

System Circular No. 019

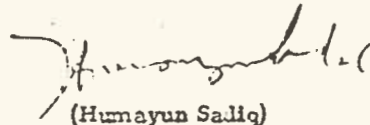
27th April, 1975.

To All Branches:

Sub: Booklet on Advances - Record Keeping
Control and Review of Procedure at
Branch level.

The Credit Investigations Section dealt with in the Credit Operations Booklet issued under Systems Circular No. 009 has been updated. Kindly replace Section Seven of Part III of the Booklet by the enclosed Section.

The guidelines should be carefully studied particularly by the Advances Department of the Branch and meticulously followed.



(Humayun Saliq)
GENERAL MANAGER.

Encl: As above.

C O N T E N T S

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CREDIT INVESTIGATION

INTRODUCTION:

A Credit report judges the credit worthiness of a party by collecting together all information on a party relevant for such a purpose. This information will include

- The business structure of the Party.
- The financial position of his business & himself.
- An assessment of his business abilities.

The report should be supported by

- (a) relevant, accurate & upto date financial statements.
- (b) analysis of the above.
- (c) opinions of persons whose judgement can be relied upon as a result of their association with the person e.g. Bankers.

The following are standard forms in use for compiling a credit report:

- Form ADVF 10A
- Call Memo
- Financial Statement Form
- Spread sheet of Financial Statement Form

BRIEF EXPLANATION OF FORMS ADVF 10A:

Page 1 - relates to business structure of the Party and does not need elaboration.

Page 2 - relates to Financial Position of business or businesses, the following explanation will be helpful in completing this page. Full details of Business should include the following information:

1. Brief History of Business including Date Established.
2. Type of Business.
3. Situation of Offices.
4. Commodities handled.
5. Agencies Held.
6. Persons with whom dealing (including sources of purchases and sources of sales).
7. Future Plans.

Cont'd.....f..

Assets - Moveable and Immoveable including investments.

All assets whether belonging to individual partners, directors or in the name of the Company should be listed. The ownership of the asset should be clearly shown.

Investment in each specific business.

Any details further to those given on page 1 should be mentioned here.

Sources of loss sustaining capacity.

Losses are a normal part of business. Businessmen would be inclined to take an optimistic view of business opportunities but from time to time events prove them wrong or happening beyond their control cause unexpected setback.

Under adverse conditions the best of borrowers are hard put to meet their obligations to their banks. While judging the credit worthiness of a business it is therefore very important to assess what would happen if the business were to incur even a temporary loss.

A loss could be on a single transaction, on a particular contract, to one section of the business or to the entire operations. The pinch of a loss would mainly be felt by the business when it begins to effect its liquidity. If the business is able to make arrangements to meet its liquidity, problems arising out of losses then it is able to gain time to earn profits out of which losses incurred can be written off.

The capacity of every business will vary both in respect of the time they are able to gain and more important the amount of liquidity shortage for which they can make arrangements. The following are normally the sources from which they can make such arrangements.

- Reserves of business.
- Profits or Income from other business or other contracts.
- Introducing fresh capital from idle funds available with proprietors or from sale of private assets of Proprietor.
- Sale of unencumbered assets of the business.
- Rescheduling payments to creditors. This is only feasible if the time required is small, if the credit worthiness of the business in the market is good and if the liquidity of creditors allows.
- Introducing fresh capital by bringing in new partners or Shareholders.
- Raising money from banks.

In the last item money could be raised from banks in the following manner:

- By drawing upon unutilised limits.
- By pledging ^{un}encumbered assets of the business.
- By negotiating a fresh clean limit on the basis of market reputation.
- By rescheduling existing repayments.

All the above factors are capable of being quantified on the credit Report except the most vital and that is the integrity of the borrower. This factor should be covered elsewhere in the report.

Estimated Income & Expenditure:

Every effort should be made to get to know the working of the borrowers business in detail. The sources of his Income should be analysed and information obtained which normally does not appear on the face of the Balance Sheet or Income Expenditure Account, in particular the following information should be specifically mentioned:

- Imports - Commodity and Value-wise.
- Exports - Commodity and Value-wise.
- Future Contracts in hand.

On page 3 an attempt should be made to bring out the qualities of the main person or persons responsible for the running of the business. They should include the following:

- Age
- Background i.e. whatever professional or business experience.
- Type of person e.g. Self-made, whether inherited business, dedicated etc.
- Approach to business e.g. Conservative, cautious, Aggressive, Modern Old Fashioned.

The underlying idea in drawing portrait of the entrepreneur is to have an idea about his judgement and integrity. The above is simply a guideline and any other information considered relevant for this purpose should also be given.

Page 4 should give all the banks with whom the business is dealing

Details of facilities taken from them or balances maintained with them.

Details of business routed through them and

Particulars of opinions taken from Bank.

The suggested sources of obtaining credit-worthiness opinions are:

- Bankers of the business.
- Other Banks located in area where the business operates.
- Major suppliers or creditors.
- A credit bureau in countries where they exist.
- For businesses which operate in several areas, opinions of own branches, affiliates or subsidiaries should also be taken if they exist in those places.

FINANCIAL STATEMENT FORM:

This form is meant for businesses from whom balance sheets are not available. The basic idea is to arrive at as accurate a Net Worth of the client as possible. The form can only be completed in a detailed interview with the client for an employee well conversant with the business. Great care should be exercised on the valuations given for each item. The interviewer should be cautious against any slant being given to figures to create a favourable impression. Wherever possible the figures should be checked from independent sources, and from physical inspection e.g. stock valuations can be verified from obtaining market prices. Many customers would be extremely reluctant to divulge information even to their bankers for fear that it may fall into the hands of persons who could use it against them e.g. competitors. While interviewing techniques are not going to be discussed here they are a very important tool for the compilation of the above information.

Considerable effort would in fact be saved and a lot more in depth probing and questioning is possible if the form is completed at the time a customer approaches the bank for a loan. Branches should make it standard practice to complete the form while discussing loan requests.

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SPREAD SHEET OF FINANCIAL STATEMENTS:

This should be completed in all cases where a balance sheet is available or a financial statement form has been filled.

The ratios are intended as Tests to judge the general health of the business. After having computed the ratios, it should be possible to answer such questions about the business as;

- Is the margin of Profit enough?
- Does the business have liquidity problems?
- Are they overtrading?
- Is there adequate control over expenditure?
- Is the stake of the proprietors adequate or are they trading largely on borrowed money?
- Does the trend of business show a healthy increase in Sales and profits?

GENERAL :

- Except in cases of small loans to salaried persons or occasional temporary facilities allowed under Managers discretionary powers, branches must prepare and kept in separate credit reports for all customers to whom advance facilities are allowed.
- Credit Reports on other important customers of the Branch and on potential customers, whether for the time being borrowing or not, should also be prepared and filed in the same manner.
- Branch Managers shall be personally responsible for ensuring effective and efficient credit investigation machinery at branch level.

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LIST OF CREDITORS

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TOTAL

LIST OF DEBTORS

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TOTAL

PARTICULARS OF FIXED ASSETS

Sales
Purchases
Operating Expenses
Profit/Loss

MESSRS. _____
 FINANCIAL STATEMENT AS ON _____

	<u>Dirhams</u>		<u>Dirhams</u>
<u>CAPITAL</u>	<u>FIXED ASSETS</u>	
<u>RESERVES</u>	Land and Buildings	
<u>RETAINED PROFITS</u>	Vehicles	
<u>LONG TERM LIABILITIES</u>	Furniture & Fixtures
<u>OTHER LIABILITIES</u>		<u>CURRENT ASSETS</u>	
CREDITORS		Stocks	
Trade Creditors		Debtors
Government Dues		<u>BALANCES WITH BANKS</u>	
Expenses Creditors	
Borrowing from Banks	
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.....		<u>CASH IN HAND</u>	
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.....		<u>LOSS BROUGHT FORWARD</u>	
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RATIOS AND COMPARISONS

DATE								
Line 2 less 30								
Debt Ratio	to 1	to 1	to 1	to 1	to 1	to 1	to 1	to 1
Debt to Equity Ratio	to 1	to 1	to 1	to 1	to 1	to 1	to 1	to 1
Debt to Capital Ratio	to 1	to 1	to 1	to 1	to 1	to 1	to 1	to 1
Debt to Net Worth Ratio								
Debt to Inv. (Days)								
Debt to Inv. (Days)								
Debt to Net Worth (Percent)	%	%	%	%	%	%	%	%
FINANCIAL DATA (Period Ending)								
Assets Sold	100%	100%	100%	100%	100%	100%	100%	100%
Net Profit	%	%	%	%	%	%	%	%
Operating Expenses	%	%	%	%	%	%	%	%
Depreciation	%	%	%	%	%	%	%	%
Taxes	%	%	%	%	%	%	%	%
Other Operating Expenses	%	%	%	%	%	%	%	%
Other Income/Charges	%	%	%	%	%	%	%	%
NET PROFIT (LOSS)	%	%	%	%	%	%	%	%

ASSETS IN WORKING CAP.								
Working Cap.								
Profit (Loss)								
Dividends/Withdrawals Asset								
(Inc) Dec. Net Non-Curr. Ass								
Inc (Dec) Deferred Debt								
WORKING CAPITAL								

STATEMENT OF NET WORTH								
Beginning Net Worth								
Change in Assets								
Profits								
Net Divs or Withdrawals	()	()	()	()	()	()	()	()
Net Change								
ENDING NET WORTH								

REMARKS: