or the Bank as a whole.
- As evident, the CRG outputs would be relevant for individual credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to pricing (credit-spread) and specific features of the credit facility. These would largely constitute obligor level analysis.

Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of a Bank. It is also relevant for portfolio level analysis

- Credit Risk Grading is the basic module for developing a Credit Risk Management system.

Definition of Credit Risk Grading (CRG)

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

Number and Short Name of Grades Used in the CRG

- The CRG scale consists of **8** categories with Short names and Numbers are provided as follows:

Grading	Short Name	Number
Superior	SUP	1
Good	GD	2
Acceptable	ACCPT	3
Marginal/Watchlist	MG/WL	4
Special Mention	SM	5
Sub standard	SS	6
Doubtful	DF	7
Bad & Loss	BL	8

3.8 Credit Records & Documentation

Obtaining and maintaining complete and accurate information on every relevant detail of a borrower's financial condition is essential to approving credit in a safe and sound manner. The business should establish in the BPD, and Credit Instruction Manual what information will be required from the borrower during the pre-disbursement stage and what information the borrower will be required to submit while the credit remains outstanding i.e. post disbursement stage.

It is the bank's policy that no advance or takedown will be permitted until all documentation is completed, executed, delivered and registered, deferral can be allowed by the appropriate authority, if necessary. Wherever possible, each facility will be documented using bank's standard documentation checklist whilst complying with legal, regulatory and internal requirements.

Credit files must be maintained for each borrower containing sufficient information to describe fully the credit relationship history and current status. Credit files must include the following:

- All current information provided by the applicant.
- Credit approval memos, CM, etc.
- CIB reports, trade and other checks.
- Financial statements, spread sheet, Scorecard, etc.
- All correspondence.
- Disbursement, drawdown notices.
- Collateral Appraisals.
- Internal memos.
- Call reports.
- SSC, Conditional / Partial SSC, documentation checklists if any.

Credit files contain confidential information and must be maintained in safe location providing convenient access to credit approvers. They must not be removed from bank premises.

No original legal documentation may be maintained in the credit file. Standards must be established for the storage and retention of dated materials.

3.9 Documentation Retention Period

The minimum documentation retention period for all the credit records/documents will be as per Bank's Compliance Standards, or in accordance with legal & regulatory requirements if more tough than the Bank's internal standards. The retention period starts from the end date of the facility. Business must comply with the Bank's Compliance Standards relating to 'Record Keeping' and 'Record Retention'.

4.0 Comparative Analysis

All financial activities involve a certain degree of risk and particularly, the financial institutions of the modern era are engaged in various complex financial activities requiring them to put proper attention to every detail.

4.1 Credit Assessment

A thorough Credit and Risk assessment shall be conducted for all types of credit proposals. The results of this assessment to be presented in the approved Credit Appraisal Form that originates from the Credit Risk Manager and is to be approved by the Credit Committee / Executive Committee of the Board of Directors / Board of Directors. The Credit Risk Manager is the owner of the customer relationship and must be held responsible to ensure the accuracy of the entire credit application / proposal submitted for approval. The Credit Risk Manager must be familiar with Bank's Lending Guidelines and should conduct due diligence on new borrowers, principals and guarantors in line with policy guidelines.

Credit Appraisal should summarize the results of Credit Risk Managers' risks assessment and includes, as a minimum, the following details:

- Amount and type of loan(s) proposed
- Purpose of Loan(s)
- Results of Financial analysis
- Loan structure (Tenor, Covenants, Repayment schedule, Interest)
- Security Arrangements

KYC Concept:

- The Credit Risk Managers / RM must know their customers and conduct due diligence on new borrowers, principals and guarantors to ensure such parties are in fact who they represent themselves to be i.e., Know Your Customer (KYC).
- The Banker – Customer relationship would be established first through opening of CD/ STD / SB accounts. Proper introduction, photographs of the account holders / signatories, passport, Trade License, Memorandum and Articles of the Company, certificate of incorporation, certificate of commencement of business, List of Directors, resolution, etc. i.e. all the required papers as per Bank’s policy and regulatory requirements are to be obtained at the time of opening of the account. A declaration regarding approximate transaction to the account is to be obtained during opening of account. Information regarding business pattern, nature of business, volume of business, etc. to be ascertained. Any suspicious transaction must be timely addressed and brought down to the notice of Head Office / Bangladesh Bank as required and also appropriate corrective measures to be taken as per the direction of Bank Management / Bangladesh Bank.

4.2 Credit Risk Management

A comprehensive and accurate appraisal of the risk in every credit proposal of the Bank is mandatory. No proposal can be put on place before approving authority unless there has been a complete analysis. In order to safeguard Bank’s interest over the entire period of the advance, a comprehensive view of the capital, capacity, integrity of the borrower, adequacy, nature of security, compliance with all regulatory /legal formalities, condition of all documentation and finally a continues and constant supervision on the account are called for. It is absolute responsibility of the Credit Risk Manager / RM to ensure that all the necessary documents are collected before the proposal is placed for approval. Where Loans/Advances/Credit facilities are granted against the guarantee of the third party, that guarantor must be subject to the same credit assessment as made for the principal borrower.

Emphasis shall be given on the following several credit principles:

- a) Present and future business potentiality for optimum deployment of Bank's fund to increase return on assets
- b) Preference for self liquidating QUALITY business
- c) Avoiding marginal performers.
- d) Risk depression is basic to sound credit principles and policies. Bank shall be careful about large and undue concentration of credit to industry, one obligor and common product line etc.
- e) Managing the amount, size, nature and soundness of one-obligor exposures relative to the size of the borrower and Bank's position among his other lenders.
- f) Personal guarantee of the principal partners or the Directors of the Company shall be obtained
- g) Business is not undertaken outside of defined target markets, business strategies, or Product Program Guideline other than exceptionally and then with adequate mitigants and with requisite approvals in place.
- h) Facilities or products are structured to meet customers' needs and priced to provide adequate risk adjusted returns and not simply to beat the competition.
- i) Secondary sources of repayment will actually provide the level of comfort expected, if defaults occur, and this is not compromised by waiving gross documentation without justification, allowing drawdown before completion or inadequately monitoring changes in security values.
- j) Action is taken quickly and preferably before competitors, where deterioration occurs whether by withdrawing a product or tightening acceptance criteria, renegotiating or canceling credit lines or simply increasing pricing.

4.3 Borrower Verification

Verification of the individual or corporate entity fulfilling all Know Your Customer (KYC) requirements is to be complied before disbursement, which is also compliance to the anti-money laundering legislation of the country as well as Bank's internal guideline. KYC requirements must be satisfied prior to disbursement.

Identification of the individual or corporate entity must be formally established through legal documentation. The borrower must be legally capable of entering a contractual credit relationship and providing a charge over any asset taken as collateral for a loan.

In case of outsourcing, the vendor has to be pre approved by HOCRM. Annual review on the performance of the vendor is to be conducted by CRM. Guidelines are detailed in Credit Instruction Manual.

4.4 Approval Authority

There are four levels of mandate. Each level of authority has a credit approval limit associated with it, which establishes the maximum amount for a particular level of authority may give final approval.

Level 1: Individual Transaction Approval Limit

This authority level can approve individual transactions which meet the minimum eligibility criteria/ cut-off score as prescribed in the respective BPD. Level -1 authority can be sub delegated (Subject to ratification by MD or DMD business or CRM Head).

Level 2: Individual Transaction Approval Limit – Permitted Exceptions

This authority level will approve individual transactions with permitted deviation/ exceptions as mentioned in the BPD. Level – 2 authorities may be sub delegated with a condition of post factor ratification by MD or DMD Business through HOCRM.

Level 3 - Discretionary Lending Authority and Limits

This approval level can be signatory to individual transactions termed as discretionary lending. Such transactions would either be outside the credit parameters specified in approved BPDs. These authority levels shall be delegated by The Board of Directors to the Managing Director who may sub delegate authority up to a maximum of 100% of his/her authority. However, further down ward sub delegation is not allowed without express approval of board.

Level 4 – Board of the Directors

This level has the authority to approve all policy documents, and credit offering which falls under the Large Loan Criteria, and/or other credit decisions that require their approval if stipulated by the Bangladesh Bank time to time. These authorities cannot be sub-delegated.

4.5 Delegation

The delegation chain proceeds from the Board of the Directors through the Managing Director, to DMD (Business), down to the HOCRM, Head of Business Divisions and Risk Managers working in CRM & RFC as well as Area Heads, Unit Heads , BDM's & SRM of Corporate & Investment Banking & SME, Head Of Cards . A consolidated list of approved mandates must be maintained by the HOCRM.

Retail PPG Loan programs (including Card based assets) will be initiated by Business Units/HORB recommended by HORB, CFO, HOT, DMD (Operations), DMD Business & MD and approved by Board.

4.6 CIB Report

To ensure the credit discipline and to maintain the customer's CIB data base henceforth the Management of City Bank has set up a centralized CIB Unit. The major function of CIB is to provide credit information to the Bank's/Financial institutions to know the credit status of their prospective customers. This report helps the banker's/lenders for credit appraisal, risk assessment and finally make the decisions for lending with a prudent manner.

Under the existing laws the banks and financial institutions are not permitted to extend new credit facilities or renew existing credit facilities to defaulting borrowers. In order to enable the banks and financial institutions to ascertain the loan status of the borrowers/owners fully automated Credit Information Bureau was established in 1992 to collect all credit related information in respect of each borrower/owner. Credit Report of CIB is a significant risk

measuring factor for credit risk management. By the CIB report Bank can understand about the loans and repayment behavior of a customer.

4.7 Physical Visit of the Project

Before approval of a loan physical visit of the project is very important to make lending decisions. Risk Managers and some time the third party agency visit the project to judge whether the project is viable or not. It is an important credit risk management techniques.

But the fact is Risk Manager's are so busy with their desk work it is quite impossible for them to visit all the projects. They usually visit to the big projects.

4.8 Collateral Security

The major functions of the risk managers are to minimize the risk on credit and ensure the loan security. Banks accepts two types of facility-

- a) Primary security
 - Hypothecations of stocks in trade, Hypothecations of Machineries and equipments etc.
- b) Collateral security
 - Land, Building, Ornaments etc.

Based on primary security the risk manager recommend for approval of loan. Collateral security is the secondary security components. Loan does not depend on collateral security; it does strengthen the loan security.

4.9 City Credit Risk Grading

City Bank has introduced an 11 scale Risk Grading systems for Credit Risk Grading which is integrated with Bangladesh Bank CRG. Risk manager's of City Bank has calculated the Credit Risk by the integrated software. 11 Scale CRG is appended below:

Number	Rating	Short	Score
1	Superior	SUP	Fully Cash Covered
2	Good	GD	85+
3	Satisfactory	SAT	80-84
4	Acceptable	ACCP	75-79
5	Fair	FA	70-74
6	Watch	WA	65-69
7	Marginal	MG	60-64
8	Special mention	SM	55-59
9	Sub standard	SS	45-54
10	Doubtful	DF	35-44
11	Bad & loss	BL	<35

Credit Risk Grading Review

Credit Risk Grading for each borrower should be assigned at the inception of lending and should be periodically updated. Frequencies of the review of the credit risk grading are mentioned below:

Number	Risk Grading	Short	Review frequency (at least)
1	Superior	SUP	Annually
2	Good	GD	Annually
3	Acceptable	ACCPT	Annually
4	Marginal/Watchlist	MG/WL	Half yearly
5	Special Mention	SM	Quarterly
6	Sub-standard	SS	Quarterly
7	Doubtful	DF	Quarterly
8	Bad & Loss	BL	Quarterly

4.10 Analyzing Financial Spread Sheet

Analyze of financial spreadsheet of a firm/ organization for lending is the second major credit risk management system. A Financial Spread Sheet (FSS) has been developed by City Bank which may be used while analyzing the credit risk elements of a credit proposal from financial point of view.

The FSS is well designed and programmed software having two parts. Input and Output Sheets. The financial numbers of borrowers need to be inputted in the Input Sheets which will then automatically generate the Output Sheets. Various financial ratios are calculated by this software which is given on Table:

Profitability Ratios:
Gross Margin
Operating Margin
Net Margin
Return on Equity
Return on Paid up Capital
Return on Assets (Geared)
Return on Assets (Ungeared)
Earning Retention Rate
Operating Efficiency Ratios:
Total Asset Turnover
Inventory Turnover
Equity Turnover
Liquidity Ratios:
Stock Turn Over Days
Debtors Days on Hand
Creditors Days on Hand
Cash Cycle Period
Current Ratio
Quick Ratio

Debtors Turnover
Net Working Assets to Net Sales
Total Short Term Debt Coverage
Debt Management Ratios:
Leverage Ratio
NPBIT : Interest
Net Cash after Opn. : Interest
Interest on Avg. Financial Debt (%)
Debt Ratio
Interest Coverage
Debt/Lease Service Coverage Ratio
Growth Ratios
Sales Growth
Net Profit Growth
Total Asset Growth
Total Liabilities Growth
Gross Profit Growth
Sustainable Growth
Safety Margin

5.0 Findings from the City Bank Limited

Following are the findings from the City Bank by analysis:

- A) Credit Policy:** City bank has introduced a credit policy and credit instruction manual which encompasses all credit risk components as well as mitigate factor of the probable risks. Risk managers have to strictly follow the credit policy accordingly for lending. But the Management and the board of the Bank have the authority for exceptional credit approval.
- B) Credit Risk Grading:** At the time of risk assessment the risk managers are used to obtain an integrated CRG for all corporate and small and Medium (SME) customer.
- C) Insufficient time for risk assessment:** The risk managers have often insufficient time for credit risk management. Huge workload and hurries for loan approval prevent them from thorough assessment. So, it is very troublesome to manage the risk in a prudent manner for the risk managers.
- D) Lack of Training:** Training of the risk managers is extremely essential for better risk management. City bank has not any regular training program. Lack of proper training on Credit Risk Management risk managers often does the mistakes on credit risk management.
- E) Few numbers of tools and techniques for Risk Management:** Banks has a few numbers of tools and techniques for credit risk assessment i.e. CRG, FSS, CIB which are not sufficient for all kinds of risk management.
- F) Illegal Pressure from Political persons, Directors and Management of the Bank:** The risk managers face a lot of illegal pressure from Political persons, Directors and Management of the Bank for approval of loan. In that cases risk managers are bound to approve the loan without any assessment and rationality.

- G) Lack of Co-ordination with other related Division:** City Bank maintains a few co-ordinations with the related divisions and departments. Lack of co-ordination caused a lot of sufferings of the risk managers as well as the customers.
- H) Lack of information in the Credit Proposal:** Risk Managers often could not find all necessary documents and information for credit risk assessment. That's why risk managers use their assumption and experiences on risk management. Data collection checklists sometimes are not duly filled by the Relationship Managers.
- I) Problems of Financial Analysis:** Most of the borrower has not audited financials. They provide a financial statement which does not follow the rules of accounting. On the other hand credit proposal has not provided a financial summary. Risk Managers has to go through the financial statements for pick up the necessary ratio. So it is very time consuming.
- J) Limited Security Coverage:** Customers has offered a limited collateral security against credit facility. So there is a significant risk for loan default. Bank may loose in case of defalcation.
- K) Limited Insurance Coverage:** An insurance coverage should obtain for either funded or non funded credit facility. But reality is very few borrowers confirm their insurance coverage. So Banks has no security in case of any uncertainty like fire, strike, riot etc.
- L) Name lending:** Some credit proposals unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. It is a major risk for the bank. Credit facility should be based on proper assessment.
- M) Lack of Customer Banker relationship:** Due to centralization of banking systems City Bank has maintained a very week relationship with the valued customer. The customers are very much dissatisfied with this worst situation of delaying approval.
- N) Lack of follow-up and monitoring:** Credit quality depends on close follow-up and monitoring of loans. The follow-up and monitoring of loans is not strong here. As a result Special Mention Accounts and deteriorating credit are increasing day by day.

6.0 Recommendations

For effective Credit Risk Management there are some recommendations which are as follows:

- A) Introduce an easy understandable Credit Policy:** The Credit Policy of the Bank is very complicated. It should be easy understandable and user friendly. So that all the credit concerns can understand the instruction and follow it meticulously at the time of credit risks management not only for the risk managers but also for the relationship managers.
- B) Improvement of Credit Risk Grading Systems:** Industry wise integrated Credit Risk Grading systems should be developed by the bank. So that risk can be measured for different industry of business.
- C) Sufficient Workforce & allocate a standard Risk Assessment time:** Sufficient numbers of risk managers should be recruited in Credit Risk Management Division and a standard time should be allocated for a credit proposal analysis. So that, risk managers could go through the credit proposal and have sufficient time for better analysis and assessment.
- D) Credit Report:** Credit report should be obtained for all sorts of credit proposals. Single credit proposal should not be approved without having Clean CIB Report from Bangladesh Bank.
- E) Development & Training:** Training is the key factor for development of the risk managers' skills. City Bank should have a regular training and development program so that risk managers do know every risk matters and assessment techniques.
- F) Development of tools and techniques for Credit Risk Management:** City Bank has a few numbers of tools and techniques for credit risk assessment i.e. CRG, FSS, CIB, CM which are not sufficient for all kinds of risk management. So new and effective credit risk management tools and techniques should be introduced by the help of IT Division.

- G) Reduce of Political pressure & influence of the Directors and Management:** It is unavoidable of Political pressure & influence of the Directors and Management. So some techniques should introduce by City Bank so that those pressure and influence could be reduced.
- H) Build up Co-ordination with others related Division:** Banks moves by a team effort. So strong co-ordination with the related divisions and departments is very important.
- I) Adequate information & Documents:** Adequate information and documents should prove in the credit proposal so that Risk Managers can make their decision with a very minimum time.
- J) Financial Analysis:** An analysis of a minimum of 3 years historical financial statements of the borrower should be presented. Where reliance is placed on a corporate guarantor, guarantor's financial statement should also be analyzed. The analysis should address the duality and sustainability of earnings, cash flow and the strength of the borrower's balance sheet. Specifically, cash flow, leverage and profitability must be analyzed. In this regard the Credit Risk Manager / RM must look into the status of chartered accountant audit firm. Financial ratios and important financial figures should be provided as summarize format. So that risk managers could analyze the financials in easy way.
- K) Insurance Coverage:** Insurance coverage should be obtained for every funded and non funded credit facility. So that in case of uncertainty and damage like fire, strike, riot etc. bank and borrower can save themselves form financial losses.
- L) Name lending:** Credit proposals shall not be unduly influenced by an over reliance on the sponsoring principal's reputation, reported independent means, or their perceived willingness to inject funds into various business enterprises in case of need. These situations shall be discouraged and treated with great caution. Rather, credit proposals and the granting of loans will be based on sound fundamentals supported by a thorough financial and risk analysis.
- M) Design a Form:** A form should be designed by the bank for summarize the financials and necessary information of the clients. It would save the valuable time for the risk managers of head office.

- N) Adherence to Lending Guidelines:** The Credit Applications/ Appraisals must be prepared in line with Bank's lending guidelines. It must be clearly stated whether or not the application/proposal is in compliance with Bank's Credit Policy lending guidelines.
- O) Industry Analysis (Business and Industry Risk):** The key risk factors of the borrower's industry shall be assessed. Any issues regarding the borrower's position in the industry, overall industry concerns or competitive forces (demand supply gap) shall be addressed and the strengths and weaknesses (SWOT Analysis) of the borrower relative to its competition to be identified. For the above purpose the Credit Risk Managers/RM may obtain / collect data from the statistical year book / economic trends of Bangladesh Bank / public report / newspaper/ journals etc.
- P) Follow-up and monitoring:** Credit quality depends on close follow-up and monitoring of loans. The follow-up and monitoring of loans is not strong here. As a result Special Mention Accounts and deteriorating credits are increasing day by day.

7.0 Conclusion

Bangladesh Bank has introduced a good numbers of circulars, guidelines, tools and techniques for managing the credit risk in a prudent manner as well as to minimize the rate of default/ non-performing loans at a standard level. Banks have also some internal policy, guidelines, tools and techniques for better risk management. Despite a prudent credit approval process, loans may still become troubled.

Risk is inherent in all aspects of a commercial operation; however, for Banks and financial institutions, credit risk is an essential factor that needs to be managed. Risk assessment systems, tools and techniques may help to reduce the risks and can help to develop the quality of credit. Every system has some positive sides as well as limitations and shortcomings. Therefore, organization goes on some limitations and scopes.

The success of credit risk management has resulted from dedication, commitment, dynamic leadership, effective strategy, planning and decision making, motivating and controlling of bank's management. In formulating a credit judgment and making quality Credit Decisions, the lending officer must be equipped with all information needed to evaluate a borrower's character, management competence, capacity, ability to provide collaterals and external conditions which may affect his ability in meeting financial obligations. So, it is obvious that prudent management of these risks is fundamental to the sustainability of a bank.

This report encompasses with the existing credit risk management systems, tools and techniques and methodology of the City Bank. I tried to identify the problems and limitations of credit risk management systems as well as find out the causes of loan defalcation tendency of Bangladesh. Eventually, I chalk out a sort of findings and recommendation for improvement of credit risk management systems so that the bank may attain a common standard for credit risk management so that classified/ non-performing loans in banking sector may diminish.

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