

BCC GROUP

CENTRAL CREDIT DIVISION

ORGANISATION & FUNCTION

June 1984

C O N T E N T S

Page No

Introduction	1
Central Credit Committee	3
Functional Segments	4
Credit Desks	5
Management Information	14
Special Desk	15
Organisation Chart	
Annexures (1 to 6)	

INTRODUCTION

Extension of credit is the principal business of the Bank and this area requires experience, expertise and the flexibility to make Bank's activity profitable. The complexity of credit function and the importance of portfolio planning requires formal policy statements and setting of broad objectives. Policy guidelines and strategic objectives are provided through the statements and directives issued by the Board of Directors, the President and the Central Credit Committee.

In addition to sound credit policy, the success of the credit administration lies in pragmatic appraisal and an early diagnosis of weaknesses in the credits. The function of the Central Credit Division is broadly to ensure effective implementation of Group's Credit Policy and achieve quality of credit portfolio through sound appraisal and monitoring of credit.

Strategy, policy, process, audit and internal controls, viewed as a whole rather than separately, support the credit culture. Quality of portfolio performance depends on the smooth interaction of these elements and their subsidiary components.

Subject to the guidelines provided by the Board of Directors, the Central Credit Committee (and the President), the administration of credit operations of the Group is co-ordinated by the Executive-in-Charge of the Central Credit Division.

The activity of the Central Credit Division primarily revolves around:

- vetting and presentation of credit proposals to the Central Credit Committee/Board of Directors;
- implementation and administration of lending policies and credit strategy of the Group;
- keeping loan portfolio of the Group Banks under constant review;
- maintaining close working relationship with Regions and various entities of the Group to support their effort to achieve high credit standards and performance and assist these units in marketing BCC;

- providing Regions and various entities of the Group guidelines for defining the types of credits they should, or should not be in; and
- evolving, evaluating and introducing new credit oriented products , which conform to institutional standards, goals, policies and strategies.

CENTRAL CREDIT COMMITTEE

The Central Credit Committee consists of members appointed by the Central Management Committee with the approval of the President.

The Central Credit Committee derives its credit approval authority from the Board of Directors. Decisions of the Central Credit Committee are arrived at by a consensus and not by majority.

Functions:

- (a) To exercise Credit Approval Authority as delegated by the Board of Directors.
- (b) To establish, monitor and review the Credit Policy.
- (c) To oversee the sanctioning of credit administration at Central and Regional levels.
- (d) To review the annual exercise of loan loss provisions and write offs carried out by the Central Credit Division in consultation with the Regional General Managers and the concerned external auditors.

The Credit Authority of the Central Credit Committee is as follows:

<u>Nature of Facility</u>	<u>Amount in US\$ or Equiv.</u>
(a) All cash advances including overdrafts, loans and bills discounted or purchased whether secured or unsecured	US\$ 10 million
(b) Letters of Credit Sight or Usance	US\$ 10 million
(c) Letters of Guarantee of all categories	US\$ 10 million

The above powers may be exercised by the Committee with the proviso that that in case of multiple facilities, the total commitment in the amount of any customer or group must not exceed US\$ 10 million or equivalent in local currency.

All lines of credit in excess of US\$ 5 million or equivalent are required to be reported to the Board of Directors.

All lines of credit which are in excess of US\$ 10 million or equivalent may be recommended by the Central Credit Committee for approval of the Board of Directors.

FUNCTIONAL SEGMENTS

The operations of the Central Credit Division are administered through the following functional Desks:

Credit Desks

Work in the Central Credit Division is distributed amongst various desks on the basis of Geographical distribution of branches/affiliates/subsidiaries.

Credit Desks are the front end units for each respective area for the purposes of administration of credit by the Central Credit Division. For intensive monitoring of credit, global operations have been divided into the following Area Desks:

1. UK Region
2. South East Asia/Far East Regions
3. Middle East
4. Americas
5. Luxembourg Region
6. Africa I/Spain
7. Africa II
8. Africa III
9. India

The effective distribution of areas among area desks may vary according to administrative convenience and requirements from time to time.

The detailed description of function of the Area Credit Desk is given in the following section of this booklet.

Management Information

Special Desk

CREDIT DESKS

A. CREDIT APPROVALS

The key to successful credit operation depends on the strength of credit appraisal function. Effective performance in this area can eliminate much of the risk in lending.

The approach towards credit appraisal and reviews should aim at achieving highest qualitative and quantitative standards. This may require planning and setting up goals for continuous improvements.

The credit approval function from the point of view of Credit Desks involves:

1. Receipt of proposals from different locations of the Bank, their appraisal and, where necessary, obtaining further information.

Proposals for lines of credit are forwarded by Regional Offices to the Central Credit Division in the prescribed format given in the Advances Manual. In urgent cases, however, Regional Offices may send such proposals by telex in the format as per Annexure 1. This should be followed by submission of the proposals in the regular format of proposal, as soon as possible.

2. Evaluation, appraisal and processing of lines of credit relating to corporate business which is directly generated by Central Support Organisation Divisions, or centres which do not fall within a Region.
3. Discussing the proposals with the Executive-in-Charge of Central Credit Division.
4. Presentation of the proposals to the Central Credit Committee with the relevant observations of the Central Credit Division.
5. Preparing proposals for presentation to the Board of Directors.
6. Communicating the decisions and observations of the Central Credit Committee to the Regional Offices or Head Offices of affiliates or subsidiaries.

The procedure for distribution of approved proposals are as follows:

- (a) For proposals approved by the Central Credit Committee, both where its prior approval is required and also under its post-facto approval authority (for proposals approved and reported by the Regional General Managers and Regional Credit Committees):

First copy of the proposal will be returned to the Regional Office concerned after being signed by the members of the Central Credit Committee.

Second copy will be retained in the individual customer file at the Central Credit Division.

- (b) For proposals approved by the Central Credit Committee and reported to the Board, and the proposals recommended by the Central Committee requiring prior Board approval, and approved by the Board:

The members of the Board sign or initial a summary sheet (Annexure 2) for each such proposal.

One copy of the initialled/signed summary sheet will be retained in a separate file with Central Credit Division.

One set of the initialled/signed summary sheet and the relative proposals signed by the members of the Central Credit Committee will be returned to the Regional Office concerned.

Second set of the same will be sent for the Head Office records of the Bank.

Third set of the same will be retained in the individual customer file at the Central Credit Division.

7. Keeping track of renewal dates of individual lines of credit and ensuring their renewal before the respective expiry dates.

Frequency for renewal of each credit is determined by the Central Credit Committee.

Review of large credit lines in accordance with the guidelines provided by Central Credit Committee.

Currently, following are the amounts and frequency of review:

Over US\$ 5,000,000 per customer/group - once in a quarter.

Over US\$ 2,500,000 and up to US\$ 5,000,000 per customer/group - once in six months.

Up to US\$ 2,500,000 per customer/group - once in a year.

Frequency of review of special cases will depend upon the circumstances.

8. Monitoring the lines of credit approved within the credit approval authority of the Regional General Manager/Regional Credit Committee.

The primary objectives of this is to ensure that approved proposals are within the framework of current credit policy, and to keep track of the overall quantity and quality of credit.

For this purpose, the procedure followed is as under:

One copy of the approved propopsal is forwarded to the Central Credit Division by the Regional Office. Central Credit Division examines this and where the facility is out of line with the acceptable norms and the credit policy, a reference will be specifically made to the respective Regional Office.

B. REVIEW, CONTROL AND FOLLOW-UP

In spite of sound loan policy and systematic analysis of all loan requests, weakness may develop in some of the loans made, unless particular attention is paid to regular review and follow-up of advance already sanctioned.

Periodic review and follow-up of advances already sanctioned should, inter alia, aim at ensuring:

- (i) that terms of approval have been adhered to;
- (ii) that conduct (turnover, regularity of repayments, etc) of the borrowing accounts during the period under review has been satisfactory;
- (iii) that the continuing value of security is adequate;
- (iv) that there is no adverse trend in market, economic and political conditions which may endanger the realisability of the advance;
- (v) that borrower's business is being satisfactorily conducted as reflected through a review and analysis of their financial and operating statements and detailed information such as quality of the inventory, ageing of receivables, trend in sales and profitability, liquidity and cash flow situation, maintaining various ratios, particularly those stipulated by the Bank at the time the facility was granted, etc;
- (vi) that the business offered is commensurate with the facilities allowed;
- (vii) that earnings from the account are cost effective (i.e. adequate to meet direct cost of funds and leave sufficient margin towards overheads and profits).

The periodic review exercise also involves examining the operation of the Regions and various entities of the Group in the area of credit with a view to identifying their strengths and weaknesses.

The overall view of the credit portfolio of the lending units of the Group may entail:

(i) Quantitative analysis of the portfolio:

- Cash facilities:
 - Secured
 - Unsecured
- Contingent facilities
- Country Exposure
- Currency Exposure
- Maturity of Advances
- Credit/Deposit Ratio
- Average Yield (spread) on cash facilities
- Net Interest Income
- Commission income from LCs, guarantees and other credit-related transactions.

(ii) Qualitative analysis of advances:

- Sub-standard - irregular for technical discrepancies of temporary nature, eg: unapproved facilities; excess over limit ; expired limits; deviation from terms of approval; deficiency in documentation; security being of inadequate value than contemplated; lack of co-operation from the borrower in adhering to the intended conduct of account or repayment arrangement.
- Doubtful Debts - there is sufficient doubt as to the recovery in full of the principal and interest and suggests a degree of loss although not yet determined in amount, eg: notice served on borrower/guarantor recalling the advance ; suit filed by the Bank against the borrower/guarantor; borrower cannot be located; notice received concerning appointment of Receiver, bankruptcy or liquidation proceedings. Such advances require special attention for realisability.
- Bad Debt - Where outstandings are regarded as uncollectable and after all securities available have been exhausted.

In this regard, Credit Officers are also expected to be continuously aware of the following aspects relative to each lending unit within their area:

Liquidity: Composition of deposits (demand and time) - the lending ability of the unit would greatly depend on their capacity to sustain the advance on the strength of their own deposits. The character of deposit at the unit is a significant fact which dictates lending decisions.

Ratio of quick assets to deposits, which signifies unit's ability to cover their deposits.

Seasonal loan demands from, and deposit withdrawals by large customers.

Ratio of credit to deposit, which if out of line with 'average' may require credit officers to ascertain reasons for credit expansion and to be cautious and selective for further credit expansion.

Ratio of credit and other utilisation to deposits and also relative to each currency.

Return on

Assets: The ratio of total earning assets (loans and investments) to available funds (deposits, borrowed money and capital funds less fixed assets) indicates the total invested position of the bank. The return on assets is derived by dividing the operating income (before tax) by total assets.

Capital

Adequacy: This term relates to the size of the entity/branch's capital funds to the volume of deposits and assets. The ratio of capital funds to assets is an indicator of unit's ability to absorb possible losses in assets. Though there cannot be a standard answer to the actual requirement of the capital, following ratios may be used to further analyse capital funds adequacy:

- Capital funds to Loans
- Capital funds to Risk Assets
- Capital funds to Total Deposits
- Capital funds to Total Assets

Operating

Efficiency: Conventionally the test of operating efficiency is the ratio of total operating expenses to total operating income. Rate of return on loans, interest cost on deposits, provision for loan loss to loans and net loan losses to loans and other useful measures should be carried out to assess the performance of the entity. It may be worthwhile to make a comparative study with other banks operating in the area.

The function of Credit Desk Officer also entails:

- Evaluation of the performance of the delegated authority, which is concerned with not only making certain that work is being performed, but also the cost, quality and competitiveness of the performance.
- Review of the audit findings of the Central Audit Division relative to credit portfolio. This should lead to formulation of plans for rectification of deficiencies and exceptions and their regular follow-up.
- Taking note of deviations from the credit policy and reporting it to the Central Credit Committee for information.
- Keeping a constant watch on local government regulations effecting credit and ensuring that the affected entities/branches conform to the directives.
- Remaining observant about the local political and economic conditions of countries relative to each area of operation and bringing any significant development to the notice of the Executive-in-Charge in order that required change may be affected in the strategical planning and policies.

Through regular visits to locations and other control measures, Credit Officers would pay particular attention to:

- quality of risk selection, whether attractive to the Bank in terms of risk/reward;
- expansion of credit, whether time is right in business and industry cycles;
- portfolio perspective of Credit Officers at locations/entities/branches;
- credit housekeeping and documentation;
- credit follow-up by the unit;
- anticipation of problem and weak accounts;
- quality and adequacy of data, credit analysis and risk assessment, structuring of credit lines and knowledge of collateral values;
- grasp of borrowers' business by the unit;
- deviation from norm - are these too numerous?

For the purposes of visits all such branches which call for special attention should be identified and programmes pre-planned.

1. Maintenance of central record and monitoring of global credit lines of multinational or internationally operating customers/groups.
2. Ensuring the timely compilation and submission of various advances returns from branches with a view to carry out purposeful scrutiny, analysis and review.
3. Keeping credit approval procedure under review for effectiveness and recommending modifications and improvements when so required.
4. Searching and recommending credit related new products generally, as well as of special significance to any particular area.
5. Evaluation of lending officers/branches' performance relative to credit.
6. Recommending norms for loan loss in each geographical segment.
7. Providing guidance to branches/regions/subsidiaries/affiliates, inter alia, on the following aspects:
 - credit philosophy and policies of the Bank;
 - policies and procedures;
 - extension of credit geared to Bank's interest which is not confined only to the profit centre concerned;
 - judicious utilisation of delegated credit authority;
 - credit administration;
 - lending disciplines;
 - within the Group's credit policy, lending guidelines for each lending unit;
 - articulation in common institutional credit language.
8. (a) Recommending, wherever necessary appropriate training for lending officers.

(b) Bringing to the attention of the Executive-in-Charge lending officers turnover.
9. Any other functions which may be determined by the Executive-in-Charge/Central Credit Committee.

MANAGEMENT INFORMATION

This function is responsible for presenting management information for the purposes of administration of Group's Credit Policy and carrying out any other requirements in this regard as may be prescribed by the Executive-in-Charge/Central Credit Committee/Board of Directors.

The function involves collection, compilation, analysis, interpretation and presentation of following management information relative to credit operation of the Group Banks.

1. Country Exposure
2. Classification of Advances
3. Dollar Position

The responsibility also entails review from time to time practice and procedure to be followed for collection of credit information and setting forth guidelines in this regard.

In addition to presenting Management Information Reports to the Executive-in-Charge/Central Credit Committee/Board of Directors, as may be required, the Desk also provides relevant feed back to concerned Credit Desks for their guidance and consumption.

No amount of careful planning by the borrowers and careful scrutiny by loan officers can remove the uncertainties accompanying loan portfolio of the Bank. A bank's portfolio is affected mainly by the business cycles, by the fortunes of its borrowers and by credit strategies. To effectively encounter unfavourable situations, procedures are required for:-

- (i) ensuring an early diagnosis of weaknesses in loans and advances; and
- (ii) dealing with situations that reach major proportions.

The prevention phase is to give particular attention to regular review and follow-up of advances already sanctioned, which is a function catered by Credit Desk officers relative to their respective area.

If, despite close follow-up, an advance becomes difficult, the case may require a special treatment. The decision in each case would depend on whether the problem is soluble, perhaps, by allowing certain concessions in terms of time and cost or not soluble requiring enforcement of loan agreements. Again, careful analysis is the only solution. In the end proper handling of such cases requires effective monitoring by Central Credit Division.

The functions of this Desk would involve:

1. Ensuring implementation of the procedures as regards 'Delinquent Advances prescribed in the Advances Manual.
2. In co-ordination with Area Desks, following-up and monitoring of classified accounts.
3. Detailed review of cases requiring special follow-up attention and ensuring that plans and arrangements agreed in this respect are carried out.
4. Assisting in determining the adequacy of loan loss provisions.

In order to enable the Executive-in-Charge to make a summary review of each sphere of the operation, the Group shall at fortnightly intervals submit reports in the formats as per the Annexures.

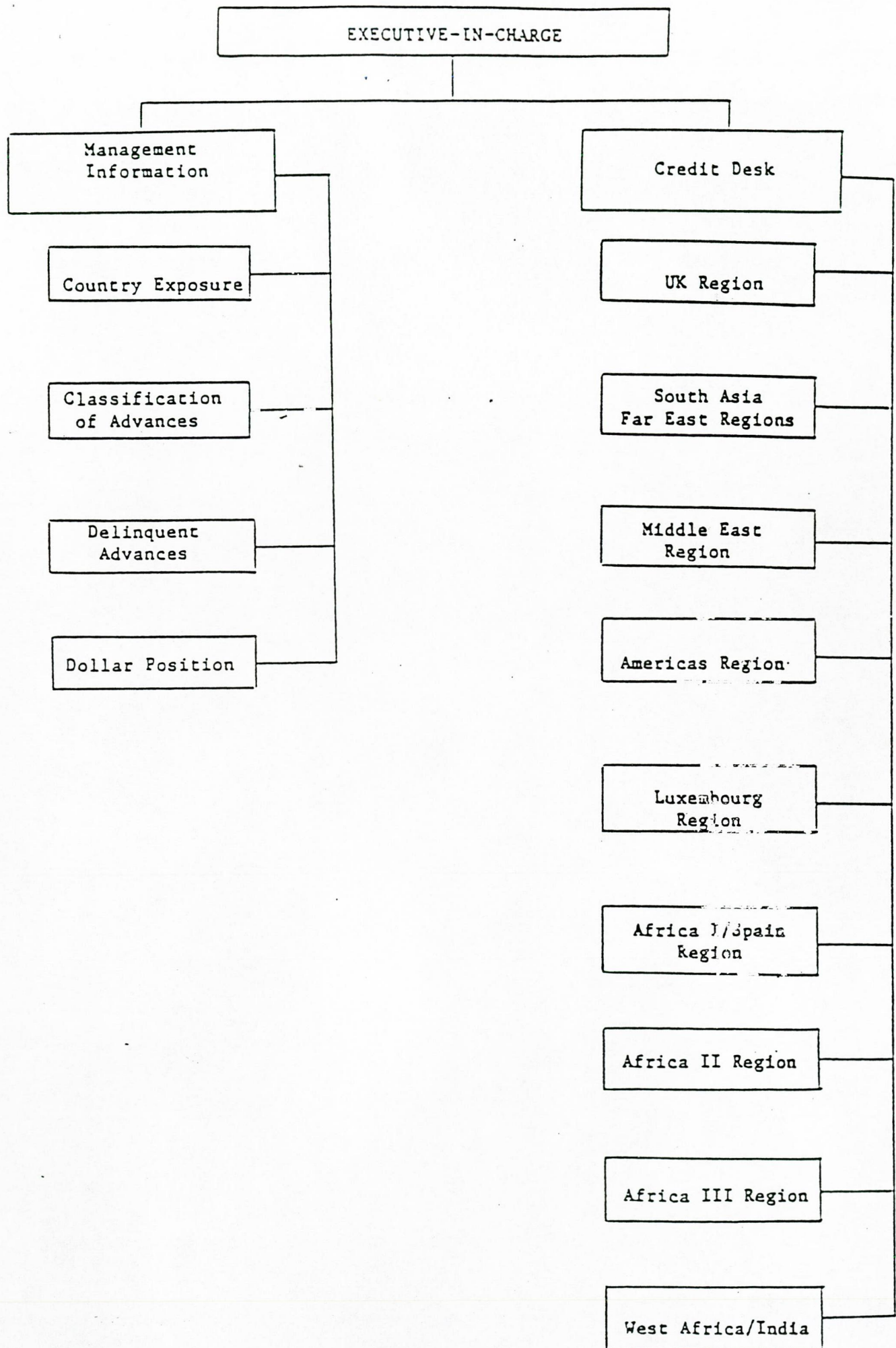
Annexure 3 - Position of Credit Line Proposals/Approvals

Annexure 4 - Credit Review

Annexure 5 - Review of monthly Advances Statements

Annexure 6 - Review of Delinquent Advances

ORGANISATION



TELEX APPROVAL PROCEDURE

FROM:

TO :

Following are brief particulars of a credit proposal for which we require urgent approval.

1. Name of Borrower:
2. Proposal: New/Revision Date Ref. No.
3. Nature and Amount of Commitment for which Credit Lines required.
4. Outstanding as at
5. Rates of Interest and Commission
6. Security, if any
7. Purpose of Advance
8. Period for which facility required
9. Expiry/Renewal Date
10. Repayment Arrangement
11. Aggregate commitment to the Group (including proposed limit)
12. Brief comments of Regional Credit Review Committee
13. State names of members who have already signed the proposal in the following manner:

"Following members have already signed the proposal"

 (1)
 (2)
 (3)
 (4)
14. Brief Background
15. Business Received and Expectations

16. Summarised Condensed Credit Report

- i) Date of establishment
- ii) Capital
- iii) Name of Directors
- iv) Directors holdings
- v) Main Line of Business
- vi) Subsidiaries (if any)

Kindly telex your views

BANK OF CREDIT & COMMERCE INTERNATIONAL S.A.
PROPOSAL RECOMMENDED BY THE CENTRAL CREDIT
COMMITTEE PLACED BEFORE THE BOARD OF DIRECTORS
FOR APPROVAL

Serial No:

Date:

Borrower:

Place of
Incorpo-
ration.

Estimated
Worth:

Nature &
Amount of
Limit:

Total
Commit-
ment to
Group:

Interest/
Commission:

Review
Date:

Other Details:

Purpose:

Security:

Repayment:

CENTRAL CREDIT DIVISION

Period.....to.....

POSITION OF CREDIT LINE PROPOSALS/APPROVALS

Entity/ Branch	No of pending proposals b/f from the last period	No of proposals received during the period	No of proposals submitted to CCC during the period	No of pending proposals at the end of the period			Remarks
				Proposals not yet processed	Proposals awaiting further clarification	Processed Proposals awaiting CCC/Board approval	
				Total			

CREDIT REVIEW

Entity/Branch

No of accounts reviewed

General Observations

(Specific observations wherever required to be furnished in supplementary sheet(s))

CENTRAL CREDIT DIVISION

Period.....to.....

REVIEW OF MONTHLY ADVANCES STATEMENTS

Entity/ Branch	Last monthly return					
	Which Month	Category of Advance	Date when received	Date when reviewed	General observation on review (specific observations when required to be given in supplementary sheet(s))	Follow-up action taken

CENTRAL CREDIT DIVISION

Period.....to.....

REVIEW OF DELINQUENT ADVANCES

Entity/ Branch	<u>Last delinquent advances reports</u>			<u>Central Audit Reports</u>			General observation (on the quality of advances - specific observation if required, to be given in supplementary sheet (s))
	Which Quarter	When Received	When Reviewed	Date of Report	When Received	When Reviewed	