



NCC Bank

नेपाल क्रेडिट एंड कमर्च बङ्क लिमिटेड
Nepal Credit & Commerce Bank Ltd.

Your Business Bank

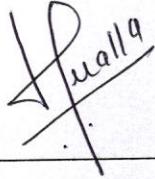
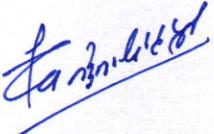
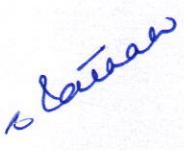
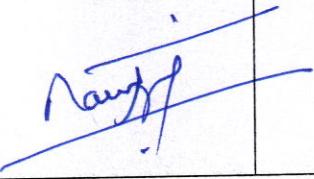
Credit Administration Manual

2018



Nepal Credit and Commerce Bank Ltd
Bagbazar, Kathmandu

Approval Sheet

Particulars	Name and Designation	Signature	Date
Prepared By	Saroj Bhandari Operation, Market and Liquidity Risk Management Department		2018-12-14
Reviewed by	Sweety Malla Pradhan Head – Credit Monitoring Unit		2018-12-14
Reviewed by	Ram Nath Gautam Head – Centralized Credit Operation Department		2018-12-14
Reviewed By	Mukunda Subedi Chief Risk Officer		2018-12-18
Reviewed By	Rewanta Kumar Dahal Deputy Chief Executive Officer		18-12-018
Reviewed By	Bandana Pathak Deputy Chief Executive Officer		
Approved By	Ramesh Raj Aryal Chief Executive Officer		18/12/2018

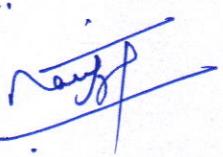
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NCC Bank Limited

Credit Administration Manual - 2018

1. Introduction

Credit Administration is the oversight of all activities related to the bank's credit processing ensuring that the loan portfolio maintains its values and profitability. Credit administration starts with the initiation of the credit proposals and ends with the settlements. Staffs engaged in credit administration activities must be sound and well trained for effective credit work. This document has been developed outlining the procedures and assigning the roles and responsibly towards the credit administrations in the Bank that is also the regulatory requirements to have credit administrations functionality as per the NRB Directives number 5.

2. Scope

The scope of credit administration is taken as:

- Documentation
- Disbursement
- Credit Monitoring
- Loan Repayment
- Credit Files Maintenance
- Security Documents Maintenance
- Management Information System
- Other associated functions

3. Associated Risks

When the credit administration does not function well, bank may be exposed to:

- Non compliances of Credit Policy and Procedures
- Misuse of credit approving authority
- Irregularities and errors on limit setting
- Differentiations on pricing terms and conditions
- Variations of documentation contracts and covenants of credit
- Weak controlling and monitoring on collateral security and control
- Difficulties on collections and increase delinquency

- Increase on legal hassles i.e. legal risk.

Some of the instances of risks that could be taken are:

- Schedule not created after completion of moratorium period
- Incomplete source documentation (basically incomplete KYC documents)
- Forget to get signature of personal guarantors, witness on security documents
- Missing of signature of approving authority
- Not calculating penal charges on account
- Not updating information and documents of conditional approvals
- Wrong entries of customer name, interest rate, expiry date, Basel code, NRB code etc.
- Wrong calculation of drawing power
- Delayed inspections resulting in inability to identify Early Warning Signals.
- Failing to communicate with customers/drop limit when the drawing power is lower than required
- Non-renewal of Insurance policies / failure to cover all the risk required as required
- Release of collateral security without approval or deviating from approval
- Non reporting or late reporting or wrong reporting
- Scheduling errors or not updating schedule after interest rate changes
- Non provisioning of accounts under watch list or NPAs
- Misplace of security documents
- Irregularities by on valuation reports etc.

4. Fundamental Principles

All the staffs engaged in credit administration functions shall work with strong mind set of controlling and maintain independency with the credit relationship. Some of the fundamental principles that have been taken on credit administrations are as follows.

a. Ongoing Administration and Review

Bank shall apply the practice of ongoing administration and review of all credit risk-bearing portfolios.

b. Credit Conditions and Provisioning

Bank shall have system for monitoring the condition of credits, including determining the adequacy of provisioning and contingencies.

c. Internal Risk Rating

Bank applies internal risk rating systems for assessing the level of risk of credit and it shall be applied on all credit files with the continuous review.

d. Management Information System (MIS)

MIS shall be strong enough to identify and correct the internal control lapses on credit administration functions.

e. Economic Review and Predictions

Bank continuously takes into consideration the potential future changes in economic conditions when assessing individual credits and credit portfolios. It assesses their credit risk exposures under stressful conditions.

5. Credit Administrations Functions and Roles/Responsibilities

5.1 Documentation

Documentation is under the scopes of credit administration to ensure completeness of documents (like: facility agreements, deeds, offers, guarantees, transfer of title of collaterals etc.) in accordance with approved terms and conditions. Pending documents should be tracked and followed-up to ensure execution and updated on time. Security documents are prepared in accordance with approved terms and are legally enforceable. Standard facility documentation that has been reviewed by the legal department of the bank must be used in all cases. Exceptions should be referred to the legal department for advice based on authorization.

Some of the specific roles and responsibilities assigned to the specific functions are as below.

a. Role of Centralized Credit Operations Department (CCOD)

- CCOD ensures that all documents are intact and up to date while implementing the facilities as per the Bank's standard norms and special approving covenants.
- If credit implementation is executed on temporary documentation waivers, it has to be recorded on register and make follow-ups to branches monthly.
- Credit implementation should be executed by CCOD on the confirmation that documents are complete and properly filled up.
- CCOD should permanently maintain the documents obtained from branches for facility implementation in the proper and safe way.
- All kinds of legal documents that are used on credit functions should be legally vetted once a year. CCOD should ensure it and get them vetted annually.
- CCOD periodically reviews the document management and storing system in the Bank and advice appropriate changes if needed.
- CCOD may develop the procedures of documents flows on credit processing and get it approved from Chief Executive Officer (CEO) for implementations.

b. Role of Legal Department

- Legal department must review legal documents related to the credit facilities on annual basis and should provide suggestion to CCOD for implementations.
- If new forms are introduced for credit documentations, legal vetting is a must which should be done by the legal department on request of CCOD.
- It is the legal department's responsibility to change the existing credit documents if required when new laws/act is implemented in the Country.
- Legal department should be vigilant and aware of the credit documentation practice in the Bank and suggest time to time for mitigating the legal risks.
- Legal department must conduct sample check of security documents executed and ensure that the practice is as per standard and not exposing legal risks.

c. Role of Branches

- If, in case, it is allowed to execute the facilities to branches, branches have to ensure that documents are intact and accurate before implementing any facility or proposal.
- Branch has to keep record of pending documents which are made conditional while implementing the credit facility and update those documents within the given time line. It is the primary responsibility of the branch and should not wait for the follow-ups from CCOD.
- Branch has to maintain credit files in safe and proper way. Security documents should be kept in fire proof cabinet and operating files should be kept separately on locked cabinet.
- Documents on credit file should be maintained in clean and proper order. Filing arrangement should give the due impression of credit assessment, credit quality and standards of the Bank.
- Security documents should be kept on dual control and all movements should be recorded in register.
- Correspondences with the client, business inspection report, Net Current Assets (NCA) details should be kept on operating credit file. Concerned relationship officer and Branch Manager must ensure on responsible manner on the updates of those documents.
- Branch shall conduct the regular check of security/legal documents and maintains the proof of it on credit file. Accordingly, branch shall maintain the original insurance documents safe.
- Branch shall maintains all the documents taken on credit assessment and approval such as financials, inspection report, income source and other supporting documents in the credit file to track the decision made and history of credit.
- All the documents should be filed in organized way with indexing so that external/internal auditor or NRB inspector can review it easily.

- All kinds of documents taken from credit customer (e.g. valuation report, interest change request, loan settlement, prepayments, copy documents request etc.) have to be duly signature verified.
- On the settlement of credit, branch has to separate those files and keep on separate cabinet having proper lock system.
- Branch has to ensure all the time that credit files of all those accounts shown in CBS are physically presented and are in proper condition in the branch.
- Branch can provide the original Lalpurja to customer for maximum one month period after receiving application from customer. Separate register to record all those activities shall be maintained. Tracing and follow ups must be done on regular basis.

Note: - Head Office credit department like: Corporate, Project, SME, Retail, Microfinance, Deprived shall conduct the role as assigned to branches for the loans which are under direct relationship i.e. Credit Appraisal Memo and loan processing is initiated from themselves.

d. Documents Filing on Credit Files

- Branch must maintain the credit documents on its credit file on systematic way with index.
- Credit file should present itself the sequence and smoothness of credit documents flow.
- The credit file indexing must have segments of (1) Customer Information / Facility Record Sheet, (2) Credit Facility Letters, (3) Credit Appraisal Memorandum, (4) Financials, (5) Correspondences (6) Valuation / CIC / STR (7) Security Documents and (8) Miscellaneous. Following documents shall be kept on each part as a general rule:

i. Customer Information / Facility Record Sheet

- Loan application letter
- Client information documents of all concerned party
- Photographs of all concerned party
- Citizenship certificate of all concerned party including property owner
- Board minute / resolution / decision to avail loan from borrower
- Registration certificate
- License certificate
- PAN registration certificate
- MOA, AOA, Bidhan, Partnership Deed
- Latest share register book
- PPA, PDA
- And many more like this....

ii. Credit Facility Letters

- Credit Offer Letter
- Credit renewal offer letter and many more like this....

iii. Credit Appraisal Memorandum

- Credit Appraisal Memorandum (CAM)
- Credit Memo for Renew of loan
- Memo for revision of interest rate
- Memo for special waiver
- Memo for alteration of security
- Memo for partial release of security, guarantee
- Proposal for issuance of BG, LC etc
- Board minute, credit committee minute regarding approval of credit facility
- Consortium meeting minutes
- And many more like this....

iv. Financials

- Audited Financial Report
- Projected Financial Report
- Project Feasibility Report
- Tax Clearance Certificate / Tax Paid Receipt
- Rental Agreement and agreement for income
- Salary Certificate and Bank Statement for income source verification
- Dividend warrant and other income source document
- Monthly / Quarterly / Annual Inspection and Site Visit report
- Monthly / Quarterly / Annual Working Capital details report
- Drawing power calculation report
- And many more like this....

v. Correspondences

- Letter of interest revision
- Letter issued to pay due interest, principals and other amount
- Letter issued to notify the expiry date and request to renew the loan
- Application from customer to provide the original Lal Purja on temporary basis
- And many more like this....

vi. Valuation / CIC / STR

- Valuation Report of Land and Building
- Valuation of Fixed Assets
- Valuation of Vehicles
- Delivery Order (DO) issuance letter
- Quotation of vehicles
- Tax invoice of vehicles / assets
- CIC of borrower, guarantor and related party
- Secured Transaction Registration certificate etc.
- And many more like this....

vii. Security Documents

- Copy of Loan Deed
- Copy of Mortgage Deed
- Copy of Promissory Note
- Copy of Hypothecation Deed
- Copy of Rokka Letter
- Copy of Land Ownership Certificate
- Copy of Blue Print
- Copy of Trace Map
- Copy of Four Boundary
- Copy of Building Construction Certificate, Building Construction Completion Certificate
- Copy of Net Worth Details
- Copy of Personal Guarantees
- Copy of Corporate Guarantees
- Copy of Letter of Consent
- Copy of General Indemnity Form
- Copy of Authority to Debit Account
- Copy of Letter of Continuity
- Copy of Letter of Arrangement
- Copy of Letter of Disbursement
- Copy of Insurance Policy with cash receipt
- Copy of CAM, Approved Memo, Deviation Approvals
- Copy of latest renewed Blue book, title transfer certificate
- Copy of Property Tax paid Receipt etc.

- And many more like this....

viii. Miscellaneous

- Other remaining document as deemed necessary by respective RO/RM/BM
- Security documents must be kept on fire proof cabinet in plastic bag having secured from wet, dust and other insects. Further, all the files security documents has to be numbered so that it can be traced easily.
- Credit files should be kept on locked cabinet on chronological manner with numbering so that it can be traced easily.
- Branch must get original approved CAM from head office on time not later than one month of approval. It is not allowed to keep only the scanned approved copy in branch. Head office (assigned department) keeps the copy documents and sent the original copy to branch.

e. Use of Forms and Formats

Bank develops the standard forms and formats to be used in the credit. Credit Appraisal Memo (CAM), Credit Memos, Credit Correspondences and other forms shall be used uniformly by the branches and head office. CCOD develops and circulates the forms and formats regarding security documentations, customer correspondences, letter related to Malpot and Yatayat etc.

f. Execution of Legal Document

Securities documents are charged documents which create claim over collateral, borrowers, guarantors and on as assigned. It should be properly filled up and executed before credit implementation. It should be legally enforceable. No discrepancies shall be accepted over legal risks.

All security documents except used for international correspondence / transaction shall be in Devanagari. Different sets of offer letter are issued depending on the type and nature of credit facility. CCOD shall develop the format and get it vetted from legal department.

g. Major Contents on Security Documents

Loan Deed

- Parties involved (bank, client and their registration details with registered/permanent address)
- Laws governing loan deed (contract)
- Date of acceptance
- Place of acceptance
- Details of credit facilities (type of credit facilities, limit, interest rate, tenure)
- Collateral securities arranged (mortgaged, lien marked, pledged, hypothecated etc)
- Witness as required by law

- Properly filled up contents
- Date of signing
- No blank fields are accepted, if any blank fields, it should be cross marked
- Uniformity on writing

Promissory Note

- Parties involved in signing promissory note (Name, Address, Citizenship/registration number, date, authority etc)
- Loan sanction amount
- Witness as required
- Signed date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format

Letter of Arrangement

- Parties involved in signing Letter of Arrangement (Name, Address, Citizenship/registration no, date, authority etc)
- Loan sanction amount
- Signed date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format

Letter of Continuity

- Parties involved in signing Letter of continuity (Name, Address, Citizenship/registration no, date, authority etc)
- Loan sanction amount
- Signed Date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format

Letter of Disbursement

- Parties involved in signing Letter of Disbursement (Name, Address, Citizenship/registration no, date, authority etc)

- Loan sanction amount
- Amount of disbursement
- Signed Date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format

Letter of Installment:

- Parties involved in signing Letter of Installment (Name, Address, Citizenship/registration no, date, authority etc.)
- Loan sanction amount
- Amount of installment
- Signed date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format

Guarantee Bond, Personal or Corporate Guarantee Deed

- Parties involved in signing Guarantee Bond/Personal/Corporate Guarantee Deed (Name, Address, Citizenship/registration no, date, authority etc.)
- Parties to whom the loan is sanctioned (Name, Address, Citizenship/registration no, date, authority etc)
- Loan sanction amount
- Witness as required
- Signed Date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format
- Net worth declaration of the guarantor
- Blacklisting consent signed by the guarantor
- Risk taker consent signed by the guarantor

Pledge Deed

- Parties involved in signing Pledge Deed.(Name, Address, Citizenship/registration no, date, authority etc)
- Loan amount

- Quantity and value of pledged goods (unit and cost price)
- Ownership of goods
- Place of goods (location of go-down)
- Witness as required
- Signed Date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format
- Registration of pledge deed in Secured Transaction Registry Office

Mortgage Deed:

- Parties involved in signing Mortgage Deed (Name, Address, Citizenship/registration no, date, authority, three generation etc)
- Owner of the property (Name, Address, Citizenship/registration number, date, authority, three generations etc as per registration document)
- Mortgage amount (Security Value or loan value whichever is higher)
- Details of the property (Plot no, location, area, four boundary etc)
- Registered Malpot of the property
- Witness as required
- Signed Date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format
- Registration of mortgage deed in concern Malpot office

Documents required in addition to mortgage deeds

- Lal Purja
- Latest Tax Paid Receipt (land/house)
- Citizenship/registration certificate of owner
- Citizenship/registration certificate of the loan client
- Tax clearance of firms/companies (if any)
- Four boundary certificate
- Clear title

Hypothecation of Stocks/Inventory/Receivables Deed:

- Parties involved in signing Hypothecation Deed (Name, Address, Citizenship/registration no, date, authority, three generation etc.)
- Owner of the property (Name, Address, Citizenship/registration no, date, authority, three generation etc. as per registration document)
- Loan amount
- Details of the hypothecated goods
- Witness as required
- Signed Date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format
- Registration at Secured Transaction Registry Office of Nepal

Hypothecation of plant/machinery/furniture/fixture Deed:

- Parties involved in signing Hypothecation Deed (Name, Address, Citizenship/registration no, date, authority, three generation etc.)
- Owner of the property (Name, Address, Citizenship/registration no, date, authority, three generation etc as per registration document)
- Loan amount
- Details of the hypothecated assets
- Witness as required
- Signed Date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format
- Registration at Secured Transaction Registry office of Nepal as required

Hire Purchase Deed:

- Parties involved in signing Hire Purchase Deed (Name, Address, Citizenship/registration no, date, authority, three generation etc)
- Owner of the property (Name, Address, Citizenship/registration no, date, authority, three generation etc as per registration document)
- Loan amount
- Details of the hire purchase vehicles (with details of engine/chassis/registration no etc)
- Witness as required

- Signed Date, place and time
- No blank fields are accepted, if any blank fields, it should be cross marked
- Standard format
- Registration at Yatayat Office of the Government

5.2 Disbursement and Account Maintenance

Loan disbursement is made only on complete execution of security documents. All formalities needed as per approved terms, regulatory need and bank's internal policies must be complied except explicitly waived for disbursement. CCOD must ensure that no proposal shall be entertained without complying the basic approving norms and breach of regulatory norms. Some of the further roles and responsibilities on the disbursement part are as follows:

a. Role of Centralized Credit Operations Department (CCOD)

- Ensure that the loans are disbursed within the approved terms and conditions and all information are updated in the account of the client in Core Banking System (CBS).
- Basel, sector, types, portfolios or all kinds of coding must be up to date before disbursement of the loan or while enhancing the limit.
- CCOD should prepare the checklist of completed documents and ensure that the checklist is complete and approved for the limit implementation and disbursement.
- Loan disbursement should be made only on the authorized account number signed by the client. Disbursement should not be made on third party account.
- There should be the line of authorities for the disbursement of loan based upon the level and functional responsibilities of the staffs. Each limit insertion should have dual control system. No single person can assign and implement the loan limit.
- Ensure that the charges or fees as per approved terms in the loan disbursements, renewals, extensions as applicable are taken.
- Regularly monitor the account maintenance and ensure that information is accurately updated as required.
- Ensure that risk grading are recorded, updated and reviewed regularly.
- CCOD should not deviate any approving code like: Basel, sector etc. as mentioned on CAM while recording on CBS. If feels necessary to change, it has to notify the credit approving chain and get consent to update on CBS. CCOD should make available record of all types of codes in CBS itself so that monitoring and reporting would be accurate and reliable.

- It is the CCOD that initiate for correction of any kinds of errors observed at account level like: accrual interest lower than due interest, penal not calculated on expired term loan, and accrual but not due for long time etc.

b. Role of Branches / Credit or Business Department

- Branch and concerned credit business department should have information about the each loan disbursements and renewals under its relationship
- Branch and concerned credit business department must check every day that loan disbursed in previous day is accurately recorded like: loan type, loan tenure, interest, schedule, service charge and other information in CBS.
- Branches should not forward the proposal for disbursement before executing the required security documents. Both branch and CCOD shall be responsible for the loan disbursements in absence of complete security documents. If there are any documents pending or not possible to obtain instantly, branch has to obtain approval for waiver from concerned approving authority. CCOD itself is not authorized to take approval for the same. Instead of requesting CCOD to execute limit in absence of documents, branch has to request concerned credit chain for consent.
- Branch should ensure that charges are taken on each loan disbursements and renewals.

Note: - Head Office credit department like: Corporate, Project, SME, Retail, Microfinance, Deprived shall conduct the role as assigned to branches for the loans which are under direct relationship i.e. Credit Appraisal Memo and loan processing is initiated from themselves.

c. Disbursement Modalities

Loan shall be disbursed in the following modalities:

Revolving Loan: Limit is assigned in the CBS as per the approved limit. There is no need to disburse the loan.

Term Loan (Schedule Type Loan): Loan account shall be debited to credit loan disbursement account. Loan module shall be used for such loan. However, where the bank has issued delivery order, loan disbursement account shall be debited to pay for the delivery order or other type of payment.

Deal Based Loan: Loan is booked on deal within the approved master limit. Terms, rate and conditions are applied on deal basis. Loan is disbursed on nominee account from deal loan type.

Non Funded Loan: Client's Liability account shall be debited to credit bank's liability account. Deal module shall be used for such loan. Approved cash margin for each deal shall be received and parked to respective margin account.

d. Account Maintenance

Branches and CCOD always monitor accounts to ensure that all information is updated accurately and information is timely changed as and when needed. Some of the key account maintenance activities that have to be monitored and ensued by CCOD and branch are as below:

- Schedules are changed whenever the interest rate is changed.
- Schedules are accurately created and auto repayments are made in all kinds of scheduled based loans immediately after loan disbursement or immediate the end of moratorium period.
- There are no errors on already created schedules.
- Penal, Interest on Interest and Interest calculations is accurate in all accounts.
- Risk grading, Basel coding and other types of sector coding are completely filled up in all accounts.
- Ensure that the group obligor are properly maintained and recorded in the CBS. Especially branch and relationship manger must ensure that CBS is updated in each group exposure. Branch manager and concerned relationship manager shall be responsible for not updating obligor in CBS that may cause huge credit and operational risk to the Bank.
- Base rate and its mechanism is duly recorded on CBS so that NRB compliance can be ensured in all loan accounts
- No account should be with blank information of customer information, security information, insurance information, drawing power and other many more credit control measures
- CCOD must always try to enhance the account maintenance and control system through CBS so that its authenticity and efficiency can be enhanced.
- Upon the loan settlement, limit must be nullified first and close in CBS. No account should be live in CBS which have settled by the customer.
- In case of prepayments, limit has to be reduced immediately.
- In case accrued interest is observed to be lower than due interest, that kind of errors has to be monitored by CCOD regularly and initiate the corrective action immediately.
- Interest posting frequency, interest calculations, auto repayments, penal calculations, repayment model, nominee, obligor, movement type etc. has to be checked weekly by CCOD and initiate correction if needed

e. CBS (Pumori Monitoring)

Branches shall continuously monitor the loan account and account information through Pumori recording and reporting from pumori. It is the responsibility of branch and CCOD to accurately record the information in Pumori. IT department develops the query as required and branches regularly review the report specially the following reports.

- Drawing Power Expiry
- Deficit Drawing Power
- Account Overdrawn
- Limit Utilizations
- Credit Risk Grading
- Insurance Expiry
- Obligor Coding
- Sectoral Coding
- Schedule creating on Term Loan
- Moratorium Monitoring
- Security Types Updates
- Basel Coding
- Loan Expiry
- Non Funded facilities Expiry
- Loan Loss Provisioning
- Loan and Schedule Mismatch
- Penal Calculation and Charging
- Account Overdue...etc...

5.3 Credit Monitoring, Credit Review and Reporting

Credit facilities should be continuously watched after the disbursements till its settlements. These include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.

a. Role of Centralized Credit Operations Department (CCOD)

- Monitoring of documents waivers and their update status.
- Monitoring of Basel Coding, Sector Coding, Credit Risk, Type, Security, Industry, Productive sector and other account maintenance.
- Monitoring of zero limit and account closed.
- Monitoring of Secured Transaction Registry.
- Monitoring of Credit Information Update on new, enhancement and closed accounts on CBS and other related database.
- Account coding of refinanced and rescheduled loan on CBS and monitoring the completeness of it all the time.

- Submit the report to supervisor for all kinds of monitoring and review.
- Review whether the Pari- Pasu charge over current assets against credit facility is obtained or not as per NRB provision.

b. Role of Centralized Credit Monitoring Department

In order to maintain quality of the credit portfolio by identifying the earlier warning signals of any irregularities and initiating timely action before they really get out of hand, there is a need for proactive and effective credit monitoring system in the bank. Therefore credit monitoring department basically functions following jobs to minimize the risk portfolio of the bank in terms of credit administrations.

i. Monitor Exceptional Report

Monitors the exceptional report (limit expiry, schedule dues, overdrawn credit limit etc.) on regular basis and make necessary follow ups to the branch for timely regularizing the accounts. Prepare complied report of accounts and submit to the reporting chain on monthly basis.

ii. Monitor Interest Suspense and Overdue Interest

Monitor interest suspense (overdue interest) of the branch on regular basis. Follow up with branches on daily basis for realization of interest and submit the progress status of individual branch to the reporting chain on weekly / monthly basis. In case of regular account, if interest suspense of a client is not settled within a week even after regular follow up, the CC copy of the same to be given to the Business Head, DCEO and CEO.

iii. Monitor Margin Lending

Review drawing power of margin lending against Ordinary / Promoter shares as per NRB provision on weekly basis and in case of deficit in value of pledged security due to fluctuation of share price in the market, inform the branch to arrange with the client either to margin call or top up additional shares to maintain drawing power.

iv. Monitor Gold Loan

Prepare and monitor drawing power of loan against Gold on monthly basis. Department should ensure that drawing power of Gold loan is in line with the Product Paper Guidelines of the Bank. Any deviations in drawing power shall be notified to the Branch Manager as well as higher authority to take corrective action on time. Report shall be submitted on monthly basis.

v. Monitor Drawing Power on Revolving Credit Facility

Review and monitor the approved drawing power limit of revolving business loan against Net Current Assets by obtaining ageing of stock, debtors and creditors statement. Report shall be submitted on monthly basis. To generate the report of drawing power of individual customer in the Pumori system,

branch shall update drawing power limit of the existing business unit with expiry in the system on quarterly basis and input the same for new customer at the time of limit insertion process.

vi. Monitor Insurance

Securing the assets and to avoid unwanted and unlimited risk on the assets mortgaged in bank's favor, Credit Monitoring Department shall review and keep updates of the status of insured security (Stock, Building, Vehicle, Fixed assets etc.) on monthly basis. Department shall make necessary follow- up to renew the insurance policy prior to their expiry. Monthly report will be submitted for review to the management. To generate report in the Pumori system, branch has to update insurance details like insured amount, risk coverage, expiry date, insurance company, insured assets etc. of offered security in the Pumori system.

vii. Review Business Inspection Report

Credit monitoring department reviews the regular business inspections being conducted by the branches and as recorded in the CBS and reports to higher authorities the status of inspections. It makes regular follow- up to the branches if found any kind of irregularities or lapses on business inspections.

viii. Monitor Revaluation of Collateral

In line with the CPG of the bank, credit monitoring department reviews whether the revaluation of the mortgaged property is being conducted every three years or as per the terms of CPG taking report from branches or CBS as available.

ix. Review Input of Coding

Review proper inputs of credit coding like Basel / Sector / Security code / 9.3 Ka, secured transaction registry, CIC coding etc. of credit facility in the system on regular basis.

x. Monitor Account Turnover

Monitoring reviews the account turnover of loan accounts of all type of revolving business loan to ensure that business transaction is being routed through the account maintained with us and limit is properly justified by its transactions volume.

xi. Review Limit Utilization

Review average utilization of limit by the borrower in revolving facility on quarterly basis so as to adjust the limit as per requirement of the business and to avoid unwanted additional capital charge attract in unutilized limit as per basel provision.

xii. Review Deprived Sector Lending

Review statutory requirement of deprived sector lending on quarterly basis.

xiii. Review of Loan Portfolio

Review the performance of loan portfolio in Hire Purchase, Home Loan, Gold Loan and other Product Paper based lending.

c. Role of Branches and Head Office Credit Departments

- Monitor the exception report daily and take appropriate action on exception report.
- Monitoring of loan default and delinquency daily and take appropriate strategy for the day and whole regularization process.
- Monitor the insurance, revaluations, drawing power and pending documents etc. on daily basis.
- Implement the CCOD's instruction on the account information update.
- Monitoring of internal audit report, external audit report and NRB inspection report compliance on loan issues.
- Review and ensure that all information is accurate and timely updated in the CBS.
- Monitoring of CBS level intact loan operation like: nominees, repayment, schedule, expiry, interest rate, penal rate etc. and make correction if changes are required.
- Make the margin call for the deficit amount.
- Ensure the compliance of internal policies, procedures and NRB's Directives and circulars all the time.
- Report any kind of regulatory non compliance arises due to update in the regulatory provisions.

d. General Monitoring Frequency

The key purposes of monitoring are to understand in advance. Frequency depends on its values and impact, so below are some instances of monitoring types and their frequency. All concerned functions like: Branch, CCOD, Credit Monitoring or Relationship Manager should have their own standard monitoring schedule and same has to be applied.

At Individual facility level	Proposed Frequency	Performed by
Keeping regular contact with the customers (with site visit and meeting)	On-going	Relationship Managers/Branch Managers
Following up documentation deficiency	Daily	CCOD/Branches/Credit Departments
Reviewing exceptions and overdue accounts	Daily	Branch and Credit Monitoring
Monitoring compliance with credit facility terms	On-going	Branch, CCOD and Credit Monitoring

Monitoring compliance with internal and regulatory limits	Monthly	Credit Monitoring and Compliance unit
Identifying and following up outstanding credit reviews and expired facilities	Weekly	Credit Monitoring
Reviewing adequacy of provisioning for individual accounts	Quarterly	CCOD/Senior Management
Monitoring performance of Large Exposures	On-going	Credit Monitoring
Following up customers for late payments	Daily	Relationship Managers/Branch
Taking remedial actions for loan recovery	On-going	Branch/Recovery
At Portfolio Level		
Performing portfolios analysis and risk assessment by: type, sector, internal credit rating etc	Quarterly	Credit Monitoring
Performing trend and ratio analysis	Quarterly	Credit Monitoring
Conducting loan migration analysis and stress testing	Quarterly	Credit Monitoring
Reviewing Risk Concentrations	Quarterly	Credit Monitoring

e. Business Inspection and Drawing Power

- Drawing power shall be calculated quarterly and in case drawing power is not available within a quarter, the business revolving loan account shall be blocked.
- Borrower is allowed to avail credit facility only up to drawing power limit or approved credit limits whichever is lower.
- After expiry of drawing power limit, all debit transactions will be restricted even if there is a vacant credit limit.
- Branches are authorized to input drawing power limit in the system against Net Current Assets position of the business by verifying the same after inspection of the business unit.
- All supporting documents justifying drawing power limit to be kept intact in the respective credit files.

Drawing Power Calculations

Details	Amount	Amount
Stocks	-----	
Receivables	-----	

Other Current Assets (Except Cash and Bank Balance)	-----	
Total (A)		xxx
Payables / Creditors	-----	
Other Current Liabilities	-----	
Total (B)		xxx
Net Current Assets (C) = (A – B)		xxx
Drawing Power Limit = C*70% or approved DP		xxx

- In order to establish strong mechanism for an internal controlling and credit monitoring system, there shall be independent business inspection from sales in line with NRB Directives based on credit limits which is mentioned as follows-

Loan Amount	Team members
Up to 5 Million (SME)	A- Relationship Officer/ Relationship Manager B- Credit In charge / Branch Manager
Business inspection shall be carried out by each staff from A & B for loan limit up to 5 million	
Above 5 Million to 30 Million (SME)	A- **Alternate Relationship Officer/Relationship Manager B- Credit In charge / Branch Manager
Business inspection report shall be carried out by each staff from A & B for loan limit above 5 million to 30 million.	
**Alternate Relationship officer – RO/RM who is not directly handling that particular loan.	
Above 30 Million	
Within Valley Branches	A-Relationship Manager or Relationship Officer or Credit In charge or Branch Manager B--Province Office or Credit Monitoring Department
Outside Valley Branches	A-Relationship Officer/ Credit In charge / Branch Manager B- Province Office or staff as assigned by Province Chief

- Branch should inform the Regional Managers / Credit Monitoring department / Corporate Banking / Project Financing regarding schedule of business inspection in 2 days advance.

- Branch Managers will be responsible for the scheduling of business inspection within due date and inform to respective team members.
- Inspection of the business unit to be carried out in the 1st and 3rd quarters from the date of loan disbursement by the above team members and in 2nd and 4th quarters by the branch officials itself.
- Business inspection report should incorporate the picture of the business and stock.
- Inspection report to be endorsed by the team members after verifying stock position of the business unit and business operation.
- Business Inspection dates and Net Current Assets (NCA) amounts of 4 quarters to be mentioned in the credit memorandum while sending for renewal of credit facility.
- The mechanism of business inspection shall not be applied in the consortium loan.

5.4 Renewal, Repayment and Settlements

Timely renewal and timely settlement of the loan is another important factor for the efficient credit administration functions. Renewal and settlement dues should be monitored by branch as well as head office and take appropriate actions for timely regularization of loan accounts.

a. Role of Branch

- Borrowers should be communicated 7 days prior to due date of installments / interest. Concerned Branch manager or relationship manager ensures that the borrowers are communicated on time.
- To the best possible, borrower shall be communicated through SMS about their dues interest and installments.
- Any exceptions such as non-payment or late payment should be recorded and communicated to the management through defined channel.
- Branch has to daily review the list of loan accounts which have due repayments. Customer has to be reminded regularly for due payments.
- In case branch finds any operational or CBS error on the repayments, it has to be corrected instantly. It has to be corrected systematically so that it doesn't repeat in future.
- In case of prepayments, branch has to readjust the EMIs on need basis. Branch is ultimately responsible to keep the EMI / Interest schedule intact as per the approved terms and conditions.
- Prepayments have to be clearly recorded on CBS with narrations as "prepayments" as the data is used for AML monitoring purposes too.
- Charges should be taken as per the approving norms under the regulatory compliance on each prepayment.
- Branch manager should get the due report daily, scrutinize each account and make the regularization strategy.

Note: - Head Office credit department like: Corporate, Project, SME, Retail, Microfinance, Deprived shall conduct the role as assigned to branches for the loans which are under direct relationship i.e. Credit Appraisal Memo and loan processing is initiated from themselves.

b. Role of Credit Monitoring Departments

- Monitoring department at head office level shall monitor the default accounts and make follow-ups to the branches and report to higher level management about the portfolios and tendency of default.
- Monitor the renewal ageing, its progress and target of the renewal of each branch. Make follow-ups to branches and provide timely report to higher authorities.

c. Role of CCOD

- CCOD regularly monitors the accounts where loans are settled but not closed in CBS. Those accounts have to be closed on CBS instantly after settlements.
- CCOD monitors the installments and charges on each changes of interest and other terms of rescheduling
- Monitors that the accounts which are fully settled shall be nullified and closed from CBS.

d. Credit Renewal Procedures

- Branch should issue letter to the customer informing of the date of expiry of availed credit facility and requesting for renewal of the facility if interested or for settlement of the same within expiry. The letter should be issued at least 45 days prior to the expiry
- If the client is willing to renew the facility then request for submission of all the required documents as per bank's requirement.
- Upon receipt of all relevant documents, branch should go minutely through the information furnished by the client. If there are any queries, clarification on the same have to be obtained from the client.
- Branch has to obtain all the required documents for renewal at least 30 days prior to expiry date of the facility.
- If the supporting documents justify for the renewal of the existing facility, Branch should prepare the credit memo for renewal and forward to the approving chain before 15 days prior to the expiry.
- Proposal forwarded for approval shall be approved / declined within 7 days from the date of receipt except some exceptional cases.

- Upon approval of the facility, offer letter and required legal / security documentations should be executed before expiry.
- Concerned approving chain and Credit Monitoring monitors the compliance of time frame for renewal. In case of breach, it has to be reminded to concerned branch and report to higher authority.
- There must be the consent of collateral owner, personal guarantors and corporate guarantors for renewal of facility. It can be taken on renewal application or on renewal offer letter.
- Branch has to take application of customer for the short time credit period extensions.

5.5 Documents Custodian and File Protections

Safe keeping of credit files, credit documents and efficient custodianship is another major function of credit administration. Unless files and documents are not safe, credit quality cannot be taken as safe and sound. Bank maintains strong mechanism for credit file custodianship and movement control in branches.

a. Security i.e. legal Documents

Following documents shall be considered as the security documents of credit files which shall be kept with strong security measures and not to be handled as day to day matters. Branch managers and head of credit should ensure that it has been maintained under this manual.

- Offer Letter
- Loan Deed
- Mortgage Deed
- Promissory Note
- Hypothecation Deed
- Rokka Letter
- Land Ownership Certificate
- Net Worth Details
- Personal Guarantees
- Corporate Guarantees
- Valuation report (First Two Sheet)
- Insurance Policy with original cash receipt
- Original CAM, Approved Memo, Deviation Approvals and other approved credit related documents etc
- Security documents checklist

b. Credit Documents

Credit related documents that have to be maintained at operating credit file are:

- Copy of all security documents
- Copy of CAM, Approved Memos, Deviation Approvals etc
- Income source documents
- Customer's Identifications Documents like: registrations, citizenship, license etc
- Documents Checklist
- Correspondences with the customers
- Interest rate changes and customers' acceptances
- Repayments Schedules
- All other documents that are related with the credit file and credit customers

c. Documents Management and Safe Keeping

- All the security documents along with the original CAM and Other approval memo should be kept in fire proof cabinet with dual custody.
- Security documents movements from fire proof cabinets should be recorded in the register.
- Security documents should be revisited and ensured the completeness while renewing the credit facility and that has to be mentioned on CAM that all previous security documents are intact.
- There should be proper handover and takeover of security documents while changing the key custodian of fire proof cabinet.
- Branch maintains the credit files (operating file) in its locked cabinet for day to day operations. It contains all types of credit documents along with the copy of security documents.
- A checklist should be prepared and be maintained in each loan file both for the operating file and security documents file.
- The checklist should be signed by Relationship Officer / Manager and Branch Manager both before execution of facility.
- The checklist should be taken as the key document of the credit file.

d. Shadow File at Head Office

Bank maintains a shadow file of approved credit proposal at head office before sending it to branches. Shadow file is not necessary for the loans which are approved from Database Management System (DMS) as the record can be retrieved from DBS when needed. Responsibilities shall be assigned to a different department / unit for managing all types of shadow files. The department / unit make copy of

approved files; keep the copied documents at head office in a systematic and scientific way. Original copy shall be provided to branches within one month of its approval.

It is the responsibility of the branches to get approved credit file within the given time line and if not received, branch has to make follow-ups to head office. Branches shall not get excused on the ground that head office did not send the file. Head office should also be responsible for sending the credit files on time.

e. Management of settled credit file

After full settlement of loan, following shall be ensured:

- Clean customer liability report (CLR) including clean accrued interest, interest on interest, penal interest and other charges incurred on behalf of the customer
- Loan account in CBS shall be marked as closed.
- Filing loan settlement letter along with clean Customer Liability Report (CLR), loan clearance certificate, received copy collateral release letter etc.
- Place settled file in separate cabinet other than operating credit file

6. Compliances

Compliance is everyone's responsibility and bank take the zero tolerance principle on compliance. No one from credit proposal originator to the approving authority can escape from compliance. Branch, Credit Approving Chain, Approvers, Monitoring, CCOD, Risk and all credit related functions should ensure the compliance of Nepal Rastra Bank (NRB) Directives, NRB Circular, Bank's internal Policy, internal Circular, Manuals, Risk Management Guidelines and other documents which are developed for governing the credit related functions.

Government's Act like Companies Act, Bank and Financial Institutions Act, Banking Offense and Punishment Act, Anti Money Laundering Act, Anti Money Laundering Rules and other acts/rules should be adhered while assessing and approving the credit proposals.

- No one can waive the regulatory compliance requirements. Branch should not forward the proposal which have deviated from regulatory compliance.
- Any credit approvals which are deviated to the regulatory compliance and that are found in course of implementation should not be executed at any point.
- In the course of credit processing, everyone should act on responsible way on compliance. No one should seek ways and cause of non compliance. It is inherent, no one should seek written instructions or comments for compliance of regulatory and internal policies in credit processing.

- Regulatory reporting like: NRB reporting, CIC reporting, Blacklisting reporting shall be done within the time frame by the assigned department.
- All the valuers and insurers shall be preapproved and enlisted. Performance of the valuers shall be reviewed periodically.
- Compliance department shall regularly monitor the offsite compliance on credit especially on obligor, credit limit, reporting etc.
- Branch be aware of NRB's compliance on credit especially on collateral coverage, drawing power, quarterly inspections, single obligor, third party collateral, loan provisioning, PAN obtainment, tax compliances etc. These issues should not be ignored at any cost. Approving chain should also be aware of it and should not ignore it.
- No one can escape on regulatory noncompliance or internal noncompliance on the ground that approving authority approved the loan even on non-compliances. All chains of this credit approval are equally responsible to control the non-compliances.
- CCOD and Legal department should always be alert for the new updates and changes on laws and update the documents accordingly.
- Legal department must play vital role on this matter especially on new implementation of law of Nepal and its impact on Bank's credit documentations. Documents should be updated immediately.

7. Insurance

Branch Manager, Relationship manager must ensure that the insurance coverage is duly applied as per approved terms or the standard terms set by the Bank. CCOD has to check as a key document before implementation that insurance is done. Some of the guidelines for insurance monitoring are as follows:

- Insurance of the loan client has to be recorded on CBS compulsorily before limit implementations
- CCOD ensures that it is recorded in CBS with detail information like: expiry, insurer, coverage, collateral insured etc.
- Branch has to inform the customer the expiring insurance policy before 15 days of expiry and it has to be recorded in register as call record for insurance follow ups.
- If renewed insurance policy is not received, branch again makes follow ups before 3 days of expiry as final call to customer. This call has to be recorded.
- If customer does not submit before 24 hours, Branch has to book forced loan or overdraw the loan account in name of customer and get the renewed insurance policy. It is mandatory and no one can get excused on it.
- Credit monitoring regularly monitor the insurance status, expired insurance and make strong follow ups to the branches for its regularization

- Credit monitoring regularly submits report to higher authorities about insurance irregularities
- Insured amount shall be at least assets value or loan value which is higher with 10% addition
- Insurance policy for the coverage of contractor all risk- CAR (for the construction in progress) of the big projects will be obtained.

8. Financial Statement

- The (audited) financial statement of the borrower will be obtained within 3 to 6 months of the respective financial year end.
- Record should be maintained at branch level to track non-submission of financial statements by concerned borrowers

9. Firm Renewal/Tax Clearance

- The firm renewal/tax clearance or return of the borrower will be obtained within 3 to 6 months of the respective financial year end
- Record should be maintained at branch level to track non-submission of financial statements by concerned borrowers

10. Securities (Collateral) Release

Release of collateral is the final stage of credit relationship with the customer. Once the collateral security is released, the bank will not be able to recover any due (if any) from the customer. Collateral release would be in the form of full release, partial release, collateral exchange or swap with due approval of competent authorities. Collateral securities shall be released as follows:

- Landed collateral from Malpot office
- Vehicle from Yatayat Office
- Hypothecation from Secured Transaction Registry Office (STRO)
- Share pledge from concerned Registrar/Company

Full Release: Once the loan is settled in full, collateral securities shall be released. Procedure shall be followed as:

- Clean the customer loan accounts and overdrawn accounts in terms of
 - Principal outstanding
 - Interest outstanding
 - Penal interest outstanding
 - Interest on interest outstanding

- Expenses incurred on behalf of the customer by the bank (as such insurances, legal expenses, court expenses etc)
- Check collateral tie up with or have cross guarantee and ensure the clearance of all
- Prepare the collateral release letter duly signed by authorized person.
- Send the authorities persons for release with the original release letter and mortgaged deed
- Handover the land ownership certificates with the receipt acknowledgements of the collateral owner or borrower.

Partial Release: Partial release of collateral shall be made as per the request of the customer. Approval from the competent authority should be obtained for partial release. Following matters shall be considered on partial release:

- Value of loan after partial release of collateral
- Proportion of releasing and remaining collateral is acceptable in terms of road access, value and other factors of eligible collateral
- Acceptance from guarantors to release collateral must be obtained
- Other process shall be same as full loan settlement case.

11. Trade Operations

There is separate function for the activities related to trade finance like: LC and Guarantee. Customers who approach for Bank Guarantee (BG), Letters of Credit (LC) etc. may require special documentation. In this regard, the jurisdiction of CCOD is only to the extent of assigning the credit limit as per the request of Branches upon completing the documentation as per the approval terms. Execution of all transactional documents, after customer's request to issue LC/BG, falls under the jurisdiction of Branch and Trade Operations. These kinds of documents should be updated and stored in safe way by trade operations and branch.

12. Credit Administration of NPLs and Loan under Recovery

All kinds of credit administration functions shall be executed for the loan under recovery and Non-Performing Loans (NPLs) category also. Monitoring, Inspections, Insurance, Account Maintenance and other tasks shall not be discontinued in the name of NPLs and recovery process. Branch shall ensure the administration functions till the file is under its control and in case of file transferred to recovery department, it should be ensured by Recovery Department through proper monitoring. Some of the key issues to be cared of are as below:

- Branch or Recovery department ensures that legal documents are intact in all credit files which are fallen under NPLs and Recovery

- Insurance are regular for the security of collaterals
- All procedures are followed up as per the NPL Management and Loan Recovery Procedural Manual
- Business inspections are regular and Drawing Power is monitored unless declared as closed
- Branch or Recovery department ensures that blacklisting requirements are complied as per NRB norms.
- Branch or Recovery department ensures that time frame to lodge case file to DRT is monitored and maintained
- Legal department also monitors from its side to file the cases to DRT. It regularly monitors and makes the departmental plan for case filing.

13. Credit Audit

Credit audit function of the bank is very crucial in credit handling and credit risk management. Credit audit is regarded as the third line of defense of risk management. Credit audit should be at the level of credit origination, risk analysis, operation and post monitoring activities. Internal audit department conducts the audit under its annual plan which also ensures the compliance of credit administration manuals too. Management may instruct to conduct credit audit to any authorities like: compliance, risk or internal audit on need basis.

14. Early Warning Signals (EWS) and Key Risk Indicators (KRIs)

Customers rarely go into default and bankruptcy without some early warnings. Bank has to have the intelligence to know whether customer accounts are going through normal course or giving some signals of future potential problems. Early identification, prompt reporting and proactive management of early warning accounts are the prime responsibilities of all Relationship Managers and must be undertaken on a continuous basis

Some of the EWS and KRIs related to the credit administration functions within the Bank and at customer level are highlighted below for the references. Concerned authorities have to identify the EWS/KRIs before the problems start.

- Increasing numbers of expired insurance
- Increasing numbers of expired drawing powers or deficit drawing power
- Increasing numbers of business inspection due
- Increasing numbers of revaluation due
- Increasing numbers of unsatisfactory account turnover of revolving loan accounts

- Customer not interested to come into bank's contact or not in contact for long time
- Decreasing sales and increasing receivables of the customer
- Frequent negative news of customer on newspaper and other public information
- Increasing default frequency and default amount
- Not adhering terms and conditions of approved loans
- Increasing portfolios on high risk grade as per internal credit risk rating
- Increasing NPAs
- Errors on loan recording on CBS like: interest mistake, penal calculation errors, schedule errors
- Increasing cases of loan accounts not having complete information
- Increasing number of account overdrawning and limit breach
- Increasing numbers of loan account having missing documents
- Increasing numbers of compliance failures
- Internal audit remarks on the credit related issues
- Analyzing the financial statements that reveals the potential financial related problems
- Increasing poor liquidity, increasing financial leverage, lowering debt service coverage ratio and weaker profitability positions
- Deteriorating customer's cash position
- Sharp increment on customer's receivable position and increasing collection period
- Stale inventory, inappropriate inventory mix, stock report and inspection report mismatch
- Rapidly changing concentrations in fixed assets
- Diversion of short-term funds for long-term use.
- Building up of unproductive assets.
- Evidence of fund misuse
- Changes in management, ownership or key personnel frequently
- Inability to meet commitments on schedule
- Routing transactions to other banks
- Major breakdown in plant and machinery
- Delay in reacting to declining markets or economic conditions
- Erosion in the value of securities / negligence noticed on the part of the borrower to keep securities in order
- Labor problems
- Change in the nature of the company's business
- Loss of key product lines, franchises, distribution rights, or supply sources

- Loss of any major and financially sound customers
- Transfer of assets to other companies or individuals
- Sudden death / illness of partner / director.
- Disputes among partners / directors.
- Frequent reconstitution of the firm/board.
- Unfavorable changes in Government policies in regard to imports, export, price mechanism, minimum wages etc.
- Recession in the industry
- Excessive or unanticipated STL renewals
- Heavy reliance on short-term debt
- Poor turnover in the account
- Frequent invocation of bank guarantees (BGs) and non-payment within a reasonable period and non-payment of Letter of Credit liabilities within a reasonable period.
- Frequent returns of Bills for collection.
- And many more like this....

15. Roles, Responsibilities and Accountabilities

It is the responsibility of all staffs to maintain credit administration function efficient and effective all the time. Staffs engaged in branch, Relationship Managers, CCOD, Credit Monitoring, Credit Risk, Credit Department, respective supervisory executives and senior management are equally responsible for maintaining efficient credit administration.

Though the roles and responsibilities of branches, CCOD, Credit Monitoring and others are specifically mentioned in different parts of this document, their respective supervisor up to senior management are equally responsible to ensure that the given functions are performed. There should be the mechanism of monitoring performances through MIS and other measures. Every supervisor should know what and how their subordinates and reporting functions are doing on credit administrations activities.

Internal Audit and Compliance Department should periodically monitor the compliance of this document.